

# Inspired Energy

Interim results

## Interim results reveal business expansion

**Strong revenue growth in H1 was accompanied by a rise in costs reflecting the expansion of the SME division. We expect revenue to continue to grow strongly in H2 in both the corporate and the SME businesses. With the prospect of a flat cost profile in H2 we believe that Inspired Energy is well placed to achieve forecast EBITDA of £4.4m in 2014.**

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/12	5.3	2.3	0.51	0.11	25.0	0.9
12/13	7.6	3.3	0.69	0.17	18.5	1.3
12/14e	10.7	4.1	0.75	0.20	16.9	1.6
12/15e	12.8	5.1	0.91	0.23	14.1	1.8

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

### Strong H1 revenue growth but higher costs

H1 revenue of £4.96m, (+41% vs H113) was ahead of the run-rate required to reach our previous full-year projection of £9.8m. While both the corporate (+8%) and the SME business (288%) increased revenues, the majority of the growth was achieved in the SME division where margins are lower, leading to a lower group margin overall and a gross profit of £3.8m (we previously forecast FY14e £7.9m). However, the rapid build-up of the SME business inflated costs in H1 beyond our expectations and higher admin expenses (£2.56m vs £2.10m H113) reduced EBITDA to £1.92m vs our full-year forecast of £4.4m. Higher-than-expected costs, capex, acquisition spend and negative working capital movements also led to a higher net debt figure than formerly anticipated of £2.9m (Edison FY14e £2.0m).

### Continued H2 revenue growth and more stable costs

We expect revenue growth to accelerate in H2, reflecting the increase in the corporate order book (£12.5m at 30 June 2014 vs £11m at 31 Dec 2013 and currently c £13m) and a ramp-up in the productivity of the newly recruited SME sales consultants. As a result, we have upgraded our revenue forecast by 9% for 2014. We understand that the significant increase in personnel seen in H1 will not be replicated in H2 and management expects that overall costs will remain flat in H2. Assuming flat costs in H2, we believe that Inspired Energy will be able to achieve our forecast of £4.4m EBITDA for FY14e, although a higher assumed tax rate results leads us to forecast slightly lower earnings than previously. We expect improved cash flow in H2 vs H1 and we forecast year-end net debt of £2.5m.

### Valuation: Growth drives valuation

We believe that PEG ratios provide the best guide to the valuation as they capture the rapid growth that we expect. The All-Share Index currently trades on a PEG ratio of 1.17x, and placing Inspired Energy on the same multiple indicates a valuation of c 13.5p using base case forecasts, but 16.5p using more aggressive assumptions (20% growth in corporate order book sales for the next two years). Our DCF indicates that the current price of 12.75p implies the market is discounting the cash flow at c 9% and a perpetuity growth rate of 1.5%.

## Industrial support services

29 August 2014

**Price** 12.75p  
**Market cap** £53m

Net debt (£m) at June 2014	2.9
Shares in issue	417.1m
Free float	47%
Code	INSE
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	1.0	7.3	35.5
Rel (local)	0.5	7.9	27.5
52-week high/low		17.2p	8.4p

### Business description

Inspired Energy is an energy (electricity and gas) procurement and management services company.

### Next event

Trading update January 2015

### Analysts

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[Edison profile page](#)

**Exhibit 1: Financial summary**

	£000s	2012	2013	2014e	2015e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		5,261	7,618	10,686	12,769
Cost of Sales		(284)	(1,009)	(2,286)	(2,642)
Gross Profit		4,977	6,609	8,399	10,127
EBITDA		2,641	3,549	4,406	5,397
Operating Profit (before SBP, amort. and except.)		2,608	3,499	4,312	5,298
Intangible Amortisation		(793)	(948)	(571)	(552)
Share based payments		(212)	(212)	(212)	(212)
Exceptionals		(429)	(359)	(98)	0
Other		0	0	0	0
Operating Profit		1,173	1,980	3,431	4,534
Net Interest		(282)	(234)	(230)	(229)
Profit Before Tax (norm)		2,325	3,265	4,081	5,069
Profit Before Tax (FRS 3)		890	1,746	3,201	4,305
Tax		(251)	(324)	(768)	(1,033)
Profit After Tax (norm)		2,074	2,941	3,313	4,036
Profit After Tax (FRS 3)		639	1,422	2,432	3,272
Average Number of Shares Outstanding (m)		387.5	406.2	413.4	417.1
EPS - normalised (p)		0.54	0.72	0.80	0.97
EPS - normalised and fully diluted (p)		0.51	0.69	0.75	0.91
EPS - (IFRS) (p)		0.16	0.35	0.59	0.78
Dividend per share (p)		0.11	0.17	0.20	0.23
Gross Margin (%)		94.6	86.8	78.6	79.3
EBITDA Margin (%)		50.2	46.6	41.2	42.3
Operating Margin (before GW and except.) (%)		49.6	45.9	40.4	41.5
<b>BALANCE SHEET</b>					
Fixed Assets		3,091	2,630	3,770	3,464
Intangible Assets		2,893	2,333	2,992	2,640
Tangible Assets		198	297	778	825
Investments		0	0	0	0
Current Assets		3,508	4,299	6,038	8,681
Stocks		0	0	0	0
Debtors		2,438	3,369	4,725	5,647
Cash		1,070	930	1,313	3,034
Other		0	0	0	0
Current Liabilities		(2,936)	(2,636)	(2,145)	(2,591)
Creditors		(2,412)	(1,936)	(1,621)	(1,941)
Short term borrowings		(524)	(700)	(524)	(650)
Long Term Liabilities		(3,256)	(2,734)	(3,784)	(3,068)
Long term borrowings		(2,372)	(2,357)	(3,324)	(2,674)
Other long term liabilities		(884)	(377)	(460)	(394)
Net Assets		408	1,559	3,879	6,487
<b>CASH FLOW</b>					
Operating Cash Flow		1,195	2,795	2,719	4,729
Net Interest		(282)	(234)	(230)	(229)
Tax		(414)	(768)	(768)	(1,033)
Capex		(266)	(526)	(705)	(345)
Acquisitions/disposals		(845)	0	(1,100)	0
Financing		729	(917)	417	0
Dividends		0	(650)	(742)	(876)
Other		0	0	0	0
Net Cash Flow		116	(301)	(409)	2,246
Opening net debt/(cash)		2,102	1,825	2,126	2,535
HP finance leases initiated		0	0	0	0
Other		160	(0)	0	0
Closing net debt/(cash)		1,825	2,126	2,535	290

Source: Company accounts, Edison Investment Research

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