

QOR Q4 - Upcoming Quarter Cash Generation

QOR.ASX | QORIA LIMITED | TECHNOLOGY | SOFTWARE

PRICE
A\$0.24/sh

TARGET PRICE
A\$0.44/sh
(FROM A\$0.47/sh)

RECOMMENDATION
BUY
(UNCHANGED)

ANALYST
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Event

QOR has delivered its fourth quarter update, with the company announcing it achieved run rate break even in July; while maintaining cost base at around \$76m (ex marketing spend); which is in view should be well received by investors.

Business exited the quarter on \$97m ARR which was slightly ahead of our forecasts looking for \$96m - though some of this looks to be exchange rate differences. Company also announced largest deal in the US won to date adding 90k students at gross ARPU of \$9.55/sh; well ahead of ~\$6.00/sh currently and inline with long term targets of \$10 ARPU.

Operating cash burn was slightly ahead of our forecast of \$6.8m at \$8.3m. Variance is minor and largely down to \$420k debt processing costs and \$508k in staff restructure costs incurred during the month. On a normalised basis, QOR was ahead of our forecasts.

In July the business drew down \$20m of its new \$30m Ashgrove Debt facility the balance will be used to pay down existing \$14m convertible note due 2024. With the business now operating run-rate break even on a cash basis the remaining facility should provide QOR with sufficient headroom for working capital requirements.

Impact

We have pushed through minor updates to our forecasts and will look to tweak further with full year results in August.

In the meantime the company looks set to deliver potentially two periods of operating cash generation through Q'1 and Q'2 FY'24 and also roll out of B2B2C in US School districts through September coinciding with back to school.

Action

Maintain Buy. We are entering QOR's strongest period of cash collections which will be well received by investors. Price Target **\$0.44/sh** with adjustments to FY'24 forecasts.

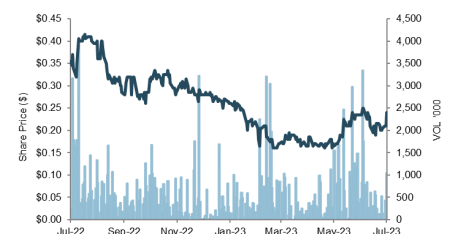
Catalyst

- Q'1 FY'24 operating cash generation.
- Launch of B2B2C September USA.
- Lumpy State-wide deals that are excluded from existing pipeline.

Qoria Ltd		
Share Price	0.24	A\$/sh
Price Target	0.44	A\$/sh
Valuation (DCF)	0.62	A\$/sh
WACC	11.1%	
Terminal Growth	3.0%	
Fully Diluted	1,205	m
Market Capitalisation (fd)	289.2	A\$m
Enterprise Value	297.1	A\$m
Cash (1H 23)	6.6	A\$m
Debt (1H 23)	14.5	A\$m

Key Financial Metrics	22A	23F	24F
Revenue (A\$m)	44.7	80.7	106.2
EBITDA (\$m)	-48.1	-43.1	-7.7
EBIT (A\$m)	-58.6	-65.0	-27.8
Reported NPAT (A\$m)	-64.0	-69.9	-37.6
Normalised NPAT (A\$m)	-64.0	-69.9	-37.6
Gross Cashflow (A\$m)	-31.9	-20.6	-2.7
Capex (A\$m)	-1.9	-4.2	-1.8
Op. Free Cashflow (A\$m)	-36.6	-27.7	-11.8
Revenue Growth (%)	399%	80%	32%
EBITDA Growth (%)	151%	-10%	-82%
Norm. NPAT Growth (%)	-117%	-40%	-9%
Normalised EPS (Ac)	-5.97	-6.72	-3.62
Norm. EPS growth (%)	18%	13%	-46%
PER (x)	-6.6	-4.1	-7.7
EV:EBITDA (x)	-7.4	-6.9	-38.5
EV:EBIT (x)	-6.1	-4.6	-10.7
EV: Revenue	7.9	3.7	2.8
DPS (Ac)	na	na	na

Performance



Source: Euroz Hartleys

FINANCIAL STATEMENTS	22A	23F	24A	PERFORMANCE RATIOS	22A	23F	24A
Income Statement				Growth & Margins			
Revenue	44.7	80.7	106.2	Revenue Growth	399%	80%	32%
Other Revenue	0.5	0.0	0.0	EBITDA Growth	151%	-10%	-82%
OPEX	-93.3	-123.8	-114.0	EBITDA margin	-108%	-53%	-7%
EBITDA	-48.1	-43.1	-7.7	EBIT margin	-131%	-81%	-26%
Depreciation & amortisation	-10.5	-21.9	-20.1	Normalized net profit margin	-117%	-40%	-3%
EBIT	-58.6	-65.0	-27.8	Effective tax rate	0%	30%	30%
Borrowing Costs	-2.1	-2.5	-3.6	Liquidity			
Other	-4.7	-2.5	0.0	Capex/depreciation (x)	0.2	0.2	0.1
EBT	-65.4	-69.9	-31.4	Current ratio (x)	1.1	0.5	0.5
Tax expense	1.4	0.0	0.0	Quick ratio (x)	4.1	1.1	1.5
Reported Earnings	-64.0	-69.9	-31.4	Receivable days	97	55	66
Abnormal Expenses / (Incomes)	11.9	37.8	28.5	Payable days	43	50	63
Normalized Net Profit	-52.2	-32.1	-2.9	Risk Measures			
Cash flow (A\$m)				Dividend Cover (x)	na	na	na
Profit before Tax	-65.4	-69.9	-31.4	Payout ratio (%)	na	na	na
(+) D&A	10.5	21.9	20.1	Net interest cover (x)	-28.0	-13.0	-7.7
(+) FX loss/(gain)	0.0	0.0	0.0	Net debt/equity (%)	19.4%	3.6%	-5.5%
(-) Lease expense	-1.2	-1.2	-1.2	Returns			
(+/-)Share Based Payments	19.5	28.7	16.0	ROIC(%)	na	na	na
(+/-) Reval	0.0	0.0	0.0	Return on assets (%)	na	na	na
(-/-)Other	4.7	0.0	0.0	Return on average equity (%)	na	na	na
Gross Cashflow	-31.9	-20.6	3.5	SHARE DATA/VALUATION			
(-) Capital Expenditure	-1.9	-4.2	-1.8	Share Data			
(-) Change in WC	-2.7	-2.9	-7.3	Issued shares (m)	873	1040	1040
Operating Free cashflow	-36.6	-27.7	-5.6	Weighted ave shares (m)	654	957	1040
(-) Payment for Acqu	-142.3	-18.3	-11.6	Fully diluted shares (m)	976	1205	1205
(+) proceeds from disp of FA/subs	0.0	0.0	0.0	Basic EPS (c)	-6.0	-6.7	-3.0
(+/-) Equity issued	179.7	19.6	0.0	YoY change (%)	18%	13%	-55%
(+/-)Other	-4.7	0.0	0.0	Fully diluted EPS (c)	-5.3	-5.8	-2.6
Net Cashflow	-3.8	-26.3	-17.1	YoY change (%)	31%	9%	-55%
Bop Net Cash	31.6	28.2	2.3	Fully diluted normalised EPS (c)	-5.3	-5.8	-2.6
(+/-) Net Cashflow	-3.8	-26.3	-17.1	YoY change (%)	31%	9%	-55%
(+/-) Lease Adjustment	0.4	0.4	0.4	Dividend/share (c)	na	na	na
EoP Net Cash	28.2	2.3	-14.4	Franking (%)	na	na	na
Balance Sheet (\$m)				Gross cashflow/share (c)	-3.66	-1.98	0.33
Cash	32.7	6.6	9.6	NBV/share (c)	18.9	15.8	18.9
Receivables	12.0	12.1	19.1	NTA/Share (c)	-1.94	-1.69	-5.62
Inventories	1.1	1.4	1.6	Valuation			
Other Assets	4.9	4.1	4.9	PER (Basic) (x)	-6.6	-4.1	-9.2
Total Current Assets	50.7	24.2	35.3	PER (Fully diluted) (x)	-4.5	-4.1	-9.2
Receivables	1.3	1.3	1.3	PER (Fully diluted, normalized) (x)	-4.5	-4.1	-9.2
Property/plant/equipment	3.2	4.4	4.6	P/CFPS (x)	-10.9	-14.1	83.4
Right of Use Assets	3.2	3.2	3.2	Price/NBV (x)	2.1	1.8	1.5
Other Assets	182.2	182.2	255.0	Price/NTA (x)	-20.5	-16.5	-5.0
Total Non-Current Assets	190.0	264.0	258.4	market Cap	346.6	289.2	289.2
Total Assets	240.7	288.2	293.7	EV	354.8	297.4	297.4
Trade and other payables	11.0	16.9	19.7	EV/EBITDA (x)	-7.4	-6.9	-38.5
Provisions	2.9	2.9	2.9	EV/EBIT (x)	-6.1	-4.6	-10.7
Other	32.4	30.7	50.4	EV/Revenue (x)	7.9	3.7	2.8
Total Current Liabilities	46.3	50.6	73.1				
Other	26.1	20.1	21.1				
Provisions	0.4	0.4	0.4				
Lease liabilities	2.3	2.3	2.3				
Deferred Labiality	0.0	50.0	0.0				
Total Non-Current Liabilities	28.8	72.8	23.8				
Deferred Labiality	0.0	50.0	0.0				
Total Non-Current Liabilities	28.8	72.8	23.8				
Net Assets	165.3	164.7	196.6				
Issued capital	294.5	314.1	314.1				
Reserves	20.0	69.7	133.0				
Retained profits	-149.2	-219.2	-250.6				
Total Equity	165.3	164.7	196.5				

Analysis

Cash collections were broadly in line with forecasts and actually ahead on a normalised basis - though note a \$3.3m annualised exchange rate impact to staff costs which at this stage we have included in our FY'24 staff costs.

On a normalised basis QOR was ahead of our Q'4 forecasts.

Figure 1: Reconciliation actuals to forecasts

Q'4FY'23 Reconciliation	\$m EHL forecast	\$m normalised	Actual	
Q'4 FY23 operating Costs	24.1	23.7	25.1	Debt Process Costs + Restructure
Cash Collections	17.2	17.3	17.3	
(+/-) normalised operating Cash Flows	-6.9	-6.4	-7.7	

Source: EZL

As we have flagged previously the company typically collects ~60 - 65% of education cash during the first half of the financial year. Q'1 of the financial year is typically the strongest cash collection period for the company.

The following is our view of potential operating cash collections through FY'24.

Figure 2:

FY'23 Quarterly Cash					
Quarter	Q1	Q2	Q3	Q4	
ARR \$m	81	85	91	97	
Collection %	29%	21%	16%	18%	
Current Run Rate	Q1	Q2	Q3	Q4	Annualised
Staff	14.6	15.8	15.9	16.2	64.7
Fixed Other	3.2	3.0	2.8	2.8	11.2
Marketing*	1.2	2.1	1.767	1.5	6.6
Direct Costs (ex margin)	19.0	20.9	20.5	20.5	82.5
Service Margin*	85%	85%	86%	85%	85%
Direct Costs	3.0	3.2	3.3	3.6	13.7
Total Costs	22.0	24.1	23.7	24.1	96.2
<i>*Our marketing costs are back calculation on direct costs assuming 85% service margin</i>					
FY'24 Quarterly Cash					
Quarter	Q1	Q2	Q3	Q4	
ARR \$m	101	107	110	116	
Collection %	29%	22%	16%	18%	
Current Run Rate	Q1	Q2	Q3	Q4	Annualised
Staff	16.9	16.9	16.9	16.9	67.7
Fixed Other	3.0	3.0	3.0	3.0	12.0
Marketing*	1.8	1.8	1.8	1.8	7.0
Direct Costs (ex margin)	21.7	21.7	21.7	21.7	86.7
Service Margin*	85%	86%	86%	86%	85%
Direct Costs	3.8	3.7	3.9	4.1	15.5
Total Costs	25.5	25.4	25.6	25.7	102.2
Total Collections	29.4	23.5	17.7	20.8	91.4
+/- Cash	3.9	-1.9	-7.9	-4.9	-10.8

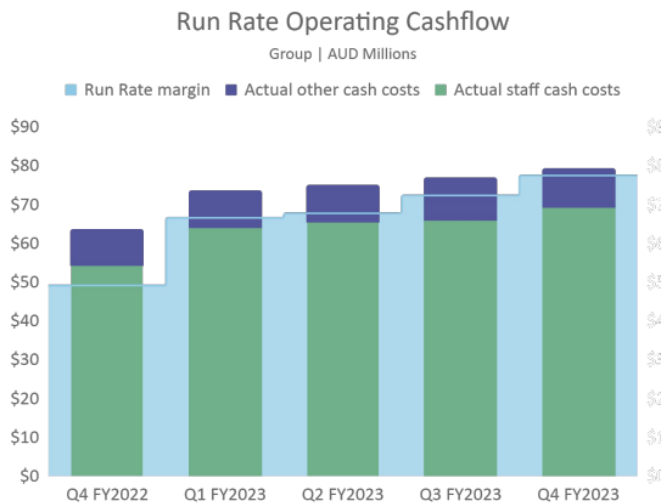
Source:

Our marketing costs are back calculation on direct costs assuming 85% service margin

- We forecast Q'1 FY'24 collections of \$3.9m;

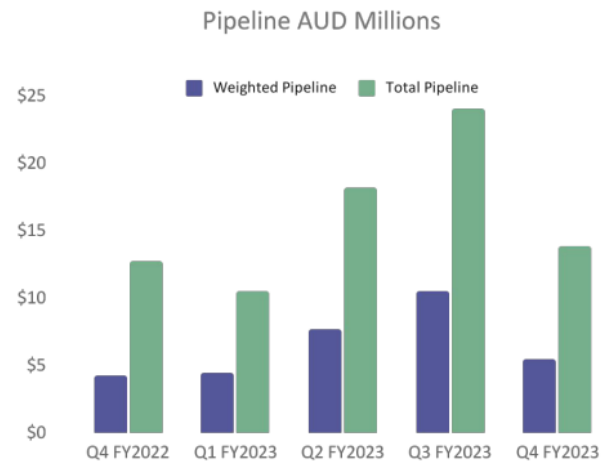
- Demonstration of cash generation through first half and improved cash burn through 2H'24 is in our view a significant upcoming catalyst that investors will remain focused on.

Figure 3: Run Rate breakeven achieved July



Source: QOR

Figure 4: Current Pipeline - Typically convert 80%



Source: QOR

Our earnings forecasts are outlined below:

Figure 5: Earnings

		6/22F	1H'23	2H'23	6/23F	6/24F	6/25F
Key Assumptions							
Education							
Students*	#m	10.6	11.3	12.0	12.0	13.2	13.6
ARR Education	\$m	60.2	66.2	76.5	76.5	87.0	95.4
Consumer							
ARR Consumer	\$m	16.8	18.8	20.8	20.8	28.7	35.6
User Accounts (US/UK)	#	270,000	304,500	353,165	353,165	513,236	593,773
ARPU	\$/year	62.3	61.75	58.90	58.90	55.96	59.93
Conversion (ex Qustodio)	%	na	0.0%	0.1%	0.1%	0.9%	1.4%
Total ARR	\$M	77.0	85.0	97.3	97.3	115.7	130.9
ARR Growth	%	445%	64%	26%	26%	19%	13%
Revenue	\$m	44.7	37.1	43.6	80.7	106.2	122.7
EBITDA	\$m	-48.1	-27.6	-15.5	-43.1	-7.7	13.8
Add back Non Cash/One offs	\$m	-21.4	18.5	10.2	28.7	16.0	8.0
EBITDA Proforma	\$m	-26.7	-9.1	-5.3	-14.4	8.3	21.8
EBIT	\$m	-58.6	-38.7	-26.3	-65.0	-27.8	-5.2
NPAT	\$m	-64.0	-39.0	-26.5	-69.9	-37.6	-13.6
Norm NPATA		na	na	na	-32.1	-9.1	8.2

Source: EZL

Valuation

We have pushed through some adjustments to forecasts; as a result Price target \$0.44/sh. Current trading levels provide significant upside to price target.

Figure 6: Price Target

Components	Equity	\$/sh
NPV	665.0	0.62
FY'24 ARR x 3	331.4	0.27
Blended		\$0.44

Source: EZL

With balance sheet position now secured in our view investors should be buying in advance of key sales and cash collection periods.

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Price, target price and rating as at 27 July 2023 (not covered)*

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