# WANdisco

CMD & FY22 interims results

## Internet of things provides the ‘killer app’

Software and comp services

**WANdisco’s (WAND’s) capital markets day (CMD) underlined the success of its transition to a cloud-centric commit-to-consume (CtC) model and the potential of its offering for Internet of Things (IoT) use cases, which looks set to drive a significant inflection in growth. Management sees opportunities across multiple industries with a pipeline boosted by a number of factors, including product improvements, restructuring the sales and marketing teams, and ever improving referenceability with tier one customers and partners. We raise our FY22 bookings and ending remaining performance obligations estimate on the back of the recent $25m contract win. Until we gain more visibility on the rate of data consumption, we leave our revenue estimates unchanged, although further deal announcements could be a catalyst for upgrades.**

| Year end | Revenue ($m) | Bookings ($m) | Ending RPO* ($m) | EBITDA ($m) | EPS** (c) | EV/sales (x) | Net cash ($m) |
|---|---|---|---|---|---|---|---|
| 12/20 | 10.5 | 10.2 | 4.9 | (22.2) | (57.3) | 31.9 | 18.1 |
| 12/21 | 7.3 | 11.9 | 9.4 | (29.5) | (57.9) | 46.0 | 25.9 |
| 12/22e | 12.0 | 60.0 | 57.4 | (25.9) | (48.4) | 28.0 | 21.2 |
| 12/23e | 25.0 | 65.0 | 97.4 | (15.3) | (29.0) | 13.4 | 1.5 |

Note: *Ending RPO = beginning RPO + bookings – revenue. **EPS is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Rapidly growing use case across multiple industries

WANdisco’s unique capability has always been in enabling its clients to move very large amounts of data without disruption. In the IoT, where applications require continuous movement of very large volumes of data, we are now seeing a use case capable of driving strong, sustainable growth. The company is seeing opportunities across multiple industries, with automotive particularly prominent, driven by the explosive growth in sensor-generated data to support electrification, advanced driver assistance systems (ADAS) and automation.

## Primed by enhancements in a number of areas

On the product side, a key development has been to make the solution much easier to deploy, to the extent that WANdisco is able to offer free proof of concept trials. The company’s ability to migrate data to and from any major cloud provider is also seen as a crucial selling point. A restructuring of the company’s sales and marketing teams, bringing in high-calibre professionals from firms such as Oracle and Google, has unquestionably had an impact. From a business model standpoint, the CtC model provides clients with a clearer, pay-for-what-you-get pricing model, and WANdisco’s partnerships also boost product referenceability.

## New deal flow: Catalyst for potential upside revisions

We are leaving our revenue estimates unchanged at present, but still believe there is good scope for upgrades. It was clear from the CMD that management is excited by the strength of the pipeline. The announcement of large deals would be the catalyst here, as evidenced by the recent record contract win, and upside potential, particularly to bookings and Total Committed Volume (TCV), could be significant.

**22 September 2022**

| | |
|---|---|
| **Price** | **487p** |
| **Market cap** | **£324m** |
| | US$1.13/£ |
| Net cash ($m) as of 30 June 2022 | 31.3 |
| Shares in issue | 66.5m |
| Free float | 67% |
| Code | WAND |
| Primary exchange | AIM |
| Secondary exchange | N/A |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 44.9 | 77.1 | 54.1 |
| Rel (local) | 51.7 | 75.8 | 56.3 |
| 52-week high/low | | 487p | 223p |

### Business description

WANdisco’s proprietary replication technology enables its customers to solve critical data management challenges created by the shift to cloud computing. It has established partner relationships with leading players in the cloud ecosystem including Oracle, Amazon, IBM and Microsoft.

### Next events

| | |
|---|---|
| FY22 results | H123 |

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***WANdisco is a research client of Edison Investment Research Limited***

# CMD: All about IoT and the commit-to-consume model

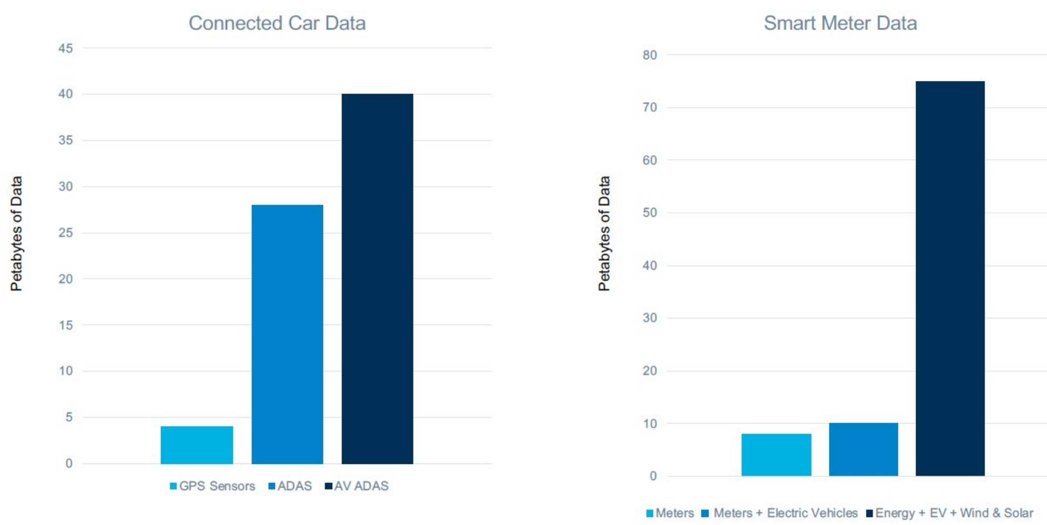
## Rapidly growing use case across multiple industries

WANdisco's unique capability has always been in enabling its clients to move very large amounts of data without disruption. Historically the company has won large deals for Hadoop, on-premise replication and cloud migrations but this has been relatively sporadic. We believe that the rapidly expanding Internet of Things and the intersecting Edge to Cloud markets provide the potential for a rapid and sustained acceleration in major deal flow.

This is primarily because these applications require continuous movement of very large volumes of data. IDC values the global IoT market at $742bn in 2020, with IoT devices expected to generate 73.1 zettabytes annually by 2025 (1 zettabyte is 1bn terabytes or 1tn gigabytes). Gigabit estimates that global IoT spending will total $15tn from 2019–25, and McKinsey Digital forecasts that every second this year, 127 devices will connect to the internet the first time.

Market participants are now investing heavily to capitalise on this opportunity. As a result, WANdisco is seeing opportunities across multiple industries, with automotive particularly prominent, driven by the explosive growth in sensor generated data to support electrification, ADAS and automation. As shown in Exhibit 1, connected car and smart meter devices have generated large amounts of data for WAND. Recent IoT deals include $39.3m in contacts with a major telecom provider to support its smart meter operations (including a record $25m contract announced on 21 September), and a $5.0m contract with a major automotive component supplier for sensor analytics.

**Exhibit 1: Significant growth in IoT data across industries boosts demand for data migration**




Source: WANdisco

Note that IoT devices generate a recurring stream of business for WAND rather than a one-shot deal to migrate data to the cloud (see Exhibit 2). IOT devices (eg car sensors, smart meters, cell phones) continually generate data that must be gathered and sent from the edge (ie processing and/or analysing data close to where it is generated) to the cloud. Therefore, these telecom or automotive suppliers have an ongoing need to migrate data as significant amounts are generated every day. For instance, Otonomo, a company that operates a mobility and vehicle data platform, ingests more than 4bn data points a day globally from over 50m vehicles licensed on its platform.

We see a natural product market fit between an IoT customer’s need to move large amounts of data and the easy scalability of WAND’s CtC model, which is designed to move these rapidly increasing amounts of data. Due to the perpetual nature of the IoT use case, we view it as worth more than the more front- end weighted cloud data migrations.

**Exhibit 2: Explosion of IoT Data**

Source: WANdisco

## Success is not coincidental

There are a number of other factors that have also contributed to above and beyond the IOT product market fit. On the product side, a key development has been to make the solution much easier to deploy, to the extent that the company is able to offer free proof of concept trials of the company’s ability to migrate data to and from any major cloud provider, and this is proving a major selling point according to management, providing clients a route out of supplier lock-in.

WAND’s products are designed to be cloud agnostic and easy to use, enabling self-service for customers so they can choose what they need. LiveData Migrator’s (LDM) ability to facilitate multi-cloud strategies remains a key selling point. Rather than being locked into a specific provider, customers can move data across multiple clouds (see Exhibit 3). Deployments are easier and do not require significant amounts of installation expertise, time and cost.

**Exhibit 3: Facilitating multi-cloud strategies**

Source: WANdisco

A restructuring of the company’s sales and marketing teams, bringing in high-calibre professionals from firms such as Oracle, Google Cloud and Hewlett Packard, has unquestionably had an impact. For instance, speeding up the sales cycle is an area of focus, with rapid product deployments, increased readiness for pilots, improving coordination with other teams, standard pricing, terms and conditions for CtC contracts, and streamlined approvals, all with the goal of closing a deal within a quarter. From a sales perspective, WAND has reached a key inflection point (see Exhibit 4), with faster time to close, logo expansion (adding new customers and partners to ecosystem), growing average deal size, greater visibility in clients where the CEO is signing deals rather than just a data architect, and expanding use cases.

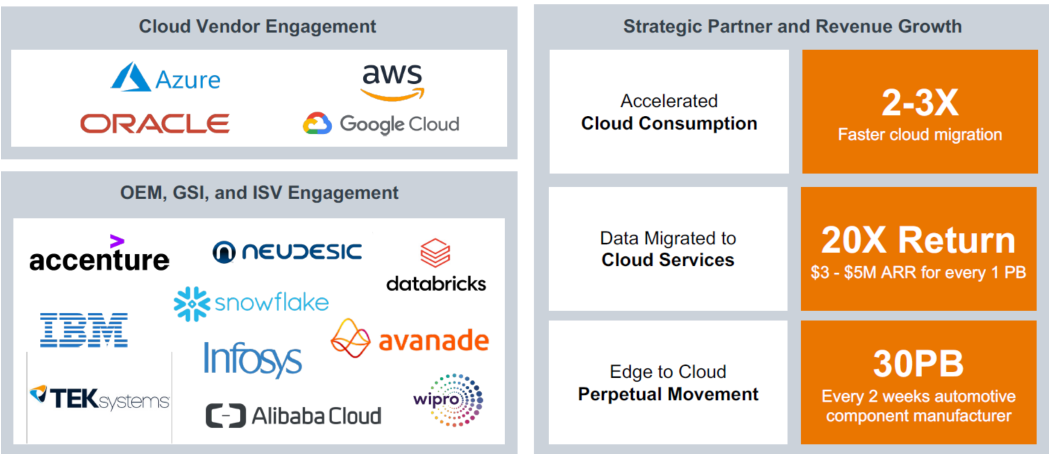
**Exhibit 4: Sales Inflection Point**

Source: WANdisco

Strong partnerships and alliances are also foundational to WAND's go to market strategy. Management has entered into partnerships with major cloud data providers and resale agreements with global and national data migrators (see Exhibit 5). Partners are seeing significant increases in their pipelines, so management sees that driving growth in WAND's pipeline too. Notable is the partnership with Oracle, where the cloud provider provided fully funded access to WAND's LDM. Oracle purchases the licences directly from WANdisco for migration projects, fitting well with a large defined pipeline that Oracle intends on pursuing this year. As we noted in an earlier note, if Oracle succeeds in bringing a portion of its huge installed base to the Oracle cloud, then WAND's opportunity should be significant.

These partnerships with large cloud providers also provide referenceability for the company's products, showing examples where WAND's solutions are used by well-regarded cloud vendors. As WAND has grown its deployments with these big firms, so has its roster of customers. Importantly, partners also benefit from these arrangements. Management estimates that every $1 of WAND revenue drives $20 of partner revenue, a unique value proposition that incentivises partners to increase their use of WAND's products.

**Exhibit 5: Strategic partnerships**




Source: WANdisco

## Commit to consume: A win-win for both customers and WAND

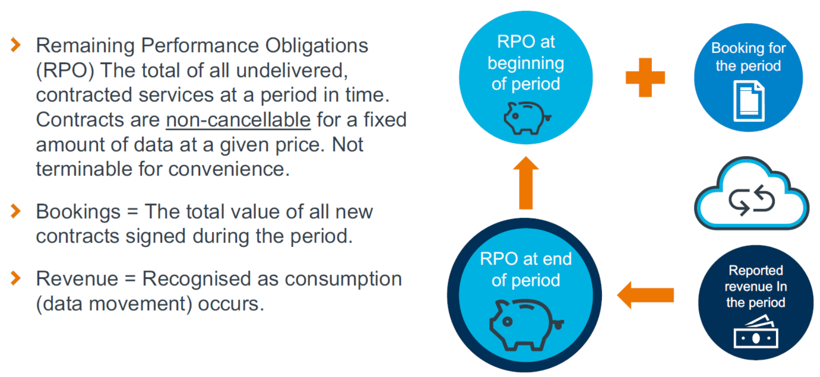
WANdisco's migration to a CtC model has proved to be a win-win for customers and for WAND. In a CtC model, the customer commits to using a certain amount of data over a set time period. Contracts are priced based on the volume of data moved or consumed, represent a minimum commitment for a set period, and, importantly, they are non-cancellable. As customers consume data, revenues are recognised.

As shown in Exhibit 6, the CtC model is a cycle that spans WANdisco's key performance indicators (KPIs): remaining performance obligations (RPO), bookings and revenues. We discuss these KPIs and how they flow through to financial performance below:

- Beginning RPO – the sum total at the beginning of the period of all contracts and obligations WAND has with customers to deliver services. This KPI indicates how future revenues will roll out and as RPO grows, so will future revenues.
- Bookings – all new contracts signed during the period.
- Reported revenue – as data migrates into the cloud or is consumed during the period, whether from on-site, the edge or other cloud providers, it triggers revenue recognition. Only data that is consumed will trigger recognition.
- Ending RPO = beginning RPO + bookings – reported revenue.

As WAND continues to grow, one would expect to see bookings (new orders for data) outpace revenues (consumed data), a book/bill ratio > 1, and ending RPO > beginning RPO.

**Exhibit 6: Commit to consume model**




Source: WANdisco

Regarding cash collection, WAND typically requires about a year's worth of data in cash up front with some customers pre-paying up to 50% of the initial contract. These prepayments demonstrate customers' commitments to WAND's product and clearly enhance its working capital profile, as witnessed by the deferred income balance rising from $2.7m to $11.2m in H122e.

The commercial benefits of a CtC model are clear. Customers directly pay for a specific amount of data and know that is exactly what they will get, rather than having to estimate how much they may need and then worrying about going over or under. CtC provides a more predictable revenue stream for management and less discounting than a subscription-based model. Moreover, as customers grow and ramp up their businesses, they will naturally consume more data, and WAND participates in that upside, ultimately leading to higher lifetime values per customer.

Another advantage of CtC is its inherent scalability. As customers collect more data, they can expand the amount of contracted data to be migrated to the cloud. This scalability is seen in a recent set of deals with a global telco (see Exhibit 7). The client originally entered into a $1.5m CtC contract to migrate 8PB of smart meter data to the cloud. One week later, the customer added on more data worth $1.2m and a few months later entered into a second follow-on CtC deal worth $11.6m, with 50% paid in advance. This week, the customer entered into a fourth commit-to-consume contract worth a record $25m, which is a geographical expansion of smart metering beyond Europe and a vertical use case expansion into automotive applications. Altogether, the CtC opportunity expanded from $1.5m initially to a total of $39.3m, showing how this sort of business model provides opportunities for significant expansion and growth.

**Exhibit 7: Commit-to-consume expansion – global telco example**


Source: WANdisco. Note: Exhibit does not include recent $25m contract signed on 21 September 2022.

## H122: Evidence of IoT's business and financial impact

The impact of the expanding IoT use cases was seen in the company's H122 results. WANdisco reported a strong performance in line with the July trading update. A significant acceleration was driven by multiple Live Data Migrator (LDM) contract wins, particularly for IOT use cases, with bookings rising more than tenfold to $27.3m and RPO up to $31m from H121's $3.5m. This drove revenue growth of 74% y-o-y to $5.8m, with the significant bulk of this momentum to be reflected in future revenues.

The General Availability of WAND's LDM and LiveData Migrator on Azure (LDMA), and LDM's ability to migrate data across multiple cloud providers were behind much of the momentum in multi-million-dollar contract wins.

Note these wins were across multiple use cases, but in the IoT the company appears to have found a significant sweet spot. As noted earlier, IoT deals in FY22 include $39.3m in contracts signed with a major telecom provider ($14.3m in H122) and a $5.0m contract with a major automotive component supplier, and large LDM wins for Hadoop migration-to-cloud uses cases, such as a $1.1m contract with a Canadian financial institution to migrate workloads to Google Cloud.

## Outlook: Large deals would be a further catalyst

Management's H122 outlook describes the pipeline as robust, with the outlook in line with expectations. Driven by the recent record $25m contract win, we forecast a further uptick in H2 with FY22 bookings of $60m, FY22 ending RPO of $57.4m and FY23 ending RPO of 97.4m (see Exhibit 8). We see scope for future upside – this contract win boosts known FY22 bookings to $52m so far, so WAND only needs another $8m between now and year-end to reach our $60m FY22 estimate. We are not changing our P&L and cash forecasts at this time and leave FY23 bookings unchanged. Although this growth looks modest given the very substantial increases this year, it is prudent to wait for evidence of deal flow before revisiting this figure.

**Exhibit 8: Changes to forecasts**

| $m | FY22 | | | | FY23 | | | |
|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | y-o-y | Old | New | Change | y-o-y |
| Bookings | 45.0 | 60.0 | 15.0 | 404% | 65.0 | 65.0 | 0 | 8% |
| Ending RPO | 42.4 | 57.4 | 15.0 | 511% | 71.0 | 97.4 | 26.4 | 70% |

Source: Edison Investment Research

We believe that the risk to our forecasts is on the upside. It was clear from the CMD that management is excited by the strength of the pipeline. The announcement of more large deals would be a further catalyst here, and upside potential, particularly to bookings and TCV, could be significant. The extent to which this drops through to revenue will depend on when the clients actually start moving data, although in many cases WANdisco is receiving a substantial proportion of cash upfront (up to 50% of TCV) so the balance sheet is likely to benefit as well.

**Exhibit 9: Financial summary**

| | $m | 2020 | 2021 | 2022e | 2023e |
|---|---|---|---|---|---|
| Year end 31 December | | IFRS | IFRS | IFRS | IFRS |
| **PROFIT & LOSS** | | | | | |
| Revenue | | 10.5 | 7.3 | 12.0 | 25.0 |
| Cost of Sales | | (1.1) | (0.7) | (1.2) | (2.5) |
| Gross Profit | | 9.5 | 6.6 | 10.8 | 22.5 |
| EBITDA | | (22.2) | (29.5) | (25.9) | (15.3) |
| Operating Profit (before amort. and except.) | | (28.5) | (35.7) | (32.1) | (21.5) |
| Acquired Intangible Amortisation | | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | | 0.0 | (2.1) | 0.0 | 0.0 |
| Share based payments | | (5.4) | (2.0) | (3.1) | (4.0) |
| Operating Profit | | (33.9) | (39.8) | (35.2) | (25.5) |
| Net Interest | | (1.9) | 1.0 | 0.7 | 0.7 |
| Profit Before Tax (norm) | | (30.4) | (34.7) | (31.4) | (20.8) |
| Profit Before Tax (FRS 3) | | (35.8) | (38.8) | (34.5) | (24.8) |
| Tax | | 1.5 | 1.2 | 1.3 | 1.4 |
| Profit After Tax (norm) | | (28.9) | (33.5) | (30.1) | (19.4) |
| Profit After Tax (FRS 3) | | (34.3) | (37.6) | (33.2) | (23.4) |
| Average Number of Shares Outstanding (m) | | 50.5 | 57.8 | 62.2 | 66.9 |
| EPS - normalised basic (c) | | (57.3) | (57.9) | (48.4) | (29.0) |
| EPS - normalised fully diluted (c) | | (57.3) | (57.9) | (48.4) | (29.0) |
| EPS - (IFRS) (c) | | (68.0) | (65.0) | (53.4) | (35.0) |
| Dividend per share (c) | | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | 89.9 | 91.0 | 90.0 | 90.0 |
| EBITDA Margin (%) | | NA | NA | NA | NA |
| Operating Margin (before GW and except.) (%) | | NA | NA | NA | NA |
| KEY PERFORMANCE INDICATORS | | | | | |
| Bookings | | 10.2 | 11.9 | 60.0 | 65.0 |
| Ending RPO | | 4.9 | 9.4 | 57.4 | 97.4 |
| **BALANCE SHEET** | | | | | |
| Fixed Assets | | 10.1 | 8.7 | 8.5 | 8.6 |
| Intangible Assets | | 5.0 | 5.3 | 5.6 | 6.0 |
| Tangible Assets | | 2.9 | 2.2 | 1.7 | 1.4 |
| Investments | | 2.2 | 1.2 | 1.2 | 1.2 |
| Current Assets | | 31.2 | 33.5 | 30.6 | 14.5 |
| Stocks | | 0.0 | 0.0 | 0.0 | 0.0 |
| Debtors | | 10.1 | 5.7 | 7.0 | 10.0 |
| Cash | | 21.0 | 27.8 | 23.6 | 4.5 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Liabilities | | (9.7) | (6.2) | (11.6) | (14.6) |
| Creditors & Deferred Income | | (8.6) | (5.6) | (11.0) | (14.0) |
| Short term borrowings | | (1.1) | (0.6) | (0.6) | (0.6) |
| Long Term Liabilities | | (2.4) | (1.6) | (4.8) | (6.4) |
| Long term borrowings | | (1.8) | (1.2) | (1.8) | (2.4) |
| Deferred Income | | (0.7) | (0.3) | (3.0) | (4.0) |
| Net Assets | | 29.2 | 34.5 | 22.7 | 2.1 |
| **CASH FLOW** | | | | | |
| Operating Cash Flow | | (19.1) | (29.1) | (19.1) | (14.3) |
| Net Interest | | (0.3) | (0.2) | 0.7 | 0.7 |
| Tax | | 0.7 | 1.0 | 1.3 | 1.4 |
| Capex (inc capitalised R&D) | | (5.5) | (5.8) | (6.0) | (6.3) |
| Acquisitions/disposals | | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing (net) | | 24.1 | 41.9 | 19.5 | 0.0 |
| Dividends | | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Cash Flow | | (0.1) | 7.9 | (3.6) | (18.5) |
| Opening net debt/(cash) | | (18.3) | (18.1) | (25.9) | (21.2) |
| HP finance leases initiated | | 0.0 | (0.1) | (1.2) | (1.2) |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 |
| Closing net debt/(cash) | | (18.1) | (25.9) | (21.2) | (1.5) |

Source: WANdisco, Edison Investment Research

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