Utilitywise

In-depth review

Beyond headcount growth

Industrial support services

New markets and a broadening service offering provide growth opportunities for Utilitywise (UTW) in the medium term. Increases in consultant headcount will underpin further rises in profitability in the short term. The pursuit of new business rather than contract extensions should lead to a gradual improvement in cash flow. Our valuation analysis indicates potential upside on a short- and long-term view.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/14	48.9	14.5	14.6	4.0	11.0	2.5
07/15	69.1	17.8	17.9	5.0	9.0	3.1
07/16e	93.3	20.8	19.8	5.8	8.1	3.6
07/17e	104.9	23.9	22.8	7.0	7.1	4.4

Note: *PBT and EPS (diluted) are normalised, excluding intangible amortisation, exceptional items and share-based payments.

We expect improving cash generation

The FY15 results demonstrated continued growth compared to FY14's restated figures (to correct the provision for consumption variance from assumptions). Revenue grew by 41% to £69.1m, gross profit increased 35% to £30.3m and EBITDA rose by 23% to £17.8m. Following the publication of the FY15 results, we have revised our FY16 forecasts and published estimates for FY17 for the first time. Although projections for FY16 now envisage slower growth, we still expect to see EBITDA rise by 17% in FY16 and 15% in FY17 and EPS (normalised fully diluted) growth of 10% and 15% respectively. We also expect indebtedness to fall as an anticipated decline in the relative importance of extension business benefits cash flow. We forecast CAGR of 18% (2015-17) in the DPS.

New markets offer opportunities for growth

The projected growth in the number of consultants in the Enterprise division should enable further increases in profitability in the short term and facilitate a decline in the proportion of renewals business. Longer term, markets in Europe (energy) and the UK (ESOS/water) also offer substantial scope for expansion. New markets, together with UTW's broadening product range, strengthened management team, expanded multi-channel sales initiative and developing advisory expertise, provide an opportunity to capture growth beyond that offered simply via increases in headcount.

Valuation: Short- and long-term upside

We examine short- and long-term approaches to provide valuation benchmarks for UTW. Short-term methods (PEG/multiples) yield an average valuation of 237p, while longer-term approaches (transaction/DCF) indicate an average valuation of c 293p. The average of the two approaches produces a valuation of 265p.

18 November 2015

Price	**160.8p**
Market cap	**£123m**

Net debt (£m) at end July 2015	6.7
Shares in issue	76.6m
Free float	80.4%
Code	UTW
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(14.4)	(10.8)	(43.4)
Rel (local)	(13.3)	(7.1)	(41.4)
52-week high/low		287.0p	148.2p

Business description

Utilitywise is an independent cost management consultancy offering energy procurement and management products to the business market in the UK.

Next event

Trading update	February 2016

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Edison profile page

Utilitywise is a research client of Edison Investment Research Limited

Investment summary

Company description: Energy cost management consultancy

Utilitywise (UTW) is an independent utility cost management consultancy, offering energy procurement and management products to the business market, mainly in the UK but with a developing focus on Europe. Geoff Thompson founded Utilitywise in 2006 as an energy procurement provider, but since inception the company has added to the range of services it provides. It now offers analysis of water and electricity consumption data, energy and water saving advice, energy consumption management tools and fixed and flexible procurement contracts.

Valuation: Upside on short- and long-term view

We examined peer and transaction multiples, PEG ratios and constructed a DCF to provide a valuation framework for Utilitywise. The average of these valuation approaches is c 265p.

Exhibit 1: Valuation range (p/share)

	Multiples	PEG*	DCF	Transaction	Average
Valuation (p/share)	239	235	320	265	265

Source: Edison Investment Research. Note: PEG is an average of a benchmarking exercise against the FTSE All-Share and the FTSE Support Services sector.

Financials: Strong growth and improving cash flow

Following the publication of the results, we have updated our forecasts for FY16 and published FY17 forecasts for the first time. A summary of the principal changes is shown in Exhibit 2.

Exhibit 2: Summary of FY16 and FY17 forecasts

		2016e			2017e		
		Previous	New	Change (%)	Previous	New	Change (%)
Revenue	(£m)	86.5	93.3	7.9	N/A	104.9	N/A
EBITDA	(£m)	25.9	20.8	-19.7	N/A	23.9	N/A
EPS (norm + fd)	(p)	23.4	19.8	-15.4	N/A	22.8	N/A
DPS	(p)	7.9	5.8	-26.6	N/A	7.0	N/A
Net debt/(cash)	(£m)	(2.6)	5.6	N/A	N/A	(2.2)	N/A

Source: Edison Investment Research

Revenue: we expect a rise in revenue from £69.1m in FY15 to £104.9m in FY17. Underpinning the growth is an expectation that consultant headcount will increase from 610 in FY15 to 810 by FY17.

EBITDA: we expect EBITDA to rise from £17.8m in 2015 to £23.9m by 2017. We forecast EBITDA margins in the range of c 22-24% for FY16 and FY17.

Dividends: we expect DPS at 7.0p for 2017 and allowing CAGR (2015-17) of c 18%.

Cash flow: despite negative w/c movements in FY16e and FY17e, we expect cash generation to improve, facilitated by a decline in the proportion of extension business (to c 25%) in FY17.

Sensitivities: Short-term growth linked to consultant headcount

Consultant headcount dipped after the FY figures, although we expect it to resume its growth trajectory for the rest of the year. However, failure to achieve the planned growth in consultant headcount would undermine the basis of our revenue forecasts and related valuation analysis.

Changes to regulation restricting growth and profitability would pose a threat to the business. Intensification of competition as a result of continuing consolidation in the third-party intermediary (TPI) market could result in downward pressure on margins. Overpayment for acquisitions and/or the loss of key personnel would constitute a risk for the business. Failure to reduce the proportion of extension business, as expected, would undermine cash flow projections.

Company description: Utility services provider

UTW has achieved strong growth operating as a TPI in UK energy markets. The company has continued to expand the range of products and services it offers to customers with a view to establishing itself as a "trusted advisor" in the utility and energy services procurement market. UTW is at the early stages of its plan to expand into European retail energy markets.

Rapidly growing UK energy management consultancy

The impressive growth achieved by UTW since its IPO in 2012 is shown in Exhibit 3.

Exhibit 3: Growth 2011-15

	2011	2012	2013	2014*	2015
Revenue (£m)	10.89	14.69	25.26	48.95	69.11
EBITDA, adjusted (£m)	3.51	4.43	7.66	14.47	17.79
PBT, reported (£m)	3.34	3.78	6.22	11.67	14.12
Average number of employees	174	226	452	745	N/A

Source: Utilitywise, Edison Investment Research. Note: *The 2014 figures have been adjusted for the correction of an accounting error in relation to the provision for "leakage".

The business operates in two divisions: Corporate and Enterprise. Enterprise, the original core of UTW's operations, services businesses using less than 2GWh a year, and offers a range of fixed procurement packages incorporating monitoring and energy-saving products. Enterprise remains the dominant contributor to group profitability and contributed 79% of FY15 group revenue (82% in FY14). The Corporate division is designed to service larger industrial and commercial customers with power needs of 2GWh or more and is built around the Energy Information Centre (EIC) business acquired in 2013. The Corporate division offers fixed and flexible energy procurement contracts and additional services such as monitoring, energy management, invoice checking, energy market advice and energy-saving products.

Targeting further growth in UK and selected European markets

UTW's stated strategy is to increase its market share in the UK industrial and commercial (I&C) and SME markets via organic and acquisitive growth. Despite the rapid growth in customer numbers seen in recent years, UTW has scope for further expansion as the TPI market remains fragmented and UTW's overall market share remains small (UTW suggests 27,000 out of a total market of 2.45m). Underpinning this domestic strategy are plans to continue to increase consultant headcount and initiatives to broaden the scope of its interaction with the customer via the provision of additional services, as illustrated by the recent acquisition of t-mac, and by the development of a consultative/trusted advisor relationship.

UTW is also focusing on European energy markets. Over the last two years it has trialled European markets from its base in the north-east of England and in 2014 extended the scope of the trial with the acquisition of ICON. Based in the Czech Republic, ICON will now serve as a launch pad for UTW's European expansion into the French, German and Benelux markets.

Growth drivers beyond headcount

Continued growth in the number of consultants in the Enterprise division should enable increased profitability in the short term. Longer term, new markets in Europe (energy) and the UK (ESOS/water), together with UTW's broadening product range, expanded multi-channel sales initiative and developing advisory expertise, provide an opportunity to capture growth beyond that offered simply via increases in UK based headcount.

FY15 results

UTW's FY15 results showed strong growth compared to FY14's restated figures (FY14 restated to correct the provision for consumption variance in customer contracts, which historically underestimated "leakage"). Revenue rose 41% to £69.1m; gross profit increased 35% to £30.3m and despite a 58% rise in administrative expenses, reflecting in part the move to new offices and growth in support functions, EBITDA grew by 23% to £17.8m. Basic reported EPS increased from 13p to 14.9p (+15%), allowing a 25% increase in the dividend to 5p, (c 3.0x covered by basic EPS). Due to the acquisition of t-mac during the course of the year (£6.4m) and the continued pursuit of extension rather than new business (c 40% of the total), cash flow for the year was negative, reducing a cash balance of £9.8m at FY14 to a net debt figure of £6.7m for FY15. The pursuit of extension business also reduced the new business pipeline to £26.2m at FY15 (despite growth in H2) and increased the accrued revenue balance to £26.9m at the year end, from £8.9m in the previous year. Of the accrued revenue balance, 49% is due to be received in 2016 and 2017 and 25% after 2020.

UTW continues to pursue opportunities to renegotiate the timing of cash payments related to contract extensions and post the year end it successfully concluded a renegotiation with a supplier to amend its terms, such that any extension contract receives the same payment terms as a new customer. UTW was also successful in negotiating with the supplier that the change in terms will apply to historic accrued revenue and post the year end received £3.6m in cash from the supplier, equivalent to c 13% of its accrued revenue.

With a strengthened management team (Brin Sheridan announced as new COO), expanded consultant headcount, a multi-channel sales approach and significant market opportunities (European energy markets, the UK water market and ESOS, among others), the management team remains confident of achieving further growth. We continue to forecast growth in revenues and profits and believe that, in the absence of further acquisitions, a renewed focus on new business will allow an improvement in cash flow.

Enterprise

The Enterprise division services small and medium-sized customers; it has been the main engine of growth since flotation and remains the dominant contributor to UTW's profits. The division provides full utility management services (electricity, gas and water) and offers fixed-term procurement packages, incorporating monitoring and energy-saving products. Despite offering a widening range of energy services, in FY15 98% of revenues from the Enterprise division were still generated by signing procurement contracts. The division's approach is to use a fast sales cycle facilitated by an in-house CRM system, Quantum, and it has been able to achieve a renewal rate above 80%.

Historically, the growth of this business has been driven by the increase in consultant headcount. This relationship weakened in FY15, particularly in H1, as UTW pursued extension revenue rather than new business (extension business accounted for 40% of Enterprise division total revenue in FY15 versus less than 30% in H113). UTW took advantage of attractively priced long-term energy contracts offered by suppliers to secure advantageous deals for its existing customers and secure an extension of the relationship with its business. While this approach allowed short-term revenue growth, with little or no increase in consultant headcount, it carried negative implications for the new business pipeline and accrued revenue. As a result of UTW's focus on contract extensions rather than new business generation, the new business pipeline fell from £28.2m at July 2014, to £26.2m at July 2015, albeit rising strongly in H2 and reaching £28.3m by the end of September. Accrued revenue also increased significantly due to UTW's focus on contract extensions (UTW recognises revenue less a 15% provision when contract extensions are signed, although the contract extension and receipt of revenue might lie several years in the future). By July 2015 net accrued revenue had risen to £26.9m, from £8.86m in July 2014, of which c 51% is scheduled for receipt after July 2017. Post the year end UTW renegotiated pay terms with a key supplier and henceforward any extension contract will receive the same payment terms as a new customer. As a consequence of its renegotiation, UTW also received a payment of £3.6m, equivalent to 13% of the year-end accrued revenue balance,

In contrast to H115, H215 saw the rapid expansion of consultant headcount following the move to new corporate headquarters. The headcount expansion enabled UTW to exceed FY15 revenue expectations (before the August trading update) and helped grow the new business pipeline, but also led to an inflation of corporate costs (headcount increases and attrition costs). Post the year end it is worth noting that consultant numbers actually fell to 595 (end September) due to a slowing in the pace of recruitment and ongoing attrition, although we expect headcount to resume its upward trajectory for the rest of the year.

Exhibit 4: Enterprise division key operating metrics

	Jan-14	Jul-14	Jan-15	Mar-15	Jul-15
Revenues (£m)*	16.7	40.4	25.1	N/A	55.9
Revenue pipeline (£m)	23.8	28.2	23.5	26.0	26.2
Consultant headcount (n)	281	363	449	549	610
Customer numbers (n)	N/A	19,966	21,290	22,345	27,265

Source: Utilitywise, Edison Investment Research. Note: *Revenue profits and margins relate to six months before Jan-14 and Jan-15 and the 12 months to Jul-14. All other categories are as at the heading date.

In FY16 we believe the business pipeline will resume a growth trajectory given the delayed impact of H215's increase in consultant numbers and as UTW prioritises new customer acquisition. As we anticipate further growth in revenue from new business and a decline in the proportion of extension business, this should aid an improvement in cash flow.

Corporate

The Corporate division offers fixed and flexible procurement contracts and a greater range of additional services to its clients, generating c 20-25% of its revenue from non-procurement services. With Corporate division clients, UTW seeks to develop a consultative relationship, in contrast to the sales-driven approach of the Enterprise division. Not only does the business enjoy higher levels of non-procurement revenues, but also higher renewal rates (over 95%) and higher margins than the Enterprise division. With a broadening product range and significant market opportunities, we expect continued growth from the Corporate division.

Exhibit 5: Corporate division key operating metrics

	FY14	FY15
Revenues (£m)*	9.9	16.0
EBITDA (£m)	2.0	3.5

Source: Utilitywise, Edison Investment Research. Note: *Revenues are shown before adjustments for intersegment revenues, accrued revenues and the discounting of cash flows.

ICON

ICON was acquired in April 2014 for an initial consideration of £1.1m and was initially subsumed in the Enterprise division. It consists of two businesses: the original call centre business and a nascent European sales initiative, which supplements the European operation run from UTW's existing offices in Newcastle. Of the Enterprise division's total client base at the end of July, c 4,000 could be classified as European compared to a total customer base of over 27,000. In FY15 the existing business, combined with the European sales operation, generated revenue of £5.5m and EBITDA of £0.7m. UTW has indicated that it will target energy markets in France, Germany and Benelux. We examine these markets in more detail in a later section of this note. For the purposes of our forecasts, we now strip out ICON from the Enterprise division and our revenue assumptions are shown below.

Exhibit 6: Expected evolution of revenue at ICON

	Revenue (£m)		
	FY15	FY16e	FY17e
ICON (call centre and energy sales)	5.5	7.5	10.0

Source: Edison Investment Research

t-mac

t-mac is a provider of business energy management systems, which allows energy clients to monitor and reduce their energy consumption using its proprietary hardware and software applications. In April 2015 UTW acquired t-mac Technologies for an initial consideration of £10m (£6.25m cash/£3.75m equity) and up to a further £12m of deferred consideration spread over two years (FY16 and FY17: 70% cash/30% equity). In the year to March 2015, t-mac reported revenue of £3.6m and EBITDA of £0.3m. If t-mac meets its targets, the acquisition price of £22m will represent c 6x EBITDA (in year two post acquisition).

Beyond headcount growth: Strategic delivery post 2017

UTW's strategy is to continue to grow in the UK, in part via headcount increases, but also through the expansion of its service offering, developing a more consultative relationship with its client base and aspiring to trusted advisor status for energy-related issues. Augmenting its UK-based growth, UTW will identify and seek to grow in key European markets. Divisional initiatives have been prepared to enable UTW to deliver on its strategic ambitions.

The Enterprise division will seek to grow via:

- data and direct marketing strategy: UTW has been building its database of customer targets and has now identified an addressable market of 2.5m. The data have also been segmented to allow greater use of vertical market campaigns by the field sales team;
- inbound demand generation strategy: the website has been redeveloped to enhance inbound demand capture capabilities and an automated quotation and switching platform is being implemented for smaller customers. A digital marketing manager has been added to the marketing team;
- trusted advisor strategy: each customer will have a dedicated account manager and a bespoke utility management plan will be drawn up. Pre-contract signing services will be offered and all customers will receive an Automated Meter Reader (AMR) to capture data, from which an energy reduction plan can be constructed. UTW will seek to build the brand through PR campaigns and the Net Promoter Score (an evaluation of customer satisfaction) will be closely monitored (currently 51%); and
- multi-channel approach: the traditional consultant approach is increasingly being supported by using partner channel sales (other organisations refer customers), field sales and sector specialist teams, a business development team targeting larger I&C customers that cannot be reached by telemarketing and the inbound marketing from the internet and direct marketing strategies outlined above.

The Corporate division has drawn up initiatives in the following areas:

- Expansion of bill and data validation services: the service has been expanded to cover the customer bill in its entirety, allowing UTW to identify potential savings for the customer in the commodity and non-commodity segments of the bill.
- Environmental services contracts based around ESOS, the opening of the water market in 2017 and P272 (change of metering and billing procedures). Corporate will also seek to target customers using t-mac controls and analytics capability.

We examine the opportunity presented by the UK and European energy markets, ESOS and the opening of the UK water market to greater competition in the following sections of the note.

UK energy market, the role of the TPI and the scope for growth

The supply of electricity and gas in the UK remains dominated by the big six utility companies, although Ofgem estimates that there are 24 non-domestic electricity suppliers and 30 non-domestic gas suppliers. According to statistics published by the Department of Energy and Climate Change (DECC), at the end of 2013 the large six energy suppliers accounted for more than 80% of the market for the supply of gas to the I&C market, with combined profits for supplying this market of c £500m. The majority of contracts in the non-domestic energy market are facilitated through TPIs and Ofgem estimates that more than 1,000 TPIs are currently active in the non-domestic market, although many are small, sole-trader businesses.

Ofgem has formulated a definition that describes a non-domestic TPI as "an intermediary engaged in direct or indirect activities between a non-domestic consumer and an active energy supplier". Ofgem's definition is a broad one and the TPI sector includes a variety of business models, from large organisations to one-man operations. We believe the market has been growing rapidly and the profitability of quoted TPIs has been increasing strongly in recent years.

Market data remain scarce, presenting difficulties in defining the extent of the market. Ofgem has estimated that the TPI market represents c £200m in terms of fee opportunities, although we believe this is a conservative estimate, representing less than 0.5% of the value of the total UK energy market (Exhibit 7). UTW has identified an addressable market of c 2.45m potential customers for its business (c 26m total domestic and non-domestic electricity accounts in the UK). As at the end of July 2015 UTW had c 27,000 customers giving it a market share of just over 1%. Although market share statistics can be calculated in a variety of different ways and a proportion of the market is unlikely to investigate switching supplier, we believe there is still significant opportunity for UTW to grow its business in the UK.

European energy markets

Of the areas identified by UTW for expansion, we believe by far the largest opportunity relates to European energy markets. According to figures produced by the EU Commission's single market progress report (2014), the annual EU energy market is worth c €430bn, with 70% of the value related to electricity and the rest to gas. Industrial usage is reported to account for 26% of the total, equivalent to €112bn. A market of this size represents a significant business opportunity.

In the EU, the initial markets identified by UTW (France, Germany, Belgium, Netherlands and the UK) account for c 55% of the combined market. France possesses an electricity market broadly similar in scale to the UK and a gas market c 30% smaller. The German electricity market is more than twice the size of the UK market and the German gas market is c 30% larger. Collectively, France and Germany can boast a combined market c 3x the size of the UK market. Germany, despite the presence of only four major electricity retailers, has a large number of smaller retailers and household electricity customers were able to choose between 72 suppliers on average (2012).

UTW's European strategy remains at an early phase and the extent of competition can vary (see Exhibit 7), although the markets themselves present a sizeable opportunity. Significantly, a number of the key energy suppliers (eg EdF, E.ON, RWE) operate in both the UK and European markets.

Exhibit 7: Key metrics for selected European energy markets

	France	Germany	Belgium	Netherlands	UK
Electricity market value (€bn)	34.259	74.906	9.68	8.71	33.67
Gas market value (€bn)	14.422	27.511	4.51	9.47	20.696
Number of main electricity retailers	1	4	4	3	6
Number of main natural gas retailers	3	3	4	3	7
Electricity switching rates (%)	5.7	10.4	10.0	12.6	12
Gas switching rates (%)	4.5	10.68	11.2	12.3	11
HHI in electricity retail market	> 4,500	N/A	3,000	2,338	1720
HHI in gas retail market	>3,000	300	3,900	2,258	2373

Source: EU Commission single market progress report (2014)

The Herfindahl-Hirschman Index (HHI) is calculated by squaring the market share of each firm competing in the market and then summing the individual totals. A perfect monopoly, ie a company with a market share of 100%, would score 100^2 =10,000. The US Department of Justice considers markets with scores of less than 1,000 as competitive, 1-1,800 as moderately concentrated and scores above 1,800 as highly concentrated.

ESOS opportunity

The Energy Savings Opportunity Scheme (ESOS) is designed to implement the EU Energy Efficiency Directive (2012/27/EU), which seeks to reduce energy usage by 20% by 2020 (versus projected energy usage at that date). As part of the strategy for reaching its overarching target, the directive requires large companies to conduct energy audits every four years. The ESOS regulations are mandatory and apply to large UK businesses that either employ 250 people or more, have an annual turnover in excess of £50m or with a balance sheet total in excess of £43m. As part of ESOS, businesses must calculate total energy consumption, identify areas of significant energy consumption, appoint an approved ESOS assessor and maintain records. An ESOS Energy Audit must also be carried out. Companies not complying with ESOS could face civil sanction including fines.

The scope of the ESOS initiative is significant. According to the Impact Assessment published by DECC in 2012, businesses covered by the scheme were responsible for c one-third of UK energy demand. In total c 9,400 companies are expected to be covered by ESOS. The central forecast for the net benefit (2015-30) is estimated at c £1.9bn. DECC has also estimated that the average cost of ESOS is c £17k for the first audit and £10k for each subsequent audit (required every four years). Based on DECC's estimates, the initial market could be worth c £160m (9,400 x £17,000) and an annual market of c £25m ([9,400/4] x £10,000). At its interim results UTW claimed to have won 77 ESOS projects worth £312k, with a further 250+ projects in the pipeline. The initial projects had an average value of c £4k, suggesting the additional 250 projects could equate to an aggregate value of £1m, approximating to less than 1% of the initial market and providing scope for further growth.

Water

Under the terms of the Water Act 2003, customers using 50 mega litres (equivalent to c 2,200 customers in England) or more of water pa were eligible to switch suppliers. Despite a number of new entrants, the resulting levels of switching were minimal. In Scotland, which has a less burdensome regulatory regime, with no eligibility threshold, c 42% of the market has renegotiated terms). The Scottish public sector is set to save around £20m and some market participants estimate that Scottish businesses have saved c £100m since competition was introduced in 2008.

In 2011 the government proposed reducing the limit from 50 to 10 mega litres, thereby increasing the size of the market to c 26,000 customers. This alteration to the regulatory regime is scheduled to take place from 2017 and will result in the opening of a market estimated to be worth £2.1bn. UTW has stated that it is already working with businesses in the UK to identify potential savings.

Management

There have been significant changes to the management team during the last year, most recently with the appointment of Brin Sheridan as COO (formerly MD of Energy Solutions Group). Geoff Thompson will continue to lead the operational board of eight executives, with Jon Kempster (CFO) and new appointee Brin Sherdian. The board will also include Steve Atwell as MD of Enterprise, Ashley Guise as MD of Corporate, Nigel Hudson as marketing director and Chris Charlton as MD of Europe, and will be completed with the appointment of a new HR director in January 2016.

Sensitivities

Consultant headcount: failure to achieve the targeted growth in headcount would undermine the basis of our revenue forecasts and valuation analysis. A 5% shortfall in consultant headcount would lead to a c £1.5m (-6%) reduction in EBITDA in 2017.

Extension business: if the proportion of extension business were to remain above 40% of the total, as in FY15, this would have a negative effect on our cash flow projections.

Regulation: Utilitywise is confident that it is well placed to comply with Ofgem's proposed regulatory framework, but unforeseen changes to regulation that restrict the growth and profitability of the market would pose a threat to the business.

Competition: an intensification of competition could pressure margins beyond our forecasts.

Key personnel: the departure of the key members of the management team would constitute a risk for the business. However, Geoff Thompson retains a significant share of Utilitywise's equity.

Acquisition risk: UTW's strategy is to grow both organically and via acquisition. As with all acquisitive companies, there is a risk that UTW could overpay for an acquisition.

Valuation

We examine peer multiples, PEG ratios, a DCF and transaction multiples to provide a valuation framework for UTW. Longer-term valuation approaches (transaction/DCF) indicate an average valuation of c 293p. Shorter-term methods (PEG/multiples) yield an average valuation of 237p.

Exhibit 8: Valuation range (p/share)

	Multiples	PEG*	DCF	Transaction	Average
Valuation (p/share)	239	235	320	265	265

Source: Edison Investment Research. Note: *PEG is an average of a benchmarking exercise against the FTSE All-Share and the FTSE Support Services sector.

We use PEG ratios calculated using historic EPS (calendarised) and two-year growth rates. We compare UTW with the growth rates and valuations of the wider market and the industrial support services sector. Exhibit 9 shows that UTW's PEG ratio is standing at a discount to the support services sector and the FTSE All-Share. Placing UTW's PEG ratio at 1.0x (broadly in line with the FTSE All-Share and the industrial support services sector) indicates a valuation of 235p/share.

For our multiples analysis we have used a range of energy services companies, the wider Support Services Index and the FTSE All-Share. We have also annualised the data to adjust for UTW's July year end. The annualised analysis produces an average valuation of 239p.

Exhibit 9: PEG (calendarised) ratios vs the FTSE All-Share and the Support Services Index

		P/E (x)				CAGR (%)		PEG	
	Price	2014	2015e	2016e	2017e	14-16e	14-17e	Two-year	Three-year
Utilitywise	165	10.3	8.8	7.8	7.1	15%	13%	0.70	0.77
FTSE All-Share	3437	22.2	16.0	14.8	N/A	22%	N/A	0.99	N/A
Support Services	6457	21.6	16.1	14.6	N/A	22%	N/A	1.00	N/A

Source: Edison Investment Research, Bloomberg. Note: Prices at 30 October 2015.

We have also constructed a DCF (out to 2021), assuming consultant headcount rises to 900 by 2021, and c 7% pa revenue growth in the corporate division (vs 20% pa currently). We forecast negative working capital movements continuing beyond 2017 (average of £1.0m pa in 2018-21). Applying a discount rate of 8% (risk-free rate 2.5%, market risk premium 10% levered beta 0.55 – Ofgem assumes 4% post-tax real for UK-regulated utilities) and perpetuity growth of 2%, UTW would be worth c 320p/share on our forecasts. Exhibit 11 sets out key DCF valuation sensitivities.

Exhibit 10: UTW benchmarked against comparable companies

		P/E (x)		EV/EBITDA (x)		Yield (%)	
	Price (p)	FY1	FY2	FY1	FY2	FY1	FY2
Energy Assets	513	16.9	15.0	9.1	7.9	N/A	N/A
Inspired Energy	13.1	14.6	11.9	10.8	8.8	2.3	3.1
Management Consulting	14.5	14.5	10.4	5.6	5.6	5.5	5.5
Mitie	329	12.8	11.9	8.3	8.3	3.7	4.0
SMS	320	20.0	17.2	11.1	11.1	1.0	1.3
Support Services	6457	16.1	14.6	8.9	8.9	2.6	2.8
FTSE All-Share	3437	16.0	14.8	8.4	8.4	3.8	4.0
Average		**15.8**	**13.7**	**9.5**	**8.4**	**3.2**	**3.5**
Utilitywise (annualised data)							
EPS (p)		18.7	21.0				
EBITDA (£m)				19.0	22.1		
DPS (p)						5.3	6.3
Implied value		**299**	**311**	**232**	**239**	**169**	**183**

Source: Edison Investment Research, Bloomberg. Note: Edison EV/EBITDA multiples reflect forecast net cash/debt, while Bloomberg uses historic net/debt. Prices at 17 November 2015.

Exhibit 11: DCF sensitivities

	0.0%	0.5%	1.0%	1.5%	2.0%
7.0%	290	310	333	361	394
8.0%	247	262	278	297	319
9.0%	214	225	237	251	267

Source: Edison Investment Research

The TPI sector and the broader energy services market have witnessed a number of acquisitions in recent years. Smaller-scale transactions have frequently occurred at EV/EBITDA multiples of c 6x, while some of the larger deals have taken place at c 10x. Benchmarked against the larger acquisitions (at c 10x EV/EBITDA), UTW would be worth 265p using our forecasts for FY16.

Financials

Revenue: we expect a rise in revenue from £69.1m in FY15 to £105.1m in FY17. We assume that the extensions business will decline from c 40% of the total in FY15, to 25% in FY17.

Gross profit and margin: we expect gross profit margins of c 42.5% in FY16 and FY17.

Dividends: we forecast 18% CAGR in DPS in 2015-17, leaving dividend cover at 2.9x in 2017.

Exhibit 12: Financial summary

	2014	2015	2016e	2017e
Year-end 31 July	IFRS	IFRS	IFRS	IFRS
	£'000	£'000	£'000	£'000
PROFIT & LOSS				
Revenue	48,947	69,106	93,306	104,921
Cost of Sales	(26,586)	(38,810)	(53,651)	(60,644)
Gross Profit	22,361	30,296	39,655	44,277
EBITDA	14,467	17,785	20,805	23,937
Operating Profit (before amort and except)	13,751	16,920	19,590	22,572
Intangible Amortisation	(946)	(1,297)	(1,531)	(1,338)
Exceptionals	(22)	(570)	0	0
Share Based Payments	(737)	(695)	(720)	(756)
Other	0	0	0	0
Operating Profit	12,046	14,357	17,339	20,478
Net Interest	(373)	(235)	(607)	(574)
Profit Before Tax (norm)	13,379	16,685	18,983	21,998
Profit Before Tax (FRS 3)	11,673	14,123	16,732	19,904
Tax	(2,170)	(2,927)	(3,514)	(3,981)
Profit After Tax (norm)	11,208	13,758	15,469	18,017
Profit After Tax (FRS 3)	9,503	11,196	13,218	15,923
Average Number of Shares Outstanding (m)	72.5	75.3	77.0	77.9
EPS - normalised (p)	15.4	18.3	20.1	23.1
EPS - normalised fully diluted (p)	14.6	17.9	19.8	22.8
EPS - (IFRS) (p)	13.0	14.9	17.2	20.4
Dividend per share (p)	4.0	5.0	5.8	7.0
Gross Margin (%)	45.7	43.8	42.5	42.2
EBITDA Margin (%)	29.6	25.7	22.3	22.8
Operating Margin (before GW and except.) (%)	28.1	24.5	21.0	21.5
BALANCE SHEET				
Fixed Assets	36,975	66,048	72,685	78,726
Intangible Assets	21,926	37,171	35,650	34,323
Tangible Assets	4,838	5,899	5,634	5,220
Investments & Other	10,211	22,978	31,400	39,183
Current Assets	30,436	23,075	36,600	47,011
Stocks	98	643	889	1,004
Debtors	13,958	15,939	28,111	30,662
Cash	15,823	6,492	7,600	15,345
Other	557	0	0	0
Current Liabilities	(18,315)	(18,420)	(26,289)	(28,289)
Creditors	(18,315)	(18,420)	(26,289)	(28,289)
Short term borrowings	0	0	0	0
Long Term Liabilities	(15,494)	(24,581)	(25,622)	(27,228)
Long term borrowings	(6,000)	(13,175)	(13,175)	(13,175)
Other long term liabilities	(9,494)	(11,406)	(12,447)	(14,053)
Net Assets	33,602	46,121	57,373	70,220
CASH FLOW				
Operating Cash Flow	11,615	(2,567)	8,429	17,082
Net Interest	(373)	(235)	(607)	(574)
Tax	(1,910)	(2,208)	(3,514)	(3,981)
Capex	(631)	(1,882)	(961)	(961)
Acquisitions/disposals	(835)	(6,398)	0	0
Financing	101	149	1,806	1,050
Dividends	(2,158)	(3,365)	(4,046)	(4,871)
Net Cash Flow	5,810	(16,506)	1,107	7,745
Opening net debt/(cash)	(4,013)	(9,823)	6,683	5,575
HP finance leases initiated	0	0	0	0
Other	0	0	0	0
Closing net debt/(cash)	(9,823)	6,683	5,575	(2,170)

Source: Company accounts, Edison Investment Research. Note: *2014 results have been restated following a review of the revenue provision calculation. The conclusion of the review was that the rate used to calculate the estimated variability in value of energy consumed in customer contracts was too low.

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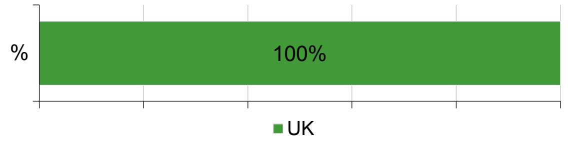
Revenue by geography



Management team

Chairman: Richard Feigen

Richard Feigen has been advising companies in the mid-cap sector of the market since 1986 and for 11 years he was head of investment banking at Seymour Pierce. He was the founder and remains a partner of Hub Capital Partners, which advises small- and mid-cap companies including Utilitywise.

CEO: Geoff Thompson

Geoff Thompson founded Utilitywise in 2006 and retains a significant shareholding in the business. Before Utilitywise, he held a variety of management posts at Amicus Outsourcing and Spark Response. In these roles he gained experience in helping energy supply companies acquire customers, which led him to establish Utilitywise.

COO: Brin Sheridan

Brin Sheridan will join the board of Utilitywise as chief operating officer in November 2015. He was previously MD of Energy Solutions Group and held senior positions at Satchwell Control Systems and Schneider Electric.

CFO: Jon Kempster

Jon Kempster is a qualified accountant and has served as FD of Linden, Low & Bonar, Delta and Wincanton. He joined Utilitywise in October 2013 as a non-executive director and was appointed as CFO in October 2014. He is also a director of JVM, a private group selling construction equipment in Russia.

Principal shareholders	(%)
Woodford Investment Management	26.1
Geoff Thompson	11.2
River & Mercantile	9.9
JP Morgan	6.0
Investec	4.8
Jeremy Middleton	4.3

Companies named in this report

EdF, Energy Assets, E.ON, Iberdrola, Inspired Energy, Management Consulting, Mitie, RWE, SMS

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