

# StatPro Group

Final results

Underlying revenue book grew by 6%

StatPro's annualised recurring revenue (ARR) rose by 37% over the 12 months to £39.3m at end-FY16, reflecting 6% constant currency organic growth, two acquisitions and translation benefits from the decline in sterling. More than 10 clients are already using Revolution Performance, the recently launched transaction-based performance measurement tool that runs off Amazon cloud. The group's pipeline of new business is at record levels and management was increasingly optimistic at the results meeting. Hence, following the recent dip, we believe that the shares are looking more compelling as the group continues to set the pace in the cloud.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	30.2	2.6	2.6	2.9	34.2	3.3
12/16	37.5	2.7	3.5	2.9	25.4	3.3
12/17e	40.2	3.6	4.1	2.9	21.7	3.3
12/18e	43.0	4.5	5.1	2.9	17.5	3.3

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## FY16 results: Revenue and EBITDA beaten by 6%

Group revenue jumped 24% to £37.5m (we forecast £35.5m) as adjusted EBITDA increased by 26% to £5.1m (£4.8m) and EPS lifted 35% to 3.5p (2.7p), partly benefiting from a share buyback a year ago. Underlying organic revenue growth was 2%, while the equivalent ARR figure, which is the more forward-looking KPI, rose by 6%. The average revenue per client jumped by 54% to £50.1k, partly reflecting the higher value from Investor Analytics and a prior year decision to de-emphasise smaller customers. The group has more than 10 Revolution Performance clients, including two significant contracts signed in 2016. The group's primary focus is to shift clients from three traditional modules, representing c £7.5m of revenue, to the cloud over the next two to three years. There is typically a significant conversion premium to reflect the lower total cost of ownership for the client (including lower headcount, outsourced hardware and support) and the technical advantages of cloud software, including the ability to leverage computing power. Further, there is also a possibility of streamlining applications.

## Forecasts: EBITDA maintained, EPS boosted by tax

FY17 revenue growth estimate is a function of the 6% constant currency organic ARR, new business wins, less churn, plus currency headwinds and movement in professional services. We conservatively forecast 7% revenue growth in both FY17 and FY18. Consequently, we have lifted our FY17 revenue forecast by 4%, while our adjusted EBITDA is unchanged, but EPS rise by 12% on reduced tax assumptions.

## Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 22x our FY17e EPS, which falls to c 17x in FY18e. Alternatively, the shares trade on c 1.6x FY18e EV/sales, around one-third of the level of StatPro's larger US peers and US-based pure SaaS companies.

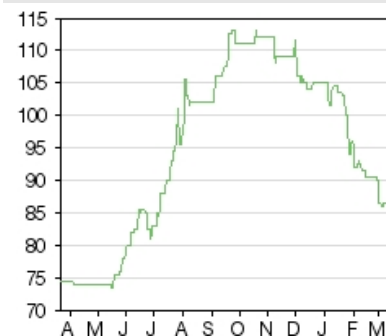
Software & comp services

20 March 2017

**Price** 89p  
**Market cap** £58m

Net debt (£m) at 31 December 2016	10.1
Shares in issue	64.7m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(1.66)	(14.42)	20.27
Rel (local)	(3.35)	(19.40)	1.36
52-week high/low		113.0p	73.5p

### Business description

StatPro Group provides cloud-based portfolio analytics solutions to the global investment community.

### Next events

AGM	May 2017
H1 trading update	July 2017
Interim results	September 2017

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## FY16 results: Revenue and EBITDA beaten by 6%

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Group revenue jumped 24% to £37.5m (we forecast £35.5m) as adjusted EBITDA increased by 26% to £5.1m (£4.8m) and EPS lifted 35% to 3.5p (2.7p), partly benefiting from the buyback of 4.25% of the shares in March 2016. Excluding acquisitions and currency movements, the organic revenue growth was 2%, while the equivalent ARR figure, which is a better forward-looking KPI, rose by 6%. StatPro Revolutions ARR grew by 32% at constant currency excluding acquisitions. The average revenue per client jumped by 54% to £50.1k, partly reflecting the higher value from Investor Analytics and the prior year decision to de-emphasise smaller customers. 83% of new revenue was from existing clients.

The company took a goodwill impairment of £9.7m on its Canadian acquisition, FRI, which was acquired in 2007. The group has limited profits in Canadian dollars.

The group's primary focus is to shift clients from three traditional modules (StatPro Performance & Attribution, StatPro Fixed Income and StatPro Risk Management), representing c £7.5m of revenue, to the cloud over the next two to three years. There is typically a significant conversion premium to reflect the lower total cost of ownership for the client (including lower headcount, outsourced hardware and support) and the technical advantages of cloud software, including the ability to leverage computing power and there is also the potential to streamline applications. The group has more than 10 Revolution Performance clients, including two significant contracts signed in 2016 with State Street and National Australia Bank and, following significant recent sales and marketing events, more than 30 clients are scheduled to review the service in the coming months. StatPro also signed a €3m six-year contract with an unnamed large European asset manager in early March and this deal had a c 20% conversion premium.

In February the group lifted its stake in InfoVest Consulting from 51% to 72.7% at a cost of £1.2m in cash. InfoVest has performed well since it was acquired in January 2016, partly because it has been able to cross-sell to StatPro's client base.

## Forecast changes

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We have increased Traditional software rental revenues, mainly due to better than expected performance from InfoVest (c £1.0m additional revenue, £1.7m including the StatPro module that was swapped for a shareholding, and this includes some Professional services revenues). Data move up from stronger than expected FY16 performance, while Professional services rises because an increased number of larger projects are expected as Revolution Performance is rolled out. We have broadly maintained our FY17 StatPro Revolution revenues. The group spent £5.94m (15.8% of sales) on R&D in FY16, of which £4.57m was capitalised and £3.88 was amortised. We assume 15% of revenue is spent on R&D going forward, of which 75% is capitalised and amortised over three years.

In all, our FY17 revenue forecast rises by 4%, while adjusted EBITDA is unchanged. However, EPS move up with the declining tax rate (we assume 23% on normalised pre-tax profits). The effective tax rate was 16% in FY16, down from 33% in FY15. The group benefits from R&D tax credits in the UK and South Africa, along with the utilisation of historic tax losses not previously recognised.

The group's transition to cloud, since its beginnings in 2008, has been a long and arduous process. We believe there is now significant potential for margin expansion from economies of scale as the group builds up its ARR. We forecast operating margins to grow from 9.2% in FY16 to 11.6% in FY18, which remains well below historical levels. In the longer term, we would expect margins to

head towards the 25.6% achieved in FY07, as most of the hard work on the group's cloud transition has now been completed, and R&D as a percentage of sales can be expected to ease.

We have edged up FY17 operating cash flow, as well as investment and tax paid, and after including the £1.2m cost of the additional InfoVest shares, end-FY17 net debt rises to £12.8m (previously £11.2m). We have included additional acquisition payments for Investor Analytics of \$2m in FY17 and \$1m in FY18, and we have assumed a final payment for SiSoft of £0.65m in FY17.

<b>Exhibit 1: Forecast changes</b>							
<b>(£000s)</b>	<b>2016e</b>	<b>2016</b>	<b>change</b>	<b>2017e</b>		<b>change</b>	<b>2018e</b>
	<b>Edison</b>	<b>Actual</b>	<b>%</b>	<b>Old</b>	<b>New</b>	<b>%</b>	<b>New</b>
Revenues							
Traditional software rental	17,944	18,920	5.4	16,009	16,920	5.7	14,920
StatPro Revolution	11,838	12,260	3.6	16,475	16,449	(0.2)	21,139
Data	3,614	3,810	5.4	3,831	4,039	5.4	4,119
Professional services	2,100	2,560	21.9	2,289	2,790	21.9	2,846
Group Revenue	35,496	37,545	5.8	38,604	40,198	4.1	43,024
Growth (%)	17.6	24.4		8.8	7.1		7.0
Opex (before devt costs depn)	(31,151)	(33,136)	6.4	(33,107)	(34,801)	5.1	(37,103)
Capitalisation of dev costs (net)	457	695	51.9	328	444	35.6	459
Adjusted EBITDA	4,802	5,104	6.3	5,824	5,841	0.3	6,381
Depreciation	(1,415)	(1,643)	16.1	(1,600)	(1,704)	6.5	(1,410)
Adjusted operating profit	3,386	3,461	2.2	4,224	4,136	(2.1)	4,970
Operating margin (%)	9.5	9.2	(3.4)	10.9	10.3	(6.0)	11.6
Growth (%)	18.7	21.4		24.7	19.5		20.2
Net interest	(625)	(786)	25.8	(550)	(550)	0.0	(450)
Profit before tax (norm)	2,762	2,675	(3.1)	3,674	3,586	(2.4)	4,520
Amortisation of acquired intangibles	(1,100)	(1,060)	(3.6)	(1,100)	(1,060)	(3.6)	(1,060)
Share based payments	(200)	(361)	80.5	(213)	(213)	0.0	(225)
Exceptional items (net of tax)	(10,894)	(10,909)	0.1	0	0	0.0	0
Profit before tax	(9,432)	(9,655)	2.4	2,362	2,313	(2.0)	3,235
Taxation	(773)	(301)	(61.1)	(1,029)	(825)	(19.8)	(1,040)
Minority interest	(213)	(94)	(55.9)	(278)	(121)	(56.6)	(129)
Net income	(10,418)	(10,050)	(3.5)	1,055	1,368	29.7	2,066
Adjusted EPS (p)	2.7	3.5	28.7	3.6	4.1	11.9	5.1
<b>P/E - Adjusted EPS</b>		<b>25.4</b>			<b>21.7</b>		<b>17.5</b>

Source: StatPro, Edison Investment Research

## Peer analysis

StatPro's stock trades on c 22x our FY17e EPS, which falls to c 17x in FY18e, putting it at a significant discount to its UK-quoted peers. Alternatively, the shares trade on c 1.6x FY18e EV/sales, less than one-third of the level of StatPro's larger US peers, which mostly trade above 5x EV/sales, and at around a third of the level of US-based pure SaaS companies. While the P/E ratio discounts are smaller, we are confident that StatPro will show healthy margin progression as its ARR book continues to grow, which will lead to sharply declining P/S ratios.

### Exhibit 2: Peers

	Price	Market cap	EV/sales (x)		EV/EBITDA (x)		P/E (x)	
	Local currency	Local currency (m)	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<b>StatPro</b>	<b>89.00</b>	<b>58</b>	<b>1.8</b>	<b>1.6</b>	<b>12.1</b>	<b>11.1</b>	<b>21.7</b>	<b>17.5</b>
1) US-quoted investment management software peers								
MSCI	98.05	8,878	8.2	7.6	16.3	14.7	27.6	23.7
FactSet	179.58	7,105	6.1	5.7	17.3	16.0	24.7	22.5
SS&C	36.40	7,394	5.8	5.5	14.0	12.9	18.9	16.8
DST Systems	118.28	3,731	2.3	2.2	9.7	9.3	19.3	17.1
Envestnet	35.85	1,543	3.1	2.7	18.0	13.5	36.7	26.4
<b>Medians</b>			<b>5.8</b>	<b>5.5</b>	<b>16.3</b>	<b>13.5</b>	<b>24.7</b>	<b>22.5</b>
2) Investment management software peers quoted in other countries								
GBST	2.67	181	1.9	1.8	13.8	10.7	21.2	15.5
Iress	11.31	1,923	4.8	4.3	15.8	14.2	22.7	20.2
Linedata	47.89	352	1.9	1.8	6.9	6.7	14.3	13.4
SimCorp	412.40	17,115	6.7	6.2	24.1	21.5	32.0	28.3
<b>Medians</b>			<b>3.3</b>	<b>3.1</b>	<b>14.8</b>	<b>12.4</b>	<b>21.9</b>	<b>17.9</b>
3) UK-quoted financial software peers								
Fidessa	2,514.00	970	2.5	2.3	10.9	10.3	27.0	24.7
First Derivatives	2,699.00	671	4.8	4.3	25.7	22.9	48.1	43.9
Microgen	270.50	164	3.6	3.4	14.6	13.1	21.5	18.9
Brady	76.50	64	1.9	1.8	18.6	10.2	58.8	24.7
Lombard Risk	11.50	46	1.2	1.0	N/A	6.0	N/A	28.8
<b>Medians (excl Lombard)</b>			<b>3.0</b>	<b>2.9</b>	<b>16.6</b>	<b>11.7</b>	<b>37.6</b>	<b>24.7</b>
4) US companies with SaaS business models								
Callidus	20.63	1,314	4.6	3.9	33.0	25.7	66.1	52.3
Cornerstone OnDemand	40.83	2,313	4.7	4.0	40.3	25.5	114.4	54.3
Paycom Software	56.40	3,355	7.9	6.3	29.0	22.1	55.4	42.2
Paylocity	36.83	1,894	6.1	4.9	42.9	33.0	86.5	65.4
Salesforce	83.54	59,105	5.8	4.8	26.7	21.8	65.9	50.9
Ultimate Software	195.12	5,788	5.9	4.8	24.3	19.5	49.1	39.6
Workday	85.16	17,117	7.7	6.2	92.5	59.1	168.3	115.9
<b>Medians</b>			<b>5.9</b>	<b>4.8</b>	<b>33.0</b>	<b>25.5</b>	<b>66.1</b>	<b>52.3</b>

Source: Bloomberg, Edison Investment Research. Note: Prices as at 16 March 2017.

**Exhibit 3: Financial summary**

	£000s	2013	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		32,486	32,018	30,187	37,545	40,198	43,024
Cost of Sales		0	0	0	0	0	0
Gross Profit		32,486	32,018	30,187	37,545	40,198	43,024
EBITDA		5,463	4,359	4,044	5,104	5,841	6,381
Adjusted Operating Profit		4,327	2,875	2,852	3,461	4,136	4,970
Amortisation of acquired intangibles		(402)	(188)	(32)	(1,060)	(1,060)	(1,060)
Exceptionals		(347)	0	0	(11,378)	0	0
Share based payments		(192)	(26)	(121)	(361)	(213)	(225)
Operating Profit		3,386	2,661	2,699	(9,338)	2,864	3,685
Net Interest		(273)	(291)	(290)	(786)	(550)	(450)
Profit Before Tax (norm)		4,054	2,584	2,562	2,675	3,586	4,520
Profit Before Tax (FRS 3)		3,113	2,370	2,409	(10,124)	2,313	3,235
Tax		(1,030)	(774)	(788)	(395)	(825)	(1,040)
Profit After Tax (norm)		3,024	1,810	1,774	2,843	2,761	3,481
Profit After Tax (FRS 3)		2,083	1,596	1,621	(10,519)	1,489	2,196
Minority interests		0	0	0	(94)	(121)	(129)
Net income (norm)		3,024	1,810	1,774	2,280	2,640	3,351
Net income (statutory)		2,083	1,596	1,621	(10,613)	1,368	2,066
Average Number of Shares Outstanding (m)		67.5	67.5	67.6	65.3	64.9	65.2
EPS - normalised (p)		4.5	2.7	2.6	3.5	4.1	5.1
EPS - FRS 3 (p)		3.1	2.4	2.4	(16.3)	2.1	3.2
Dividend per share (p)		2.80	2.90	2.90	2.90	2.90	2.90
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		16.8	13.6	13.4	13.6	14.5	14.8
Operating Margin (before GW & except.) (%)		13.3	9.0	9.4	9.2	10.3	11.6
<b>BALANCE SHEET</b>							
Fixed Assets		55,992	56,113	51,857	59,088	60,412	60,701
Intangible Assets		53,524	52,546	48,613	55,696	57,317	57,510
Tangible Assets		1,883	2,470	2,233	2,742	2,445	2,540
Other assets		585	1,097	1,011	650	650	650
Current Assets		10,312	10,441	10,665	19,081	18,830	19,930
Stocks		0	0	0	0	0	0
Debtors		6,167	7,722	8,462	14,725	15,766	16,874
Cash		4,014	2,692	2,203	4,356	3,064	3,056
Current Liabilities		(18,514)	(20,271)	(19,778)	(35,686)	(37,143)	(38,696)
Creditors		(18,502)	(20,259)	(19,660)	(27,227)	(28,684)	(30,237)
Short term borrowings		(12)	(12)	(118)	(8,459)	(8,459)	(8,459)
Long Term Liabilities		(882)	(598)	(1,227)	(9,897)	(11,296)	(10,596)
Long term borrowings		0	0	(801)	(5,961)	(7,360)	(6,660)
Other long term liabilities		(882)	(598)	(426)	(3,936)	(3,936)	(3,936)
Net Assets		46,908	45,685	41,517	32,586	30,803	31,338
<b>CASH FLOW</b>							
Operating Cash Flow		9,403	7,705	6,548	7,454	10,120	10,977
Net Interest		(98)	(10)	(84)	(500)	(550)	(450)
Tax		(1,616)	(1,173)	(832)	(1,294)	(1,000)	(789)
Capex		(4,412)	(5,904)	(4,999)	(6,445)	(5,929)	(6,346)
Acquisitions/disposals		(990)	0	0	(4,786)	(3,437)	(820)
Equity financing		0	2	64	(2,079)	0	0
Dividends		(1,856)	(1,889)	(1,960)	(1,877)	(1,893)	(1,881)
Net Cash Flow		431	(1,269)	(1,263)	(9,527)	(2,689)	691
Opening net debt/(cash)		(3,667)	(4,002)	(2,680)	(1,283)	10,065	12,754
Other		(96)	(53)	(134)	(1,821)	0	0
Closing net debt/(cash)		(4,002)	(2,680)	(1,283)	10,065	12,754	12,063

Source: StatPro Group accounts, Edison Investment Research estimates

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