

PROACTIS

SOFTWARE AND COMPUTER SERVICES

PHD.L

187.5p

Market Cap: £97.3m

SHARE PRICE (p)



Source: LSE Data

KEY INFORMATION

Enterprise value	£97.8m
Index/market	FTSE AIM
Next news	Q4 17 T/U - August 17
Gearing	0%
Interest cover	80.1x

 PROACTIS IS A RESEARCH CLIENT OF
 PROGRESSIVE

ANALYSTS

Gareth Evans
 +44 (0) 20 7781 5301
 gevens@progressive-research.com

Dan Gardiner
 +44 (0) 20 7781 5303
 dgardiner@progressive-research.com

Execution Engine

Interim results confirmed PROACTIS is executing strongly. In a period during which it consummated its largest ever deal (Millstream), it also added a record number of new customers, drove an acceleration in organic growth and delivered profits ahead of our expectations. The outlook statement remains upbeat with the APF (Accelerated Payment Facility) initiative progressing well. Our FY17E and FY18E forecasts remain materially unchanged for the time being but further strong execution should give scope to lift numbers later in the year.

- Core business executing well.** Headline revenue and customer numbers had been disclosed already (see 20th February trading statement) but the additional detail confirmed the strength of the core business. Customer acquisition (27 new deals) was at record levels with 22 SAAS deals a particularly strong result. Customer upsell was also healthy with 59 deals. Revenue visibility improved substantially and the order book rose by £1m. Organic revenue growth of 13.4%yoy was an acceleration from 2HFY16 levels and above our initial forecasts.
- Execution of acquisition strategy.** During H1 FY17, PROACTIS made (and began consolidating) its largest ever acquisition, Millstream. Extrapolating from the first 10 weeks of consolidation suggests it is performing well. Over £1m in revenue and £0.42m in EBITDA suggests it is on track for the £5m in annualised revenue and 40% margins we originally forecast. Backing out its contribution suggests Due North is also performing in-line with our expectations. We continue to believe that in a fragmented eProcurement market there is a big opportunity to create shareholder value through M&A.
- Supplier Network and APF on track.** While no additional milestones were announced the commentary around the supplier network was encouraging with the company indicating the APF trials going well and the “overall supplier opportunity extended”.
- Improving gross margins.** An increased proportion of direct sales and the consolidation of Millstream saw gross margin jump another 2.5ppts sequentially to 85%. This was partially offset by higher than expected opex (investment in the supplier commerce opportunity) but EBITDA of £3m was ahead of our initial forecast.
- Execution engine.** Our FY17E and FY18E forecasts remain materially unchanged for now but clearly the outperformance in 1H gives us greater confidence in our FY17E estimates. If PROACTIS continues to execute well there could be scope to raise forecasts later in the year.

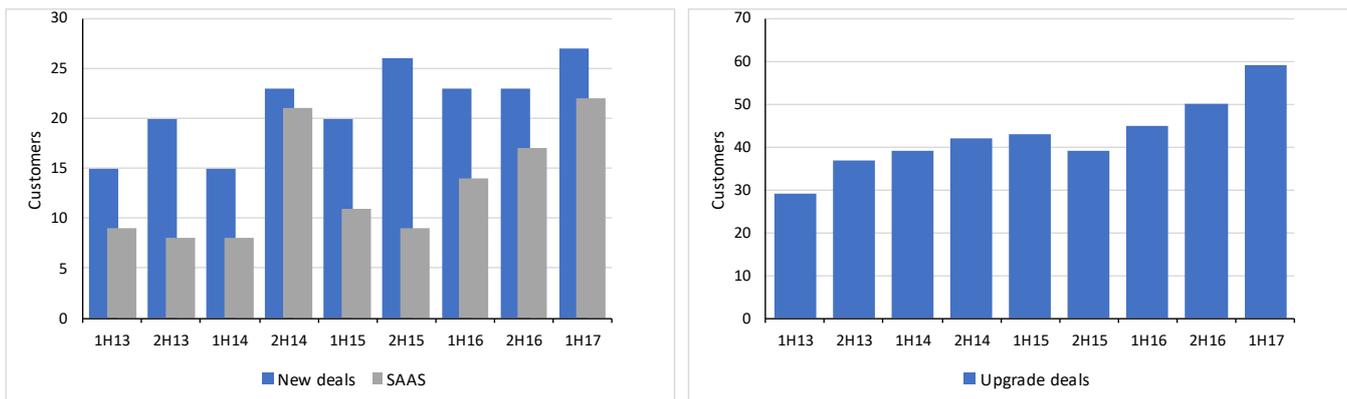
FYE JULY	FY14A	FY15A	FY16A	FY17E	FY18E
Revenue	10.2	17.2	19.4	24.3	28.0
Adjusted EBITDA	2.0	4.8	5.3	7.2	8.7
Adjusted EBIT	1.1	2.9	3.1	5.0	6.2
Adjusted EPS (p)	2.6	5.8	6.8	7.6	9.6
EV/Adj. EBITDA	47.9x	20.4x	18.4x	13.6x	11.3x
EV/Adj. EBIT	87.1x	34.1x	31.4x	19.6x	15.7x
P/E	72.6x	32.8x	27.9x	25.0x	19.7x

Source: Company Information and Progressive Equity Research estimates

Performance of the Core Business

With 27 new customers added and 59 upsell deals H1 FY17 was a record period for customer activity for PROACTIS. Particularly encouraging was the continued growth in SAAS deals. As the chart below highlights SAAS volumes continue to rise sharply and with 22 signed in H1 FY17, SAAS represented over 80% of the total. As the chart below also highlights renewal activity was also strong. The 59 deals signed in the period represented a substantial growth from previous periods.

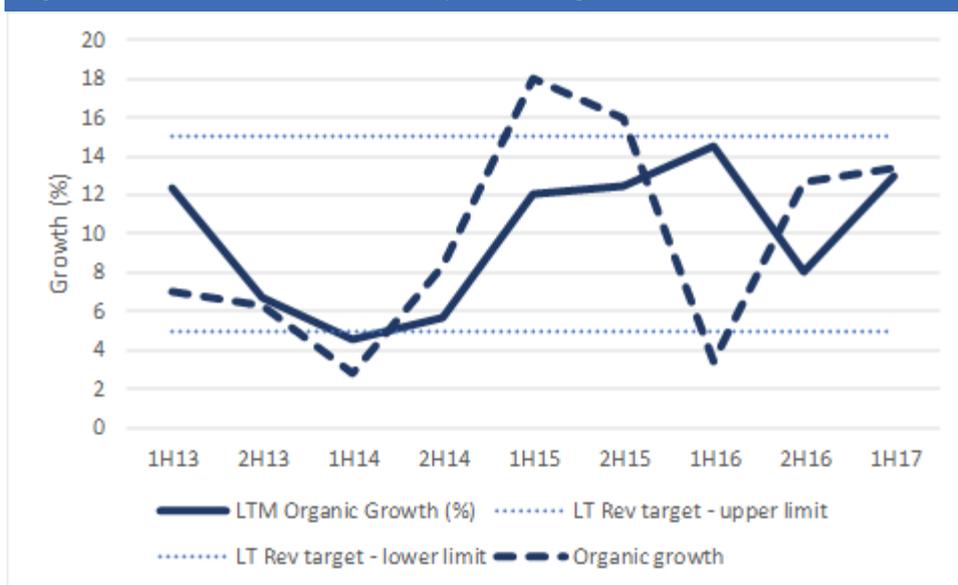
Record New Customer Deals and Upgrades Signed in H1FY17



Source: Company Data, Progressive Research

As a consequence of the strong performance of renewals and customer acquisition in prior periods, organic revenue growth was above our expectations. The 13.4% in H1 FY17 was an acceleration from H2 FY16 and comfortably above the mid-point of the 5–15% long term growth rate target the company has set itself.

Organic Growth Rates and Variability vs LT targets

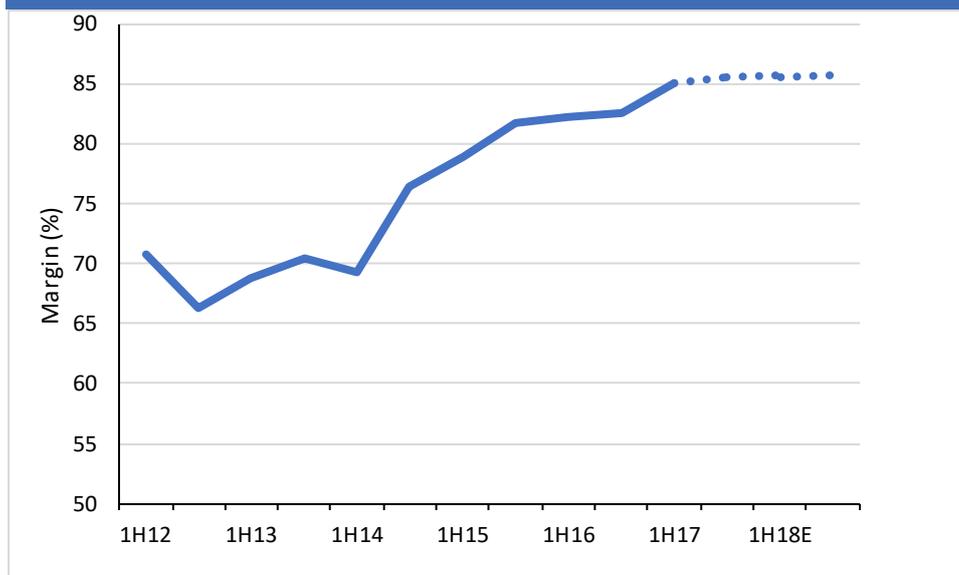


Source: Company Data, Progressive Research

Gross Margin Trajectory

As the chart below highlights, the shift towards more direct business has seen a steady improvement in PROACTIS' gross margins over the last three years. Augmented by the partial period consolidation of (marginally higher gross margin) Millstream revenues this trend continued in H1FY17 leading to a 2.5ppts sequential increase in gross margin. Margins will vary over time, but given the rising proportion of SAAS deals and a full period consolidation of Millstream we would expect this trend to continue.

Consistent Improvements in Gross Margins Driven By Direct Mix Shift



Source: Company Data, Progressive Research

Execution Engine

Our forecasts remain materially unchanged, but clearly the outperformance in H1 gives us greater confidence in our FY17E estimates in particular. These interims highlight excellent execution of both PROACTIS' organic and M&A strategies. If this execution continues there could well be scope to raise forecasts later in the year.

SUMMARY FINANCIALS

PROFIT & LOSS	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
Revenue	8.0	10.2	17.2	19.4	24.3	28.0
Adj EBITDA	1.3	2.0	4.8	5.3	7.2	8.7
Adj EBIT	0.6	1.1	2.9	3.1	5.0	6.2
Reported PBT	0.3	0.1	1.5	1.8	3.4	5.4
Fully adj PBT	0.6	1.1	2.8	3.0	4.9	6.2
NOPAT	0.7	1.4	3.4	3.7	6.0	7.5
Reported EPS (p)	1.1	0.9	4.9	5.9	7.3	11.3
Fully adj EPS (p)	1.9	2.6	5.8	6.8	7.6	9.6
Dividend per share (p)	1.0	1.1	1.2	1.3	1.4	1.5
CASH FLOW & BALANCE SHEET	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
Operating cash flow	1.1	1.6	3.4	5.4	5.2	7.4
Free Cash flow (£m)	(0.3)	0.1	0.8	2.5	1.8	3.6
FCF per share (p)	(1.1)	0.3	1.9	5.9	3.5	7.1
Acquisitions	0.0	(3.9)	(1.1)	(4.5)	0.0	0.0
Disposals	(0.0)	0.0	(0.0)	0.0	0.0	0.0
Shares issued	0.0	3.1	0.2	0.2	0.0	0.0
Net cash flow	(0.3)	(0.7)	(0.1)	(1.9)	1.8	3.6
Overdrafts / borrowings	0.0	(1.5)	(1.9)	(4.0)	(4.0)	(4.0)
Cash & equivalents	2.3	3.1	3.4	3.6	5.4	9.0
Net (Debt)/Cash	2.3	1.6	1.5	(0.5)	1.3	4.9
NAV AND RETURNS	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
Net asset value	6.4	9.5	11.5	13.0	16.2	21.3
NAV/share (p)	20.2	28.1	29.4	32.6	32.9	43.3
Net Tangible Asset Value	(0.4)	(5.8)	(5.1)	(8.6)	(6.8)	(1.8)
NTAV/share (p)	(1.3)	(17.3)	(13.2)	(21.7)	(13.8)	(3.8)
Average equity	6.3	7.9	10.5	12.2	14.6	18.7
Post-tax ROE (%)	5.5%	4.1%	19.2%	20.3%	25.8%	31.0%
METRICS	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
Revenue growth	7.0%	26.2%	69.6%	12.5%	25.4%	15.3%
Adj EBITDA growth	27.6%	55.6%	129.6%	10.5%	38.7%	20.5%
Adj EBIT growth	198.1%	146.0%	191.9%	9.5%	76.4%	28.9%
Adj PBT growth	110.6%	85.9%	153.2%	8.0%	60.4%	26.8%
Adj EPS growth	110.1%	38.8%	121.0%	17.7%	11.5%	26.8%
Dividend growth	33.3%	10.0%	9.1%	8.3%	7.7%	7.1%
Adj EBIT margins	7.1%	11.1%	16.6%	16.0%	20.5%	22.3%
VALUATION	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
EV/Sales	12.2	9.6	5.7	5.0	4.0	3.5
EV/EBITDA	74.5	47.9	20.4	18.4	13.6	11.3
EV/NOPAT	130.6	71.1	29.0	26.2	16.3	13.1
PER	100.7	72.6	32.8	27.9	25.0	19.7
Dividend yield	0.5%	0.6%	0.6%	0.7%	0.7%	0.8%
FCF yield	-0.6%	0.2%	1.0%	3.1%	1.8%	3.7%

Source: Company information, Progressive Equity Research estimates

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