

PROACTIS

SOFTWARE AND COMPUTER SERVICES

PHD.L

170p

Market Cap: £165.6m

SHARE PRICE (£)



12m high/low

195.9p/150.3p

Source: LSE Data

KEY INFORMATION

Enterprise value	£186.4m
Index/market	FTSE AIM
Next news	Interims, 24 Apr '18
Gearing	13%
Interest cover	14.7x (FY18E)

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

Doubling and Delivering

PROACTIS' interim trading statement provides the first opportunity to gauge performance since Perfect was consolidated. The overall picture looks healthy: revenue of £26.3m has more than doubled yoy and EBITDA of £8.5m is ahead our expectations (£8.0m). While customer activity is not quantified, it is described as strong, and the target of £5m in annualised synergies by the end of FY18 is confirmed. We believe PROACTIS can deliver £20m in EBITDA in FY18 and leave our forecasts unchanged.

- The Perfect trajectory.** In *Going for Scale* (Jan '18) we highlighted the strategic value of Perfect. Consolidated for all but four days of 1HFY18, this statement provides the first chance to assess its financial contribution. Trading is described as "in-line" with a "healthy" number of new customer wins. Revenue of £13.5m looks solid (albeit impacted by Sterling strength), and the EBITDA contribution of £3.7m (a 27% margin) is ahead of our expectations. Given expected seasonality Perfect appears on track to generate at least £7.5m of EBITDA in FY18.
- Solid execution elsewhere.** Activity levels are described as strong compared to last year on a like for like basis, and both the pipeline and order book are "encouraging". Backing out the contribution of Perfect implies revenues grew 8%yoy and a 38% EBITDA margin (a 12ppt increase yoy). The profitability of the core business is ahead of our expectations. Progress on synergies appears particularly good. The target of delivering £5m of annualised cost savings by the end of FY18 was confirmed and the company is more than halfway there after six months (£3.3m has already been achieved).
- Forecasts unchanged.** Our FY18 EBITDA estimate of £20m implies £11.5m in 2HFY18. This appears achievable considering 2H should benefit from incremental synergies and PROACTIS' profits are typically 2H weighted. In FY17 58% of profit was generated in 2H - a similar split in FY18, before factoring in any additional synergies delivered in 2H, implies some £11.6m.
- Doubling and delivering.** In a market where scale is increasingly important, we saw significant strategic value in the Perfect deal. Time will be needed to fully realise this value, but this statement highlights it is also delivering on its financial promises. Demonstrating the ability to successfully integrate is vital to PROACTIS' scale strategy. We believe this strategy could create significant value over time.

Y/E JULY	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Revenue	17.2	19.4	25.4	60.5	66.2
Adjusted EBITDA	4.8	5.3	7.9	20.0	23.8
Adjusted EBIT	2.9	3.2	5.2	14.7	18.5
Adjusted EPS (p)	5.8	7.0	8.6	10.8	14.5
EV/Adj. EBITDA	38.8x	35.2x	23.7x	9.3x	7.8x
EV/Adj. EBIT	65.0x	58.0x	35.5x	12.7x	10.1x
P/E	29.4x	24.1x	19.7x	15.7x	11.7x

Source: Company Information and Progressive Equity Research estimates

SUMMARY FINANCIALS

PROFIT & LOSS	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Revenue	10.2	17.2	19.4	25.4	60.5	66.2
Adj EBITDA	2.0	4.8	5.3	7.9	20.0	23.8
Adj EBIT	1.1	2.9	3.2	5.2	14.7	18.5
Reported PBT	0.1	1.5	1.8	(2.7)	9.2	15.7
Fully adj PBT	1.1	2.8	3.1	5.1	13.7	17.7
NOPAT	1.4	3.4	3.9	6.3	17.6	22.2
Reported EPS (p)	0.9	4.9	5.9	(5.7)	7.3	12.9
Fully adj EPS (p)	2.6	5.8	7.0	8.6	10.8	14.5
Dividend per share (p)	1.1	1.2	1.3	1.4	1.5	1.6
CASH FLOW & BALANCE SHEET	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Operating cash flow	1.6	3.4	5.4	5.5	18.7	23.0
Free Cash flow (£m)	0.1	0.8	2.2	1.3	10.2	12.6
FCF per share (p)	0.3	1.9	5.1	2.8	10.5	13.0
Acquisitions	(3.9)	(1.1)	(4.4)	(14.3)	(95.1)	0.0
Disposals	0.0	(0.0)	0.0	0.0	0.0	0.0
Shares issued	3.1	0.2	0.2	12.7	65.0	0.0
Net cash flow	(0.7)	(0.1)	(2.0)	(0.4)	(19.9)	12.6
Overdrafts / borrowings	(1.5)	(1.9)	(4.0)	(5.2)	(20.8)	(20.8)
Cash & equivalents	3.1	3.4	3.6	4.3	0.0	12.6
Net (Debt)/Cash	1.6	1.5	(0.5)	(0.9)	(20.8)	(8.2)
NAV AND RETURNS	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Net asset value	9.5	11.5	13.0	22.5	28.9	40.8
NAV/share (p)	28.1	29.4	32.6	45.9	58.9	83.0
Net Tangible Asset Value	(5.8)	(5.1)	(8.6)	(16.1)	(11.1)	(1.2)
NTAV/share (p)	(17.3)	(13.2)	(21.7)	(32.7)	(22.5)	(2.5)
Average equity	7.9	10.5	12.2	17.8	25.7	34.8
Post-tax ROE (%)	4.1%	19.2%	20.3%	-15.6%	27.5%	36.0%
METRICS	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Revenue growth	26.2%	69.6%	12.5%	31.1%	138.2%	9.4%
Adj EBITDA growth	55.6%	129.6%	12.8%	48.5%	154.7%	18.9%
Adj EBIT growth	146.0%	191.9%	14.2%	68.0%	194.5%	29.8%
Adj PBT growth	85.9%	153.2%	11.8%	63.0%	168.2%	29.1%
Adj EPS growth	38.8%	121.0%	22.1%	22.5%	25.4%	34.1%
Dividend growth	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%
Adj EBIT margins	11.1%	16.6%	16.6%	20.7%	24.3%	27.9%
VALUATION	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
EV/Sales	18.4	10.8	9.6	7.3	3.1	2.8
EV/EBITDA	91.3	38.8	35.2	23.7	9.3	7.8
EV/NOPAT	135.6	55.2	48.3	29.6	10.6	8.4
PER	65.0	29.4	24.1	19.7	15.7	11.7
Dividend yield	0.6%	0.7%	0.8%	0.8%	0.9%	0.9%
FCF yield	0.2%	1.1%	3.0%	1.6%	6.2%	7.6%

Source: Company information, Progressive Equity Research estimates

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