4 July 2019

LOOPUP

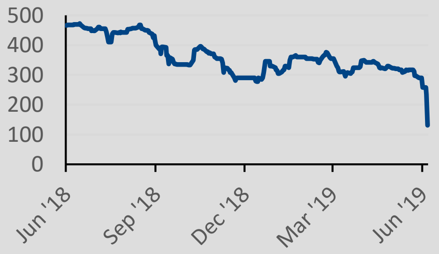
SOFTWARE AND COMPUTER SERVICES

LOOP.L

131p

Market Cap: £72m

SHARE PRICE (p)



12m high/low	473p/131p

Source: LSE Data

KEY INFORMATION

Enterprise value	£82.5m
Index/market	AIM
Next news	Interims, Sep 2019
Gearing	14.7%
Interest cover	N/A

LOOPUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Double (near term) jeopardy

LoopUp has issued a trading update, highlighting two specific challenges which impact near-term revenues. Firstly, there has been an across-the-board reduction in activity levels among clients, driven (in the Board's view) by depressed macro activity. Secondly, levels of new business have been impacted by the diversion of senior staff onto training roles and away from business development. Both issues are disappointing, and they combine to a material reduction in near-term EBITDA (c20%), but both should also be manageable and neither diminishes the attractiveness of the LoopUp product.

- LoopUp is seeing two (distinct) problems with near-term trading, and has chosen to update the market with revised guidance.
- **Subdued customer activity** It appears that LoopUp's existing customer base is less active…from discussions with management, we believe that this is NOT loss of customers (loss rates are in line with historic levels), but rather the customer base simply holding less frequent conference calls. This is potentially due to reduced macro and deal-related activity within customer businesses – over two thirds of the LoopUp base relates to professional services firms (solicitors, corporate finance houses, investment banks, accountants etc) with much of their activity presumably deal-related and cyclical.
- **Lower levels of Pod growth** LoopUp saw, in late 2018, the opportunity to accelerate the "organic" sales team (Pod) growth rate by hiring experienced employees, rather than simply adding graduates at the lower levels of the organisation. This has led to good growth in numbers, but has diverted senior sales staff more than anticipated. Further, the ramp-up of the new Pods is now expected to take twelve months (previously 8). This has led to a reduction in Pod-number expectations, although the mechanism for long-term Pod growth remains attractive and valid.

Clearly these downgrades are a disappointment, but we see both issues as, at least to a degree, transitory. Macro-economic activity will return in time, and the Pod growth "indigestion" should also work through in the medium term. We change our numbers as detailed overleaf, with our new forecasts as shown below; the 2019 EBITDA reduction is c.17% on our estimates, with slightly bigger reductions in later years based on Pod growth metrics. Our long-term belief in the group's product and LoopUp's innovative and nimble approach remains unaltered.

FYE DEC (£M)	2017	2018	2019E	2020E	2021E
LoopUp Revenue	17.5	34.2	46.5	54.1	67.2
Adjusted EBITDA	3.5	7.7	8.4	9.5	11.9
Adjusted PBT	0.7	4.1	3.6	5.8	6.0
Adjusted EPS	4.4	9.3	6.2	8.5	8.9
EV/Sales	4.7x	2.4x	1.8x	1.5x	1.2x
EV/ Adj. EBITDA	23.8x	10.8x	9.8x	8.7x	6.9x
P/E	29.6x	14.1x	21.1x	15.4x	14.7x

Source: Company Information and Progressive Equity Research estimates

Changes to forecasts

Following this morning's RNS, we make changes to forecasts as shown in the table below. Essentially, we are following guidance for the 2019 calendar year, reducing our levels of anticipated growth on the basis of lower levels of customer activity and the lower levels of effective Pod numbers across the year.

CHANGES TO ESTIMATES

	FY19E			FY20E			FY20E		
£m unless stated	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**
Revenue	50.1	46.5	-7%	61.2	54.1	-12%	76.4	67.2	-12%
Adj EBITDA	10.1	8.4	-17%	15.1	9.5	-37%	20.5	11.9	-42%
Reported PBT	3.2	1.4	-55%	8.5	3.6	-57%	12.2	3.9	-68%
Fully adj PBT	5.3	3.6	-33%	10.6	5.8	-46%	14.4	6.0	-58%
Reported EPS (p)	6.9	3.1	-55%	13.4	5.8	-57%	19.0	6.0	-68%
Fully adj EPS (p)	10.0	6.2	-38%	15.7	8.5	-46%	21.2	8.9	-58%

Source: Progressive Equity Research

The 2019E estimate changes map roughly to the company's guidance (a 20% reduction in EBITDA on consensus figures, driven by a revenue shortfall of c.7%). For the later year estimates, we have included a lower base level of revenue, reduced y/y revenue growth from the installed base, and lower levels of Pod growth as described.

The net impact of all these new cautious approaches is as shown above, and we would hope that these figures represent a rebasing, from which the company can grow and ultimately outperform.

Reassuring factors

Within today's disappointment, there are three factors that we suggest can give investors some cause for optimism or comfort :

1. **Customers unlikely to be "partially using" other products** The group's customer loss rates are, we understand, almost unchanged on prior periods. This suggests that LoopUp is retaining its clients well, but that each client is simply "less active". Given LoopUp's relatively high level of exposure to professional services (mainly solicitors and accounting firms), it may well be that deal-related activity is subdued, so there are fewer projects around which to run conference calls, and less activity in general. We consider it unlikely that such clients are adopting other technologies or platforms "slightly"…LoopUp's main clients choose a platform, and migrate either entirely or not at all. As we saw demonstrated at the recent Capital Markets Day with Clifford Chance, such processes are rigorous and considered, and are implemented across an organisation. As such, we believe it unlikely that clients are using other products (either for different experiences such as video, or to reduce cost) on a piecemeal basis, so a rational explanation for the 7% reduction described is more likely to be simply lower levels of activity.

2. **Slowdown is across both LoopUp and MeetingZone** Although the 7% long-term customer base activity "erosion" is specific to LoopUp customers (on which the group has long-term data), we understand that the same "subdued activity" is being seen within the historic MeetingZone customer base – this adds credibility to the view that the challenges are macro in nature, and not specific to any issues around LoopUp's product or pricing. We will know more as others across the industry report data, although this make take time, as the largest players are (generally) small parts of much larger conglomerates – Intercall is owned by Apollo Funds, Arkadin is owned by NTT, and much of the rest of the traditional dial-in conference call market is dominated by small division of major telcos. Nevertheless, over time we would expect to see similar commentary within the results of some of these larger groups.

3. **Pod economics remain strong** Despite the arguably self-inflicted wound around Pod Academy, training and the diversion of senior resource, and what appear to have been optimistic expectations on the rate of Pod ramp-up, the metrics around Pod sales appear unchanged (an average Pod adds around £0.47m per year of **recurring** revenue). This suggests to us that the value of Pods as a sales mechanism is unaltered – clearly the changed expectations around ramp-up and the issues of senior team diversion are frustrating, and moderately impact views on the scaling (or the pace of scaling) but they should be more manageable in the long-term, and the resetting of Pod ramp-up expectations is a one-off adjustment.

Summary and conclusion

Clearly today's challenges are a major disappointment for the group and its investors. Some of the issues appear to be totally outside the control of the group (customer activity subdued) while others relating to training and sales appear to be related to over-optimism, but are driven fundamentally by a high level of investment of both capital and the time of senior people in the development of the Pod infrastructure. It is unfortunate that this investment has been greater than anticipated, that the rewards of the investment may take longer to show through, and that this has coincided with the reduction in existing-customer call activity. Nevertheless, the investment was (and is) for the long term growth of the group. We believe that the product itself remains highly attractive in its chosen end markets, and that LoopUp remains well placed to benefit from ongoing adoption of well-managed and easy-to-use technology within the remote meeting environment.

Financial Summary: LoopUp

Year end: December (£m unless shown)

PROFIT & LOSS	2017	2018	2019E	2020E	2021E
LoopUp Revenue	17.5	34.2	46.5	54.1	67.2
Adj EBITDA	3.5	7.7	8.4	9.5	11.9
Adj EBITA	3.2	7.1	7.8	8.8	11.3
Reported PBT	0.7	0.4	1.4	3.6	3.9
Fully adj PBT	0.7	4.1	3.6	5.8	6.0
NOPAT	0.7	4.5	4.4	4.4	6.0
Reported EPS	4.4	2.3	3.1	5.8	6.0
Fully adj EPS	4.4	9.3	6.2	8.5	8.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Operating cash flow	3.1	4.4	3.8	2.6	4.3
Free Cash flow	(0.1)	4.4	3.1	3.4	3.7
FCF per share	(0.3)	8.3	5.1	5.6	6.1
Acquisitions	0.0	(65.9)	(1.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.9	47.9	0.0	0.0	0.0
Net cash flow	0.7	(13.5)	2.1	3.4	3.7
Overdrafts / borrowings	0.0	(16.2)	(14.5)	(12.8)	(11.1)
Cash & equivalents	2.9	5.6	5.9	7.7	9.7
Net (Debt)/Cash	2.9	(10.6)	(8.5)	(5.1)	(1.3)
NAV AND RETURNS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Net asset value	10.5	59.9	61.7	65.2	68.9
NAV/share	25.6	109.0	110.2	116.0	122.2
Net Tangible Asset Value	0.5	2.2	1.9	1.6	1.4
NTAV/share	1.1	3.9	3.4	2.9	2.4
Average equity	9.1	35.2	60.8	63.5	67.1
Post-tax ROE (%)	8.0%	11.6%	5.9%	9.1%	9.0%
METRICS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenue growth	36.2%	95.9%	35.8%	16.5%	24.2%
Adj EBITDA growth	67.8%	121.1%	9.8%	12.6%	25.9%
Adj EBITA growth	74.5%	124.1%	9.1%	13.0%	28.7%
Adj PBT growth	(354.9%)	459.9%	(12.0%)	60.6%	4.8%
Adj EPS growth	722.4%	109.9%	(33.1%)	36.8%	4.4%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBITA margins	18.2%	20.8%	16.7%	16.2%	16.8%
VALUATION	**2017**	**2018**	**2019E**	**2020E**	**2021E**
EV/Sales	4.7	2.4	1.8	1.5	1.2
EV/EBITDA	23.8	10.8	9.8	8.7	6.9
EV/NOPAT	114.3	18.1	19.0	18.6	13.8
PER	29.6	14.1	21.1	15.4	14.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(0.2%)	6.4%	3.9%	4.3%	4.7%

Source: Company information and Progressive Equity Research estimates

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