

SOPHEON

SOFTWARE AND COMPUTER SERVICES

SPE.L

362p

Market Cap: £36.2m

SHARE PRICE (p)



12m high/low

500.0p / 292.5p

Source: LSE Data

KEY INFORMATION

Enterprise value	£33.0m
Index/market	FTSE AIM
Next news	Q4 17 TU, January 18
Gearing	N/A
Interest cover	8.6x

SOPHEON IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Gareth Evans
 +44 (0) 20 7781 5301
 gevens@progressive-research.com

Ian Poulter
 +44 (0) 20 7781 5307
 ipoulter@progressive-research.com

Trading update and customer event feedback

Sopheon has today published an upbeat trading update. We make no changes to estimates at this stage, but will look to revisit forecasts once more detail is available. Separately, we had the privilege of attending a recent Sopheon user forum in Stuttgart. The event provided a rare insight into the Group's relationships with customers, and gave us a significant degree of assurance around the product's reach, the roadmap, and the level of reliance placed upon it by a global group of blue chip clients.

- Sopheon holds client events on a regular basis, sometimes in Europe, sometimes in the USA, but always aiming to bring together a good cross-section of customers, and a meaningful number of the Sopheon team.
- There were three key "takeaway" points, in our view :
 - 1) the event seemed extremely useful, both to Sopheon (who sense-checked their plans, and heard first-hand from users) and to the customers, who could share their war-stories as well as learn from "best practice" and more-advanced users
 - 2) the Group's plan to evolve Accolade to incorporate better visualisation was extremely well received, suggesting that customers see the platform as a key long-term component of their processes
 - 3) crucially, the relationship between Sopheon and its customers is very strong – the Group's clients place a high degree of reliance on the product for genuinely mission-critical elements of their development. Very large companies run billions of dollars of development spend using Sopheon Accolade – the platform is seen as fit-for-purpose and evolving in a good direction

Overall, the event was a major positive in terms of our understanding of the Group, the Accolade platform, and its crucial role within material customer organisations. This degree of reliance is, in our view, unusual for a relatively small and unknown group such as Sopheon, and bodes well for future growth potential.

Given today's positive RNS announcement, and our experience at the customer event, it appears to us that Sopheon remains very well positioned, and is continuing to deliver on this potential.

FYE DEC (US\$M)	2015	2016	2017E	2018E	2019E
Revenue	20.9	23.2	26.0	29.0	32.0
Adjusted EBITDA	4.3	5.2	5.3	6.1	7.3
Adjusted PBT	1.6	2.7	2.7	3.5	4.6
Adjusted EPS (¢)	13.9	28.1	28.5	36.8	45.1
EV/Adj. EBITDA	7.5x	5.9x	5.8x	5.1x	4.2x
P/E	33.8x	16.7x	16.5x	12.8x	10.4x
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Information and Progressive Equity Research estimates

Customer event

Background and attendees

We had an opportunity to join the recently-held European event, which was hosted at the offices of Fraunhofer (a partly-state-funded R&D institute) in Stuttgart.

Over 30 customers were in attendance, with one or two representatives from each – generally senior members of the internal project-management or product development teams.

Confidentiality precludes naming the specific attendees, but they were a good cross-section of Sopheon's user base as shown below; this is a standard graphic of customer logos – not chosen to suggest presence of any of the specific names, although at least some of those below were in the room.

Accolade's flagship clients



Source: Sopheon information

By our estimation, the average attendee company had revenues of several billion euros (or dollars) and employed many thousands of people. The event was well-managed, lasted most of one day, and people had travelled hundreds or thousands of miles to attend.

The event was totally Sopheon's – all presenters were either Sopheon staff, or partners/customers.

Event detail and content

The event consisted of a number of presentations, with a roughly equal number from Sopheon and partners/customers. The key themes related to :

- **Accolade development** – new elements in the software, work-arounds for known issues, innovative ways of using existing functionality and the roadmap for future development. The main areas of Accolade currently evolving seem to relate to data visualisation, depiction, charting and export. There was also mention of future functionality and “AccoladeGO” for mobile.
- **Ways in which the product is used** – challenges around the “go live” process and how to best manage these issues. Most of these difficulties related to how best to prepare the organisation, how to achieve buy-in at the important levels, and how to make sure employees across multiple locations, divisions and staff roles were all convinced of the benefit of using the platform, which is seen as key to ensuring ongoing use and enhanced roll-out across large groups
- **Case studies and success stories** – there were a number of very powerful examples of how major organisations have implemented and then expanded their use of Accolade – one major global blue-chip group described having tens of thousands of separate projects within the system, and how integral Accolade has become in the global business management infrastructure
- **Further detail** – some presentations delved into greater detail around the opportunities that Accolade provides – the benefits of clear roadmapping of projects before launching into things, the critical nature of codifying processes and stages intelligently and (most importantly) consistently across an organisation to avoid a plethora of different schemas, and so on.

CUSTOMER EVENT – PHOTO 1



Source: Company

Key points relevant to Sopheon investment thesis

There are, in our opinion, in addition to the three key takeaway points on the front page of this note, a number of other pieces of evidence that we learnt at the event, which may be relevant to the Sopheon investment thesis :

- Customer staff were genuinely enthusiastic about the Accolade product, both as it is, and the planned enhancements. The audience was on the verge of whistling and applauding when presented with enhancements to the visualisation tools and AccoladeGo.
- Sopheon unveiled some upgrades and changes in relation to certain product areas (mainly around visualisation and data graphics). The conversation with customers was very reassuring in two ways – users seem to clearly trust the Sopheon development pipeline, and (more importantly) their core faith in Accolade means that they expect to use the platform not just for holding and managing the data, but also to manipulate, share and display the information more broadly within their organisations
- One customer (with \$billions of revenue) stated “Accolade is the backbone of the XXXX Process Environment” – and described how its implementation has grown from one geography and one product area to a highly pervasive global platform within the company
- Accolade was described as a “*trusted source of data*”, and it was mentioned that “*harmonised process fosters the adoption of global ways of working*”

CUSTOMER EVENT – PHOTO 2



Source: Company

- Accolade Express gave one customer a number of pre-populated process models, dashboards etc – this saved time and helped uptake during a trial implementation, which then led to a full rollout some six months later
- One customer advised strongly AGAINST trying to over-customise the Accolade system; the benefits of running the standard platform outweigh the supposed upside of a highly tailored solution – the obvious implication being that Sopheon is good enough for most situations; businesses should flex their workflow and methodology towards it, rather than the other way around.
- One client succinctly described how their business uses Accolade, the aim being “1. To come up with good ideas in a systematic way; 2. Check they align with the group’s strategic goals; and 3. Do them well”.

Summary and conclusion

Overall, and perhaps most importantly, we were struck by the pragmatic and upbeat tone amongst the Group’s customers – clearly they were all fans of the product, and were successfully using it (or about to roll it out) within their vast organisations. Each had his or her own favourite ideas for development of the Accolade software, but they were all aware of the need for careful (and affordable) development, and there was intelligent and logical debate about which elements should be “next”, which could wait, and which perhaps were not warranted.

Accolade’s user base is a group of highly intelligent people, tasked with managing huge organisations’ product development and road-mapping processes. Sopheon enjoys a strong and positive long-term relationship with them, and the Accolade platform is a mission-critical system within a large number of global enterprises.

In conjunction with today’s RNS, it seems that the Group not only enjoys a material opportunity, but that it is beginning to win major contracts in a reliable and repeated way. After many years of “promise”, Sopheon is now also adding a healthy degree of delivery – and given the scale of the end markets, there is scope for much more over time.

Note – we have calculated the Market Capitalisation and Enterprise Value (EV) on the front page based on the new numbers of shares in issue, following the company’s recent announcement regarding conversion of the Loan Stock (22 December 2017). We will update our estimates to include the full impact of the conversion at the time of revisiting our forecasts in due course.

SUMMARY FINANCIALS

PROFIT & LOSS (US\$m)	FY-14A	FY-15A	FY-16	FY-17E	FY-18E	FY-19E
Revenue	18.3	20.9	23.2	26.0	29.0	32.0
Adj EBITDA	1.4	4.1	5.2	5.3	6.1	7.3
Adj EBIT	(0.9)	1.5	3.0	2.9	3.9	5.1
Reported PBT	(1.3)	1.2	3.0	2.7	3.5	4.6
Fully adj PBT	(1.3)	1.4	2.7	2.7	3.5	4.6
NOPAT	(0.9)	1.5	3.0	2.9	3.9	5.1
Reported EPS (¢)	(18.4)	11.4	42.2	26.1	34.4	45.1
Fully adj EPS (¢)	(18.4)	13.9	28.1	28.5	36.8	45.1
Dividend per share (¢)	0.0	0.0	0.0	0.0	0.0	0.0

CASH FLOW & BALANCE SHEET	FY-14A	FY-15A	FY-16	FY-17E	FY-18E	FY-19E
Operating cash flow	3.2	4.3	5.4	5.3	5.6	6.8
Free Cash flow (US\$m)	0.3	1.7	2.9	3.0	3.1	4.3
FCF per share (¢)	4.2	16.9	28.9	29.1	30.7	41.9
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.1	0.0	0.0	0.0
Net cash flow	0.1	1.5	2.8	2.8	3.0	4.1
Overdrafts / borrowings	(5.4)	(6.1)	(5.8)	(5.9)	(6.0)	(6.1)
Cash & equivalents	4.7	7.0	10.1	12.9	15.8	19.9
Net (Debt)/Cash	(0.7)	0.9	4.2	6.9	9.8	13.8

NAV AND RETURNS	FY-14A	FY-15A	FY-16	FY-17E	FY-18E	FY-19E
Net asset value	4.2	5.5	10.4	13.0	16.5	21.1
NAV/share (¢)	58.3	76.0	142.3	174.6	221.8	283.5
Net Tangible Asset Value	(1.6)	(0.0)	4.9	7.6	11.1	15.6
NTAV/share (¢)	(22.6)	(0.7)	67.2	102.3	148.3	209.7
Average equity	2.1	4.9	7.9	11.7	14.8	18.8
Post-tax ROE (%)	-63.0%	23.1%	54.2%	22.8%	23.8%	24.4%

METRICS	FY-14A	FY-15A	FY-16	FY-17E	FY-18E	FY-19E
Revenue growth	<i>n.a.</i>	14.2%	11.1%	12.0%	11.5%	10.3%
Adj EBITDA growth	<i>n.a.</i>	197.3%	27.4%	0.6%	15.5%	20.0%
Adj EBIT growth	<i>n.a.</i>	-268.2%	94.8%	-2.9%	33.0%	29.9%
Adj PBT growth	<i>n.a.</i>	-207.9%	84.2%	0.2%	32.1%	31.0%
Adj EPS growth	<i>n.a.</i>	-175.7%	102.4%	1.1%	29.4%	22.4%
Dividend growth	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Adj EBIT margins	-5.0%	7.4%	13.0%	11.2%	13.4%	15.8%

VALUATION	FY-14A	FY-15A	FY-16	FY-17E	FY-18E	FY-19E
EV/Sales	1.7	1.5	1.3	1.2	1.1	1.0
EV/EBITDA	22.2	7.5	5.9	5.8	5.1	4.2
EV/NOPAT	(33.5)	19.9	10.2	10.5	7.9	6.1
PER	<i>n.a.</i>	33.8	16.7	16.5	12.8	10.4
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	0.9%	3.6%	6.1%	6.2%	6.5%	8.9%

Source: Company information, Progressive Equity Research estimates

Disclaimers and Disclosures

Copyright 2018 Progressive Equity Research Limited (“PERL”). All rights reserved. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.