

WANdisco

Product update

General availability of LiveData Migrator on Azure

WANdisco (WAND), a company that replicates petabyte scale data to the cloud, last week announced the general availability of its LiveData Migrator on Azure (LDMA). While this could be a significant catalyst for WAND, increased future deal flow will be the evidence by which successful execution could be measured, especially in light of management recently significantly lowering FY21 revenue guidance. The company's growth drivers still look intact, the migration of data to the cloud is a significant structural trend and WAND has partnerships with the key players in this space. If good evidence comes through that the pipeline is converting, then the promise of scalable growth could become a reality again, opening up the potential for a share price recovery.

Year end	Revenue (\$m)	EBITDA* (\$m)	EBIT* (\$m)	EPS* (c)	EV/sales (x)	EV/EBITDA (x)
12/19	16.2	(11.7)	(18.5)	(38.8)	13.5	N/A
12/20	10.5	(22.2)	(28.5)	(57.3)	20.7	N/A
12/21e	6.0	(29.2)	(35.4)	(59.3)	36.4	N/A
12/22e	10.0	(24.7)	(29.9)	(50.1)	21.8	N/A

Note: *EBITDA, EBIT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

General availability for LiveData Migrator on Azure

On 18 October, WAND [announced](#) the general availability (GA) of its LDMA, which is designed to allow customers to accelerate their migration of on-premises data lakes to the cloud without operational downtime or business risk. LDMA is designed to ensure that customers can maintain business continuity while their data are transmitted securely to Azure Data Lake Storage. The general availability of LDMA also makes the feature available to Azure consultants and system integrators for use in the clients they serve.

FY21: Guidance and forecasts significantly reduced

In September, WAND reported disappointing H121 results amid Azure delays, with sales down 7.5% y-o-y and only at 10% of prior guidance for all of FY21. As a result, WAND lowered its guidance to a composite of revenue and RPO (remaining performance obligation) of at least \$18m for FY21, versus prior guidance of \$35m in revenue alone. We downgrade our revenue forecasts from \$37m and \$60m to \$6m and \$10m in FY21 and FY22 respectively, to reflect the reduced guidance. However, the GA of LDMA could be a significant catalyst for WAND and a key trigger for more deals coming down the line.

Execution remains key to multiple expansion

WAND's shares are down 30% year to date. The group operates in a rapidly growing market, and its technology and model have considerable potential. The parts appear to be in place to realise their value but what has been missing is successful execution of its growth strategy. The company's KPIs need to demonstrate that WAND can generate steady, repeatable, committed revenue in order to justify multiple expansion and a re-rating. If good evidence comes through that the pipeline is converting, then the promise of scalable growth could become a reality again, opening up the potential for a share price recovery.

Software & comp services

28 October 2021

Price **331p**

Market cap **£197m**

\$1.38/£

Net cash (US\$m) 30 June 2021 45.6
(including US\$2.1m in lease liabilities)

Shares in issue (reflecting capital raise) 59.5m

Free float 91%

Code WAND

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	21.8	(4.1)	(26.7)
Rel (local)	19.7	(7.1)	(42.7)
52-week high/low		540p	260p

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 Amazon and Microsoft.

Next events

FY21 results March 2022

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Transition continues to a ‘Commit to Consume’ model

GA of LDMA is part of larger transition


Since announcing its strategic partnership with Microsoft in July 2019, WAND has been focused on deeply integrating its platform with Microsoft Azure. Following the public preview and now GA, LDMA will be automatically available to all Microsoft Azure customers. It will be available natively within Azure with the same consumption-based model and charges will appear on the same Azure bill that customers already receive. While being in GA does not result in significant changes in overall pricing and availability, it provides assurance that required testing in live environments has been done and that the necessary certification and approval from Microsoft has been received.

The GA of LDMA is part of WAND’s larger transition to a cloud-centric ‘Commit to Consume’ model with multiyear commitments based on usage where revenue is recognised when data is consumed rather than on signing as with the previous subscription style model. The new model aligns with how many cloud services are bought today (ie Snowflake, Databricks). Management believes this transition should reduce short-term variability in revenue as it generates repeatable revenue streams, together with greater forward visibility and less discounting as customers commit to moving a minimum amount of data over a given time. However, near-term revenue may fall as WAND moves away from larger, one-off licence deals where the majority of revenue is recognised up front.

In September, WAND also announced a [sizable post period contract](#) with an existing telco customer, indicating the potential of the ‘Commit to Consume’ model. Specifically, the customer extended its relationship with WAND via a minimum \$1m ‘Commit to Consume’ contract for 5PB of data over five years. The contract is to migrate data from Vertica into Snowflake and has significant room to grow, with the current commitment only representing a small portion of the data estate. Moreover, it expands WAND’s total addressable market to customers involved in fraud detection and blocking robocalls, among other things.

Exhibit 1: ‘Commit to Consume’ versus subscription model

	“Commit to Consume” The Way Cloud Services are Bought	“Subscription” Old Style Enterprise Software
Enterprise examples	Snowflake and Databricks	SAP, Oracle
Cash	Payment in arrears or agreed period in advance	Annual in advance, over term, or all upfront
Revenue	Recognised as consumed, no revenue on signing. Elastic consumption, as use case expands, revenues expand	Upfront and ongoing maintenance stream (IFRS 15)
Contract duration	Multi-year commitment based on usage	One year or Multi-year, fixed price agreement

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Source: WANdisco H121 presentation

Forecast downgrade amid H121 results and pipeline mix change

In September, WAND reported disappointing H121 results. Sales were \$3.4m in H121, down \$0.2m y-o-y and only ~10% of the previous guidance for all of FY21, as delays in the GA launch of the

Azure product (which has since occurred), non-conversion of a large enterprise deal and the pipeline containing larger deals than originally anticipated resulted in a smaller volume of deals. Cash overheads increased 12% to \$20.1m and the adjusted EBITDA loss increased by \$2.3m to \$14.2m as investments were made in sales and engineering to support future growth. The reported loss per share worsened by c 25% to \$0.36, though balance sheet cash more than doubled to \$47.7m (with no debt), boosted by a \$42.4m (gross) share placement earlier in the quarter.

Subsequently, WAND lowered its guidance from the previous \$35m in FY21 revenue to \$18m in sales and RPO, though the mix between sales and RPO is not clear. While we do not know how the \$18m is broken down, we model \$6m in revenue and \$12m of RPO. Note that key components of the previous guidance were signing 50+ Azure customers and migrating c 130PB of data. Unfortunately, delays in Microsoft Azure GA slowed WAND's product rollout. It should be noted that this availability issue is specific to the Azure business and not to other large cloud players. Furthermore, management previously expected a larger number of small-volume customers but is now seeing a smaller number of customers with more data to move, with about 10–20 deals in the pipeline expected for this year.

We downgrade our forecasts to reflect the lower-than-expected interim results and pipeline delays; this results in FY21e revenues falling by 43% y-o-y to \$6m (and 84% from the previous \$37m estimate) and pushing profitability further into the future. We forecast RPO at \$12m and \$14m for FY21 and FY22, respectively. We also reduce our FY21 EBITDA forecast to a \$29.2m loss, down \$26.8m from previous estimates, although FY21 net cash is expected to grow \$5.2m y-o-y to \$23.3m [as a result of the capital raise](#) (but is below our prior \$44.8m forecast). Our FY22e revenue forecast is lowered by 83% to \$10.0m, down from the previous \$60m. While the model shows WAND dropping into net debt in FY22, there are steps that management can take to mitigate this, such as realising efficiencies in the cost structure, working capital management, debt and issuing more equity. If committed contracts are paid annually in advance (as we believe occurs at some firms the sector such as Snowflake), this could also increase cash flow. Note that the GA of LDMA could be a significant catalyst for WAND and key trigger for more deals coming down the pipeline. Our estimates may be conservative but deal flow will be a key yardstick by which WAND's progress and successful execution would be measured. A full financial summary is shown in Exhibit 3.

Exhibit 2: Major changes to forecasts

\$m	FY19	FY20	FY21e			FY22e		
			Old	New	Change	Old	New	Change
Revenue	16.2	10.5	37.0	6.0	(83.8)%	60.0	10.0	(83.3)%
% growth		(34.8)%	251.3%	(43.0)%	(294.3)%	62.2%	66.7%	4.5%
Adjusted EBITDA	(11.7)	(22.2)	(2.4)	(29.2)	N/A	15.3	(24.7)	N/A
% margin	(72.2)%	(211.1)%	(6.5)%	(486.7)%	(480.1)%	25.5%	(247.0)%	(272.5)%
Reported operating profit	(27.2)	(33.9)	(15.4)	(38.4)	N/A	2.4	(33.0)	N/A
% margin	(168.2)%	(321.9)%	(41.6)%	(640.0)%	(598.4)%	3.9%	(330.0)%	(333.9)%
Normalised profit before tax	(18.4)	(30.4)	(9.4)	(37.3)	N/A	8.4	(31.8)	N/A
Reported profit before taxes	(29.1)	(35.8)	(15.4)	(40.3)	N/A	2.4	(34.9)	N/A
Normalised basic and diluted EPS (c)	(38.8)	(57.3)	(16.9)	(59.3)	N/A	14.2	(50.1)	N/A
Reported basic EPS (c)	(62.6)	(68.0)	(27.3)	(64.4)	N/A	4.1	(55.3)	N/A
Net debt/(cash)	(18.3)	(18.1)	(44.8)	(22.7)	N/A	(51.2)	10.7	N/A
Free cash flow including leases	(19.4)	(24.2)	(12.3)	(32.0)	N/A	7.2	(32.9)	N/A

Source: WANDisco accounts, Edison Investment Research

Awaiting stronger evidence of successful execution

Our previous analysis highlighted the enormous market opportunity (200–300EB of data to migrated to the cloud), the value LDMA could create as it is adopted by major cloud vendors and their customers, together with the signing of major partnership deals (see our note [All the pieces now in place](#)) and the new opportunities in non-Hadoop data integration. Moreover, the LDMA solution is viewed by many customers who need data integration as the only reliable petabyte

solution currently on the market. Furthermore, the recent [Snowflake](#) deal in Q121 and partnership with [Databricks](#) give WAND the potential to address the majority of the market.

There is no hiding from the fact that WAND has appeared to be on the cusp of an acceleration for some time, but again, financial performance has fallen short. The company's market potential still looks very significant, especially with the Snowflake partnership announced that will help accelerate the migration of on-premise Hadoop data, while the GA of the Microsoft Azure product should likely unlock sales through this channel. Going forward, the KPIs need to show that WAND can generate steady, repeatable, committed revenue in order to justify multiple expansion and a re-rating. For instance, to achieve the previous FY21e estimate of ~\$37m in revenue would imply migrating ~130–150PB of data. For the valuation to improve, we would need stronger evidence that the pipeline is growing, deals are successfully being executed and an acceleration in data migration to the cloud. If WAND can deliver \$18m in revenue plus RPO this year through scalable channel partnerships (Microsoft, Google, etc), then it should be well placed to grow strongly into FY22 and rebuild confidence in the long-term potential. Altogether the company's growth drivers still look intact, the migration of data to the cloud is a significant structural trend and WAND has partnerships with the key players in this space. If good evidence comes through that the pipeline is converting, then the promise of scalable growth could become a reality again, opening up the potential for a share price recovery. Some strategic value to potential acquirers could also be factored into the current share price, perhaps rightly so.

Exhibit 3: Financial summary

	\$m	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		17.0	16.2	10.5	6.0	10.0
Cost of Sales		(1.5)	(1.2)	(1.1)	(0.6)	(1.0)
Gross Profit		15.5	15.0	9.5	5.4	9.0
EBITDA		(9.4)	(11.7)	(22.2)	(29.2)	(24.7)
Operating Profit (before amort. and except.)		(16.3)	(18.5)	(28.5)	(35.4)	(29.9)
Acquired Intangible Amortisation		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Share based payments		(5.9)	(8.7)	(5.4)	(3.0)	(3.1)
Operating Profit		(22.1)	(27.2)	(33.9)	(38.4)	(33.0)
Net Interest		(0.1)	0.1	(1.9)	(1.9)	(1.9)
Profit Before Tax (norm)		(16.3)	(18.4)	(30.4)	(37.3)	(31.8)
Profit Before Tax (FRS 3)		(19.4)	(29.1)	(35.8)	(40.3)	(34.9)
Tax		0.8	0.9	1.5	2.0	2.0
Profit After Tax (norm)		(15.5)	(17.5)	(28.9)	(35.3)	(29.8)
Profit After Tax (FRS 3)		(18.6)	(28.3)	(34.3)	(38.3)	(32.9)
Average Number of Shares Outstanding (m)		41.4	45.1	50.5	59.5	59.5
EPS (c)		(37.5)	(38.8)	(57.3)	(59.3)	(50.1)
EPS - normalised fully diluted (c)		(37.5)	(38.8)	(57.3)	(59.3)	(50.1)
EPS - (IFRS) (c)		(44.9)	(62.6)	(68.0)	(64.4)	(55.3)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		90.9	92.7	89.9	90.0	90.0
EBITDA Margin (%)		(55.2)	(72.2)	(211.1)	(486.7)	(247.0)
Operating Margin (before GW and except.) (%)		(95.5)	(114.3)	(270.6)	(590.0)	(299.0)
BALANCE SHEET						
Fixed Assets		8.9	11.6	10.1	13.0	19.4
Intangible Assets		5.5	4.9	5.0	10.6	17.4
Tangible Assets		0.8	3.7	2.9	2.4	2.0
Investments		2.6	3.0	2.2	0.0	0.0
Current Assets		18.2	31.9	31.2	34.5	25.1
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		7.4	8.5	10.1	6.0	10.0
Cash		10.8	23.4	21.0	28.5	15.1
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(11.9)	(9.2)	(9.7)	(11.0)	(13.3)
Creditors & Deferred Income		(7.9)	(7.0)	(8.6)	(7.6)	(10.5)
Short term borrowings		(4.0)	(2.2)	(1.1)	(3.4)	(2.8)
Long Term Liabilities		(1.4)	(4.1)	(2.4)	(3.1)	(23.7)
Long term borrowings		(0.1)	(2.9)	(1.8)	(2.4)	(23.0)
Deferred Income		(1.3)	(1.2)	(0.7)	(0.7)	(0.8)
Net Assets		13.8	30.2	29.2	33.5	7.5
CASH FLOW						
Operating Cash Flow		(11.0)	(14.1)	(19.1)	(26.6)	(27.2)
Net Interest		(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
Tax		0.1	0.8	0.7	0.9	0.9
Capex (inc capitalised R&D)		(5.6)	(5.9)	(5.5)	(6.0)	(6.2)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Financing (net)		0.9	34.2	24.1	41.8	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		(15.8)	14.8	(0.1)	9.8	(32.9)
Opening net debt/(cash)		(23.1)	(6.7)	(18.3)	(18.1)	(22.7)
HP finance leases initiated		(0.6)	(3.2)	0.0	(5.2)	(0.6)
Other		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(6.7)	(18.3)	(18.1)	(22.7)	10.7

Source: WANdisco data, Edison Investment Research

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