

LOOPUP

SOFTWARE AND COMPUTER SERVICES

27 November 2020

LOOP.L

155p (COB 26/11/20)

Market Cap: £85.8m

SHARE PRICE (p)



12m high/low 248p/41p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(3.0)m (at 31/08/20)
Enterprise value	£88.8m
Index/market	AIM
Next news	Finals, March 2021
Shares in Issue (m)	55.4
Co-CEO	Steve Flavell
Co-CEO	Michael Hughes
Finance Director	Simon Healey

COMPANY DESCRIPTION

LoopUp is a premium remote meetings solution that makes it easier to collaborate in real time.

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LOOPUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Non-core revenue drags run-rate down

LoopUp has published a trading update detailing a modest miss for FY20, but a materially lower-than-expected run rate as the business moves towards FY21. The shortfall is attributable almost entirely to a faster-than-expected and more dramatic decline for the LoopUp meetings product in sectors outside the core focus Professional Services segment. We make reductions in estimates to reflect this revised outlook – clearly this is disappointing, but there are a number of positives within the parts of the business likely to drive long-term value.

- Trading update** The group has this morning announced an update, describing the likely outturn for 2020 slightly below our previous forecasts. This is driven by current trading showing an increase in meeting minutes (up 43% overall) but a drop in revenue per minute (down 24%) as more of the calls are domestic/dial-out and less are international/dial-in.
- Challenges most apparent in non-core areas** The pressure is being most clearly seen in the non-Professional Services side of the group, which is seeing volumes 10% down y/y (even before the pricing impact described above) and with customer churn running at around 30%. We had expected pressure in this area, but not to the extent clearly being felt – the competitive threats of Teams and Zoom (in these non-Professional Services sectors) are combining with customer end-market challenges and financial pressures to drive a dramatic decline in revenue and customer numbers.
- Impact on estimates** For 2020, the impact of this pressure is muted, given that the bulk of the year has passed, and these effects have only recently come to the fore. For 2021, however, the current annual run rate of c.£34m is dramatically below our previous £56m estimate. We make a relatively modest reduction to 2020 forecasts, but a much more material cut to 2021 estimates to reflect this new reality.

Clearly the downgrades are a disappointment, and we are surprised to see the scale and the pace of the pressure outside Professional Services. Nevertheless, there are a number of bright spots – the growth in minutes within Professional Services and the strong pipeline for the recently-launched product which seeks to benefit from the Cloud Telephony uplift described above. We await further news and to see additional progress on the core and emerging revenue streams.

FYE DEC (£M)	2017	2018	2019	2020E	2021E
LoopUp Revenue	17.5	34.2	42.5	50.1	35.2
Adjusted EBITDA	3.5	7.7	6.4	15.1	6.1
Adjusted PBT	0.7	4.1	0.5	8.4	-0.3
Adjusted EPS	4.4	9.3	2.2	14.7	-1.0
EV/Sales	5.1x	2.6x	2.1x	1.8x	2.5x
EV/ Adj. EBITDA	25.7x	11.6x	13.9x	5.9x	14.5x
P/E	35.0x	16.7x	71.7x	10.5x	n.a.

Source: Company Information and Progressive Equity Research estimates

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

Changes to estimates

We make the changes as shown below to our forecasts, reflecting management guidance for 2020 as described in the RNS, and a view of 2021 based largely on the current run-rate, again as described.

From the current run-rate revenue of some £34m, we expect modest ongoing decline in the Cisco business and non-Professional Services revenues...together this could reduce sales by £2m per year.

Offsetting this, we expect the new Cloud Telephony revenue streams to begin to contribute modestly in 2021 as the Teams-based sales opportunities continue to convert. The pipeline for this business appears extremely strong at some £84m in total contract value, suggesting a good level of customer interest and strong long-term potential.

The major unknown for 2021 is the core LoopUp Meetings business within the Professional Services sector. We would hope that this should perform strongly, driving revenues higher as customers unwilling to rely on the public internet, and for whom call quality and security are paramount, continue to use LoopUp for important meetings. There is, however, risk that the current “boost” to minute volumes could abate as working patterns normalise – this would reduce the scope for revenues to grow overall. Offsetting this risk, however, we would expect per-minute prices to rise as the mix perhaps moves back to a more normal level of international and dial-in minutes....these higher-rate services would improve the mix and add to revenues.

Balancing all these factors, we suggest that a revenue level modestly, but not materially ahead of the current run-rate level might be a realistic view for 2021. We model this, as shown in the table below, with the knock-on impact on Adjusted EBITDA and other financial metrics.

CHANGES TO ESTIMATES

£m unless stated	FY20E			FY21E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	54.8	50.1	-9%	56.0	35.2	-37%
Adj EBITDA	17.3	15.1	-13%	13.3	6.1	-54%
Fully adj PBT	10.5	8.4	-20%	5.9	-0.3	nm
Fully adj EPS (p)	17.2	14.7	-14%	9.3	-1.0	nm

Source: Progressive Equity Research estimates

Positive elements

There are, despite the obvious pressures, a number of positives within the announcement:

- **Professional Services client base** The group is seeing strong ongoing demand within the Professional Services segment, for which the product is tailored and where customers continue to value the unique attributes, unmatched by Teams, Zoom or other platforms. Client wins for H2 are described as including three of the world's top 100 law firms, and the pipeline is strong at an Annual Contract Value of some £16m.
- **Teams-telephony product showing strong early signs** Cloud Telephony revenues could evolve materially, with the recently launched proposition for Teams telephony providing a major revenue opportunity. The pipeline for this business stands at a Total Contract Value of £84m, some 68% higher than the previous figure of c£50m given with at the time of H1 results in late-September.
- **Meeting minute volumes remain buoyant** The current level of minute volumes within Professional Services (roughly 56% up y/y) remains extremely strong; if this can persist into 2021 as work returns to something more approaching "normal" next year, then the group is well placed.
- **Price-per-minute mix could recover** The current reduction in average revenue per minute reflects a lack of international calls – presumably as international deals are depressed, and cross-border activity is at low levels. If these types of usage return, then average prices per minute will rise, adding to revenue.

Summary and conclusion

Overall, today's news is clearly a negative development, but the vast majority of the disappointment relates to the business that is already identified as non-core (i.e. the segments outside Professional Services) which now accounts for just 14% of LoopUp Platform revenues.

The scale and the pace of the drop-off in client revenues has been a surprise, as the pressures of both challenging end markets and the emerging success of Teams and Zoom have combined to dramatically reduce LoopUp revenues. Nevertheless, LoopUp remains well positioned (and performing strongly) in its core and target Professional Services sector, and well placed to deliver on the potential for Teams-based Cloud Telephony.

Financial Summary: LoopUp

Year end: December (£m unless shown)

	2017	2018	2019	2020E	2021E
PROFIT & LOSS					
LoopUp Revenue	17.5	34.2	42.5	50.1	35.2
Adj EBITDA	3.5	7.7	6.4	15.1	6.1
Adj EBITA	3.2	7.1	4.9	12.9	4.2
Reported PBT	0.7	0.4	(2.8)	5.6	(2.8)
Fully adj PBT	0.7	4.1	0.5	8.4	(0.3)
NOPAT	0.7	4.5	1.2	8.7	0.0
Reported EPS	4.4	2.3	(3.3)	7.6	(2.7)
Fully adj EPS	4.4	9.3	2.2	14.7	(1.0)
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.1	4.4	6.7	11.6	(1.7)
Free Cash flow	(0.1)	4.4	4.4	9.5	(1.7)
FCF per share	(0.3)	8.3	7.4	15.6	(2.8)
Acquisitions	0.0	(65.9)	(5.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.9	47.9	0.1	0.0	0.0
Net cash flow	0.7	(13.5)	(0.9)	9.5	(1.7)
Overdrafts / borrowings	0.0	(16.2)	(14.5)	(12.8)	(11.1)
Cash & equivalents	2.9	5.6	3.0	10.8	7.4
Net (Debt)/Cash	2.9	(10.6)	(11.5)	(1.9)	(3.6)
NAV AND RETURNS					
Net asset value	10.5	59.9	58.1	62.7	59.4
NAV/share	25.6	109.0	105.2	113.6	107.5
Net Tangible Asset Value	0.5	2.2	6.0	4.6	3.5
NTAV/share	1.1	3.9	10.8	8.3	6.3
Average equity	9.1	35.2	59.0	60.4	61.9
Post-tax ROE (%)	8.0%	11.6%	0.9%	13.8%	(0.5%)
METRICS					
Revenue growth	36.2%	95.9%	24.3%	17.8%	(29.8%)
Adj EBITDA growth	67.8%	121.1%	(16.2%)	135.0%	(59.4%)
Adj EBITA growth	74.5%	124.1%	(30.5%)	161.0%	(67.4%)
Adj PBT growth	(354.9%)	459.9%	(87.4%)	1528.1%	(103.3%)
Adj EPS growth	722.4%	109.8%	(76.8%)	582.2%	(106.5%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBITA margins	18.2%	20.8%	11.6%	25.7%	11.9%
VALUATION					
EV/Sales	5.1	2.6	2.1	1.8	2.5
EV/EBITDA	25.7	11.6	13.9	5.9	14.5
EV/NOPAT	122.9	19.5	76.6	10.3	3811.2
PER	35.0	16.7	71.7	10.5	n.a.
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(0.2%)	5.4%	4.7%	10.1%	(1.8%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

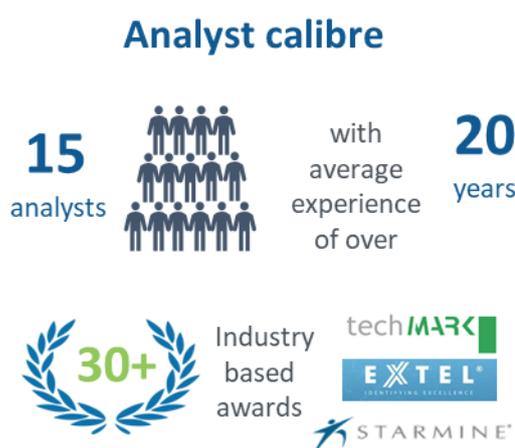
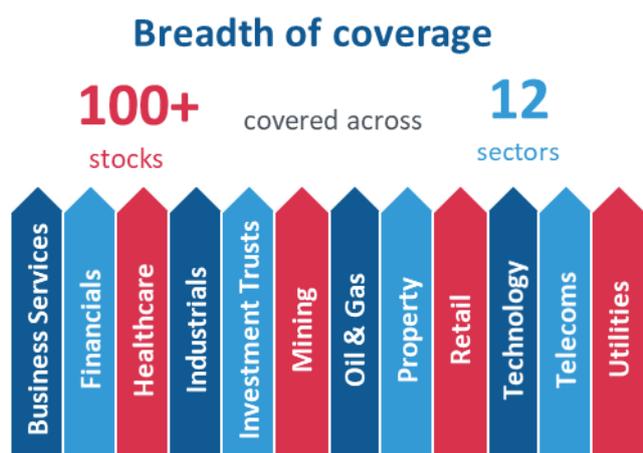
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