

PROACTIS

SOFTWARE AND COMPUTER SERVICES

PHD.L

134p

Market Cap: £127.5m

SHARE PRICE (p)



12m high/low

206p/100p

Source: LSE Data

KEY INFORMATION

Enterprise value	£156.8m
Index/market	AIM
Next news	Trading update - Jan '19
Gearing	23.0%
Interest cover	9.8x

 PROACTIS IS A RESEARCH CLIENT OF
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Regaining its stride

Proactis has reported 2018 results (to July) in line with the recent trading update, and demonstrating two key aspects: continued success in sales metrics, and a return to more normal (lower) levels of customer attrition. These, combined with strong operational discipline, should allow the group to continue to deliver on what is clearly material potential: being a genuine global player in a fast-evolving market segment.

- The group has reported FY2018 performance fractionally ahead of the figures detailed in the late-August trading update – revenue of £52.2m (the update heralded £52.0m) and adjusted EBITDA of £17.3m (vs the update's expectation of £17.0m). Net debt was as previously reported at £29.3m.
- Operating metrics were partly detailed in the previous update, but the RNS gives more granularity around deal intake, which we discuss further overleaf. The overall picture is of a business continuing to sell well, and with a reduced level of customer churn (this being the major cause of previous disappointment earlier in the year).
- The group has not delivered appreciable organic growth over the FY2018 year, but this has been the combination, as we have previously described, of a number of factors, mainly centred on four “larger than average” customers lost in Q2. The full year results demonstrate both that the group has NOT seen a continuation of this phenomenon, and that the level of underlying customer wins has been solid – in fact good – across the year as a whole.
- We choose to shave a modest amount off our FY2019E revenue estimates (£58.0m from £59.8m) and reduce adjusted EBITDA (£19.3m from £19.9m) to reflect a cautious stance around IFRS15 revenue recognition. We introduce new forecasts for FY2020E, assuming a modest return to organic growth, ongoing investment in the platforms, but no further M&A within our estimates. We believe that, given what is clearly a stabilisation within the business, and given the ongoing sales success, these forecasts represent a realistic and hopefully cautious set of estimates.

Overall, the results announcement should provide a material level of reassurance, comfort that the group has stabilised and is set to deliver on its potential.

FYE JUL (£M)	2016	2017	2018	2019E	2020E
Revenue	19.4	25.4	52.2	58.0	61.8
Adj EBITDA	5.3	7.9	17.3	19.3	21.8
Fully Adj PBT	3.1	5.2	12.1	12.9	15.2
Fully Adj EPS (p)	7.0	8.7	10.4	11.2	13.2
EV/Sales (x)	8.1	6.2	3.0	2.7	2.5
EV/EBITDA (x)	29.7	19.8	9.1	8.1	7.2
PER (x)	19.0	15.3	12.9	12.0	10.2

Source: Company Information and Progressive Equity Research estimates

Two key metrics : contract wins and visibility

We choose to analyse two specific areas within the reported results – the number of deals won (both new and upsell), and the level of revenue visibility relative to FY2018 results.

New name and upsell contract wins

The group has seen a steady flow of new contract wins, demonstrating the ongoing value of the software platforms and customer solutions :

New names

- New name sales: 64 (up from 54 in 2017)
- Subscription deals – as part of new name sales – 55 (up from 44 in 2017) representing 86% of new sales, up from 81% in the prior year
- Total Contract Value for new sales of £8.7m, more than double the £4.1m in the prior year

Upsell wins

- Upsell contract wins: 113 (up from 110 in 2017)
- Total Contract Value of upsell sales of £3.4m, up from £2.8m in 2017

Geographic diversification

The group has detailed new name and upsell wins by geography:

- New names : 2018 showed 19 wins in the USA & EU regions (2017 restated included 7 in the USA)
- Upsell deals: 2018 showed 14 wins in the EU segment (2017 nil)

H1/H2 performance

Considering both new name and upsell deals together, H1 2018 saw a total of 81 contract wins; this compared to 96 in H1...as shown in the table below, upsell deals had a stronger H2, and new customers a stronger H1, but the overall stability and reliability of new contract wins is clear.

H1 / H2 contract win stability

	H1	H2	2018
New customers	35	29	64
Upsell deals	46	67	113
Total	81	96	177

Source: Company information, Progressive Equity Research analysis

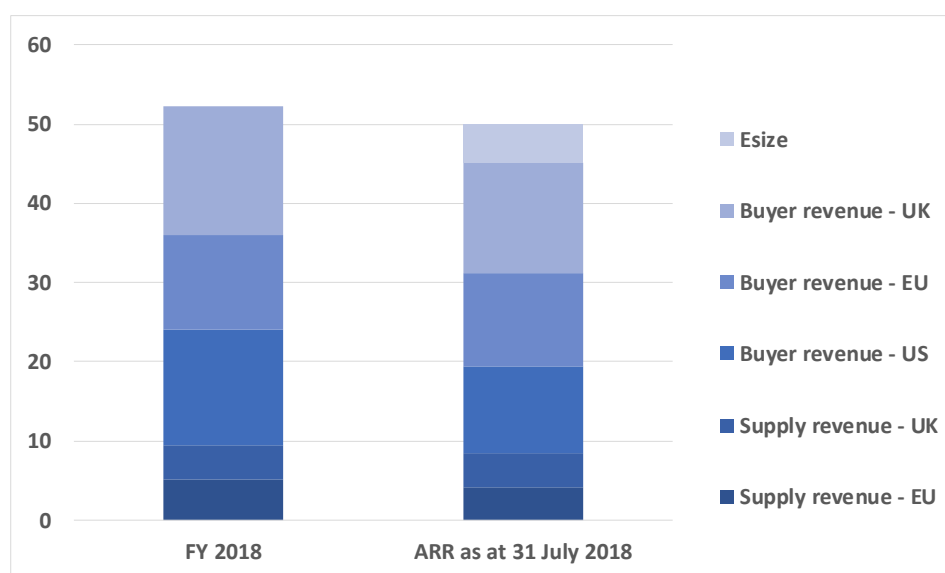
Revenue visibility – a high degree of certainty

Proactis has detailed the levels of annualised recurring revenue existing in the business at the end of the just-reported financial year.

This allows us to compare the year-end “run-rate” (the exit ARR) to the reported result, demonstrating how resilient the business may be, and how much “new revenue” must be won in future years. In addition, we have included £4.75 million to reflect the August acquisition of Esize.

The chart below shows the relevant figures, demonstrating graphically the strength inherent in the group’s (now-almost-complete) move away from perpetual licence sales, and towards multi-year subscription deals.

FY2018 revenue and exit run-rate



Source: Company information, Progressive Equity Research analysis

Summary & outlook

Proactis has been through a difficult 2018 – suffering the effects of abnormal customer losses, a short-term slowdown in new business wins, and some arguably self-inflicted damage through a decision to change the supply-side go-to-market strategy to focus on The Business Network, and not the pre-existing Proactis platform.

These results bear some of the scars of this difficult phase, but they also arguably point the way to the future – a future with more normalised (and lower) levels of customer attrition, with ongoing strong levels of new contract wins, and – potentially – even beginning to deliver on the supply side opportunity. We will revisit each of these and delve further into the detail in the fullness of time, but the results announcement suggests that the business has worked through its challenges, and is ready to begin to deliver on the clear potential of the Proactis/Perfect transaction.

Financial Summary: PROACTIS

Year end: July (£m unless shown)

PROFIT & LOSS	2016	2017	2018	2019E	2020E
Revenue	19.4	25.4	52.2	58.0	61.8
Adj EBITDA	5.3	7.9	17.3	19.3	21.8
Adj EBIT	3.2	5.3	10.9	14.0	16.3
Reported PBT	1.8	(2.7)	3.7	10.9	13.2
Fully Adj PBT	3.1	5.2	12.1	12.9	15.2
NOPAT	3.9	6.4	13.0	16.8	19.6
Reported EPS (p)	5.9	(5.6)	5.3	9.4	11.5
Fully Adj EPS (p)	7.0	8.7	10.4	11.2	13.2
Dividend per share (p)	1.3	1.4	1.5	1.6	1.7
CASH FLOW & BALANCE SHEET	2016	2017	2018	2019E	2020E
Operating cash flow	5.4	5.6	6.6	18.3	13.7
Free Cash flow	2.2	1.4	(2.8)	10.0	5.0
FCF per share (p)	5.1	2.9	(3.0)	10.2	5.1
Acquisitions	(4.4)	(14.3)	(93.7)	(13.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.2	12.7	68.1	0.0	0.0
Net cash flow	(2.0)	(0.4)	(28.4)	(3.0)	5.0
Overdrafts / borrowings	(4.0)	(5.2)	(38.9)	(40.8)	(37.8)
Cash & equivalents	3.6	4.3	9.6	6.6	11.6
Net (Debt)/Cash	(0.5)	(0.9)	(29.3)	(34.2)	(26.2)
NAV AND RETURNS	2016	2017	2018	2019E	2020E
Net asset value	13.0	22.5	95.2	103.0	112.7
NAV/share (p)	32.6	45.9	101.3	109.0	118.0
Net Tangible Asset Value	(8.6)	(16.1)	(56.2)	(60.9)	(48.2)
NTAV/share (p)	(21.7)	(32.7)	(59.8)	(64.4)	(50.5)
Average equity	12.2	17.8	58.9	99.1	107.9
Post-tax ROE (%)	20.3%	(15.3%)	8.6%	9.3%	10.4%
METRICS	2016	2017	2018	2019E	2020E
Revenue growth	12.5%	31.1%	105.6%	11.1%	6.6%
Adj EBITDA growth	12.8%	49.4%	118.4%	11.7%	13.1%
Adj EBIT growth	14.2%	69.9%	103.1%	35.1%	19.5%
Adj PBT growth	11.8%	64.6%	135.3%	6.0%	18.1%
Adj EPS growth	22.1%	23.9%	18.9%	7.6%	18.1%
Dividend growth	8.3%	7.7%	7.1%	6.7%	6.2%
Adj EBIT margins	16.6%	20.9%	20.8%	24.1%	26.4%
VALUATION	2016	2017	2018	2019E	2020E
EV/Sales (x)	8.1	6.2	3.0	2.7	2.5
EV/EBITDA (x)	29.7	19.8	9.1	8.1	7.2
EV/NOPAT (x)	40.6	24.7	12.0	9.4	8.0
PER (x)	19.0	15.3	12.9	12.0	10.2
Dividend yield	1.0%	1.0%	1.1%	1.2%	1.3%
FCF yield	3.8%	2.1%	(2.2%)	7.6%	3.8%

Source: Company information and Progressive Equity Research estimates

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