

PROACTIS

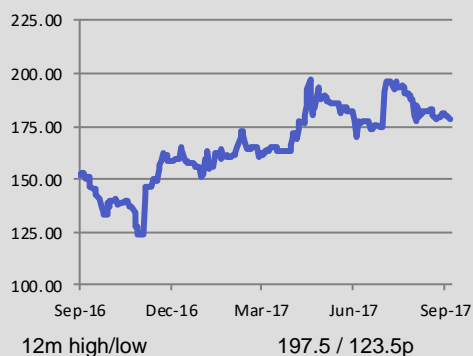
SOFTWARE AND COMPUTER SERVICES

PHD.L

178.5p

Market Cap: £173.9m

SHARE PRICE (£)



Source: LSE Data

KEY INFORMATION

Enterprise value	£195.8m
Index/market	FTSE AIM
Next news	FY17 Finals, 11 Oct 17
Gearing	13%
Interest cover	14.7x (FY18E)

PROACTIS IS A RESEARCH CLIENT OF
PROGRESSIVE

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Powering on

The transformative deal to acquire Perfect Commerce has now completed and PROACTIS has updated the market on trading for the year end. Financial metrics and deal volumes are in line with expectations following a year of good new business wins and strong organic growth. While bringing our FY2017E estimates in line with the trading update, we make no changes to underlying forecasts for FY2018E, but we do update them to reflect the earnings-enhancing Perfect deal.

- PROACTIS expects to report the following numbers, which are in line with consensus: revenues of c.£25.4m, Adjusted EBITDA of c.£7.9m and Adjusted PBT of c.£5.3m. Deal volumes were at expected levels with 54 new name deals and 110 up-sell and cross sell deals.
- PROACTIS has achieved a major coup, in our opinion, through the execution of the Perfect Commerce deal. The enlarged group can boast material scale on the world stage, significant growth potential, good revenue visibility and a track record of profit and cash generation. In one transaction, PROACTIS has accelerated and promoted its strategic agenda, now reaching customers of all types and sizes across the three key markets of the USA, the UK and Continental Europe. The range and applicability of the solution portfolio is materially enhanced, especially with the Hubwoo Business Network platform, itself recently acquired by Perfect.
- Small increases to our FY2017E estimates reflect the metrics given in the trading update. We upgrade our FY2018E estimates by 116% in terms of revenue, 137% adjusted EBIT and 13% adjusted EPS to reflect the transaction – our underlying estimates for standalone PROACTIS are unaltered. We also introduce FY2019E estimates.
- PROACTIS has paid, in our opinion, a fair price for the asset, but the highly complementary business structures allow a significant degree of cost synergies – these arguably cover or justify a material proportion of the deal cost, even before strategic value and revenue growth opportunities are factored in.
- We will return in the near future with a detailed analysis of the deal, its strategic rationale and the benefits generated by a material increase in scale. In the meantime, the update trading update provides reassurance ahead of a more thorough review of the financials, Perfect Commerce integration and the wider group strategy from management around the time of full year results on 11th October.

Y/E JULY	FY-15A	FY-16A	FY-17E	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	3.1	5.5	14.7	18.5
Adjusted EPS (p)	5.8	6.8	8.3	10.8	14.5
EV/Adj. EBITDA	40.8x	36.9x	24.9x	9.8x	8.2x
EV/Adj. EBIT	68.3x	63.0x	35.9x	13.3x	10.6x
P/E	30.9x	26.3x	21.4x	16.5x	12.3x

Source: Company Information and Progressive Equity Research estimates

Post Perfect

Table 2 presents our updated forecasts for FY2018E. We make no change to our standalone PROACTIS estimates, but reflect the impact of the Perfect Commerce transaction for the first time. The combination more than doubles the size of business and by FY2019E, when the full value of synergies are realised, should lift adjusted EBITA margins by nearly 6ppts. Our FY2018E adjusted EPS forecast increases by 13% from 9.6p to 10.8p

We also introduce provisional forecasts for FY2019E. We forecast 9% revenue growth, which combined with the margin increase, should drive EPS growth of 34%. We will publish an in-depth analysis of the combination and its strategic implications in due course, but given the scope for synergies between the two businesses, these numbers should be readily achievable. On these estimates PROACTIS trades at 12.3x our FY2019E adjusted EPS.

Table 2: Combining PROACTIS and Perfect Commerce Financials

	FY-18E PHD	FY-18E PC	FY-18E Adjust.	FY-18E Combined	FY-19E Combined
Revenue	28.0	32.5		60.5	66.2
Gross Profit	23.8	24.6		48.4	54.3
Gross margin (%)	85.0	75.7		80.0	82.0
Operating costs	(17.6)	(19.1)	3.0	(33.7)	(35.8)
Adjusted EBIT	6.2	5.5	3.0	14.7	18.5
Interest	(0.0)		(1.0)	(1.0)	(0.8)
Adjusted PBT	6.2		2.0	13.7	17.7
Tax	(1.3)		(1.9)	(3.2)	(3.5)
Adjusted income	4.9		0.1	10.5	14.1
Shares (m)	51.3		46.1	97.4	97.4
Adjusted EPS (p)	9.6			10.8	14.5

Source: Progressive Research

SUMMARY FINANCIALS

PROFIT & LOSS	FY-14A	FY-15A	FY-16A	FY-17E	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	3.1	5.5	14.7	18.5
Reported PBT	0.1	1.5	1.8	4.3	9.2	15.7
Fully adj PBT	1.1	2.8	3.0	5.3	13.7	17.7
NOPAT	1.4	3.4	3.7	6.5	17.6	22.2
Reported EPS (p)	0.9	4.9	5.9	6.5	7.3	12.9
Fully adj EPS (p)	2.6	5.8	6.8	8.3	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-17E	FY-18E	FY-19E
Operating cash flow	1.6	3.4	5.4	6.4	22.5	22.6
Free Cash flow (£m)	0.1	0.8	2.5	1.6	13.9	12.2
FCF per share (p)	0.3	1.9	5.9	3.0	14.3	12.6
Acquisitions	(3.9)	(1.1)	(4.5)	(14.7)	(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	12.2	65.0	0.0
Net cash flow	(0.7)	(0.1)	(1.9)	(0.9)	(16.2)	12.2
Overdrafts / borrowings	(1.5)	(1.9)	(4.0)	(4.0)	(21.9)	(21.9)
Cash & equivalents	3.1	3.4	3.6	2.7	0.0	12.2
Net (Debt)/Cash	1.6	1.5	(0.5)	(1.4)	(21.9)	(9.7)

NAV AND RETURNS	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E	FY-19E
Net asset value	9.5	11.5	13.0	27.9	99.3	111.1
NAV/share (p)	28.1	29.4	32.6	56.9	202.2	226.3
Net Tangible Asset Value	(5.8)	(5.1)	(8.6)	5.0	76.2	87.8
NTAV/share (p)	(17.3)	(13.2)	(21.7)	10.2	155.2	178.8
Average equity	7.9	10.5	12.2	20.4	63.6	105.2
Post-tax ROE (%)	4.1%	19.2%	20.3%	16.3%	11.1%	11.9%

METRICS	FY-14A	FY-15A	FY-16A	FY-17E	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%	10.5%	51.9%	154.1%	18.9%
Adj EBIT growth	146.0%	191.9%	9.5%	92.6%	168.0%	29.8%
Adj PBT growth	85.9%	153.2%	8.0%	76.4%	156.5%	29.1%
Adj EPS growth	38.8%	121.0%	17.7%	22.6%	30.0%	34.1%
Dividend growth	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%
Adj EBIT margins	11.1%	16.6%	16.0%	21.5%	24.3%	27.9%

VALUATION	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E	FY-19E
EV/Sales	19.3	11.4	10.1	7.7	3.2	3.0
EV/EBITDA	95.9	40.8	36.9	24.9	9.8	8.2
EV/NOPAT	142.4	58.0	52.5	29.9	11.1	8.8
PER	68.3	30.9	26.3	21.4	16.5	12.3
Dividend yield	0.6%	0.7%	0.7%	0.8%	0.8%	0.9%
FCF yield	0.2%	1.0%	3.3%	1.7%	8.0%	7.0%

Source: Company information, Progressive Equity Research estimates

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