WILSONS
Equity Research

Date 05 February 2021
Theme Initiating Coverage
Company

Nitro Software Limited (NTO)

Initiating at Overweight: Expecting an Explosive Future

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$3.70
Share price @ 04-Feb-21 (AUD)	$3.07
Forecast 12-mth capital return	20.5%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	20.5%
Market cap	$584m
Enterprise value	$541m
Shares on issue	190m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	$1.9m

We initiate coverage of Nitro Software Limited ("Nitro") with an Overweight rating and a $3.70 Target Price (+21% TSR). Nitro is a US-headquartered, Australian-listed, global document productivity software company that aims to drive digital transformation. Nitro is well placed to capitalise on the strong secular trend of the automation of business workflows, which includes document management and digital signatures. This medium-term macro trend accelerated materially in 2020 given the volume of employees and customers alike working from home. There is a tectonic shift towards all-things-digital and with *'the Genie not going back into the bottle'*, we expect ongoing, robust demand.

Key Points

Four Reasons to Buy Nitro – i) The expedited migration to digital workflows which will result in increased demand for document management and digital signature services that Nitro offers; ii) Nitro's Productivity Suite, which offers both Document Management and Digital Signatures features, is a differentiating factor from its two dominant, incumbent competitors, Adobe and DocuSign; iii) Nitro's Total Addressable Market ("TAM") of ~US$5.5bn could *increase* by US$1bn-US$10bn with the Nitro Sign standalone product; and iv) Revenue upside risk, to be determined by Nitro's success in transitioning free Nitro Sign customers into paying customers and cross-selling into its existing customers.

Forecasts & Guidance – We are forecasting FY21e ARR of $40.2m (+45% pcp.), Revenue of $48.2m (Consensus: $46.0m), and EBITDA of -$7.0m (Consensus -$7.5m). Our revenue forecasts reflect strong growth in Nitro subscriptions and our EBITDA forecasts factor in FY21 being a year of continued investment.

Target Price & Valuation – Our $3.70 target price reflects a Dec year-end FY22e EV/Sales of 10x which is a -44% discount to the average of its global peers, Adobe and DocuSign but a +50% premium to the average of its domestically listed, but global peers, Bigtincan and Whispir. With Nitro's core business (Subscription) set to encompass ~80% of the revenue mix by FY22e and growing at a CAGR of 43% FY19e-23e, we believe NTO warrants a premium valuation to local peers.

Catalysts & Risks

Catalysts: i) Ongoing acceleration in subscription sales (both new customers and fast migration of perpetual customers); ii) Pricing traction to reduce the discount to competitors; iii) Financially and strategically accretive M&A. Risks: i) Lack of scale in the US and other markets; ii) Subscription growth not meeting expectations; iii) unsuccessful and/or ineffective M&A.

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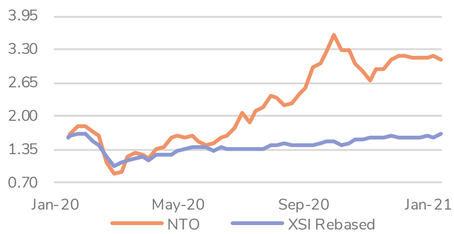
12-mth price performance ($)



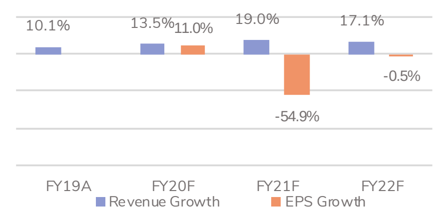
	1-mth	6-mth	12-mth
Abs return (%)	-2.8	59.8	95.0
Rel return (%)	-5.7	37.7	91.5

Source: Company data, Wilsons estimates, S&P Capital IQ

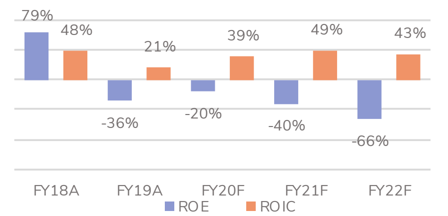
Earnings forecasts

Year-end June (AUD)	FY18A	FY19A	FY20F	FY21F	FY22F
NPAT rep ($m)	-5.5	-4.7	-6.2	-9.7	-9.7
NPAT norm ($m)	-5.5	-4.7	-6.2	-9.7	-9.7
Consensus NPAT ($m)			-10.3		
EPS norm (cps)	0.0	-3.3	-2.9	-4.6	-4.6
EPS growth (%)			11.0	-54.9	-0.5
P/E norm (x)	#VALUE	-93.0	-104.5	-67.5	-67.2
EV/EBITDA (x)	-196.4	-896.5	-117.3	-77.5	-80.8
FCF yield (%)	-0.1	0.0	-0.3	-1.2	-1.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

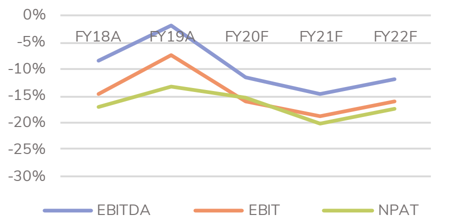
Growth rates



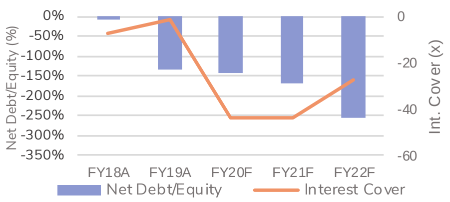
Returns



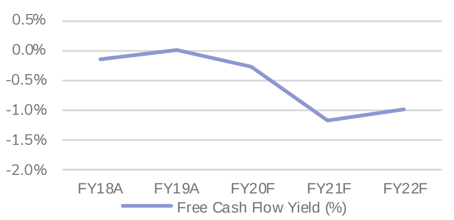
Margin trends



Solvency



Free cash flow yield



Interims ($m)

	1H19A	2H19A	1H20A	2H20E
Sales revenue	16.7	19.0	19.1	21.4
EBITDA	-1.5	0.9	-1.6	-3.0
EBIT	-2.4	-0.2	-2.5	-3.9
Net profit	**-2.8**	**-1.9**	**-2.2**	**-4.1**
Norm EPS	**0.0**	**0.0**	**-1.1**	**-1.9**
EBIT/sales (%)	-14.5	-1.0	-13.1	-18.4
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Payout ratio (%)			**0.0**	**0.0**
Adj payout (%)	0.0	0.0	0.0	0.0

Key assumptions

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F	FY23F
Revenue Growth (%)		16.3	10.1	13.5	19.0	17.1		
EBIT Growth (%)		-52.2	-44.5	145.9	40.3	-0.9		
NPAT Growth (%)		-49.7	-14.3	32.1	55.1	0.5		
EPS Growth (%)				**-11.0**	**54.9**	**0.5**		
EBIT / Sales (%)		-14.5	-7.3	-15.9	-18.7	-15.9		
Tax Rate (%)		-3.0	-8.1	5.0	-5.0	-5.0		
ROA (%)		**-16.9**	**-4.3**	**-11.1**	**-17.6**	**-19.1**		
ROE (%)		**78.9**	**-35.8**	**-19.9**	**-39.6**	**-66.1**		
Subscription		6.9	13.2	21.4	32.5	43.9		
Perpetual, Maintenance &		25.5	22.5	19.1	15.7	12.5		
Other		0.0	0.0	0.0	0.0	0.0		
Total Operating Revenue		**32.4**	**35.7**	**40.5**	**48.2**	**56.4**		

Financial ratios

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F	FY23F
PE (x)	#VALUE	#VALUE	-94.0	-105.5	-68.1	-67.8		
EV/EBITDA (x)	-81.4	-196.4	-896.5	-117.3	-77.5	-80.8		
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0		
FCF yield (%)	0.0	-0.1	0.0	-0.3	-1.2	-1.0		
Payout ratio (%)			**0.0**	**0.0**	**0.0**	**0.0**		
Adj payout (%)		0.0	0.0	0.0	0.0	0.0		

Profit and loss ($m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F	FY23F
Sales revenue	27.9	32.4	35.7	40.5	48.2	56.4		
EBITDA	-6.6	-2.8	-0.6	-4.6	-7.0	-6.7		
Depn & amort	3.2	2.0	2.0	1.8	2.0	2.3		
EBIT	**-9.8**	**-4.7**	**-2.6**	**-6.4**	**-9.0**	**-8.9**		
Net interest expense	0.8	0.6	1.8	0.1	0.2	0.3		
Tax	0.3	0.2	0.4	-0.3	0.5	0.5		
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	**-11.0**	**-5.5**	**-4.7**	**-6.2**	**-9.7**	**-9.7**		
Abns/exts/signif	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	**-11.0**	**-5.5**	**-4.7**	**-6.2**	**-9.7**	**-9.7**		

Cash flow ($m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F	FY23F
EBITDA	-6.6	-2.8	-0.6	-4.6	-7.0	-6.7		
Interest & tax	0.0	0.0	0.0	0.0	0.0	0.0		
Working cap/other	6.6	1.9	1.0	3.1	0.2	1.0		
Operating cash flow	**0.0**	**-0.8**	**0.4**	**-1.5**	**-6.8**	**-5.7**		
Maintenance capex	0.0	0.0	-0.2	-0.1	-0.1	-0.1		
Free cash flow	**0.0**	**-0.8**	**0.2**	**-1.6**	**-6.9**	**-5.8**		
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth capex	0.0	0.0	-0.5	-0.1	-0.2	-0.3		
Invest/disposals	0.0	0.0	0.0	-0.2	0.0	0.0		
Oth investing/finance flows	0.0	-0.9	-1.7	-1.5	0.0	0.0	0.0	0.0
Cash flow pre-financing	**0.0**	**-1.8**	**-2.0**	**-3.4**	**-7.1**	**-6.1**		
Funded by equity	0.0	-0.7	43.8	0.2	0.0	0.0		
Funded by debt	0.0	0.0	0.0	0.0	0.0	0.0		
Funded by cash	0.0	2.4	-41.8	3.3	7.1	6.1		

Balance sheet summary ($m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F	FY23F
Cash		4.0	47.0	43.8	36.7	30.6		
Current receivables		6.0	6.7	7.0	8.6	10.0		
Current inventories		0.0	0.0	0.0	0.0	0.0		
Net PPE		0.0	3.6	3.0	2.3	2.4		
Intangibles/capitalised	0.0	1.1	0.3	0.4	0.4	0.4		
Total assets		**27.8**	**60.6**	**57.7**	**51.4**	**46.9**		
Current payables		3.7	2.8	2.9	3.3	3.5		
Total debt	0.0	4.4	2.9	2.4	3.4	5.4		
Total liabilities		**34.8**	**27.3**	**28.4**	**31.8**	**37.0**		
Shareholder equity		**-7.0**	**33.4**	**29.3**	**19.6**	**9.9**		
Total funds employed		**-2.6**	**36.3**	**31.7**	**23.0**	**15.3**		

Executive Summary

We initiate coverage on Nitro Software Limited ("Nitro") with an OVERWEIGHT recommendation and a $3.70 target price.

Our OVERWEIGHT recommendation is predicated on the following:

- The Expedited Migration to Digital Workflows: Increased demand for digital workflows has primarily been out of necessity more than want, due to the global pandemic. The uptake of digital workflows has been broad-based, from the request for, and provision of, digital signatures, through to form filing, digital annotation and digital collaboration. The broad adoption was also evident across industries/sectors.
- One-Stop-Shop Offering: While Nitro is clearly a challenger brand, its Productivity Suite has two genuine capabilities (Document Management and eSignatures) which we see as a differentiating factor from its two dominant, more unilateral, incumbent competitors: Adobe dominates Document Management (~65% market share) and has an emerging eSignature offering while DocuSign dominates eSignatures (~80% market share) but generally requires 3rd party applications for Document Management.
- Expanded TAM = Expanded Revenue Opportunity: Per Nitro's recent prospectus, its 'realistically serviceable' Total Addressable Market ("TAM") was ~US$5.5bn, which was expected to grow at a rate of 10.6% per annum over four years to 2023. Nitro has also stated that the projected TAM for Nitro Sign (Nitro's Standalone eSignature offering) could be a US$1bn to US$10bn opportunity in and of itself. This expanded TAM could, subsequently, expand Nitro's revenues. In the medium term, Adobe expects the TAM for Document Cloud (most relevant for Nitro) to be US$13bn in 2022, and to then grow +62% in 2023 to US$21bn.
- Potential Upside Risk To Forecasts: We are forecasting FY21e ARR of $40.2m (+45% pcp.), Revenue of $48.2m (Consensus: $46.0m) and EBITDA of -$7.0m. Our FY21e revenue forecasts are +5% ahead of consensus and our EBITDA is broadly in line in absolute dollars. We believe that FY21e will be another year of continued investment by NTO, though believe consensus may not fully reflect the strong exit run-rate ARR of $27.7m coupled with a historical net revenue retention of 115%+. This should put a floor on Subscription Revenues of ~$32m before any incremental revenue "booked" during the year. We expect Perpetual to decline -18% to ~$16m. Monetisation of Nitro Sign (Standalone) and cross-sell remain catalysts for an upgrade.

Company Overview

Founded in Melbourne in 2005, Nitro is a US-headquartered, Australian-listed global document productivity software company that aims to drive digital transformation. This focus has gained momentum, partly due to necessity, given the current and sustained change in way in all organisations in various industries around the world now have to adapt to a remote workers and customers alike.

Nitro's core solution, the Nitro Productivity Suite, *"provides integrated Portable Document Format ("PDF") productivity and electronic signature ("eSignature") tools to customers through a horizontal, software-as-a-service ("SaaS") and desktop-based software solution"*. This solution empowers allows users to efficiently manage and process documents, with functions including editing, collaboration, storage and electronic/digital signing.

The Nitro Productivity Suite is made-up of Nitro Pro (PDF creation), Nitro Sign (e-Signing), and for Enterprise plans, Nitro Analytics.

Nitro has two reportable segments:

- Subscription *(66% of FY21e Revenue)*: This reflects Nitro's ongoing recurring revenue from existing and new license sales to SMB and Enterprise clients.
- Perpetual, Maintenance and Support *(34% of FY21e Revenue)*: This reflects Nitro's SOHO (Small Office/Home Office) customer cohort sales, which is in the form of one-off, up-front, purchase of a perpetual license. Optional surcharges include Support and Product Feature upgrades.

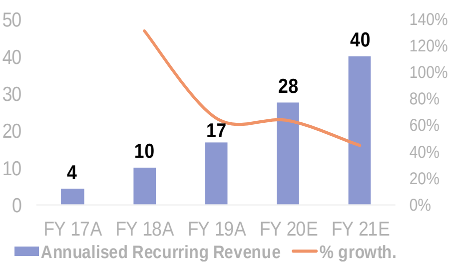
Nitro previously had a majority share of revenue derived from Perpetual sales. But as the "shift to the cloud" and the ongoing Digital Transformation arising from COVID-19 has taken place, NTO has seen a natural gravitation towards Subscription over one-off license sales.

Not only has this spurred revenue growth rates (Subscription ARR in FY20 +64% on pcp.), but also Gross Margin expansion, due to the lower costs associated with selling Subscription licenses. With scale still developing (NTO is <US$50m revenue p.a.), operating costs are predominantly focused on Sales and Marketing and R&D expansion.

The company is "Capital Light" (limited CAPEX) with ~US$44m of Net Cash and expenses all R&D and commissions associated with new sales.

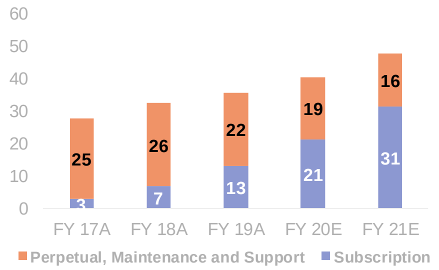
The net result is a rapidly growing SaaS business building scale with minimal cash-burn and ongoing CAPEX requirements.

Figure 1 – NTO ARR (US$m)



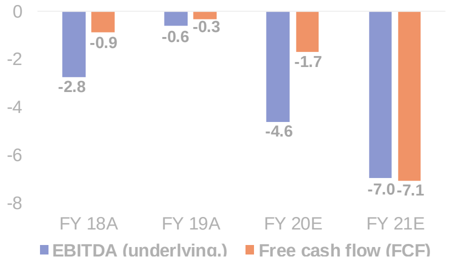
Source: Wilsons, Nitro

Figure 2 – NTO Revenues (US$m)



Source: Wilsons, Nitro

Figure 3 – EBITDA $ (US$m)



Source: Wilsons, Nitro

Four Key Topics

To better understand the Nitro opportunity, we will explore four key topics:

1. Perpetual vs. Subscription – we investigate Nitro's strategy to reduce its focus on perpetual licences and discuss the growth trajectory for its subscription offering.
2. The Growth Opportunity – we analyse Nitro's Total Addressable Market ("TAM")
3. The Competitive Landscape – we examine Nitro's competitive landscape, focusing on the two dominant incumbents, Adobe and DocuSign.
4. Nitro Case Study – We review a Nitro-sponsored 'Head to Head' analysis of the Nitro Productivity Suite vs. Adobe vs. DocuSign.

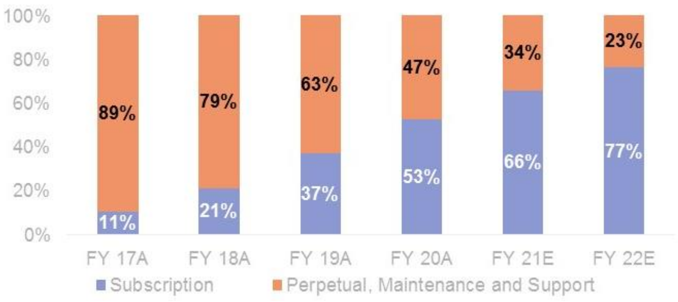
1. Perpetual vs. Subscription

Nitro has made a coordinated shift towards achieving cloud-based (Subscription) license sales and migrating existing Perpetual customers to Subscription.

As highlighted in Figure 4, NTO ended FY17 with only ~11% of revenues derived from Subscription and ended FY20 with ~53% of revenues coming from Subscription.

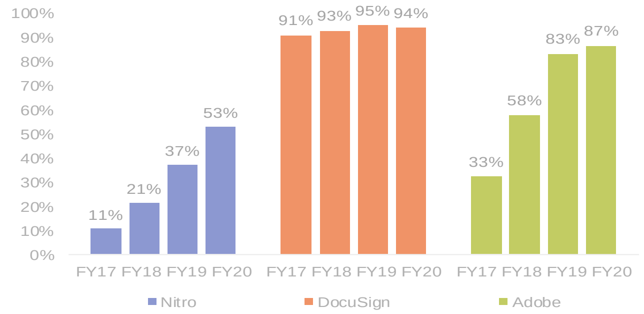
We expect this trend to continue as the sales-team scales up in Mid-Market and Enterprise channels, and lower resource is applied to Perpetual license sales as more customers migrate over.

Figure 4: NTO has rapidly expanded its exposure to SaaS revenues...



Source: Wilsons

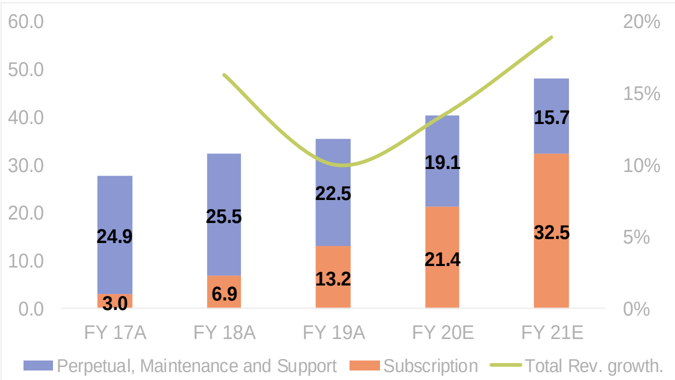
Figure 5: ... much akin to ADBE and (soon to be) DOCU levels...



Source: Wilsons

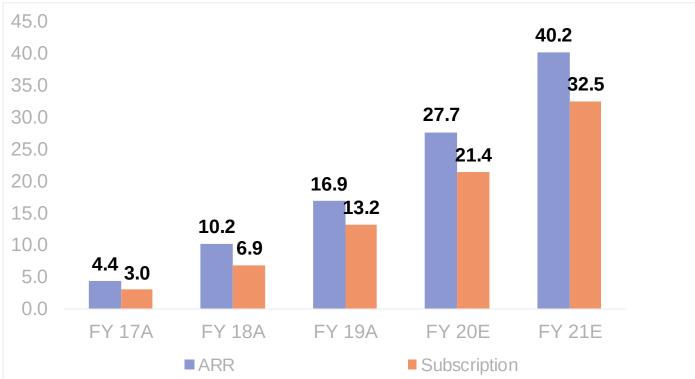
We note that Group Revenue growth has averaged ~13% in the last 3 years, however, this has been due to the fact that the surging Subscription growth has been offset by a declining Perpetual business. We see this as a healthy and positive transformation, not just from a visibility standpoint, but also from a margin standpoint, as GPM of Subscription (1H20: 92.8%) currently exceeds Perpetual (1H20: 88.7%).

Figure 6: Declining Perpetual sales (US$m) is moderating "Group" revenue growth...



Source: Wilsons

Figure 7: .... but Subscription (US$m) growth is positively non-linear.



Source: Wilsons

2. The Growth Opportunity

2020 was a transformational year, in many ways, with its impact to be felt for many years to come. One area materially impacted is the global workforce. In this section, we review:

1. The Future of Work through the lens of both Nitro and Adobe
2. The Total Addressable Market ("TAM")
3. The Regulatory Environment surrounding *working remotely*
4. The observation that document management likely has more opportunity than most people think

2.1 The Future of Work

Insights from Nitro

Nitro has published two reports titled "The Future of Work" which highlighted *"four new digitisation trends in the wake of Covid-19"*:

1. The printing of paper has declined massively and rapidly: printing in Australia reportedly fell 70% in Australia from the 17th of February to the 30th of March
2. The migration to digital workflows has been expedited: Offsetting the fall in printing physical paper was a commensurate increase in the demand for digital workflows, primarily out of necessity more than want. The uptake of digital workflows was broad-based, from the request for and provision of, digital signatures, through to form filing, digital annotation and digital collaboration. The broad adoption was also evident across industries/sectors.
3. Electronic signing has accelerated: Nitro's survey reported that signatures were being returned materially (43%) faster than before Covid-19.
4. Work has spread outside of normal business hours: Nitro estimated that ~20% of work was occurring outside of work hours – up from ~10% in 2019.

Industry is using less paper…

…as the migration to digital has accelerated …

… which has resulted in more digital signatures being completed, and in shorter timeframes.

Nitro also cited Six Trends of Remote Work:

1. Workers reported being as productive, but feeling less stressed: This was likely attributable to the 'honeymoon' effect and the recentness of the change, as well as increased control over the workday (i.e. no commute time, fewer physical-office distractions).
2. Higher job satisfaction when working from home: Workers felt a significant up-tick in feeling supported by management.
3. Document processes remained a painpoint: Not only do painpoints remain, workers are now more likely to communicate the document process inefficiencies with management.
4. Remote work requires new solutions: Suggested improvements by workers included improved document processes, better training, more automated processes/workflows and increased standardisation
5. Digital transformation is necessary, and more urgent: An ongoing lack of access to programs and equipment was the biggest barrier for remote workers when handling documents.
6. Working from home is now *"less the exception and more of an expectation"*: 73% of respondents planned to work from home as much or more frequently after COVID-19.

Remote work beneifts include lower stress levels…

… higher job satisfaction…

… offset by current document process bottlenecks…

… which are driving changes in behaviour…

… which are being adopted more and more…

…. as working remotely becomes a permanent fixture of most roles…

As we write this in February 2021, remote work remains widespread with intermittent attempts to get workers back in offices having limited success. Working remotely is elevated, and will remain elevated, for many workers, and companies and industries need to adapt to this new work environment.

Insights from Adobe

On December 10th last year, Adobe held its Financial Analyst meeting. Adobe CEO Shantanu Narayen remained enthusiastic about Adobe prospects, with his comments echoing the insights and trends cited by Nitro's "Future of Work" reports from last June.

Key qualitative comments from Adobe CEO Shantanu Narayen, which are all tailwinds for Nitro, included:

> *'There is a tectonic shift towards all-things digital"*
>
> *"The Genie is not going back into the bottle"*
>
> *'Documents are at the centre of how work gets done'*
>
> *Document Cloud is 'probably going to see the biggest tailwinds'*
>
> *Significant tailwinds in the document business - both re usage of electronic documents as well as the automation of business worfklows'*
>
> *'Every business process is going digital' … 'from sales to HR to procurement'.*

He also said that digital transformation and digital engagement are front-of-mind mind of the C-Suite, and expanded products and services to meet that new demand is contributing to Adobe is "adding" addressable market opportunities (which we address in detail later), but Adobe sees its Total Addressable Market ("TAM") expand +25% from US$118bn in 2022 to US$147bn in 2023, with Document Cloud TAM – the most relevant market for Nitro - expanding +62% from US$13bn to US25bn over the same timeframe.

'There is a tectonic shift towards all-things digital"

and …

Document Cloud is 'probably going to see the biggest tailwinds

Adobe expects the Total Addressable Market ("TAM") in Document Cloud – the most relevant market for Nitro – to expand +62% from US$13bn to US$25bn from 2022 to 2023.

2.2 The Total Addressable Market ("TAM")

2.2.1 Adobe's TAM

Revenues

Figure 8 below shows the growth in Adobe's Document Cloud and Creative Cloud revenues respectively. In 2019 and 2020, group revenue for both grew at ~20%, with each of their cloud offerings having similar growth rates, with Document Cloud modestly stronger.

Figure 8 – Adobe Document Cloud and Creative Cloud Revenues (Actual, US$m)

Revenue	2018	2019	2020
Document Cloud	982	1,225	1,497
Creative Cloud	5,343	6,482	7,736
Total	6,325	7,707	9,233

Revenue Growth (%)	2018	2019	2020
Document Cloud		25%	22%
Creative Cloud		21%	19%
Total		22%	20%

Source: Adobe 10K-Final 2020

Adobe has grown its Document Cloud segment >20% p.a. in the last few years.

While those growth rates are commendable, the TAM that Adobe refers to is what excites both us, and likely, Nitro.

TAM

Figure 9 below shows the TAM for Adobe's three main segments, with Document Cloud the most relevant to Nitro, followed by Creative Cloud. Adobe expects the TAM for Document Cloud to be US$13bn in 2022, and to then grow +62% in 2023 to US$21bn.

Figure 9 – Total Addressable Market ("TAM", according to Adobe)

TAM Detailed (US$bn)	2022	2023	Growth (%)
Creative Professionals		20.0	
Communcations		15.0	
Consumers		6.0	
Creative Cloud	31.0	41.0	32%
Document Services (incl. e-Signatures)		11.0	
Acrobat Applications		10.0	
Document Cloud	13.0	21.0	62%
Content & Commerce		44.0	
Customer & Data Insights		26.0	
Customer Journey Management		15.0	
Experience Cloud	74.0	85.0	15%
Total	118.0	147.0	25%

Source: Adobe Analyst Meeting, 10 December 2020

Adobe expects the TAM for Document Cloud to be US$13bn in 2022, and to then grow +62% in 2023 to US$21bn.

2.2.2 DocuSign's TAM

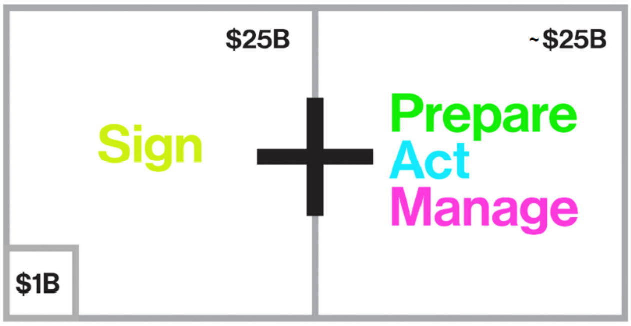
DocuSign's core TAM has been US$25bn. But DocuSign has since expanded its lens outside of just Sign to the broader document agreement process, which includes preparing the document and then acting and managing the document. At its 3 December 2020 Winter presentation, DocuSign confirmed that its TAM had doubled to US$50bn by adding the Agreement Cloud to its TAM (Figures 10 & 11 below).

Agreement Cloud, interconnecting with CRM, ERP, and HCM. is the next big cloud opportunity

Figure 10 – DocuSign's Agreement Cloud

Source: DocuSign

Figure 11 – Adding "Agreement Cloud" <u>doubles</u> DocuSign's TAM



Source: DocuSign

2.2.3 Nitro's TAM

In its 2019 prospectus, Nitro said that according to Forrester, the revenue opportunity that is attributable to the portion of Nitro's realistically serviceable available market was ~US$5.5bn, which was expected to grow at a rate of 10.6% per annum over four years to 2023. Approximately 46% of the market is in East Asia and South East Asia and ~33% in the United States and Western Europe, which were deemed *"relatively unpenetrated markets for Nitro"*.

Nitro's TAM is ~US$5.5bn. With FY21e revenue of ~US$37m, NTO currently has a market share of ~0.7%

The total global serviceable available market across both PDF productivity and eSignature is estimated at US$46bn. We note that this is largely in-line with DocuSign's updated TAM of ~US$50bn.

2.3 The Regulatory Environment

Regulatory backdrop

Like other software frameworks, PDF's have limited regulatory guidelines other than basic security and risk parameters associated with both product quality and security.

"...PDF's have limited regulatory guidelines..."

e-Signatures however require much more stringent compliance.

"e-signatures however require much more stringent compliance"

Given the rise of technology and the tectonic shift to online, e-signatures are becoming an increasingly accepted form of verification and authorisation. Regulations including the ESIGN Act, GDPR, and UETA govern the standards for which an electronic signature is accepted as a legal form of authorisation, without this compliance, an e-signature is invalid, and in certain situations, may not reflect an authorised agreement. Additionally, the provision of an e-signature may not warrant an authorisation, particularly in high-risk sectors like Government, where witnessing and/or physical signing may be a base requirement.

"ESIGN Act, GDPR, and UETA govern the standards for e-sig acceptance"

NTO expenses industry compliance costs through its R&D line.

We note Nitro expenses ongoing R&D costs associated with compliance with the aforementioned ACTs.

2.4 The Document Management Opportunity

Portable Document Format, or PDF, is a type of file format built on consistency and designed for sharing, viewing, and printing.

"Since 1993, the PDF format has been available to developers".

Since 1993, the "PDF" format has been available to developers to build on the pre-existing architecture, with the format now considered an "Open Standard Technology" under ISO 32000 -1:2008. This has seen the rise of numerous new developers of PDF-based solutions, including Nitro.

"It is now considered an Open Standard Technology".

Alongside e-signing, which is seen as a complementary and time-saving solution in dealing with amendments and executing contracts, a rising adoption of cloud-based technologies such as the Nitro Productivity Suite is occurring, as measurable ROI's are being witnessed across sectors from improved efficiencies.

"Document Management solutions are driving efficiency and cost-savings".

Nitro has capitalised on these trends and differentiated itself from the competition by supplying Nitro Analytics into the Nitro Productivity Suite, which measures KPIs such as signing frequency, contract approvals, as well as paper and printing reductions. To date, Nitro has achieved penetration of 68% of the US Fortune 500, many of which were multi-decade Adobe customers.

3. The Competitive Landscape

3.1 Document Management

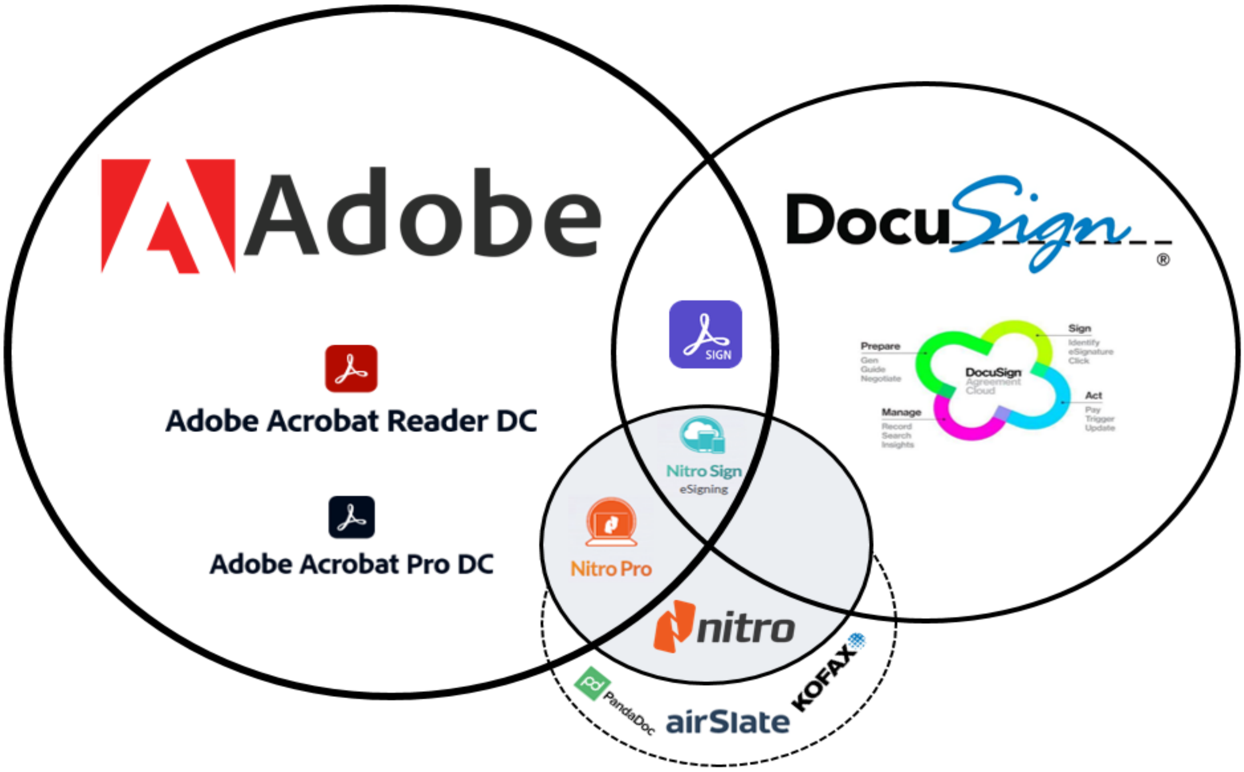
Historically, the market for PDF and PDF Productivity software ("Document Management") was largely monopolistic towards Adobe. Though as the software transitioned from a proprietary format to an open standard technology, multiple new vendors have entered and taken market share by offering smarter, faster, and more scalable solutions than Adobe.

"The market for PDF and PDF Productivity Software was largely monopolistic towards Adobe".

Smaller, more agile competitors and beginning to nibble at the margin.

We highlight this competitive environment below in Figure 12, which, although not to-scale, depicts the market position of Nitro relative to Global Mammoth's Adobe and DocuSign, and against other new entrants.

Figure 12: Competitive Matrix



Source: Adobe, DocuSign, Nitro

Our analysis highlights four major competitors to Nitro in PDF Software, including Adobe, Kofax, AirSlate, and PandaDoc. While DocuSign is the market leader in e-signatures, the broader solution (Agreement Cloud) is tailored to contract preparation and execution, rather than Document creation.

We note Nitro has the lowest price point for most major features, though Kofax (discussed later) is purely PDF with limited signatures and no analytics.

Figure 13: Competitor Summary

Feature	Nitro Productivity Suite	Adobe Acrobat Reader	Adobe Acrobat Pro DC	Kofax Power PDF	AirSlate	PandaDoc
View, Comment, Print and Sign PDFs	Y	Y	Y	Y	Y	Y
Collect and track feedback	Y	Y	Y	Y	Y	Y
Create PDF	Y	N	Y	Y	Y	Y
Export PDFs to Word or Excel	Y	N	Y	Y	Y	Y
Protect PDFs	Y	N	Y	Y	Y	Y
Get Signatures and track responses in real time	Y	Limited	Y	Y	Y	Y
Optical Character Recognition (OCR) Functionality	Y	N	Y	Y	Y	Y
Pricing	A$20.16/mnth/user	Freemium	A$24.99/mnth/user	A$15.00/mnth/user	A$47.72/mnth/user	A$59.00/mnth/user

Source: Wilsons, Adobe, Nitro, Kofax, AirSlate, PandaDoc

3.1.1 Adobe

Adobe, as the founder and original creator of the PDF format, is considered the market leader (~80% market share), however has given up share to newcomers over time.

Adobe, as the founder and original creator of the PDF format ...

In terms of PDF productivity solutions, Adobe offers both a Freemium (Acrobat Reader) and a subscription-based solution that includes both signing, creation, and conversion into Office formats. Adobe acquired e-sign capability through the acquisition of EchoSign in 2011.

... and acquired e-sign capability through the acquisition of EchoSign in 2011.

The Nitro Productivity Suite at ~A$20/mnth/user is ~25% cheaper than Acrobat Pro DC at ~A$25mnth/user, as of Jan-21.

Figure 14 – Adobe PDF Suite

Feature	Nitro Productivity Suite	Adobe Acrobat Reader	Adobe Acrobat Pro DC
View, Comment, Print and Sign PDFs	Y	Y	Y
Collect and track feedback	Y	Y	Y
Create PDF	Y	N	Y
Export PDFs to Word or Excel	Y	N	Y
Protect PDFs	Y	N	Y
Get Signatures and track responses in real time	Y	*Limited*	Y
Optical Character Recognition (OCR) Functionality	Y	N	Y
Pricing	A$20.16/mnth/user	Freemium	A$24.99/mnth/user

Source: Adobe, Wilsons, Nitro. *Note: OCR = Optical Character Recognition*

3.1.2 DocuSign

DocuSign is the market leader in e-Signing with an estimated 60%-70% of the addressable market.

Like Adobe, the name has become synonymous with its core product, however, unlike Adobe, DocuSign has sought out innovation beyond e-signatures and expanded into what they call “The Agreement Cloud”, which encompasses the end-to-end workflow in signing agreements.

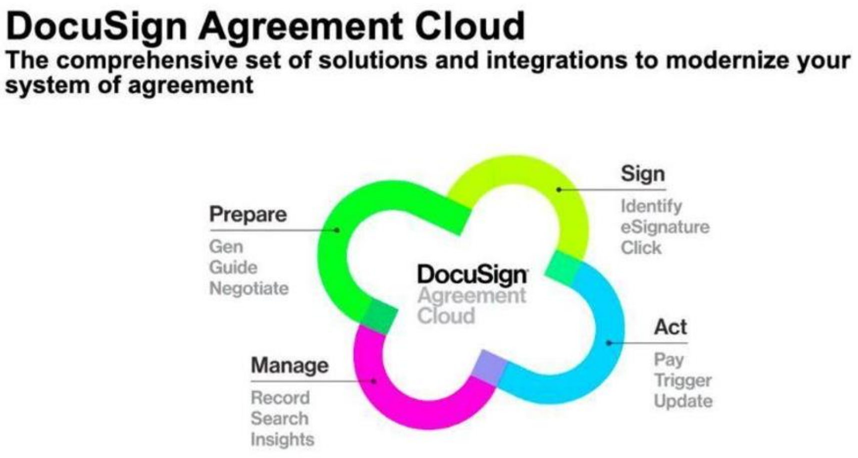
DocuSign is the market leader in e-Signing with approx. 60%-70% of the addressable market ...

DocuSign does not possess a PDF creation tool like Adobe or Nitro.

... however DocuSign does not possess a PDF creation tool like Adobe or Nitro.

DocuSign expects that through the inclusion of the Agreement Cloud, the TAM has increased from 25$bn (e-sign only) to 50$bn.

Figure 15: DocuSign Agreement Cloud



Source: DocuSign

3.1.3 Newer Entrants

Kofax

Kofax is majority owned by US Private Equity firm Thoma Bravo, and while the company's core strength is in the Banking and Financial Services sector, Kofax' PDF Productivity solution, Power PDF, which was acquired in 2018 from Nuance (NUAN.O) for $400m cash, directly competes against Nitro and Adobe.

Power PDF serves over 2million users and is priced at a lower price point vs. both Adobe Pro and Nitro.

Figure 16 – Kofax Features Comparison

Feature	Nitro Productivity Suite	Kofax Power PDF	Adobe Acrobat Pro DC
View, Comment, Print and Sign PDFs	Y	Y	Y
Collect and track feedback	Y	Y	Y
Create PDF	Y	Y	Y
Export PDFs to Word or Excel	Y	Y	Y
Protect PDFs	Y	Y	Y
Get Signatures and track responses in real time	Y	Y	Y
Optical Character Recognition (OCR) Functionality	Y	Y	Y
Pricing	A$20.16/mnth/user	A$15.00/mnth/user	A$24.99/mnth/user

Source: Kofax, Wilsons, Reuters, Adobe, Nitro

AirSlate

AirSlate is a private company which originally started on its journey in PDF Productivity with its own substitute to Adobe, known as "PDFFiller" launching in 2008, and nearly a decade later, acquired SignNow to build out its e-signing capabilities. AirSlate directly competes with Nitro, Adobe, and DocuSign.

Given the breadth of solutions and integrations, a like-for-like subscription of AirSlate relative to Acrobat and Nitro is unobtainable. AirSlate currently offers its software for A$47.72/mnth/user.

Figure 17 – AirSlate Pricing

Feature	Nitro Productivity Suite	AirSlate	Adobe Acrobat Pro DC
View, Comment, Print and Sign PDFs	Y	Y	Y
Collect and track feedback	Y	Y	Y
Create PDF	Y	Y	Y
Export PDFs to Word or Excel	Y	Y	Y
Protect PDFs	Y	Y	Y
Get Signatures and track responses in real time	Y	Y	Y
Optical Character Recognition (OCR) Functionality	Y	Y	Y
Pricing	A$20.16/mnth/user	A$47.72/mnth/user	A$24.99/mnth/user

Source: Wilsons, AirSlate, Adobe, Nitro

PandaDoc

PandaDoc offers e-signing, tracking, payments, document analytics, and customisable contract templates. Similar to AirSlate, PandaDoc seeks to cover the entire contract workflow – from creation, all the way up to payments and storage.

Figure 18 – PandaDoc Pricing

Feature	Nitro Productivity Suite	PandaDoc	Adobe Acrobat Pro DC
View, Comment, Print and Sign PDFs	Y	Y	Y
Collect and track feedback	Y	Y	Y
Create PDF	Y	Y	Y
Export PDFs to Word or Excel	Y	Y	Y
Protect PDFs	Y	Y	Y
Get Signatures and track responses in real time	Y	Y	Y
Optical Character Recognition (OCR) Functionality	Y	Y	Y
Pricing	A$20.16/mnth/user	A$59.00/mnth/user	A$24.99/mnth/user

Source: Wilsons, PandaDoc, Adobe, Nitro

3.2 Single Point e-Sign Solutions

We examine Nitro Sign's standalone position vs. comparable products by #1 and #2 players, DocuSign and Adobe. The key takeaway our analysis highlights is that Nitro Sign is set to potentially disrupt the "Fair-value" suppliers of e-signing technology are charging users, by attacking competitors both price and e-signature quantity.

With Nitro Sign slated for monetisation in 2021 (prev. was free), the company intends to charge $10/mnth./User for its Individual plan, $20/mnth./User for its Team plan, and has yet to formally offer its Enterprise plan as of Late January.

We compare Nitro Sign Individual to DocuSign Standard and Adobe Small Business, each offering being designed for small businesses and inclusive of broadly comparable features (see Appendix 1). As the Enterprise version of Nitro Sign has yet to be released, we have chosen to focus on Individual.

We note three key highlights:

1. Nitro is significantly cheaper than DocuSign or Adobe.
2. eSignatures are not capped at a fixed number per billing cycle.
3. Brand awareness may be Nitro's biggest challenge to taking share.

Figure 19: Summary of eSignature Plans

Standalone e-Sign Products	Nitro (Individual)	DocuSign (Standard)	Adobe (Small Business)
Price per user	A$10/mnth./User	A$21/mnth./User	A$50.84/mnth./User
Pricing Periodicity	Annually	Monthly	Monthly
Electronic Signatures	Unlimited	5	150

Source: Nitro, DocuSign, Adobe, Wilsons

3.2.1 Nitro Sign

Previously bundled within the Nitro Productivity Suite, Nitro released the standalone version of their e-sign product, Nitro Sign, free to users in 2020 as a result of the disruption on "traditional process" that COVID-19 incurred.

Management intends to turn on pricing in 2021, with plans scaling all the way from Individual to Enterprise. While existing user-numbers of the standalone e-sign product are not disclosed, we anticipate that a meaningful growth driver may exist into the medium-term for Nitro Sign, as both monetisation and cross-sell levers can be pulled. We believe Nitro Sign has an extremely attractive value proposition when compared to DocuSign and Adobe.

3.2.2 DocuSign

As we touched on previously, DocuSign doesn't compete in PDF creation, but is the substantial market leader in e-signing with an estimated 60%-70% of the Total Addressable Market.

This is due to DocuSign's first mover advantage and strong tech stack, which has seen the company transform from offering standalone e-signing solutions all the way up to the DocuSign Agreement Cloud, which covers the entire lifecycle of document and contract workflow, including payment.

3.2.3 Adobe Sign

Through the acquisition of EchoSign in 2011, Adobe acquired the technology to begin offering e-signing alongside its market leading PDF software, Adobe Acrobat.

While a standalone version is available, pricing is materially higher than NTO (~2.5x) and on-par to DocuSign, however, we note that e-signing allowance is capped at 150, which would require any excess to incur incremental cost.

In terms of value, and likely reflective of strategy, it makes more sense for Adobe users to purchase Adobe Acrobat Pro DC, rather than an amalgamation of Adobe and/or competitor PDF solutions.

4. Case Study

On the 23rd of December 2020, a Nitro-sponsored case study was undertaken, examining:

> *"… the drivers of increased digital workflow transformation, the benefits and challenges that await enterprises that engage in it, and the increasing necessity to make document workflows fully digital.*
>
> *In an effort to assist the evaluation of solutions that will enable digitization, the report also details the results of real-world testing of three market-leading solutions in the PDF and eSignature space.*
>
> *By running these solutions through a series of "use cases" that knowledge workers commonly encounter, we understand how well each solution might meet the broader demands of an organization looking to digitize its document processes".*

This pitched Nitro against material incumbents DocuSign and Adobe. Figure 20 below summarises the different companies and their respective solo and bundled offerings.

Figure 20 – Product Overview

Company	eSignature	PDF Mgmt	eSignature & PDF Mgmt
Adobe Acrobat Pro DC with eSign	Adobe Sign	Adobe Reader	Adobe Pro DC
DocuSign	DocuSign eSignature (Personal, Standard, Business Pro)	-	-
The Nitro Productivity Suite	Nitro Sign	Nitro Pro	Nitro Suite

Source: Nitro End to End Digital Document Transformation Report

4.1 The Case Study

Given each company has unique features in their offering, direct comparisons are difficult. That said, there is "*some level of parity among DocuSign, Adobe, and Nitro, especially when looking through the lens of actual use cases in the workplace*".

This 'real-world approach' attempts to test each of the products in a scenario that approximates the real-world as much as possible.

See Appendix 2 for detailed Case Study results).

16 scenarios were tested with the results shown below. In summary, Nitro completed 15 of the 16 scenarios, Adobe 14 and DocuSign 7.

The fact that Nitro was able to complete more tasks reflects the fact that "*Nitro specifically aims to democratise access to digital document productivity tooling, by appealing to broad usage scenarios*".

4.2 Key Insights From the Case Study

Figure 21 below summarises the key insights from the Case Study. The highlights for Nitro are:

- Priced competitively: the lowest cost-per-seat
- A great UX (user experience) which is easy to learn and understand
- A favourable UI (user interface) in that it is similar to Microsoft Office's look and feel
- Good security with two factor authentication where relevant

Figure 21 – Key Insights From Test-Case Outcomes

Nitro		Adobe		DocuSign	
Pros	Cons	Pros	Cons	Pros	Cons
Capable	Desktop PDF only runs on Windows	Capable	The most expensive solution (high per-seat cost)	Comprehensive functionality	Needs to be coupled with an additional PDF solution to enable full digital workflow
Good security, requires passcode (and required via SMS where mobile is provided)	Lack of macOS and mobile support limits the way it can be rolled out in a multi-platform organization	Slick	Microsoft Office user may struggle with the workflow, terminology, and structure	Clear leader in the eSignature space	A price point that some companies may find too high for everyday use
Easy to learn & understand		Significant presence in environments using primarily Mac desktops	Has built-in security capability, but it is basic	Holds its own in the e-signature space	DocuSign Personal does not offer additional document signing security
Successfully completed all except one of the produect use cases tested in this report		Potentially a more flexible and capable product in certain specific cases		Strong API integration	
Cost-efficient (lower per-seat cost)		Acrobat DC UI is both polished and good looking			
Its capabilities bridge important functional gaps					
Embraces the Microsoft Office look and feel					

Source: Nitro End to End Digital Document Transformation Report

For a balanced view, we acknowledge that this is a Nitro-sponsored report that has, in our opinion, fairly evaluated each offering, but has focused on Nitro's additional offerings vs. its peers. There are likely offerings its peers has that Nitro doesn't, but they are not a feature of this report.

4.3 Head to Head Analysis

Figure 22 below summarises some of insights into the effectiveness of each of the software offerings for the specific case study in question. Key observations include:

- Nitro is priced in the middle of the market vs. peers
- Both Nitro and Adobe achieved very good results on the case study in question
- The Nitro offering was highly suitable

Figure 22 – Product 'Head to Head'

Head to Head	Nitro	Adobe	DocuSign
Baseline price point (per user, per annum)	US$159	US$180	US$120
Product plan/name	Nitro Productivity Suite	Acrobat Pro DC w/ eSign	DocuSign Personal
Users at this price point	1-20 users	1-10 users	1+ users
Scenarios completed in analysis	15.00	14.00	7.00
Scenarios incomplete in analysis	1.00	2.00	9.00
Value of licence "wasted"	US$9.94	US$19.88	US$89.44
Product efficiency (i.e. scenarios completed vs. total)	94%	88%	44%
What is available at the higher headcontunt/plan?	Enterprise administration capability from >20 users, More functionality	Enterprise administration capability from >10 users	More functionality
Supported operating systems	Windows	Windows, Mac & Mobile	Browser-based, platform independent
Environmental/Social Impact	Analysis of paper saved/trees saved	n/a	n/a
Customer success	Ensures that the expectations and goals established during the pilot are met at scale	n/a	n/a
Pilot program		n/a	n/a
Analytics Dashboard	Anlayses usage, effectiveness, roll-out status, etc.	n/a	n/a

Source: Nitro End to End Digital Document Transformation Report

Financials

P&L

Key insights into Nitro's P&L include:

- Subscription Revenue is growing rapidly and is expected to be ~80% of revenue by FY22.
- Perpetual, Maintenance and Support Revenues are expected to decline as a result of i) migration of Perpetual to Subscription, and ii) decreased focus on new Perpetual sales.
- This mix shift should see NTO's Gross Margin trend up towards Subscription rates (>90%).
- EBITDA is likely to remain muted (pre-material M&A) as NTO reinvests for growth.

Figure 23 - Summary P&L

P&L Summary ($mn, USD, Y/E 30 Dec)	FY 18A	FY 19A	FY 20E	FY 21E	FY 22E
Annualised Recurring Revenue	10.2	16.9	27.7	40.2	52.2
Segmental Revenue					
Subscription	6.9	13.2	21.4	32.5	43.9
Perpetual, Maintenance and Support	25.5	22.5	19.1	15.7	12.5
Total Operating Revenue	32.4	35.7	40.5	48.2	56.4
Revenue (as % of total)					
Subscription	21%	37%	53%	67%	78%
Perpetual, Maintenance and Support	79%	63%	47%	33%	22%
Total	100%	100%	100%	100%	100%
Growth					
Subscription	133%	92%	62%	52%	35%
Perpetual, Maintenance and Support	2%	-12%	-15%	-18%	-20%
Group Revenue Growth	16%	10%	13%	19%	17%
Cost of Sales	-3.8	-3.7	-4.2	-5.0	-5.3
Gross Profit	28.6	32.0	36.3	43.2	51.1
% growth	*18%*	*12%*	*13%*	*19%*	*18%*
% margin	*88.1%*	*89.8%*	*89.6%*	*89.7%*	*90.6%*
EBITDA (underlying.)	-2.8	-0.6	-4.6	-7.0	-7.2
% growth	*-59%*	*-78%*	*664%*	*51%*	*4%*
% margin	*-8.5%*	*-1.7%*	*-11.4%*	*-14.5%*	*-12.8%*
Net Interest Income / (Expense)	-0.6	-1.8	-0.1	-0.2	-0.3
Tax Benefit / (Expense)	-0.2	-0.4	0.3	-0.5	-0.5
NPAT (underlying.)	-5.5	-4.7	-6.2	-9.7	-10.3
% growth	*-50%*	*-14%*	*32%*	*55%*	*6%*
% margin	*-17.0%*	*-13.3%*	*-15.4%*	*-20.1%*	*-18.3%*

Source: Wilsons estimates

Relative to consensus, for FY21e we currently sit at:

- Revenue of $48.2m vs. Consensus of $46.0m
- EBITDA of -$7.0m vs. Consensus of -$8.5m

With FY20 ARR and Revenue guided to in the recent 4C, we focus on FY21e estimates.

We believe consensus is yet to properly update to reflect financials posted with the Q4'20 4C, which highlighted a strong ARR that puts a "floor" on a strong FY21 for Subscription. We also believe NTO remains committed to reinvesting to build scale, which should see EBITDA loss widen.

Figure 24 - P&L: Wilsons Forecasts vs. Consensus

NTO WILS vs. CONS	2020E				2021E				2022E			
Y/E: 31 Dec (USD$m)	WILS	CONS	$ Diff	(%) Diff	WILS	CONS	$ Diff	(%) Diff	WILS	CONS	$ Diff	(%) Diff
Revenue	40.5	40.5	0.0	0%	48.2	46.0	2.2	5%	56.4	53.0	3.4	6%
EBITDA (Underlying.)	-4.6	-5.3	0.7	-13%	-7.0	-8.5	1.5	-18%	-7.2	-11.0	3.8	-34%
EBIT (Underlying.)	-6.4	-7.5	1.1	-15%	-9.0	-11.6	2.6	-23%	-9.5	-11.6	2.1	-18%
NPAT (Underlying.)	-6.2	-8.0	1.8	-22%	-9.7	-9.0	-0.7	8%	-10.3	-9.0	-1.3	14%
Diluted EPS (Underlying.)	-2.9	-4.0	1.1	-27%	-4.5	-4.6	0.0	0%	-4.8	-4.4	-0.4	10%

Source: Nitro, Wilsons, Refinitiv

Balance Sheet

Key insights into Nitro's Balance Sheet (Figure 25) include:

- Q4'20 Cash of $43.8m following on from IPO in H2'19. Management is expected (at some point) to deploy part of this inorganically.
- Intangible Assets of ~$100k. For the last few years, NTO has expensed all R&D costs and has grown organically.
- Contract Asset/Deferred Income change reflecting AASB 15 changes.

Figure 25 - Summary Balance Sheet

Balance Sheet ($mn, USD, Y/E 31 Dec)	FY 18A	FY 19A	FY 20E	FY 21E	FY 22E
Cash and Cash Equivalents	4.0	47.0	43.8	36.7	30.0
Trade and other Receivables	6.0	6.7	7.0	8.6	10.0
Current assets	10.4	53.8	50.9	45.3	40.1
Property, plant and equipment	0.0	3.6	3.0	2.3	2.4
Intangible assets	0.9	0.1	0.0	0.0	0.0
Contract Assets	16.0	3.0	3.4	3.4	3.4
Deferred Tax Assets	0.2	0.2	0.4	0.4	0.4
Other Non-Current Assets	0.3	0.0	0.0	0.0	0.0
Non current assets	17.4	6.9	6.8	6.1	6.2
Total assets	27.8	60.7	57.7	51.4	46.3
Trade and other payables	3.7	2.8	2.9	3.3	3.5
Borrowings	2.7	0.0	0.0	0.0	0.0
Deferred Income	15.7	16.4	19.3	21.2	24.2
Current liabilities	22.2	23.4	25.1	27.5	30.7
L|T Borrowings	1.7	0.0	0.0	0.0	0.0
L|T Deferred Income	10.9	2.0	1.2	1.2	1.2
Non current liabilities	12.7	3.9	3.3	4.3	6.3
Total liabilities	34.8	27.3	28.4	31.8	37.0
Net assets	-7.0	33.4	29.3	19.6	9.3
Total Equity	-7.0	33.4	29.3	19.6	9.3

Cash and Solvency	FY 18A	FY 19A	FY 20E	FY 21E	FY 22E
Net (Cash) / Debt	0.4	-47.0	-43.8	-36.7	-30.0
Net (Cash) / Debt Ratio	0.1x	NM	NM	NM	NM
Net Debt / EBITDA	-0.1	78.0	9.5	5.3	4.1
Net Debt / Equity	-0.1x	-1.4x	-1.5x	-1.9x	-3.2x
Net Debt/(Net Debt + Equity)	-0.1x	3.5x	3.0x	2.1x	1.4x
Interest Cover (EBITDA, x)	-4.2x	-0.3x	-31.6x	-33.9x	-22.2x

Source: Nitro, Wilsons

Cashflow

Key insights into Nitro's Cashflow (Figure 26) include:

- Operating Cash Flow is likely to remain negative into the medium-term as Nitro's EBITDA loss continues.
- We expect a positive working capital effect from receiving annual license fees up-front.
- Given the capital-light balance sheet, investment and financing cash flows are expected to be minimal before any meaningful M&A.

Figure 26 - Summary Cashflow Statement

Cash Flow Summary ($mn, USD, Y/E 31 Dec)	FY 18A	FY 19A	FY 20E	FY 21E	FY 22E
Cash Profit	-1.9	-2.4	-2.7	-7.6	-8.1
Ch. Net Working Capital	1.0	2.8	1.2	0.8	1.8
Operating cash flow	-0.8	0.4	-1.5	-6.8	-6.3
Cash flow conversion (% of EBITDA)	*30%*	*-59%*	*33%*	*98%*	*87%*
Net cash used in investing activities	0.0	-0.7	-0.4	-0.3	-0.4
Net cash provided by financing activities	-1.6	42.1	-1.3	0.0	0.0
Net increase/(decrease) in cash held	-2.4	41.8	-3.3	-7.1	-6.7
Cash at end of financial year	4.0	47.0	43.8	36.7	30.0
Free cash flow (FCF)	-0.9	-0.3	-1.7	-7.1	-6.7
as % of revenue	*-3%*	*-1%*	*-4%*	*-15%*	*-12%*
% growth	*-*	*-61%*	*415%*	*317%*	*-6%*
FCF conversion (% of EBITDA)	*31%*	*55%*	*37%*	*102%*	*92%*

Source: Nitro, Wilsons

Recommendation, Target Price & Valuation

We rate Nitro as Overweight with a $3.70 target price which is based on our FY22e EV/Sales valuation. Our $3.70x valuation implies an EV/Sales of 10x FY22e sales. We calculate a DCF as a cross-check which comes in at $3.28, not dissimilar to Thursday's close of $3.07.

Our 10x EV/Sales in FY22e is a +25% premium to the last close of $3.07 (8x) and a +50% premium to the average of domestically listed, but global software peers Bigtincan and Whispir (avg. 6.7x), but a -44% discount to the average multiple of global competitors Adobe and DocuSign. We believe NTO warrants a premium multiple to local peers as they company is rapidly converging into a 90%+ SaaS business growing organically at a FY19-23 CAGR >40%.

Figure 27 - Valuation Summary Tables

Valuation Methodology	$/Share	% Weight
EV/Sales	$3.70	100%
DCF	$3.28	(Cross check)

EV/Sales (FY22e)	
Target Price (A$)	$3.70
Diluted shares (#)	212.7
Implied Equity Value (A$m)	**786.9**
AUDUSD	**0.77**
Implied Equity Value (USD$m)	**606.0**
Net debt/(cash) (USD$m)	-43.8
Implied Market Capitlisation (USD$m)	**562.1**
FY22E Sales (USD$m)	56.4
Implied FY22E EV/Sales (x)	**10.0x**

Source: Wilsons

Figure 28 – Comparables Table

NTO Comparables Table	4/02/2021				EV/Revenue			EV/Gross Profit			EV/EBITDA			P/E			FCF Yield		
Company Name	Currency	Year End	Market Cap.	TEV	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3
ASX Cloud peers <$1bn. Mcap																			
ELMO Software Ltd	AUD	30-Jun	608	487	7.2x	5.3x	4.2x	8.3x	6.1x	4.9x	NM	NM	NM	NM	NM	NM	-5.6%	-5.3%	-4.3%
Bigtincan Holdings Ltd	AUD	30-Jun	478	410	9.0x	7.0x	5.6x	10.4x	8.1x	6.5x	NM	NM	NM	NM	NM	NM	-8.5%	-1.1%	0.3%
Whispir Ltd	AUD	30-Jun	409	398	7.9x	6.4x	5.3x	12.8x	10.4x	8.5x	NM	NM	NM	NM	NM	NM	-2.0%	-1.3%	-0.4%
Limeade Inc	AUD	31-Dec	392	270	4.8x	4.6x	4.0x	6.3x	6.0x	5.2x	NM	NM	NM	NM	NM	NM	-1.2%	-1.0%	-0.5%
rhipe Ltd	AUD	30-Jun	310	253	3.9x	3.3x	2.9x	23.7x	20.2x	17.4x	15.7x	11.9x	9.9x	34.5x	25.0x	19.7x	3.5%	5.0%	5.3%
Class Ltd	AUD	30-Jun	236	231	4.4x	4.0x	3.7x	NM	NM	NM	10.4x	9.4x	8.7x	32.9x	28.1x	24.3x	4.2%	5.4%	6.6%
Readytech Holdings Ltd	AUD	30-Jun	193	212	4.3x	3.1x	2.8x	NM	NM	NM	11.5x	8.2x	7.2x	27.2x	19.4x	17.1x	NM	NM	NM
Median					**4.8x**	**4.6x**	**4.0x**	**10.4x**	**8.1x**	**6.5x**	**11.5x**	**9.4x**	**8.7x**	**32.9x**	**25.0x**	**19.7x**	**-1.6%**	**-1.0%**	**-0.1%**
Average					**5.9x**	**4.8x**	**4.1x**	**12.3x**	**10.1x**	**8.5x**	**12.5x**	**9.8x**	**8.6x**	**31.5x**	**24.2x**	**20.4x**	**-1.6%**	**0.3%**	**1.2%**
Global SaaS Peers																			
ServiceNow Inc	USD	31-Dec	112,504	111,053	19.4x	15.5x	12.3x	23.7x	18.9x	15.1x	NM	NM	NM	NM	81.8x	63.2x	1.5%	1.8%	2.3%
Twilio Inc	USD	31-Dec	58,799	55,958	NM	NM	19.8x	60.4x	45.8x	35.7x	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.1%
Datadog Inc	USD	31-Dec	33,657	32,730	NM	NM	NM	70.2x	51.6x	39.1x	NM	NM	NM	NM	NM	NM	0.2%	0.2%	0.3%
Splunk Inc	USD	31-Jan	27,701	27,983	12.9x	10.7x	8.4x	16.3x	13.5x	10.6x	NM	NM	NM	NM	NM	NM	-1.0%	0.5%	2.3%
Dynatrace Inc	USD	31-Mar	14,139	14,371	NM	17.2x	13.9x	25.0x	20.3x	16.4x	NM	NM	NM	88.0x	82.1x	67.8x	1.4%	1.8%	2.3%
Everbridge Inc	USD	31-Dec	4,829	4,806	17.9x	14.3x	11.2x	25.3x	20.1x	15.8x	NM	NM	NM	NM	NM	NM	-0.1%	0.3%	1.0%
PagerDuty Inc	USD	31-Jan	4,357	4,015	19.0x	15.3x	12.2x	21.9x	17.7x	14.1x	NM	NM	NM	NM	NM	NM	0.0%	0.1%	0.6%
Vonage Holdings Corp	USD	31-Dec	3,220	3,699	3.0x	2.8x	2.6x	5.3x	5.0x	4.6x	22.2x	21.2x	19.0x	64.1x	68.3x	52.3x	2.0%	3.0%	4.5%
Median					**17.9x**	**14.8x**	**12.2x**	**24.3x**	**19.5x**	**15.4x**	**22.2x**	**21.2x**	**19.0x**	**76.0x**	**81.8x**	**63.2x**	**0.1%**	**0.4%**	**1.6%**
Average					**14.4x**	**12.6x**	**11.5x**	**31.0x**	**24.1x**	**18.9x**	**22.2x**	**21.2x**	**19.0x**	**76.0x**	**77.4x**	**61.1x**	**0.5%**	**1.0%**	**1.7%**
Productivity and Workflow Peers																			
Adobe Inc	USD	27-Nov	230,695	228,820	15.1x	13.2x	11.6x	17.0x	14.8x	13.1x	30.2x	27.2x	23.7x	42.9x	36.4x	31.2x	2.5%	3.0%	3.5%
DocuSign Inc	USD	31-Jan	44,182	44,070	30.8x	23.3x	18.1x	39.2x	29.6x	23.1x	NM	NM	NM	NM	NM	NM	0.5%	0.6%	1.0%
Dropbox Inc	USD	31-Dec	9,894	8,923	4.7x	4.2x	3.9x	5.9x	5.3x	4.9x	16.0x	13.6x	11.9x	26.9x	23.0x	19.3x	5.0%	6.3%	7.6%
Median					**15.1x**	**13.2x**	**11.6x**	**17.0x**	**14.8x**	**13.1x**	**23.1x**	**20.4x**	**17.8x**	**34.9x**	**29.7x**	**25.3x**	**2.5%**	**3.0%**	**3.5%**
Average					**16.8x**	**13.6x**	**11.2x**	**20.7x**	**16.6x**	**13.7x**	**23.1x**	**20.4x**	**17.8x**	**34.9x**	**29.7x**	**25.3x**	**2.7%**	**3.3%**	**4.0%**
Nitro Software Ltd	**USD**	31-Dec	449	407	10.1x	8.5x	7.2x	11.2x	9.4x	8.0x	NM	NM	NM	NM	NM	NM	-0.5%	-0.8%	-0.8%

Source: Wilsons, Refinitiv

Board & Management

Regarding Board Independence, at its IPO, Nitro noted that *"the Board will not consist of a majority of independent Directors contrary to the ASX Recommendations"* which calls for the majority of the Board to be independent directors. Nitro currently has seven directors, with only two being independent - the other five deemed non-independent either due to being in an executive role or being associated with a material shareholding in Nitro. In our opinion, it would be good for Nitro to comply with this ASX best practice sooner than later.

Figure 29 – The Nitro Board of Directors

Name	Board Position	Independent / Executive	Year Joined	Primary Expertise	Shareholding (%)
Kurt Johnson	Chairman	Executive Chairman	2010	Strategic Management, Start-Ups	0.1%
Sam Chandler	CEO, Co-Founder	Executive	2005	Start-Ups, Innovation	8.1%
Richard Wenzel	Director, Co-Founder	Non-Executive	2005	Finance and Accounting	5.1%
Michael Brown	Director	Non-Executive	2014	Venture Capital & Private Equity	8.8%
John Dyson	Director	Non-Executive	2018	Venture Capital & Private Equity	9.3%
Lisa Hennessy	Lead Director	Independent, Non-Executive	2019	Governance, Strategy	0.0%
Sarah Morgan	Director	Independent, Non-Executive	2019	Audit and Risk Management	0.0%

Source: Nitro, Wilsons

Figure 30 – The Nitro Senior Management Team

Name	Company Position	Primary Expertise	Date Joined	Shareholding (%)
Sam Chandler	CEO, Co-Founder	Technology Management and Innovation	2005	8.1%
Ana Sirbu	CFO	Finance and Banking	2020	0.0%
Gina O'Reilly	COO	Sales and Marketing	2009	0.2%
Maria Robinson	CMO	Growth Strategy & Marketing	2020	N/A
Sam Thorpe	CPO	Technology and Strategy	2020	N/A

** Ana Sirbu has ~3.2m options, ~0.6m performance rights, and 2.7m restricted shares*

Source: Nitro

NTO senior management are renumerated with an approximate 50/50 split between Fixed-cash salary and "at-risk" STI and LTI awards. The right to achievement and vestment of those awards are built around personnel achieving certain targets (Revenue, EBITDA and other objectives). Those targets are driven by 5-pillars, which cover increasing the scale of the NTO business, the underlying profitability and reinvestment into product, and finally, a market-based TSR measure relative to the XTX index (Figure 32).

Figure 31 – Senior Management Performance Targets

5 PILLARS OF BUSINESS STRATEGY	HOW IT IS INCORPORATED IN THE STRUCTURE
1. Expansion of Existing Customers	
2. Winning New Enterprise Customers	Reflected by NTO's ARR and Revenue metrics
3. Expanding Revenue Contribution from Larger Enterprise Customers	
4. Continued Investment in Product Development	Measured and assessed annually in the relevant Executive's STI non-financial objectives
5. Acquisitions	2020 LTI Plan (Revenue and TSR performance hurdle)

Source: Wilsons, Nitro

STIP awards are subject to personnel achieving targets in the following 12-months, and are payable in cash ~2-weeks post FY-end results, assuming achievement.

LTIP awards are split evenly into <u>three</u> tranches and tested annually. Vestment is subject to a sliding scale, based on performance relative to targets. LTIP awards are non-cash and include performance rights that convert to shares upon vesting. Targets are derived from the aforementioned 5-pillars.

Environmental, Social & Governance

In its 2019 Annual Report, Nitro said it was *"committed to meeting high standards of corporate governance to create long term and sustainable shareholder value"*. We could not find how many of the Corporate Governance Principles provided by the ASX that it met. The one Principle Nitro did not meet was Board Independence, which we addressed earlier in the Board & Management section of this report.

Nitro does, however, publish its Corporate Governance Statement on its website. In addition to insights on its Corporate Governance, Nitro also lists twelve other policies on the Corporate Governance section of its website including, but not limited to: Anti Bribery & Corruption, Board Charter, Code of Conduct, Diversity, Securities Trading and Whistle Blower Protection (for each of Australia, the US and EMEA),

There do not appear to be any material, if any, Related Party Transactions at Nitro.

Risks

In determining the key risks for Nitro, we examine four major risks that'd prove an "indent" to our OVERWEIGHT thesis:

- Rate of Subscription growth slower than expectations: NTO traded relatively strongly vs. local domestic peer at a sub $1bn market capitalisation. At ~8.5x FY21 Revenue, we would expect that should both short and medium-term growth rates begin to fall faster than expected, share price performance may be impacted.
- Slower than expected migration of customers from Perpetual to Subscription: Similar to the previous risk, part of the growth engine fuelling Subscription Revenue growth is the migration of existing Perpetual customers to Subscription. Should NTO have a difficult time in achieving this, expectations around future growth rates may not be met.
- Global competitors begin meeting Nitro's Price Point (ADOBE, DOCU): As we have highlighted in our competitive analysis, NTO prices at a discount to Adobe and many other Document Management providers.
- Weakening USD relative to the EUR: With a major cost-base situated in Ireland, and Group Revenue's largely being derived from US customers, NTO's earnings profile may fall victim to a depreciating USD relative to the EUR.
- Cyber-security incidents or breaches of data privacy rules and regulations: In its prospectus, Nitro stated *"It is possible that measures taken by Nitro may not be sufficient to prevent or detect unauthorised access to, or disclosure of, such confidential or proprietary data or other technology breaches"*. In late September 2020, Nitro became aware of an isolated security incident involving limited access to Nitro databases by an unauthorized third party. In October, Nitro's ASX release stated *"There is no evidence currently that any sensitive or financial data relating to customers has been impacted or that any information has been misused"*. "Since the incident, the Nitro IT Security Team has been working closely with external cybersecurity experts to bolster the security of all systems". While Nitro's cyber-security has improved since this issue, cyber-security incidents and/or data/privacy breaches remain a real and present danger.
- Other Risks: Other key risks to note include i) loss of key management personnel (primarily Sam Chandler, CEO and/or Kurt Johnson, Chairman), ii) difficulty achieving new sales for standalone Nitro Sign product, iii) changes to regulatory frameworks impacting the useability of e-signatures, iv) failure by Sales team to acquire new customers successfully, v) unsuccessful and/or ineffective M&A.

Appendices

Appendix 1 – eSignature Pricing Plan Details

Figure 32: Nitro Sign Pricing Plan

Nitro-Sign (Standalone)	Individual	Team	Enterprise
Price per user	$10/mnth./User	$20/mnth./User	Set to Release Soon
Pricing Periodicity	Annually	Annually	
Electronic Signature Requests	**Unlimited**	**Unlimited**	**Unlimited**
Signature Recipients	Multiple	Multiple	Multiple
Form Filling & Self-Signing	Y	Y	Y
Cloud Storage Integration	Y	Y	Y
Nudge Reminders & Notifications	Y	Y	Y
Audit Trail	Y	Y	Y
Microsoft Word Integration	Y	Y	Y
Custom Signing Order	Y	Y	Y
Templates	Y	Y	Y
Document Intelligence	Y	Y	Y
Custom Branding		Y	Y
Team Documents		Y	Y
Team Templates		Y	Y
Team Administration		Y	Y
Bulk Signing			Y
Microsoft 365 Integration			Y
Zapier Workflow Automation			Y
Two-Factor Authentication (access code + SMS)			Y
Single Sign On (SSO)			Y
PDF Quick Tools			Y
Document Size Limits	10 MB / 250 pages	10 MB / 250 pages	10 MB / 250 pages
Premium Customer Support			Y
Customer Success Manager			Y

Source: Nitro, Wilsons

Figure 33: DocuSign Pricing Plan

DocuSign (Standalone)	Personal	Standard	Business Pro
Price per user	A$21/mnth/User	A$51/mnth/User	A$83/mnth/User
Pricing Periodicity	Monthly	Monthly	Monthly
Electronic Signatures	**5**	**Unlimited**	**Unlimited**
Basic Fields	Y	Y	Y
Mobile App	Y	Y	Y
Reminders and Notifications		Y	Y
Personalised Branding		Y	Y
Comments		Y	Y
Collect Payments			Y
Advanced Fields			Y
Signer Attachments			Y
Bulk Send			Y

Source: DocuSign, Wilsons

Figure 34: Adobe Pricing Plan

Adobe Sign (Standalone)	Sign Small Business	Sign Business and Enterprise
Price per user	A$50.84/mnth/User	N/A
Pricing Periodicity	Monthly	Monthly
Electronic Signatures	**150**	**Unlimited**
Request e-signatures	Y	Y
Reminders and Notifications	Y	Y
Personalised Branding	Y	Y
Mega-Sign	Y	Y
Signable Forms on Website	Y	Y
Enhanced e-signature authentication		Y
Payments and Signatures on same form	Y	Y
Integration into Salesforce, Workday, Servicenow		Y
Further Customisation Features		Y
Further Integraiton Features		Y
Further Administrative Features		Y

Source: Adobe, Wilsons

Appendix 2 – Nitro Case Study: Detailed Analysis of Outcomes

Figure 35 – Nitro Case Study Outcomes

Department / Item	Nitro	Adobe	DocuSign
Finance Department			
Invoice approval workflow	Completed	Completed	Completed
Invoice sign-off	Completed	Completed	Completed
Excel integration	Completed	Completed	Incomplete (0 of 2)
Spreadsheet Review	Completed	Completed	Incomplete (2 of 5)
Human Resources			
Obfuscation of Confidential Information	Completed	Completed	Incomplete (0 of 2)
Document password security	Completed	Completed	Incomplete (0 of 3)
Obfuscation of Confidential Images	Completed	Completed	Incomplete (0 of 2)
Contract template and usage	Completed	Completed	Completed
Mass policy signing	Completed	Incomplete (0 of 3)	Incomplete (0 of 3)
Legal			
Document non-repudiation	Completed	Completed	Incomplete (0 of 2)
Document OCR (written document)	Incomplete (2 of 3)	Incomplete (2 of 3)	Incomplete (0 of 3)
Document OCR (text document)	Completed	Completed	Incomplete (0 of 3)
Word document sequential signatures	Completed	Completed	Completed
Secure signatures with 2-factor authentication	Completed	Completed	Completed
Audit History	Completed	Completed	Completed
Sales			
Email integration	Completed	Completed	Incomplete (1 of 5)

Source: Nitro End to End Digital Document Transformation Report

Nitro Software Limited (NTO)

Business Description

Nitro is an emerging leader in the provision of Workflow and Productivity software across industry. Nitro's core product, the Nitro Productivity Suite, includes a PDF editing and formatting tool, e-signing, and productivity efficiency analytics, all in a single solution. Nitro has over 11,000 business customers with >2m licensed users across the United Sates, the company's core market.

Investment Thesis

We are attracted to the rate of Subscription growth and the margin profile as NTO builds scale. Nitro has displaced Adobe from a number of major Fortune 500 companies, and is viewed as an equivalent, or even better solution, at a lower-price point, with rapid deployment and scalability. With multiple growth drivers including i) new Subscription Sales, ii) Migration of Perpetual to Subscription, iii) Monetisation lever for 2020 Nitro-Sign sales, and iv) value-add M&A, we see NTO set to continue to take market-share and build scale.

Revenue Drivers

- Growth in new Subscription License Sales
- Migration of Perpetual customers to Subscription
- Digital Transformation in a Post-COVID world
- Monetisation of Nitro-Sign
- New M&A

Balance Sheet

- FY20 Net Cash: $43.8m

Margin Drivers

- Increased Subscription exposure relative to Perpetual
- Continued Operating Leverage
- Appreciating USD relative to EUR.
- Accretive M&A

Board

- Kurt Johnson – Executive Chairman
- Sam Chandler – Chief Executive Officer, Co-Founder
- Richard Wenzel – Non Executive Director (NED), Co-Founder
- Michael Brown – Non Executive Director (NED)
- John Dyson – Non Executive Director (NED)
- Lisa Hennessy – Non Executive, Independent Director
- Sarah Morgan – Non Executive, Independent Director

Key Issues/Catalysts

- Rate of growth from Subscription Sales
- Ability to migrate perpetual customers to Subscription in a timely manner.
- "Turning Off" new perpetual sales.
- Pricing of Adobe and DocuSign.
- Financially and strategically accretive M&A

Management

- Sam Chandler – Chief Executive Officer and Co-Founder
- Ana Sirbu – Chief Financial Officer
- Gina O'Reilly – Chief Operating Officer
- Maria Robinson – Chief Marketing Officer
- Sam Thorpe – Chief Product Officer
- Mark Flanagan – Snr. VP of Global Sales
- David O'Donoghue – VP of Engineering
- Eric Salas – VP, Business Ops
- Jennifer Murray – VP, Customer Experience
- Kevin O'Donnell – VP, Product
- Peter Jones – VP, Design and UX
- Barry Jungles – VP Sales, North America
- Michael Helder – VP Sales, APAC

Risk to View

- Slower than expected Subscription Sales
- Rising cost base relative to incremental sales growth
- Pricing retaliation by Global Comps.
- Weakening USD
- Unsuccessful and/or ineffective M&A

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Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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