Azeus Systems Holdings Ltd.

SGX: BBW
Date: 10/5/2021
Current Price: SG $5.70

AZEUS
A CMMI LEVEL 5 COMPANY
Azeus Systems Holdings Ltd.

Fairlight Capital

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Executive Summary

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- Azeus offers investors the opportunity to invest in an early-stage SaaS company that is profitable, growing rapidly in an expanding market, innovative, flexible and has stable recurring revenue.
  - **SaaS revenue, billings and deferred revenue growth equals 33.2%, 74.7% & 55.4%. SaaS billings three-year CAGR of 52.9%**

- Azeus can grow rapidly with no need for external capital. In fact, Azeus is growing rapidly while returning capital to shareholders. Unlike most fast-growing SaaS companies, Azeus does not need capital to grow.

- Azeus's Board of Directors is conservative yet entrepreneurial. The Board manages both downside risk and upside risk exceptionally well.

- Azeus is led by a manager with skin in the game and a high level of integrity.
  - Singapore provides excellent minority shareholder protection.

- At current prices, BBW trades for **16.3x TTM free cash flow, 9.0x TTM SaaS revenues, 7.6x next years adjusted net income and 5.3x NTM SaaS revenues. Forward cash balances equal ~30% of market capitalization and dividend yield equals 1.15%.**

Why the Mispricing Exists

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- True potential is obscured by consolidated financial statements
  - Growth is still hidden

- Small capitalization
  - Low Liquidity
  - Market capitalization: SG $171 million, US $128 million

- Foreign listed with no clear geographical headquarters
  - Listed in Singapore with major operations in Hong Kong and the Philippines
  - Expanding R&D staff in India
  - Registered office is in Bermuda

- Changing business model

- No investor relations outreach or analyst coverage

- Large controlling shareholder
  - 82.44% ownership

Segments – IT Services

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- Azeus's IT services segment provides systems implementation and enhancement, sales of hardware and software, and maintenance and support services.

- Majority of sales are to Hong Kong government entities.
  - For example, in July 2020 Azeus secured a contract to design and implement a pilot e-tendering system for the Office of Government Chief Information Officer which will act as a one-stop electronic platform for all government procurement tenders.

- Systems implementation and hardware/software sales are one-time and lumpy. Maintenance and support services is recurring and occurs after the implementation of a large software project.

- Software design, engineering and related services are performed out of Azeus's office in Manila, Philippines with new software engineers in India.

Segments – IT Services

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HK $000's	2014	2015	2016	2017	2018	2019	2020	2021
Implementation & Sales	$168,968	$62,713	$41,696	$41,696	$31,933	$48,462	$51,987	$19,551
Maintence Services		$54,354	$62,702	$53,325	$46,023	$49,462	$45,307	$45,320
IT Services Revenues	$168,968	$117,067	$104,398	$95,021	$77,956	$97,924	$97,294	$64,871
IT Services Op Income	$53,710	$38,531	$35,529	$30,975	$28,118	$39,901	$31,262	$26,453

- Systems implementation and hardware/software sales are grouped together.
- The IT Services revenue has been relatively flat over the last eight years.
  - Revenue declined in 2021 due to Covid-19.
- IT Services operating profit has been fairly stable.
- Azeus has a March 31st year-end.

Segments – Products (SaaS)

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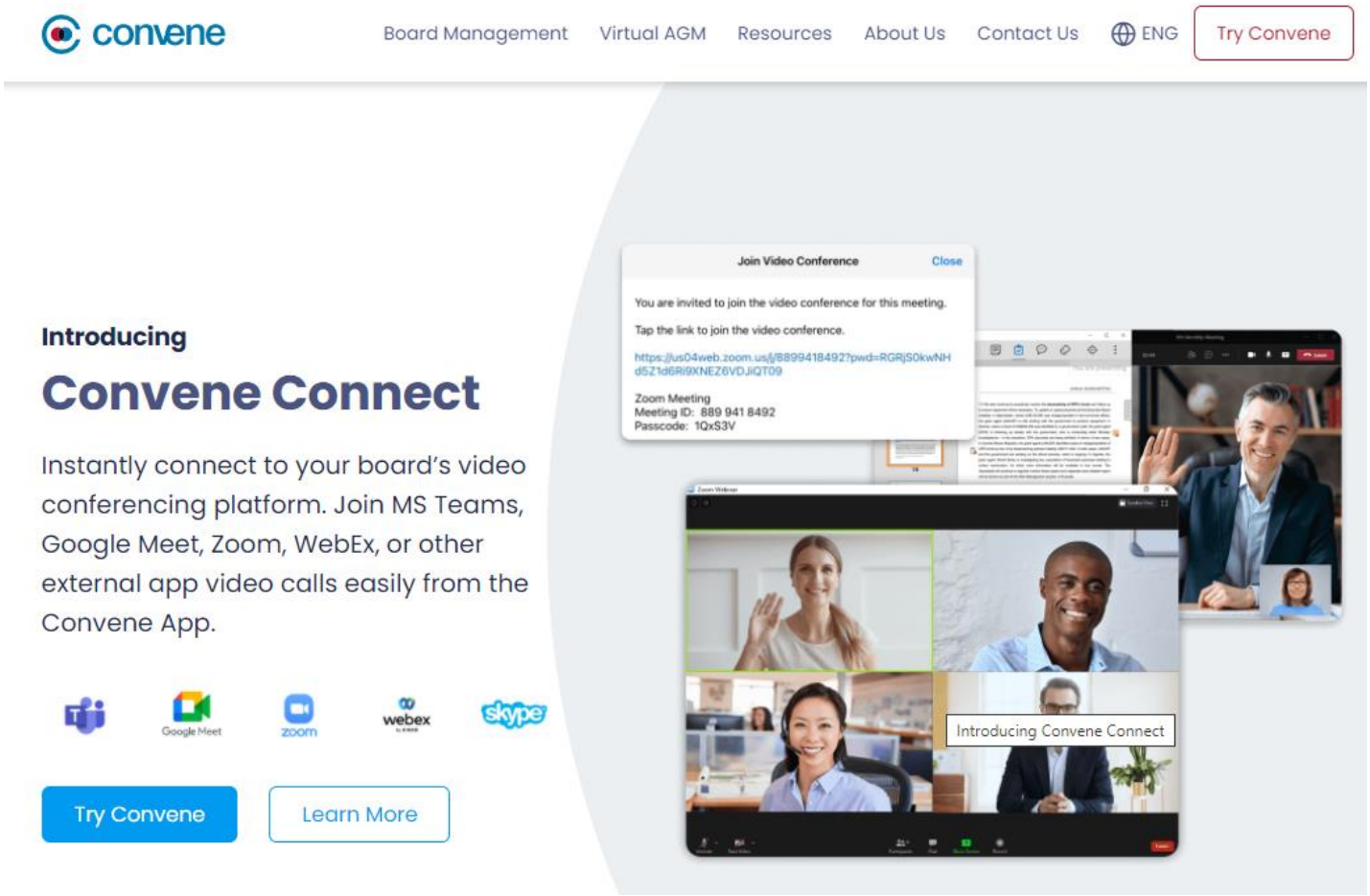
- Azeus's Products segment provides propriety software products that are delivered over the cloud and generate upfront implementation fees and thereafter recurring revenue from annual licenses.

- Azeus's has three products:
  - Convene
  - AGM@Convene
  - AzeusCare (not very important)

- Convene and AGM@Convene are board management and virtual shareholder meeting software products.
  - Growth in the Products segment has come from Convene and AGM@Convene.

- AzeusCare is case management software that meets the requirements of the UK Care Act 2014.

Board Management Software



https://www.azeusconvene.com/

Board Management Software

Benefits

- Improved Governance
  - Increased board engagement
- Centralization
  - All meeting functionality in one application
  - Secure depository
- Compliance
- Transparency
  - Track votes & changes
- Accountability
  - Audit trail
- Productivity
  - Integrates with the most popular video conference applications
- Efficiency
  - Saves administrators countless hours
- Security & Permissions

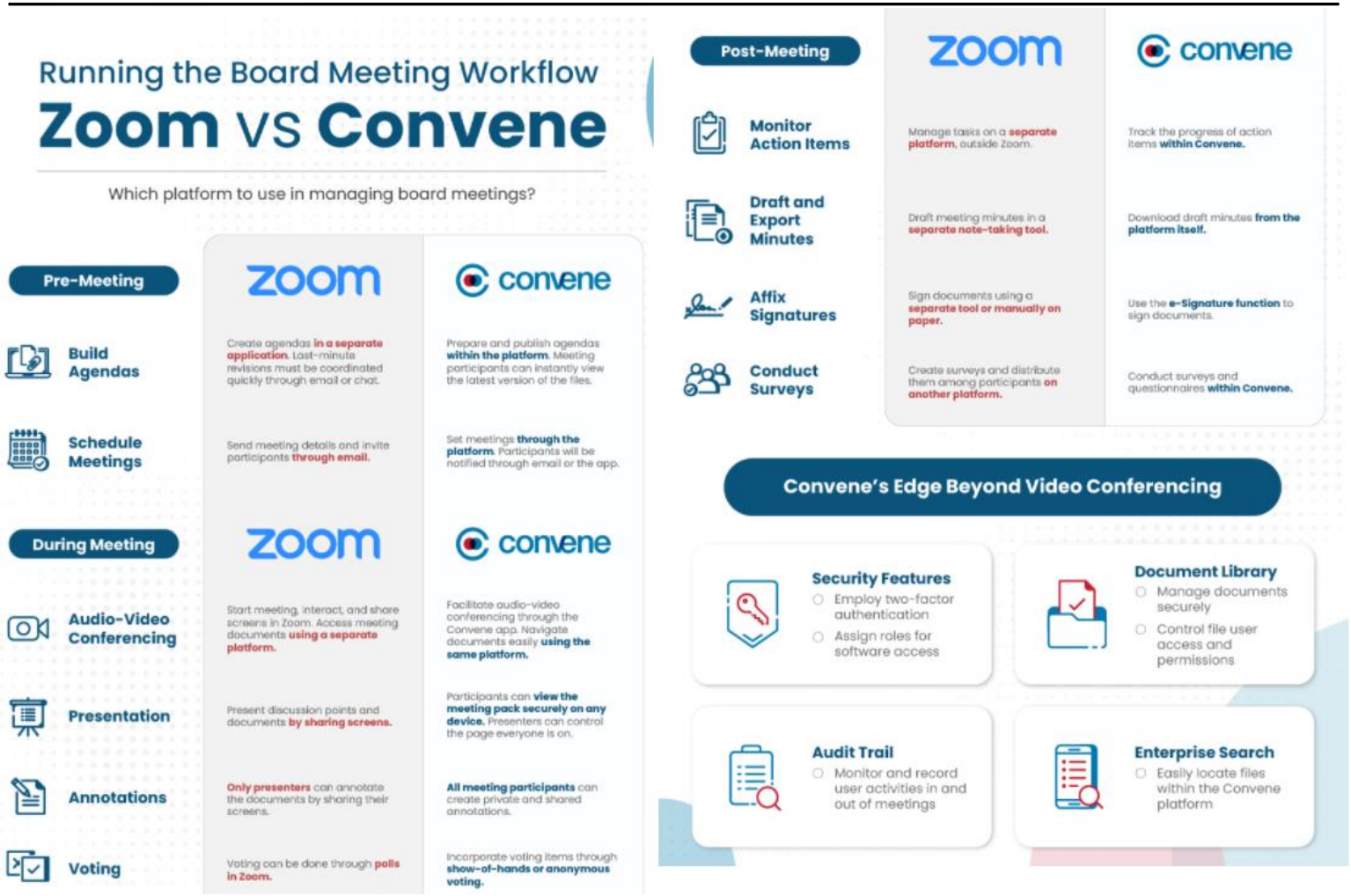
Board Management Software

Why not just use Zoom?

Short Answer: Convene offers a more comprehensive set of features in connecting and streamlining board activities and meetings.

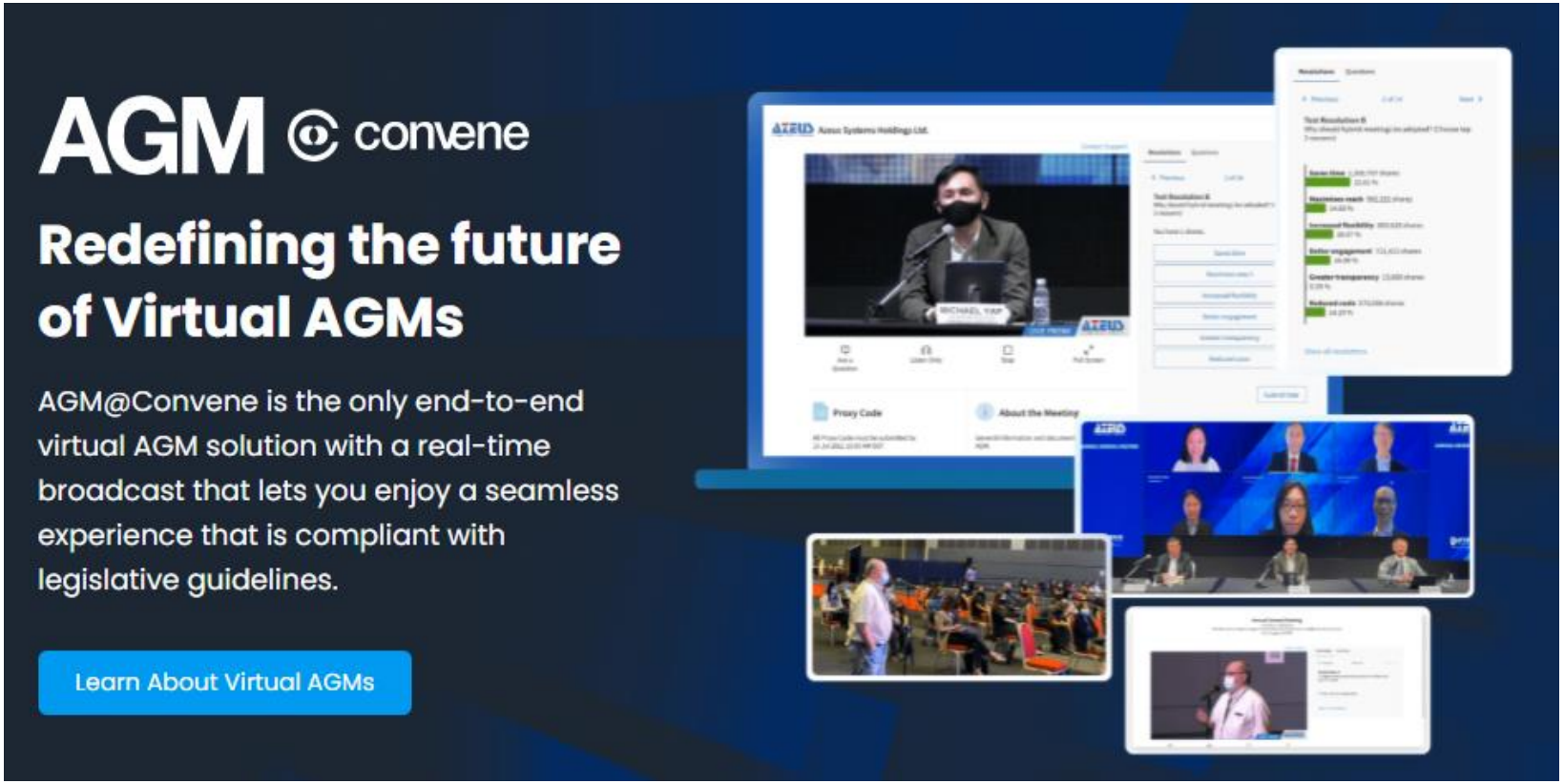
Long Answer: In Convene, the agenda is not a separate attachment but rather the meeting follows the flow of the agenda, and all documents are accessible from within Convene and not in multiple separate applications. Administrators can create and rearrange the agenda on the fly. The meeting pack is prepared within the platform with simple drag and drop functionality. Participants can instantly view the agenda and review the meeting pack. Multiple users can collaboratively build the agenda based on permissions set by the administrator. The video conferencing app of choice (usually Zoom or Teams) is launched from within Convene and all presentations (screen sharing, annotations, pointers, highlighters, notes, etc.) and voting and polling is done from one app—there is no need to switch between multiple apps. Users can create and track action items in Convene, draft and export minutes, require e-signatures to monitor and reflect important actions, and create and conduct surveys during and away from the meeting. Convene employs two-factor authentication and has a document library. Document owners can also set each user's extent to access each file, make edits or downloads. Convene provides an audit trail and the ability to search files using keywords and phrases.

Board Management Software



https://www.azeusconvene.com/articles/board-portals-and-video-conferencing-in-board-meetings

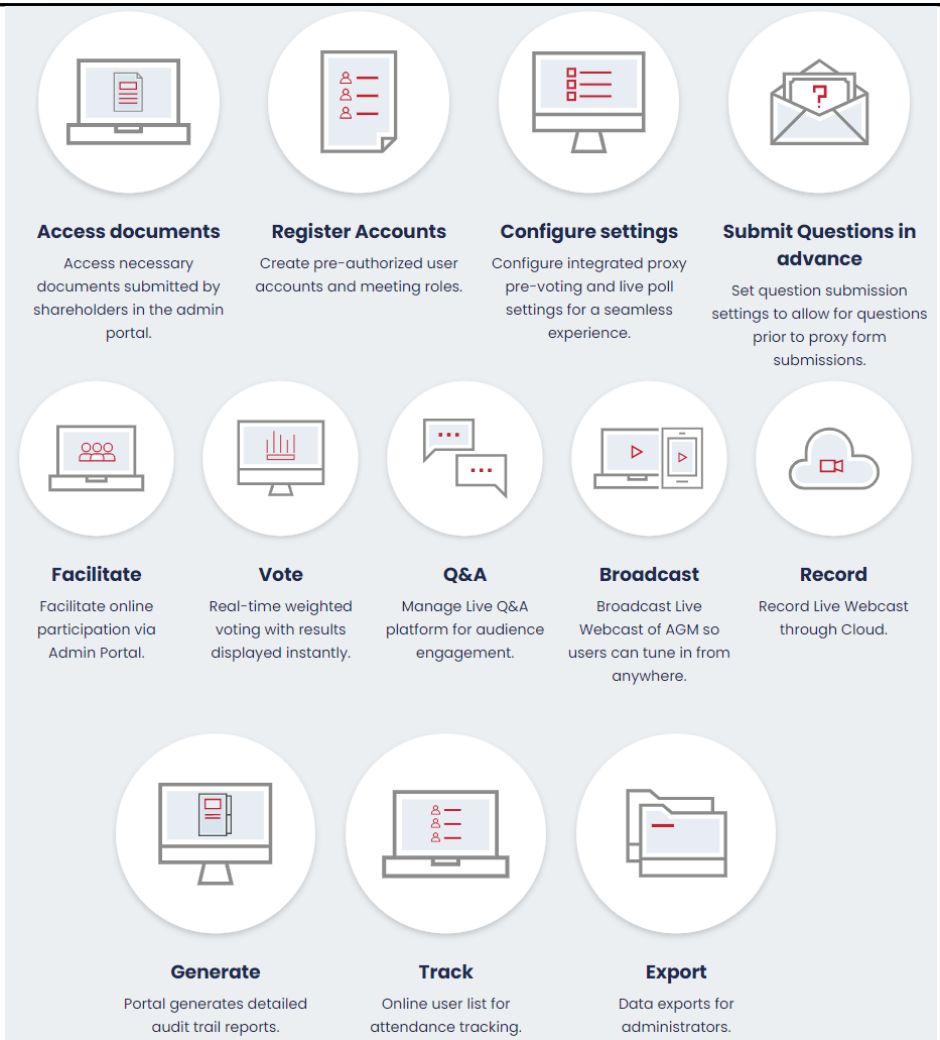
e-AGM



https://www.azeusconvene.com/

e-AGM

AGM convene



https://www.azeusconvene.com/virtual-agm

Segments – Products (SaaS)

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HK $000's	2014	2015	2016	2017	2018	2019	2020	2021
Products Onetime					$2,897	$7,979	$14,016	$19,475
Products Recurring					$21,507	$41,931	$69,924	$93,719
Products	$1,027	$7,940	$7,390	$11,857	$24,404	$49,910	$83,940	$113,194
Products Op Income	($2,993)	$213	($12,650)	($21,719)	$10,509	$12,689	$26,129	$32,781

- Azeus's Products segment is growing rapidly.
- The Products segment is now profitable.
- True profitability is obscured by conventional accounting standards.
  - Research & Development and Sales & Marketing are treated as expenses.
  - For fast growing software companies, these are capital expenditures.
  - Old school companies use capital funds to build plants and equipment. Software companies invest in developers and sales personnel.

SaaS Billings Growth Rate

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Azeus's SaaS Revenues and Contract Liabilities (Deferred Revenue)								
HK $000's	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Products Revenue	$9,030	$15,374	$21,164	$28,746	$37,879	$46,061	$51,828	$61,366
Contract Liabilities (CLs)	$9,153	$17,179	$27,175	$30,283	$42,321	$36,918	$39,030	$64,503
TTM Revenue		$24,404		$49,910		$83,940		$113,194
YoY Change CLs		$15,000		$13,104		$6,635		$27,585
Total Billings		$39,404		$63,014		$90,575		$140,779
Billings Growth Rate				**60%**		**44%**		**55%**
					Three-Year CAGR (2019-2021)			**53%**

SaaS Competitive Moat

- SaaS revenues are sticky with high switching costs.
  - Administrators are unlikely to switch once they know how to use the software.
  - Network effects
    - Multiple board members, managers and administrators use the same system.
    - Many board members sit on multiple boards leading to organic sales through recommendations.
  - Document library
  - Online reviews and Google search rankings
    - New market entrants are unlikely.
  - Average cost for Convene is US $3,000 to $10,000
    - Low operating cost for businesses and other enterprises.

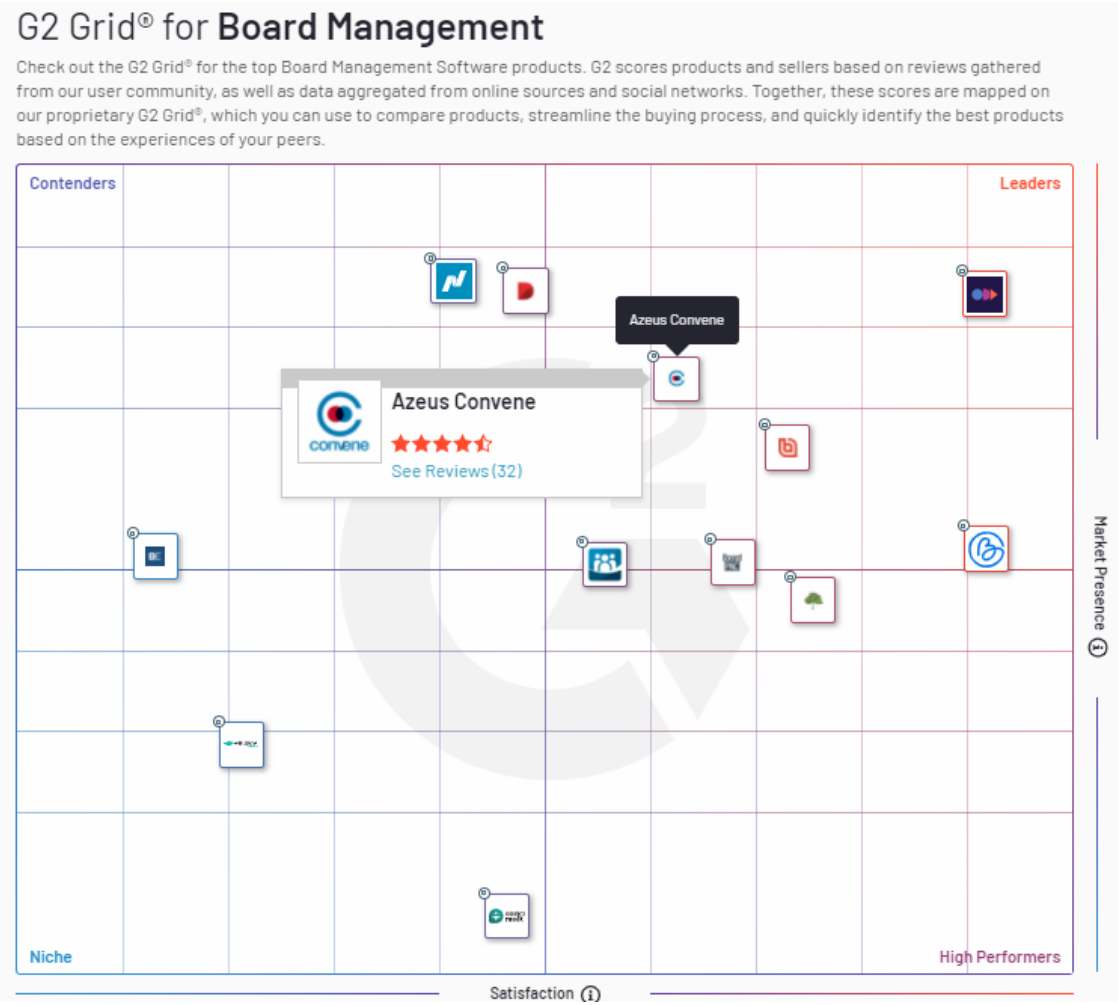
Competition

- Current Board Portal Market Participants
  - 7-10 Strong Competitors
    - Large market in early innings of adoption with consolidation likely in future years. Board portal companies are attractive acquisition targets for other software collaboration companies.
  - New Entrants
    - Unlikely due to online reviews and Google search rankings.
    - Large startup costs to reach scale and find customers.
- Substitutes
  - Microsoft Teams / Zoom
    - Board Portals are apps that integrate with Teams and Zoom and available on Teams and Zoom stores.
    - Board Portals are relatively low cost and add extra functionality
    - Teams and Zoom would need to build a global salesforce focused on educating, training and implementing board portal software.
  - Convene will need to continue to add new functionality.

Competition

https://www.softwarereviews.com/awards/data-quadrant-awards-2021-board-management

Competition



https://www.g2.com/categories/board-management#grid

Total Addressable Market

- ~74,000 Publicly traded companies
- ~27 million private companies (estimated)
- ~1.5 million nonprofits
- How many investment committees?
- How many education institutes?
- How many government entities (boards, councils, etc.)?

  - **1,000,000 times US $7,000 equals US $7 billion.**
  - Estimates for the size of the market range from US $5 billion to US $8 billion in four to five years from currently about US $2 billion.
  - Diligent is the market leader with around US $500 million in revenue.

- e-AGM
  - Costs around US $5,000 to US $10,0000 or more per customer.
  - Adds significantly to Azeus's TAM.

Total Addressable Market

- According to Research Nester, the board portal market is estimated to grow by 17.1% annually to US $12 billion by 2029.

- https://www.researchnester.com/reports/board-portal-market/3141

Private Market Valuation of Competitors

- OnBoard
  - Indiana based company
  - Raised US $100 million at US $400 million valuation
  - Revenues are approximately US $24 million
  - Growth is ~50%
  - 16.7x revenues

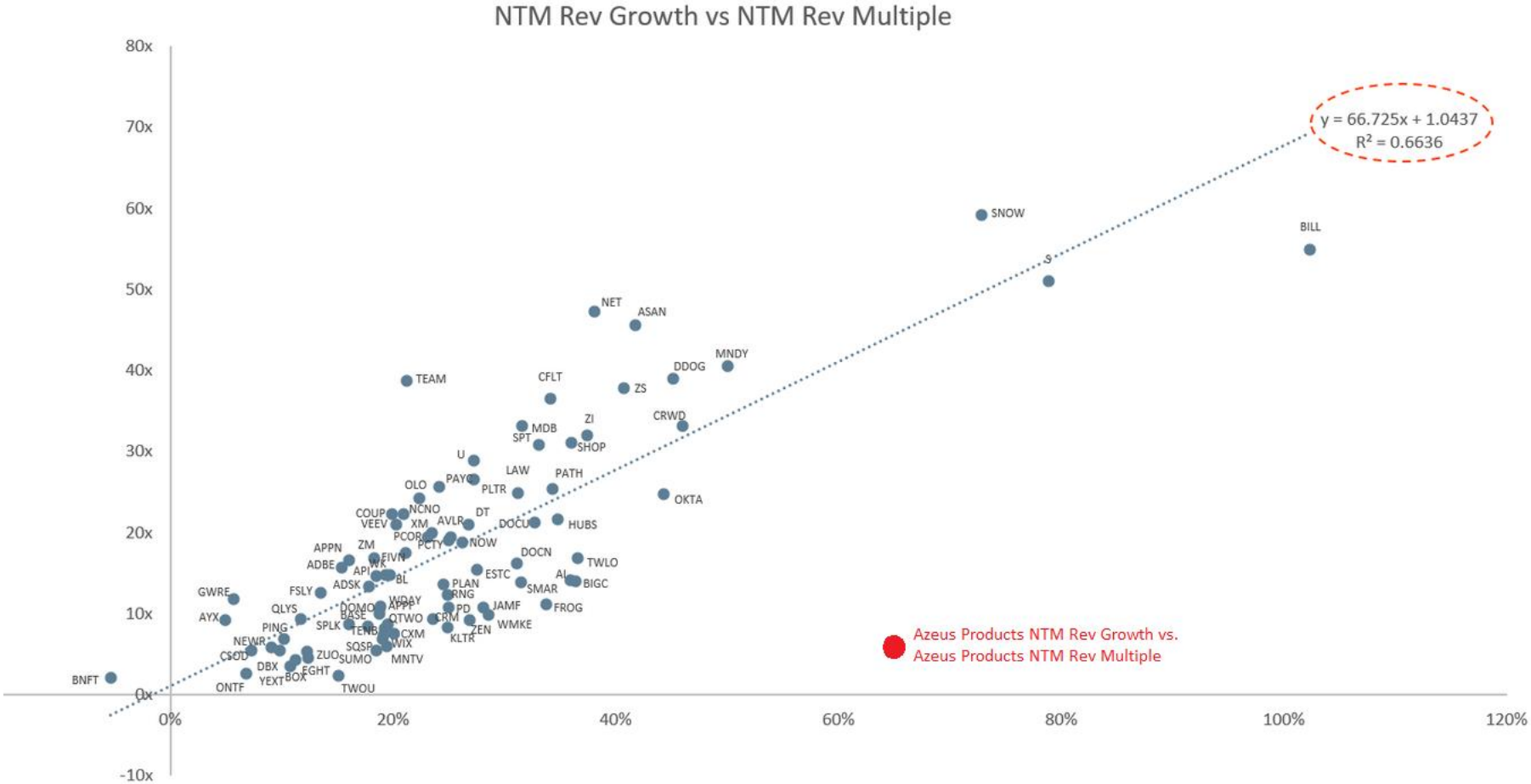
- OnBoard purchased eSCRIBE a public board meeting software provider for 15-20x revenue in 2021

https://www.youtube.com/watch?v=PZkeq4IMSZ4

https://craft.co/on-board/metrics

https://www.youtube.com/watch?v=u-L3DP53X9c

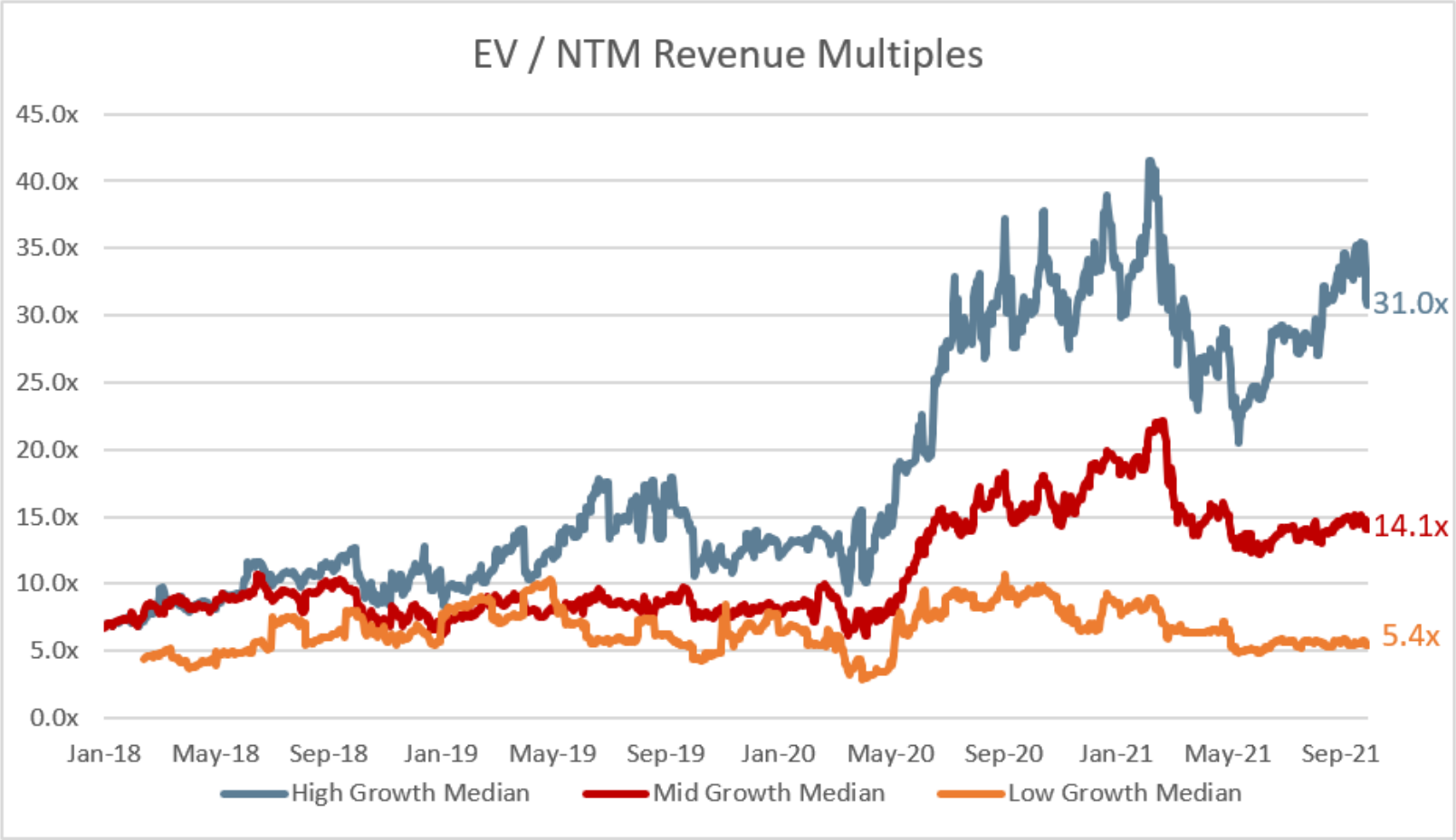
Public Market SaaS Valuations



https://cloudedjudgement.substack.com/p/clouded-judgement-10121

These are multiple billion-dollar companies, whereas Azeus is still $171 million SGD.

Public Market SaaS Valuations



https://cloudedjudgement.substack.com/p/clouded-judgement-10121

Convene would be a High Growth (>30%) company.

Public Market SaaS Valuations

Company	EV / NTM Rev	NTM Rev Growth	Gross Margin	Operating Margin	FCF Margin
Snowflake	59.2x	73%	59%	-91%	-3%
Bill.com	54.9x	102%	74%	-48%	-6%
SentinelONe	51.0x	79%	55%	-142%	-86%
Cloudflare	47.2x	38%	77%	-20%	-7%
Asana	45.6x	42%	89%	-76%	-49%
Monday.com	40.6x	50%	86%	-75%	-12%
Datadog	39.0x	45%	77%	-5%	21%
Atlassian	38.7x	21%	84%	5%	41%
Zscaler	37.8x	41%	78%	-31%	23%
Confluent	36.5x	34%	68%	-102%	32%
Average	**45.1x**	**53%**	**75%**	**-59%**	**-5%**
Median	**43.1x**	**44%**	**77%**	**-62%**	**-5%**
Azeus Products	**5.3x**	**65%**	**90%**	**29%**	**55%**

https://cloudedjudgement.substack.com/p/clouded-judgement-9321

Azeus's Competitive Advantage

- Low-cost operating model
  - Philippines
    - Average annual salary for software developer in Philippines is $9,000.
  - Azeus has a long history of managing complex software projects since 1991.
  - Azeus has a long history of managing distributed operations with offices around the globe.
    - OnBoard had to raise $100 million to set up global sales office and hire additional software developers.
    - Azeus hires additional personnel using funds generated from operations.

Azeus's Competitive Advantage

- Flexible operating model
  - Azeus launched AGM@Convene in April 2020 in less than a month.
    - They moved over 100 employees from other projects to work on AGM@Convene.
    - By the July 2020, Azeus had conducted 100 e-AGMs.
    - By summer 2021, AGM@Convene had over 400 global clients and is the dominant player in Singapore.
  - Demonstrates management's ability to manage both downside and upside risks.
    - How many young startups could grow so fast without capital?
    - Azeus's long history of managing complex software projects enabled rapid launch of a new product.

Consolidated Financials

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HK $000's	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	$169,995	$124,980	$111,788	$97,893	$102,360	$147,834	$181,234	$178,065
Cost of Sales	($114,833)	($79,756)	($74,698)	($72,419)	($69,986)	($81,729)	($79,882)	($55,270)
Gross Profit	$55,162	$45,224	$37,090	$25,474	$32,374	$66,105	$101,352	$122,795
R&D							($24,767)	($36,783)
Sales & Marketing	($4,467)	($6,505)	($14,211)	($16,218)	($14,765)	($18,042)	($23,375)	($31,855)
Admin	($27,563)	($29,680)	($24,456)	($17,444)	($17,869)	($22,882)	($25,220)	($27,694)
Other & FX	$964	($2,042)	$8,646	($4,418)	$12,304	($2,788)	($5,101)	$6,987
Amortization	$0	($840)	($4,239)	($8,679)	($8,104)	($4,276)	($4,183)	($3,483)
Finance & Other	$0	$0	$0	$0	($1,111)	($546)	($698)	($648)
EBT	$24,096	$6,157	$2,830	($21,285)	$2,829	$17,571	$18,008	$29,319
Taxes	($5,470)	($3,307)	($1,485)	($322)	($964)	($4,938)	($5,338)	($5,660)
Net Income	$18,626	$2,850	$1,345	($21,607)	$1,865	$12,633	$12,670	$23,659
Gross Profit %	32.4%	36.2%	33.2%	26.0%	31.6%	44.7%	55.9%	69.0%
R&D %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.7%	20.7%
S&M %	2.6%	5.2%	12.7%	16.6%	14.4%	12.2%	12.9%	17.9%

- Consolidated revenues have been flat.
- Gross Margins Increasing.
- R&D and Sales & Marketing have been increasing as well.

Consolidated Financials

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- Accounting standards treat R&D and Sales & Marketing as expenses.
  - However, for SaaS companies with strong recurring revenue and robust customer retention, these expenses are capital expenditures.
  - Board Portal industry retention rate is >100% due to upsells and seat expansions.

Target and performance

	FY2021 Target	FY2021 Performance	Remarks	FY2022 target
Customer satisfaction	To maintain a high retention and renewal rate. To improve inter-departmental cooperation for effective collaborations on product enhancements, product training and support for our customers.	Maintained a lower customer churn rate than industry competitors.	NIL	To maintain a high retention and renewal rate.

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True Income Statement

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Capitalization of R&D and Sales & Marketing											
HK $		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
R&D Useful Life Years		3	2013-2019 is an estimate as R&D was in Cost of Sales								
R&D Reported Expense			($1,500)	($2,500)	($5,500)	($6,000)	($9,000)	($13,000)	($18,000)	($24,767)	($36,783)
Reported expense / 3			($500)	($833)	($1,833)	($2,000)	($3,000)	($4,333)	($6,000)	($8,256)	($12,261)
R&D Real Expense						($3,167)	($4,667)	($6,833)	($9,333)	($13,333)	($18,589)
S&M Useful Life Years	5										
S&M Reported Expense	($4,643)	($4,849)	($5,505)	($4,467)	($6,505)	($14,211)	($16,218)	($14,765)	($18,042)	($23,375)	($31,855)
Reported expense / 5	($929)	($970)	($1,101)	($893)	($1,301)	($2,842)	($3,244)	($2,953)	($3,608)	($4,675)	($6,371)
S&M Real Expense						($5,194)	($7,107)	($9,381)	($11,233)	($13,948)	($17,322)

True Income Statement

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HK $	2016	2017	2018	2019	2020	2021		2022 EST
IT Services Revenue	$104,398	$95,021	$77,956	$97,924	$97,294	$64,871	2020=>	$97,294
Products Revenue	$7,390	$11,857	$24,404	$49,910	$83,940	$113,194	65%	$186,770
Reported Revenue	$111,788	$106,878	$102,360	$147,834	$181,234	$178,065		$284,064
Change in NWC	($2,143)	($7,593)	$13,844	$8,629	$106	$29,471	40%	$41,259
Economic Revenue	$109,645	$99,285	$116,204	$156,463	$181,340	$207,536		$325,324
Cost of Sales	($68,698)	($63,419)	($56,986)	($63,729)	($79,882)	($55,270)		($100,595)
Gross Profit	$40,947	$35,866	$59,218	$92,734	$101,458	$152,266		$224,728
R&D	($3,167)	($4,667)	($6,833)	($9,333)	($13,333)	($18,589)		($30,850)
Selling	($5,194)	($7,107)	($9,381)	($11,233)	($13,948)	($17,322)		($20,851)
Admin	($24,456)	($17,444)	($17,869)	($22,882)	($25,220)	($27,694)		($35,000)
True Operating Profit	$8,131	$6,648	$25,134	$49,285	$48,956	$88,661		$138,027
Taxes Actually Recorded	($1,485)	($322)	($964)	($4,938)	($5,338)	($5,660)		($8,000)
True Net Income	$6,646	$6,326	$24,170	$44,347	$43,618	$83,001		$130,027
Cash Flow from Operations	$21,303	($14,145)	$25,738	($4,601)	$55,988	$77,583		
Gross Margin	37.3%	36.1%	51.0%	59.3%	55.9%	73.4%		69.1%
Operating Margin	7.4%	6.7%	21.6%	31.5%	27.0%	42.7%		42.4%

Change in NWC is largely due to cash inflows related to the increase in Deferred Revenue liabilities related to Convene's annual contracts

Current Market Cap is HK $982 million with HK $158 million in cash

Management & Ownership

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- Lee Wan Lik
  - Managing Director
  - Founded Azeus in 1991
  - Owns 82.44%
  - BS in CS and Math from MIT and MS in CS from U of Texas

- Michael Yap Kiam Siew
  - MS from Maryland, College Park and Stanford Executive Program
  - Previous CEO experience
  - Co-Founded VC firm TNB Ventures Pte and The Co-Foundry Pte
  - Appointed Executive Director in April 2020 to lead Convene
    - His area of focus includes:
      - Scaling the business
      - Enter new markets
      - Go-to-market planning and activities
      - Recruitment and development of talents

Minority Shareholder Protections

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- Singapore is known for its strong shareholder protections
- Plus, why would Mr. Lee Wan Lik want to delist? He already owns a large percentage of the shares.

v Changes to the voluntary delisting regime

Under the revised rules of the voluntary delisting regime implemented in July 2019, a delisting application will require the voluntary delisting resolution to be approved by a majority of at least 75 per cent of the listed company's total number of issued shares (excluding treasury shares and subsidiary holdings) held by the shareholders present and voting at the general meeting. Although the 10 per cent blocking threshold has been removed, the offeror and parties acting in concert with it are now required to abstain from voting on the resolution, ensuring that the offeror and its concerted parties will not be able to vote and force a delisting through. The rules have also been enhanced to require the independent financial adviser to opine that an exit offer is not merely reasonable but also fair. The practice to require an exit offer to include a cash alternative as the default alternative has also been codified as a Listing Manual requirement.

https://thelawreviews.co.uk/title/the-shareholder-rights-and-activism-review/singapore

Temasek / Singapore Capital Markets

A CMMI LEVEL 5 COMPANY
Azeus Systems Holdings Ltd.

- Singapore state investment firm Temasek plans to ramp up domestic investments to support and promote capital markets in Singapore.
- Singapore is looking to support tech firms and encourage firms that are involved in innovation and growth in Singapore.
- Temasek plans to fund at least SG $1 billion to invest in regional mid-cap firms.

https://finance.yahoo.com/news/singapore-said-plan-local-stocks-085259724.html

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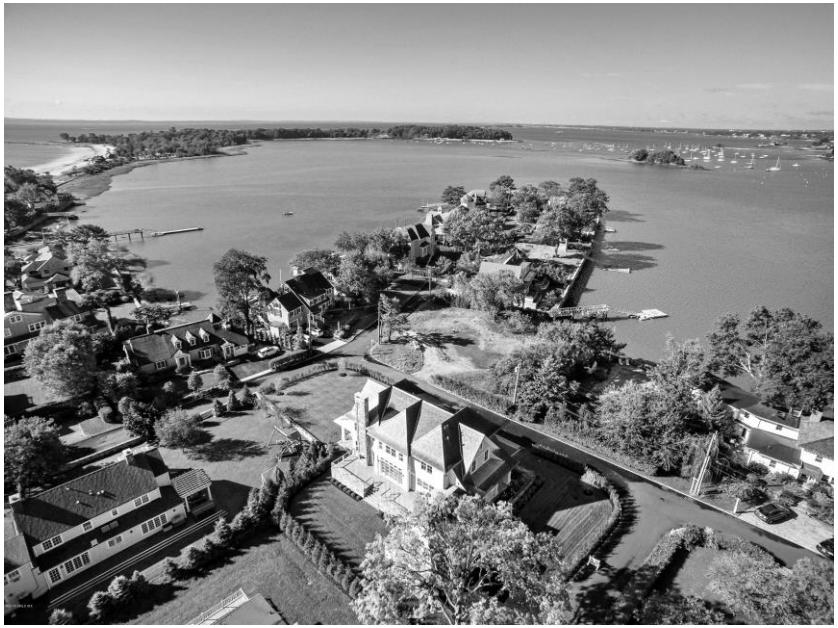
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