

# StatPro Group

Interim results

Outlook is maintained

The group's annualised recurring revenue (ARR) was flat due to higher than normal churn. However, we believe this slowdown is temporary as StatPro is looking increasingly well positioned to benefit from the outsourcing shift in the global asset management industry. StatPro is the only SaaS provider of performance, attribution and risk solutions and it also offers APIs along with full managed services. We have increased our interest forecasts while also reducing tax, which results in EPS forecasts remaining unchanged. Given the ongoing active M&A backdrop in financial software and the scope for revenue acceleration and margin expansion, we continue to see strong upside potential in the shares.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	37.5	2.7	3.3	2.9	47.2	1.8
12/17	49.3	3.3	5.8	2.9	27.2	1.8
12/18e	56.8	5.0	7.0	2.9	22.7	1.8
12/19e	59.5	6.2	8.0	2.9	19.7	1.8

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

## H1 results: Revolution's ARR grew by 19%

H118 group revenue rose by 22% to £27.2m while adjusted EBITDA increased by 23% to £4.3m. Underlying group annualised recurring revenue (ARR) was flat due to higher than normal churn. Excluding the acquisitions of Alpha and Delta, which have specific issues, group ARR growth was 2%. Additionally, we note that H1 gross sales were higher than budgeted and the flagship Revolution grew its ARR by 19%. Earlier this month StatPro acquired ODDO BHF's regulatory risk services bureau which will enable it to offer a complete risk managed service to customers across the globe. The service will be particularly attractive to smaller asset service providers (ASPs) that lack the specialist skills to operate StatPro's software.

## Forecasts: EBITDA unchanged, interest increased, tax cut

We have eased our revenue and cost forecasts, hence EBITDA remains unchanged across the forecast period. However, we have increased our interest charge forecast by £400k in FY18, £150k in FY19 and £100k in FY20. Further, we reduce our tax forecasts, which results in EPS being unchanged for all years.

## Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 23x our maintained FY18 EPS, which falls to c 20x in FY19 and to c 17x in FY20. Alternatively, the shares trade on c 2.2x FY19 EV/sales, around half of the level of StatPro's larger US peers and around a third of US-based pure software as a service (SaaS) companies. M&A remains active in the financial software industry with SS&C buying Eze Software (31 July) for \$1.45bn or c 5.2x revenues while State Street has acquired Charles River (20 July) for \$2.6bn or c 8.7x revenues. When incorporating 10-year organic revenue growth of c 3.6%, a terminal growth of 2%, a long-term margin target of 24.0% and a WACC of 9%, our DCF model values the shares at 222p (previously 223p), c 41% above the current share price.

Software &amp; comp services

6 August 2018

**Price** 158p  
**Market cap** £104m

Net debt (£m) at 30 June 2018	23.2
Shares in issue	65.6m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



### Business description

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

### Next events

Q3 trading update	October 2018
FY18 trading update	January 2019
FY18 results	March 2019

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**StatPro Group is a research client of Edison Investment Research Limited**

## Interim results: Revolution's ARR grew by 19%

Group revenue rose by 22% to £27.2m while adjusted EBITDA increased by 23% to £4.3m, resulting in the EBITDA margin rising by 20bp to 15.9%. Delta contributed a full six months compared with 1.5 months in the prior period. StatPro Revolution revenues, excluding Delta, rose by 15%. The normalised PBT rose by a more modest 12% due to the jump in the interest charge, which relates to the higher debt levels following the Delta acquisition. The H1 interest charged to the p&l account continues to exceed the cash interest paid, as the charge includes a non-cash component relating to the amortisation of facility setup fees. Free cash flow at £2.2m, was £1.3m lower than H117, due to a smaller increase in working capital. Following additional acquisition payments for Investor Analytics and InfoVest, totalling £2.5m, net debt increased by £3.0m over the six months to £23.2m as at the end of June. The interim dividend was maintained at 0.85p.

The group's ARR slipped by 2% to £52.3m over 12 months and was flat at constant currencies. StatPro Revolution's ARR grew by 19% while the legacy suite, StatPro Seven, saw its ARR, adjusted for conversions, eased by just 1%. The ARR is a forward-looking measure of revenue since the bulk of group revenues are recurring in nature albeit for professional services, which represents less than 4% of group revenue. The flat ARR was due to high than normal churn, which stood at 9% on an annualised basis, against the typical 6-7%. About a third of Revolution's churn related to Alpha and a third to Delta. Alpha (previously Investor Analytics) was acquired in early 2016 and has lost a number of hedge fund clients which are less sticky than traditional fund managers. Delta operates on a legacy cloud platform and is being transitioned to the Revolution platform. Consequently, it is challenging to sell this product during the transition. Delta has seen some churn, but some customers have signed longer-term contracts, which are not reflected in the numbers.

Most of Revolution's growth came from existing clients, with the average ARR per Revolution client rising by 16% to £86.9m. StatPro has just launched its Fixed Income Attribution (FIA) beta, which will be fully commercial in December, and will help drive additional conversions. FIA is also an important component in the Delta transition, with D-curves (yield curves) being added in January.

### Exhibit 1: Half-by-half analysis

	2017			2018e		
	H1	H2	FY	H1	H2e	FYe
StatPro Revolution (including Delta)	8,800	14,670	23,470	14,340	17,868	32,208
StatPro Seven	10,550	9,230	19,780	9,930	7,650	17,580
Data	2,030	2,040	4,070	2,000	2,151	4,151
Professional services	1,030	990	2,020	970	1,090	2,060
Total Revenue	22,408	26,852	49,260	27,237	29,514	56,751
Opex (before development costs and depreciation)	(19,562)	(24,440)	(44,002)	(23,632)	(25,313)	(48,945)
Capitalisation of development costs (net)	680	900	1,580	730	208	938
Adjusted EBITDA	3,526	3,312	6,838	4,335	4,408	8,743
EBITDA margin	15.7%	12.3%	13.9%	15.9%	14.9%	15.4%
Depreciation	(838)	(1,083)	(1,921)	(851)	(1,074)	(1,925)
Adjusted operating profit	2,688	2,229	4,917	3,484	3,334	6,818
Operating margin (%)	12.0%	8.3%	10.0%	12.8%	11.3%	12.0%
Net interest	(496)	(1,089)	(1,585)	(1,030)	(809)	(1,839)
Edison profit before tax (norm)	2,192	1,140	3,332	2,454	2,526	4,980
Amortisation of acq'd intangibles	(881)	(1,362)	(2,243)	(1,518)	(1,725)	(3,243)
Share-based payments	(144)	(482)	(626)	(37)	(613)	(650)
Exceptional items	(2,709)	(1,225)	(3,934)	0	0	0
Profit before tax (FRS 3)	(1,542)	(1,929)	(3,471)	899	188	1,087

Source: Company accounts, Edison Investment Research

The group implemented IFRS15, which had a minor impact on FY17 numbers. The application of IFRS15 resulted in a small increase in revenue at the start of a contract. It has given a 1% boost to H1 revenues but this is expected to reverse in H2.

## Acquisition of ODDO BHF's regulatory risk services bureau

Earlier this month StatPro acquired ODDO BHF's regulatory risk services bureau which adds 10 new clients to StatPro's client base in Germany and Luxembourg. This business will enable StatPro to offer a complete risk managed service to customers across the globe. This will be particularly attractive to smaller asset service providers which lack the specialist skills to operate StatPro's software. The company has released further information on the acquisition with these results, revealing that the acquired business has recurring revenue of c €1.7m, and that StatPro paid an initial €1m for the business with a further €0.4m due in a year's time. Hence, StatPro is paying 0.8x revenues for a business that management believes could generate 20-30% EBITDA margins and has considerable potential for growth. Importantly, the business added three asset service provider customers, as well as seven fund managers. StatPro is transitioning these customers from a legacy platform to StatPro Revolution, and, once this has completed, it will be in a position to market the service to customers across the globe.

## Forecasts: EBITDA unchanged, interest increased

We have eased our revenue and cost forecasts, hence EBITDA remains unchanged across the forecast period. However, we have increased our interest charge forecast by £400k in FY18, £150k in FY19 and £100k in FY20. Further, we have reduced our tax forecasts. This results in EPS being unchanged for all years. We have also made some minor tweaks to the cash flow following new information on the acquisition of the regulatory risk services bureau from ODDO BHF. We now forecast the group to end FY18 with net debt of £22.3m (previously £22.7m). The lower debt level is due to the cost of acquiring the regulatory risk services bureau from ODDO BHF being lower than we had expected, and partly deferred into FY19. Our forecast end-2019 net debt eases to £20.3m (previously £20.6m) a year later.

**Exhibit 2: Summary of revised forecasts**

	2018e			2019e			2020e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues (£'000s)									
StatPro Revolution	33,459	32,959	(1.5)	38,054	37,461	(1.6)	42,549	41,844	(1.7)
Traditional software rental	17,580	17,580	0.0	15,580	15,580	0.0	13,580	13,580	0.0
Data	4,151	4,151	0.0	4,359	4,359	0.0	4,555	4,555	0.0
Professional services	2,060	2,060	0.0	2,102	2,102	0.0	2,144	2,144	0.0
Group Revenue	57,251	56,751	(0.9)	60,095	59,501	(1.0)	62,828	62,123	(1.1)
Growth (%)	16.0	15.2		5.0	4.8		4.5	4.4	
Gross Profit	57,251	56,751	(0.9)	60,095	59,501	(1.0)	62,828	62,123	(1.1)
Opex (before devt costs depn)	(49,446)	(48,945)	(1.0)	(51,230)	(50,637)	(1.2)	(52,879)	(52,174)	(1.3)
Capitalisation of dev costs (net)	938	938	(0.0)	647	647	(0.0)	506	507	0.1
Adjusted EBITDA	8,743	8,743	0.0	9,511	9,511	(0.0)	10,455	10,455	0.0
Depreciation	(1,925)	(1,925)	0.0	(1,869)	(1,869)	0.0	(1,813)	(1,813)	0.0
Adjusted operating profit	6,818	6,818	0.0	7,643	7,642	(0.0)	8,642	8,643	0.0
Operating margin (%)	11.9	12.0		12.7	12.8		13.8	13.9	
Growth (%)	35.5	38.7		12.1	12.1		13.1	13.1	
Net interest	(1,439)	(1,839)	27.8	(1,264)	(1,414)	11.9	(1,114)	(1,214)	9.0
Profit before tax norm	5,379	4,980	(7.4)	6,379	6,228	(2.4)	7,528	7,429	(1.3)
Amortisation of acquired intangibles	(3,243)	(3,243)	0.0	(3,243)	(3,243)	0.0	(3,243)	(3,243)	0.0
Share based payments	(650)	(650)	0.0	(675)	(675)	0.0	(700)	(700)	0.0
Exceptional items (net of tax)	0	0		0	0		0	0	
Profit before tax	1,486	1,087	(26.9)	2,461	2,310	(6.1)	3,585	3,486	(2.8)
Taxation	(753)	(354)	(53.1)	(1,084)	(934)	(13.8)	(1,506)	(1,404)	(6.7)
Minority interest	(40)	(40)		0	0		0	0	
Net income	693	693	0.0	1,377	1,376	(0.0)	2,080	2,082	0.1
Adjusted EPS (p)	7.0	7.0	0.0	8.0	8.0	(0.0)	9.1	9.1	0.0
<b>P/E - Adjusted EPS</b>		<b>22.9</b>			<b>19.9</b>			<b>17.6</b>	

Source: Company accounts, Edison Investment Research

## Growth drivers

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StatPro is positioning itself to benefit from the outsourcing shift in the asset management industry by targeting asset service providers that resell the group's software. According to StatPro, only c 10% of the crucial US market is outsourced, compared to c 95% in Australia, and there are strong commercial pressures that are encouraging asset managers to outsource. Indeed, that is why competitors that only supply fund managers are vulnerable.

StatPro is the only SaaS provider of performance, attribution and risk solutions and it also offers APIs and a full managed service. StatPro stands to benefit as customers increasingly become more relaxed about operating in the cloud.

### Key growth drivers

**Reseller channel (asset service providers).** Around 20% of group revenues are from the reseller channel, principally fund administrators. StatPro expects this channel to continue to grow and to be a major factor in driving organic growth.

**Outsourced managed services.** StatPro sees this as a significant driver of growth, since many smaller asset service providers lack the technical skills and business knowledge to run StatPro's software.

**Under-utilised data assets.** The group's data business is a critical component of software services. As the focus has been on the cloud strategy, management has not spent time on commercialising the group's data assets. However, the group has now appointed a CEO for its Source: StatPro data division who will concentrate on commercialising these assets. The analogy of stock exchanges growing their data assets into significant cash cows gives some indication of the potential here.

**Acquisitions:** Scaling up the platform is expected to boost margins. The acquisitions of Delta and the regulatory service bureau from ODDO BHF highlight the opportunities that are available to pick up assets at attractive prices to bolt on to the business.

## Peer analysis

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StatPro trades on c 2.2x FY19 EV/sales, around half of the level of StatPro's larger US peers and around a third of US-based pure software as a service (SaaS) companies.

**Exhibit 3: Peer analysis**

	Share price	Market cap		EV/sales		Operating margins		EV/EBITDA (x)		P/E (x)	
	Local curr	Local curr m	£m	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<b>StatPro</b>	<b>158</b>	<b>104</b>	<b>104</b>	<b>2.3</b>	<b>2.2</b>	<b>12.0%</b>	<b>12.8%</b>	<b>14.7</b>	<b>13.5</b>	<b>22.7</b>	<b>19.7</b>
1) US-quoted investment management software peers											
MSCI	169.11	15,199	11693	11.4	10.5	48.5%	49.9%	21.1	18.9	32.2	28.0
SS&C	54.51	12,978	9984	4.4	3.6	29.4%	30.8%	13.9	10.6	23.4	18.8
FactSet	201.73	7,738	5953	6.0	5.6	31.1%	32.0%	18.2	18.5	23.6	21.1
Envestnet	59.25	2,679	2061	3.7	3.3	9.0%	11.1%	20.0	16.6	32.7	26.8
<b>Medians</b>				<b>5.2</b>	<b>4.6</b>	<b>30.3%</b>	<b>31.4%</b>	<b>19.1</b>	<b>17.5</b>	<b>27.9</b>	<b>24.0</b>
2) Investment management software peers quoted in other countries											
SimCorp	557.50	22,579	2696	7.9	7.3	27.1%	26.9%	27.8	25.7	37.3	33.9
Iress	11.63	2,014	1144	4.7	4.4	22.9%	23.9%	17.4	15.6	26.4	23.3
Linedata	35.15	256	228	1.9	1.9	16.3%	16.6%	8.0	7.8	13.9	13.3
GBST	2.21	150	85	1.5	1.4	6.3%	6.3%	13.6	11.5	24.3	21.0
<b>Medians</b>				<b>3.3</b>	<b>3.2</b>	<b>19.6%</b>	<b>20.2%</b>	<b>15.5</b>	<b>13.5</b>	<b>25.4</b>	<b>22.2</b>
3) UK-quoted financial software peers											
First Derivatives	4000.00	1,035	1035	4.9	4.4	11.7%	11.7%	27.6	24.5	49.8	44.8
Microgen	406.00	247	247	3.6	3.4	22.7%	24.7%	15.2	13.3	22.6	19.7
Gresham	165.00	112	112	4.3	3.8	18.3%	19.9%	18.7	14.9	25.8	22.0
Brady	66.25	55	55	2.2	2.1	3.7%	6.1%	20.8	16.8	60.2	44.2
<b>Medians</b>				<b>3.9</b>	<b>3.6</b>	<b>15.0%</b>	<b>15.8%</b>	<b>19.7</b>	<b>15.8</b>	<b>37.8</b>	<b>33.1</b>
4) US companies with SaaS business models											
Salesforce	140.24	104,180	80145	7.6	6.3	16.3%	17.7%	33.3	26.5	60.7	51.7
Workday	130.00	27,966	21514	9.7	7.9	12.1%	14.2%	52.4	38.9	103.4	78.5
Ultimate Software	283.83	8,689	6684	7.5	6.3	20.9%	21.7%	30.9	25.0	51.9	43.3
Paycom Software	135.00	7,790	5993	14.0	11.3	36.6%	35.9%	33.9	27.5	51.6	42.3
Paylocity	62.88	3,311	2547	8.5	7.0	14.3%	15.9%	39.4	30.8	55.9	60.5
Cornerstone OnDemand	51.09	2,948	2268	5.6	5.1	11.6%	16.1%	31.5	22.3	72.7	45.3
Instructure	37.95	1,322	1017	5.8	4.6	(15.1%)	(9.5%)	N/A	N/A	N/A	N/A
<b>Medians</b>				<b>7.6</b>	<b>6.3</b>	<b>14.3%</b>	<b>16.1%</b>	<b>33.6</b>	<b>27.0</b>	<b>58.3</b>	<b>48.5</b>

Source: Edison Investment Research, Bloomberg. Note: \*These companies are predominantly in the human capital management software or CRM/ERP spaces and none is a direct competitor of StatPro. Prices as at 2 August 2018.

**Exhibit 4: Financial summary**

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		30,187	37,545	49,260	56,751	59,501	62,123
Cost of Sales		0	0	0	0	0	0
Gross Profit		30,187	37,545	49,260	56,751	59,501	62,123
EBITDA		4,044	5,104	6,838	8,743	9,511	10,455
Adjusted Operating Profit		2,852	3,461	4,917	6,818	7,642	8,643
Amortisation of acquired intangibles		(32)	(1,060)	(2,243)	(3,243)	(3,243)	(3,243)
Exceptionals		0	(11,378)	(3,934)	0	0	0
Share based payments		(121)	(361)	(626)	(650)	(675)	(700)
Operating Profit		2,699	(9,338)	(1,886)	2,925	3,724	4,700
Net Interest		(290)	(786)	(1,585)	(1,839)	(1,414)	(1,214)
Profit Before Tax (norm)		2,562	2,675	3,332	4,980	6,228	7,429
Profit Before Tax (FRS 3)		2,409	(10,124)	(3,471)	1,087	2,310	3,486
Tax		(788)	(489)	563	(354)	(934)	(1,404)
Profit After Tax (norm)		1,774	2,843	4,505	4,626	5,294	6,025
Profit After Tax (FRS 3)		1,621	(10,613)	(2,908)	733	1,376	2,082
Minority interests		0	(94)	(131)	(40)	0	0
Net income (norm)		1,774	2,186	3,764	4,586	5,294	6,025
Net income (statutory)		1,621	(10,707)	(3,039)	693	1,376	2,082
Average Number of Shares Outstanding (m)		67.6	65.3	64.8	65.7	66.0	66.3
EPS - normalised (p)		2.6	3.3	5.8	7.0	8.0	9.1
EPS - FRS 3 (p)		2.4	(16.4)	(4.7)	1.1	2.1	3.1
Dividend per share (p)		2.90	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 (%)		13.4	13.6	13.9	15.4	16.0	16.8
Operating Margin (before GW & except.) (%)		9.4	9.2	10.0	12.0	12.8	13.9
<b>BALANCE SHEET</b>							
Fixed Assets		51,857	59,088	70,864	68,960	67,074	65,182
Intangible Assets		48,613	55,696	64,793	63,282	61,479	59,536
Tangible Assets		2,233	2,742	3,303	2,910	2,827	2,878
Other assets		1,011	650	2,768	2,768	2,768	2,768
Current Assets		10,665	19,081	20,912	20,684	22,861	25,167
Stocks		0	0	0	0	0	0
Debtors		8,462	14,725	16,601	19,125	20,052	20,936
Cash		2,203	4,356	4,311	1,559	2,809	4,231
Current Liabilities		(19,778)	(35,686)	(38,171)	(41,296)	(43,465)	(45,635)
Creditors		(19,660)	(27,227)	(30,720)	(33,845)	(36,014)	(38,184)
Short term borrowings		(118)	(8,459)	(7,451)	(7,451)	(7,451)	(7,451)
Long Term Liabilities		(1,227)	(9,897)	(22,989)	(22,290)	(19,363)	(16,437)
Long term borrowings		(801)	(5,961)	(17,076)	(16,377)	(15,677)	(14,978)
Other long term liabilities		(426)	(3,936)	(5,913)	(5,913)	(3,686)	(1,459)
Net Assets		41,517	32,586	30,616	26,058	27,106	28,277
<b>CASH FLOW</b>							
Operating Cash Flow		6,548	7,454	10,676	14,600	15,713	17,090
Net Interest		(84)	(500)	(1,227)	(1,839)	(1,414)	(1,214)
Tax		(832)	(1,294)	(144)	(1,227)	(304)	(872)
Capex		(4,999)	(6,445)	(7,213)	(8,043)	(8,336)	(8,694)
Acquisitions/disposals		0	(4,786)	(10,269)	(3,663)	(1,803)	(2,274)
Equity financing		64	(2,079)	926	0	0	0
Dividends		(1,960)	(1,877)	(2,012)	(1,879)	(1,907)	(1,915)
Net Cash Flow		(1,263)	(9,527)	(9,263)	(2,052)	1,950	2,121
Opening net debt/(cash)		(2,680)	(1,283)	10,065	20,217	22,269	20,319
Other		(134)	(1,821)	(889)	( )	0	0
Closing net debt/(cash)		(1,283)	10,065	20,217	22,269	20,319	18,198

Source: Company accounts, Edison Investment Research

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