

RECOMMENDATIONS

Rating	Buy ▲
Risk	Speculative
Price Target	\$0.05
Share Price	\$0.03

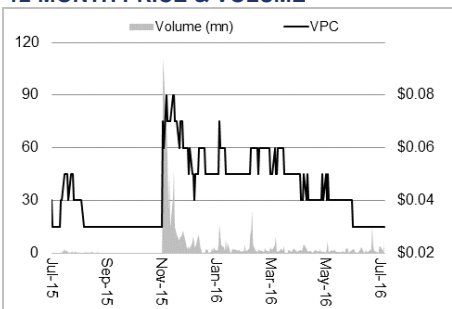
SNAPSHOT

Monthly Turnover	\$1.5mn
Market Cap	\$16mn
Shares Issued	552.0mn
52-Week High	\$0.09
52-Week Low	\$0.03
Sector	Information Technology

BUSINESS DESCRIPTION

VPC Group consists of Velpic software and Dash Digital. Velpic is an enterprise-grade e-learning platform with integrated video. It operates under a SaaS model and has a number of ASX 200 companies as clients. Dash Digital is a brand technology agency, which provides brand and marketing strategy through visual design, websites, mobile apps, online marketing and other services

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

Luke Macnab, CFA

+ 612 9250 8930

lmacnab@baillieuholst.com.au

Nicolas Burgess, CFA

+ 613 9602 9379

nburgess@baillieuholst.com.au

Josh Kannourakis

+ 613 9602 9265

jkannourakis@baillieuholst.com.au

Disclosure

The author owns no shares in VPC.

Velpic Group (VPC)

COMPANY REPORT

Cash to conquer continents

- Raising to fund global marketing:** VPC has completed a 2-for-5 Entitlement Offer, issuing 190m shares and raising \$5.7m (pre-costs). The largest portion of these funds (\$2.4m) will be used to ramp up sales and marketing efforts for Version 3.0 of their software - targeting the large global SME market. This will be done through the development of additional sales partnerships and digital marketing channels.
- Remainder to support future growth:** The balance of the funds raised will be used to facilitate the expansion of the business, including \$1.2m for digital product development, \$0.3m for new premises and \$1.6m for working capital. The cost of the issue was \$0.2m. Post-raising, we estimate that VPC has around \$7.5m of cash.
- Continuing positive developments:** In recent months, VPC has signed a number of new clients (Boggabri Coal, Canterbury Leagues Club, ComOps and Shelf Subsea to name a few) and reached a preliminary agreement with TikForce to investigate the integration of their online technology into the Velpic platform. VPC also signed its first distribution partnership arrangement with Panalitix, a business advisory software provider. This should assist with VPC's penetration of the SME market.
- International expansion underway:** VPC's offshore expansion is focusing on the US and UK in the early stages. Initiatives being worked on include: (1) integrating Velpic into ADP Marketplace, an online HR app store which has 630,000 customers; (2) exploring integration opportunities with other technology providers; and (3) seeking placement on G-cloud (the UK Government's procurement portal).
- Growth rate slightly below our forecast:** Management has indicated that client growth is running at around 11% per month, with a high-water mark of 18% in March 2016. It was noted that January (New Year) and April (Easter) were weaker, which dragged the average below our forecast of 15% per month. However, we understand that Dash Digital is doing better than expected, so our 2H16 forecast revenue remains unchanged, but we have reduced our FY17 and FY18 forecasts by 10% and 20% respectively.
- Investment view:** We have updated our model for the share issue and higher marketing costs going forward, while also slightly lowering our revenue growth assumptions. Our new valuation and target price is \$0.05 (from \$0.08). Velpic remains a Speculative BUY with large potential upside in the medium term.

INVESTMENT SUMMARY

Year End: 31 December		2014A	2015A	2016E	2017E	2018E
Revenue	\$mn	3.0	2.6	1.9	4.0	6.9
EBITDA	\$mn	-0.1	-0.3	-1.7	-2.0	0.1
EBIT	\$mn	-0.1	-0.3	-1.7	-2.0	0.1
Reported Profit	\$mn	-0.1	-0.3	-1.7	-1.1	0.2
Adjusted Profit	\$mn	-0.1	-0.3	-1.7	-1.1	0.2
EPS (Reported)	¢		-0.1	-0.4	-0.2	0.0
EPS (Adjusted)	¢		-0.1	-0.4	-0.2	0.0
EPS Growth	%			N/A	N/A	N/A
PER (Reported)	x		N/A	N/A	N/A	67.8
PER (Adjusted)	x		N/A	N/A	N/A	67.8
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

VELPIC

Code: VPC
Analyst: Luke Macnab
Date: 12 July, 2016
Share Price: \$0.029
Market Capitalisation: \$16m
Financial Year End: June

Rating: **BUY**
Price Target: **\$0.05**
Upside/downside: 72%
Valuation: \$0.05
Valuation method: EV/Revenue Multiple
Risk: Speculative

PROFIT & LOSS (A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating revenue	3.0	2.6	1.9	4.0	6.9
COGS	-0.7	-0.6	-0.5	-1.0	-1.8
Gross profit	2.3	2.1	1.4	3.0	5.2
Expenses	-2.4	-2.3	-3.1	-4.9	-5.1
EBITDA	-0.1	-0.3	-1.7	-2.0	0.1
Depreciation	0.0	0.0	0.0	0.0	0.0
EBITA	-0.1	-0.3	-1.7	-2.0	0.1
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-0.1	-0.3	-1.7	-2.0	0.1
Net Interest expense	-0.1	0.0	0.1	0.4	0.3
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-0.1	-0.3	-1.7	-1.6	0.3
Tax	0.0	0.0	0.0	0.5	-0.1
Underlying NPAT	-0.1	-0.3	-1.7	-1.1	0.2
Underlying NPATA	-0.1	-0.3	-1.7	-1.1	0.2
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-0.1	-0.3	-1.7	-1.1	0.2

BALANCE SHEET (A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E
Assets					
Cash	0.0	4.3	7.6	5.8	4.9
Receivables	0.0	0.2	0.7	1.1	2.0
PPE	0.0	0.1	0.1	0.1	0.0
Goodwill & Intangibles	0.0	6.2	6.3	6.5	6.9
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	1.4	1.6	1.9	2.6
Total Assets	0.0	12.2	16.3	15.5	16.4
Liabilities					
Payables	0.0	0.3	0.7	1.1	1.2
Debt	0.0	0.1	0.1	0.1	0.1
Provisions	0.0	0.0	0.0	0.0	0.0
Tax payable	0.0	0.1	-0.2	-0.1	0.1
Deferred Tax Liability	0.0	1.6	1.6	1.6	1.6
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.0	2.1	2.2	2.7	3.0
Equity					
Share capital	0.0	24.3	24.3	24.3	24.3
Retained earnings	0.0	2.1	-1.3	-2.4	-2.2
Other equity	0.0	-16.3	-16.3	-16.3	-16.3
Total shareholders equity	0.0	10.1	6.7	5.6	5.8
BV per share (cps)	na	2.9	1.7	1.0	1.1
NTA per share (cps)	na	1.1	0.1	-0.2	-0.2

CASH FLOW (A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E
Cash at Start	0.2	0.1	4.3	7.6	5.8
Cash from operations	-0.1	-0.3	-2.1	-1.6	-0.6
Capex	0.0	-0.4	-0.1	-0.2	-0.3
Free cash flow	-0.1	-0.7	-2.2	-1.8	-0.9
Cash flow from investing	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	0.0	4.9	5.5	0.0	0.0
Cash at end	0.1	4.3	7.6	5.8	4.9
Free cash flow per share (cps)	na	-0.2	-0.6	-0.3	-0.2
GOCF / EBITDA	100%	100%	102%	100%	100%
FCF / Underlying cash NPAT	36%	228%	135%	157%	-383%

EARNINGS	FY14A	FY15A	FY16E	FY17E	FY18E
EPS - Underlying (cps)	na	-0.1	-0.4	-0.2	0.0
EPS Growth - Underlying	na	na	386%	-50%	-121%
EPS - Reported (cps)	na	-0.1	-0.4	-0.2	0.0
Diluted shares (m)	0.0	354.4	403.8	552.0	552.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio	0%	0%	0%	0%	0%
Franking	0%	0%	0%	0%	0%

VALUATION	FY14A	FY15A	FY16E	FY17E	FY18E
P/E - Underlying (x)	na	-34.4	-7.1	-14.1	67.8
EV/EBIT (x)	-205.6	-55.1	-9.3	-8.0	247.9
EV/EBITA (x)	-205.6	-55.1	-9.3	-8.0	247.9
EV/EBITDA (x)	-298.5	-58.2	-9.3	-8.0	212.2
Price/Book (x)	na	1.0	1.7	2.9	2.7
Price/NTA (x)	na	2.7	28.8	-17.3	-15.4
Price/FCF	na	-15.1	-5.3	-9.0	-17.7

GROWTH	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue growth	na	-13%	-27%	108%	74%
COGS growth	na	-13%	-11%	107%	71%
Expenses growth	na	-3%	34%	58%	3%
EBITDA growth	na	413%	523%	16%	-104%
PBT growth	na	100%	454%	-2%	-121%
Underlying NPAT growth	na	100%	454%	-32%	-121%
Reported NPAT growth	na	100%	454%	-32%	-121%

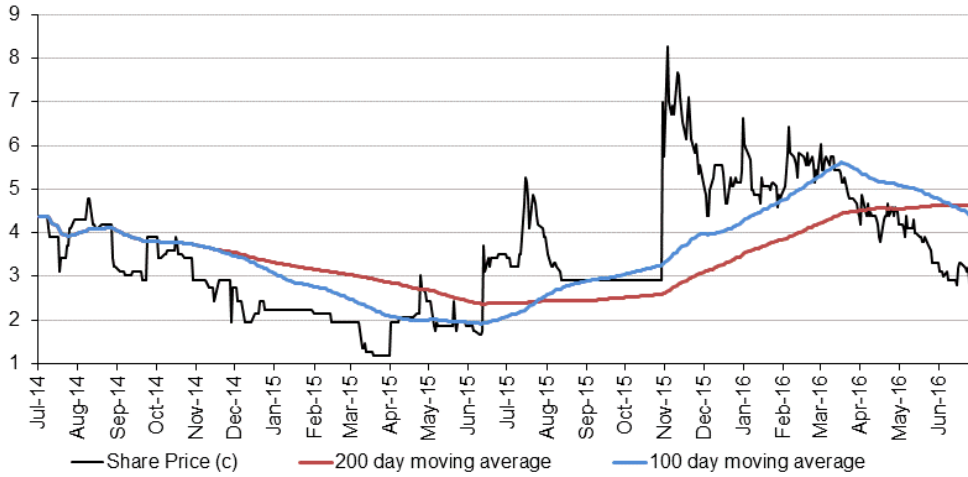
MARGINS & RETURNS	FY14A	FY15A	FY16E	FY17E	FY18E
EBITDA Margin	-1.8%	-10.5%	-89.2%	-49.9%	1.1%
EBITA Margin	-2.6%	-11.1%	-89.7%	-50.2%	0.9%
NPBT Margin	-5.0%	-11.4%	-86.2%	-40.5%	4.9%
ROIC	na	-5.5%	-29.3%	-125.3%	2.2%
ROE	na	-5.9%	-19.7%	-18.4%	4.1%
ROA	na	-4.8%	-12.1%	-12.6%	0.4%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

GEARING	FY14A	FY15A	FY16E	FY17E	FY18E
Net Debt	0.0	0.0	0.0	0.0	0.0
Enterprise value	16.0	16.0	16.0	16.0	16.0
Net Debt/EV (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
EBITDA/Net Interest (x)	nm	nm	nm	nm	nm

SEGMENT REVENUES (A\$m)	FY14A	FY15A	FY16E	FY17E	FY18E
Velpic	0.3	0.3	0.2	1.5	4.3
Dash Digital	2.7	2.3	1.7	2.5	2.7

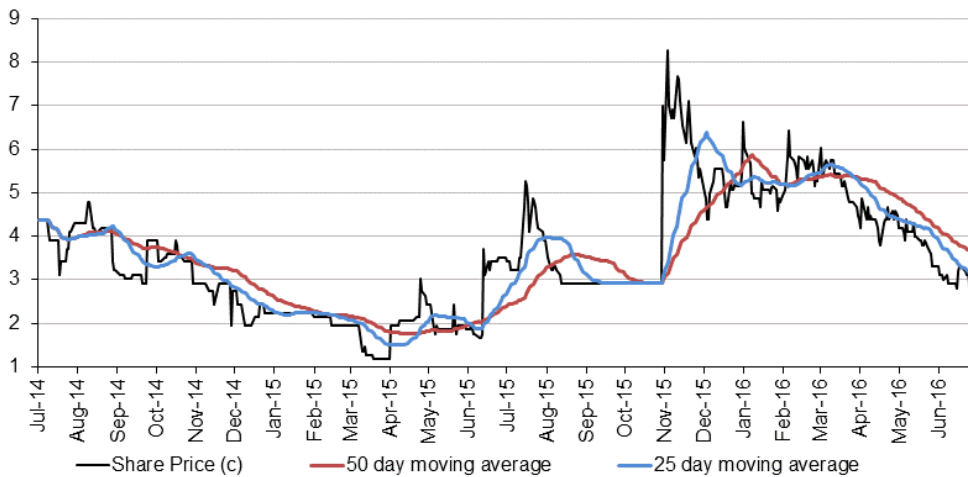
Appendix

FIG.1: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.2: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Hold: The stock's total return is expected to trade within a range of ± 10 -15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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Baillieu Holst Ltd

ABN 74 006 519 393
Australian Financial Service Licence No. 245421
Participant of ASX Group
Participant of NSX Ltd

www.baillieuholst.com.au

Melbourne (Head Office)

Address Level 26, 360 Collins Street
Melbourne, VIC 3000 Australia
Postal PO Box 48, Collins Street West
Melbourne, VIC 8007 Australia
Phone +61 3 9602 9222
Facsimile +61 3 9602 2350
Email melbourne@baillieuholst.com.au

Adelaide Office

Address 1, 341 Payneham Road
Marden, SA 5070 Australia
Phone +61 8 7074 8400
Facsimile +61 8 8362 3942
Email adelaide@baillieuholst.com.au

Bendigo Office

Address Cnr Bridge & Baxter Streets
Bendigo, VIC 3550 Australia
Postal PO Box 40
North Bendigo VIC 3550 Australia
Phone +61 3 4433 3400
Facsimile +61 3 4433 3430
Email bendigo@baillieuholst.com.au

Brisbane Office

Address Level 18, 333 Ann Street
Brisbane, QLD 4000 Australia
Phone +61 7 3232 1110
Email brisbane@baillieuholst.com.au

Geelong Office

Address 16 Aberdeen Street
Geelong West Vic 3218
Postal PO Box 364
Geelong Vic 3220 Australia
Phone +61 3 5229 4637
Facsimile +61 3 4229 4142
Email geelong@baillieuholst.com.au

Newcastle Office

Address Level 1, 120 Darby Street
Cooks Hill, NSW 2300 Australia
Postal PO Box 111
The Junction, NSW 2291 Australia
Phone +61 2 4037 3500
Facsimile +61 2 4037 3511
Email newcastle@baillieuholst.com.au

Perth Office

Address Level 10, 191 St Georges Terrace
Perth WA 6000 Australia
Postal PO Box 7662, Cloisters Square
Perth, WA 6850 Australia
Phone +61 8 6141 9450
Facsimile +61 8 6141 9499
Email perth@baillieuholst.com.au

Sydney Office

Address Level 18, 1 Alfred Street
Sydney, NSW 2000 Australia
Postal PO Box R1797
Royal Exchange, NSW 1225 Australia
Phone +61 2 9250 8900
Facsimile +61 2 9247 4092
Email sydney@baillieuholst.com.au