

Forecasts adjusted following H1 FY23 result

Pointerra Ltd (ASX:3DP) provides a powerful cloud-based solution (Pointerra3D) for managing, visualising, analysing, using, and sharing massive 3D point clouds and datasets. The company has taken a highly manual, slow, and cost-prohibitive process and turned it into a fast, efficient workflow solution for 3D data, enabling digital asset management from any device in any location. The Pointerra3D suite of solutions spans target sectors including survey and mapping; architecture, engineering, and construction (AEC); utilities; transport; resources; and defence and intelligence. Pointerra has delivered record H1 FY23 sales revenue of \$3.82m, an increase of 20.3% on the previous corresponding period (pcp) but below our forecast for the half. Gross profit was \$3.47m, up 27.3% and delivering an improved GP margin of 91%. The EBITDA loss for the half was \$3.5m, an increased loss of 195% on the pcp. The company noted in its commentary that excluding one-off costs, the EBITDA loss was \$2.9m. Operating cash outflow for the half was a loss of \$0.93m, with cash receipts of \$5.25m, which was ahead of reported revenue for the period and up 52% on the pcp. The company ended the half with \$2.7m in net cash. Pointerra has recently departed from its previous practice of announcing Annual Contract Value due to a number of re-negotiations underway but noted that it had secured multiple new contracts including US\$1.35m from Florida Power & Light to deploy its technology in a new service area in NW Florida and an additional US\$1.3m to create a digital twin for more than 200 sites for Amazon. Pointerra has stated that it does not expect ACV to be lower than the US\$20.1m previously reported in November 2022. We have reduced our forecasts to reflect the H1 result and have pushed out our expectations for US\$50m in ACV until the end of FY26. Our DCF valuation is now \$0.40/share using a higher discount rate of 16.0% to reflect the increased risk in the company's operating environment.

Business model

Pointerra's patented, cloud-deployed technology and AI-driven algorithms create digital twins of physical assets, solving a long-standing problem of efficiently, effectively, and rapidly converting massive 3D datasets into analytics and insights to provide definitive answers. The Pointerra3D product has three key components each with different features and capabilities: Core, Analytics and Answers. Core provides the processing, storage and sharing, visualisation and management of data, Analytics creates the digital twin for the physical world, analyses and classifies the data, while Answers creates predictive insights and delivers business intelligence, risk mitigation and ESG improvement suggestions to users. Pointerra charges its clients on the amount of data (in terabytes), the number of users and the analytic tools that clients use.

Result highlights impact of enterprise customer delays

Pointerra reported H1 FY23 sales revenue of \$3.8m, which was a record for the first half but below both our and the company's expectations. The half was negatively impacted by short-term programme delays by key US energy utility customers, which in turn delayed invoicing and cash collections. The company expects this to resolve in H2 FY23. H1 operating costs of \$6.9m were higher than anticipated but included third-party data procurement costs made on behalf of customers and Amazon Web Services costs, which the company expects will not recur. Our forecast changes reflect the H1 result and earnings adjustments to push out ACV at US\$50m by 18 months to FY26-end and ACV-to-revenue conversion to take longer.

Base-case DCF valuation is \$0.40/share (prev. \$0.95/share)

We use the discounted cashflow methodology to value Pointerra, using a WACC of 16.0% (previously 14.7%) and terminal growth rate of 2.2%, and this derives a base-case valuation of \$0.40/share (previously \$0.95/share). Our valuation is predicated on ACV surpassing US\$50m by the end of FY26, 18 months later than previously forecast.

Historical earnings and RaaS' forecasts (in \$A unless otherwise stated)

Year end	ACV ^A (US\$m)	Revenue	Gross profit	EBITDA adj.	NPAT adj.	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/22a	18.2	9.8	8.9	0.0	0.0	0.00	6.3	nm
06/23f	23.6	11.1	10.1	(3.7)	(3.8)	(0.56)	5.5	nm
06/24f	31.5	19.5	17.7	2.8	1.9	0.21	2.9	20.1
06/25f	41.0	29.2	26.6	6.5	4.5	0.66	1.9	8.4

Source: Company data for historical earnings; RaaS estimates for FY23f-FY25f; ^AAnnual Contract Value

Software & Services

16 March 2023

Share Details

ASX code	3DP
Share price (15-Mar)	\$0.096
Market capitalisation	\$65.1M
Shares on issue	677.8M
Net cash 31-Dec-2022	\$2.7M

Share Performance (12 months)



Upside Case

- Highly scalable business model
- Proven track record with Florida Power & Light is opening up new opportunities in US
- Substantial growth opportunities in US market

Downside Case

- Long enterprise sales cycle taking 12+ months
- Competing with multinationals for business
- Enterprise customers can be slow to pay

Catalysts

- Demonstrated substantial growth in ACV
- Additional wins with US and Australian clients
- Development of data marketplace

Board of Directors

Neville Bassett	Non-Executive Chairman
Paul Farrell	Non-Executive Director
Ian Olson	Managing Director/CEO

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H1 FY23 Results Discussion

Pointerra reported record first-half revenue of \$3.8m, up 20.3% on the pcp, although below our forecast for the period. The company noted that revenue and cash receipts were negatively impacted by programme delays with key US customers. The company has also experienced delays with renewing contracts and this has impacted its ability to provide ACV data. Pointerra expects these delays to be resolved during H2. We had anticipated a far higher pull through of ACV into revenue in the half, which has proven slower to occur. Pleasingly, the GP margin has increased and was in-line with our forecast for the half.

During the half, the company maintained its head count, with new hires essentially replacing departures. Employee costs were in-line with our forecast. Pointerra noted that it expects to cautiously grow headcount in-line with growth in recurring revenue throughout calendar 2023.

Operating costs included \$0.9m in one-off costs associated with platform R&D costs and the use of third-party contractors for a now completed project. The company anticipates this will not repeat in H2. Pointerra ended H1 with \$2.75m in cash.

Exhibit 1: H1 FY23 versus H1 FY22 and RaaS forecast

In A\$m unless otherwise stated	H1 FY22	H1 FY23	% chg	RaaS forecast
Sales revenue	3.2	3.8	20.3	7.4
Gross profit	2.7	3.5	27.3	6.7
Gross profit margin	86.0	91.0	5.9	91.0
EBITDA	(1.2)	(3.5)	195.0	2.0
NPAT	(1.3)	(3.6)	167.1	1.4

Source: Company data, RaaS estimates

Outlook

Pointerra expects H2 FY23 to recover lost ground in much the same manner that H2 FY22 outperformed H1 FY22. The company expects growth in spend by existing customers and potential contract awards to underpin revenue growth over the remainder of this fiscal year and into FY24.

Qualified Accounts

The company's auditors, Hall Chadwick, highlighted that material uncertainty exists that may cast doubt on the company's ability to continue as a going concern. Note 1 of the accounts addresses the issue of going-concern status noting that while at balance date there was a working capital deficit of \$0.37m, included in this was deferred revenue of \$1.05m which will not result in cash outflows when realised. Note 1 also concludes that the directors, having prepared a 12-month cashflow forecast, were satisfied that the going-concern basis of preparation of the accounts was appropriate.

Earnings Adjustments

We have made significant changes to our FY23f-FY25f, with the key change underpinning our downgrade being the timing of ACV and conversion to revenue. We have pushed out our forecast for reaching US\$50m ACV by 18 months to the end of FY26 and have assumed a slower conversion to revenue rate in the near term (45% versus 55% previously).

Exhibit 2: Earnings adjustments (in A\$m unless otherwise stated)

	FY23 old	FY23 new	FY24 old	FY24 new	FY25 old	FY25 new
Annual Contract Value (US\$m)	27.8	23.6	41.8	31.5	59.8	41.0
Sales revenue	19.7	11.1	44.7	19.5	65.7	29.2
Gross profit	17.9	10.6	40.7	17.7	59.8	26.6
EBITDA underlying	7.8	(3.7)	29.0	2.8	42.2	6.5
NPAT underlying	5.4	(3.8)	20.3	1.9	29.5	4.5

Source: RaaS estimates

DCF Valuation

In our view, given the early-stage nature of Pointerra's business, the discounted cash flow methodology is the most appropriate method for valuing the company. We have increased our weighted average cost of capital (WACC) to 16.0% (previously 14.7%), to reflect increased risk. We see the slower renegotiations and longer lead times for contracts as a significant risk for Pointerra while it is in this stage of its lifecycle and believe a higher risk rate is justified. This gives us a base-case valuation of \$0.40/share (previously \$0.95/share), fully diluted and including our estimate for an additional 5% in employee shares. Of this, \$0.24/share is embedded in our terminal value. Our valuation is predicated on Pointerra surpassing an ACV of US\$50m by the end of FY26. This is 18 months later than previously modelled.

Exhibit 3: DCF valuation

DCF valuation	Parameters
Discount rate / WACC	16.0%
Beta	1.9
Terminal growth rate	2.2%
Sum of PV (A\$m)	113.3
PV of terminal value (A\$m)	169.0
PV of enterprise (A\$m)	282.3
Net cash at 31-Dec-2022 (A\$m)	(2.4)
Net value – shareholder (A\$m)	284.7
No. of shares on issue (in millions and fully diluted and incorporated RaaS estimate for 5% in employee shares)	711.7
NPV in A\$	\$0.40

Source: RaaS analysis

Exhibit 4: Financial Summary

Pointerra Ltd						Share price (15 March 2023)						A\$		0.10			
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223F	H124F	H224F
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Annual contract revenue (US\$m)						14.4	18.2	20.2	23.6	27.4	31.5
Annual contract value (US\$m)	9.8	18.2	23.6	31.5	41.0	Total Revenue	3.2	7.4	4.1	7.5	8.5	11.0					
Sales Revenue	4.0	9.8	11.1	19.5	29.2	EBITDA	(1.2)	1.2	(3.5)	(0.3)	0.5	2.3					
Total Revenue	4.6	10.7	11.6	19.5	29.2	EBIT	(1.3)	1.0	(3.6)	(0.3)	0.5	2.3					
Gross Profit	3.7	8.9	10.1	17.7	26.6	NPAT (normalised)	(1.3)	1.3	(3.6)	(0.2)	0.3	1.6					
EBITDA Adjusted	(1.1)	0.0	(3.7)	2.8	6.5	Minorities	-	-	-	-	-	-					
Depn	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	NPAT (reported)	(2.3)	(0.4)	(3.2)	(0.2)	0.3	1.6					
Amort	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	EPS (normalised)	(0.20)	0.20	(0.52)	(0.03)	0.05	0.24					
EBIT Adjusted	(1.3)	(0.3)	(3.8)	2.8	6.4	EPS (reported)	(0.35)	(0.04)	(0.47)	(0.03)	0.05	0.24					
Interest	0.0	0.0	(0.0)	(0.0)	(0.0)	Dividend (cps)	-	-	-	-	-	-					
Tax	0.0	0.3	0.1	(0.8)	(1.9)	Imputation	-	-	-	-	-	-					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(0.1)	(1.3)	(0.9)	0.7	3.7	1.2					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	0.0	(1.2)	(0.9)	0.7	3.7	1.2					
NPAT pre significant items	(1.2)	0.0	(3.8)	1.9	4.5	Divisions						H122A	H222A	H123A	H223F	H124F	H224F
Significant items	(0.2)	(2.7)	0.0	0.0	0.0	Contract revenue	3.2	6.6	3.8	7.3	8.5	11.0					
NPAT (reported)	(1.5)	(2.7)	(3.8)	1.9	4.5	R&D grants	0.1	0.8	0.2	0.2	0.0	0.0					
Cash flow (A\$m)						Total Revenue						3.2	7.4	4.1	7.5	8.5	11.0
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	COGS	0.5	0.5	0.4	0.7	0.8	1.0					
EBITDA	(1.1)	0.0	(3.7)	2.8	6.5	Gross Profit	2.8	7.0	3.7	6.9	7.7	10.0					
Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	R&D costs	(0.3)	(0.4)	(0.3)	(0.4)	(0.3)	(0.5)					
Tax	0.0	0.0	0.0	(0.8)	(1.9)	Employment	(2.6)	(3.2)	(3.8)	(4.0)	(4.1)	(4.3)					
Working capital changes	0.9	(1.4)	3.5	2.8	(2.3)	General & Admin costs	(0.7)	(1.0)	(2.8)	(2.5)	(2.5)	(2.6)					
Operating cash flow	(0.3)	(1.4)	(0.2)	4.8	2.2	Other costs	(0.3)	(1.1)	(0.3)	(0.3)	(0.3)	(0.3)					
Mtce capex	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	EBITDA	(1.2)	1.2	(3.5)	(0.3)	0.5	2.3					
Free cash flow	(0.4)	(1.6)	(0.3)	4.8	2.2	Margins, Leverage, Returns						FY21A	FY22A	FY23F	FY24F	FY25F	
Growth capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	EBITDA			0.3%	(33.4%)	14.6%	22.2%					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT			(3.1%)	(34.5%)	14.3%	22.0%					
Other	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items			(31.0%)	0.1%	(33.8%)	10.0%	15.4%				
Cash flow pre financing	(0.4)	(1.6)	(0.3)	4.7	2.1	Net Debt (Cash)			4.8	3.1	7.8	9.9					
Equity	3.3	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	126.1	n/a	2.8	1.5					
Debt	0.0	0.0	(0.0)	0.0	0.0	ND/ND+Equity (%)	(%)	2389.2%	(7884.3%)	87.2%	123.6%	251.7%					
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.0	0.0					
Net cash flow for year	2.9	(1.6)	(0.3)	4.7	2.1	ROA			(21.4%)	(3.8%)	(52.6%)	26.6%	39.4%				
Balance sheet (A\$m)						ROE			(50.7%)	(67.4%)	(265.0%)	371.9%	120.2%				
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	ROIC			(75.9%)	32.7%	92.2%	(57.3%)	(183.4%)				
Cash	5.2	3.6	3.4	8.1	10.3	NTA (per share)			0.00	0.00	n/a	0.00	0.01				
Accounts receivable	1.1	3.5	3.0	5.2	7.8	Working capital			(0.7)	1.3	(0.6)	1.4	2.6				
Inventory	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)			(16.5%)	13.0%	(4.9%)	7.0%	8.8%				
Other current assets	0.0	0.0	0.0	0.0	0.0	Revenue growth			224.4%	146.0%	13.6%	74.9%	50.1%				
Total current assets	6.2	7.1	6.4	13.4	18.1	EBIT growth pa			n/a	n/a	n/a	(172.4%)	131.1%				
PPE	0.2	0.2	0.1	0.1	0.1	Pricing			FY21A	FY22A	FY23F	FY24F	FY25F				
Intangibles and Goodwill	1.6	0.1	0.1	0.1	0.1	No of shares (y/e)	(m)		678	678	678	678	678				
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)		640	678	678	678	678				
Deferred tax asset	0.0	0.0	0.1	0.1	0.1	EPS Reported	cps		(0.2)	(0.4)	(0.5)	0.2	0.7				
Other non current assets	0.3	0.3	0.3	0.3	0.3	EPS Normalised/Diluted	cps		(0.2)	0.0	(0.6)	0.2	0.7				
Total non current assets	2.1	0.5	0.6	0.6	0.6	EPS growth (norm/dil)			n/a	(100.5%)	n/a	(137.0%)	222.9%				
Total Assets	8.4	7.7	7.0	14.0	18.7	DPS	cps		-	-	-	-	-				
Accounts payable	1.7	2.2	3.5	3.8	5.2	DPS Growth			n/a	n/a	n/a	n/a	n/a				
Short term debt	0.1	0.1	0.1	0.1	0.1	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%				
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation			0	0	0	0	0				
Deferred revenue	1.4	1.7	3.5	8.2	7.1	PE (x)			-	-	-	46.7	14.5				
Total current liabilities	3.2	4.0	7.1	12.1	12.4	PE market			15.0	15.0	15.0	15.0	15.0				
Long term debt	0.3	0.3	0.2	0.2	0.2	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	211.2%	(3.6%)				
Other non current liabs	0.3	0.1	0.1	0.1	0.1	EV/EBITDA			nm	nm	-	16.6	20.1				
Total long term liabilities	0.6	0.4	0.3	0.3	0.3	FCF/Share	cps		(0.0)	(0.2)	0.0	0.7	0.3				
Total Liabilities	3.8	4.4	7.4	12.5	12.7	Price/FCF share			(446.2)	(53.0)	-	311.6	13.4				
Net Assets	4.6	3.3	(0.4)	1.5	6.0	Free Cash flow Yield			(0.2%)	(1.9%)	(0.3%)	7.5%	3.5%				
Share capital	13.8	13.8	13.9	13.9	13.9												
Accumulated profits/losses	(11.7)	(14.4)	(17.8)	(15.8)	(11.3)												
Reserves	2.5	3.8	3.4	3.4	3.4												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	4.6	3.3	(0.4)	1.5	6.0												

Source: RaaS estimates, Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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- how we transact with you
- how we are paid, and
- complaint processes

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