

SOPHEON

SOFTWARE & COMPUTER SERVICES

SPE.L

908p

Market Cap: £92.7m

SHARE PRICE (p)


12m high/low

1015p/340p

Source: LSE Data

KEY INFORMATION

Enterprise value	£85.4m
Index/market	AIM
Next news	Trading update, Jan '19
Gearing	N/A
Interest cover	N/A

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Revenue visibility improves further

Upgrades reflect impressive delivery of growth

The strong momentum seen in Sopheon's first half has continued through Q3, with the Group announcing that revenue visibility now exceeds \$30 million for 2018 – up from U\$27.2 million at the time of the interim results. This reflects a record Q3 performance with a number of transactions, including the addition of two new contracts of material size - one with a new customer and one an extension with an existing customer – which were booked towards the end of the third quarter. The update notes that the sales pipeline for the balance of the year remains 'robust'. Unsurprisingly, the Board says that it sees the strong performance as indicative of the growing maturity both of the Enterprise Innovation Management solutions market and of Sopheon's reputation and business model. New customer wins in the first half of 2018 were some 50% ahead of those achieved in the comparator period and momentum has clearly continued. We increase estimates for revenue and Adjusted EBITDA by 5% and 8% respectively for FY 2018E and also nudge up FY 2019E to reflect the updated revenue visibility in the trading update. After an impressive performance so far in 2018 and with Q4 typically a key contributor of revenue performance, we look forward to further positive updates.

- Subsequent to its interim results announcement, Sopheon released Accolade version 12.1. That release effected an enhanced user experience and included a new mobile app, enhanced usability through simplification and role-focused workflows. The Accolade platform has seen successful deployment in new and emerging areas as well as its traditional sales areas resulting in its adoption in an increasingly wide range of applications. The two material contracts noted above were in the chemicals and electronics sectors.
- Sopheon has also continued to expand its "lifetime value" opportunities across a number of blue chip clients through extending the business application areas addressed by Accolade. In a rapidly evolving market, the group has strategic plans to extend Accolade further with specific investment planned in product, people and processes.
- We increase our estimates for revenue and Adjusted EBITDA by 5% and 8% respectively for FY 2018E and nudge up FY 2019E. Whilst this reflects the updated revenue visibility in the trading update, it also recognises the greater potential of the Group to absorb the effects on costs of the ambitious hiring plans for the second half of 2018 which Sopheon has previously flagged. An extremely positive update, with hopefully more to come...

FYE DEC (\$M)	2016	2017	2018E	2019E
Revenue	23.2	28.5	31.6	34.8
Adj EBITDA	5.2	8.0	7.6	8.7
Fully adj PBT	2.7	5.1	5.0	5.9
Fully adj EPS (c)	27.6	48.4	45.9	54.1
EV/Sales (x)	4.8	3.9	3.5	3.2
EV/EBITDA (x)	21.3	13.9	14.7	12.9
PER (x)	43.2	24.6	25.9	22.0

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Sopheon

Year end: December (\$m unless shown)

	2016	2017	2018E	2019E
PROFIT & LOSS				
Revenue	23.2	28.5	31.6	34.8
Adj EBITDA	5.2	8.0	7.6	8.7
Adj EBIT	3.0	5.6	5.3	6.4
Reported PBT	3.0	5.1	5.0	5.9
Fully adj PBT	2.7	5.1	5.0	5.9
NOPAT	2.9	5.1	4.9	5.9
Reported EPS (c)	42.2	52.6	49.6	58.8
Fully adj EPS (c)	27.6	48.4	45.9	54.1
Dividend per share (p)	0.0	0.0	2.5	3.0
CASH FLOW & BALANCE SHEET				
Operating cash flow	5.4	6.0	6.6	9.5
Free Cash flow	2.8	3.5	6.1	5.3
FCF per share (c)	27.4	34.2	59.6	51.8
Acquisitions	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	0.1	0.0	0.0	0.0
Net cash flow	2.8	3.1	3.3	5.9
Overdrafts / borrowings	(5.8)	(3.2)	(3.3)	(3.4)
Cash & equivalents	10.1	12.7	16.1	22.0
Net (Debt)/Cash	4.2	9.5	12.8	18.6
NAV AND RETURNS				
Net asset value	10.4	18.6	23.0	28.1
NAV/share (c)	101.5	182.4	225.3	274.9
Net Tangible Asset Value	0.2	0.4	0.5	0.6
NTAV/share (c)	2.4	4.0	4.9	5.8
Average equity	7.9	14.5	21.1	26.4
Post-tax ROE (%)	37.0%	35.4%	23.5%	22.2%
METRICS				
Revenue growth	11.1%	23.0%	10.9%	9.8%
Adj EBITDA growth	27.4%	53.3%	(5.6%)	14.3%
Adj EBIT growth	94.8%	85.7%	(4.4%)	19.3%
Adj PBT growth	84.2%	93.1%	(3.1%)	18.7%
Adj EPS growth	98.3%	75.7%	(5.3%)	18.0%
Dividend growth	N/A	N/A	N/A	20.0%
Adj EBIT margins	13.0%	19.6%	16.9%	18.3%
VALUATION				
EV/Sales (x)	4.8	3.9	3.5	3.2
EV/EBITDA (x)	21.3	13.9	14.7	12.9
EV/NOPAT (x)	38.0	21.8	22.6	19.1
PER (x)	43.2	24.6	25.9	22.0
Dividend yield	N/A	N/A	0.2%	0.3%
FCF yield	2.3%	2.9%	5.0%	4.4%

Source: Company information and Progressive Equity Research estimates

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