Catapult now appears to have reached the “SaaS crossover point” where incremental revenue gains – which we clearly view as highly likely – fall to the bottom line in material fashion at over 40% margin. The key test will be to see Catapult meet their 5,000 “mid-term” elite team target by mid-way through FY 2027 (March). Each incremental team represents an opportunity for gradual upselling and cross-selling as their “experts” are convinced of the necessity and usability of the technology. Hence, in valuing the company, it’s reasonable to expect per team revenue and margin to increase on a known fixed cost base with forecastable variable costs.

Our approach has been to use a ‘lifetime value of client” approach, common in SaaS companies, whilst cross-checking our valuation against a DCF valuation at 12.5% discount rate and also – with great trepidation – other medium sized (by US standards) SaaS companies relative to revenue.

As a starting point, amazingly, if we reverse engineer the rating of SRAD and GENI in the sports data area and apply EV/Revenue multiples to Catapult (the company has no net debt) we arrive at the exact closing share price on 30 June 2024 of A$1.89

Our assessment of five mid cap US SaaS companies (US$2 – 5bn market cap) across a range of consumer services, work management, software repository, content storage and search optimisation, none of which have debt, yields an average EV/Revenue multiple of 3.8x for the 2025 year[44] on a comparison group whose shares trade at an average 28% below their 52week high. **Simplistically** applying this to Catapult would yield an equity value of A$2.76 per share (at fx A$1=US$0.66) under the assumption of 20% revenue growth in the period to 31 March 2025 to US$120million.

Our DCF valuation using 10%per annum client growth, for the next five years, incremental gains in gross margin from the 81% current level, applying constant variable cost to revenue ratios, and 3.5% cost inflation to the fixed cost base, yields an after-tax valuation of $2.65 per share at the same exchange rate.

In our opinion, the risks with our valuation and thesis reside with management execution, since there are a myriad of opportunities at this stage of development.

We do not rule out a friendly corporate play for Catapult, most obviously from private equity investors, who had a serious look at the company in March-April 2019 with the shares around $1.00. Somewhat surprisingly, no-one made a pitch in late 2022 and early 2023 at even lower prices. With board and management, including the two founders directly owning or having influence over ~23% of the company, their thinking will be a determining factor. With the gargantuan tailwinds of sporting monetisation, we wouldn’t be in a big rush.

For further information:
Andrew Brown
Executive Director
East 72 Management Pty Limited

0418 215 255
andrew.brown@east72.com.au

[44] Freshworks, Asana, JFrog, Box and Semrush respectively. Source: tikr.com