

BANGO

SOFTWARE AND COMPUTER SERVICES

3 January 2020

BGO.L

117p

Market Cap: £82.5m

SHARE PRICE (p)



12m high/low 151p/77p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£3.5m
Enterprise value	£79m
Index/market	AIM
Next news	CMD, Jan-20
Shares in Issue (m)	70.5
Chairman	David Sear
Chief Executive	Ray Anderson
Finance Director	Carolyn Rand

COMPANY DESCRIPTION

Bango links global merchants with payment partners from Africa to the Americas.

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BANGO IS A RESEARCH CLIENT OF PROGRESSIVE

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Impressive progress despite contract slippages

Bango's trading update in our view confirms that the group has made impressive progress during FY 2019. End User Spend ("EUS") once again to doubled YoY, group revenues grew over 40% and these were accompanied by positive EBITDA and cash flow. This has been achieved despite two contracts not closing during the year. These are now expected to be recognised in H1 2020. Consequently, we make reductions to forecasts following the release, with FY 2020E revenue and EBITDA reduced by £2.6m, and £2.1m respectively.

- FY 2019 – impressive growth:** At £1.1bn, EUS once again doubled, continuing the five-year trend. Growth was driven by new routes (Google Play and Amazon), new merchants (Spotify, AE Tolls, YouTube TV) and increased user activity. Payment and data monetization revenues both saw growth during 2019, with aggregate turnover up c40% YoY.
- Positive EBITDA and cash generation:** Bango has announced FY 2019 EBITDA of over £0.4m, behind our forecast but nevertheless a positive figure. Platform operation costs remain stable, despite the doubling of EUS and ongoing investment in the data business. H2 2019 also saw a positive cash performance, the closing £2.5m balance being a c£250k improvement on H1 2019A.
- Contract slippages impact financial performance:** The release confirms FY 2019A revenue of £9.3m, +40% YoY. This is 17% lower than our forecast and reflects contract slippage on 1) a Customer Data Platform ("CDP") license and 2) a Bango Marketplace supply deal not concluding in December 2019. Both are expected to be signed in Q1 2020E.
- Forecast revisions to FY2019E and FY2020E:** We reduce our FY 2019E revenue and adjusted EBITDA estimates both by c£2m, and FY 2020E by £2.6m and £2.1m respectively.

Despite the news of contract slippages into 2020, we believe the group's longer-term potential is undiminished. In addition to clarification on the group's financial progress during 2019, the release also highlights management's expectation of continued, exponential EUS growth, and its confidence in the data monetisation business. Notably, Bango Marketplace is delivering a steady increase in sales of Bango Audiences. Positive EBITDA and cash flow support our view that the group in its present form should not require additional capital.

FYE DEC (£M)	2016	2017	2018	2019E	2020E
EUS (Non-GAAP)	132.3	271.4	558.2	1,143.7	2,287.3
Revenue	2.6	4.2	6.6	9.3	14.2
Adj EBITDA	-2.4	-1.6	-0.9	0.4	2.9
Fully adj PBT	-4.1	-3.6	-2.9	-1.8	0.6
Fully adj EPS	-6.3	-5.5	-4.2	-2.5	0.8
EV/EBITDA	-32.6x	-50.4x	-91.1x	182.6x	27.4x
PER	N/A	N/A	N/A	N/A	138.2x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Forecast revisions

Following the trading update, we make revisions to forecasts. These are summarised in the following table.

Bango – forecast revisions						
£m unless stated	FY19E			FY20E		
	Old	New	Change (%)	Old	New	Change (%)
End-user spend	1237.5	1143.7	-7.6%	2475.0	2287.3	-7.6%
Revenue	11.3	9.3	-17.0%	16.8	14.2	-15.6%
Fully adj EBITDA	2.5	0.4	-82.3%	5.0	2.9	-41.9%
Fully adj PBT	0.1	-1.8	n/a	2.6	0.6	-77.1%
Net cash/ (debt)	4.8	2.3	-52.0%	6.0	1.9	-67.6%

Source: Progressive Equity Research estimates

- Consistent with the five-year trend, we continue to expect a doubling of EUS in FY 2020E, albeit from a slightly lower FY 2019A base. Key growth drivers are the addition of new payment routes and merchants to the platform, alongside growth in spend from existing users. In turn, these favourable trends should also generate increasing volumes of valuable customer-insight data, driving uplift in data monetisation revenue – the “Bango virtuous circle”. Our revised expectation of £2.29bn EUS FY 2020E is c8% lower than previous estimates, the decline reflecting revised (lower) assumptions in growth from certain large contracts.
- At £9.3m, our revised FY 2019E revenue forecast reflects the announced delays to the CDP license sale and Bango Marketplace supply deal, and also contains a minor adjustment for lower platform revenue from reduced EUS. The aggregate outcome is 7.6% lower than our previous forecast, but still represents 41% YoY growth. As confirmed in the release, payment and data monetisation revenues both saw growth during the year and are expected to report £7.1m and £2.2m respectively.
- The £2.0m revenue reduction falls through to adjusted EBITDA, which at £0.4m remains positive. The revenue decline is also the key driver of our reduced closing net cash position forecast. That said, with the group now having delivered sustained positive EBITDA, we continue to believe that its financial position will support planned investment – particularly in new products, and the group in its present form will not require additional capital.
- For 2020E, following the trading update we have made a small reduction to our assumed EUS conversion ratio. With the reduced expectation for EUS, the result is a £2.6m reduction in our total revenue forecast. In offset, we are assuming increased cost capitalisation moves certain operating costs away from the P&L to the balance sheet. The net effect of the changes is a £2.1m reduction in our adjusted EBITDA expectation to £2.9m. Note however, that we continue to expect positive adjusted PBT for the period.
- Reduced EBITDA is the primary cause of our anticipated net cash outflow FY 2020E. Note that excluding Audiens acquisition costs, cash performance would be neutral.

Financial Summary: Bango

Year end: December (£m unless shown)

	2016	2017	2018	2019E	2020E
PROFIT & LOSS					
EUS (Non-GAAP)	132.3	271.4	558.2	1,143.7	2,287.3
Revenue	2.6	4.2	6.6	9.3	14.2
Adj EBITDA	(2.4)	(1.6)	(0.9)	0.4	2.9
Reported PBT	(4.7)	(3.9)	(3.6)	(2.6)	0.3
Fully adj PBT	(4.1)	(3.6)	(2.9)	(1.8)	0.6
NOPAT	(2.9)	(2.0)	(1.8)	(0.9)	2.0
Reported EPS	(6.8)	(5.3)	(4.0)	(2.3)	1.8
Fully adj EPS	(6.3)	(5.5)	(4.2)	(2.5)	0.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(2.6)	(0.7)	(2.3)	0.4	0.8
Free Cash flow	(6.0)	(2.2)	(4.4)	(0.8)	0.1
FCF per share	(9.2)	(3.4)	(6.3)	(1.2)	0.1
Acquisitions	0.0	0.0	(1.8)	(0.4)	(0.4)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.1	1.2	5.2	0.0	0.0
Currency effects	(0.1)	0.0	0.0	0.0	0.0
Net cash flow	(6.2)	(0.8)	(1.1)	(1.2)	(0.4)
Cash & equivalents	5.7	4.8	3.8	2.5	2.2
Net (Debt)/Cash	5.6	4.6	3.5	2.3	1.9
NAV AND RETURNS					
Net asset value	12.4	10.7	16.0	9.8	14.8
NAV/share	19.1	16.2	22.9	14.0	21.2
Net Tangible Asset Value	6.3	4.6	4.0	1.6	4.6
NTAV/share	9.7	7.1	5.8	2.3	6.5
Average equity	14.1	11.5	13.3	12.9	12.3
Post-tax ROE (%)	(31.2%)	(30.3%)	(20.8%)	(12.6%)	10.4%
METRICS					
EUS growth	196.1%	105.1%	105.7%	104.9%	100.0%
Revenue growth	101.8%	58.2%	59.4%	41.1%	51.8%
Adj EBITDA growth	(22.9%)	(35.3%)	(44.7%)	(149.9%)	566.5%
Adj PBT growth	(18.6%)	(12.0%)	(19.6%)	(39.2%)	(133.5%)
Adj EPS growth	(33.0%)	(13.8%)	(23.9%)	(39.2%)	(133.5%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Margin on EUS	2.0%	1.5%	1.2%	0.8%	0.6%
VALUATION					
EV/Sales	30.1	19.0	11.9	8.5	5.6
EV/EBITDA	-32.6	-50.4	-91.1	182.6	27.4
EV/NOPAT	-27.0	-39.2	-43.7	-87.9	39.3
PER	N/A	N/A	N/A	N/A	138.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(7.9%)	(2.9%)	(5.4%)	(1.0%)	0.1%

Source: Company information and Progressive Equity Research estimates

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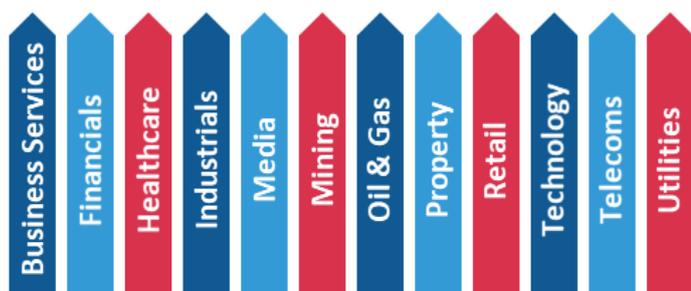
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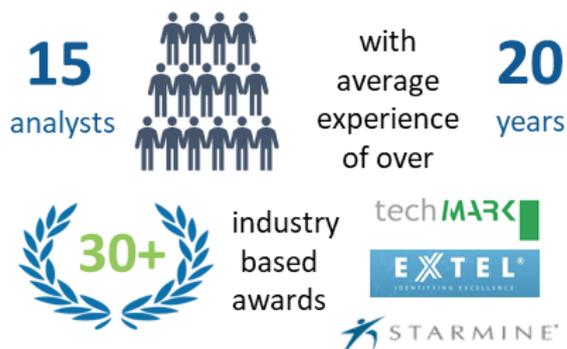
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