

Trade Window Holdings

Capital Raising – Up to NZ\$20m Being Sought

JAMES LINDSAY

James.Lindsay@forsythbarr.co.nz
 +64 9 368 0145

TWL has announced a capital raising of up to NZ\$20m at NZ\$0.45. The issue price represents a 10% discount to the closing price on 16 January 2022. Undertaken via a non-underwritten share offer, TWL stated that it has indications of support from its key existing shareholders. The proceeds will be utilised to continue the development of its global trade platform and have funds to enable growth in existing and new markets, providing pathways to its targeted EBITDA breakeven by the end of FY25. TWL has a cash burn of around NZ\$1m per month. TWL recently updated the market with trading revenue guidance of between NZ\$4.8m and NZ\$5.1m in FY23, NZ\$10.4m in FY24 and NZ\$20.2m in FY25. TWL has provided further detail on its expectations of EBITDA with estimates for an FY25 EBITDA loss of -NZ\$2.5m. This compares to our FY25 revenue forecasts of NZ\$16.1m and a -NZ\$3.4m EBITDA loss. Shareholder approval is required (as it is more than 15% of issued capital), and a Special General Meeting (SGM) will be held virtually on 31 January 2023, to approve the offering. If fully successful, we consider this a good level of new capital and in line with our expectations. Management stated that the capital raising is enough to achieve breakeven in FY25. If not approved, TWL will restrict applications to NZ\$6.8m. The offer opens on 17 January 2023, closes 17 February 2023, and settles on or around 23 February 2023, and is available to existing and new shareholders.

NZX Code	TWL	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.46	NPAT* (NZ\$m)	(10.8)	(14.2)	(9.3)	(4.8)	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$0.42	EPS* (NZc)	(12.6)	(14.1)	(9.1)	(4.5)	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS growth* (%)	89.0	-11.7	35.4	49.9	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	9.8	n/a	n/a	n/a
Market cap	NZ\$46.4m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	10.0k (NZ\$12k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

TWL reiterates the opportunity in the raising presentation

TWL reiterated that its global trade platform aims to help customers drive productivity, increase connectivity and enhance visibility across supply chains. The global problem is that trade processes rely heavily on manual paper-based processes to exchange data. TWL is targeting Australia, New Zealand, Southeast Asia, and the Americas for growth. The company recently achieved accreditation as an issuing body for Certificates of Origin in Australia, strengthening its offering. Additionally, the global drive towards Environmental, Social and Governance (ESG) compliance and food traceability regulations is providing a tailwind for the company. TWL said its team members would be in the US in two weeks to start the process of launching products with its partner FoodChainID.

Key initiatives outlined

TWL is focussing on implementing systems and processes to support scale and ensure highly predictable sales processes. Further work on customer onboarding within the global trade platform is being undertaken, given that some implementations are taking longer than expected. They also anticipate standardising pricing structures and contract terms and conditions. Additionally, the company is working on completing a NetSuite ERP rollout to improve the efficiency of back-office processes. Notably, TradeWindow has announced that it is working to accelerate the completion of the global trade platform by March 2024.

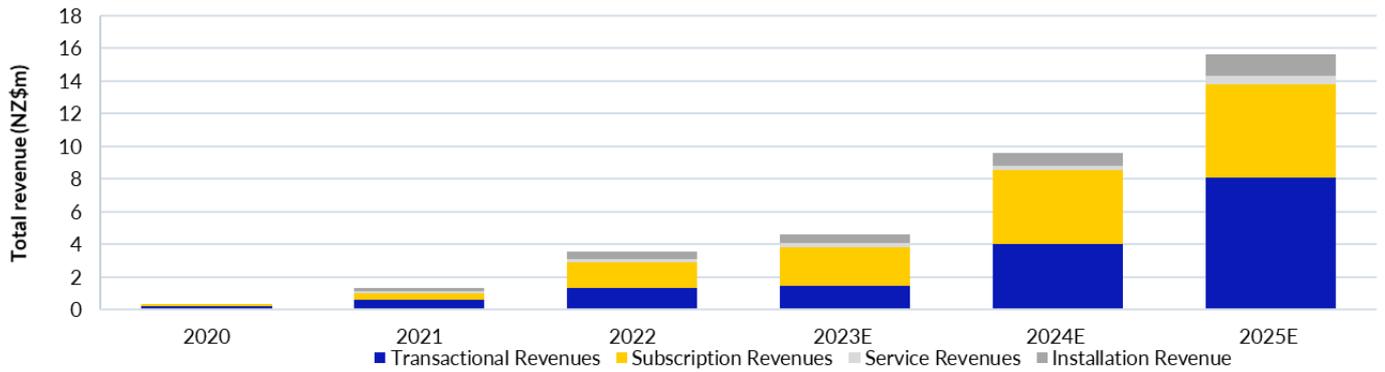
Trade Window Holdings (TWL)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 17 Jan 2023						0.46					
52 week high / low						2.63 / 0.46					
Market capitalisation (NZ\$m)						46.4					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						4.50%					
Equity beta						1.50					
WACC						12.6%					
Terminal growth						2.5%					
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Sales revenue	2.3	4.9	5.5	10.3	16.3	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBITDA	(5.9)	(9.5)	(12.4)	(8.1)	(3.4)	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	1.1	1.7	2.2	1.7	1.6	PE (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBIT	(6.9)	(11.2)	(14.6)	(9.8)	(5.0)	Price/NTA (x)	n/a	9.8	n/a	n/a	n/a
Net interest	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	Free cash flow yield (%)	-10.1	-15.0	-21.8	-18.1	-8.5
Associate income	0	0	0	0	0	Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Tax	0.5	0.6	0.6	0.6	0.3	Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Minority interests	0	0	0	0	0						
Normalised NPAT	(6.6)	(10.8)	(14.2)	(9.3)	(4.8)	Capital Structure					
Abnormals/other	0	0	0	0	0	2021A	2022A	2023E	2024E	2025E	
Reported NPAT	(6.6)	(10.8)	(14.2)	(9.3)	(4.8)	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	(114.1)	(12.6)	(14.1)	(9.1)	(4.5)	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	0.0	0	0	0	0	Net debt/ND+E (%)	-9.1	-51.8	20.5	17,776.1	339.9
						Net debt/EBITDA (x)	n/a	0.4	0.1	n/a	n/a
Growth Rates						Key Ratios					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Revenue (%)		>100	13.5	86.2	58.3	Return on assets (%)	-113.0	-67.9	-144.5	-138.5	-64.9
EBITDA (%)		n/a	n/a	n/a	n/a	Return on equity (%)	185.8	-100.3	548.4	121.3	57.5
EBIT (%)		n/a	n/a	n/a	n/a	Return on funds employed (%)	-188.8	-99.8	560.5	122.2	57.9
Normalised NPAT (%)		n/a	n/a	n/a	n/a	EBITDA margin (%)	-250.2	-195.8	-223.3	-78.5	-20.7
Normalised EPS (%)		n/a	n/a	n/a	n/a	EBIT margin (%)	-295.8	-229.9	-263.7	-95.3	-30.4
Ordinary DPS (%)		-100.0	n/a	n/a	n/a	Capex to sales (%)	5.1	-31.4	2.8	2.9	2.1
						Capex to depreciation (%)	-38	267	-23	-43	-42
Cash Flow (NZ\$m)						Segment Revenue (NZ\$m)					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
EBITDA	(5.9)	(9.5)	(12.4)	(8.1)	(3.4)	Transactional	0.6	1.3	1.4	4.0	8.1
Working capital change	0.1	(0.5)	1.8	(0.4)	(0.4)	Subscription	0.4	1.6	2.4	4.5	5.7
Interest & tax paid	0.3	0.4	0.7	0.5	0.3	Service	0.1	0.2	0.2	0.3	0.5
Other	0.8	1.2	(0.1)	(0.1)	(0.1)	Installation	0.2	0.4	0.5	0.8	1.3
Operating cash flow	(4.6)	(8.5)	(9.9)	(8.1)	(3.6)	Other	0.7	1.0	0.6	0.3	0.2
Capital expenditure	(0.1)	1.5	(0.2)	(0.3)	(0.3)	Total revenue	2.3	4.9	5.5	10.3	16.3
(Acquisitions)/divestments	0.0	(1.6)	(2.5)	0	0						
Other	4.5	(1.5)	(0.6)	(0.6)	(0.7)	Segment Revenue ARPC (NZ\$)					
Funding available/(required)	(0.2)	(10.1)	(13.2)	(9.0)	(4.6)	2021A	2022A	2023E	2024E	2025E	
Dividends paid	(0.0)	0	0	0	0	Transactional (per month)	-	703	575	1150	1550
Equity raised/(returned)	6.8	15.0	9.6	0	0	Subscription (per month)	-	341	435	628	647
(Increase)/decrease in net debt	6.6	4.9	(3.6)	(9.0)	(4.6)	Service (per month)	-	42	42	42	42
						Total revenue per sub / month	1,022	712	787	1,184	1,374
Balance Sheet (NZ\$m)						Segment costs as % of revenue					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Working capital	(0.2)	0.3	(1.5)	(1.1)	(0.7)	Cost of goods sold as % of revenue	64%	50%	52%	27%	21%
Fixed assets	0.2	0.3	0.3	0.4	0.5	R&D as % of revenues	190%	126%	132%	66%	42%
Intangibles	3.9	6.8	5.2	4.2	3.4	S&M as % of revenue	63%	65%	64%	33%	23%
Right of use asset	0.0	1.4	1.9	1.4	2.1	G&A as % of revenues	183%	130%	115%	57%	37%
Other assets	0.1	0.3	0.3	0.3	0.3	Total expenses as % of revenue	500%	372%	362%	184%	122%
Total funds employed	3.9	9.1	6.2	5.2	5.7						
Net debt/(cash)	7.1	(3.7)	(0.7)	7.7	11.8						
Lease liability	0	0.9	0.9	0.3	1.1						
Other liabilities	0.2	1.0	8.5	4.8	1.0						
Shareholder's funds	(3.3)	10.8	(2.5)	(7.6)	(8.3)						
Minority interests	0	0	0	0	0						
Total funding sources	3.9	9.1	6.2	5.2	5.7						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

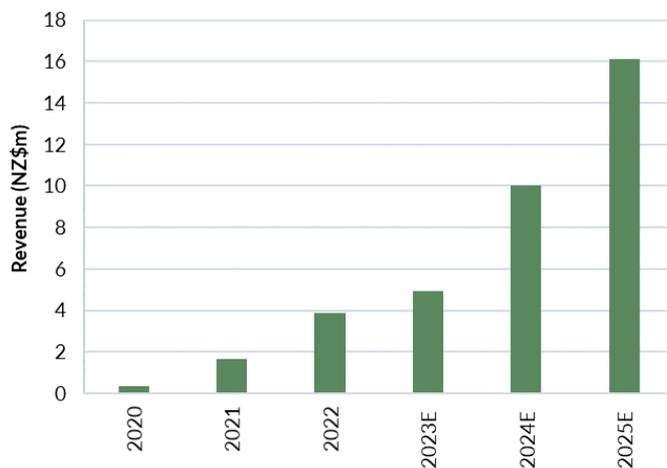
Key charts

Figure 1. TWL - Revenue stack by line (NZ\$m)



Source: Company, Forsyth Barr Analysis

Figure 2. TWL - Revenues (NZ\$m)



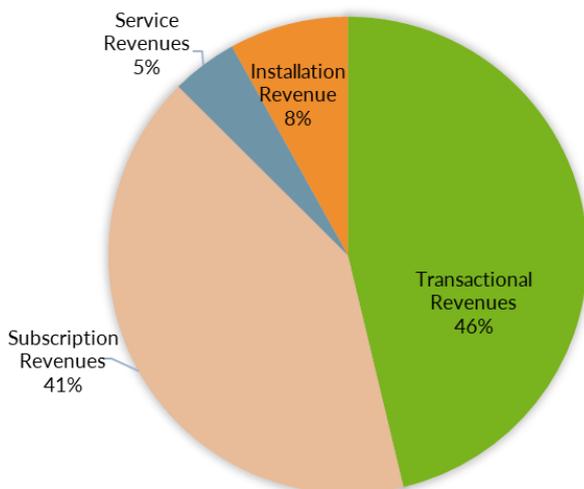
Source: Company, Forsyth Barr Analysis

Figure 3. TWL - EBITDA (NZ\$m)



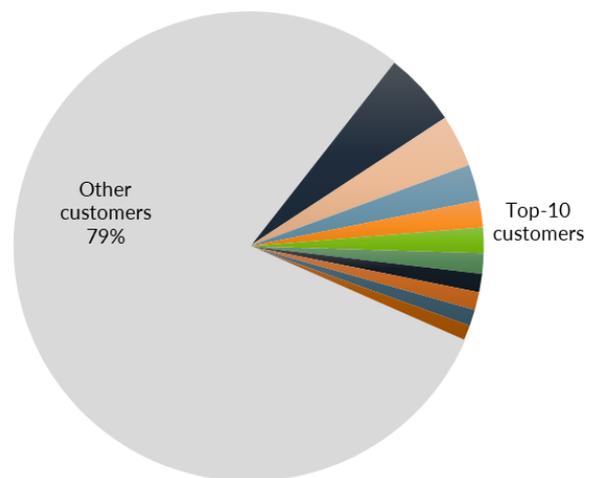
Source: Company, Forsyth Barr Analysis

Figure 4. TWL - Revenue breakdown (1H23)



Source: Company, Forsyth Barr Analysis

Figure 5. TWL - Customer concentration (September 2022)



Source: Company, Forsyth Barr Analysis

Contributing information

US – FDA food traceability requirements coming

The FDA has recently issued a final rule on 'Requirements for Additional Traceability Records for Certain Foods', also known as the 'Food Traceability Final Rule'. This rule establishes new traceability record keeping requirements for companies that manufacture, process, and pack food sold in the US. The rule requires food producers (both foreign and US food producers) to have information about the immediate previous source and immediate subsequent recipient of the food product, the location of the food product during its production, processing, packaging, holding, and movement, and the lot or code number of the food product. The compliance date for all persons subject to the record keeping requirements is **20 January 2026**.

We consider legislation changes such as this to be a fundamental driver for adopting TWL's Assure+ product. It will likely create a degree of urgency for food producers to adopt traceability solutions.

These new requirements are a key component of the FDA's New Era of Smarter Food Safety Blueprint. It intends to allow for faster identification and rapid removal of potentially contaminated food from the market, resulting in fewer foodborne illnesses and/or deaths.

Companies subject to the rule for foods on the Food Traceability List (FTL) must maintain records containing specific Key Data Elements (KDEs) associated with certain Critical Tracking Events (CTEs) and provide this information to the FDA within 24 hours or within an agreed upon time frame. The rule applies to foods specifically listed on the Food Traceability List (FTL) and foods that contain listed foods as ingredients, provided that the listed food used as an ingredient remains in the same form as it appears on the list.

See <https://www.fda.gov/food/food-safety-modernization-act-fsma/food-traceability-list>

Figure 6. FSMA Final Rule on Requirements for Additional Traceability Records for Certain Foods

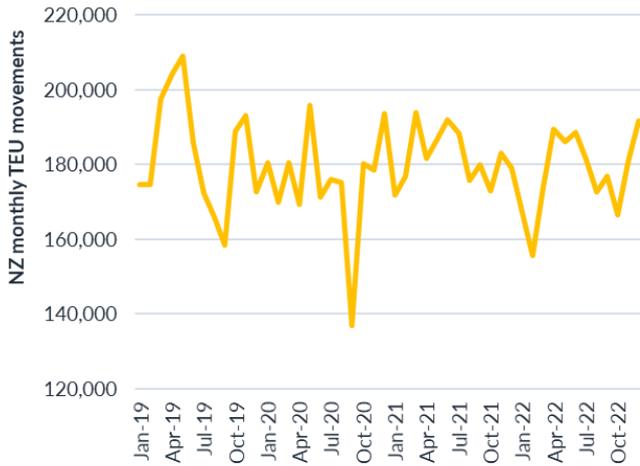


Source: US FDA

Updated import and export container data

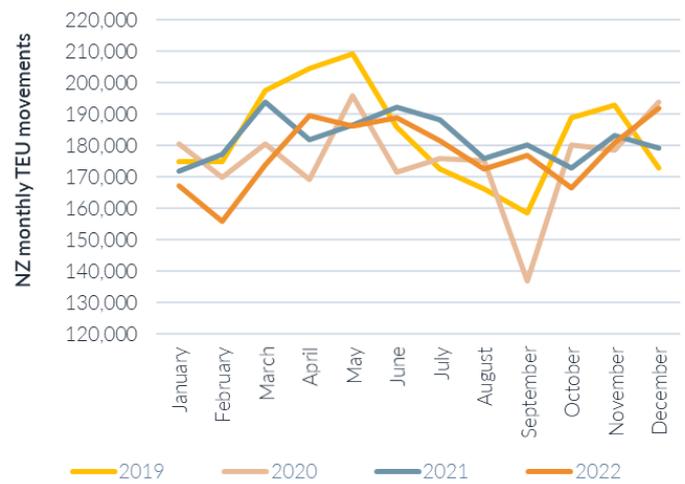
Container (TEU) movements released 17 January showed that in November and December 2022 exports were quite strong, relative to a weak October, and are now back in line with prior years' seasonality.

Figure 7. Total NZ Import & Export Container (TEU) movements



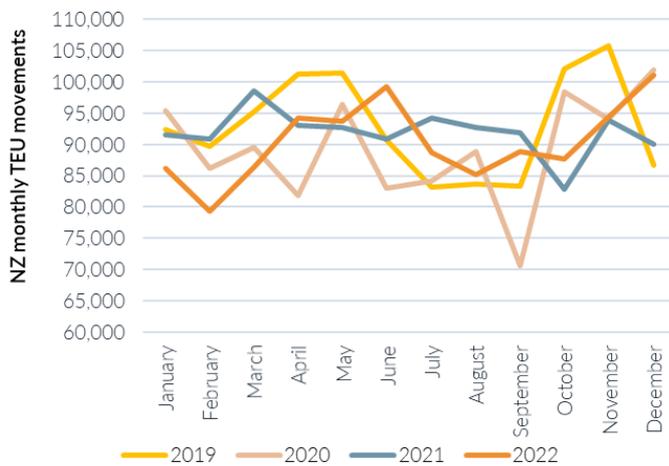
Source: Forsyth Barr analysis

Figure 8. Monthly NZ Total import & export container (TEU) movements



Source: Forsyth Barr analysis

Figure 9. Monthly Import Container (TEU) movements for NZ



Source: Forsyth Barr analysis

Figure 10. Monthly Export Container (TEU) movements for NZ



Source: Forsyth Barr analysis

Container shipping rates quickly returning to normalised levels

Figure 11. China Containerised Freight Index (CCFI) and ANZ TEU Index



Source: Shanghai Shipping Exchange, Forsyth Barr analysis

The cost of shipping a container has decreased significantly over the past twelve months, assisting many exporters. The CCFI Index is a freight index that serves as the barometer of the spot shipping market and thus is widely applied. CCFI is similar to the Baltic Dry Bulk Freight Index but measures all containers in and out of Shanghai and is a better reflection of shipping costs for NZ exporters. The Australia/New Zealand series is much shorter but similarly reflective of the substantial rise and fall in shipping rates.

Figure 12. Price performance



Source: Forsyth Barr analysis

Figure 13. 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 14. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect TWL's balance date - March)										
				2023E	2024E	2023E	2024E	2023E	2024E	2024E
Trade Window	TWL NZ	NZ\$0.46	NZ\$46	<0x	<0x	<0x	<0x	<0x	<0x	0.0%
Wisetech Global	WTC AT	A\$53.99	A\$17,657	>75x	59.3x	45.3x	35.9x	55.5x	42.7x	0.3%
E2Open Parent Holdings Inc	ETWO US	US\$5.98	US\$1,808	23.7x	21.1x	12.8x	11.5x	14.0x	12.8x	n/a
Descartes Systems Grp/The	DSG CN	US\$95.96	US\$8,139	>75x	65.8x	36.2x	32.5x	57.5x	48.3x	n/a
Compco Average:				23.7x	48.7x	31.4x	26.6x	42.3x	34.6x	0.3%
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TWL Relative:		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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