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## Amcom – reaching for the clouds

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These days it seems near impossible to read about information technology without bumping into the word “cloud”. Applications are now cloud-based; we store things in the cloud; and the cloud can even provide most of the IT infrastructure enterprises need to function.

### **In the clouds**

So what does ‘The Cloud’ *actually* mean? Broadly speaking, a cloud is just a set of computer servers connected by a communications network. Picture a hub-and-spoke architecture: the cloud is the hub, while individual user machines connect into the hub like spokes. The cloud can be dedicated to just one enterprise, hosted internally or externally; or it can be shared across many client enterprises, hosted externally – such is the case with cloud behemoth Amazon Web Services. The idea is that applications and services can be performed and managed more efficiently by the centralized servers in the cloud rather than on the individual machines of each employee.

A cloud architecture also makes scaling up (or down) significantly easier for enterprises. Indeed, many cloud-based software applications – characterised by another buzzword: SaaS, or Software-as-a-Service – simply charge by usage-based subscriptions. This saves the enterprise from needing to make big and risky capital investments in IT. The cloud essentially transforms the cost of IT from one that is fixed to one that is variable.

### **The Amcom proposition**

Amcom (AMM) is a niche cloud services provider in the Australian market. It specifically targets mid-sized enterprises, which are slowly transforming their internal IT architecture from the traditional model – internally hosted IT infrastructure and applications – to a cloud-based platform.

Initially, a client may only be comfortable with Amcom managing its internal network using its own internal IT infrastructure. Yet over time, the client will likely need additional infrastructure and will become comfortable with Amcom hosting its dedicated infrastructure externally – a dedicated cloud, so to speak.

Finally, many clients will become comfortable with using externally hosted shared cloud infrastructure – such as Amazon Web Services. With each step in the progression, significant efficiencies are captured by the client; and so too is incremental revenue captured by Amcom. This ability for Amcom to cross-sell new products to existing customers as they evolve is highly attractive.

Interestingly, this rapidly growing business accounted for less than 20% of Amcom’s sales in its most recently reported half-yearly results. Its share of earnings was even less – though this will surely change very soon. The economics of this business are such that many of the costs are fixed – such as those associated with building an external data warehouse; and those associated with initially acquiring customers. So as revenues grow – which they have been at over 30% per annum – so too will profit margins. This effect is known as operating leverage.

## Workplace change

There is another trend within the enterprise that is providing a secular tailwind for Amcom. This relates to the use of social media in the workplace, or ‘unified communication’ – as every trend needs a buzzword in this industry. Believe it or not, enterprises around the world – large and small – are using the tools of social media to enable their employees to collaborate and communicate more efficiently. Mediums from instant messaging to video telephony and internal versions of Twitter and Facebook. And managers are using them across the spectrum: from interns all the way up to the senior executives. Whether it’s Microsoft’s Yammer, Google’s Hangouts, or one of the many other cloud-based collaboration tools that are readily available.

The workplace is changing rapidly. How we collaborate and communicate is changing; and these changes require the applications that are highly suited for cloud-based architecture. How IT infrastructure is managed is also undergoing rapid change. For instance, installing new versions of software is much easier if it needs to only be installed on the cloud, rather than on every employee’s individual machine. The efficiencies, and therefore cost-savings, that can be gained from Amazon hosting your cloud, for example, are enormous. These trends are highly favourable for Amcom, which appears to be a leader in servicing mid-sized clients in the Australian market.

## Amcom (AMM)



Amcom’s share price has increased by more than three times over the last three years – a truly stellar performance indeed. While one needs to always think of both business quality and valuation in their assessment of a particular stock, in this case, at least the quality can be said to be solid.

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