EDISON

SCISYS

Trading update

Space division is flying in spite of Brexit

Software & comp services

2017 was a transitional year for SCISYS, with the key Space division flying and ANNOVA's integration progressing in line with expectations. The attainment of an €18m prime contractor role in H2 is a significant endorsement of SCISYS Space's proprietary PLENITER software suite, with which SCISYS is targeting the commercial space sector. In August, ANNOVA achieved a key milestone with its BBC contract, which means it is trading ahead of initial management targets. This comes on the back of H1 results, which revealed 6% organic growth across the group and a record half-year order book. Management's goal to achieve £60m in revenues and double-digit margins within three to five years looks conservative, and we believe the stock looks attractive on c 11x our maintained FY18e EPS.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	36.1	0.6	1.3	1.78	98.3	1.4
12/16	45.7	3.0	9.2	1.96	14.2	1.5
12/17e	55.2	4.0	11.2	2.16	11.6	1.7
12/18e	55.8	4.4	11.8	2.38	11.0	1.8

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

Pre-close trading update

SCISYS says that its "trading results will comfortably meet current market guidance, both in respect of revenues and adjusted operating profit." The order book is at record levels, and cash flow was "particularly healthy", with year-end net cash £0.6m better than we forecasted at £5.9m.

Space division's €18m prime contractor win

In October, SCISYS was awarded an €18m contract by OHB System AG to deliver the ground station control and communications infrastructure for the German national satellite communications mission, Heinrich Hertz, as prime contractor. The project will commence in 2017 and the majority of project revenues will be delivered between 2018 and the scheduled completion date in 2021.

Annova's key BBC commercial milestone is achieved

In August, SCISYS's ANNOVA unit achieved an important commercial milestone in its BBC contract, for the supply of ANNOVA's OpenMedia software. Given that the critical software functionality implementation and live pilot milestones have been successfully completed, the roll-out of OpenMedia across the BBC has begun.

Forecasts and valuation: Profits maintained for now

The recent contract news comfortably underpins our forecasts. Given the risks from Brexit on Galileo revenues, we are conservatively maintaining our profit forecasts. The stock trades on c 0.85x our FY18e sales and c 7.9x EBITDA, which we believe is attractive if SCISYS can maintain the momentum. Our DCF model – which is based on a weighted average cost of capital of 10% and a 10.7% long-term margin target – values the stock at 160p (previously 149p), 23% above the current level.

26 January 2018

Price	**130p**
Market cap	**£38m**

Net debt (£m) at 30 June 2017	9.0
Shares in issue	29.3m
Free float	63.7
Code	SSY
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	11.6	2.8	22.1
Rel (local)	11.2	0.5	13.4
52-week high/low		136.5p	92.0p

Business description

SCISYS provides a range of professional services in support of the planning, development and use of computer systems in the space, media/broadcast and defence sectors, as well as to other public and private sector enterprises.

Next events

Final results	27 March 2018

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Edison profile page

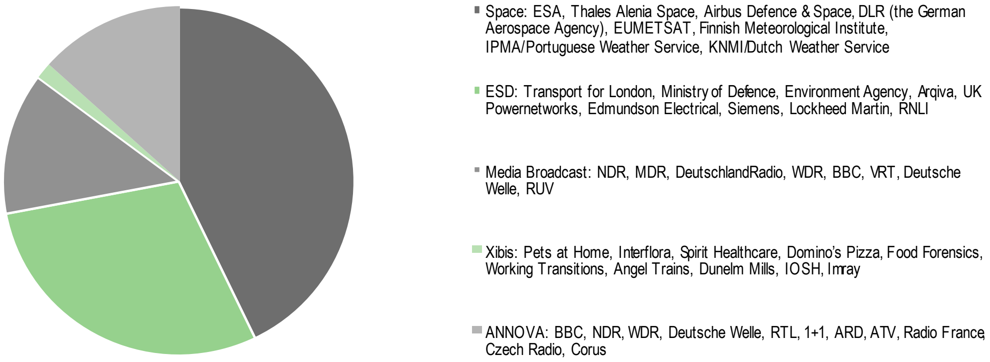
SCISYS is a research client of Edison Investment Research Limited

Investment summary: Space and media-led growth

Company description: Leader in European IT services

SCISYS is a specialist IT services provider that builds and operates bespoke and product-based mission-critical IT systems for customers across a range of sectors including media & broadcast, space, government, and defence & commercial sectors. The group has blue-chip clients, and industry expertise with strong and growing revenue visibility. Supported by this backdrop, management's strategic objective is to grow revenues, operating profit and operating margin to deliver sustainable long-term value to shareholders. The media & broadcast operations were boosted by the acquisition of ANNOVA at end-FY16 while the Space division is performing strongest with 20% H1 revenue growth and a significant new business win.

Exhibit 1: SCISYS H117 revenue breakdown by sector and key customers



Source: SCISYS

Financials: Cash generation was strong in H1

The highlights in FY17 were the strong organic growth from the Space division (20% in H117 supported by the coveted contract with OHB in H2) and the attainment of the BBC milestone by ANNOVA. We estimated that FY17 operating cash flow before taxes was £7.8m and free cash flow was £5.8m. We forecast operating cash flow to dip to £5.7m in FY17 and rise to £6.3m in FY18, and for net debt to remain broadly unchanged at end-FY18 after an earnout payment for ANNOVA.

Sensitivities: Pressure sector spending

The UK government's commitment to reduce public sector spending put pressure on some of the group's public sector customers (eg c 25% of FY11 group profits were from Environment Agency contracts). Following the Brexit vote and subsequent changes in the UK government, the focus on cost-cutting in the public sector has abated. However, this is balanced by the uncertain economic outlook. Following the Brexit vote, there is uncertainty around the group's ongoing work on the EU's Galileo satellite navigation system, but we note that SCISYS has the ability to bid for work through either its UK or German offices. There is a risk of cost overruns on fixed-price projects. In all, we view SCISYS as a relatively robust business with a low-risk customer base, and we note that the group has no bad debtors and 55% of revenues are outside the UK.

Valuation: Growth with 10%+ margins within five years

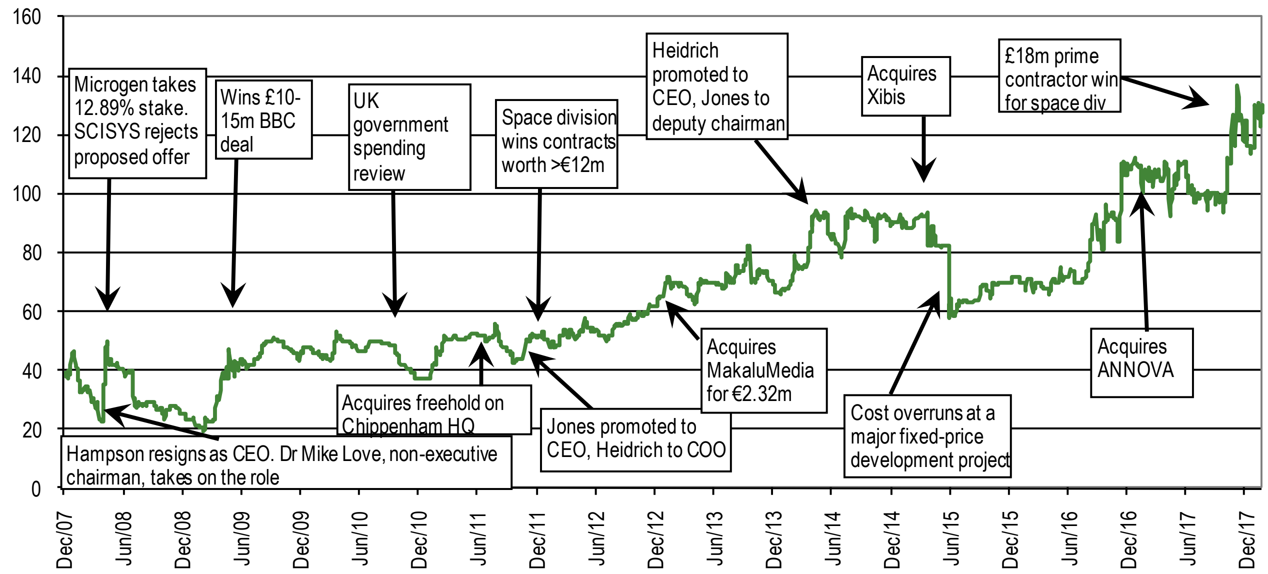
The stock trades on 11.6x our earnings forecasts in FY17, falling to 11.0x in FY18 and to 9.9x in FY19. In our view, this is attractive given the positive momentum, with the significant new contracts in Space and the ANNOVA acquisition integration progressing well. Based on our forecasts and a conservative weighted average cost of capital (WACC) of 10%, and a long-term margin target of 10.7%, our DCF model values the shares at 160p, or 23% above the current share price. In our view, this valuation is supported by the group's strong record of cash generation, margin growth potential, a healthy balance sheet, the increasingly diverse customer base and the potential for further value-enhancing acquisitions.

Company description: Leader in high-end ICT services

SCISYS group is a leading UK-German developer of information and communications technology services, e-business, web and mobile applications, editorial newsroom and advanced technology solutions. The company operates in a broad spectrum of market sectors, including media & broadcast, space, government, defence & commerce sectors. In the UK the group operates through SCISYS UK (with offices in Bristol, Chippenham, Reading and Leicester and c 250 employees). In Germany (with offices in Bochum, Dortmund, Darmstadt and Munich and c 270 employees) it operates through its wholly owned subsidiary SCISYS Deutschland GmbH.

SCISYS has a long history, having formed in 1980 and floated on AIM in 1997. The company acquired CODA, an accounting software business, in 2000. CODA was spun off in 2006 and subsequently acquired by Unit 4 Agresso in 2008. At the time of the CODA demerger in 2000, SCISYS sold its Chippenham head office for £9m, but it repurchased the property in 2011 for £5m. The group's German business was acquired in 2007 with the acquisition of VCS for €16.7m. After a five-year break from acquisitions, it acquired MakaluMedia in 2012 for c €2m, which doubled the size of the group's Darmstadt-based space consultancy business. Xibis was a small acquisition made in late 2014 that extended the group's offerings into web and mobile apps. The Xibis deal enabled SCISYS to add breadth to its offerings when its bids for new business. At the end of 2016, SCISYS acquired ANNOVA (for an initial €11.35m along with an earnout spread over three years), beefing up the group's media & broadcast operations and extending its capabilities into television.

Exhibit 2: SCISYS's share price (p) history over last 10 years



Source: Bloomberg, regulatory news

SCISYS's clients are predominantly blue-chip and public sector organisations and include the Ministry of Defence, Environment Agency, Airbus Defence & Space, Arqiva, Vodafone, the European Space Agency, EUMETSAT, the BBC, RNLI, Interflora and the National Trust.

Business model: IT consultancy, software development and support

SCISYS's business model has predominantly been fixed-price and managed budget projects with a reasonable proportion of time and materials work. The group is increasingly able to price on a 'value proposition' basis (charging for its IP and software), as well as improving the focus on contract project management. Every project is different and the group therefore has the expertise (and the cost and project management required) to customise its approach for each customer assignment. SCISYS's offering can be broadly split into three stages:

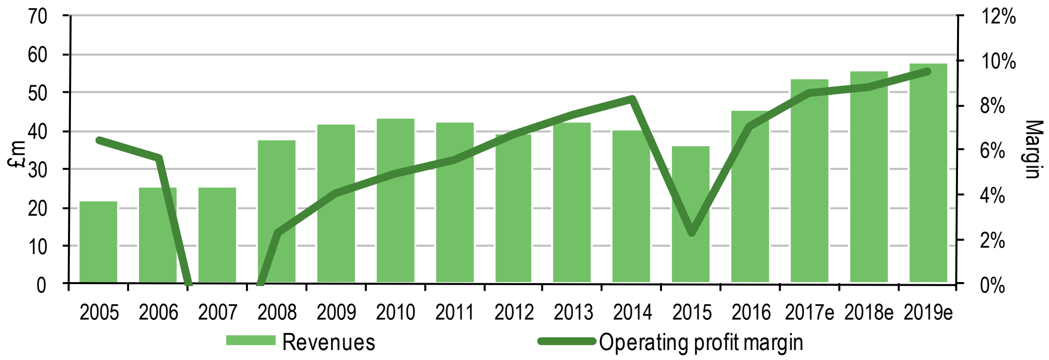
- **Consultancy:** this includes fairly traditional business case development, programme and project management, business process analysis, IT architecture review and strategy, procurement management, solution architecture, business change etc. The consultancy process focuses on maximising business benefits matched with value for money. This therefore means that when scoping a project specification, SCISYS will often recommend 'off-the-shelf' and 'open source' software alongside its own bespoke designs.
- **Implementation:** the challenge then is to seamlessly integrate the software into a platform solution for the customer. Many of the group's complex projects take many months in the design stage and often even longer to implement on customer sites (as customers often 'roll-out' a new software platform in stages across multiple sites). Clearly, there is a significant overlap in personnel and in-house expertise on the consultancy and implementation teams. When pricing the implementation of projects, the group is moving towards a more total value-based approach. In some cases this involves charging customers (by the 'user') for software licences.
- **Support:** SCISYS has grown its ongoing support function quickly over the last few years. As well as SCISYS projects, the teams also support third-party software sitting on customers' premises (in many cases these are older software solutions where there is little support from the developer, but SCISYS has the in-house experience to help). There are a number of pricing models for the support function but, in line with typical IT services companies, this activity has healthy underlying gross margins.

Strategy: Growth and margin improvement with acquisitions

Management's focus remains on generating revenue growth and margin improvement. The objective to generate £60m in annual revenues and double-digit operating margins in the medium term was suspended following the untypical problem project of FY15 that put an increased emphasis on the management and control of risk. However, this objective was reintroduced in the 2016 annual report. Management plans to continue a progressive dividend policy. We note that the company will transition to the new revenue recognition accounting standard IFRS 15 in 2018. While there is not expected to be any discernible shift in bottom line figures as a results of IFRS 15, revenues could drop by c £2m from FY18 as a result of some pass-through activity being classified as "agent revenue" where the new standard only allows recognition of SCISYS's margin on the deal being reflected in revenue. This will have the impact of increasing the margin as profits do not change while revenues drop.

We note that SCISYS has established strong operational and cost disciplines, which is reflected in the margin progression over the period of FY07-14, along with strong cash generation. The problem project of FY15 was likely a one-off. Management's aim is to grow revenues both organically and through selective acquisitions. A major focus in FY17 has been to integrate ANNOVA, acquired at end-FY16, which has already passed a key milestone. Overall, management seeks to expand the business into adjacent sectors and new regions, with a focus on Northern Europe. The acquisition strategy is led by Dr Klaus Meng, who has a 9.7% shareholding in SCISYS, and Steve Brignall, technical director. Cyber security is an area of potential interest as it could have synergies with the defence segment (within ESD). Opportunities to grow organically exist in potentially transferring its public sector domain knowledge and IP (eg environmental regulations to private sector utilities, media to commercial radio and space and electronic architecture to the commercial sector).

Exhibit 3: SCISYS revenues (£m) and operating profit margin (%)



Source: Company accounts, Edison Investment Research forecasts

Market environment

SCISYS reports its business in five divisions – Space, Enterprise Solutions and Defence, Xibis, Media & Broadcast and ANNOVA Systems. Along with Space and Media & Broadcast, the group has a strong presence in the following sectors through its ESD division: defence, security & maritime; government and emergency services; and commercial. The group's customers are large, competitors can be sizeable and the software requirements are often complex and expensive. Therefore, winning business is a challenge (on average, sales cycles are six to 18 months), but equally, once the customers have signed up, there are often significant opportunities to win additional projects. Typically, the offering is bespoke, tailored to the specific requirements of a customer. We estimate that across the group over 80% of revenues come from existing customers which, together with the long-term contract profile of many of the deals, highlights the 'visibility' in the business.

Exhibit 4: Areas of operation

	Main operations	Main regions	End-markets	Functions
Space	Projects from Bochum, Germany and Bristol, UK. Support from Darmstadt, Germany	Germany & UK	Space - both public and private sectors	On-site engineering and operations support along with integrated solutions and products for ground and onboard space systems
Enterprise Solutions and Defence	Chippenham and Reading, UK	UK	Defence, security & maritime; government and emergency services; and commercial	Provision of bespoke software solutions and application support
Xibis	Oadby, UK	UK	Retail and broader commercial	Provision of web and mobile app solutions
Media & Broadcast	Dortmund, Germany	Germany & UK	Public and private sector broadcasters	Radio production and playout systems
ANNOVA Systems	Munich, Germany	Germany, UK, France	Public and private sector broadcasters	Software-based editorial solutions

Source: SCISYS

Space division (43% of H117 revenues, 46% of contribution)

SCISYS Space, the largest division, is currently experiencing the strongest growth among the group's divisions, benefiting from work on Galileo, several programmes for the European Space Agency (ESA) and delivering the initial sale of the PLENITER software suite. It is the group's oldest division, having operated for nearly 30 years, and has grown into a significant player in the space industry. The unit has become a long-term supplier to large space industry prime contractors, as well as operating as a prime contractor itself. It works in partnership with large system integrators, satellite operators and European space institutions such as the ESA, EUMETSAT, the UK Space Agency (UKSA) and the German Space Agency (DLR). SCISYS Space bids for framework contracts with these customers for regular work and consequently fosters long-term relationships with them. The division's performance is underpinned by long-term programmes with customers including the ESA, where SCISYS experts are in charge of developing the rover visual localisation flight software for its rover mission to Mars, and the European satellite navigation system, Galileo, where SCISYS Space takes responsibility for a large proportion of the ground segment software. SCISYS Space employs c 170 staff – c 70 in the UK (Bristol) and c 100 in Germany (Bochum and Darmstadt). Projects are delivered out of Bristol and Bochum, while spacecraft operations support activities, including for ESA's Space Operations Centre, are handled from Darmstadt.

SCISYS Space's solutions include high-integrity, onboard flight software, data systems, and ground control solutions and engineering services. Coverage includes human space flight, navigation, telecommunications, earth observation and exploration missions, including robotics as well as related ground system infrastructures. The unit offers consulting work for space institutions and off-the-shelf software, as well as bespoke software solutions to commercial space operations. Software platforms include PLENITER (planning, implementation and operation of complete satellite missions), 2met! (multi-mission concept for real-time data acquisition, processing, visualisation and distribution of earth observation satellite data) and egmc² (provides a complete system for supporting platform operator and space ground interoperability in robotics). The plan is to expand away from the public space, eg PLENITER serves the commercial space market, while the group's expertise in earth observation and robotics and autonomy will be taken to adjacent sectors.

The unit benefits from healthy growth drivers underpinned by government funding. The ESA's budget rose from €3bn in 2008 to €5.6bn in 2016 for a CAGR of 6.4%, in spite of a challenging economic backdrop and tight public sector environments. We note that ESA apportions work to its suppliers based on location, matching their country's contribution to its overall budget, and SCISYS has operations in Germany and the UK. ESA's combined German and UK contribution rose to €1.26bn in 2017, representing 22% of its total budget. The UK Space Agency has said it will contribute €1.4bn over the next five years to ESA programmes, or c €280m per annum, which indicates a small decline from 2017 levels. However, the division could benefit from the UK Space Agency's objective to help UK industry capture 10% of the global space market, or £40bn, by 2030.

Exhibit 5: European Space Agency annual budget

	2013	2014	2015	2016	2017	2018
Germany	772.7	765.7	797.4	872.6	858.4	920.7
UK	300	270	322.3	324.8	300	334.8
Germany + UK	1072.7	1035.7	1119.7	1197.4	1158.4	1255.5
		(3.4%)	8.1%	6.9%	(3.3%)	8.4%
Other	3209.4	3066.4	3313.3	4052.6	4591.6	4344.5
Total	4282.1	4102.1	4433.0	5250.0	5750.0	5600.0
		(4.2%)	8.1%	18.4%	9.5%	(2.6%)

Source: ESA

The division is highly exposed to the movement of the euro against sterling since almost all its revenues are euro denominated, while the UK Space unit has costs in sterling.

Record €18m contract win with OHB System (ETR:OHB)

In late 2017, SCISYS was awarded a coveted €18m contract by OHB System covering the ground segment of the German national satellite communications mission, Heinrich Hertz. As prime contractor, SCISYS will design and implement the complete ground segment of the Heinrich Hertz mission including the preparation of the mission operations concept. This is the first time that SCISYS has won a role as prime contractor for the entire ground infrastructure of a mission. Heinrich Hertz is an experimental satellite mission aimed at conducting scientific and technical studies and tests of new communication technologies in space. In addition, the satellite will carry an independent telecommunication payload (MilSatcom) that will be used by the German Federal Ministry of Defence. It is scheduled for launch in 2021.

The contract utilises SCISYS's proprietary PLENITER software suite and this will be the second major installation of PLENITER, following the win with OneWeb satellite constellation in 2016. Both these deals reflect the drive from SCISYS to extend the group's activities beyond the public sector.

The contract is valued at €18m, of which around half will be pass-through revenue, which is mainly ground station infrastructure along with subcontractors. The PLENITER software platform is bundled in the contract and there will be ongoing software support revenue. As prime contractor for the Heinrich Hertz ground segment, SCISYS is responsible for the complete satellite ground segment, ranging from the technology to the implementation of the operations concept. Nevertheless, other companies including OHB will be involved in this segment. OHB required SCISYS's skills for the ground segment, because it is primarily focused on the space segment. The companies have worked together over 10 years. Recent major contributions working on the Control Centres of the Columbus module onboard the International Space Station and the European satellite navigation system, Galileo, helped SCISYS win the business. The contract will be managed by SCISYS out of its Bochum offices in Germany. OHB awarded the contract originated by the German Aerospace Center (DLR) for the implementation of Phase C/D plus launch of the mission. As the overall industrial prime contractor, OHB takes responsibility for the realisation of the entire mission, including satellite, launch and ground infrastructure.

About PLENITER

PLENITER, launched in 2016, is a modular software suite for the planning, implementation and operation of complete satellite missions. It collates many years of experience at SCISYS, incorporating a number of tools that were created from customer-funded development, along with a small amount of internal development. Consequently, its initial investment is complete, while there will be some additional improvement and ongoing maintenance going forward. SCISYS says that PLENITER matches the latest technology in the sector.

The use of automated functions significantly reduces the number of manual operating steps and hence enables space and satellite operators to reduce their total cost of ownership.

PLENITER competes with GMV, a private Spanish company, and the US company, Kratos (NASDAQ:KTOS).

Implications for SCISYS

Most of SCISYS Space's business has traditionally been as subsystem supplier. Hence, this deal, as prime contractor for the ground segment, is a major breakthrough, reflecting the group's decades of experience and strong reputation in the space sector. SCISYS is confident it can move downstream in future, ie expanding from satellite control into flight dynamics and mission planning. Indeed, SCISYS believes it has a chance to move downstream on Heinrich Hertz and get more involved in the mission, with the next phase starting after the 2021 launch. The contract is an additional product reference for SCISYS, and a major reference for further commercial work. SCISYS believes it is well positioned to benefit from the ongoing need for innovation in satellite operations and sees significant opportunities ranging from aviation manufacturers to telecoms companies. SCISYS says customers often get fed up with fixed suppliers and believes there is an increasing need for an open system. It believes automation will become increasingly important.

Contract win with Sky and Space Global (UK)

Late last year SCISYS was awarded a contract by Sky and Space Global (UK) (ASX:SAS) to deliver the network management simulator for SAS's Pearls constellation of nanosatellites. SCISYS Space will utilise its state-of-the-art software solutions and specialist know-how to deliver the Pearls Constellation Simulator within a 12-month period. The simulator will provide a representation of the constellation, its communication infrastructure, customer activity and mission operations. The simulator will also integrate the network management and fuel consumption optimisation algorithms, hence providing SAS with an essential operational analysis tool.

The Sky and Space Global Pearls constellation mission will operate c 200 narrowband communication nanosatellites in carefully selected orbits by 2020, giving equatorial coverage of the earth. This constellation of nanosatellites will create an affordable global communication network for voice, data and instant messaging for over three billion people currently without any mobile coverage.

Enterprise Solutions & Defence (ESD) (29% of H117 revenues, 34% of contribution)

In FY13, the group's three UK-based, non-space divisions (Environment, Government & Defence and Application Support) merged to form this enlarged division. ESD supplies mission-critical software systems across its three business groups (Defence, Security & Maritime; Government and Emergency Services; and Commercial). It enjoys a strong reputation and is known in a number of microsegments of larger markets. While the division has the capability to integrate existing commercial, off-the-shelf (COTS) solutions, its niche specialisms are in creating high-value, bespoke software solutions using the ability to draw on reusable intellectual property. The defence sector is key to ESD, where it is regarded as a specialist in a number of subsectors. In particular, ESD has a strong presence as a software solution provider to military vehicles (the MOD's Warrior upgrade programme) and naval command rooms (RNLI). Additionally, the division is a respected supplier to blue-chip commercial customers, where it has continued to foster longstanding relationships. It is also a recognised supplier to local government customers.

Going forward, we anticipate further expansion in defence, with growth coming from transitioning the group's reusable IP into adjacent areas.

Media & broadcast (M&B) (13% of H117 revenues, 14% of contribution)

SCISYS's Media & Broadcast division has been established in the sector for over 20 years, primarily serving the institutional public broadcast market across Europe. It is a leading provider of premium radio broadcasting solutions known globally as the dira! software solutions suite. dira! is a suite of television, radio, newsroom and new media production and playout applications, supporting core workflow at broadcasting companies. SCISYS has supplied the BBC since 2001 and today provides radio audio editing and production systems for all of the broadcaster's radio channels, paving the way for leading-edge integrated radio audio production systems. The unit's competitors are small players including Euronext Paris-listed Dalet (EPA:DLT) and private companies, GlobeCast, Jutel and David.

Going forward, the focus will be on exploiting the relationship with ANNOVA in new business pitches and expanding more deeply into the private sector.

ANNOVA Systems (13% of H117 revenues, 5% of contribution)

In late 2016, SCISYS acquired ANNOVA Systems for up to €27.8m, doubling the revenues of SCISYS's media and broadcast operations and taking it up to a similar level to the group's other two major divisions. Given that there is a three-year earnout, the unit continues to act on a standalone basis. However, it operates closely with M&B.

ANNOVA is a leading supplier of software-based editorial solutions for the media sector. With c 70 employees, it is based in Munich, Germany and has smaller offices in Paris, to service its significant French customer base, and London, to service the landmark 12-year contract with the BBC it won in 2015. Its OpenMedia product is used by broadcast journalists to manage all their workflows – planning, creating content and filing their stories. OpenMedia is a mature product that is in use by more than 50,000 journalists, including those with major European broadcasters such as RTL, Deutsche Welle, WDR and Radio France. OpenMedia does not compete with M&B's dira! In fact, the two products complement each other in the radio space and interface in a number of installations, including at German state radio broadcasters NDR, WDR and Deutsche Welle, and OpenMedia and Dira are already interfacing on live systems in BBC Salford and West Midlands.

The BBC deal boosted ANNOVA's December 2015 order book to €35m, although this is spread out to 2027. This order book included a £4m payment from the BBC contract for consultancy services for the proof of the pilot stage, including configuration work, which was due on reaching a milestone and which was passed in August 2017. Consequently the roll-out of OpenMedia software across the BBC has begun and licences are payable as part of the post-milestone regular monthly invoicing as the BBC rolls out the system across its estate. The services element of the BBC contract involves significant customer-funded R&D work, worth up to £8m, as the BBC wanted to ensure that the product would be developed and enhanced.

ANNOVA operates a traditional enterprise software business model (a perpetual licence sale with an implementation/customisation project and ongoing support and maintenance at c 15% of the licence value). Recurring support and maintenance typically represents 25% of total revenues, while ANNOVA also has significant repeat services revenues from some key accounts.

Xibis (1% of H117 revenues, 1% of contribution)

This unit, which provides web and mobile app solutions largely to the retail sector, was acquired in 2014. Based in Leicester, it operates independently, hence is shown as a separate division despite its small size. The unit often works closely with the ESD division, working on joint projects and jointly bidding for new business. This improves ESD's negotiating position when pitching for new business.

FY17 pre-close trading update

SCISYS says that its "trading results will comfortably meet current market guidance, both in respect of revenues and adjusted operating profit." The order book is at record levels, boosted by the OHB contract, while additional contract wins across the group in Q417 mean that SCISYS is "entering 2018 with positive momentum across all divisions" hence the strong organic growth enjoyed at the end of 2017 is continuing into 2018. FY17 cash flow was "particularly healthy", with year-end net cash £0.6m better than we forecast at £5.9m.

The integration with ANNOVA is progressing steadily. 2018 is the final ring-fencing year with ANNOVA and SCISYS has already commenced a programme to align ANNOVA's internal processes with SCISYS's high standards. The company highlights cross selling and synergies between ANNOVA and the Media & Broadcast division continue with contract wins at both MDR and RTL, respectively. MDR is a German public broadcaster and has been a customer for M&B since 1994; RTL France has been a long-standing customer with ANNOVA and is a large commercial customer for M&B and their first in France.

Interim results: Space division revenues grew by 20%

Revenues jumped 23% to £27.2m, including 6% organic growth and an initial £3.6m from ANNOVA, which was consolidated from 1 January 2017. The Space division drove the organic growth, with revenues rising by 20% to £11.6m and contribution gaining 23% to £2.4m. The other three divisions all posted small revenues declines. Net debt shrank by £1.2m over the six months to £9.0m. The order book stood at £64m, up from £35m a year earlier, and c £69m at the start of the year. The order book position includes revenues from ANNOVA's BBC contract which are scheduled to run over another c 11 years.

H1 operating cash flow after taxes rose by 21% to £2.7m, aided by a £0.3m tax credit after a £0.3m payment in the prior period. After interest (£0.4m) and capex (£0.8m), free cash flow was £1.5m. We note that the group's annual cash flow is highly sensitive to the timing of cash receipts in the December/January period.

The interim dividend was increased by 11% to 0.59p.

Exhibit 6: Half-by-Half Analysis

	2016			2017e			2018e	2019e
(£'000s)	H1	H2	FY	H1	H2e	FYe	FYe	FYe
Space	9,601	10,273	19,874	11,561	11,187	22,748	22,381	22,983
ESD	8,598	8,054	16,652	7,901	7,745	15,646	16,027	16,457
Media & Broadcast	3,503	4,523	8,026	3,539	4,547	8,086	7,797	8,007
Xibis	359	513	872	402	598	1,000	1,028	1,055
Annova				3,610	3,790	7,400	8,200	8,815
Central	162	158	320	162	158	320	329	338
Total Revenue	22,223	23,521	45,744	27,175	28,025	55,200	55,762	57,655
Operating costs	(21,146)	(21,384)	(42,530)	(25,938)	(24,662)	(50,600)	(50,830)	(52,142)
Adjusted operating profit	1,077	2,137	3,214	1,237	3,363	4,600	4,932	5,513
Operating Margin	4.8%	9.1%	7.0%	4.6%	12.0%	8.3%	8.8%	9.6%
Associates	13	4	17	15	10	25	30	30
Net interest	(98)	(87)	(185)	(382)	(255)	(637)	(567)	(567)
Edison Profit Before Tax (norm)	992	2,054	3,046	870	3,118	3,988	4,395	4,976
Share-based payments	(19)	33	14	(14)	(26)	(40)	(45)	(50)
Exceptional items	0	(458)	(458)	(1,561)	0	(1,561)	0	0
Amortisation of acq'd intangibles	0	0	0	(991)	(991)	(1,982)	(1,982)	(1,982)
Profit before tax (FRS 3)	973	1,629	2,602	(1,696)	2,101	405	2,368	2,944
Contributions								
Space	1,917	2,240	4,157	2,423	2,157	4,580	4,629	4,787
ESD	2,526	1,936	4,462	1,809	1,915	3,724	3,999	4,318
Media & Broadcast	959	1,553	2,512	728	1,775	2,503	2,598	2,750
Xibis	5	99	104	44	131	175	180	185
ANNOVA				283	1,937	2,220	2,501	2,733
Total	5,407	5,828	11,235	5,287	7,915	13,202	13,907	14,772
Central overheads	(4,336)	(4,112)	(8,448)	(5,610)	(4,568)	(10,178)	(8,990)	(9,279)
EBITA	1,071	1,716	2,787	(323)	3,347	3,024	4,917	5,493
Add back: Sh-based payments	19	(33)	(14)	14	26	40	45	50
Add back: Exceptional items	0	458	458	1,561	0	1,561	0	0
Add back: Associates	(13)	(4)	(17)	(15)	(10)	(25)	(30)	(30)
Adjusted operating profit	1,077	2,137	3,214	1,237	3,363	4,600	4,932	5,513
Contribution margins								
Space	20.0	21.8	20.9	21.0	19.3	20.1	20.7	20.8
ESD	29.4	24.0	26.8	22.9	24.7	23.8	25.0	26.2
Media & Broadcast	27.4	34.3	31.3	20.6	39.0	31.0	33.3	34.3
Xibis	1.4	19.3	11.9	10.9	21.9	17.5	17.5	17.5
ANNOVA				7.8	51.1	30.0	30.5	31.0
Total	24.3	24.8	24.6	19.5	28.2	23.9	24.9	25.6

Source: SCISYS, Edison Investment Research

Exhibit 7: Professional fees

£000s	2008	2009	2010	2011	2012	2013	2014	2015	2016	H117
Space	10,685	11,312	11,566	15,319	12,481	15,732	14,531	12,898	16293	8631
ESD	13,041	14,704	14,560	13,163	13,088	12,168	10,753	9,920	13284	6394
M&B	6,671	6,584	7,147	8,443	7,651	7,568	7,149	6,179	7541	3326
Xibis							21	805	460	368
ANNOVA										3610
Total Professional fees	30,397	32,600	33,273	36,925	33,220	35,468	32,454	29,802	37,578	22,329
As % total revenue	79.9%	78.1%	76.3%	87.3%	84.2%	83.3%	80.4%	82.5%	82.7%	82.2%
Other revenue	7,333	8,777	10,127	5,181	6,165	6,916	7,676	6,088	7,846	4684
Other external revenue	326	343	191	170	68	214	229	216	320	162
Total revenue	38,056	41,720	43,591	42,276	39,453	42,598	40,359	36,106	45,744	27,175

Source: SCISYS

Exhibit 8: Contribution by division

Contribution (£000s)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Space	2,932	1,877	1,348	3,635	3,007	3,974	3,980	3,283	4,157	4,580	4,629	4,787
Enterprise Solutions and Defence	1,823	3,912	4,255	2,529	3,522	3,972	3,203	1,745	4,462	3,724	3,999	4,318
Xibis							(13)	27	104	175	180	185
Media & Broadcast	1,635	1,809	2,734	3,259	2,980	2,395	2,481	2,011	2,512	2,503	2,598	2,750
ANNOVA										2,220	2,501	2,733
Gross contribution	6,390	7,598	8,337	9,423	9,509	10,341	9,651	7,066	11,235	13,202	13,907	14,772
Central overheads (adjusted)*	(5,722)	(6,162)	(6,670)	(7,259)	(7,224)	(8,346)	(6,467)	(6,256)	(8,448)	(10,178)	(8,990)	(9,279)
Share-based payments	161	67	128	113	49	35	42	11	(14)	40	45	50
Associates	0	0	0	0	0	0	0	(3)	(17)	(25)	(30)	(30)
Exceptional items	28	173	341	88	328	1,191	135	0	458	1,561	0	0
Adjusted operating profit (loss)**	857	1,676	2,136	2,365	2,662	3,221	3,361	818	3,214	4,600	4,932	5,513
Contribution margins	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017f	2018f	2019f
Space	17.5%	11.2%	8.6%	22.9%	18.7%	20.1%	21.4%	20.0%	20.9%	20.1%	20.7%	20.8%
Enterprise Solutions and Defence	12.8%	23.3%	25.6%	16.1%	23.5%	27.5%	23.8%	14.3%	26.8%	25.4%	25.0%	26.2%
Xibis							-44.8%	3.0%	11.9%	17.5%	17.5%	17.5%
Media & Broadcast	24.2%	22.9%	24.7%	31.0%	35.5%	29.4%	30.8%	31.6%	31.3%	33.0%	33.3%	34.3%
ANNOVA										32.5%	33.0%	33.5%
Total	16.8%	18.2%	19.1%	22.3%	24.1%	24.3%	23.9%	19.6%	24.6%	25.0%	25.3%	26.0%

Source: SCISYS, Edison Investment Research. Note: *Central overheads have been adjusted for exceptional items and share-based payments. **Includes associates.

The group operates a currency hedging programme, whereby it hedges its euro contribution exposure over the rolling following18 months. Both realised and unrealised gains and losses are reflected in adjusted operating profit. Hence, if excluded, the FY16 operating margin was 200bp higher at 9.0%. In its FY17 pre-close trading update, SCISYS said it does not anticipate any major impact from exchange-rate movements in 2018.

Exhibit 9: Currency hedging

	2014	2015	2016
Realised gains/(losses)		300	(600)
Unrealised gains/(losses)	100	(100)	(300)
Total	100	200	(900)

Source: SCISYS

Forecasts: Revenues edged up, otherwise maintained

Trading updates were buoyant through FY17 and management says that momentum has continued in FY18. We have edged up our revenue forecasts, due to higher pass-through revenues in FY17, and the strong Space division. However, we anticipate that c £2m of pass-through revenues will disappear from FY18, due to the implementation of IFRS 15. We have reduced our end-FY17 net debt forecast by £0.6m, in line with the update, with subsequent years falling accordingly. Otherwise, our forecasts remain unchanged. Our forecasts are underpinned by the record orderbook, and we believe there is potential for upgrades as the year progresses. With the integration of ANNOVA progressing well and in the advanced stages we believe there is increasing potential for acquisitions. Management has said it is looking for appropriate acquisitions “where there is a good market, product and cultural fit”.

Exhibit 10: Forecast changes

	Revenue (£m)			Adjusted operating profit (£m)			EPS (p)		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
2017e	53.4	55.2	3	4.6	4.6	0	11.2	11.2	0
2018e	55.1	55.8	1	4.9	4.9	0	11.8	11.8	0
2019e	57.0	57.7	1	5.5	5.5	0	13.1	13.1	0

Source: Edison Investment Research

Our key forecast assumptions are as follows:

- **Revenues:** we forecast FY17 revenues to rise by 20.7% to £55.2m, including c 4.5% organic growth and £7.4m from ANNOVA. We forecast FY18 revenues to rise by 1% to £55.8m. In our view, the current growth in Space is unsustainable and we forecast a £2m hit from IFRS 15 in FY18.
- **Operating costs/margins:** roughly 60% of costs are staff costs, including c £4m of annual research and development, which is largely customer-financed, although there is some direct R&D in Media & Broadcast relating to dira!, as well as a small amount in the mobile apps business. We assume operating costs rise by 19.0% to £50.6m in FY17 and edge higher to £50.8m in FY18. Consequently, our operating margin forecasts are at 8.3% and 8.8% in FY17 and FY18.
- **Investment:** we continue to forecast a capex/sales ratio of 2.0%, to support management's plans to grow the business. We forecast working capital to shrink by £2.2m in FY17, after the £3.4m expansion in FY16, and for outflows of 0.5% of sales thereafter.
- **Acquisition earnouts:** we continue to forecast earnouts for ANNOVA of £2.8m in FY18 and £3.9m in FY19.
- **Tax:** we have maintained our assumptions of an 18% charge in FY17 and 20% thereafter. SCISYS claims R&D tax credits of c £0.4-0.5m a year, which offsets UK taxable profits, while it pays c 30% on German profits. Further, it has c £4-5m of brought-forward UK tax losses.

Exhibit 11: Forecasts

Revenues (£000s)	2015	2016	2017e	2018e	2019e
Space	16,432	19,874	22,748	22,381	22,983
Enterprise Solutions and Defence	12,202	16,652	15,646	16,027	16,457
Xibis	901	872	1,000	1,028	1,055
Media & Broadcast	6,355	8,026	8,086	7,797	8,007
ANNOVA Systems			7,400	8,200	8,815
Central	216	320	320	329	338
Group revenue	36,106	45,744	55,200	55,762	57,655
Growth (%)	(10.5)	26.7	20.7	1.0	3.4
Administrative expenses	(35,288)	(42,530)	(50,600)	(50,830)	(52,142)
Adjusted operating profit	818	3,214	4,600	4,932	5,513
Operating margin (%)	2.3	7.0	8.3	8.8	9.6
Growth (%)	(75.7)	292.9	43.1	7.2	11.8
Associates	3	17	25	30	30
Net interest	(196)	(185)	(637)	(567)	(567)
Profit before tax norm	625	3,046	3,988	4,400	4,981
Amortisation of acquired intangibles	0	0	(1,982)	(1,982)	(1,982)
Share based payments	(11)	14	(40)	(45)	(50)
Exceptional items (net of tax)	0	(458)	(1,561)	0	0
Profit before tax (FRS 3)	614	2,602	405	2,368	2,944
Tax charge	(241)	(380)	(706)	(864)	(979)
Profit after tax	373	2,222	(301)	1,504	1,965
Adjusted EPS (p)	1.3	9.2	11.2	11.8	13.1
P/E - Adjusted EPS	**98.3**	**14.2**	**11.6**	**11.0**	**9.9**

Source: SCISYS, Edison Investment Research

Sensitivities: Public sector and fixed-price projects

We highlight the following sensitivities:

- **Economic downturn:** future economic downturns affecting the eurozone and the UK economies may cause the group's customers to cancel, postpone or reduce spending on existing or future ICT projects.
- **Public sector exposure:** the UK government's commitment to reduce public sector spending has put pressure on some of the group's customers. Following the government's spending

review in 2010, Defra, which includes the Environment Agency (one of SCISYS's main customers), had its budget cut by 30%. Following the Brexit vote and subsequent changes in the UK government, the focus on cost-cutting in the public sector has abated. However, this is balanced by the uncertain economic outlook in Britain, while the European outlook is improving.

- **Project risks:** there is a risk of cost overruns on fixed-price projects, as we saw in 2015, but SCISYS has put in place rigorous risk monitoring and control procedures and, following the FY15 problem project, it has tightened the criteria for which bids need the board's sign-off.
- **Subcontractors and suppliers:** the failure of a subcontractor to perform to an appropriate standard or a supplier to deliver products could result in delays to a project and adversely affect the group's capability to meet contractual requirements and damage its reputation.
- **Technology risks:** products are at risk from being bettered by competitors.
- **Human resources.** if the group loses the services of key personnel or is unable to attract and retain employees with the right capabilities and experience, it would likely have an adverse effect on its ability to implement its business plans and impact on delivering the strategy.
- **Customer exposure:** the group has significant exposure to the public sector (we estimate 85% including ESA and other non-UK organisations). The top three customers represent c 20% of revenues. The bulk of group revenues are conducted in the EU including the UK. The group has no bad debtors and 55% of revenues are outside the UK. Further, SCISYS is seeking to broaden its offering to the private sector.
- **Brexit:** the primary concern is the EU-funded Galileo Global Positioning System, which generated €6m of revenues for SCISYS in 2016, and SCISYS continues to have a substantial involvement. However, we understand that the UK government remains committed to Galileo. Further, there is no indication that the UK would change its position with regard to the ESA. Nevertheless, SCISYS has trading subsidiaries in both Germany and the UK that would allow local contracts to be entered into in each respective country.
- **Currency:** a rise in £ against the € will hurt Space (some costs are sterling but revenues are in euros) and M&B (most revenues and costs are in euros, albeit the BBC contract has revenues in sterling and some costs in euros). We note that the group partially hedges its euro-denominated cash flows.
- **Acquisitions:** there are implementation risks in the acquisition strategy.

Valuation: Space & broadcasting developments boost the growth story

SCISYS has developed a strong niche as an expert player in highly specialised IT markets. As these markets continue to gain in complexity, SCISYS should, in our view, benefit from an improving negotiating position. Several factors should help the group continue to expand margins, including the reuse of bespoke software platforms, better project management and a continuing de-emphasis on third-party software and hardware resales. Further, albeit for the impact of the problem project of FY15, the management has built an excellent track record in driving margins higher and has an objective to return margins to 8% within five years. The peer group's mid-cycle margins have traditionally been in the 8-10%+ range, while its larger IT services competitors typically trade on around 16x year two earnings with operating margins at around 12%.

We believe there are several factors that will contribute to our current assumption of operating margin recovery to 9.6% by FY19, and potentially towards double digits in the longer term. This includes the development of specialist software platforms that can be sold across multiple customers, a focus on 'value pricing' (charging for core software, pricing based on customer ROI), smarter bidding and more effective management of the workforce.

We highlight the following points on the group's valuation:

- **Traditional valuation measures:** in traditional P/E valuation terms, the stock trades on 11.4x our forecasts in FY17, falling to 10.8x in FY18 and to 9.7x in FY19.
- **Peer comparison:** comparison with fellow IT services businesses is difficult, given the different business mixes. However, the stock trades at a significant discount to the average of its small IT services peers in Exhibit 12 (noting considerable dispersion), as well as its North American and Europe-based large caps.

Exhibit 12: Peer analysis

	Share price	Market cap	Market cap	EV/sales (x)		Operating margins		EV/EBITDA (x)		PE (x)	
	Local curr	Local curr (m)	£m	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
SCISYS	**130.00**	**38**	**38**	**0.86**	**0.85**	**8.3%**	**8.8%**	**8.4**	**7.9**	**11.6**	**11.0**
1) Small IT services companies / VARs with a significant own software strategy (local currency m's)											
D4T4 Solutions	130.00	50	50	2.0	1.8	20.3%	20.9%	9.3	8.2	12.9	11.3
First Derivatives	4240.00	1,087	1087	6.1	5.4	14.5%	14.4%	34.2	30.3	63.1	56.2
Learning Technologies	80.10	460	460	9.0	8.1	26.1%	27.0%	30.4	28.1	40.1	38.1
SNP Schneider-Neureither	34.05	186	164	1.6	1.3	0.0%	4.9%	55.6	16.1	N/A	38.5
TXT e-solutions	9.88	129	113	3.6	3.3	8.9%	8.6%	39.5	33.5	3.0	49.4
Medians				**3.6**	**3.3**	**14.5%**	**14.4%**	**34.2**	**28.1**	**26.5**	**38.5**
2) Large cap IT services companies (local currency m's)											
Accenture	161.67	104,052	76973	2.6	2.5	15.0%	15.2%	15.4	14.3	24.3	22.3
Atos	126.50	13,337	11767	1.1	1.0	9.2%	9.6%	8.4	7.8	15.5	14.0
Cap Gemini	105.70	17,809	15713	1.5	1.5	11.0%	11.6%	11.4	10.6	17.9	16.7
CGI group	68.35	19,691	11689	1.9	1.8	14.7%	15.3%	10.3	9.8	16.9	15.7
HP Enterprise	16.57	26,403	19532	1.1	1.1	9.1%	9.3%	6.1	6.0	14.0	13.0
Medians				1.5	1.5	11.0%	11.6%	10.3	9.8	16.9	15.7
3) Media & Broadcast competitors (local currency m's)											
Avid Technology	5.52	227	168	0.90	0.89	8.9%	8.0%	7.4	8.1	11.4	21.2
Dalet	10.80	39	34	0.73	0.70	4.1%	5.8%	6.3	N/A	36.0	21.6
Medians				**0.82**	**0.80**	**6.5%**	**6.9%**	**6.8**	**8.1**	**23.7**	**21.4**

Source: Edison Investment Research, Bloomberg. Note: Prices as at 25 January 2018.

- **Cash generation:** on our estimates, the group generated free cash flow of c £16m over the nine years to end-2017. Based on our forecasts, the FCF yields for FY17-19 are c 15%, c 9% and c 10% respectively. We note the strong balance sheet (£7.2m bank deposits and £16.2m debts as at 30 June 2017, unutilised working capital facilities of £4.7m, while the Chippenham freehold and other smaller properties provide extra flexibility).

Exhibit 13: Cash flow

£000's	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	H117	H217	FY17e	FY18e	FY19e
Adjusted operating profit	1,676	2,136	2,365	2,662	3,221	3,361	818	3,214	1,237	3,363	4,600	4,932	5,513
Depreciation	662	626	769	919	958	795	730	781	524	525	1,049	1,059	1,067
EBITDA	2,338	2,762	3,134	3,581	4,179	4,156	1,548	3,995	1,761	3,888	5,649	5,992	6,580
Working capital	446	1,563	(302)	1,902	(4,367)	753	22	(3,413)	640	1,596	2,236	(279)	(288)
Deferred consideration	0	0	0	0	0	0	0	3,318	0	0	0	0	0
Exceptional items/misc	(170)	(341)	(88)	(373)	(1,191)	(135)	0	(458)	0	(125)	(125)	0	0
Operating cash flow	**2,614**	**3,984**	**2,744**	**5,110**	**(1,379)**	**4,774**	**1,570**	**3,442**	**2,401**	**5,359**	**7,760**	**5,712**	**6,292**
Net interest	(69)	(91)	(158)	(214)	(217)	(177)	(196)	(185)	(382)	(255)	(637)	(567)	(567)
Tax paid	(355)	(356)	(951)	(157)	(1,325)	100	(583)	(1,250)	296	(496)	(200)	(638)	(791)
Purchase of tangible assets	(681)	(663)	(987)	(1,116)	(666)	(618)	(619)	(663)	(788)	(316)	(1,104)	(1,115)	(1,153)
Free cash flow	**1,509**	**2,874**	**648**	**3,623**	**(3,587)**	**4,079**	**172**	**1,344**	**1,527**	**4,292**	**5,819**	**3,392**	**3,780**

Source: SCISYS, Edison Investment Research. Note: FY11 is before the purchase of the Chippenham HQ

- **Discounted cash flow valuation:** based on our conservative forecasts (which include 3.0% compound annual revenue growth over the next 10 years, a 10.7% long-term margin target and 2% terminal growth rate) and a weighted average cost of capital (WACC) of 10%, our DCF model values the shares at 160p, or 23% above the current share price. Discounting back from our forecasts, the market is attributing a break-even WACC of 11.5% to the stock. A 1% cut in the WACC to 9% would lift the valuation to 189p, while a 1% rise to an 11% WACC would reduce the valuation to 138p.

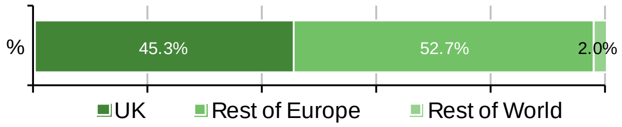
Exhibit 14: Financial summary

£'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	40,359	36,106	45,744	55,200	55,762	57,655
Cost of Sales	0	0	0	0	0	0
Gross Profit	40,359	36,106	45,744	55,200	55,762	57,655
EBITDA	4,156	1,548	3,995	5,649	5,992	6,580
Adjusted operating profit	3,361	818	3,214	4,600	4,932	5,513
Amort'n of acq'd intangibles	0	0	0	(1,982)	(1,982)	(1,982)
Exceptionals	(135)	0	(458)	(1,561)	0	0
Share based payments	(42)	(11)	14	(40)	(45)	(50)
Operating Profit	3,184	807	2,770	1,017	2,905	3,481
Net Interest	(177)	(196)	(185)	(637)	(567)	(567)
Associates	0	3	17	25	30	30
Profit Before Tax (norm)	3,184	625	3,046	3,988	4,395	4,976
Profit Before Tax (FRS 3)	3,007	614	2,602	405	2,368	2,944
Tax	(766)	(241)	(380)	(706)	(864)	(979)
Profit After Tax (norm)	2,394	384	2,666	3,282	3,531	3,997
Profit After Tax (FRS 3)	2,241	373	2,222	(301)	1,504	1,965
Average Number of Shares Outstanding (m)	29.0	29.0	29.0	29.3	29.9	30.5
EPS - normalised (p)	8.2	1.3	9.2	11.2	11.8	13.1
EPS - FRS 3 (p)	7.7	1.3	7.6	(1.0)	5.0	6.4
Dividend per share (p)	1.61	1.78	1.96	2.16	2.38	2.62
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	10.3	4.3	8.7	10.2	10.7	11.4
Operating Margin (%)	8.3	2.3	7.0	8.3	8.8	9.6
BALANCE SHEET						
Fixed Assets	17,155	16,553	31,955	30,028	28,102	26,206
Intangible Assets	8,233	7,831	22,441	20,459	18,477	16,495
Tangible Assets	8,899	8,635	9,057	9,112	9,168	9,254
Deferred tax asset & associates	23	87	457	457	457	457
Current Assets	18,886	17,839	27,895	32,254	33,044	33,061
Stocks	325	211	261	315	318	329
Debtors	12,334	12,299	19,621	21,146	21,360	22,084
Cash	5,798	4,352	6,915	9,695	10,267	9,549
Current Liabilities	(10,561)	(12,003)	(18,763)	(22,367)	(22,058)	(22,262)
Creditors	(9,686)	(8,699)	(14,959)	(18,813)	(18,754)	(19,208)
Short term borrowings	(875)	(3,304)	(3,804)	(3,554)	(3,304)	(3,054)
Long Term Liabilities	(5,023)	(2,333)	(18,374)	(16,522)	(15,146)	(14,935)
Long term borrowings	(4,595)	(2,007)	(13,355)	(12,042)	(12,929)	(13,318)
Other long term liabilities	(428)	(326)	(5,019)	(4,480)	(2,217)	(1,617)
Net Assets	20,457	20,056	22,713	23,393	23,942	22,070
CASH FLOW						
Operating Cash Flow	4,774	1,570	3,442	7,760	5,712	6,292
Net Interest	(177)	(196)	(185)	(637)	(567)	(567)
Tax	100	(583)	(1,250)	(200)	(638)	(791)
Capex	(618)	(619)	(663)	(1,104)	(1,115)	(1,153)
Acquisitions/disposals	(358)	(889)	(7,521)	(600)	(2,800)	(3,900)
Financing	(61)	(14)	15	(287)	()	0
Dividends	(435)	(340)	(671)	(589)	(656)	(737)
Net Cash Flow	3,225	(1,071)	(6,833)	4,343	(64)	(857)
Opening net debt/(cash)	2,672	(328)	959	10,244	5,901	5,965
Other	(225)	(216)	(2,452)	0	(0)	(0)
Closing net debt/(cash)	(328)	959	10,244	5,901	5,965	6,822

Source: SCISYS, Edison Investment Research

Contact details
Methuen Park Chippenham, Wiltshire, SN14 0GB UK 01249 466 466 www.scisys.co.uk

Revenue by geography



Management team

Chief executive officer: Klaus Heidrich

Klaus joined the executive board in 2009, became COO in January 2012 and CEO in January 2014. He joined VCS (now SCISYS Deutschland) in 1989 as a sales engineer. From 1992 he was responsible for marketing & sales of VCS and developed VCS media activities. He left VCS for Management Data in Hamburg, but returned to VCS a year later to take responsibility for strategic business development. From 2005 until January 2012 he was a director of the Media Broadcasting Solutions business unit.

Finance director: Chris Cheetham

Chris qualified as a chartered accountant with Ernst & Young in 1990 and worked in the corporate finance department until 1996. He has extensive experience gained from working as a financial director and company secretary in the software industry for the last nine years. He was appointed financial director on 1 January 2007.

Non-executive chairman: Mike Love

Mike was CEO of SCISYS (formerly CODASciSys) from 1986 (when he led the management buy-in of the business) until 2003, when he became non-executive chairman. He stepped back in as executive chairman in late 2007 and returned to a non-executive role in January 2012. Mike entered the software industry in 1976 with Logica, moved to the European Space Agency in the late 1970s and joined SCISYS in 1981.

Non-executive deputy chairman: David Jones

David joined the board as a non-executive director in 2002 and took an executive role in 2007 when he became operations director for the government division. He was promoted to COO in January 2010, CEO in January 2012 and deputy chairman in January 2014. His earlier career includes some 20 years at Admiral and Allied Worldwide, and he was a founding member of the DRA Software Engineering Centre Advisory Board.

Principal shareholders (as at 7 September 2017)	(%)
Dr Mike Love	14.83
Dr Klaus-Gunter Meng	9.75
Herald Investment Management	8.43
Hargreaves Landsdown	7.07
Charles Stanley	5.60
Downing LLP	5.42
PK Taylor	4.13
Alto Invest AS	3.72
Rowan Dartington & Co	3.56
Ruffer	3.54
RC Brown Investment Management	3.15
Trustees of the SCISYS PLC Share Incentive Plan	3.07

Companies named in this report

D4T4 (D4T4), First Derivatives (FDP), Learning Technologies (LTG), SNP Schneider-Neureither (SHF), TXT e-solutions (TXT), Accenture (ACN), Atos (ATO), Cap Gemini (CAP), CGI Group (GIB.A), HP Enterprise (HPE), Avid Technology (AVID), Dalet (DLT).