

# Vonex Limited



Nimble Technology Player to Disrupt Australian PBX Market

In-Depth Report | March 2018

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# Vonex: Executive Summary

## A Note on This Report

Since we published our first in-depth report on Vonex in July 2017, the Company has made significant strides in its HPBX customer acquisition and software application developments.

In this report, we provide updated financials reflecting the progress management has made in the past half-year, while also including all the salient points from our previous report to ensure a comprehensive understanding of the business.

## Vonex: Nimble Technology-driven Telecommunications Company

Vonex is an Australia-based technology company engaged in the telecommunication space. It is a Deloitte Technology Fast500 award winner, and the CRN Fast50 winner for 2014.

Since the Company's inception in 2009, Vonex has transformed itself from a product development house, to a wholesaler, and now also a retail business with a sizeable top line.

Today, Vonex is on a mission to disrupt the telecommunications industry by offering their innovative Hosted PBX services.

## Hosted PBX a Higher Value Offering vs. Traditional PBX

Vonex's Hosted PBX business focuses on displacing traditional PBX services by leveraging technology to greatly enhance the offering.

Compared to traditional PBX services, Hosted PBX systems do not require on-site setups as everything is hosted in the cloud. Moreover, because of the lean nature of Hosted PBX services, it costs significantly lower than traditional PBX and offers a greater amount of flexibility.

## Traditional On-Site PBX

On-Premise PBX
<ul style="list-style-type: none"><li>• Expensive initial setup cost</li><li>• High recurring maintenance fees</li><li>• High redundancy costs</li><li>• Requires on-site system upgrades</li><li>• Inflexible/ difficult to customize</li></ul>

Source: Insyte, Vonex

## Cloud Hosted PBX

Hosted PBX
<ul style="list-style-type: none"><li>• Low initial setup cost</li><li>• Low recurring service fee</li><li>• Easy to add extra lines</li><li>• Regular software updates</li><li>• Features are highly customizable</li></ul>

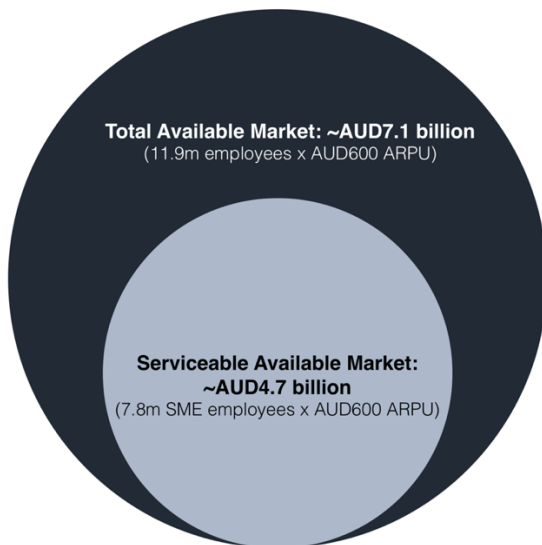
Source: Insyte, Vonex

## The Opportunity: AUD7.1bn PBX Market to be Disrupted

Today, Vonex has the opportunity to disrupt Australia's (still largely) traditional PBX market.

As seen in the chart below, the total available PBX market is approximately AUD7.1bn. We arrived at this figure by multiplying the total number of employees in Australia to an annual subscription per user of AUD600. When further segmented to only look at the Australian SME market, we arrive at a market size of AUD4.7bn.

## SMEs Comprise AUD4.7bn of the Total PBX Market



Source: Insyte, Vonex, Australian Bureau of Statistics

As companies increasingly see the value of shifting their PBX services to the cloud, nimble technology players like Vonex can acquire meaningful market share by addressing and nuancing their services to the large yet underserved Australian SME market.

### Three Catalysts for Hosted PBX Adoption

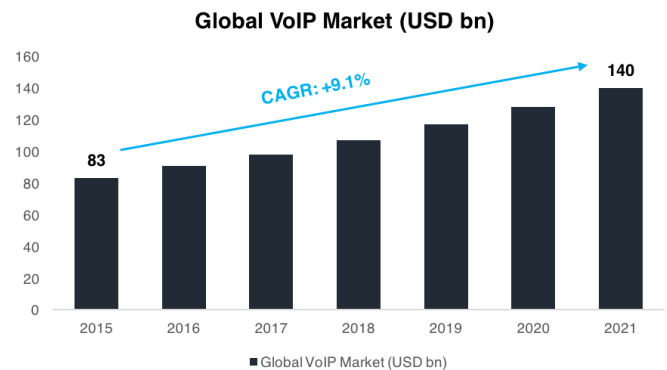
We see three major catalysts driving the adoption of Hosted PBX in the coming years. Namely:

1. Continued growth of Cloud VoIP globally
2. Addressing of the underserved Australian SME sector
3. Decommissioning & replacement of Australia's copper network via the National Broadband Network

#### Catalyst #1: Global Growth of Cloud VoIP

Cloud VoIP is increasingly becoming the preferred IT service by end-users. According to Zion Research, they expect the global cloud VoIP market to grow at a CAGR of 9.1% to US\$140bn by 2021. Vonex is well positioned to benefit from the tailwinds of this megatrend as it plays out both globally and in Australia.

## Global Cloud VoIP Forecasted CAGR of 9.1% Till 2021



Source: Insyte, Zion Research

### Catalyst #2: Targeting and Addressing the Underserved Australian SME Sector

Currently, there are over 2.1million SMEs in Australia that contribute over 56% of the country's GDP.

Despite this vast proportion of SME businesses, SMEs remain a largely underserved segment due to their higher customer service requirements and lack of economies of scale.

This is a prime opportunity for nimble technology players like Vonex.

With Hosted PBX providing a much higher value offering (lower setup costs, lower redundancy costs, etc.) compared to traditional PBX, Vonex can drive adoption of its service to the relatively untapped SME market that has gone under the radar of its oligopolistic counterparts.

### Catalyst #3: National Broadband Network to Create Churn of 8 million+ Customers

The third, and most immediate catalyst for Hosted PBX adoption is the decommissioning of Australia's copper network.

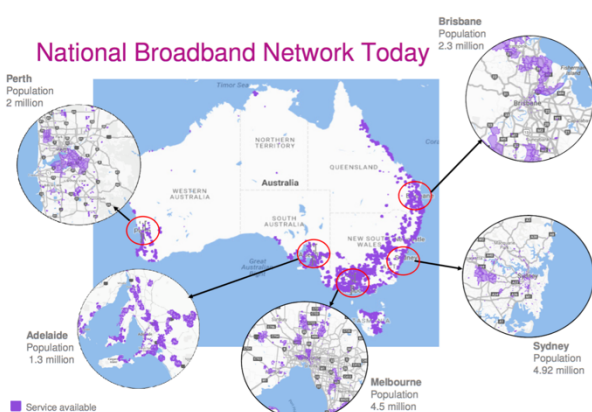
Currently, the Australian telco industry relies on a single fixed copper network to provide its services, while being dominated by two major carriers. This is set to change as the copper network is decommissioned, and the

National Broadband Network is set in place as a fibre replacement.

All customers will have to disconnect from the copper infrastructure as it reaches its end of life, and this will create customer churn with as many as 8 million customers forced to disconnect from the Telstra network.

Considering that Vonex's PBX platform is already NBN-ready, this is a prime opportunity for the Company to offer significant discounts on NBN to copper network customers. Moreover, due to Vonex's asset-light and technology-driven business model, the Company will have greater flexibility & speed versus their oligopolistic counterparts to cater to SME customers.

### National Broadband Network – Completion in Capital Cities by 2019

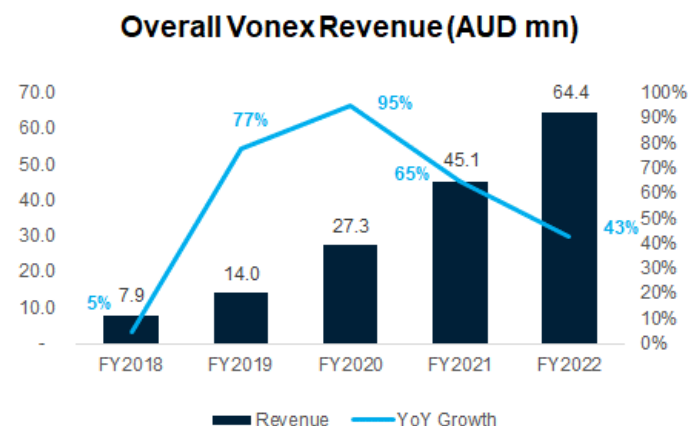


Source: Insyte, NBN Corporate Plan (2017-2020)

### Company Financials & Forecasts

We are forecasting significant growth from FY2018 to FY2022, and this reflects the several opportunities Vonex has at its disposal to drive adoption and rapidly scale its Hosted PBX business. We are forecasting overall revenue to grow at a CAGR of 69% from FY2018-22, while forecasting EBITDA to grow at a CAGR of 174% from FY2020-22.

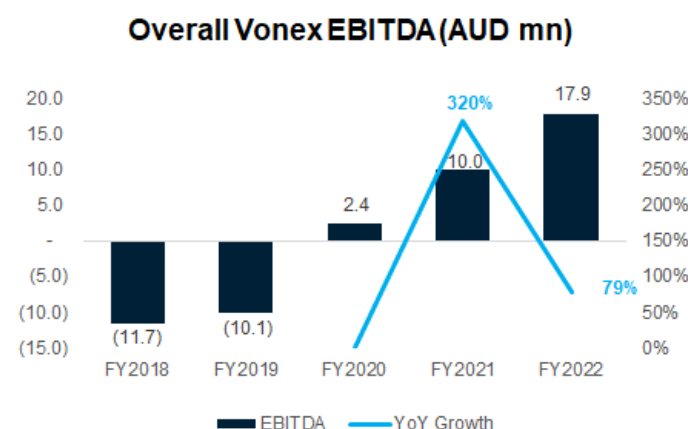
### Vonex Group FY2018–2022 Revenue CAGR of 69%



Source: Insyte

Note: Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment

### Vonex Group FY2020–2022 EBITDA CAGR of 174%



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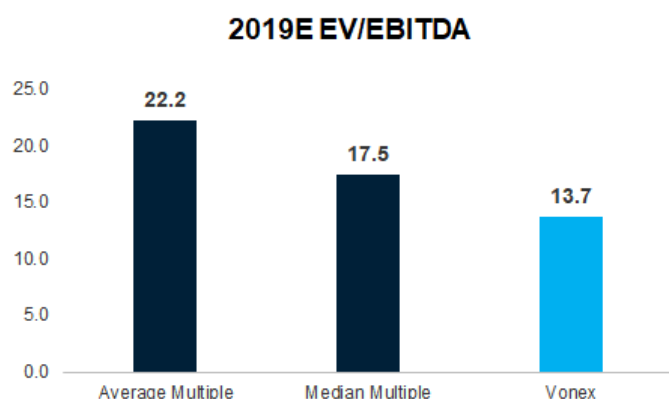
### Vonex HPBX DCF Valuation of AUD 60.8mn

Based on these forecasts, we segmented the financials relevant only to the Company's HPBX business, and assumed a cost of equity of 15% and long-term growth rate of 2% to arrive at a discounted cashflow valuation of AUD60.8 million.

We note that this valuation only considers Vonex's HPBX business, and thus does not consider the revaluation of the performance shares and rights associated with Vonex's Software Engineering arm (and its product "Oper8tor").

### Our Valuation Appears Conservative Given Implied Multiples vs. Peers [EV/EBITDA]

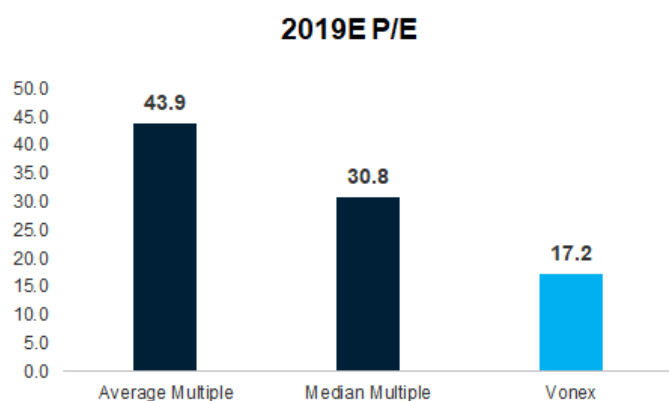
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Source: Insyte, Bloomberg

### Our Valuation Appears Conservative Given Implied Multiples vs. Peers [P/E]

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Source: Insyte, Bloomberg

Our DCF valuation appears conservative based on implied 2019E valuation multiples vs. global SaaS peers. This is the case on both an EV/EBITDA and P/E basis.

Australia  
Telecommunications

Vonex Limited

March 27, 2018

## Company Overview

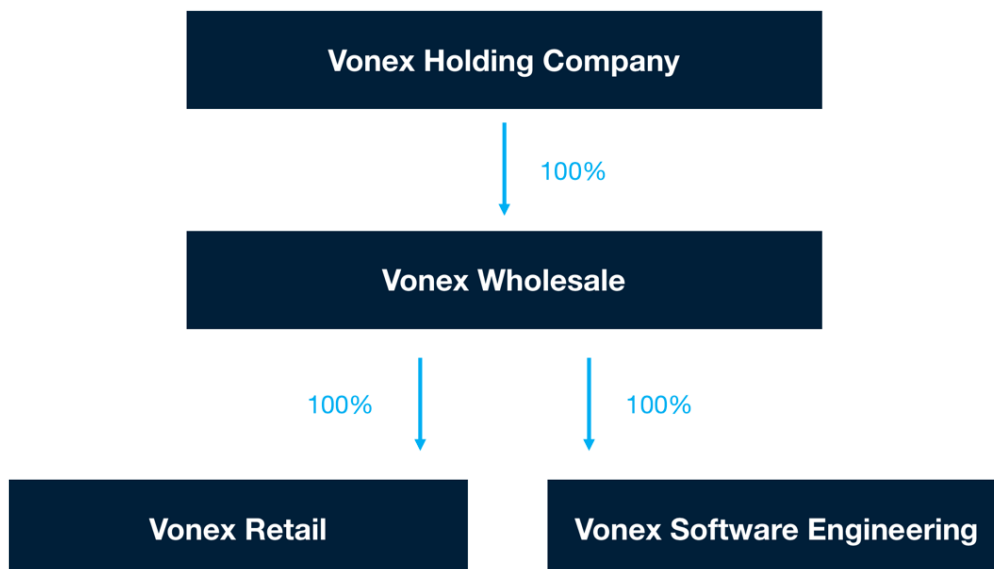
### Background & History

Vonex is an Australia-based technology company engaged in the telecommunication space. It is a Deloitte Technology Fast500 award winner, and the CRN Fast50 winner for 2014.

Since the Company's inception in 2009, Vonex has transformed itself from a product development house, to a wholesaler, and now also a retail business with a sizeable top line.

Today, the Company has over 21,000 active users in multiple countries, and 400+ channel reseller partners comprised of companies in IT services, PABX equipment supply, and communications advisory services. Some of Vonex's clients include Knight Frank, Salesforce, Groupon, Deliveroo, and the Australian Federal Police.

## Vonex Corporate Structure



Source: Insyte, Vonex

# Key Business Segments

The Vonex Group has two main business segments – namely Hosted PBX (both retail and wholesale), and Software Engineering.

## Business Segment #1: Hosted PBX – Valued in This Report

Hosted PBX is a type of “Private Branch Exchange” that is hosted on the cloud. Broadly speaking, it fulfills the exact same role as traditional PBX, but leverages technology to enhance its offering.

Like traditional PBX, Hosted PBX is a telephone system that manages and switches calls between enterprise users on local lines. This allows users to share a limited number of external phone lines, and in doing so, save costs for companies.

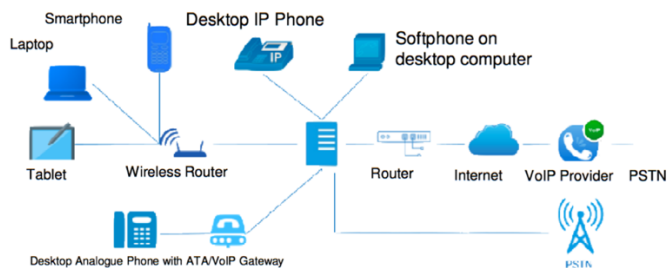
The difference between traditional and Hosted PBX however, lies in how they are setup. In contrast with traditional PBX that requires businesses to set up systems on-site and bear high redundancy costs, Hosted PBX is in the cloud and does not require on-site system upgrades. Hosted PBX is also much easier for businesses (especially SMEs) to adopt due to its lower setup cost, low monthly service cost, ease of adding extra lines, and regular software updates.

As seen in the chart below, we detail the several cost-advantages and additional features of cloud-based PBX vs. traditional on-site PBX.

## Traditional On-Site PBX vs. Cloud Hosted PBX

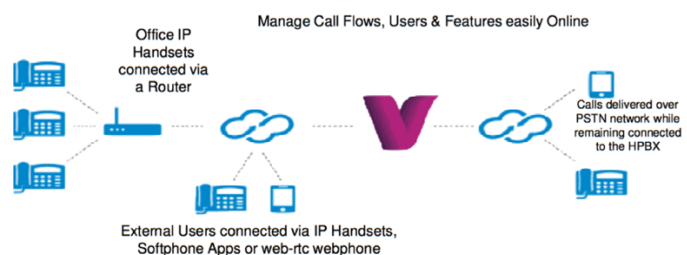
**On-Premise PBX**

- Expensive initial setup cost
- High recurring maintenance fees
- High redundancy costs
- Requires on-site system upgrades
- Inflexible/ difficult to customize



**Hosted PBX**

- Low initial setup cost
- Low recurring service fee
- Easy to add extra lines
- Regular software updates
- Features are highly customizable



Source: Insyte, Vonex



To support this Hosted PBX business, Vonex has built a global infrastructure with Network POP's in Australia, Indonesia, Singapore, London, New York, San Francisco, and Washington DC. Future Network POP's are also planned for Russia, South Africa, and South America next.

## Vonex Global Infrastructure



Source: Vonex

According to Vonex, their infrastructure currently boasts an uptime of 99.9999% when typical service agreements only provide a 97% uptime. What this uptime difference translates to is practically 11 days' worth of outage time saved every year.

As seen in the table below, at the 99.9999% uptime level, Vonex's Hosted PBX service would only be experiencing 32 seconds of outage every year – practically nothing.

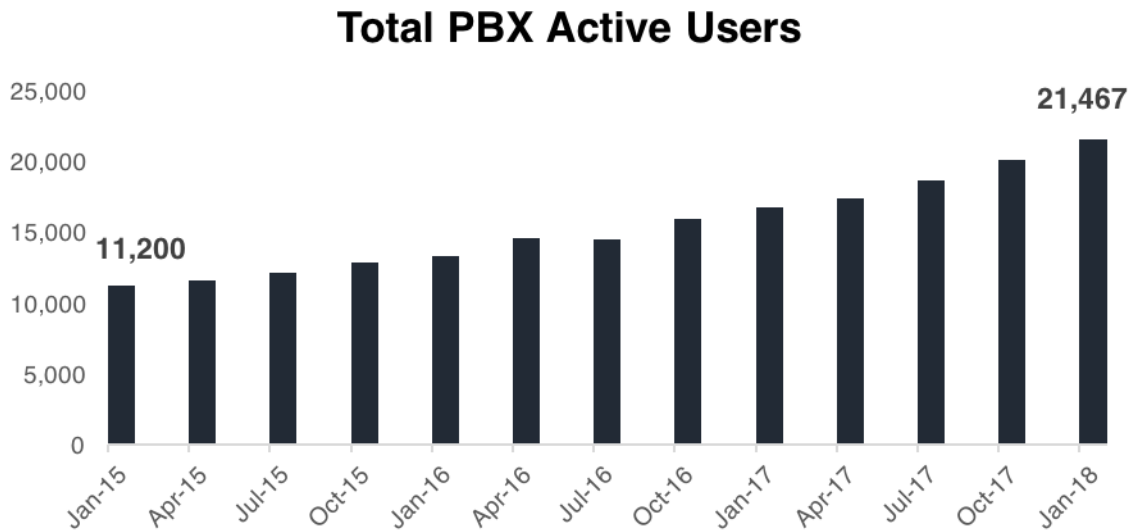
## Uptime % vs. Annual Outage Duration

Uptime %	Outage Time per Year
97% (typical service level)	10d 22h 58m 29s
98%	7d 7h 18m 59s
99%	3d 15h 39m 29s
99.99%	52m 36s
99.9999%	32s

Source: Insyte, Company data

As a result of Vonex's strong HPBX value proposition, total PBX active users went from 11,000 to over 21,000 users in just 36 months. We expect Vonex's customer acquisition to remain strong and accelerate over the coming years as management continues to leverage its platform's strength and capitalize on the business' multiple value catalysts.

## PBX Active Users Almost Doubled in Past 36 Months



Source: Insyte, Company data

## Business Segment #2: Software Engineering – Not Valued in This Report

Vonex's second business segment is its Software Engineering arm. It is the Company's product development business that produces innovative new apps & software.

Most recently, Vonex's Software Engineering arm produced a new product called "Oper8tor" that aggregates multiple voice platforms into a single app using a patented "call blast" technology. Vonex has earmarked the launch of this product for second half of calendar year 2018.

### **Vonex's Upcoming "Oper8tor" Application**

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Source: Vonex

Currently, Vonex management has selected a soft launch into Europe due to the region's larger population of communication app users, and clearer data on app take-up & demand. Moreover, reaching management's 10 million users target would be more achievable in a region with over 739 million people versus Australia's 24 million.

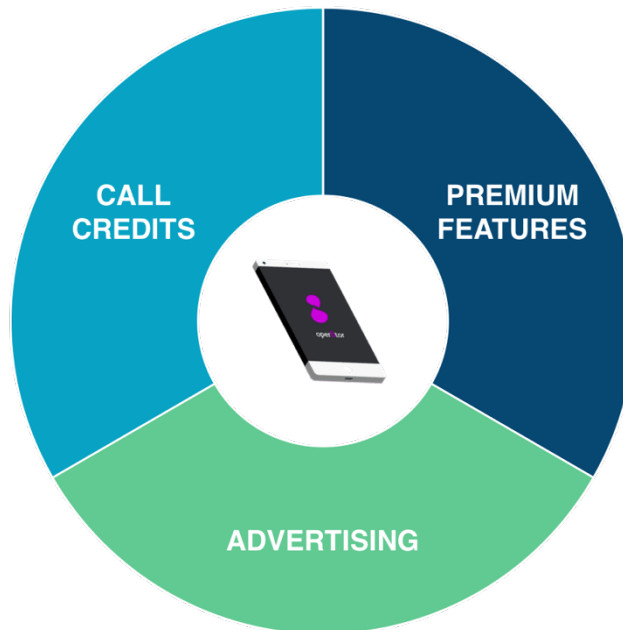
According to State One Equities, once the "Oper8tor" app is operational, it has the potential to generate as much as A\$10million a month off a 10 million subscriber base.

State One Equities believes that the "Oper8tor" app can reach an indicative ARPU of A\$1.0 per month via three revenue streams namely:

- Advertising on the Oper8tor platform
- In-app purchases for premium features (hold, merge, call blast, etc.)
- Call credits

## Three Potential Revenue Streams for “Oper8tor”

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Source: State One Equities

Other upcoming developments include “PowerCall” a rethinking of how PBXs are managed, and “Conference Scribe” a virtual assistant scribing conference calls in real-time.

*Insyte would like to highlight that we do not cover this business segment in the report due to the products still being in development stages. Thus, while our financial forecasts are for the whole Vonex Group, our valuation in the report is only for the Vonex Hosted PBX business entity.*

*Any market valuation achieved by “Oper8tor” would thus represent upside for the Group on top of our valuation of the HPBX business.*

## The Opportunity: AUD7.1bn PBX Market to be Disrupted

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As seen in the chart below, the total available PBX market is approximately AUD7.1bn. We arrived at this figure by multiplying the total number of employees in Australia to an annual subscription per user of AUD600. When further segmented to only look at the Australian SME market, we arrive at a market size of AUD4.7bn.

### SMEs Comprise AUD4.7bn of the Total AUD7.1bn PBX Market

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Source: Insyte, Australian Bureau of Statistics, Vonex

As companies increasingly see the value of shifting their PBX services to the cloud, nimble technology players like Vonex can acquire meaningful market share by addressing and nuancing their services to the large yet underserved Australian SME market.

# Catalysts & Tailwinds for Hosted PBX Adoption

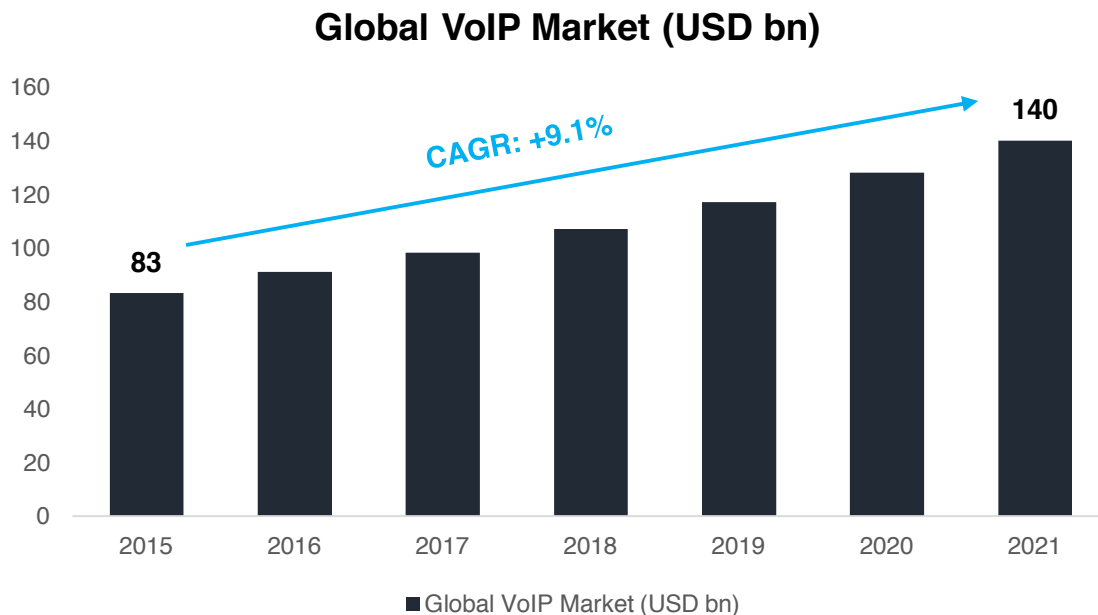
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## Catalyst #1: Global Growth of Cloud VoIP

Cloud VoIP is increasingly becoming the preferred IT service by end-users. According to Zion Research, they expect the global cloud VoIP market to grow at a CAGR of 9.1% to US\$140bn by 2021. This is due to the rapid adoption of smart portable devices in both the residential and corporate sectors. Vonex is well positioned to benefit from the tailwinds of this megatrend as it plays out both globally and in Australia.

## Global Cloud VoIP Forecasted CAGR of 9.1% Till 2021



Source: Insyte, Zion Research

## Catalyst #2: Targeting and Addressing the Underserved Australian SME Sector

Another catalyst for Vonex is the Company's dedicated focus on SMEs.

As seen in the table below, there are currently over 2.1million SMEs in Australia that contribute over 56% of the country's GDP.

### Australia has over 2.1mn SMEs Contributing ~56% of Total GDP

Firm Category	Employee Count	Number of Businesses
Single Owner Company	0	1,318,568
Micro	1 – 4	599,392
Small	5 – 19	198,655
Medium	20 – 199	50,808
Large	200+	3,774

Source: Insyte, Australian Bureau of Statistics (2016)

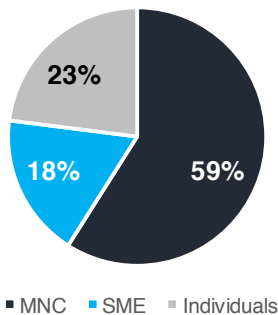
Despite this vast proportion of SME businesses, SMEs remain a largely underserved segment due to their higher customer service requirements and lack of economies of scale. Case in point of this are the customer breakdowns of Telstra and Optus.

Telstra and Optus jointly have an 84% market share of the Australian's telco industry. Despite this, the two telco giants have chosen to neglect the SME sector in favor of stiff competition to win over large MNCs and individual customers.

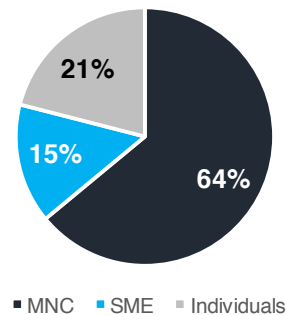
As seen in the charts below, SMEs only comprise 18% and 15% of Telstra's and Optus' customer profiles respectively.

### Telstra & Optus Neglect SMEs in Favor of MNCs and Individual Customers

Telstra Customer Breakdown



Optus Customer Breakdown



Source: Insyte, Company data

This is a prime opportunity for nimble technology players like Vonex.

With Hosted PBX providing a much higher value offering (lower setup costs, lower redundancy costs, etc.) compared to traditional PBX, Vonex can drive adoption of its service to the relatively untapped SME market that has gone under the radar of its oligopolistic counterparts.

### **Catalyst #3: National Broadband Network to Create Churn of 8 million+ Customers**

The third, and most immediate catalyst for Hosted PBX adoption is the decommissioning of Australia's copper network.

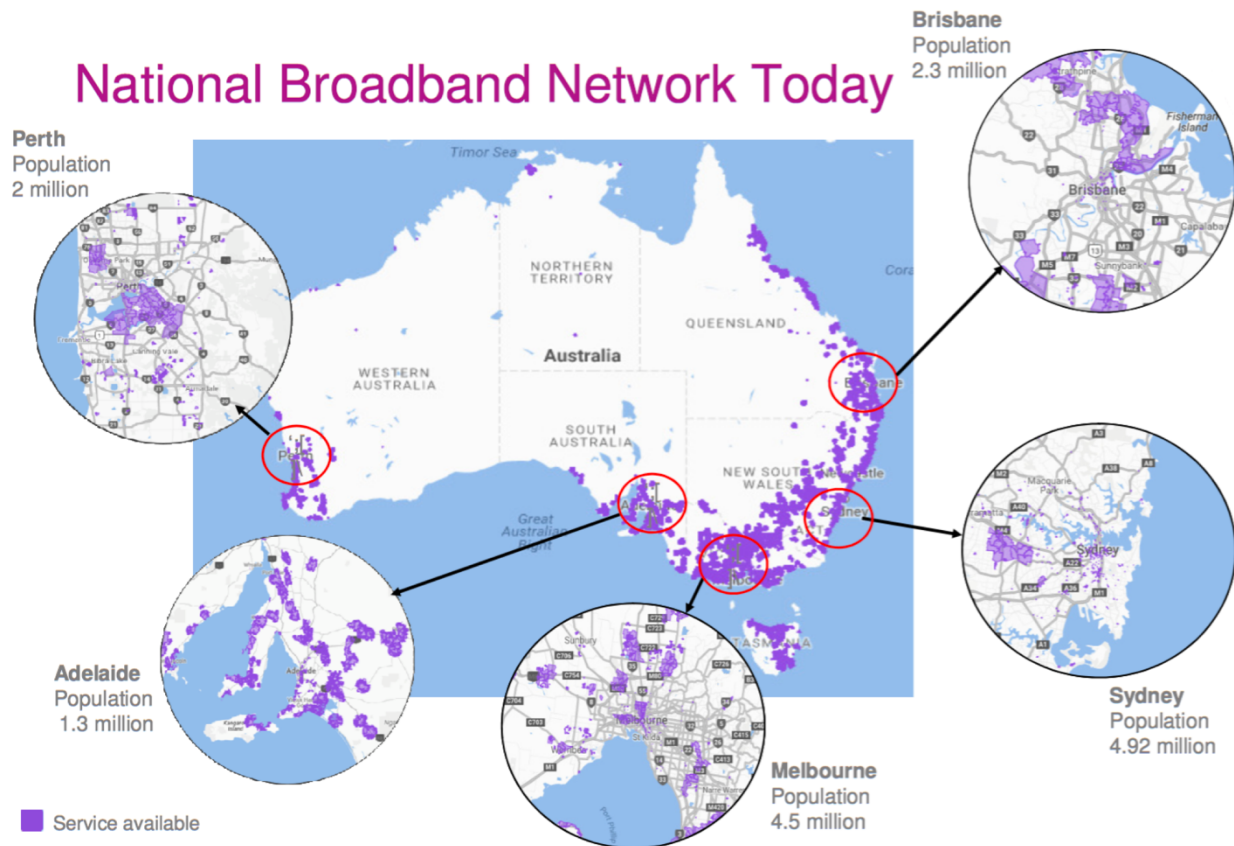
Currently, the Australian telco industry relies on a single fixed copper network to provide its services, while being dominated by two major carriers. This is set to change as the copper network is decommissioned, and the National Broadband Network is set in place as a fibre replacement.

All customers will have to disconnect from the copper infrastructure as it reaches its end of life, and this will create customer churn with as many as 8 million customers forced to disconnect from the Telstra network.

Considering that Vonex's PBX platform is already NBN-ready, this is a prime opportunity for the Company to offer significant discounts on NBN to copper network customers. Moreover, due to Vonex's asset-light and technology-driven business model, the Company will have greater flexibility & speed versus their oligopolistic counterparts to cater to SME customers.



## National Broadband Network – Completion in Capital Cities by 2019



Source: Insyte, NBN Corporate Plan (2017-2020)

As seen in the chart above, there is currently a lack of network in the capital cities. This is set to change as these areas are slated for completion by 2019 by the National Broadband Network.

# Vonex Group Financials

## Overall Group Forecasts

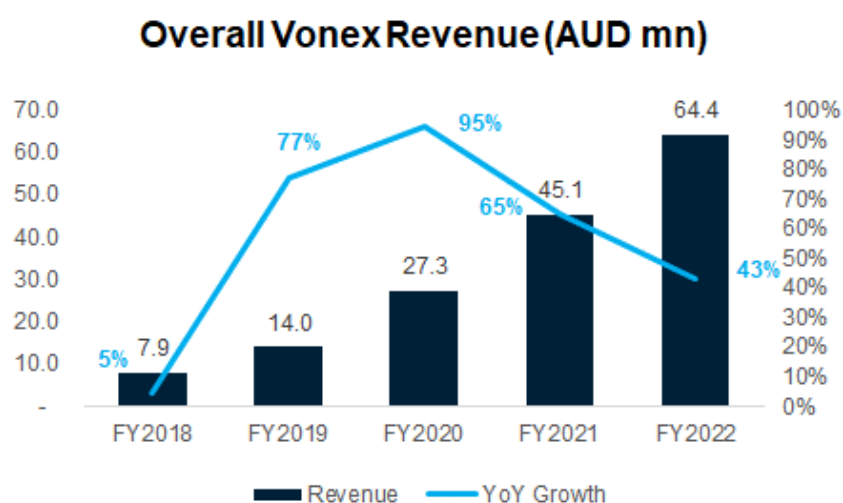
Below we have provided our forecasts for Vonex Group's overall income statement & balance sheet from FY2018 – FY2022. FY2017 and FY 2018 1H historical unaudited financials have also been provided.

## Vonex Holding Company Income Statement Forecast

AUD 000'	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Revenue</b>	<b>7,553</b>	<b>7,914</b>	<b>14,042</b>	<b>27,348</b>	<b>45,069</b>	<b>64,368</b>
Cost of Sales	(4,703)	(4,909)	(8,736)	(16,809)	(26,885)	(37,367)
<b>Gross Profit</b>	<b>2,851</b>	<b>3,005</b>	<b>5,306</b>	<b>10,539</b>	<b>18,183</b>	<b>27,001</b>
Administrative Expenses	(379)	(621)	(686)	(755)	(831)	(914)
Consultants/ Contractors	(492)	(315)	(343)	(378)	(415)	(457)
Bad Debt Expense	(16)	(30)	(84)	(164)	(406)	(579)
Occupancy Expenses	(222)	(271)	(284)	(298)	(313)	(328)
Marketing Expenses	-	(240)	(864)	(960)	(1,440)	(1,440)
Staff Expenses	(1,873)	(1,888)	(2,640)	(3,072)	(3,590)	(4,212)
Other Expenses	(600)	(435)	(480)	(480)	(480)	(480)
Stock Based Payments	(8,663)	(10,605)	(9,434)	(1,453)	(116)	(116)
Holding Co Director Fees	-	(300)	(600)	(600)	(600)	(600)
<b>EBITDA</b>	<b>(9,395)</b>	<b>(11,699)</b>	<b>(10,109)</b>	<b>2,380</b>	<b>9,993</b>	<b>17,874</b>
Depreciation Expense	(144)	(112)	(124)	(144)	(163)	(180)
<b>EBIT</b>	<b>(9,539)</b>	<b>(11,812)</b>	<b>(10,233)</b>	<b>2,237</b>	<b>9,830</b>	<b>17,694</b>
Interest Expense	(199)	(716)	(6)	(6)	(6)	(6)
<b>PBT</b>	<b>(9,738)</b>	<b>(12,528)</b>	<b>(10,239)</b>	<b>2,231</b>	<b>9,825</b>	<b>17,689</b>
<b>PBT (ex-stock based payments)</b>	<b>(1,074)</b>	<b>(1,923)</b>	<b>(805)</b>	<b>3,684</b>	<b>9,941</b>	<b>17,805</b>
Tax Expense	-	-	-	-	-	(2,094)
<b>Net Profit</b>	<b>(9,738)</b>	<b>(12,528)</b>	<b>(10,239)</b>	<b>2,231</b>	<b>9,825</b>	<b>15,595</b>

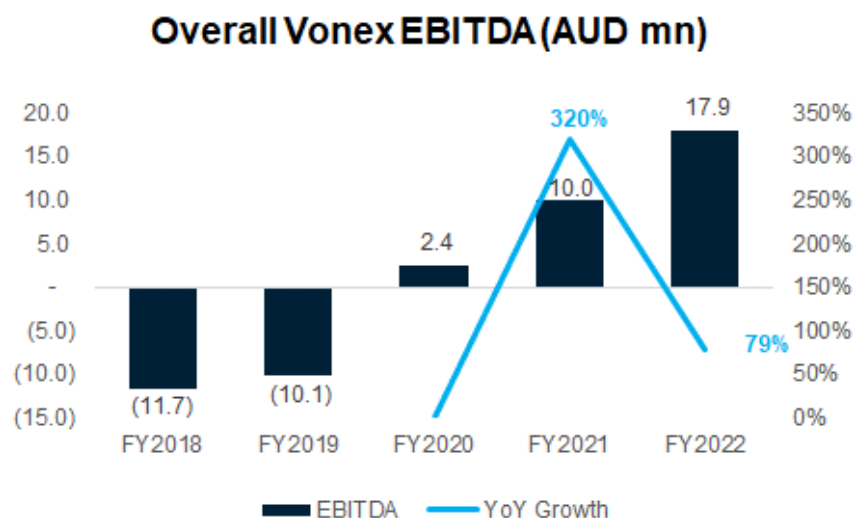
Source: Insyte, Company data; Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment

## Vonex Holding Company FY2018 – FY2022 Revenue CAGR of 69%



Source: Insyte, Company data; Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment

## Vonex Holding Company FY2020 – FY2022 EBITDA CAGR of 174%



Source: Insyte, Company data; Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment

As seen above, we are forecasting significant growth from FY2018 to FY2022, and this reflects the several opportunities Vonex has at its disposal to drive adoption and rapidly scale its Hosted PBX business. We are forecasting revenue to grow at a CAGR of 69% from FY2018-22, while forecasting EBITDA to grow at a CAGR of 174% from FY2020-22.

## Subscriber Forecasts are Conservative Relative to Total Market Size

	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Subscribers</b>	25,237	42,763	70,202	106,931	148,029
Retail Subscribers*	9,780	23,160	45,340	75,400	108,040
Wholesale Subscribers	15,457	19,603	24,862	31,531	39,989
<b>% of SME Market**</b>	0.32%	0.55%	0.90%	1.37%	1.90%

\*Assumes 10 Subscribers per Retail Customer

\*\*Assumes 7.8mn SME employees in Vonex's Addressable Market

Source: Insyte, Company data, Australian Bureau of Statistics

In spite of the strong topline growth we are projecting, we note that our subscriber forecasts actually remain conservative relative to Vonex's total addressable market. In FY2022, we are estimating that Vonex converts less 2% of all its potential SME clients.

## Vonex Holding Company Balance Sheet Forecast

AUD 000'	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Total Assets</b>	<b>1,900</b>	<b>6,386</b>	<b>4,221</b>	<b>9,810</b>	<b>22,375</b>	<b>40,450</b>
Cash	385	4,775	2,001	6,900	18,457	35,624
Other Current Assets	868	471	980	1,463	2,283	3,021
Non-Current Assets	647	1,139	1,241	1,447	1,635	1,805
<b>Total Liabilities</b>	<b>5,070</b>	<b>4,254</b>	<b>2,894</b>	<b>4,799</b>	<b>7,422</b>	<b>9,786</b>
Current Liabilities	4,970	4,144	2,784	4,689	7,312	9,676
<i>Payables &amp; Others</i>	2,592	1,482	2,776	4,681	7,304	9,668
<i>Loans</i>	2,378	2,662	8	8	8	8
Non-Current Liabilities	100	110	110	110	110	110
<i>Provisions &amp; Others</i>	91	101	101	101	101	101
<i>Loans</i>	9	9	9	9	9	9
<b>Total Equity</b>	<b>(3,170)</b>	<b>2,132</b>	<b>1,328</b>	<b>5,011</b>	<b>14,952</b>	<b>30,664</b>
Shareholder Capital	24,633	33,156	33,156	33,156	33,156	33,156
Retained Earnings (Loss)	(27,803)	(31,024)	(31,829)	(28,145)	(18,204)	(2,493)

Source: Insyte, Company data; Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment

## Vonex HPBX Valuation

### HPBX Income Statement (Excludes Centralized Corporate Costs)

In order to value Vonex's HPBX business entity, we adjusted the Company's income statement to remove centralized corporate costs (stock-based payments & holding co director fees). We then use this adjusted income statement in our HPBX valuation.

### Vonex HPBX Income Statement Forecast (Ex Centralized Corporate Costs)

AUD 000'	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Revenue</b>	<b>7,553</b>	<b>7,914</b>	<b>14,042</b>	<b>27,348</b>	<b>45,069</b>	<b>64,368</b>
Cost of Sales	(4,703)	(4,909)	(8,736)	(16,809)	(26,885)	(37,367)
<b>Gross Profit</b>	<b>2,851</b>	<b>3,005</b>	<b>5,306</b>	<b>10,539</b>	<b>18,183</b>	<b>27,001</b>
Administrative Expenses	(379)	(621)	(686)	(755)	(831)	(914)
Consultants/ Contractors	(492)	(315)	(343)	(378)	(415)	(457)
Bad Debt Expense	(16)	(30)	(84)	(164)	(406)	(579)
Occupancy Expenses	(222)	(271)	(284)	(298)	(313)	(328)
Marketing Expenses	-	(240)	(864)	(960)	(1,440)	(1,440)
Staff Expenses	(1,873)	(1,888)	(2,640)	(3,072)	(3,590)	(4,212)
Other Expenses	(600)	(435)	(480)	(480)	(480)	(480)
Centralized Corporate Cost	NA	NA	NA	NA	NA	NA
<b>EBITDA</b>	<b>(732)</b>	<b>(794)</b>	<b>(75)</b>	<b>4,433</b>	<b>10,709</b>	<b>18,590</b>
Depreciation Expense	(144)	(112)	(124)	(144)	(163)	(180)
<b>EBIT</b>	<b>(876)</b>	<b>(907)</b>	<b>(199)</b>	<b>4,289</b>	<b>10,546</b>	<b>18,410</b>
Interest Expense	(199)	(716)	(6)	(6)	(6)	(6)
<b>PBT</b>	<b>(1,074)</b>	<b>(1,623)</b>	<b>(205)</b>	<b>4,284</b>	<b>10,541</b>	<b>18,405</b>
Tax Expense	-	-	-	(737)	(3,162)	(5,521)
<b>Net Profit</b>	<b>(1,074)</b>	<b>(1,623)</b>	<b>(205)</b>	<b>3,547</b>	<b>7,379</b>	<b>12,883</b>

Source: Insyte, Company data; Includes only revenue from HPBX business segment, does not include any revenue assumption from nascent Oper8tor software business segment. Also excludes centralized corporate costs.

Using these forecasts, we assumed a cost of equity of 15% and long-term growth rate of 2% to arrive at a discounted cashflow valuation of AUD60.8 million.

We note that this valuation only considers Vonex's HPBX business, and thus does not consider the revaluation of the performance shares and rights associated with Vonex's Software Engineering arm (and its product "Oper8tor").

## Vonex HPBX Business DCF Valuation of AUD 60.8 Million

HPBX Discounted Cash Flow Model (AUD 000')	FY2018	FY2019	FY2020	FY2021	FY2022	Terminal Value
<b>EBIT</b>	<b>-907</b>	<b>-199</b>	<b>4,289</b>	<b>10,546</b>	<b>18,410</b>	
Interest Expense	-716	-6	-6	-6	-6	
Tax Paid as Cash	0	0	-737	-3,162	-5,521	
Add Back Depreciation & Amortization	112	124	144	163	180	
Minus Capex	-1	-225	-350	-350	-350	
Minus Payment for R&D (Intangibles)	-3	0	0	0	0	
Adjust for Change in Required Working Capital	-714	786	1,422	1,804	1,625	
Adjust for Debt Added (Paid Down)	447	-2,654	0	0	0	
<b>Free Cash Flow to Equity (FCFE)</b>	<b>-1,781</b>	<b>-2,174</b>	<b>4,762</b>	<b>8,995</b>	<b>14,338</b>	<b>112,501</b>
<b>Cost of Equity:</b>	<b>15.0%</b>					
<b>Terminal Growth Rate:</b>	<b>2.0%</b>					
<b>NPV</b>	<b>60.8 AUD mn</b>					

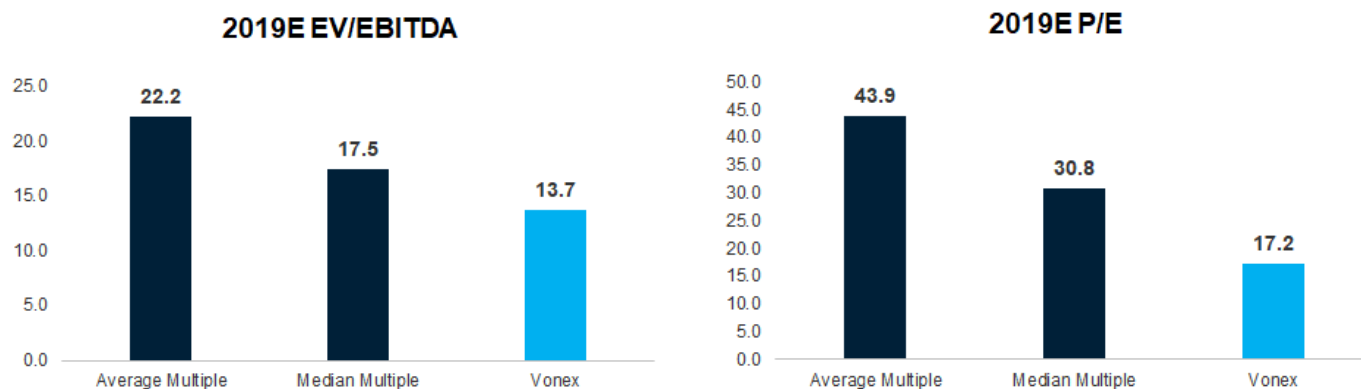
Key Valuation Multiples	FY2018	FY2019	FY2020	FY2021	FY2022
EV/EBITDA	NA	NA	13.7	5.7	3.3
P/E	NA	NA	17.2	8.2	4.7

Source: Insyte, Company data

\*Note: The HPBX valuation uses the HPBX Income Statement (ex centralized corporate costs) forecasts

Our DCF valuation appears conservative based on implied 2019E valuation multiples vs. global SaaS peers. This is the case on both an EV/EBITDA and P/E basis.

## Our Valuation Appears Conservative Given Implied Multiples vs. Peers



Source: Insyte, Bloomberg

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## Additional Valuation Upside to Vonex Holding Company from 'Oper8tor'

We note that the Vonex Group's valuation has further upside not factored into this report. The Company's Software Engineering arm is continually developing innovative new applications for the telecommunication space – many of which have yet to commercialize and represent blue sky opportunities.

## Global SaaS Peer Comparables

NAME	TICKER	MARKET CAP USD mn	EV/EBITDA		PE	
			2018E	2019E	2018E	2019E
Oracle Corp	ORCL US Equity	\$ 216,584	10.9	10.1	17.8	16.4
Adobe Systems Inc	ADBE US Equity	\$ 107,764	26.0	21.3	34.8	30.7
salesforce.com Inc	CRM US Equity	\$ 93,625	39.9	30.6	95.9	62.8
VMware Inc	VMW US Equity	\$ 50,371	14.8	13.0	24.3	20.9
Intuit Inc	INTU US Equity	\$ 45,406	20.9	18.4	33.1	28.2
Red Hat Inc	RHT US Equity	\$ 30,632	44.6	30.3	87.0	58.9
ServiceNow Inc	NOW US Equity	\$ 29,423	80.0	56.3	142.1	115.8
Symantec Corp	SYMC US Equity	\$ 27,443	32.8	27.2	53.9	46.4
Workday Inc	WDAY US Equity	\$ 17,153	12.4	11.5	18.3	16.8
Check Point Software Technologies Ltd	CHKP US Equity	\$ 17,012	8.6	8.6	16.9	15.1
RealPage Inc	RP US Equity	\$ 15,372	95.4	59.6	186.7	108.1
GoDaddy Inc	GDDY US Equity	\$ 13,930	55.9	43.0	125.2	90.1
Splunk Inc	SPLK US Equity	\$ 12,970	12.7	12.5	19.4	17.2
SS&C Technologies Holdings Inc	SSNC US Equity	\$ 12,455	12.1	10.6	24.4	20.7
Sabre Corp	SABR US Equity	\$ 10,768	15.7	12.2	22.8	20.5
Ellie Mae Inc	ELLI US Equity	\$ 10,641	17.2	14.4	175.9	79.0
Qualys Inc	QLYS US Equity	\$ 6,055	8.3	7.5	15.5	13.8
Atlassian Corp PLC	TEAM US Equity	\$ 4,396	21.9	17.7	36.5	30.9
Citrix Systems Inc	CTXS US Equity	\$ 3,293	23.9	17.2	55.9	40.0
Akamai Technologies Inc	AKAM US Equity	\$ 2,978	28.3	22.7	54.7	45.6
<b>AVERAGE</b>			<b>29.1</b>	<b>22.2</b>	<b>62.1</b>	<b>43.9</b>
<b>MEDIAN</b>			<b>21.4</b>	<b>17.5</b>	<b>35.7</b>	<b>30.8</b>

Source: Insyte, Bloomberg

## **Key Management & Executives**

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### **Nicholas Ong, Non-Executive Chairman**

Nicholas currently serves as the non-executive chairman for Vonex Limited. He is currently a managing director at Minerva Pte. Ltd. (an established corporate services team), and a non-executive chairman at CoAssets (an ASX-listed real estate platform). Prior to his role at Vonex, Nicholas was a principal advisor at the Australian Stock Exchange with over 7 years of experience.

### **Matt Fahey, Chief Executive Officer**

Matt Fahey currently serves as CEO for Vonex Limited. He has over 20 years of experience building and managing telecommunication companies, and is particularly well regarded in the VoIP segment. Matt served a critical role in Vonex's business development in 2014, which saw the Company increase its partner program from 90 to 230 partners in just over a year.

### **Greg King, Chief Financial Officer**

Greg currently serves as CFO for Vonex Limited. He has over 25 years of experience in the financial services sector, and upon joining the Company, has developed effective internal controls to fulfill all the necessary due diligence. Greg's span of control includes all aspects of financial operations, including strategic planning, M&A, corporate governance and management of regulatory & IT systems.

### **Angus Parker, Chief Technology Officer**

Angus currently serves as CTO for Vonex Limited. Over his decade long career of building VoIP products and solutions, Angus has built a reputation in the industry as an innovator with a track record in advancing technologies. Currently, he has over 20 major voice developments across billing, call center reporting, and web-based VoIP solutions. He also holds patents related to the telecommunication space.

## Key Shareholders

Vonex has a relatively diversified shareholder base with the largest investor (Finance West) holding less than 15% of the firm.

In the table below, we have provided the top 10 largest shareholders of Vonex. We note that as of 21<sup>st</sup> September 2017, the top 10 shareholders (mostly comprised of institutional investors) represent a total 52% ownership of the firm.

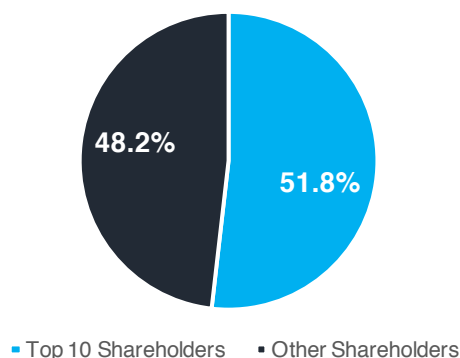
### Vonex Top 10 Largest Shareholders

Shareholder	% Ownership
Finance West Pty Ltd	14.22%
Carmine Lion Group Pty Ltd	10.94%
Mr Matthew Fahey	5.73%
Confadent Limited	5.31%
Guava Capital Pty Ltd	4.67%
Revolve Projects Pty Ltd	2.97%
Mr Angus Parker	2.27%
Lateral Consulting (WA) Pty Ltd <Paton Super Fund A/C>	1.97%
Mr Share Robinson+ Mrs Helen Robinson	1.85%
Lateral Consulting (WA) Pty Ltd	1.84%

Source: Vonex

### Top 10 Shareholders Comprise a Total 52% Ownership

Vonex Shareholder Breakdown



Source: Insyte, Vonex

For any questions regarding the report or financial model: please contact [vince@insyte.asia](mailto:vince@insyte.asia) or [eric@insyte.asia](mailto:eric@insyte.asia).



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