WILSONS

Equity Research

Date	Theme
10 August 2020	Initiating Coverage
	Company

5G Networks Limited (5GN)

To 5G(N) or Not to 5G(N)? We Say Yes…

We initiate coverage of 5GN with an OVERWEIGHT rating and a $2.14 Target Price (+20% Total Shareholder Return). 5GN is building a strong track record of performance where it combines organic growth with strategic acquisitions to create both scale and breadth of service. 5GN is well placed to capitalise on the convergence of technologies and not only execute on known digital transformation programs, but also capture demand that has been accelerated due to the current Covid-19 environment.

Key Points

5GN Ready To Leverage Scale and Platform

Our Overweight recommendation is predicated on the following: i) Robust short-and longer-term demand with SMEs and Enterprises alike looking to accelerate existing, or create new, plans for a Digital Transformation strategy due to Covid-19; ii) Improving revenue quality with contracted and recurring revenue to increase from 71% of revenue to ~85% in FY20e; and iii) 5GN has acquired six companies since listing in Nov-17, realising synergies but also creating a broad-based ICT offering. 5GN has guided to organic growth in its core recurring revenue services of >10%.

Forecasts

We are forecasting FY20e revenue of $51m (vs. guidance: $50m-$52m) which is flat vs. the pcp with 5GN strategically rotating the business away from lumpy, lower margin business (eg. Hardware & Software) towards more predictable, higher margin business (eg. Cloud and Network & Voice). Notwithstanding flat revenue in FY20e, our EBITDA forecast of $6.7m is more than double FY19 ($3.2m) and implies an EBITDA margin of 13.1%, above 5GN guidance of >12%. There is insufficient data to create consensus.

Target Price & Valuation

Our $2.14 target price is based on our DCF valuation. We calculate an EV/EBITDA as a cross-check, using a target FY21e EV/EBITDA multiple of 20x implies $1.92. 5GN's spot FY21e EV/Sales of 2.6x is above the peer median (2.1x) but below the peer average (3.1x).

Risks and Catalysts

Key Risks include: i) The impact of Covid-19 on 5GN customers; ii) Loss of key personnel; iii) Competition for organic & acquisitive growth; and iv) Execution, synergy realisation and elevated prices re M&A. Catalysts include: i) Capitalising on the Covid-19 opportunities; ii) Extraction of operating benefits from acquisitions; and iii) Leveraging ColoAU.

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$2.14
Share price @ 07-Aug-20 (AUD)	$1.80
Forecast 12-mth capital return	18.9%
Forecast 12-mth dividend yield	1.1%
12-mth total shareholder return	20.0%
Market cap	$164m
Enterprise value	$145m
Shares on issue	91m
Sold short	
ASX 300 weight	n/a
Median turnover/day	$0.6m

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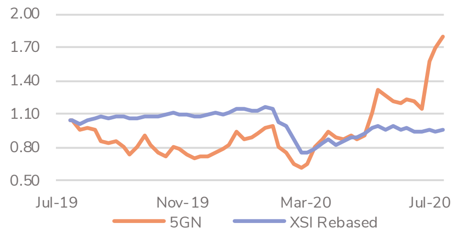
12-mth price performance ($)



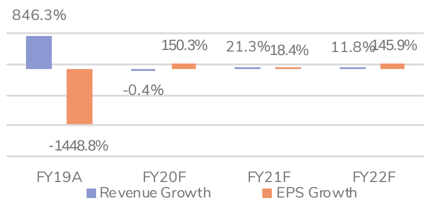
	1-mth	6-mth	12-mth
Abs return (%)	45.7	94.6	74.3
Rel return (%)	45.9	110.7	82.9

Earnings forecasts

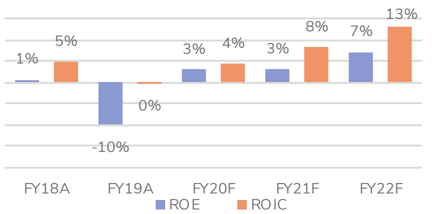
Year-end June (AUD)	FY18A	FY19A	FY20F	FY21F	FY22F
NPAT rep ($m)	-0.3	-4.1	-1.8	-1.5	0.1
NPAT norm ($m)	0.1	-1.2	0.8	1.1	2.8
Consensus NPAT ($m)					
EPS norm (cps)	0.1	-1.9	1.0	1.1	2.8
EPS growth (%)		-1448.8	150.3	18.4	145.9
P/E norm (x)	1279.9	-94.9	188.6	159.3	64.8
EV/EBITDA (x)	234.2	45.0	21.6	15.0	11.3
FCF yield (%)	-0.5	0.4	4.0	2.9	4.7
DPS (cps)	0.0	0.0	2.0	2.0	2.0
Dividend yield (%)	0.0	0.0	1.1	1.1	1.1
Franking (%)	0	0	100	100	100

Source: Company data, Wilsons estimates, S&P Capital IQ

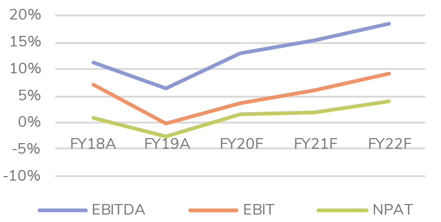
Growth rates



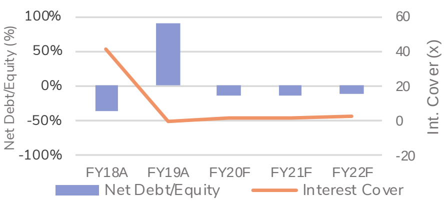
Returns



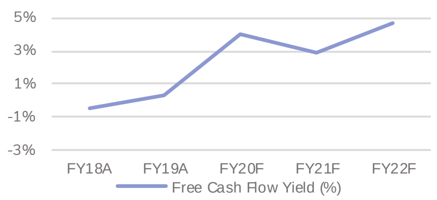
Margin trends



Solvency



Free cash flow yield



Interims ($m)

	1H19A	2H19A	1H20A	2H20E
Sales revenue	23.6	27.6	25.4	25.6
EBITDA	1.3	1.9	3.0	3.7
EBIT	-0.3	0.2	0.8	1.2
Net profit	-0.8	-0.4	0.1	0.7
Norm EPS	-1.4	-0.7	0.1	0.9
EBIT/sales (%)	-1.3	0.8	3.0	4.5
Dividend (c)	0.0	0.0	1.0	1.0
Franking (%)	0.0	0.0	100.0	100.0
Payout ratio (%)	0.0	0.0	>500	112.1
Adj payout (%)	0.0	0.0	20.1	0.0

Key assumptions

	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue Growth (%)		846.3	-0.4	21.3	11.8
EBIT Growth (%)		-126.3	-2,044.4	94.9	72.7
NPAT Growth (%)		-2,365.5	-162.5	47.6	147.8
EPS Growth (%)		**-1,448.8**	**-150.3**	**18.4**	**145.9**
EBIT / Sales (%)	7.0	-0.2	3.8	6.1	9.4
Tax Rate (%)	85.1	0.0	-30.0	30.0	30.0
ROA (%)	**2.8**	**-0.3**	**3.4**	**5.4**	**8.6**
ROE (%)	**0.6**	**-10.0**	**2.9**	**3.0**	**7.1**
Network and Voice	2.0	6.8	7.6	11.0	12.7
Data Centres	0.0	4.1	6.7	9.7	11.7
Hardware and Software	0.6	15.0	7.5	9.7	9.3
Managed Services	1.4	13.3	15.0	15.8	16.9
Cloud Services	1.4	12.0	14.1	15.5	18.6

Financial ratios

	FY18A	FY19A	FY20F	FY21F	FY22F
PE (x)	1,279.9	-94.9	188.6	159.3	64.8
EV/EBITDA (x)	234.2	45.0	21.6	15.0	11.3
Dividend yield (%)	0.0	0.0	1.1	1.1	1.1
FCF yield (%)	-0.5	0.4	4.0	2.9	4.7
Payout ratio (%)	0.0	0.0	209.6	177.0	72.0
Adj payout (%)	0.0	0.0	8.9	38.1	23.3

Profit and loss ($m)

	FY18A	FY19A	FY20F	FY21F	FY22F
Sales revenue	5.4	51.2	50.9	61.8	69.1
EBITDA	0.6	3.2	6.7	9.6	12.8
Depn & amort	0.2	3.3	4.8	5.9	6.4
EBIT	**0.4**	**-0.1**	**1.9**	**3.8**	**6.5**
Net interest expense	0.0	1.1	1.3	2.1	2.4
Tax	0.3	0.0	-0.2	0.5	1.2
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	**0.1**	**-1.2**	**0.8**	**1.1**	**2.8**
Abns/exts/signif	-0.4	-2.9	-2.5	-2.7	-2.8
Reported net profit	**-0.3**	**-4.1**	**-1.8**	**-1.5**	**0.1**

Cash flow ($m)

	FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA	0.6	3.2	6.7	9.6	12.8
Interest & tax	0.0	1.1	1.3	2.1	2.4
Working cap/other	-1.3	-3.4	-0.5	-5.5	-6.0
Operating cash flow	-0.7	0.9	7.5	6.2	9.3
Maintenance capex	-0.1	-0.4	-1.0	-1.5	-1.6
Free cash flow	-0.8	0.6	6.5	4.7	7.7
Dividends paid	0.0	0.0	-0.6	-1.8	-1.8
Growth capex	-0.2	-0.8	-2.3	-3.5	-3.6
Invest/disposals	-3.1	-2.6	-4.1	0.0	0.0
Oth investing/finance flows	-0.9	-1.6	-1.0	0.0	0.0
Cash flow pre-financing	-4.9	-4.4	-1.4	-0.5	2.3
Funded by equity	7.6	8.5	21.4	3.9	0.0
Funded by debt	0.4	-0.8	-3.1	0.0	0.0
Funded by cash	-3.1	-3.3	-16.9	-3.3	-2.3

Balance sheet summary ($m)

	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	3.4	6.7	23.5	26.9	29.2
Current receivables	1.1	4.0	3.9	4.7	5.3
Current inventories	0.0	0.0	0.0	0.0	0.0
Net PPE	1.1	19.3	19.1	21.1	23.0
Intangibles/capitalised	7.0	14.0	17.2	17.2	17.2
Total assets	13.5	45.8	66.2	72.9	78.0
Current payables	0.8	3.6	6.5	7.5	8.1
Total debt	0.3	21.6	18.1	21.1	24.1
Total liabilities	5.0	29.4	29.7	33.3	37.4
Shareholder equity	8.5	16.4	36.5	39.5	40.6
Total funds employed	8.8	38.0	54.6	60.6	64.7

Executive Summary

We initiate coverage on 5GN with an OVERWEIGHT recommendation and a $2.14 target price. Our target price is derived using a DCF valuation methodology, with our EV/EBITDA cross-check valuation being $1.92.

5G Networks "(5GN") is an emerging telecommunications carrier that operates its own nationwide high-speed data network with points of presence in all major Australian capital cities. 5GN is increasingly becoming a one-stop shop for SMEs and smaller enterprises alike by offering high-speed internet connectivity, access to data centres either owned by 5GN or 3rd party providers, cloud services and managed services to optimise customers' IT and network environments.

Our Overweight recommendation is predicated on the following:

- Genuine Revenue Drivers:
    - Short Term revenue drivers include: i) Covid-19, where "COVID continues to shift enterprise spending patterns, resulting in increased demand for various cloud-based services, including telephony, messaging and conferencing"[1]; ii) Increasing migration to the 'Cloud'; iii) 5GN's SME's looking for comprehensive ICT solutions; and iv) Stronger wholesale channel sales following the ColoAU acquisition.
    - Longer Term revenue drivers include: i) Ongoing and accelerated Digital Transformation programmes; ii) Enterprises in search of cost efficiencies continue to switch from Capex to Opex; and iii) Complexity of SMEs' ICT needs, with sophisticated security becoming an increasingly integral part of a service offering.
- Strong Profit Drivers: The primary revenue drivers for 5GN include: i) New customer wins driven by competitive pricing (resulting from greater scale), ii) Cost-out opportunities from ongoing transition of customers from off-net to on-net; iii) Operating leverage driven by greater volumes across the network; iv) straight-through processing of wholesale provisioning; and v) Synergies from acquisitions.
- Revenue Quality Improving: In FY19, 5GN's contracted and recurring revenue was 71% with the Hardware & Software business (acquired via Inabox) representing the balance (29%), We are forecasting recurring revenue to increase from 71% to 85% in FY20e, representing a higher quality (greater visibility and higher margin) revenue base on which to grow.
- Consolidated Offering: 5GN's consolidated offering includes enterprise-grade high speed internet, managed Wifi, unified communication (i.e. voice) services, security, data centre services, cloud services, infrastructure refresh via its hardware and software offerings, and IT management. The launch of the Cloud Federation Platform in April coupled with the ColoAU acquisition in July will accelerate 5GN's expansion into growing cloud and international markets.

[1] *Charles J. Meyers, President, CEO & Director, Equinix, 2Q20 Earnings Call*

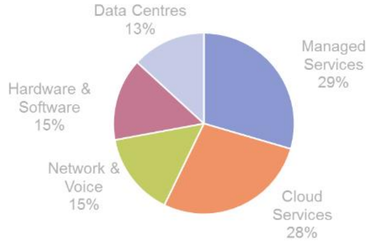
Company Overview

5G Networks "(5GN") is an emerging telecommunications carrier that operates its own nationwide high-speed data network with points of presence in all major Australian capital cities. 5GN is increasingly becoming a one-stop shop for SMEs and smaller enterprises alike by offering high-speed internet connectivity, access to data centres either owned by 5GN (720 racks across Sydney, Melbourne & Adelaide) or 3rd party providers, cloud services and managed services to optimise customers' IT and network environments.

Segmental Overview

5GN has determined that it only has "one reportable segment, being IT and Telecommunications" with no segmental breakdowns provided in its accounts. It does, however, have five main revenue lines:

Figure 1 – 5GN Revenue Split



Source: 5GN, Wilsons

1. Network & Voice

Data Networks refer to the provision of Enterprise grade internet products and services. 5GN provides small and large businesses alike access to fixed and wireless networks, either owned and operated by 5GN or provided by third parties. These networks provide diverse access to the customer's desired cloud and data centre services. Following the ColoAU acquisition, 5GN now has increased accessibility to international markets. 5GN can provide high-speed and reliable connectivity that facilitates enabling internet services, video conferencing and Software as a Service ("SaaS") applications.

Voice refers to 5GN's unified communication platform that enhances the productivity of staff, whether in the office or working remotely. 5GN's SIP trunking enables self-paced migration from existing voice infrastructure to a simplified and future proof collaboration platform. *(Note: Session Initiation Protocol (or "SIP") trunking has increased dramatically, as the 'trusted old' Public Switched Telephone Network (PSTN) gradually is being replaced by IP telephony).*

2. Data Centres

5GN offers both co-location services as well as data centre networking.

Colocation Services refers to providing customers access servers in either 5GN's owned data centres and/or 3rd party data centres. Customers deploying their servers and network equipment in the 5GN data centre colocation networks are often shifting from an on-premise, capex model to an outsourced, opex model.

Data Centre Networking refers to 5GN providing connectivity solutions, allowing a customer to connect offices, data centres and public cloud providers to >1,000 networks.

3. Hardware & Software

The Hardware and Software segment came to 5GN as part of the Inabox acquisition (specifically, the Annitel business) and represents the hardware and software sales made to customers. While a focus of the Annitel business, sales in this segment are lumpy and likely will continue to be, less of a focus in 5GN's growth strategy going forward.

4. Managed Services

Managed Services include simple engagements like basic maintenance through to more sophisticated offerings like fully outsourced IT support and administration where >100 Australian-based engineers mange and support customers' mission critical IT systems. 5GN also offers advisory services designed to develop and implement a 'future proof digital strategy'.

5. Cloud Services

5GN's private cloud platform underpins its '5GN Cloud Federation' offering, which is a multi-cloud ecosystem that seamlessly integrates globally recognised hyper-scalers such as Alibaba, AWS and Azure with high speed connectivity and market leading data centres.

Industry Overview

5GN focuses on mid-market corporates (i.e. <200 staff) but is incrementally winning large customers as the sophistication of its offering grows. Often, >50% of a mid-market corporates' IT spend is on networks which is mission-critical to their operations. While the migration to the cloud has been an ongoing and growing thematic over the past 5+ years, it has been accelerated due to the impacts from Covid-19.

New and Existing Businesses Both Present Opportunities

While winning new customers from the existing marketplace can drive growth, newly created businesses that have no (or few) legacy platforms or issues that can be 'born in the cloud' are also opportunities for growth. Figure 2 below shows that the number of businesses with 20-199 staff and >200 staff grew the fastest from FY16-FY19 at CAGRs of +3.7% and 3.9% respectively. In absolute terms, 2,070 new businesses with 20-199 staff were created in FY19 and >5,500 have been created since FY17 (Figure 3).

5GN's focus is the 20-199 staff category

Figure 2 – Overview of Australian Businesses (#, % Growth)

Business Size by # of Staff	FY16	FY17	FY18	FY19	CAGR
1–4	599,408	608,733	611,093	611,468	0.7%
5–19	198,721	203,351	207,810	212,247	2.2%
20–199	51,024	52,249	54,765	56,835	3.7%
200+	3,812	3,915	4,076	4,271	3.9%
Total Businesses	**852,965**	**868,248**	**877,744**	**884,821**	**1.2%**

Source: ABS, Wilsons

Figure 3 – Growth in Australian Businesses (#)

Growth in # of Businesses	FY17	FY18	FY19
1–4	9,325	2,360	375
5–19	4,630	4,459	4,437
20–199	1,225	2,516	2,070
200+	103	161	195
Total	**15,283**	**9,496**	**7,077**

Source: ABS, Wilsons

Benefits of Migrating to the Cloud Are Material and Consistent

Analysis by Deloitte Access Economics found: i) the cumulative productivity benefit to the Australian economy over 2013-2018 was $9.4bn, with more than $3bn being added in 2018 alone; and ii) 78% of users reported improvements in productivity since using cloud services, with cost savings and improved customer service the two primary reasons for migrating to the cloud.

Recent insights from some global leading technology firms only echo these findings, with many companies either expanding existing cloud functionality, accelerating a planned roll-out or creating a new cloud strategy. Covid-19 will likely see a number of firms have a 'Phase 1' strategy where they just get mobilised and address the immediate 'pain points' associated with, for example, decentralised workforces, with Phase 2 being a more sophisticated medium-term strategy.

Figure 4 below summarises a November 2019 forecast for public cloud services to grow at a CAGR of +17% from 2018 to 2022, with Cloud Application Services more than doubling from $3.6bn to $7.3bn. While very strong growth, this is only likely to be understated given the recent step-change in demand for Digital Transformation.

Figure 4 – Public Cloud Services End-User Spending in Australia (A$m)

	2018	2019	2020	2021	2022	CAGR
Cloud Business Process Services (BPaaS)	855	877	908	953	1,012	4%
Cloud Application Infrastructure Services (PaaS)	484	584	692	810	934	18%
Cloud Application Services (SaaS)	3,577	4,347	5,248	6,201	7,264	19%
Cloud Management & Security Services	281	331	380	435	490	15%
Cloud System Infrastructure Services (IaaS)	560	715	881	1,049	1,227	22%
Total	**5,757**	**6,854**	**8,109**	**9,448**	**10,927**	**17%**

Source: Gartner (November 2019), Wilsons

Three Key Topics

We will explore three key topics:

1. Primary Revenue Drivers

2. Organic vs. Acquisitive Growth

Competitive Landscape

1. Primary Revenue Drivers

A. Short Term Revenue Drivers

We see four primary short-term revenue drivers:

1. Covid-19: Covid-19 has resulted in a material shift in the way employees and businesses work, in an incredibly short period of time. All businesses are different and have different technology needs, but at the aggregate level, businesses now are more than ever in need of technology solutions to facilitate existing business under greater decentralisation (i.e. working from home).

   We expect 5GN to position itself to capture revenue growth from: i) existing customers that need additional capacity and/or functionality; ii) customers currently in their pipeline that pull forward their need for IT solutions, and iii) new customers that identify new and pressing IT issues that needs addressing.

   On its 2Q20 earnings call on July 29th, Equinix, the global leader in carrier-neutral data centres, made the following comments which, we believe, are relevant for Australia as much as the US:

   > *"The secular drivers of demand for digital infrastructure have never been stronger"*
   >
   > *"COVID continues to shift enterprise spending patterns, resulting in increased demand for various cloud-based services, including telephony, messaging and conferencing"*
   >
   > *"The cloud providers talk about this elevation of awareness around digital transformation and the priority that exists there, even in sectors of the economy that are meaningfully impacted by COVID. I think that what people are seeing is that those companies that were better prepared or further ahead in their digital strategies are weathering the storm better. And I think that, that's leading people to say, "We've got to make that investment." In some cases, even if their businesses are a bit on their back, they kind of say, "Look, we're going to take that medicine but we're going to invest in the business and in the future and make sure we're making the digital investments that are necessary."*

We believe 5GN is well placed to capitalise on the acceleration of trends already in place before Covid-19, with the ColoAU acquisition adding sophistication to 5GN's front-end and wholesale provisioning capabilities and the data centre acquisitions (North Sydney Data Centres, Australian Pacific DCs, Melbourne Data Centre) both simplifies the customer experience and lowers costs for customers.

Figure 5 below shows the material increases in demand in the current Covid-19 situation. This shows the pre- and post-Covid downstream usage of the NBN.

Figure 5 - Downstream Network Usage – Pre-Covid and Post-Covid Data

Note the jump in demand during business hours has been +10% and +26% respectively between June 15th and July 5th.

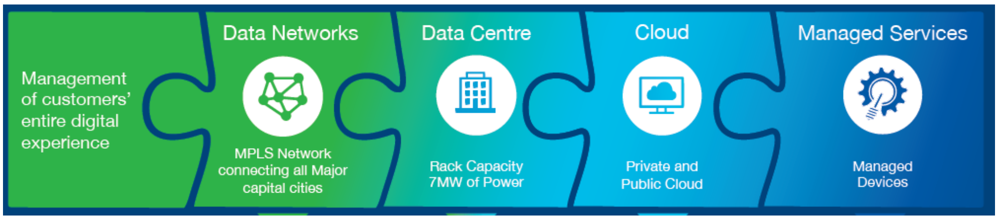
Source: NBN - Australian Broadband Data Demand, 10 July 2020

2. <u>The Migration to the Cloud:</u> Scalability, accessibility and its ability to offer economies of scale are all demand drivers for cloud services. The need for, and now expectation of, 100% uptime also lends itself to an outsourced offering, for SME's in particular, with the implications of downtime or degraded network performance for businesses including loss of revenue, work inefficiencies, gaps in mission critical data and negative customer experiences.

   Benefits from cloud migration include IT costs savings (sometimes material), improved operational resilience (eg. stronger security protocols), higher productivity and a generally more agile and adaptable business.

3. <u>A Consolidated Offering:</u> For SME's the value of a one-stop shop for their IT solutions is not immaterial. The value proposition for an offering like 5GN's includes enterprise-grade high speed internet, managed Wifi, unified communication (i.e. voice) services, security, data centre services, cloud services, infrastructure refresh via its hardware and software offerings, and IT management. The recent ColoAU acquisition will provide both of 5GN's channels (direct and wholesale) with a new provisioning portal, expediting the delivery of network services to customers.

Figure 6 – Management of a Customer's Entire Digital Experience

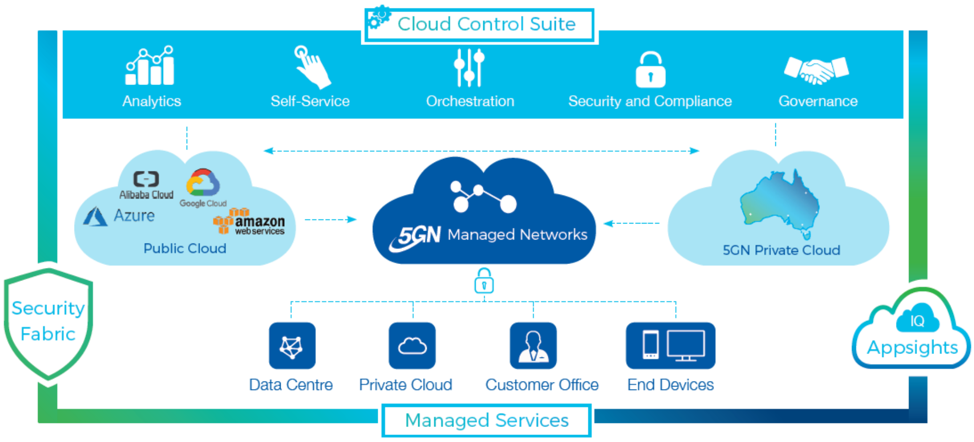


Source: 5GN Presentation

4. Leveraging the Wholesale Channel: 5GN's growth strategy has been to expand its core offering, add strategic adjacency capabilities and acquire new assets that leverage its existing assets.

In April 2020, 5GN successfully launched Cloud Federation, which "*provides connectivity to several market leading cloud providers for seamless access to hybrid, private and public cloud offerings*". 5GN customers can access the cloud (private, public, hybrid) and choose from a variety of service offerings (from single service through to managed services). This would utilise 5GN's proprietary fibre networks and data centres which all meet the security, compliance and governance requirements in today's market. (Figure 7).

Figure 7 – 5GN's Cloud Federation Platform



Source: 5GN – Wilsons Rapid Insights Conference Presentation

The launch of the Cloud Federation Platform in April…

With the Cloud Federation platform in place, 5GN then acquired ColoAU. ColoAU, which operates a national and international 100Gb WDM ("*wavelength-division multiplexing*") network which connects Australian capital cities to dedicated international access and data centres" (eg. Tokyo, Singapore, Los Angeles). Just as importantly, ColoAU brought a wholesale provisioning capability to 5GN. This will allow customers a far more efficient way to order and provision services through innovative software.

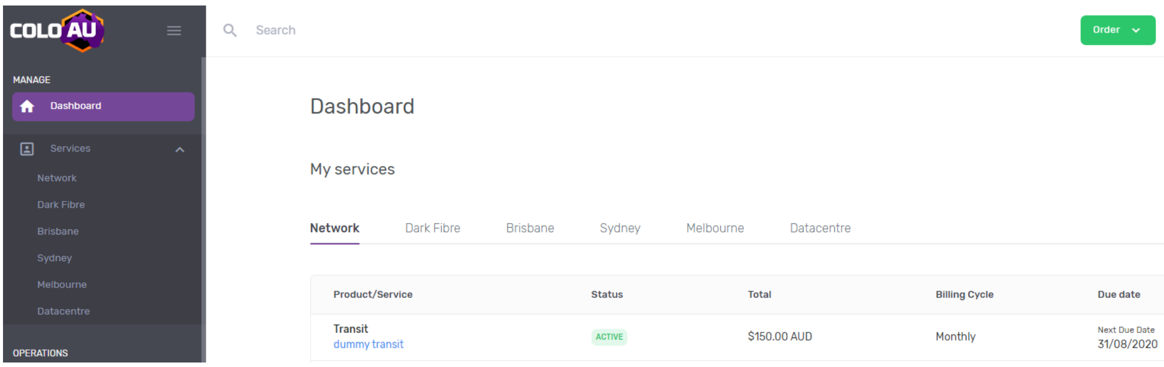
The key benefits of the ColoAU acquisition are:

- Increased automation using the ColoAU platform
- Faster customer fulfilment resulting in accelerated service delivery for customers
- Enhanced channel partner program, providing access to >67 leading data centres (post-fibre network rollout completion).

… coupled with the ColoAU acquisition in July will accelerate 5GN's expansion into the wholesale market

New market opportunities from ColoAU's international network architecture

Figure 8 – Screenshot of ColoAU's Front-end Wholesale Offering



Source: 5GN

B. Medium- to Long-Term Revenue Drivers

We see three primary medium- to long-term revenue drivers:

1. Digital Transformation: Digital transformation uses digital technologies to either create brand new or enhance existing business processes to improve both company culture and customer experiences. Digital Transformation will vary materially depending on budget capacity and firm size. Current examples of digital transformation could range from a café updating its payment system to facilitate contactless payments to an SME with all 200 staff now working remotely and needing to upgrade its technology infrastructure. 5GN's focus on SMEs and emerging enterprises places it well to participate in these opportunities, but its ability to execute will determine its ultimate success.

Digital Transformation is becoming more and a "When" than an "If"

2. The Migration from Capex to Opex: Businesses are arguably good at planning change and operational improvement, but poor at executing on those things in a timely manner. Covid-19 has 'forced many company's hands' to accelerate change. With revenues either less reliable or falling, cost reduction is paramount and shifting costs from being large and upfront to small and ongoing holds considerable appeal in today's environment.

   For example, a business with a data centre in its own office space (i.e. 'in-house' or 'on-premise') could reduce the area of its office leasing footprint and eliminate the need to IT staff to ever visit the office building by migrating to a third party provider data centre provider.

Externalising a firms IT requirements can result in smaller, more manageable ongoing costs (Opex) instead of larger, upfront costs (Capex)

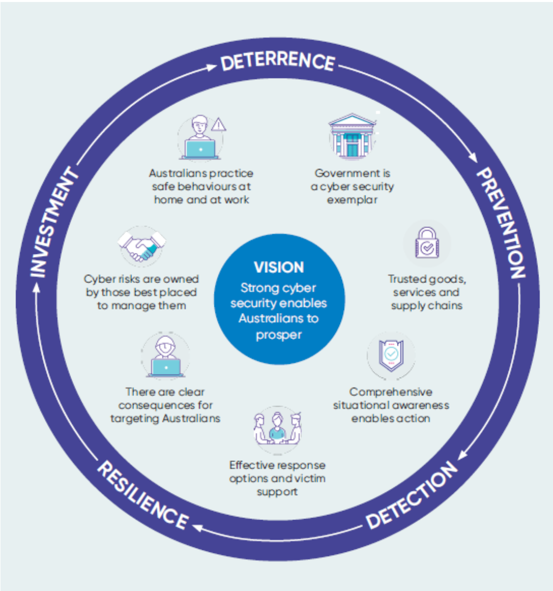
3. Complexity, including Security: With more and more of business becoming electronic in nature, the ability for smaller businesses to manage their IT needs becomes incrementally challenging. This assumes continuity in the ordinary course of business. As businesses increasingly move online, the need for technology security increases materially to ensure data remains secure and they are not subject to hacking.

   Minister for Home Affairs, Peter Dutton, said in September 2019 that "*Cyber security incidents have been estimated to cost Australian businesses up to $29bn per year and cybercrime affected almost one in three Australian adults in 2018*". The 2020 Cyber Security Strategy Industry Advisory Panel, The Panel consists of six members including Andre Penn - MD & CEO of Telstra, Ms Robyn Denholm - Board Chair of Tesla in 2018 and former COO at Telstra and Ms Kirstjen Nielsen - U.S. Secretary of Homeland Security from 2017–2019. The panel's recent report Australia's 2020 Cyber Security Strategy included Figure 9 below showing the five elements of security.

   The complexity of IT offerings and the paramount need for sophisticated security lends itself to using professional IT service providers, like 5GN and its operational partners.

Protecting customer integrity, and at the same time, a corporate's reputation, cyber security has never been more paramount.

Figure 9: 2020 Cyber Security Framework



Source: Australia's 2020 Cyber Security Strategy - Industry Advisory Panel Report

2. Acquisitive vs. Organic Growth

Acquisitions

Growth in the telecommunications industry ideally comes from solid organic growth supplemented with strategic (and preferably accretive) acquisitions. Organic revenue growth has often been characterised by increasing volumes against falling prices, with the net outcome depending on the rate of change of volumes and prices.

5GN, like other emerging telecommunications companies, are taking advantage of their EV/EBITDA premium vs. its acquisition targets

5GN, like many other telecommunications companies, has been highly acquisitive since listing. 5GN's initial acquisitions expanded its core competencies of voice, data and cloud services before acquiring data centres in Melbourne and Sydney, with the ColoAU acquisition adding a wholesale capability (Figure 10).

Since Nov-17, excluding the acquisition of Enspire at the IPO, 5GN has spent ~$26m on six acquisitions at an average EV/EBITDA of 3.6x. 5GN's FY21e EV/EBITDA is 19.2x.

Figure 10 – Summary of 5GN Acquisitions Since Listing (A$m, unless otherwise stated)

Acquisition	Description	Date Acquired	Price	Ann. Rev.	EBITDA	EV/EBITDA (x)
ColoAU	Fibre Network, Wholesale	08-Jul-20	2.9	4.2	0.70	4.1
North Sydney Data Centre	Data centre(s)	12-Feb-20	2.0	1.3	0.75	2.7
Australian Pacific DCs	Data centre(s)	12-Sep-19	3.5	1.7	0.50	7.0
Melbourne Data Centre	Data centre(s)	02-Apr-19	5.7	3.0	0.81	7.0
Hostworks & Annitel (Inabox)	Cloud & Hosting, Mgd IT	03-Aug-18	5.7	43.0	2.85	2.0
Asia Pacific Telecomm ("Aptel")	Voice, Data & Cloud	09-Mar-18	6.0	6.3	1.50	4.0
Enspire	Voice, Data & Cloud	Nov-17 (IPO)	1.8	6.0	0.74	2.4
		Average	**3.9**		**Average**	**3.5**
		Total	**27.6**			

Source: 5GN, Wilsons

Other industry players have been similarly acquisitive. Since Dec-16, Spirit Telecom has spent ~$41m on nine acquisitions at an average EV/EBITDA of 3.9x. Spirit Telecom's FY21e EV/EBITDA is 15.5x.

Figure 11 – Summary of Spirit Telecom Acquisitions (A$m, unless otherwise stated)

Acquisition	Description	Date Acquired	Price	Ann. Rev.	EBITDA	EV/EBITDA (x)
VPD Group	Cloud, Internet, Voice	26-Jun-20	14.0	15.0	3.3	4.3
Trident & Neptune	Cloud, Security	14-Feb-20	6.9	34.0	1.9	3.6
Cloud Business Tech	Cloud, Security	28-Jan-20	0.7	1.3	0.2	3.4
Phoenix Austec	MSP & Managed IT	24-Jul-19	1.6	1.9	0.4	4.3
Arinda IT	MSP	02-Jul-19	2.6	2.2	0.6	4.3
Building Connect	Fixed Wireless	09-May-19	0.3	n.m.	n.m.	n.m.
LinkOne	Networks (3rd deal)	03-Apr-19	5.7	n/a	1.1	5.4
World Without Wires	Fixed Wireless, W'sale	25-Aug-17	4.6	2.6	1.0	4.6
Phone Names	Personalised 1800 Numbers	08-Dec-16	4.2	1.5	0.8	5.3
		Average	**4.5**		**Average**	**3.9**
		Total	**40.6**			

Source: Spirit Telecom, Wilsons

Organic Growth

Given the number of acquisitions made by 5GN, it is paramount to clearly understand organic growth.

Figure 12 below reflects our analysis of the relative contributions of organic and acquisitive growth to total group revenue growth from FY19 to FY21e.

Notwithstanding conversations with 5GN to get a greater understanding of its acquisitions, we note some caveats to our analysis:

- We use annualised revenue as a proxy for revenue, noting that annualised revenue tends to be higher than revenue, which could lead to us *understating organic revenue growth*.
- We do not account for seasonality in the acquisitions, so we apportion the annualised revenue equally across all 12 months. This could lead to *overstating or understating organic revenue growth.*
- We do not have insight into churn (voluntary or otherwise), so we assume no churn, which may *understate organic revenue growth.*

Noting these caveats, we make the following observations:

- FY19: Given the materiality of the Inabox acquisition (~$40m in annualised recurring revenue), acquisitive growth dwarfs organic growth, but we note strong organic growth of ~50%.
- FY20e:
    - The Hardware & Software segment has, *strategically*, decreased
    - 5GN's guidance of organic growth to be >10% refers to recurring revenue services (i.e. total revenue *excluding Hardware and Software*)
    - The ColoAU acquisition was made on July 8th, so has no impact on FY20e
- FY21e: We expect organic Network & Voice and Cloud revenues to drive organic growth.

Figure 12 – Organic vs. Acquisitive Revenue Growth (Historical and Forecast)

		A$m	Growth
FY18		**5.4**	
Acquisitions	Aptel	4.3	
	Inabox	38.0	n/m
	Melb DC	0.7	
Organic		2.7	50%
FY19		**51.2**	**848%**
Acquisitions	Inabox	2.0	
	Melb DC	2.3	12%
	AP DCs	1.4	
	N Syd DCs	0.5	
Organic		-5.8	(11%)
FY20		**51.5**	**1%**
Acquisitions	AP DCs	0.3	
	N Syd DCs	0.8	10%
	ColoAU	4.1	
Organic		5.6	11%
FY21		**62.4**	**21%**

Source: 5GN, Wilsons

Note – Organic growth in FY19 refers to total revenue, which includes the Hardware and Software business that 5GN is strategically de-emphasising.

The more important measure is organic growth in recurring revenue services (i.e. total revenue excluding Hardware and Software).

5GN's guidance of organic growth to be >10% refers to recurring revenue services (i.e. total revenue *excluding Hardware and Software*).

The key Insights from Figure 13 below are:

- FY20e:
  - We are forecasting total revenue growth to be flat, in-line with company guidance
  - Acquisitive growth of 12% was offset by organic growth contracting (intentionally and strategically) as Hardware and Software sales decline
  - We estimate 5GN's core, recurring revenue services grew +20%
- FY21e:
  - Total revenue growth grows +21%
  - We estimate that organic growth (+11%) will exceed acquisitive growth (+10%)

Recurring revenue services, 5GN's core offering, is forecast to grow +20% in FY21e

Recurring revenue services, 5GN's core offering, is forecast to grow +20%

Figure 13 – Organic vs. Acquisitive Growth (Historical and Forecast)

Segment	FY18	Acquisitive	Organic	FY19	Acquisitive	Organic	FY20e	Acquisitive	Organic	FY21e
Network & Voice	2.0			6.8			7.6			11.0
Data Centres	0.0			4.1			6.7			9.7
Hardware & Software	0.6	43.1	2.7	15.0	6.1	-5.8	7.5	5.3	5.6	9.7
Managed Services	1.4			13.3			15.0			15.8
Cloud Services	1.4			12.0			14.1			15.5
Total	**5.4**			**51.2**			**50.9**			**61.8**
… Growth (total)		n/m	50%	846%	12%	(11%)	(0%)	10%	11%	21%
… Growth (Recurring)		**647%**			**20%**			**20%**		

Source: 5GN, Wilsons

The key drivers of organic growth going forward include:

- Cost-out opportunities from ongoing transition of customers from off-net to on-net
- Operating leverage driven by greater volumes across the network and straight-through processing of wholesale provisioning
- Synergies from acquisitions
- Competitive pricing from greater scale

3. Competitive Landscape

Junior Telco Evolution Mach II

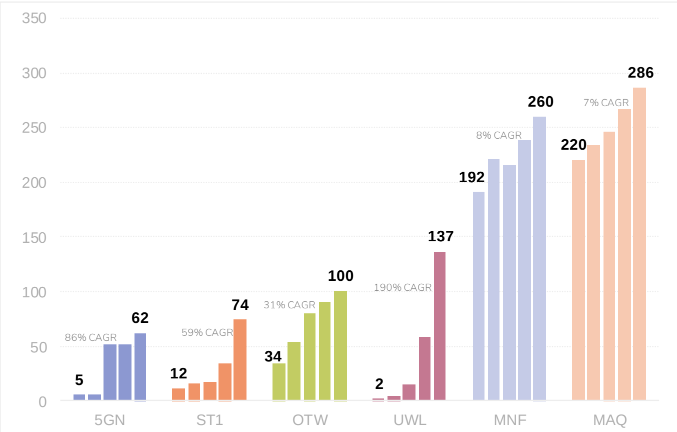
With a backdrop of challenged SMEs offset by a genuine, material step-change in demand as an unintended consequence of the current Covid-19 situation, we believe we are seeing the next evolution of the junior telecommunications industry in Australia.

While Over the Wire and MNF Group have tenure in the industry, younger competitors in Spirit Telecom, Uniti Group (largely spearheaded by former M2 senior executives) and 5GN are the key challengers. As noted above, M&A has been a key feature of these new challengers, following a similar path to the junior telecommunications companies of 5-7 years ago.

That consolidation phase saw TPG Telecom acquire iiNet and Vocus acquiring both M2 Telecommunications and Amcom Telecommunications. TPG and Vocus both subsequently graduated into that S&P/ASX 100 Index, leaving only NextDC, Chorus and Telecom NZ as the technology/telecommunications components of the Small Industrials.

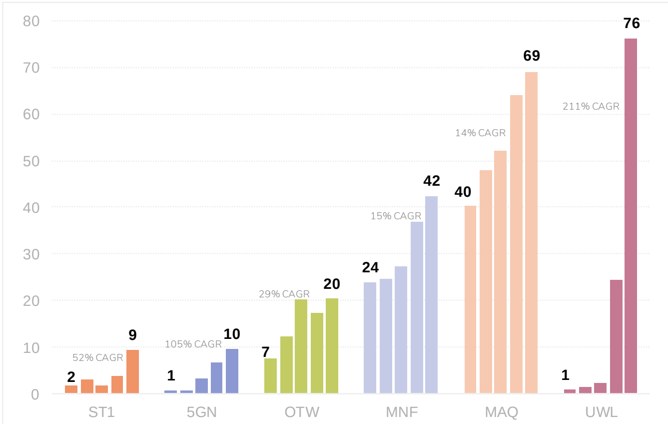
Figure 14 and Figure 15 below illustrates history repeating itself, with the revenue growth achieved by half of the peers (5GN, ST1 & UWL) quickly improving scale via M&A, Uniti (UWL) in particular.

Figure 14: Competitive Landscape – Revenue (A$m) Overview (FY17-FY21e)



Source: Wilsons, S&P Capital IQ, consensus estimates

Figure 15: Competitive Landscape – EBITDA (A$m) Overview (FY17-FY21e)



Source: Wilsons, S&P Capital IQ, consensus estimates

Figure 16 below shows some summary metrics for 5GN's peer group. We note that 5GN's metrics (eg. PE, EV/EBITDA) are among the highest in the peer set in FY21e primarily due to the infancy of the business (eg. $1m of NPAT in FY20e). Given 5GN is still early in its growth phase, we re-emphasise our expectation that 5GN can grow its core recurring FY21e revenue by ~20%, with >10% being organic.

Figure 16: Comparables Table

Company Name	Mkt cap	TEV (m)	EV/Revenue			EV/Gross Profit			EV/EBITDA			P/E (norm.)			Net Debt/EBITDA		
	(m)		FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Domestic peers																	
Spirit Telecom Limited	156	158	4.6x	2.1x	2.0x	7.1x	3.7x	3.4x	44.6x	16.4x	13.1x	NM	36.2x	28.4x	-0.8x	0.2x	-0.9x
Over the Wire Holdings Limited	195	198	2.2x	2.0x	1.8x	4.4x	3.9x	3.5x	11.7x	9.9x	8.8x	27.7x	21.5x	18.0x	-0.3x	-0.7x	-1.1x
MNF Group Limited	452	466	2.0x	1.8x	1.7x	4.7x	NM	NM	12.6x	11.0x	9.5x	26.7x	24.2x	20.0x	-0.3x	-0.6x	-0.8x
Uniti Group Limited	853	826	14.2x	6.0x	4.6x	18.7x	7.2x	5.5x	34.0x	10.8x	7.9x	33.6x	23.2x	17.6x	-7.6x	1.0x	0.2x
Macquarie Telecom Group Limited	980	1,057	4.0x	3.7x	3.4x	5.7x	5.3x	4.9x	16.5x	15.3x	13.6x	67.3x	77.7x	61.5x	0.4x	1.2x	1.1x
5G Networks Limited	164	180	3.5x	2.9x	2.6x	5.9x	4.8x	4.3x	26.9x	18.7x	14.0x	202.1x	164.1x	67.0x	2.9x	2.4x	2.0x
Group Median			4.0x	2.1x	2.0x	5.7x	4.6x	4.2x	16.5x	11.0x	9.5x	30.7x	24.2x	20.0x	-0.3x	0.2x	-0.8x
Group Average			5.4x	3.1x	2.7x	8.1x	5.0x	4.3x	23.9x	12.7x	10.6x	38.9x	36.6x	29.1x	-1.7x	0.2x	-0.3x

Source: Wilsons, S&P Capital IQ, consensus estimates.

Financials

P&L

At 5GN's recent capital raising on 6th June, management guided to FY20e:

- Revenue of $50m-$52m, driven by a shift from one off hardware sales to recurring revenue services, which was tracking ahead of expectations. Organic recurring revenue growth of >10% is expected.
- EBITDA of $6.0m-$6.3m
- EBITDA Margins >12%, above 5GN's EBITDA guidance range of 8% – 12%, driven by: i) conversion of customers to higher quality, higher margin recurring revenue services; ii) cost synergy realisation; and iii) improved operating leverage.

Figure 17 below summarises our forecasts vs. company guidance. We are unable to provide insights on consensus at this point due to a lack of diversified research coverage. Assuming 13% EBITDA margins results in us being slightly ahead of guidance.

Figure 17 – P&L: Wilsons Forecasts vs. 5GN Guidance

Metric	5GN Guidance	Wilsons	Difference
Revenue	$50m - $52m	50.9	(0.2%)
EBITDA	$6.0m - $6.3m	6.7	9%
EBITDA Margin	>12%	13.1%	~110bps

Source: 5GN Reports, Wilsons

Figure 18 – Summary P&L

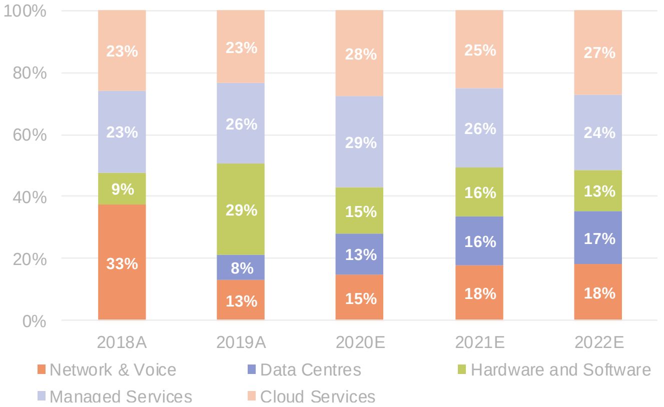
5GN P&L Summary (A$m)					
Segment Revenue	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Network & Voice	2.0	6.8	7.6	11.0	12.7
Data Centres	0.0	4.1	6.7	9.7	11.7
Hardware & Software	0.6	15.0	7.5	9.7	9.3
Managed Services	1.4	13.3	15.0	15.8	16.9
Cloud Services	1.4	12.0	14.1	15.5	18.6
Total Operating Revenue	**5.4**	**51.2**	**50.9**	**61.8**	**69.1**
Other Non-Operating Income	0.7	0.0	0.0	0.1	0.1
Total Revenue	**6.1**	**51.2**	**51.0**	**61.9**	**69.2**
% growth		*735%*	*(0%)*	*21%*	*12%*
Network and Data centre costs	-2.5	-24.7	-20.6	-24.7	-27.0
Gross Profit	3.6	**26.5**	**30.3**	**37.1**	**42.2**
% margin	*58.6%*	*51.8%*	*59.5%*	*60.0%*	*61.0%*
Total operating expenses (ex. D&A)	-3.0	-23.3	-23.6	-27.5	-29.4
% growth		*684%*	*1%*	*16%*	*7%*
EBITDA (norm.)	**0.6**	**3.2**	**6.7**	**9.6**	**12.8**
% margin	*10.1%*	*6.3%*	*13.1%*	*15.6%*	*18.5%*
Depreciation	-0.2	-3.3	-4.8	-5.9	-6.4
Share-based Payments	**-0.1**	**-2.2**	**-2.0**	**-2.5**	**-2.8**
% margin	*-2.2%*	*-4.3%*	*-4.0%*	*-4.0%*	*-4.0%*
Finance costs	0.0	-1.1	-1.3	-2.1	-2.4
Profit/(loss) before income tax (norm.)	**0.4**	**-1.2**	**0.6**	**1.6**	**4.1**
% margin	*6.0%*	*-2.4%*	*1.2%*	*2.7%*	*5.9%*
Income tax benefit/(expense)	-0.3	0.0	0.2	-0.5	-1.2
Net Profit after Tax (norm.)	**0.1**	**-1.2**	**0.8**	**1.1**	**2.8**
% margin	*0.9%*	*-2.4%*	*1.5%*	*1.9%*	*4.1%*
Diluted (cps)	**0.1**	**-1.9**	**1.0**	**1.1**	**2.8**
% growth		*n/m*	*n/m*	*18.4%*	*145.9%*
DPS (cps)	**0.0**	**0.0**	**2.0**	**2.0**	**2.0**
% growth		*n/m*	*n/m*	*0.0%*	*0.0%*

Source: 5GN Reports, Wilsons

A few segmental observations to note:

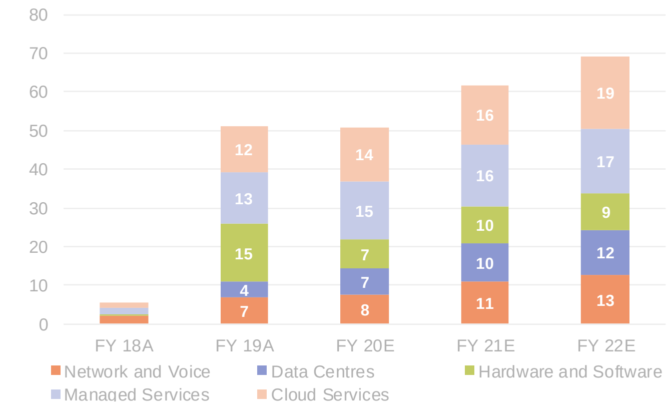
- The core Network and Voice segment was diluted in FY19 due to the Inabox acquisition, but has continued to grow in an absolute sense since then
- Data Centres have been added to 5GN's offering and we expect ongoing investment in this segment
- Hardware & Software has *strategically and intentionally* reduced as 5GN rotates the business from lower margin, lumpier sales to higher margin, more predictable sales
- Managed Services is a consistent contributing segment
- Cloud Services has grown modestly but we expect this to gain momentum in the short and medium term

Figure 19 – Segmental Revenue: Relative Contribution (%)



Source: 5GN Reports, Wilsons

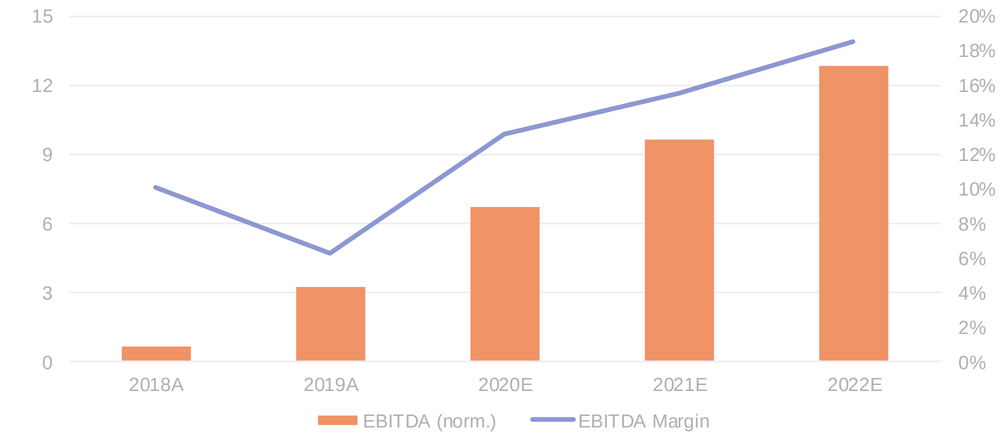
Figure 20 – Segmental Revenue: Absolute Contribution (A$m)



Source: 5GN Reports, Wilsons

Figure 21 below shows 5GN's EBITDA and EBITDA margins. EBITDA margin expansion is expected to be driven by synergies from acquisitions, the reduced contributions from low-margin Hardware & Software and operational efficiencies achieved with scale.

Figure 21 – EBITDA (A$m) & EBITDA Margins



Source: 5GN Reports, Wilsons

Balance Sheet

Key insights into 5GN's Balance Sheet (Figure 23) include:

- In June, 5GN raised $22.1m ($18.2m placement and $3.9m SPP) which is a primary driver behind our forecast for 5GN to be net cash $19.5m at FY20e. 5GN's $2.9m acquisition ($2.4m in cash, $0.5m in equity) was post balance, on July 8th.
- Only one of 5GN's six acquisitions since listing, the latest acquisition of ColoAU, has an earn-out of $0.5m.
- Should all outstanding Performance Rights and Options be exercised into stock, we estimate 14% dilution to ordinary shares on issue.

For more colour on dilution, see Figure 22 below

For a detailed summary of 5GN's Performance Rights and Options, see Appendix 1

Potential Dilution Impact of Performance Rights and Options

5GN has ~12.1m Performance Rights and Options outstanding, with various exercise dates. The 5m Performance Rights relating to the 5GN CEO have a FY21e target of $80m in revenue and $10m in EBITDA.

Figure 22 – Potential Dilution Impact of Performance Rights and Options

Type	Volume	Exercise Price	Vesting Date	Expiry Date	Criteria - Targets	Criteria - Duration
Performance Rights	5,000,000	$0.60	23-Nov-21	23-Nov-23	FY21: Revenue of $80m, EBITDA of $10m	Service Tenure
Options	7,050,000	Various	Various	Various	-	Service Tenure
Total	**12,050,000**					
Shares on Issue	90,586,356					
Potential Dilution	**13.3%**					

Source: 5GN Reports, Wilsons

Figure 23 – Summary Balance Sheet

5GN Balance Sheet (A$m), June y/end	2018A	2019A	2020E	2021E	2022E
Cash & Cash Equivalents	3.4	6.7	23.5	26.9	29.2
Trade & Other Receivables	1.1	4.0	3.9	4.7	5.3
Contract Assets	0.2	0.6	0.4	0.9	1.3
Other Current Assets	0.7	1.2	2.1	2.1	2.1
Current Assets	**5.3**	**12.5**	**29.9**	**34.5**	**37.8**
Trade and Other Receivables	0.1	0.07	0.1	0	0
Property, Plant & Equipment	1.1	5.1	7.9	9.6	11.1
Right of Use Asset	0.0	14.1	11.1	11.5	11.9
Deferred Tax Asset	0.2	0.6	0.6	0.6	0.6
Intangible Assets	6.8	13.4	16.6	16.6	16.6
Total Non-Current Assets	**8.2**	**33.3**	**36.4**	**38.4**	**40.2**
Total Assets	**13.5**	**45.8**	**66.2**	**72.9**	**78.0**
Trade and Other Payables	0.8	3.6	6.5	7.5	8.1
Borrowings	0.2	1.9	0.7	0.7	0.7
Lease Liabilities	0.0	1.8	2.8	2.8	2.8
Employee Benefits	0.5	2.2	1.5	1.8	2.1
Provision for Income Tax	0.2	0.2	0.2	0.2	0.2
Contract Liabilities	0.1	1.2	2.3	1.6	1.7
Other Current Liabilities	3.2	0.3	0.7	0.7	0.7
Total Current Liabilities	**4.9**	**11.2**	**14.7**	**15.3**	**16.4**
Borrowings LT	0.1	5.0	3.3	3.3	3.3
Lease Liabilities LT	0.0	12.9	11.3	14.3	17.3
Employee Benefits LT	0.0	0.3	0.5	0.5	0.5
Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	**0.1**	**18.2**	**15.1**	**18.1**	**21.1**
Total Liabilities	**5.0**	**29.4**	**29.7**	**33.3**	**37.4**
Total Equity	**8.5**	**16.4**	**36.5**	**39.5**	**40.6**

Source: 5GN Reports, Wilsons

Cashflow

Key insights into 5GN's Cashflow (Figure 24) include:

- At 5GN's recent capital raising on 6th June, management indicated that Operating Cashflow conversion would remain strong in 4Q20e and continue to be strong in FY21. We are forecasting FY20e Operating Cashflow conversion of 112%.

Figure 24 – Summary Cashflow

Cash Flow Summary (A$m), June y/end	2018A	2019A	2020E	2021E	2022E
Net Profit/(Loss) After Tax	-0.3	-4.1	-1.8	-1.5	0.1
Depreciation and amortisation	0.2	3.3	4.8	5.9	6.4
Share based payment expense	0.1	2.2	2.0	2.5	2.8
Other Non-Cash charges	0.1	-0.2	-0.4	0.0	0.0
Operating Cash Flow before W.C	**0.1**	**1.1**	**4.7**	**6.8**	**9.2**
Change in net working capital	-0.8	-0.2	2.8	-0.6	0.1
Operating cash flow	**-0.7**	**0.9**	**7.5**	**6.2**	**9.3**
EBITDA conversion %	*-109%*	*29%*	*112%*	*65%*	*72%*
Gross Capital Expenditure	-0.3	-1.2	-3.3	-4.9	-5.2
Other Investing Activities	-3.1	-2.6	-4.1	0.0	0.0
Investing Cash Flow	**-3.3**	**-3.8**	**-7.4**	**-4.9**	**-5.2**
Free Cash Flow	-1.0	-0.3	4.2	1.3	4.1
as % of revenue	*-18%*	*-1%*	*8%*	*2%*	*6%*
Financing Cash Flow	**7.1**	**6.1**	**16.7**	**2.1**	**-1.8**
Net increase/(decrease) in cash	**3.1**	**3.3**	**16.9**	**3.3**	**2.3**
Cash at beginning of financial year	0.2	3.4	6.7	23.5	26.9
Cash at end of financial year	**3.4**	**6.7**	**23.5**	**26.9**	**29.2**

Source: 5GN Reports, Wilsons

Recommendation, Target Price & Valuation

We rate 5GN as Overweight with a $2.14 target price which is based on our DCF valuation. We calculate an EV/EBITDA as a cross-check, using a target FY21e EV/EBITDA multiple of 20x, which returns a valuation of $1.92. We do not include this in our target price as the 20x multiple is above the top-end of peers and almost 2x the bottom-end of peers.

We do not think that an EV/Sales multiple is an appropriate measure at this point for 5GN as its top-line sales are <30% and its recurring revenue platform is still being established. That said, 5GN's FY21e EV/Sales of 2.9x is in-line with its peer average (3.1x) and above its peer median (2.1x).

Our target price of $2.14 implies a Total Shareholder Return of 20%

Figure 25 - Valuation Summary

Valuation Methodology	$/share	% weight	Comment
DCF	$2.14	100%	Primary valuation
EV/EBITDA	$1.92	0%	Cross-check
Average	**$2.03**		

Valuation Methodology	Spot	Target Px	Prem/Disc to Spot
EV/EBITDA	16.9x	20.0x	19%
FY21 EBITDA (A$m)	9.6	9.6	
Equity Value/share	**$1.80**	**$1.92**	7%

EV/Sales (@ Target Price)	
5GN Target Price	$2.14
Diluted shares (#)	100.9
Implied Equity Value ($m)	**216**
Net debt/(cash) ($m)	-20
EV using Target Price ($m)	197
FY21E Sales ($m)	62
Implied FY21E EV/Sales (x)	3.2x

Shareholder Return Analysis	
Target Price	$2.14
Spot Price	$1.80
Expected Return	18.9%
Yield	1.1%
Total Shareholder Return	**20.0%**

Source: Wilsons

Board & Management

5GN's Board has at least three members, a majority of independent directors and is chaired by an independent director, meeting the ASX's Corporate Governance Principles and Recommendations guidance.

Figure 26 – The 5GN Board of Directors

Name	Board Position	Independent / Executive	Date Joined	Primary Expertise	Shareholding (#)	Shareholding (%)
Albert Cheok	Chairman	Independent, Non-Executive	Nov-17	Banking, Financial Services	3,082,356	3.4%
Joseph (Joe) Demase	Managing Director, CEO	Non-Independent, Executive	Nov-17	Telecommunications	19,161,208	21.0%
Jason Ashton	Director	Independent, Non-Executive	Oct-19	Internet Infrastructure	188,762	0.2%
Joe Gangi	Director	Non-Independent, Executive	Nov-17	Corporate Management	1,493,729	1.6%

Source: 5GN Reports

Figure 27 – The 5GN Management Team

Name	Company Position	Primary Expertise	Date Joined
Joseph (Joe) Demase	Managing Director, CEO	Telecommunications	Nov-17
Glen Dymond	CFO & Company Secretary	Finance & Operations	Aug-19
Garry White	Sales Director	ICT & Telecommunications	Nov-17
Glenn Flower	Chief Marketing Officer	ICT, Marketing & Product Management	Oct-18
Chris Demase	EGM - Operations	Telecommunications	Mar-18
Marco Mattiuzzo	Chief Technical Officer	ICT & Data Centre Services	Nov-17
Joel Bruce	Executive National Field Manager	IT Support & Consulting	Mar-18

Source: 5GN Reports

Environmental, Social & Governance

In the 2019 Annual Report, 5GN complied with 26 of the 29 Corporate Governance Principles and Recommendations provided by the ASX. Notably, the Board Charter, the Code of Conduct Policy and five other policies are readily available on their website.

5GN's Code of Conduct says that 5GN has a framework to enable Directors, senior executives and employees to achieve the highest possible standards in the discharge of their duties and to give a clear understanding of best practise in Corporate Governance.

The three recommendations that 5GN did not meet or only partially met were:

- Diversity Policy: In the 2019 Annual Report, the 5GN Board determined that given the Company's recent listing, current size and structure, a formal diversity policy is not required. With a fourth Board member added and 5GN now 2.5 years after listing, it would be good for 5GN to develop and finalise this policy.
- An Internal Audit Function: Due to the Company's limited number of employees and relative nature and scale of its operations, the costs of an independent internal audit function would be disproportionate. The Company has an external auditor and the Audit and Risk Committee continues to monitor key controls in the business.
- Board Skills Matrix: 5GN only partially met this recommendation, despite it having established charter rules for the Nominations and Remuneration Committee as a guide for Board deliberations. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the Company and its business. The addition of independent, non-executive director Jason Ashton could indicate progress towards 5GN meeting this recommendation in FY20.

Other points of interest:

- Executive Compensation: The MD & CEO's Performance Rights have both tenure and performance targets (revenue & EBITDA), but we note there are no organic components to the targets. As such, the Performance Rights can vest even if the vast majority of the targets are reached via acquisitions. For example, the first tranche of 5m Performance Rights for the 5GN CEO required 5GN to achieve $30m in revenue and $2m in EBITDA. The acquisition of Inabox, which included the Hostworks & Annitel businesses, added $43m of annualised revenue and ~$2.8m in EBITDA, which was a material factor in the first tranche of 5m Performance Rights vesting
- Related Party Transactions: We also note that 5GN has one Related Party transaction. In FY19, $121,377 (FY18: $91,504) was paid to Studio Inc, an entity related to Joe Demase, for the design of marketing materials for the Group.

Risks

We see the following as 5GN's key risks:

- Covid-19: Covid-19 has resulted in significant volatility. There is continued uncertainty regarding the duration and severity of an Australian economic recession. If the operations of customers of 5GN are interrupted or suspended for a prolonged period as a result of any such events, there may be a material adverse impact on the operating and financial performance and prospects of 5GN.
- Key Personnel Risk: 5GN depends on the talent and experience of its staff and employees. While 5GN has initiatives in place to mitigate the risk of its key staff leaving, the loss of such staff, such as Founder & CEO Joe Demase, may have a negative impact on 5GN.
- Competition: The telecommunications industry is highly competitive in normal conditions but arguably even moreso in the current Covid-19 climate. 5GN will have to compete strongly for both organic and acquisitive growth.
- M&A Execution Strategy: 5GN has made a number of acquisitions since listing, M&A risks include not executing properly, synergies not being achieved, heightened competition for target acquisitions bidding pricing up and any historical litigation that acquired companies may 'bring' to 5GN.
- Other Risks: Other risks include, but are not limited to, access to suitable capital, breach of privacy laws, and brand & reputation risk from infrastructure and/or technology failure of obsolescence and other general risks associated with investments in equity capital such as 5GN shares.

Appendices

Appendix 1

Schedule of Performance Rights and Options - As of 30 June 2019

of Performance Rights and Options - As of 30 June 2019

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Total
Type	**Perf. Rights**	**Options**	**Options**	**Options**	**Options**	**Options**	**Perf. Rights**	**Options**	**Options**	
Issue	14-Sep-17	14-Sep-17	14-Sep-17	06-Mar-18	06-Mar-18	14-Sep-18	23-Nov-18	23-Nov-18	21-Feb-19	
Vesting & Test Date	14-Oct-20	14-Oct-19	14-Oct-20	06-Mar-20	06-Mar-21	14-Oct-20	14-Oct-20	14-Oct-20	06-Mar-20	
Vested Date	29-Mar-19	04-Jun-19	04-Jun-19			14-Sep-21	23-Nov-21	23-Nov-21	21-Feb-19	
Expiry Date	14-Oct-20	14-Oct-19	14-Oct-20	06-Mar-20	06-Mar-21	14-Sep-21	23-Nov-23	23-Nov-23	21-Feb-23	
Exercise Price	$0.30	$0.30	$0.30	$0.80	$0.80	$0.60	$0.60	$0.60	$0.65	
Amount Payable on Grant	-	-	-	-	-	-	-	-	-	
Performance Hurdles - Tenure*	●	●	●	●	●	●	●	●	●	
Performance Hurdles - Targets**	●						●			
Employee Ownership										
Joseph Demase	5,000,000						5,000,000			10,000,000
Albert Cheok		225,000	225,000					500,000		950,000
Geoffrey Nicholas		200,000	200,000					300,000		700,000
Joseph Gangi		150,000	150,000							300,000
Garry White		150,000	150,000	150,000	150,000				500,000	1,100,000
Other Employees		175,000	175,000	150,000	150,000	1,700,000				2,350,000
Total	**5,000,000**	**900,000**	**900,000**	**300,000**	**300,000**	**1,700,000**	**5,000,000**	**800,000**	**500,000**	**15,400,000**

** Tenure requirements vary. Most, if not all, require employee to be employed at time of vesting*

*** Tranche 1 Target: FY20e Revenue of $30m and EBITDA of $2m*

(Note – Tranche 1 was converted into 5GN shares on 27 February 2020)

*** Tranche 2 Target: FY21e Revenue of $80m and EBITDA of $10m*

Source: 5GN Reports, Wilsons

Appendix 2

Figure 29 – Summary of 5GN's Acquisitions, Segmented by Specialisation

Segment	Enspire	Aptel	Annitel	Hostworks	Melb Data Centers	Australian Pacific Data Centres	North Sydney Data Centre	ColoAU
Network & Voice	●	●	●					●
Data Centres					●	●	●	●
Hardware & Software			●					
Managed Services	●		●	●				
Cloud Services	●			●				

Source: 5GN Reports, Wilsons

5G Networks Limited (5GN)

Business description

5G Networks "(5GN") is an emerging telecommunications carrier that operates its own nationwide high-speed data network with points of presence in all major Australian capital cities. 5GN is increasingly becoming a one-stop shop for SMEs and smaller enterprises alike by offering high-speed internet connectivity, access to data centres either owned by 5GN (Sydney, Melbourne & Adelaide) or 3rd party providers, cloud services and managed services to optimise customers' IT and network environments.

Investment thesis

Our Overweight recommendation is predicated on the following: i) Robust short-and longer-term demand with SMEs and enterprises alike looking to accelerate existing, or create new, plans for a Digital Transformation strategy due to Covid-19; ii) Improving revenue quality with contracted and recurring revenue to increase from 71% of revenue to ~85% in FY20e; and iii) 5GN has acquired six companies since listing in Nov-17, realising synergies but also creating a broad-based ICT offering. We also expect ongoing organic growth in its core recurring revenue services.

Revenue drivers

- Short Term Revenue Drivers include: Covid-19, where "COVID continues to shift enterprise spending patterns, resulting in increased demand for various cloud-based services, including telephony, messaging and conferencing "; ii) Increasing migration to the 'Cloud'; iii) 5GN's SME's looking for comprehensive ICT solutions; and iv) Stronger wholesale channel sales following the ColoAU acquisition.
- Longer Term Revenue Drivers include: i) Ongoing and accelerated Digital Transformation programmes; ii) Enterprises in search of cost efficiencies continue to switch from Capex to Opex; and iii) Complexity of SMEs' ICT needs, with sophisticated security becoming an increasingly integral part of a service offering.

Balance sheet

- In June 2020, 5GN raised $22.1m ($18.2m placement and $3.9m SPP) which is the primary driver behind our forecast for net cash of ~$20m at FY20e.
- 5GN's $2.9m acquisition ($2.4m in cash, $0.5m in equity) of ColoAU was post balance date, on July 8th 2020.
- Only one of 5GN's six acquisitions since listing, the latest acquisition of ColoAU, has an earn-out ($0.5m).
- Should all outstanding Performance Rights and Options be exercised into stock, we estimate 14% dilution to ordinary shares on issue.
- The Uses of Funds from the capital raising are: i) the expansion of fibre network; ii) further M&A; iii) Development of its Indirect Channel; and capitalise on COVID-19growth opportunities.

Margin drivers

- Pivoting the business away from lower margin segments (Hardware & Software) towards higher margin segments (Cloud, Network & Voice)
- Creating scale and limited growth in Employee Benefits Expense

Board

- Albert Cheok, Independent, Non-Executive Chairman
- Joseph (Joe) Demase, CEO & Managing Director
- Jason Ashton, Independent, Non-Executive Director
- Joe Gangi, Independent, Non-Executive Director

Key issues/catalysts

- Capitalising on the opportunities presented from Covid-19, including the accleration of Digital Transformation programs
- Insulating customer growth from SME's negatively impacted by Covid-19
- Synergy realisation from announced acquisitions
- Ongoing extraction of operating benefits from acquisitions
- Leveraging the ColoAU acquisition to add sophistication to its wholesale provisioning

Management

- Joe Demase, Chief Executive Officer & Managing Director
- Glen Dymond, Chief Financial Officer & Company Secretary
- Garry White, Sales Director
- Glenn Flower, Chief Marketing Officer
- Chris Demase, National Program Manage, Chief Strategy Officer
- Marco Mattiuzzo, Chief Technical Manager
- Joel Bruce, National MIT Manager

Risk to view

- Covid-19 has resulted in significant volatility where 5GN customers operations could be interrupted, suspended ore cease
- Key Personnel Risk, particularly Founder & CEO Joe Demase
- The telecommunications industry is highly competitive regarding both organic and acquisitive growth.
- M&A risks include not executing properly, synergies not being achieved, heightened competition for target acquisitions bidding pricing up and any historical litigation at acquired companies
- Other risks include, but are not limited to, access to suitable capital, breach of privacy laws, and brand & reputation risk from infrastructure and/or technology failure of obsolescence and other general risks associated with investments in equity capital such as 5GN shares.

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Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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