

Trade Window Holdings

1H23 – Awaiting Offshore Growth Drivers

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TradeWindow (TWL) announced its inaugural 1H23 result with total revenue of NZ\$2.7m and an EBITDA loss of -NZ\$5.9m. While gross margin was stable, costs came in below our estimate, resulting in a lower than expected loss. As the economy has turned down, expenses have been managed by utilising lower cost operations in the Philippines. TWL is still at a very early stage of its development and investing heavily in R&D to broaden and validate its product offering. As such, cash burn is relatively high at ~NZ\$1.0m a month. TWL had net cash at period end of NZ\$5.3m; we believe further equity capital will be required soon. We lower our FY23 total revenue estimate to NZ\$6.8m on lower new customer numbers and monthly average revenue per customer (ARPC) estimates. Additionally, we make material changes to our FY24 and FY25 estimates. Our lower FY23 revenue estimate reduces our market comparable EV/Sales driven spot valuation to NZ\$0.50.

NZX Code	TWL	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.65	NPAT* (NZ\$m)	(10.8)	(12.9)	(8.9)	(4.9)	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$0.50 (from 0.60)	EPS* (NZc)	(12.6)	(12.8)	(8.6)	(4.6)	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS growth* (%)	89.0	-1.8	32.5	46.6	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	100.8m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	13.9	n/a	n/a	n/a
Market cap	NZ\$65.5m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	21.5k (NZ\$35k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Revenue estimates:** We lower our FY23 total revenue estimates from NZ\$8.0m to NZ\$6.6m, down -18%, and cut FY24 and FY25 revenue estimates by -31% and 30% respectively.
- **Spot valuation:** EV/Sales driven spot valuation falls to NZ\$0.50 due to lower revenue estimates.

1H23 result brief

Trading revenue for 1H23 was up +34% on 1H22 or +16% on 2H22, including the acquisition of Rfider (since rebranded TWL Assure+). Gross margin for the half year was 50%, in line with pcp. TWL's EBITDA loss was -NZ\$5.9m, compared to a -NZ\$4.0m loss in 1H22. Total expenses for the half-year came in at NZ\$9.7m versus our estimate of NZ\$11.4m and NZ\$7.0m in FY22. ARPC was NZ\$804/month versus NZ\$712/month achieved over FY22.

Hong Kong-based Global Shipping Business Network – further partnership progress

The company has been busy initiating partnerships with multiple entities throughout the last year. TWL entered into an agreement with Hong Kong-based Global Shipping Business Network (GSBN). This is a proof of concept trial to provide international shipping and port data visibility within TWL's Cube platform. GSBN consortium members handle around 30% of all shipping containers in the world. Assisting the integration, both TWL and GSBN operate using blockchain-based platforms. This partnership follows the deal with US food testing outfit, FoodChain ID, announced in October 2022.

FY23 estimates reduced and EV/Sales driven valuation lowered

We are cognisant of the uncertainties in global and local economies with evidence of slowing trade volumes. TWL's exposure to mostly NZ export volumes has provided a degree of resilience against softness in consumer spending, as has the weakness in the NZD, supporting demand for NZ's products on the world stage. Management has reiterated its guidance range for FY23 total revenues of between NZ\$6.0m and NZ\$7.5m. Given this, we have taken the opportunity to reduce our FY23 estimates to the middle of the range. Using a blended multiple of peers, we assess a fair trading range for TWL to be between 7x–9x EV/Sales on our new FY23 estimates.

Trade Window Holdings (TWL)

Market Data (NZ\$)						Spot valuation (NZ\$)				
Priced as at 18 Nov 2022						0.50				
52 week high / low						2.80 / 0.49				
Market capitalisation (NZ\$m)						65.5				
Key WACC assumptions										
Risk free rate						4.50%				
Equity beta						1.50				
WACC						12.6%				
Terminal growth						2.5%				
Profit and Loss Account (NZ\$m)						Valuation Ratios				
Sales revenue	2021A	2022A	2023E	2024E	2025E	2021A	2022A	2023E	2024E	2025E
Normalised EBITDA	(5.9)	(9.5)	(11.1)	(7.6)	(3.4)	EV/EBITDA (x)	n/a	n/a	n/a	n/a
Depreciation and amortisation	1.1	1.7	2.2	1.8	1.6	EV/EBIT (x)	n/a	n/a	n/a	n/a
Normalised EBIT	(6.9)	(11.2)	(13.3)	(9.4)	(5.0)	PE (x)	n/a	n/a	n/a	n/a
Net interest	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	Price/NTA (x)	n/a	13.9	n/a	n/a
Associate income	0	0	0	0	0	Free cash flow yield (%)	-7.2	-10.6	-13.8	-12.0
Tax	0.5	0.6	0.6	0.6	0.3	Net dividend yield (%)	0.0	0.0	0.0	0.0
Minority interests	0	0	0	0	0	Gross dividend yield (%)	0.0	0.0	0.0	0.0
Normalised NPAT	(6.6)	(10.8)	(12.9)	(8.9)	(4.9)	Capital Structure				
Abnormals/other	0	0	0	0	0	2021A	2022A	2023E	2024E	2025E
Reported NPAT	(6.6)	(10.8)	(12.9)	(8.9)	(4.9)	Interest cover EBIT (x)	n/a	n/a	n/a	n/a
Normalised EPS (cps)	(114.1)	(12.6)	(12.8)	(8.6)	(4.6)	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a
DPS (cps)	0.0	0	0	0	0	Net debt/ND+E (%)	-9.1	-51.8	55.1	5,569.2
						Net debt/EBITDA (x)	n/a	0.4	0.2	n/a
Growth Rates						Key Ratios				
Revenue (%)	2021A	2022A	2023E	2024E	2025E	2021A	2022A	2023E	2024E	2025E
EBITDA (%)		>100	39.3	58.5	51.0	Return on assets (%)	-113.0	-67.9	-118.1	-131.0
EBIT (%)		n/a	n/a	n/a	n/a	Return on equity (%)	185.8	-100.3	926.2	146.7
Normalised NPAT (%)		n/a	n/a	n/a	n/a	Return on funds employed (%)	-188.8	-99.8	964.8	148.1
Normalised EPS (%)		n/a	n/a	n/a	n/a	EBITDA margin (%)	-250.2	-195.8	-163.5	-70.9
Ordinary DPS (%)		-100.0	n/a	n/a	n/a	EBIT margin (%)	-295.8	-229.9	-196.4	-87.2
						Capex to sales (%)	5.1	-31.4	2.8	2.9
Cash Flow (NZ\$m)						Segment Revenue (NZ\$m)				
EBITDA	2021A	2022A	2023E	2024E	2025E	2021A	2022A	2023E	2024E	2025E
Working capital change	(5.9)	(9.5)	(11.1)	(7.6)	(3.4)	Transactional	0.6	1.3	2.5	4.4
Interest & tax paid	0.1	(0.5)	1.7	(0.3)	(0.3)	Subscription	0.4	1.6	2.5	4.4
Other	0.3	0.4	0.7	0.5	0.3	Service	0.1	0.2	0.2	0.3
Operating cash flow	0.8	1.2	(0.1)	(0.1)	(0.1)	Installation	0.2	0.4	0.6	0.9
Capital expenditure	(4.6)	(8.5)	(8.9)	(7.5)	(3.6)	Other	0.7	1.0	0.6	0.3
(Acquisitions)/divestments	(0.1)	1.5	(0.2)	(0.3)	(0.3)	Total revenue	2.3	4.9	6.8	10.8
Other	0.0	(1.6)	(2.5)	0	0					
Funding available/(required)	4.5	(1.5)	(0.6)	(0.6)	(0.7)	Segment Revenue ARPC (NZ\$)				
Dividends paid	(0.2)	(10.1)	(12.2)	(8.5)	(4.7)	2021A	2022A	2023E	2024E	2025E
Equity raised/(returned)	(0.0)	0	0	0	0	Transactional (per month)	-	703	1000	1250
(Increase)/decrease in net debt	6.8	15.0	9.6	0	0	Subscription (per month)	-	341	459	624
	6.6	4.9	(2.5)	(8.5)	(4.7)	Service (per month)	-	42	42	42
						Total revenue per sub / month	1,022	712	992	1,238
Balance Sheet (NZ\$m)						Installation (per new customer) *				
Working capital	2021A	2022A	2023E	2024E	2025E	2021A	2022A	2023E	2024E	2025E
Fixed assets	(0.2)	0.3	(1.4)	(1.0)	(0.7)	Segment costs as % of revenue	2021A	2022A	2023E	2024E
Intangibles	0.2	0.3	0.3	0.5	0.5	Cost of goods sold as % of revenue	64%	50%	41%	26%
Right of use asset	3.9	6.8	5.2	4.2	3.4	R&D as % of revenues	190%	126%	105%	63%
Other assets	0.0	1.4	1.9	1.4	2.1	S&M as % of revenue	63%	65%	50%	32%
Total funds employed	0.1	0.3	0.3	0.3	0.3	G&A as % of revenues	183%	130%	91%	55%
Net debt/(cash)	3.9	9.1	6.4	5.3	5.7	Total expenses as % of revenue	500%	372%	287%	176%
Lease liability	7.1	(3.7)	(1.7)	6.2	10.2					
Other liabilities	0	0.9	0.9	0.3	1.1					
Shareholder's funds	0.2	1.0	8.5	4.8	1.0					
Minority interests	(3.3)	10.8	(1.3)	(6.0)	(6.7)					
Total funding sources	0	0	0	0	0					
	3.9	9.1	6.4	5.3	5.7					

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

1H23 result summary

TWL's 1H23 result saw total revenues of NZ\$2.7m, up +34% on 1H22 or +16% on 2H22 when including the acquisition of Rfider (since rebranded TWL Assure+). Excluding acquisitions made since 1 April 2022, trading revenue was up +14% compared to half-on-half and against pcp growth. Total operating expenses for the half-year came in at NZ\$9.7m versus our estimate of NZ\$11.4m and compared to NZ\$7.0m in FY22. As the economy has turned down, management appears to have managed cost lines better than anticipated partly by outsourcing some roles to the Philippines. Completion of the single software stack remains 12–18 months away, but is a key focus of management. Gross margin for the half year was 50%, in line with pcp. TWL's EBITDA loss was -NZ\$5.9m, compared to a -NZ\$4.0m loss in 1H22. TWL finished the period with NZ\$7.3m in cash (NZ\$5.3m net of balance sheet debt), with a monthly cash burn of ~NZ\$1.0m. Customer numbers were 482 at period end, +28. The average monthly revenue per customer (ARPC) was NZ\$804/month, +13% on FY22. NZ trading revenue was up +17%, while in the Australian market revenue was up +14%.

The company initiated two partnerships over recent weeks, including with Hong Kong-based Global Shipping Business Network (GSBN) and US firm FoodChain ID. The FoodChain partnership helps support FY24 revenue growth estimates. The CEO said: "We achieved an encouraging number of new sales in the first half and are continuing to build customer diversity across geographies and sectors including dairy, forestry, meat, wine, manufacturing, seafood, horticulture, and seed and grain". TWL's focus continues to be on expanding its product coverage in Australia to support sales efforts and revenue growth. In Asia, they have made appointments with sales agencies in Thailand, Indonesia and the Philippines. Management commented that it sees "encouraging interest in the rebranded Rfider product Assure+. This is a mobile-device based solution able to be rapidly deployed in complex supply chains to provide traceability all the way back to the points of cultivation and production". Assure+ helps prove where food comes from and provides visibility through the supply chain.

Summarising TWL's in market achievements in 1H23 and post balance date:

- Released global documentation system ExpressDoc (beta)
- Released TradeWindow Pay (beta)
- Released end-to-end ocean freight bookings
- Upgraded SpeEDI and TradeWindow Origin to reflect TradeWindow design standards
- Adopted UN data standards
- Partnerships with Hong Kong-based Global Shipping Business Network (GSBN) and US food testing outfit, FoodChain ID.

Figure 1. TWL HY results versus pcp (NZ\$'000)

	1H22	1H23	% Change
Trading revenue	1,802	2,407	+34%
Other income	429	274	-36%
Total Revenues	2,231	2,681	+20%
Employee benefits expense	(4,824)	(6,532)	+35%
Depreciation and amortisation	(712)	(1,133)	+59%
Other expenses	(1,466)	(2,029)	+38%
Total expenses	(7,002)	(9,694)	+38%
Operating EBITDA	(4,059)	(5,880)	-45%
Operating profit / EBIT	(4,771)	(7,013)	-47%
Net financing costs	(61)	(48)	
Profit (Loss) before income tax	(4,832)	(7,061)	-46%
Income tax benefit	-	-	
Net Profit (Loss) for the Year	(4,832)	(7,061)	-46%

Source: Company data, Forsyth Barr analysis

Updated estimates on lower customer numbers and ARPC

We lower our total FY23 revenue estimates to NZ\$6.8m, from NZ\$8.0m, on lower new customer growth expectations and a lowered monthly average revenue per customer (ARPC) estimate. This now places our revenue estimates around the middle of management's reiterated guidance range of NZ\$6.0m to NZ\$7.5m. We also cut our estimates of costs given 1H23 cost performance. Amendments to our FY24 and FY25 estimates are significant. Our new lower revenue estimates also see us assume TWL adds costs into the business at a lower rate. The net of the revenue and cost changes produces slightly better NPAT loss performance in FY23 and FY24, while FY25 NPAT loss is slightly worse than prior estimates.

Our new FY24 total revenue estimates of NZ\$10.8m would represent growth on our revised FY23 estimates of +59%.

Figure 2. Forecast earnings changes (NZ\$'000)

	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Trading revenue	7,554	6,238	-17%	15,299	10,486	-31%	22,959	16,033	-30%
Other income	471	557		412	286		334	235	
Total Revenues	8,026	6,796	-15%	15,711	10,772	-31%	23,293	16,268	-30%
Employee benefits expense	(17,058)	(13,591)	-20%	(18,711)	(14,080)	-25%	(20,497)	(15,332)	-25%
Depreciation and amortisation	(3,098)	(2,237)		(3,605)	(1,759)		(3,086)	(1,609)	
Other expenses	(4,140)	(4,313)		(4,152)	(4,325)		(4,195)	(4,370)	
Total operating expenses	(24,296)	(20,141)	-17%	(26,468)	(20,163)	-24%	(27,778)	(21,311)	-23%
Operating EBITDA	(13,172)	(11,108)	+16%	(7,152)	(7,633)	-7%	(1,399)	(3,434)	
Operating profit / EBIT	(16,270)	(13,345)		(10,757)	(9,392)		(4,485)	(5,043)	
Net financing costs	(155)	(120)		(82)	(70)		(110)	(110)	
Profit before income tax	(16,425)	(13,465)		(10,840)	(9,461)		(4,595)	(5,153)	
Income tax benefit	560	560		560	560		266	299	
Net Profit (Loss) for the Year	(15,865)	(12,905)	+19%	(10,280)	(8,901)	+13%	(4,328)	(4,854)	-12%

Source: Company data, Forsyth Barr analysis

TWL updated the market with areas of focus for the remainder of the year and into FY24 and FY25. This can be seen in Figure 3 below.

Figure 3. TWL – forward looking focus

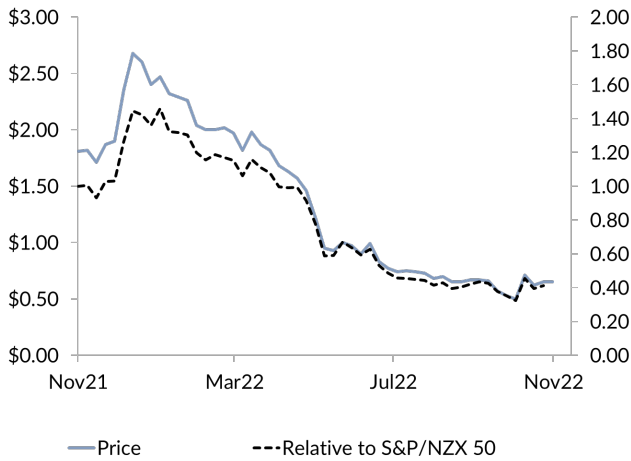
2H 2023 focus

- ExpressDoc first commercial release; process and feature enhancements
- Additional integration into ports, shipping lines, freight rates and import declarations
- Expanding jurisdictions for issuance of certificates of origin
- TradeWindow Pay first commercial release
- Consistent platform UX improvements
- Upgrading TradeWindow Freight to web version (beta)

FY2024/FY2025 focus

- TradeWindow Freight web version first commercial release
- Enhancing ecosystem to support trade routes and ERPs
- Introduce air freight bookings
- Expanded countries for ExpressDoc (incl. export declarations where regulations allow)
- Building common web platform with single sign-on
- First commercial release of global trade platform

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
ASB Bank	22.4%
Albertus Johannes Smith	14.6%
Quayside Securities	10.8%
Holding des mers du sud	6.1%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2024E
				2023E	2024E	2023E	2024E	2023E	2024E	
Trade Window	TWL NZ	NZ\$0.65	NZ\$66	<0x	<0x	<0x	<0x	<0x	<0x	0.0%
Wisetech Global	WTC AT	A\$59.02	A\$19,301	>75x	64.8x	49.7x	39.3x	60.8x	46.7x	0.3%
E2Open Parent Holdings Inc	ETWO US	US\$5.86	US\$1,770	22.0x	18.4x	12.4x	10.9x	13.5x	12.2x	n/a
Descartes Systems Grp/The	DSG CN	US\$91.60	US\$7,767	>75x	n/a	34.8x	31.0x	55.9x	46.2x	n/a
Compco Average:				22.0x	41.6x	32.3x	27.1x	43.4x	35.0x	0.3%
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TWL Relative:	n/a	n/a	n/a	n/a	n/a	-100%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TWL) companies fiscal year end

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