

# THE PANOPLY

## SOFTWARE AND COMPUTER SERVICES

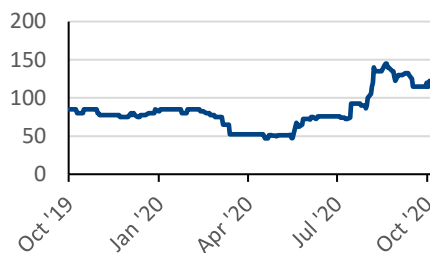
12 October 2020

TPX.L

123p

Market Cap: £82.5m

### SHARE PRICE (p)



12m high/low 145p/47p

Source: LSE Data

### KEY DATA

Net (Debt)/Cash	£(1.0)m (at 30/09/20)
Enterprise value	£83.5m
Index/market	AIM
Next news	Interims, Dec-20
Shares in Issue (m)	67.3
Chairman	Mark Smith
Chief Executive	Neal Gandhi
Finance Director	Oliver Rigby

### COMPANY DESCRIPTION

The Panoply is a digitally-native technology services company, focused on digital transformation.

[www.thepanoply.com](http://www.thepanoply.com)

THE PANOPLY IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## Trading remains robust

The Panoply's trading update for the six months to September 30 contains a number of positive messages in our view. Trading remained robust in H1 21, with the COVID-19 pandemic driving an acceleration in demand for digital transformation services. Furthermore, the group's financial position remains solid, with a £1.0m net debt position as at 30 September 2020. The outlook commentary is positive, with management signalling their expectation of double-digit like-for-like ("LFL") organic revenue growth for FY 21E, and profit growth in excess of revenue growth. We maintain earnings estimates following the release and re-initiate dividend forecasts.

- Robust trading, strong financial performance:** Trading remained robust in H1 21, driven by an acceleration in demand for digital transformation solutions in both the public and private sectors under COVID-19 conditions. £25m of contract wins were secured during H1 21, following the £14m announced for Q1. The announcement also confirms £5.0m of contract wins post-period end, including a £4m combined Difrent and Foundry4 proposal with the Planning Inspectorate. Management expect to report revenue of not less than £20.5m (+18% LFL YoY) and adjusted EBITDA of not less than £2.4m (+25% YoY) for H1 21 and anticipate a slight second-half weighting for the full year.
- Solid financial position:** The release confirms a £6.0m gross cash balance and £1.0m net debt position as at 30/09/20. In our view this confirms that the business remains underpinned by a strong balance sheet.
- Positive outlook commentary:** The release signals management's expectation of delivering double-digit LFL revenue growth for FY 21E, with "strong" organic revenue growth anticipated during the second half, underpinned by a sales backlog of £17.5m. Growth in profits in the current financial year is expected to exceed that of revenue. Cash generation is also expected to remain strong as trading profits from the end of H1 21 and the early part of H2 21E are realised. Noting the sales backlog and with the group having won £25m of new contracts in the first half, we continue to believe visibility on our FY 21E forecasts remains good.
- Estimates maintained; dividend forecasts re-initiated:** We maintain earnings estimates following the announcement. In addition, we re-initiate dividend forecasts, of 0.6p, 0.7p and 0.8p for FY 21E, FY 22E and FY 23E respectively.

\* Indicates a pro forma figure, other data presented on a statutory basis. NB: EV calculations include forecast future share issuance.

FYE MAR (£M)	2019	2020	2021E	2022E	2023E
Revenue	22.1*	31.5	43.0	52.3	57.2
Adj EBITDA	2.1*	3.4	5.1	6.2	7.1
Adj PBT	0.3	2.9	4.7	5.8	6.7
Fully Adj EPS (p)	0.7	3.6	5.2	6.0	6.8
EV/Sales (x)	1.8x	2.9x	2.3x	1.9x	1.7x
EV/EBITDA (x)	18.8x	27.1x	19.7x	16.2x	14.0x
PER (x)	N/A	N/A	23.4x	20.3x	18.0x

Source: Company Information and Progressive Equity Research estimates

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

## Forecasts

The announcement signals management's intention to commence dividend payments starting with H1 21. We therefore take the company's cue and re-initiate dividend forecasts. Our estimates assume DPS of 0.6p, 0.7p and 0.8p FY 21E, FY 22E and FY 23E respectively. Our most recent forecasts<sup>1</sup> assumed DPS of zero in all three periods. However, from our initiation research note<sup>2</sup> until April 2020<sup>3</sup> - the dawn of COVID-19 - we had assumed dividend payments would commence in FY 20E.

Our DPS forecasts are modest in absolute terms. However, we believe the group's near-term financial performance will support solid growth. Of greater significance in our view though is the timing of the dividend announcement. Against a backdrop of COVID-19-driven macroeconomic uncertainty, we believe the commencement of dividend payments represents a clear sign of management's confidence in the group's prospects.

The resulting cash outflow from our anticipated commencement of dividend payments is the sole cause of the reductions to our forecasts of closing financial position over our visible forecast period. Note, our forecast closing FY 23E net cash position of £7.0m compares with £8.3m previously.

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<sup>1</sup> See The Panoply: Positive recent news flow: PERL 02/10/20.

<sup>2</sup> See The Panoply: Transforming Business: PERL 08/03/19.

<sup>3</sup> See The Panoply: Solid trading & financial position: PERL 28/04/20.

**Financial Summary: The Panoply**

Year end: March (£m unless shown)

	2019	2020	2021E	2022E	2023E
<b>PROFIT &amp; LOSS</b>					
Revenue	22.1*	31.5	43.0	52.3	57.2
Adj EBITDA	2.1*	3.4	5.1	6.2	7.1
Adj EBIT	0.4	3.7	4.9	6.0	6.9
Adj PBT	0.3	2.9	4.7	5.8	6.7
Reported EPS (p)	(9.2)	(4.9)	2.9	3.8	4.4
Fully Adj EPS (p)	0.7	3.6	5.2	6.0	6.8
Dividend per share (p)	0.0	0.0	0.6	0.7	0.8
Adjusted share count (Dil. M)	36.8	74.8	80.4	84.0	86.9
Average Shares outstanding (Dil. M)	18.2	48.2	63.8	77.6	85.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	(1.2)	2.7	4.0	5.3	6.2
Free Cash flow	(1.2)	2.5	3.1	3.82	4.47
FCF per share (p)	(1.8)	3.7	4.7	5.7	6.6
Acquisitions	1.4	(7.0)	(2.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	5.4	0.0	0.0	0.0	0.0
Net cash flow	5.6	(1.0)	1.1	1.8	2.5
Overdrafts / borrowings	0.0	(5.0)	(7.0)	(5.0)	(3.0)
Cash & equivalents	5.7	4.6	5.7	7.6	10.0
Net (Debt)/Cash	5.7	(0.4)	(1.3)	2.5	7.0
<b>NAV AND RETURNS</b>					
Net asset value	19.3	27.3	30.6	33.5	38.1
NAV/share (p)	52.3	36.5	38.1	39.9	43.8
Net Tangible Asset Value	0.3	0.3	0.1	0.0	0.0
NTAV/share (p)	0.8	0.4	0.2	0.1	0.0
Average equity	9.6	23.3	28.9	32.1	35.8
Post-tax ROE (%)	3.6%	1.5%	10.1%	14.6%	16.1%
<b>METRICS</b>					
Revenue growth		42.9%	36.5%	21.5%	9.5%
Adj EBITDA growth		61.9%	49.3%	21.9%	14.6%
Adj EBIT growth		934.2%	33.3%	22.5%	15.0%
Adj PBT growth		N/A	60.1%	22.9%	16.7%
Adj EPS growth		N/A	N/A	15.6%	12.8%
Dividend growth		N/A	N/A	16.7%	14.3%
Adj EBIT margins		11.7%	11.4%	11.5%	12.1%
<b>VALUATION</b>					
EV/Sales (x)	1.8	2.9	2.3	1.9	1.7
EV/EBITDA (x)	18.8	27.1	19.7	16.2	14.0
EV/EBIT (x)	N/A	24.9	20.3	16.6	14.3
PER (x)	N/A	N/A	23.4	20.3	18.0
Dividend yield	N/A	N/A	0.5%	0.6%	0.7%
FCF yield		N/A	3.8%	4.6%	5.4%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

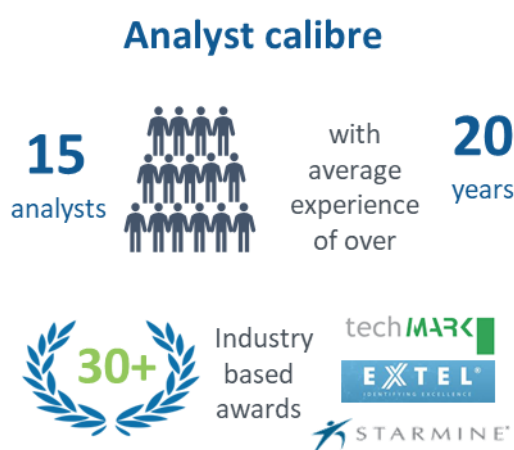
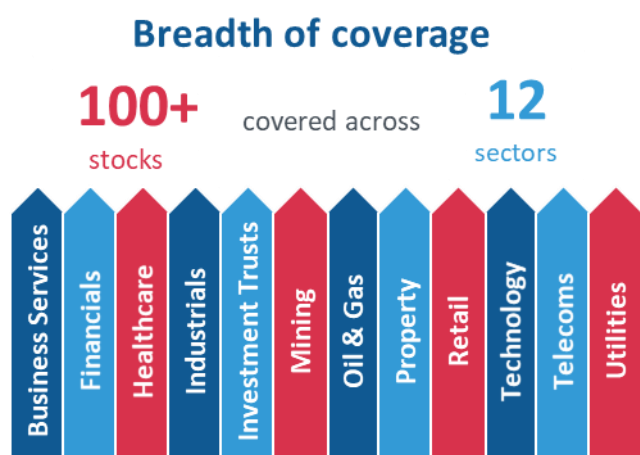
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