

PROACTIS

SOFTWARE AND COMPUTER SERVICES

PHD.L

104p

Market Cap: £101.3m

SHARE PRICE (p)



12m high/low

206p/100p

Source: LSE Data

KEY INFORMATION

Enterprise value	£131.3m
Index/market	AIM
Next news	Trading update, 22 Aug
Gearing	29.6%
Interest cover	11.7x

 PROACTIS IS A RESEARCH CLIENT OF
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Update on trading, and Dutch deal announced

PROACTIS has given a (limited) update on current trading, and has announced another acquisition – a sensibly-sized SaaS business in The Netherlands. We update 2018 and 2019 forecasts, and are pleased to see the group has not been derailed from its strategy by the hopefully one-off issues affecting Q3.

- Trading update** – the announcement begins with an update on trading for the year to 31 July. Given that the year ended so recently, the statement is necessarily brief; revenue of c£52m is shy of our £56m estimate, but EBITDA is pleasingly ahead of our forecasts, at £17m vs our forecast £16.5m. Revenue for H1 was some £25.4m, which does not suggest material organic growth in H2. Nevertheless, new name client wins (64 for the year) imply that the Q3 “hiatus” previously described has in large part recovered, and the upsell deals (119 in FY18, up from 110 in the prior year) are also well ahead of the company’s target of around 100 per year. We comment further overleaf.
- Acquisition announced** - the group has concluded a moderately-sized acquisition, paying up to €15m for a Netherlands-based Cloud-native (SaaS) provider of spend management solutions. The acquired company, Esize, has a degree of overlap with PROACTIS, but also offers travel and expense management, and contract labour. The deal clearly brings added geographical focus in the Netherlands region where the roughly 60 customers and 50 employees are based.
- Changes to estimates** - as detailed overleaf, we make a number of changes to our forecasts, to reflect the better granularity for 2018 (where we map to the stated figures) and to include Esize in our 2019 numbers. We will add 2020 forecasts once 2018 is reported.

The group appears to be moving on from its recent difficulties – management admitted in April that Q3 had suffered from a number of largely one-off issues. New client and upsell metrics strongly suggest that the business is now returning to form – even if this is yet to show in revenue - and the acquisition should provide opportunities for up-sell and cross-sell over time. We are pleased to see that the recent challenges have not derailed the group’s long-term strategic ambition, and as long as FY19 tracks to plan and client churn can be mitigated, the benefit of much of the recent and ongoing M&A will hopefully begin to show through.

FYE JUL (£M)	2015	2016	2017	2018E	2019E
Revenue	17.2	19.4	25.4	52.0	59.8
Adj EBITDA	4.7	5.3	7.9	17.0	19.9
Fully Adj PBT	2.8	3.1	5.2	10.7	13.5
Fully Adj EPS (p)	5.8	7.0	8.7	9.3	11.7
EV/Sales (x)	7.6	6.8	5.2	2.5	2.2
EV/EBITDA (x)	28.0	24.8	16.6	7.7	6.6
PER (x)	18.0	14.8	11.9	11.2	8.9

Source: Company Information and Progressive Equity Research estimates

Additional comment on trading update

Although the trading update detailed a shortfall on revenue, a number of other dynamics appear to be moving in a more positive direction. In particular, the strong level of new client wins (and at good average deal sizes) augurs well for FY2019. The combination of revenue disappointment but good client wins might suggest an ongoing attrition problem – and Hamp Wall’s CEO comment describes being “confident of normalised levels of growth and churn for FY2019”. The organic performance between H1 and H2 suggests that the group has not gone ex-growth, and we will look for additional detail around services and licence sales once full results are reported in due course.

Estimates

We have updated our estimates to take account of both the update on revenue and EBITDA expectations for FY 2018E and the impact of the acquisition of Esize. We had previously adjusted estimates at the time of the interim results in April 2018 to reflect the headwinds that management had highlighted - including the combination of strengthening Sterling, some customer losses, delays to APF roll-out and a cautious outlook on order uptake.

The brief trading comment says that that the Group expects to report revenue of approximately £52 million and Adjusted EBITDA of approximately £17 million for the year ended 31 July 2018. While revenue is around 8% lower than our estimates, the EBITDA number is 3% higher and we have adjusted our FY 2018E numbers accordingly. We have also taken the view that FY 2019E revenues - excluding the Esize acquisition - will be lower than our previous estimate by around 6% while, conservatively, we expect EBITDA to show growth of around 7%.

The announcement of the acquisition contains details of the initial and future consideration. We have assumed that Esize contributes enough in FY 2019E to trigger the extra consideration and that adds around £5 million to the revenue number. Additionally, we have assumed that EBITDA increases to the tune of £1.7 million in FY 2019E with the addition of Esize.

Taking account of both the trading update and the acquisition, our FY 2019E revenue estimate is little changed while Adjusted EBITDA increases by 3%. After incorporating increased borrowing costs on the higher loan drawdown and updating our expectations for average shares in issue, Adjusted EPS increases by 2%.

Estimate changes

£m unless stated	FY18E			FY19E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	56.4	52.0	-8%	59.7	59.8	0%
Adj EBITDA	16.5	17.0	3%	19.3	19.9	3%
Fully adj PBT	10.2	10.7	5%	13.2	13.5	2%
Fully adj EPS (p)	8.9	9.3	5%	11.6	11.7	2%

Source: Progressive Equity Research

Financial Summary: PROACTIS

Year end: July (£m unless shown)

	2015	2016	2017	2018E	2019E
PROFIT & LOSS					
Revenue	17.2	19.4	25.4	52.0	59.8
Adj EBITDA	4.7	5.3	7.9	17.0	19.9
Adj EBIT	2.9	3.2	5.3	11.7	14.6
Reported PBT	1.5	1.8	(2.7)	6.2	11.5
Fully Adj PBT	2.8	3.1	5.2	10.7	13.5
NOPAT	3.4	3.9	6.4	14.0	17.6
Reported EPS (p)	4.9	5.9	(5.6)	5.4	10.0
Fully Adj EPS (p)	5.8	7.0	8.7	9.3	11.7
Dividend per share (p)	1.2	1.3	1.4	1.5	1.6
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.4	5.4	5.6	9.1	19.7
Free Cash flow	0.8	2.2	1.4	2.0	11.3
FCF per share (p)	1.9	5.1	2.9	2.0	11.6
Acquisitions	(1.1)	(4.4)	(14.3)	(97.6)	(13.0)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.2	0.2	12.7	66.5	0.0
Net cash flow	(0.1)	(2.0)	(0.4)	(29.1)	(1.7)
Overdrafts / borrowings	(1.9)	(4.0)	(5.2)	(30.0)	(31.7)
Cash & equivalents	3.4	3.6	4.3	0.0	0.0
Net (Debt)/Cash	1.5	(0.5)	(0.9)	(30.0)	(31.7)
NAV AND RETURNS					
Net asset value	11.5	13.0	22.5	27.1	36.2
NAV/share (p)	29.4	32.6	45.9	55.2	73.7
Net Tangible Asset Value	(5.1)	(8.6)	(16.1)	(12.9)	(5.8)
NTAV/share (p)	(13.2)	(21.7)	(32.7)	(26.2)	(11.9)
Average equity	10.5	12.2	17.8	24.8	31.6
Post-tax ROE (%)	19.2%	20.3%	(15.3%)	21.2%	31.0%
METRICS					
Revenue growth	69.6%	12.5%	31.1%	104.7%	15.0%
Adj EBITDA growth	129.6%	12.8%	49.4%	114.9%	17.4%
Adj EBIT growth	191.9%	14.2%	69.9%	121.9%	30.5%
Adj PBT growth	153.2%	11.8%	64.6%	107.0%	26.7%
Adj EPS growth	121.0%	22.1%	23.9%	6.7%	26.0%
Dividend growth	9.1%	8.3%	7.7%	7.1%	6.7%
Adj EBIT margins	16.6%	16.6%	20.9%	22.5%	24.5%
VALUATION					
EV/Sales (x)	7.6	6.8	5.2	2.5	2.2
EV/EBITDA (x)	28.0	24.8	16.6	7.7	6.6
EV/NOPAT (x)	38.9	34.0	20.7	9.4	7.5
PER (x)	18.0	14.8	11.9	11.2	8.9
Dividend yield	1.2%	1.3%	1.3%	1.4%	1.5%
FCF yield	1.8%	4.9%	2.7%	1.9%	11.1%

Source: Company information and Progressive Equity Research estimates

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