INVESTMENT RESEARCH

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BRIDGE STREET CAPITAL PARTNERS

22 April 2021

Nexion Group Ltd (NNG)

OneCloud: Hybrid Vigour

Hybrid Cloud IT Services: Nexion is an IT service provider focused on supplying hybrid cloud services to corporate customers. The company is targeting growth via deployment of its proprietary "OneCloud" datacentre nodes globally. Established nodes currently exist in Perth & Melbourne with the first international deployment underway in Auckland. We believe Nexion has a reasonable growth strategy backed by established partnerships with numerous high quality global third-party IT service providers. This model facilitates an end-to-end product offering, complemented with in-market service and support. We anticipate that OneCloud is likely to resonate and gain traction with corporate clients seeking to embrace the benefits of hybrid cloud technology services, providing Nexion with a long runway for growth.

Nexion's Competitive Edge: Nexion has clearly identified a competitive edge as an emerging player in an extremely large and growing global market for cloud IT services, populated by the tech titans such as Amazon, Google & Microsoft. Supported by Aryaka's industry leading cloud-first SD-WAN technology, OneCloud provides a flexible and customisable hybrid cloud solution, optimised for corporate application performance via co-locating Nexion-owned Aryaka PoPs directly alongside OneCloud datacentre nodes. In conjunction with the established Aryaka global PoP network, this provides for an internationally dependable, low-latency hybrid cloud solution which can be deployed quickly. Nexion has outlined a compelling economic model to support the global rollout strategy of OneCloud nodes, and post IPO the company is well capitalised to decisively proceed with the strategy outlined and demonstrate management's ability to capably execute.

Cloud Migration Drives Digital Transformation: The adoption of cloud-based technology services continues to accelerate globally. While cloud services have a range of benefits including flexibility, mobility and scalability, they are also subject to a number of limitations for business use relative to traditional on-premise IT infrastructure. Hybrid cloud services provide the best of both options and have become the default enterprise technology solution as companies seek to optimise and strengthen corporate IT foundations. Nexion is therefore well positioned to benefit from strong structural growth tailwinds as an emerging Australian player in a very large and rapidly growing market.

Valuation & Recommendation: Nexion provides investors with exposure to the rapidly growing market for hybrid cloud services. We believe management have outlined a reasonable strategy for growth and in a short time since the IPO have proceeded well to implement these plans. NNG shares are trading at a material discount to our A$0.77/share (AUD) valuation set based on DCF analysis (10% discount rate), and are trading on an FY22 EV/Sales multiple of 1.2x which is well below peer averages. As such we initiate research coverage with a Buy rating. Key risks include the availability of funding, competition, technological change, data security, M&A execution and contractual risk related to key customers and technology partners.

MiFID II Compliance Statement: Bridge Street Capital Partners (BSCP) acted as lead manager to the recent $8.0 million IPO of Nexion Group Ltd and received fees for services provided. See disclaimer/disclosure for more detail. By downloading this report, you acknowledge receipt of BSCP's Financial Services Guide, available at www.bridgestreetcapital.com.au

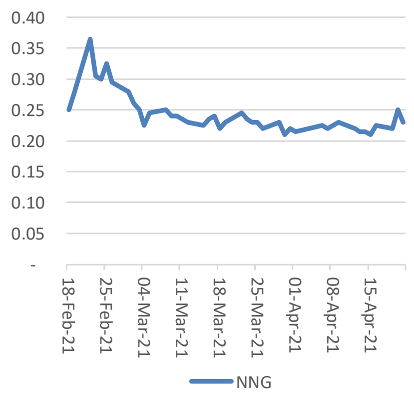
Recommendation	**Buy**
Target Price (AUD)	0.77
Share Price (AUD)	0.23
Forecast Capital Return	235%
Forecast Dividend Yield	0.0%
Total Shareholder Return	**235%**
Market Cap	25.6
Enterprise Value	19.1
Shares On Issue	111.3

Daniel Seeney | Senior Analyst

Key Statistics	
Free Float	57%
52 week range	$0.18 - $0.41

Key Personnel	
Non-Exec Chair	Peter Christie
CEO	Paul Glass
COO	Kevin Read
CFO	Dominic Papaluca

Major Shareholders	
Read Tech / Kevin Read	10.8%
Kingsley / Paul Glass	10.7%
Cheque Raise / Cameron Lowe	9.2%
Smart Capital / Terry Smart	4.6%
Herdsman / Peter Christie	4.4%



FINANCIAL SUMMARY

Nexion Group Pty Ltd (NNG)

Share Price	A$/sh	0.23
Shares on Issue	m	111
Market Cap	A$m	25.6
Net Debt / (Cash)	A$m	(6.5)
Enterprise Value	A$m	19.1

Rating	Buy
Valuation	0.77
Upside / (Downside)	235%
Dividend Yield	0%
Total Return Forecast	235%

Profit & Loss	Units	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
Sales	A$m	2.5	4.3	3.2	16.6	22.2
Expenses	A$m	(3.6)	(4.9)	(5.1)	(13.3)	(15.5)
EBITDA	A$m	**(1.1)**	**(0.6)**	**(1.9)**	**3.3**	**6.7**
D&A	A$m	(0.4)	(0.4)	(0.3)	(1.5)	(2.0)
EBIT	A$m	**(1.5)**	**(1.0)**	**(2.3)**	**1.8**	**4.7**
Net Interest	A$m	(0.0)	(0.3)	(0.2)	(0.2)	(0.4)
Tax	A$m	-	(0.0)	0.3	(0.5)	(1.3)
NPAT	A$m	**(1.5)**	**(1.2)**	**(2.1)**	**1.1**	**3.0**

Cashflow	Units	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
Cash From Operations	A$m	(0.8)	0.2	(1.9)	3.3	6.7
Interest	A$m	-	(0.0)	(0.2)	(0.2)	(0.4)
Tax	A$m	0.0	-	-	(0.5)	(1.3)
Net Cash From Operations	A$m	**(0.8)**	**0.1**	**(2.0)**	**2.6**	**5.0**
Capex	A$m	(0.4)	(0.6)	(0.5)	(3.1)	(3.2)
Acquisitions (Net)	A$m	(0.5)	-	-	(0.8)	-
Free Cash Flow	A$m	**(1.6)**	**(0.4)**	**(2.5)**	**(1.3)**	**1.8**
Proceeds / (Repayment) of Borrowings	A$m	0.5	0.5	(0.1)	-	-
Proceeds from issue of shares / (buyback)	A$m	1.3	0.0	8.9	-	-
Dividend	A$m	-	-	-	-	-
Other	A$m	-	-	(0.9)	-	-
Net Increase / (Decrease) in Cash	A$m	**0.2**	**0.1**	**5.4**	**(1.3)**	**1.8**

Balance Sheet	Units	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-22e
Cash	A$m	0.1	0.1	5.5	4.2	6.0
Receivables	A$m	0.5	1.1	0.9	3.7	4.9
PP&E	A$m	0.6	0.9	1.1	2.7	3.9
Intangibles	A$m	0.1	-	-	-	-
Other	A$m	0.0	-	-	-	-
ASSETS	**A$m**	**1.3**	**3.4**	**8.1**	**13.2**	**18.2**
Creditors	A$m	0.6	1.9	2.2	9.6	12.7
Debt	A$m	0.5	1.3	0.6	0.6	0.6
Leases	A$m	0.1	1.4	0.7	2.8	3.8
Provisions	A$m	0.0	0.0	0.0	0.1	0.1
Other	A$m	0.0	0.0	0.0	0.0	0.0
LIABILITIES	**A$m**	**1.3**	**4.6**	**3.5**	**13.2**	**17.2**
NET ASSETS	**A$m**	**(0.0)**	**(1.2)**	**4.5**	**0.0**	**1.1**

Liquidity & Leverage	Units	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
Net Debt / (Cash)	A$m	0.5	1.1	(4.9)	(3.5)	(5.4)
Net Debt / EBITDA (x)	x	(0.4)x	(2.0)x	2.5x	(1.1)x	(0.8)x
EBIT Interest Cover (x)	x	(45.0)x	(3.6)x	(13.8)x	8.1x	12.5x
Net Debt / Equity (%)	%	n/m	n/m	n/m	n/m	-510%

Per Share Data (¢)	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
Shares Out (m)	64	64	121	131	131
EPS (¢)	(2.4¢)	(1.9¢)	(1.7¢)	0.8¢	2.3¢
Growth (%)	n/a	n/a	n/a	n/a	178%
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Net Tangible Assets (A$)	(0.00)	(0.02)	0.04	0.00	0.01
Book Value (A$)	(0.00)	(0.02)	0.04	0.00	0.01
Free Cash Flow (A$)	(0.03)	(0.01)	(0.02)	(0.01)	0.01

Valuation Metrics	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
EV / Sales	n/a	n/a	6.0x	1.2x	0.9x
EV / EBITDA	n/a	n/a	(9.9)x	5.9x	2.9x
EV / EBIT	n/a	n/a	(8.4)x	10.8x	4.1x
P/E (x)	n/a	n/a	(13.4)x	27.8x	10.0x
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
FCF (%)	n/a	n/a	-9.1%	-4.4%	6.1%

Operating Metrics (%)	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
EBITDA Margin	n/a	n/a	-61%	20%	30%
EBIT Margin	n/a	n/a	-71%	11%	21%
Net Profit Margin	n/a	n/a	-65%	7%	14%
ROIC	n/a	n/a	675%	-50%	-108%
Return on Assets	n/a	n/a	-26%	8%	16%
Return on Equity	n/a	n/a	-46%	5416%	286%
Effective Tax Rate	n/a	n/a	14%	30%	30%

Key Assumptions	Jun-19	Jun-20	Jun-21e	Jun-22e	Jun-23e
New One Cloud Nodes Deployed			4.0	4.0	4.0
Cumulative One Cloud Nodes Deployed			4.0	8.0	12.0
Capex / Node (A$k)			500	516	529
Revenue / Node (A$m)			1.30	1.34	1.37
COGS / Node (A$m)			0.24	0.24	0.25

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EXECUTIVE SUMMARY

"The strategy is to create a network of nodes that circle the globe then expand North and South in key regions where Hybrid Cloud is needed most. As the network becomes global, NNG can take on larger customers and larger contracts." – Nexion Chairman Peter Christie

Nexion Group (ASX: NNG) is a technology company focused on the provision of hybrid cloud services to corporate clients. The business is presently geographically concentrated in Australia, however strategic growth plans envision a rapid global expansion via the roll-out of "OneCloud" network nodes in domestic and overseas third-party data centres, providing beachheads in new markets where Nexion will seek to acquire new customers and build scale. As the network becomes global, NNG will be in a position to win larger customers and contracts. Nexion's targeted revenue growth is expected to be from 2 main categories:

1. Hybrid Cloud Service Subscriptions ("OneCloud")
2. Selling Aryaka SD-WAN network bandwidth (via revenue share)

The market for hybrid cloud services is growing rapidly as corporate IT infrastructure migrates to the cloud from traditional on-premise services. However on-premise IT solutions retain various inherent advantages which mean the demise of the on-site server is unlikely to occur anytime soon. The optimal enterprise set up for the foreseeable future is hybrid cloud, which harnesses the benefits of each. Nexion is positioning itself to grow rapidly via a clear and sensible value proposition to acquire customers in a very substantial global and growing market. The backbone of Nexion's edge in the highly competitive market for hybrid cloud services is as follows:

1. Customisation and service for customers where a generic "off-the-shelf" solution typically served by the very large public cloud competitors is not fit for purpose;
2. Full-stack service ecosystem via partnerships with global IT service industry leaders;
3. Co-locating OneCloud nodes with Aryaka SD-WAN PoPs to ensure optimal hybrid cloud application performance and facilitate access to Aryaka's established global network of >40 PoPs

Nexion has established a deliverable growth strategy underpinned by:

1. Global OneCloud node rollout
2. Bolt-on acquisitions in new geographic locations

The company has demonstrated an ability to execute on both of these strategic growth priorities with the recently announced deployment of the new Auckland OneCloud node, as well as the acquisition of Blue Sky Telecom. The market for hybrid cloud services is extremely large and growing providing a long runway of opportunity for Nexion's management providing the company can earn a reputation for capital discipline and strategic execution.

Valuation: Our $0.77/share valuation for Nexion is based on DCF methodology using a discount rate of 10%, terminal growth rate of 2.5% and financial projections to FY26. We forecast sales and EBITDA to grow to $41m & $15m respectively by FY26 predicated primarily on an effective OneCloud node rollout strategy and associated organic customer acquisition.

COMPANY OVERVIEW

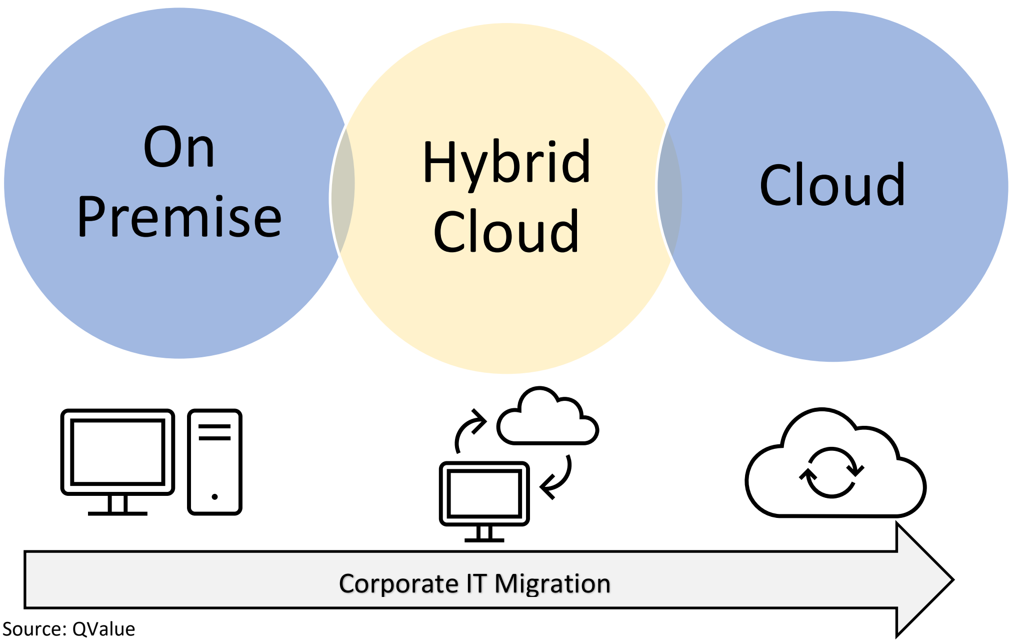
Nexion is focused on the provision of hybrid cloud technology services. Corporate customers pay a monthly rental fee to obtain access to Nexion's hybrid cloud infrastructure called "OneCloud". Additional revenue is generated from project management and supporting service fees earned to assist clients to migrate customers' services from legacy systems to OneCloud. Nexion currently operates in Perth, Adelaide and Melbourne and intends to grow via the deployment of additional OneCloud nodes within Australia and overseas.

What is Hybrid Cloud?

Corporate IT infrastructure and services have traditionally been hosted and managed "on-premise" or within the workplace. This is typically made up of computer hardware such as server infrastructure connected to workplace computers. On-premise systems incur large upfront capital costs to install, can be expensive and inflexible to maintain, and without offsite backup can expose organisations to loss of data or service outages. They are generally also only functional & accessible within the physical office environment.

The emergence of "cloud" or offsite internet based corporate IT solutions (i.e. computer servers and storage) solves many of these problems by requiring only an internet connection to access corporate IT infrastructure and services. They generally require minimal setup costs, facilitate employee mobility, can be expanded/upgraded quickly and easily to accommodate growth, and critical data is continuously stored & backed up offsite in data centres. The primary disadvantage of cloud services is they are generally dependent on fast and consistent internet access.

Hybrid Cloud represents a combination of both options, enabling the best of both options while minimising exposure to disadvantages inherent with each.

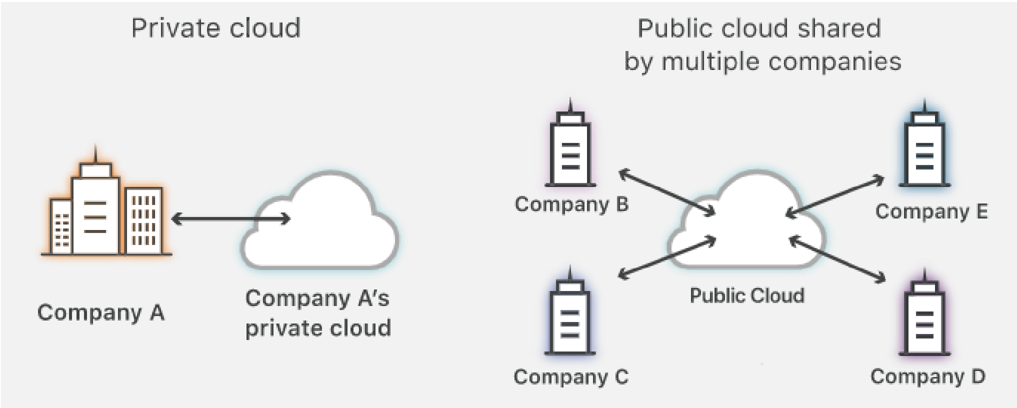


Source: QValue

Colocation, Private Cloud & Public Cloud Services

Cloud migration and the specific structure of a hybrid cloud IT solution is further complicated by the potential for hybrid solutions to straddle not just on-premise and "cloud", but across data centre colocation, private cloud & public cloud services. Corporate IT capability in a hybrid cloud environment can move between these options depending on the processing requirement, cost, or need for other factors such as flexibility or security.

Private vs public cloud services illustrated:



Source: cloudfare.com

Each option has a number of distinctive characteristics and associated advantages and disadvantages. Organisations have different problems which warrant a wide array of solutions, and hybrid cloud services aim to utilise a mix which provides the most optimal setup. As such understanding the basic elements of each is crucial to comprehending the building-blocks of hybrid cloud services:

- **Data centre colocation** – Corporate servers and other compute and storage hardware remain owned by the organisation, but are located in a multi-tenant data centre where rack space is leased;
- **Private Cloud** – cloud compute setting where all hardware and software is dedicated to (but not owned by) a single organisation (single-tenant environment) and not shared with other businesses. Can be located on-premise or off-site and maintenance/management is typically managed by the corporate internal IT department. Typically more suitable where meeting strict regulatory compliance requirements is necessary and/or to handle highly confidential/valuable IP and sensitive data;
- **Public Cloud** – shared processing infrastructure across multiple unrelated customers and accessed over the internet. Typically cheaper with less internal maintenance requirements, as well as being more flexible and scalable to suit requirements. Cons include reduced customisation/flexibility, perceived incremental security concerns, and dependence upon a particular service provider;

Key distinctions between private & public cloud IT services:

Private Cloud	Public Cloud
Single client	Multiple clients
On-premise or off-premise	Off-premise
Costly to set-up and maintain	Minimal or no set-up or maintenance costs
High IT overhead	Low IT overhead
Fully customisable	Limited customisation
Fully private network	Shared network
Possible under utilisation	Scalable with demand

Source: Backblaze

The industry has rapidly evolved over time from traditional on-premise architecture to colocation DC's like NextDC and Equinix over the period from ~2005 to ~2015.

Subsequent to this has been the era of the cloud, where servers are now moving from colocation, to virtual servers at AWS, Azure and Google.

As such hybrid cloud is now the fastest growing sub-sector of the industry. In terms of on-premise hardware very little remains in office environments but a significant amount continues in industrial settings.

Nexion's Hybrid Cloud Solution: "OneCloud"

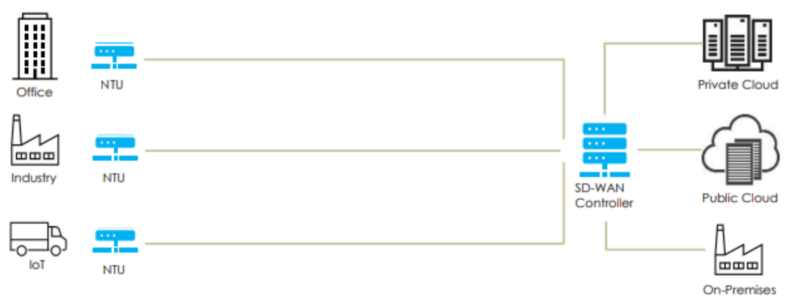
There is still a need for on-premise (also referred to as "edge") compute as well as colocation due to their various inherent advantages as outlined above. Nexion ties all options together into a hybrid cloud model called "OneCloud".

OneCloud utilises third party datacentres such as those offered by Equinix & NextDC and sells capacity to customers on contracts of typically 24-36 months.

OneCloud "nodes" consist of both hardware and software components including:

- Compute & storage IT hardware located in a data centre
- Software-Defined Wide Area Networking (SD-WAN) products, which are used to manage the connection between this hardware and a company's IT applications and cloud services
- Service integration into public cloud services including Google, Amazon, Microsoft & IBM

Composition of OneCloud Hybrid Cloud:



Source: Company Reports

Competitive Advantage

The market for Hybrid Cloud services is extremely large and intensely competitive with a range of globally dominant players including Microsoft, IBM, Google, Amazon and Cisco. However few of the larger players offer a full “end-to-end” hybrid cloud service, and furthermore they generally offer little in the way of product customisation.

Nexion’s competitive advantage is to address these limitations with competitive hybrid cloud service alternatives. OneCloud is a custom-built hybrid cloud solution providing the ability to cater for specific customer requirements.

OneCloud is also a “full end-to-end” or “full-stack” service. This is achieved via the ability to customise a solution but also support this with a holistic suite of product needs via global technology partners including Intel (cloud servers and processors), VMWare (enterprise cloud software) Fortinet (cybersecurity) and Aryaka (SD-WAN). This integrated ecosystem of hardware and services is a key factor which builds customer confidence that the transition to hybrid cloud services will be handled efficiently and with light-touch from the customers perspective.

A critical success factor which critically differentiates hybrid cloud service providers is network latency management. Latency problems generally relate to the physical distances transmitting data which is particularly problematic for data-intensive applications, and can have a major impact on vital organisational factors such as staff productivity or customer satisfaction. Optimisation of hybrid cloud IT infrastructure by minimising distance between users and points of connection to the network is therefore key to service delivery and client retention. The OneCloud node rollout strategy in conjunction with in-market sales and service support is a key competitive edge in ensuring that potential clients have confidence that the proximity and architecture of the OneCloud hybrid-cloud solution is capable of ensuring that the proposed benefits of hybrid cloud are realistic, deliverable, and achievable. The other crucial factor is the OneCloud node co-location strategy with Nexion built and owned Aryaka PoPs which facilitates guaranteed low-latency bandwidth across global locations where the Aryaka network is already established.

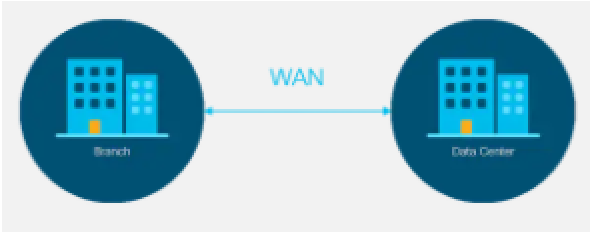
Connectivity is Critical to Cloud Functionality

Properly functioning business IT networks are dependent upon the ability to quickly and effectively transmit data between staff, clients, suppliers and other stakeholders, often over long distances bridging numerous distinct and geographically isolated locations.

This is called a WAN or wide area network and the physical components generally consist of the telecommunications circuits and internet infrastructure that link network participants and transmit data.

A conventional WAN can be thought of as a dedicated connection between on-premise computer infrastructure to remote servers which run business applications within a data centre.

Traditional WAN function:



Source: Cisco

Also critical to the effectiveness of a WAN are the software applications and communications protocols that manage and optimise its operation to ensure an efficient user experience, and this is where SD-WAN is crucial.

SD-WAN or a software-defined wide area network, is an approach to managing a WAN which utilises software to optimise and simplify user experience as well as reduce costs across the various network connection types.

Aryaka Alliance: Global Leader in Cloud First SD-WAN

As discussed above, high quality SD-WAN is a critical element of application performance in a hybrid cloud technology environment. However SD-WAN architecture can vary, and adopting the most suitable architecture and vendor is also important to ensure efficient data routing and an optimal hybrid cloud performance.

The key element is primarily with regards to "traffic" management which generally refers to whether the SD-WAN vendor hosts the transfer of data through their own IT infrastructure (call PoPs or points of presence), or whether the existing network and corporate IT infrastructure does so.

Nexion's solution is built upon a strategic agreement with "cloud-first" SD-WAN as-a-service company Aryaka, which has an established global network of PoPs.

Aryaka's POP locations:

Source: Aryaka

The strategy is to deploy Aryaka SD-WAN PoPs built and owned by Nexion, at the same physical location as the company's OneCloud nodes, providing for the best possible network performance given the minimal distance for data to traverse across 2 critical elements of the Nexion hybrid cloud solution.

The structure of the solution also means that Aryaka SD-WAN should realise very high adoption rates by new Nexion OneCloud customers, which underpins realisation of the reseller revenue share under the agreement with Aryaka where Nexion has built and deployed the PoP.

The commencement of this strategy has already seen the completed installation of the Nexion owned Aryaka PoP in Perth, and an expanded agreement announced in March 2021 whereby Nexion will build and own a second Aryaka PoP in Auckland alongside deployment of the company's first international OneCloud node.

Furthermore the strategy has underpinned the signing of business with IBM, where IBM is re-selling Nexion OneCloud services to its customer in some regions where IBM's own Cloud offering isn't available.

We view the Aryaka agreement as a crucial plank underpinning Nexion's growth strategy given that it facilitates highly reliable international bandwidth across the global Aryaka network for existing and potential customers in the OneCloud node geographic areas. Nexion appears to have adopted a sensible strategy in partnership with Aryaka, in order to effectively connect and manage the flow of data between geographically dispersed locations. This is obviously critical to winning and retaining customers and driving confidence in the future growth trajectory of Nexion's business.

GROWTH STRATEGY

OneCloud Node Rollout

Nexion has already established OneCloud nodes in Perth & Melbourne with a deployment underway in Auckland. A key driver of revenue growth is the deployment of additional nodes in other Australian capital cities and overseas.

Each node provides a gateway to onboarding new customers in a geographic area. The rollout strategy will either be driven by pre-committed demand from customers or areas where sales capacity is in the process of building a predictable pipeline of new customers.

Reselling Aryaka Services

In FY21 Nexion established a reseller agreement with Aryaka which is intended to share and accelerate the development of additional OneCloud nodes / Aryaka PoPs to expand the availability and reach of both companies services. Aryaka is a "cloud-first" WAN company which lays claim to be the "industry's #1 managed SD-WAN service" and is headquartered in the USA.

"Aryaka's global private network provides the world's business users with fast and reliable cloud and SaaS access from any location in the world. Their worldwide PoPs are located on all six habitable continents and have been strategically located to place end-users with optimal access to Cloud, SaaS applications and data centres." - Nexion Prospectus

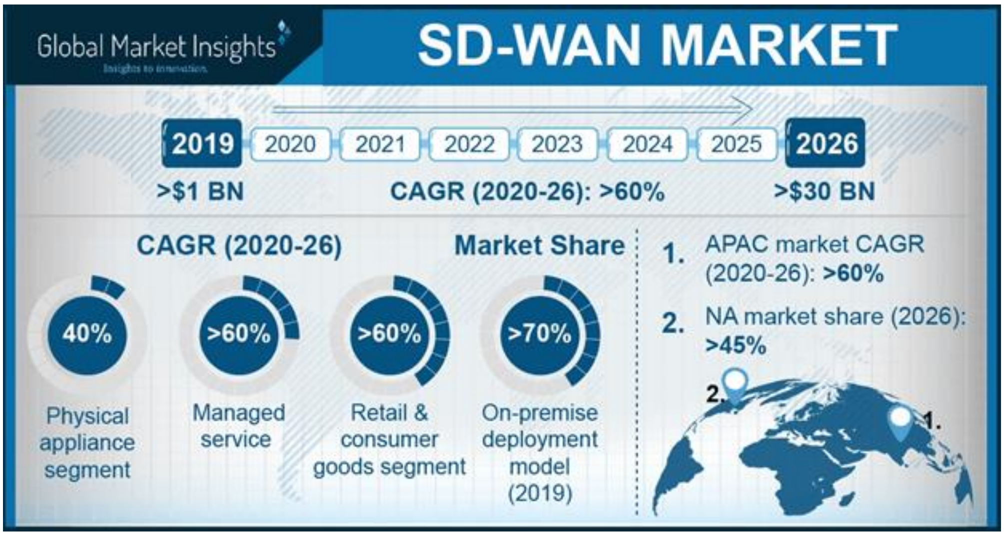
The agreement is for an initial term of 3 years commencing 30 September 2020.

The essence of the agreement is that Nexion agreed to establish a new Aryaka PoP in Perth, dedicated to the Aryaka network and at Nexion's expense, in exchange for the ability to resell (non-exclusive) Aryaka services in Australia & New Zealand.

The Perth Aryaka PoP is expected to commence earning revenue in FY21. In March Nexion announced the agreement had been expanded to build an additional PoP in Auckland, New Zealand. Additional potential co-located POPs have been flagged for Africa, Europe and Canada.

The agreement with Aryaka establishes a new revenue stream for Nexion and a highly complementary product in a rapidly growing category to sell in combination with OneCloud. According to Gartner the SD-WAN market is expected to grow at >60% CCAGR from 2020 to 2026:

SD-WAN Market Statistics:



Source: Gartner

Nexion further states that the company plans to "work closely with Aryaka to introduce OneCloud nodes next to existing Aryaka PoPs". Should this materialise, it would open up a significant network of potential OneCloud nodes given Aryaka's extensive and established global network as is illustrated below:

Aryaka's global PoP network:

Source: https://www.aryaka.com/global-pop-locations/

Acquisitions

Nexion has clearly articulated that growth via M&A forms a key plank of the strategy to expand organisational reach across Australia and overseas. "Similarly focused information technology service providers" have been identified as the acquisition targets in focus, which is intended to facilitate the roll-out of OneCloud Nodes and cater to new customers with national and international business operations. Nexion intends to fund acquisitions with equity to "preserve Nexion capital and ensure long term commitment to the corporate strategy by the acquired executive teams".

In a demonstration of this strategy, within 2 months of IPO NNG announced the acquisition of Blue Sky Telecom, a WA based national telecommunications and network solution provider with FY21 revenue of ~$4m. Consideration for the transaction was 100% share based, with a number of deferred tranches predicated on revenue hurdles which require delivery of material rates of revenue growth.

Achieving strong cultural alignment, integration and performance management of acquired businesses will be crucial for maintaining shareholder support with regards to the M&A plank of NNG's growth strategy. As such the relatively long-dated earn-out hurdles implemented as part of the Blue Sky deal look sensible. These incentives will be particularly important in offshore markets where acquiring local IT companies forms a key plank of building a capable team with the ability to drive sales of OneCloud.

Cloud Services Industry Growth

The globally dominant public cloud service providers (Amazon, Microsoft & Google) in their most recent performance updates have been reporting growth rates of 30-50%.

With regards to hybrid cloud services specifically, an array of data exists on the size and growth rates of the market, most of which have pinned the total market at US$50-$60bn growing at ~20% per annum.

While the market for the spectrum of cloud IT services is already extremely large, growth rates have remained very strong and industry tailwinds have strengthened in the wake of COVID as accelerated adoption of many online services such as video-conferencing and remote working have taken place.

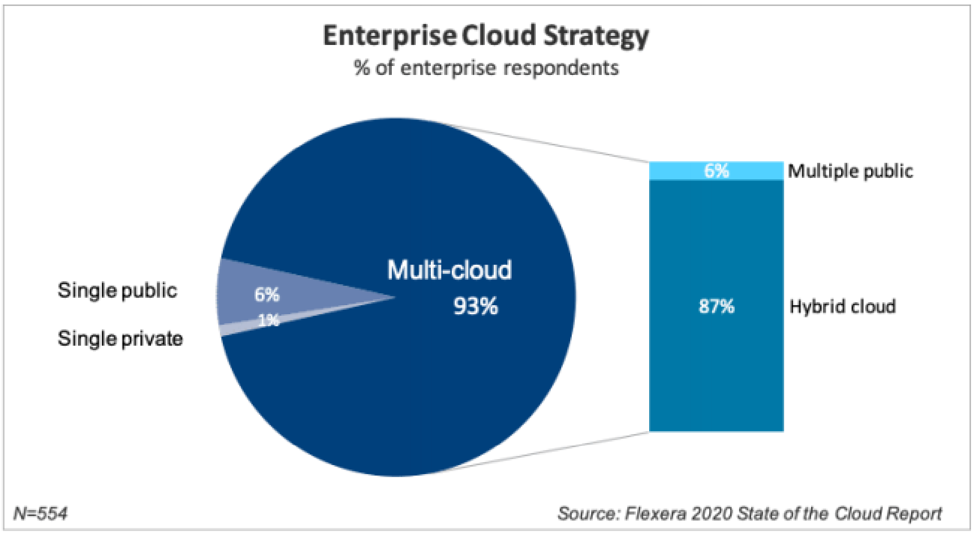
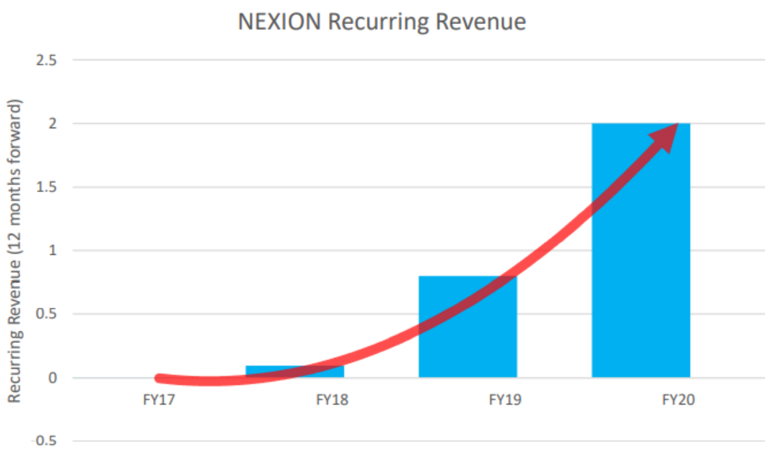


Fig 2. Hybrid Cloud Approach Adoption Rate – Source Flexera State of the Cloud Report, 2020.

INVESTMENT CASE

Contracted & Recurring Revenues

Nexion signs contracts for hybrid cloud services with customers on terms of between 24 & 36 months on average. The company has also stated that contract renewal rates have historically been very high (noting that operating history has been relatively limited).



Source: Company Reports

The contracted nature of a substantial portion of Nexion's sales provides a high degree of predictability and certainty with regards to the financial performance of the business which provides a sound foundation from which the executive team can pursue and execute long-term strategic growth plans.

Other revenues are derived from:

- Project management to migrate customers to OneCloud
- Support services & equipment
- SD-WAN to connect customer premises & equipment to OneCloud

In FY20, recurring revenues accounted for ~45% of group revenue. We understand from discussions with management that this is likely to grow to ~65% over time as the compounding effect of cloud revenue kicks in and ultimately exceeds project revenue.

Rapid & Capital Light Scalability

Nexion has established a strategy to expand globally via deploying OneCloud nodes in Equinix datacentres (200 globally). The nodes will be integrated with public cloud zones (such as Google, Amazon, Microsfit & IBM) and the deployment process is a simple and standardized procedure regardless of geography.

Each new node provides Nexion with access to a new market, which in conjunction with anticipated bolt-on acquisitions of local IT service providers is expected to drive rapid penetration of new markets backed by both on the ground capability and localised sales and support.

Management have indicated that the timeline for installation of new OneCloud node is ~3 months with capital expenditure per new greenfield node of ~$500,000 including the co-located Aryaka PoP.

We expect Nexion to deliver approximately 1 new greenfield OneCloud node per quarter as a baseline expansion rate in our estimates. Once live the ramp-up to full capacity utilisation of a OneCloud node is ~18 months with incremental expansion capex significantly lower (~$175k) and supported by established customers the utilisation uptake trajectory is likely to be much more rapid.

The global greenfield opportunity for new OneCloud nodes is significant and limited only by organisational capacity and access to capital. We believe in the near-term the company has established a sensible and deliverable expansion strategy, which if executed effectively will precipitate investor confidence in supporting a more significant and accelerated global rollout of infrastructure and provide access to vast new markets of prospective customers.

High Gross Margins & Returns

The financial metrics surrounding the expansion strategy have been outlined by the company as follows:

- Capital expenditure of ~A$500,000 per OneCloud node (including Aryaka PoP)
- Annual COGS of A$235,000 per OneCloud node
- Annual Sales of A$1.3 million per OneCloud node (at capacity)

- Annual Gross Profit of $1.1 million per OneCloud node (at capacity)
- Implied gross profit margin at capacity of 82%
- Incremental capacity additions A$175,000 / node to double initial setup capacity and sales

The economic assumptions underpinning the OneCloud node rollout outlined by management are highly attractive and imply a rapid recovery of capital deployed of less than 2 years. The key risks relate to the timeline from initial infrastructure installation and achievement of full node capacity, as well as service costs and other overheads.

The ramp-up trajectory is critically dependent on the sales strategy (notably whether customer tenders are secured in advance of node deployment or vice versa) and the quality and capability of in-market sales teams acquired to support the global rollout strategy.

We anticipate from discussions with management that a OneCloud node ramp-up of ~18 months is a reasonable base case expectation to reach the financial metrics outlined. Management's ability to execute and deliver these objectives, particularly in offshore markets where the scale of the market opportunity is significant, will be the key driver in determining the rate of growth and financial outcomes over the medium-term.

Established Channel Partnerships With Global Leaders

Providing an end-to-end product suite with rapid deployment capability is critical for cloud IT service providers to minimise sales friction and provide confidence to decision makers within corporate IT departments that no undue complications will arise from the implementation process.

In this regard Nexion has established relationships with key technology vendors including:

- Intel - cloud servers and processors
- VMWare - enterprise cloud software
- Fortinet - cybersecurity
- Aryaka - SD-WAN
- A range of other similar global technology providers

Nexion states that the continuity of its business is not critically dependent upon any one technology vendor partner in order to maintain sales and customers. While a range of capable alternative vendor partners are likely substitutable in each service category, it would likely create some elevated operational risk in the event that a change of vendor was implemented within a key component of the "full-stack" hybrid cloud service bundle. We anticipate these key partner/vendor relationships will likely remain stable in the near-term as the strategic focus remains firmly on OneCloud node expansion and capacity uptake via well executed sales strategy.

FINANCIAL ESTIMATES

At the IPO Nexion raised $8.0 million of which $3.3 million was earmarked for OneCloud expansion works and $3.9 million for working capital. The prospectus further states that funds raised from the offer were to be deployed over the first two years following admission of the Company to the ASX.

As we have outlined previously in this report, we understand from discussions with management that the capex cost of deploying a new OneCloud node is ~$500k. Therefore we anticipate that Nexion's strategy incorporates a node rollout of 3-4 per annum.

We have relied upon the economic assumptions for the OneCloud node rollout strategy provided by Nexion management in public documentation, in the compilation of our financial estimates.

Key Financial Model Assumptions:

- 4 new OneCloud node deployments per annum;
- $500k capex per new OneCloud node;
- $1.3 million revenue per node per annum at full capacity which consists of hybrid-cloud and SD-WAN services on long-term contracts;
- COGS per node of $235k per annum;
- 90% capacity utilisation on average
- Nil node expansion investment
- No further acquisitions or capital management assumed

For simplicity and ease of interpretation we crudely assume that new nodes deployed are live at the commencement of each half at the full run-rate revenue target ($1.3 million per annum adjusted for the average capacity utilisation assumption of 90%). In order to offset/adjust this for the typical 18-month ramp-up to full capacity at a greenfield OneCloud node, we assume no explicit projections of project management revenue associated with customer migration to hybrid cloud services in our node deployment financial model, which historically has represented close to half of group sales.

Due to the nature of project management revenues whereby it is earned upfront to manage the customer transition process and pay for any required technical components, we think it is broadly reasonable to assume that NNG is able to offset unsold node capacity with project management related sales, which dissipates to nil over the typical 18-month ramp-up period.

Greenfield node sales mix assumptions in ramp-up:

	1Q	2Q	3Q	4Q	5Q	6Q
Hybrid Cloud Recurring Revenue	54	108	163	217	271	325
Project Management	271	217	163	108	54	-
Total Revenue Per Node	**325**	**325**	**325**	**325**	**325**	**325**

Source: Estimates, for illustration purposes only, excludes capacity utilisation factor

Predicated on the above assumptions we have compiled the following node deployment projections which are the core driver of the evolution of the group financial performance over the forecast period:

Node Deployment Projections:

NODE DEPLOYMENT	Units	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
New Nodes Deployed During the Period	#			4.0	4.0	4.0	4.0	4.0	4.0
Cumulative New Nodes Deployed	#			4.0	8.0	12.0	16.0	20.0	24.0
Average Cumulative New Nodes Deployed (during the period)	#			2.0	6.0	10.0	14.0	18.0	22.0
Capex / Node	A$k			500	516	529	542	556	570
Revenue / Node (pa 100% capacity utilisation)	A$m			1.3	1.3	1.4	1.4	1.4	1.5
COGS / Node (pa)	A$m			0.2	0.2	0.2	0.3	0.3	0.3
Capacity Utilisation Factor	90%			90%	90%	90%	90%	90%	90%
Incremental Revenue	A$m			-	7.2	12.4	17.8	23.4	29.3
Incremental COGS	A$m			-	(1.5)	(2.5)	(3.6)	(4.7)	(5.9)

Source: Estimates

We have overlaid these projections with the base business revenues which incorporate FY20 results as well as the recent acquisition of Blue Sky Telecom. We assume modest sales growth of 5%, nothing that Blue Sky has recently been growing sales at ~20%, and gross margins consistent with those reported in NNG's accounts in FY19 & FY20 (NNG commentary from the Blue Sky acquisition analyst call indicated that the cost structures are similar). We have also adjusted FY21 for the weak COVID impacted first half, however assume a recovery in the second half.

Base Business Projections:

BASE BUSINESS	Units	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Revenue	A$m	2.5	4.3	3.2	9.3	9.8	10.3	10.8	11.3
COGS	A$m	(1.7)	(2.8)	(2.0)	(6.1)	(6.4)	(6.7)	(7.0)	(7.4)
Revenue Growth	%		70%	-26%	191%	5%	5%	5%	5%
COGS/Sales	%	65%	64%	62%	65%	65%	65%	65%	65%

Source: Estimates

Aggregating these segmented estimates arrives at our consolidated financial performance over the forecast period as follows:

Group Financial Performance Projections:

CONSOLIDATED P&L	Units	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Revenue	A$m	2.5	4.3	3.2	16.6	22.2	28.0	34.2	40.7
COGS	A$m	(1.7)	(2.8)	(2.0)	(7.5)	(8.8)	(10.2)	(11.7)	(13.3)
Overheads	A$m	(2.0)	(2.1)	(3.2)	(5.8)	(6.6)	(8.4)	(10.3)	(12.2)
EBITDA	**A$m**	**(1.1)**	**(0.6)**	**(1.9)**	**3.3**	**6.7**	**9.4**	**12.2**	**15.2**
D&A	A$m	(0.4)	(0.4)	(0.3)	(1.5)	(2.0)	(2.5)	(3.1)	(3.7)
EBIT	**A$m**	**(1.5)**	**(1.0)**	**(2.3)**	**1.8**	**4.7**	**6.9**	**9.1**	**11.5**
Finance Costs	A$m	(0.0)	(0.3)	(0.2)	(0.2)	(0.4)	(0.5)	(0.6)	(0.7)
Tax	A$m	-	(0.0)	0.3	(0.5)	(1.3)	(1.9)	(2.6)	(3.3)
Underlying NPAT	**A$m**	**(1.5)**	**(1.2)**	**(2.1)**	**1.1**	**3.0**	**4.5**	**6.0**	**7.6**
Shares Out	m	64	64	121	131	131	131	131	131
Options & Performance Rights	m	-	-	16	16	16	16	16	16
EPS (basic)	¢ps	(2.4¢)	(1.9¢)	(1.7¢)	0.8¢	2.3¢	3.4¢	4.6¢	5.8¢
»EPS Growth	%	n/a	n/a	n/a	n/a	178%	49%	34%	27%
»Sales Growth		n/a	70%	-26%	418%	34%	27%	22%	19%

Source: Estimates

NNG's prospectus contained an annual revenue target of $15 million in FY22 and $30 million in FY23. Our estimates in FY23 are below these targets, reflecting the M&A strategy which forms a key component of expected growth. Unexecuted M&A is not typically incorporated into base case analyst estimates, and our projections will be updated as this strategy unfolds and acquisitions materialise.

Note that our share count assumptions assume that Tranches 2, 3 & 4 of the Blue Sky Telecom acquisition do not materialise as our revenue growth assumptions are conservatively set well below those required to trigger the additional share issuance.

BALANCE SHEET

At 31-December 2020 NNG's balance sheet (pre completion of the IPO) was positioned as follows:

- Cash & Equivalents of $224k
- Current loans of $155k
- Non-current loans of $484k

As such the company had net debt of $415k at completion of the half. NNG's loans can be further disaggregated as per disclosure in the accounts into finance related to motor vehicles and equipment finance:

- $75k (12%) relates to motor vehicle finance;
- The remainder ($564k) consists of loans payable to third parties for "equipment finance for IT property, plant & equipment used in the Data Centre and for some client contracts". These loans were all entered into between Jun-19 & Feb-20 with a term of 5 years and interest rates of 7-9%.

Note 10: Loans payable

	31 December 2020 $	30 June 2020 $
Current		
Loans payable to related parties (i)	**-**	659,942
Loans payable to third parties (ii)	**131,326**	126,771
Hire purchase - vehicles	**23,954**	85,600
	155,280	872,313
Non Current		
Loans payable to third parties (ii)	**433,059**	499,460
Hire purchase - vehicles	**50,681**	-
	483,740	499,460
	639,020	1,371,773

Source: Company Reports

On completion of the IPO 40m shares were issued at 20¢ for cash proceeds of $8.0m. After offer costs and IPO preparation fees we anticipate net cash on hand at completion of the IPO is approximately $6.5 million.

CAPEX & CASH BURN

NNG flagged that the post-IPO cash position is expected to fund the company's operations for approximately 2 years. The key categories of cash burn are as follows:

- **Capital Expenditure:** OneCloud node expansion of $3.3m over 2 years;
- **Overheads/Operating Losses:** $3.9m of the $8.0m raised was earmarked for working capital purposes.

NNG noted in the prospectus documents that corporate overhead costs had stabilised in 2019 & 2020. With reference to the financial statements this amounts to just over $2.0 million per annum. In the 1H FY21 financial statements corporate overheads increased to just over $3.0 million annualised. We believe this reflects the addition of admin capacity for operating as a listed entity.

For the working capital cash balance to cover these expenses NNG will have to produce gross profit of $2-3m over this period. Predicated on FY19/FY20 gross margins of ~35%, this implies sales of $4-5mpa. Predicated on organic growth and the sales contribution from Blue Sky our FY22 estimate is well above this and so we regard this as achievable.

BOARD & KMP INCENTIVES

Board & KMP Shareholdings

Significant shareholdings are currently as follows:

Shareholder	Who	Position	Stake
Read Tech	Kevin Read	COO	10.78%
Kingsley International	Paul Glass	MD & CEO	10.65%
Cheque Raise	Cameron Lowe	n/a	9.16%
Smart Capital Investments	Terry Smart	n/a	4.60%
Herdsman Lake	Peter Christie	Chairman	4.44%
TOTAL			**39.63%**

Source: Company Reports, before Blue Sky Telecom share issuance

The post-IPO share register analysis highlights that Paul Glass (CEO) and Kevin Read (COO) are the 2 largest shareholders and also those responsible for executing the company's strategy. This is pleasing to note and provides strong alignment with the broader shareholders.

It is also important to note that the Chairman Peter Christie is a significant shareholder and NED Chris Daly also has a shareholding of ~1.6%.

Management shareholdings are to be held in escrow for 24 months after listing.

Performance Rights

9,480,572 performance rights are on issue to members of the Board & KMP which are subject to the achievement of the following revenue milestones:

- $15 million annual revenue for FY22
- $30 million annual revenue for FY23

The performance rights are split into 2 classes:

- 4,383,664 Class A performance rights relating to the FY22 revenue (pro forma) milestone of $15 million
- 5,096,908 Class B performance rights relating to the FY23 revenue (pro forma) milestone of $30 million

Holder	Position	Class A	Class B	Total
Kevin Read	COO	1,534,282	1,783,918	3,318,200
Paul Glass	CEO	1,534,282	1,783,918	3,318,200
Jack Toby	Company Secretary	43,837	50,969	94,806
Dominic Papaluca	CFO	175,347	203,876	379,223
Peter Christie	Chairman	657,550	764,536	1,422,086
Chris Daly	NED	438,366	509,691	948,057
TOTAL		**4,383,664**	**5,096,908**	**9,480,572**

Source: Company Reports

At the IPO issue price of 20¢ / share these performance rights are potentially worth $1.9 million in total, and with regards to those held by the CEO & COO, $660k each.

Holder	Position	Total	Value @ 20¢
Kevin Read	COO	3,318,200	$664k
Paul Glass	CEO	3,318,200	$664k
Jack Toby	Company Secretary	94,806	$19k
Dominic Papaluca	CFO	379,223	$76k
Peter Christie	Chairman	1,422,086	$284k
Chris Daly	NED	948,057	$190k
TOTAL		**9,480,572**	**$1.9m**

Source: Company Reports

Given NNG's sales in the first half of FY21 was $1.0 million, the delivery of these performance targets is dependent upon management's ability to capably execute on acquisitions.

Board & KMP Remuneration

Remuneration proposed in the prospectus should also be considered and is summarised as follows:

- Paul Glass & Kevin Read (CEO & COO) - $264,000 / year
- Peter Christie & Chris Daly (Chair & NED) - $66,000 / year

We regard these remuneration structures to be reasonable based on our knowledge of other comparably sized ASX listed companies.

VALUATION SUMMARY

We adopt a DCF methodology as our primary valuation framework to value Nexion given the early-stage nature of the company and management's expectations of significant growth via organic and acquisitive strategies over the near-term. Our DCF valuation is predicated upon the financial estimates discussed previously in this report which include:

- Financial projections to FY26
- 10.0% discount rate
- Terminal growth rate of 2.5%

Our summarised earnings and cashflow projections are presented below:

NNG DCF Valuation Analysis:

P&L	2022e	2023e	2024e	2025e	2026e
Revenue	16.6	22.2	28.0	34.2	40.7
Revenue Growth	n/a	34%	27%	22%	19%
EBITDA Margin	20%	30%	33%	36%	37%
EBITDA	**3.3**	**6.7**	**9.4**	**12.2**	**15.2**
D&A / Sales	9.0%	9.0%	9.0%	9.0%	9.0%
D&A	(1.5)	(2.0)	(2.5)	(3.1)	(3.7)
EBIT	**1.8**	**4.7**	**6.9**	**9.1**	**11.5**

Cash Flow Projections	2022e	2023e	2024e	2025e	2026e	TV
Cash From Ops	3.3	6.7	9.4	12.2	15.2	
Tax	(0.5)	(1.4)	(2.1)	(2.7)	(3.5)	
Maintenance Capex	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	
Growth Capex	(2.1)	(2.2)	(2.2)	(2.3)	(2.3)	
FCF (ungeared)	**0.1**	**2.6**	**4.6**	**6.7**	**8.8**	**153**
Period	1.0	2.0	3.0	4.0	5.0	5.5
Discount Factor	0.91	0.83	0.75	0.68	0.62	0.59
DCF	0.1	2.1	3.4	4.5	5.5	90
WACC	10.0%					
TV Growth	2.5%					
Enterprise Value	**106**					
Net Cash	6.5					
Equity Value	113					
SOI (Fully Diluted)	146					
Value Per Share	**0.77**					

Source: Estimates

We set our 12-month target price equal to the valuation derived using our DCF analysis of A$0.77/share. As the current share price is trading at a material discount to this derived valuation we apply a Buy recommendation.

Given Nexion's current small scale, the early-stage nature of the business as well as the critical OneCloud node rollout strategy, and the need to balance growth funding requirements with uncertain free cash flow generation (we forecast negative free cash flow in FY21 & FY22), Nexion is considered a high-risk investment. Management execution, particularly over the near-term as a newly listed company, will be a critical determinant of the achievability of our financial estimates which underpin our DCF valuation.

There is a wide array of highly sensitive inputs to a DCF valuation. In Nexion's case these include but are not limited to:

- The pace of new OneCloud node rollout and new customer acquisition
- Unit economics per new OneCloud node relative to the public guidance provided by management
- Discount rates and terminal growth rates adopted in deriving a DCF valuation from cash flow projections

Our base case valuation assumes a discount rate of 10% and terminal growth rate of 2.5% which is in line with assumptions generally applied to other comparable listed equities. However depending on the evolution of Nexion's financial and operating risk profile investors may wish to contemplate a range of assumptions. The sensitivity analysis illustrated below outlines our DCF analysis subject to a range of discount rate and terminal value assumptions:

Nexion DCF sensitivity analysis:

	8.0%	9.0%	10.0%	11.0%	12.0%
2.0%	1.01	0.85	0.73	0.63	0.56
2.5%	1.09	0.90	0.77	0.66	0.58
3.0%	1.19	0.97	0.81	0.70	0.61

Source: Estimates

The sensitivity analysis derives a range of valuation estimates of A$0.56/share to A$1.19/share. Nexion's share price is currently trading well below the bottom end of this derived range.

COMPARABLE COMPANIES

Although Nexion's business of hybrid cloud services are part of a very large global industry, identifying directly comparable ASX listed companies with which to compare valuation metrics is challenging given the company's unique strategic focus on niche hybrid cloud solutions.

We have identified a subset of companies which we believe to be the most relevant comparable companies which are summarised below:

Over The Wire (ASX: OTW)

OTW provides telecommunications, cloud and IT solutions to mid-large size enterprises in Australia and New Zealand. OTW's core services include:

- Data networks & internet
- Voice
- Hosting (cloud & data centre colocation)
- Managed services and security

The company has very high levels of recurring revenue and customer retention, and has acquired and integrated numerous smaller telecommunications and internet companies to expand it's product suite and grow customer numbers.

OTW listed on the ASX in FY16 with sales of ~$25m and has grown sales by 30% CAGR through to FY20 to over $80m. OTW is continuing to focus on delivering a broader range of products and services and maintain high customer retention via delivering premium customer experience.

Tesserent Ltd (ASX: TNT)

TNT provides cybersecurity services to enterprise and Government customers using a range of third-party products from global cybersecurity vendors and provides a tailored and simplified end-to-end solution for customers.

TNT is also focused on growth via acquisitions (both customers and capability) and building recurring revenue streams.

TNT listed on the ASX in FY16 and currently has >800 customers and reported FY20 revenue of $20m.

DC Two Limited (ASX: DC2)

DC2 is a cloud services company targeting enterprise customers. DC2's services can be categorised into the following core areas:

- Cloud services and management
- Data centres

DC2 maintains a range of long-term partnerships with global IT industry leaders and has >300 customers and $1.9m or predominantly recurring revenue in FY20. The company owns 2 Perth based data centres and is launching cloud services in other states of Australia over the next 2 years commencing with Victoria & NSW in 2021.

MNF Group Ltd (ASX: MNF)

MNF provides software and services for cloud communication which facilitates access to carrier networks in Australia and New Zealand. Customers include the large global corporates such as Zoom, Google and Microsoft and MNF's software allows these companies to provide the same services as in-country telecom networks.

MNF bridges the gap between software and telecommunications markets and aims to manage the complexity of telecommunications markets to enable their customers to focus on their software solutions.

In FY20 MNF revenue was $231m and aims to be the Asia-Pacific leader in cloud communications infrastructure, software and API's.

Sovereign Cloud Holdings Ltd / AUCloud (ASX: SOV)

SOV is a cloud Infrastructure as a Service provider focused exclusively on Australian Government and "critical national industries" where the management of critical and sensitive data requires additional security measures such as local storage and security cleared personnel.

SOV was listed on the ASX in FY20 and is seeking to win contracts by selling direct to customers or via 60 channel partners that bundle SOV's IaaS service into a broader product offer.

5G Networks Limited (ASX: 5GN)

5GN is an Australian licensed telecommunications carrier with a focus on providing a combined digital service to customers which includes cloud and data centre services. 5GN owns and operates datacentres and sells complementary digital services. The company's growth strategy is based on fibre rollout and network expansion across Australia facilitating more datacentre connections, as well as acquisitions including the recent completion of Webcentral in October 2020. The company has guided to sales of $60-65m in FY21.

Megaport Ltd (ASX: MP1)

Megaport is a provider of Elastic Interconnection services which by using Software Defined Networking (SDN) allows customers to quickly and easily connect their network to digital services. The company mission is to be a global leader in Network as a Service (NaaS), which serves as the interconnection point between customers and data centres, cloud service providers, network service providers and managed service providers.

MP1 has >1800 customers across SME's to large corporates and the platform is available in >24 countries. The company has installed server equipment in >385 datacentres and is physically connected to >700 datacentres where services are operated. The infrastructure removes the need for customers to invest in physical interconnection infrastructure. MP1's sales in FY20 was $58m.

PEER VALUATION ANALYSIS

We have tabulated the comparable companies identified and compared EV/Sales multiples based on 1H FY21 sales annualised given the lack of analyst consensus data available on some of the companies identified.

Comparable Company Valuation Comparison:

Company	M.Cap (A$m)	EV/Sales
OTW	279	3.0x
TNT	243	4.2x
DC2	18	8.3x
MNF	478	2.0x
5GN	139	1.8x
SOV	83	21.4x
MP1	1,912	24.8x
Mean		**9.4x**
Median		**4.2x**
Mean ex MP1 & SOV		**3.9x**

Source: Google Finance, Estimates (Note sales estimate adopted is 1H FY21 annualised)

The data shows a dispersion of multiples however excluding MP1 & SOV as outliers, an average of 3.9x is derived from the group.

With reference to our FY22 estimate of NNG's sales, the company is currently trading on an implied EV/Sales multiple of 1.2x. While the comparable company multiples are not directly comparable given the limitations of the data available, we believe it broadly illustrates that NNG's valuation is relatively modest compared to peer averages.

COMPANY HISTORY

- Nexion Networks established April 2017
- Acquires 3MW DC in Perth from Datacom with $660k of existing revenue. 100% client retention from Datacom
- Nexion OneCloud product established
- OneCloud node live in Melbourne
- OneCloud node live in Perth
- South Australian deal signed at TCV $800k. Additional 25+ global enterprise customers secured
- Anchor Cloud deal with ~$1bn partner Wipro for ATCO Gas at TCV of $1.5m
- 900 virtual servers under management
- Signs security contract TCF of $900k
- Aryaka and Nexion partnership established
- Second OneCloud node in Perth goes live
- February 2021 – Nexion listed on ASX and raises A$8.0 million
- March 2021 – Expands into New Zealand via agreement with Aryaka to deploy SD-WAN network node in Auckland

SECURITY	DATA NETWORKS	CLOUD	CO-LOCATION
Security Fabric Overview	Converged Data Networks	NEXION OneCloud	NEXION W1 Data Centre
Network Security	Enterprise Fibre & Ethernet	NEXION OneCentre	Modular Data Centres
Cloud Security	Global SD-WAN	Storage as a Service	
Advanced Threat Protection	MPLS	SaaS	
Infrastructure Security		Cloud Compute	
Hosted Firewall		Enterprise Infrastructure (IaaS)	
IOT Security		UC & Voice	
Management & Analytics			

BOARD OF DIRECTORS

Peter Christie – Independent Non-Executive Chairman

Peter is an IT industry expert with 30 years of experience across the full stack of information technology from enterprise applications down through middleware, servers, operating systems, networks and data centres. Peter began his career as a software engineer in the banking sector and has held business development and solution architecture positions with many global technology corporations including Unisys, Informix (IBM), Logica, ABB, Tibco and Orange.

Peter successfully formed and listed Australia's first modular data centre operator, The Data Exchange Network (DXN) on the ASX and as CEO, delivered and certified a world-first mixed Tier-III and Tier-IV engineering solution for low-cost, scalable data centre construction.

Peter has extensive experience in capital raising, IPOs and senior management of listed technology companies. He has a Bachelor's degree in Economics and Computer Science from Flinders University. Peter is also Chairman of Activeport Group Ltd. and RadianArc.

Paul Glass – Managing Director & CEO

Paul Glass, is co-founder and Chief Executive Officer. He has 15 years' experience in voice, video and data communications starting with Jersey Telecom then moving to Comscentre in Perth and Mitel in 2013 before forming NEXION in 2016. Paul holds an Advanced Diploma in Management and Leadership, Business Management from the Chartered Management Institute, UK (CMI) and is a member of the Australian Institute of Management.

Chris Daly – Independent Non-Executive Director

Chris has 30 years of management and supervisory experience in businesses operating in the contracting, fabrication, sales, equipment rental, mining and construction sectors.

Chris founded Dewatering Services Australia (DSA) in 2003, was the Managing Director and grew the company into a multifaceted mining services provider. DSA was sold to ASX-listed REL in 2011 where Chris continued to expand the business nationally as the Chief Executive of the Pipelines Division.

Chris has extensive experience in managing businesses with a keen focus on financial management, job costing, business processes and safety system development including Australian Standards accreditation. Chris has a strong background in design, estimating and management of infrastructure installation projects and more recently in development and construction of multi-level commercial and domestic buildings.

KEY MANAGEMENT PERSONNEL

Kevin Read – Chief Operating Officer and Alternate Director to Paul Glass

Kevin Read is co-founder and Chief Operating Officer. Kevin has over 20 years global ICT Management experience across an array of industries including, Aviation, Pharma and media. His experience extends across Africa, the UK and Australia. Kevin held technical positions with enterprises such as PQ networks & Independent Newspapers Limited in Africa, Unisys in the UK then became the technical manager at Scope Logic in Perth, before joining Paul to co-found NEXION.

Dominic Papaluca – Chief Financial Officer

Dom Papaluca is a partner in national accounting and business services firm Carbon Group. He has been in business since 1994, initially as a sole practitioner until 2003 when he founded Sterling Accountants and Business Consultants, Dom holds a Bachelor of Business, Accounting from Edith Cowan University.

Jack Toby – Company Secretary

Mr Toby is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate member of the Australian Computer Society. Mr Toby has extensive experience as Company Secretary and Chief Financial Officer of several listed public companies and major corporations for over the last 30 years.

The Company is aware of the need to have sufficient management to properly supervise its operations, expansion and research and development, and the Board will continually monitor the management roles in the Company. The Board will look to appoint additional management and/or consultants when and where appropriate to ensure proper management oversight of the Company's activities.

COMPANY SPECIFIC RISKS

The following risks are important factors for investors to be mindful of when considering an investment in shares of the company. This list is by no means exhaustive and should be read carefully in conjunction with the body of the report.

Limited History

The Company was only recently incorporated on 27 August 2018 and has only limited operating history and limited historical financial performance.

Contractual Risk

The Company enters into long term contracts to rent use of its information technology infrastructure to customers. This recurring revenue is fundamental to the ongoing ability for the Company to generate revenue. While the contracts typically have 36-month terms, customers can terminate for a range of reasons including non-performance and breach. Maintaining performance against contracts and retaining customers is essential to the ongoing ability of the Company to remain a going concern.

Customer Relationships

The growth of the Company depends in part on increasing the number of its customers. The Company's ability to maintain levels of customer numbers, or to increase the number of customers further, in applicable business sectors and geographical areas is likely to be subject to limits. There is a risk that one or more customers may terminate their contracts early or that, upon expiration of their existing contracts, they may choose not to renew arrangements with the Company or that the subsequent terms may be less favourable to the Company. Failure to maintain customer relationships or renew agreements could result in the Company's revenues declining and operating results being materially and adversely affected.

Supplier Relationships

The Company plans to utilise wholesale infrastructure providers to deliver services into the Company's national and international network. This includes suppliers of data and voice networks, as well as third party data centres. The Company is dependent on ongoing mutually beneficial relationships with such key suppliers. Termination or failure to renew agreements with such suppliers could impact on the provision of services by the Company, which would be likely to have a material adverse effect on the Company's operations and financial position. In addition, any change to applicable rates and charges by key suppliers could impact on the Company's gross margin and profitability.

Privacy & Data Collection Risk

Use of the NEXION OneCloud Nodes and Aryaka PoPs involves the storage, transmission, and processing of data including certain personal or individually identifying information. Personal privacy, information security, and data protection are significant issues. The regulatory framework governing the collection, processing, storage, and use of business information, particularly information that includes personal data, is rapidly evolving and any failure or perceived failure to comply with applicable privacy, security, or data protection laws, regulations or contractual obligations may adversely affect the Company's business.

Reputational

Extended disruption to NEXION's services within or beyond its control could cause customers to view NEXION as an operational risk and this could adversely affect NEXION's ability to retain existing customers or attract new ones.

Changes to Laws & Regulations

The Company is subject to local laws and regulations in each jurisdiction in which it provides its services. Future laws or regulations may be introduced concerning various aspects of the Company's business, all of which may impact its operations. Changes in or extensions of laws and regulations affecting the Company's business could restrict or complicate the Company's business and significantly increase its compliance costs. For example, the Company will need to consider and respond to ongoing changes to data retention laws and the impact these laws may have on The Company's business.

Technological Developments

If the Company fails to adapt to technological changes, this could have an adverse affect on the Company's business, operating results and financial position.

The ability to improve the Company's existing products and services and develop new products and services is subject to risks inherent in the development process. The Company's products and services may be shown to be ineffective, not capable for adaptation to its customer's business, or unable to compete with superior or cheaper products or services marketed by third parties. There is no assurance that the Company will be successful in maintaining its market share or that it will be able to develop and introduce competitive technological advances in a timely and cost effective way.

Leases

NEXION derives a portion of its revenue from datacentres and in data centre racks where it owns the equipment but leases the premises or rack. Failure to renegotiate leases at the time of renewal or some other event causing NEXION to lose access to the equipment in these facilities may adversely impact NEXION's business.

Hacking & Vandalism

The Company may be adversely affected by malicious third party applications that interfere with, or exploit, security flaws in the company's software and infrastructure. Viruses, worms and other malicious software programs could, among other things, jeopardise the security of information stored in a customer's or the Company's computer systems. If the Company's efforts to combat these malicious applications are unsuccessful, or if its software or infrastructure has actual or perceived vulnerabilities, the Company's business reputation and brand name may be harmed, which may result in a material adverse effect on the Company's operations and financial position.

Protection of Intellectual Property Rights

The commercial value of the Company's intellectual property assets is dependent on any relevant legal protections. These legal mechanisms, however, do not guarantee that the intellectual property will be protected or that the Company's competitive position will be maintained. No assurance can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's intellectual property or commercially sensitive information, or that competitors will not be able to produce non-infringing competitive products. Competition in retaining and sustaining protection of technologies and the complex nature of technologies can lead to expensive and lengthy disputes for which there can be no guaranteed outcome. There can be no assurance that any intellectual property which the Company (or entities it deals with) may have an interest in now or in the future will afford the Company commercially significant protection of. technologies, or that any of the projects that may arise from technologies will have commercial applications. It is possible that third parties may assert intellectual property infringement, unfair competition or like claims against the Company under copyright, trade secret, patent, or other laws. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has or will acquire an interest, such claims, if made, may harm, directly or indirectly, the Company's business. If the Company is forced to defend claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the costs of such litigation may be potentially significant and may divert management's attention from normal commercial operations.

Rapid Growth Risk

The Company aims to experience rapid growth in the scope of its operating activities which may expand operations in new jurisdictions. This growth is anticipated to result in an increased level of responsibility where if unable to be managed, will result in not being able to take advantage of market opportunities and execute its business plan or respond to competitive pressure.

Competition

The market in which the Company operates includes large and well-funded technology companies whose resources exceed those currently available to the Company. In recent years, these competitors have strategically focused resources on the application market and have established extensive experience in developing and marketing applications. There can be no assurance that the Company will be able to match or compete with the efforts of such competitors that release competing products to market. Rival product offerings by existing and new competitors as well as technology developments by competitors may have an adverse effect on the Company's business operations, financial performance and prospects as well as on the value and market price of the Company's shares. This risk may influence the Company's customer acquisition cost and customer lifetime value.

Catastrophic Loss

Computer viruses, fire and other natural disasters, break-ins, or a failure of power supply, information systems, hardware, software or telecommunication systems or other catastrophic events could lead to interruption, delays or cessation in service to the Company's customers. This may result in actual or consequential loss to the Company. The Company may be unable to operate its business, potentially putting The Company in breach of its contractual obligations, damaging its reputation and adversely affecting its ability to generate revenue.

The Company may not have adequate disaster recovery plans to prevent or minimise loss. The Company also cannot guarantee that it will be able to obtain sufficient insurance to cover loss arising from a catastrophic event, the result of. which could have a material adverse effect on the Company's business and financial performance.

Acquisitions

There is a risk that NEXION may be unable to grow its business through acquisition of new customers or increasing revenue generated from existing customers. A lack of growth may cause future losses.

Reliance on Key Personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment. The Company may not be able to replace its senior management or key personnel with persons of equivalent expertise and experience within a reasonable period of time or at all and the Company may incur additional expenses to recruit, train and retain personnel. Loss of such personnel may also have an adverse effect on the performance of the Company.

International Expansion

NEXION has acquired customers in foreign jurisdictions, including North America, New Zealand and South Africa, and has a strategy of expanding in off-shore markets. However, there is no guarantee that NEXION will be able to retain or continue to grow its revenues in those jurisdictions. As NEXION expands into existing or new jurisdictions, there are risks that these initiatives may result in additional operating complexities, new and unique regulatory requirements, unforeseen costs, failure to achieve expected revenue or to achieve the intended outcomes.

Requirement to Raise Additional Funds

NEXION may be required to raise additional equity or debt capital in the future. There is no assurance that it will be able to raise that capital when it is required or, even if available, the terms may be un-satisfactory.

COVID-19 Risk

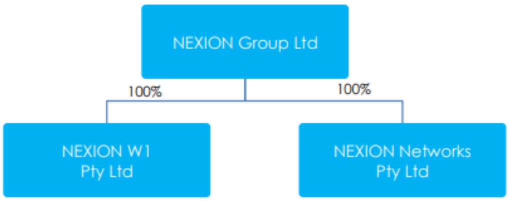
The outbreak of the coronavirus disease (COVID-19) is impacting global economic markets. The nature and extent of the effect of the outbreak on the performance of the Company remains unknown. The Company's Share price may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19. Further, any governmental or industry measures taken in response to COVID-19 may adversely impact the Company's operations and are likely to be beyond the control of the Company. The COVID-19 pandemic may also give rise to issues, delays or restrictions in product processing and packaging and the Company's ability to deliver products to customers, which may result in cost increases or adverse impacts on sales. In addition, the effects of COVID-19 on the Company's Share price and global financial markets generally may also affect the Company's ability to raise equity or debt or require the Company to issue capital at a discount, which may in turn cause dilution to Shareholders. The COVID-19 pandemic may also give rise to issues, delays or restrictions in relation to the Company's ability to freely move people and equipment to and from data centres where the Company's equipment is hosted or customer premises and this may cause delays or cost increases. The effects of COVID -19 on the Company's Share price and global financial markets generally may also affect the Company's ability to raise equity or debt or require the Company to issue capital at a discount, which may in turn cause dilution to Shareholders. The Directors are monitoring the situation closely and have considered the impact of COVID-19 on the Company's business and financial performance. However, the situation is continually evolving, and the consequences are therefore inevitably uncertain. If any of these impacts appear material prior to close of the Offer, the Company will notify investors under a supplementary prospectus.

Foreign Jurisdiction Risk

The Company intends expanding operations internationally. There is a risk investing in international operations may not be profitable or succeed due to poor execution or external factors beyond NEXION's control including obtaining appropriate licences and consents for NEXION's business, taxation, working conditions, insurance, demand for services, contractors, potential acquisitions, growth, counterparties, intellectual property, technical failure, operational failure, disputes, litigation, non-payment, currency exchange rates, debt and interest rates, financial performance, legal compliance, political unrest and operational management.

COMPANY DESCRIPTION

NEXION Group Ltd was formed in 2018 from the amalgamation of the datacentre business NEXION W1 and NEXION Networks. NEXION Networks Pty Ltd (NEXION Networks) owns and operates Hybrid Cloud infrastructure and provides associated services while NEXION W1 Pty Ltd (NEXION W1) owns and operates a 3 Mega-watt capacity data centre in Perth, Western Australia.



NEXION offers private cloud infrastructure integrated with public cloud services to form the NEXION Hybrid Cloud solution it calls OneCloud. NEXION hosts a OneCloud Node in its own data centre in Perth and third-party data centres in other cities and sells capacity to customers on term contracts up to 36-months. NEXION provides project management services to migrate customers to its Hybrid Cloud platform as well as associated equipment and support services for additional fees. The Company also provides SD-WAN to connect customer premises and equipment to its Hybrid Cloud.

Nexion's Services:

Source: Company Reports

Since incorporation, the Company has focused on deployment and rental of Hybrid Cloud infrastructure (NEXION OneCloud) and interconnection of these OneCloud Nodes using software-defined wide-area network (SD-WAN) networks.

NEXION's core revenue streams are from renting its OneCloud infrastructure to customers on a monthly fee basis, delivering project management and technical resources to deploy new technology, selling network solutions from telecommunications providers, selling third-party technology including Cyber Security products, providing technology monitoring and management services and selling bandwidth on the Aryaka SD-WAN network.

NEXION owns its own data centre in Belmont, Western Australia, from which it centrally controls its growing network of OneCloud and Aryaka SD-WAN infrastructure. The company is a full-stack information technology service provider offering sales of associated information technology, project management and support services that complement its Hybrid Cloud infrastructure service.

APPENDIX 1

GENERAL ADVICE WARNING

This document contains GENERAL advice only, as the information or advice given does not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, PDS or like instrument.

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APPENDIX 1 (CONTINUED)

ANALYST DISCLOSURE

Daniel Seeney, an authorised representative of Queensland Value Pty Ltd, certifies that the advice in this report reflects his honest view of the company. He has over 15 years investment experience in wholesale capital markets. He worked as a research analyst for brokers J.P. Morgan, Citigroup & fund manager Investors Mutual. He now provides independent investment research. He may own securities in companies he recommends but will declare this when providing advice. He currently does not own shares in NNG. He is employed by Queensland Value Pty Ltd which was paid a fee for providing this research report by BSCP. BSCP, its directors and consultants may own shares and options in NNG and may, from time to time, buy and sell the securities of NNG.

I, Daniel Seeney, certify that the views expressed in this report accurately reflect my personal views about the company and no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst responsible for preparing this research report received compensation based on several factors including Queensland Value's total revenues, a portion of which are generated by commissioned investment research activities.

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