

StatPro Group

Acquisition

Value-enhancing deal at a modest 0.8x sales

StatPro is acquiring UBS Delta, a portfolio analysis and risk management system, from UBS for €13.05m. The acquisition significantly scales up StatPro's business, boosting FY18 revenues by c 33% and EBITDA by c 40%. While the deal looks very cheap at less than 0.8x revenues, compared with 7.3x sales that FactSet recently paid for BISAM, a key competitor of StatPro, UBS Delta's technology needs to be refreshed and to achieve this, its functionality, along with the customer base, will be transitioned to StatPro Revolution. If StatPro can successfully integrate UBS Delta, we believe there is strong upside potential in the shares, given the significant valuation disparity with its US-listed financial software peers.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	30.2	2.6	2.6	2.9	40.2	2.7
12/16	37.5	2.7	3.5	2.9	30.2	2.7
12/17e	48.9	4.2	5.0	2.9	21.2	2.7
12/18e	57.3	6.1	7.2	2.9	14.7	2.7

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

Acquisition of UBS Delta

UBS Delta, launched in 1998, is an early-generation private cloud application used by front offices of institutional investors for portfolio management and marketing purposes. Delta has gained a strong reputation in the fixed income markets and has c 115 clients including insurance companies, asset managers and pension funds, mainly in the UK, France and Switzerland. StatPro's traditional market is the middle office, although its Revolution cloud service has extended the market to the front office as well. As its technology is nearly 20 years old, UBS Delta is in need of a major upgrade and StatPro offers an attractive route to upgrade by transitioning the functionality to its own cloud platform. Until StatPro has fully integrated UBS Delta's functionality in Revolution, UBS will continue to operate and support UBS Delta for its clients. However, the revenues and costs will accrue to StatPro.

Forecasts: EPS jumps 22% in FY17 and 40% in FY18

We have added UBS Delta into our forecasts for seven-and-a-half months in FY17. This boosts revenues by 22% in FY17, while FY18 revenues rise by 33%. Adjusted EBITDA rises by 20% and 40% in the respective years, and adjusted EPS goes up by 22% and by 40%. We forecast the group to end FY17 with net debt of £19.7m (previous forecast was £12.8m) falling to £17.7m a year later (previously £12.1m). There are also £3.6m of outstanding Delta acquisition liabilities, payable in FY19 and FY20.

Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 21x our FY17e EPS, which falls to c 15x in FY18e. Alternatively, the shares trade on c 1.6x FY18e EV/sales, around one-third of the level of StatPro's larger US peers and US-based pure SaaS companies. Our DCF model, when incorporating 10-year organic revenue growth of 4.4%, a terminal growth of 2%, a long-term margin target of 24.5% and a WACC of 9%, would value the shares at 212p, more than double the current share price.

Software & comp services

11 April 2017

Price 105.5p
Market cap £68m

Net debt (£m) at 31 December 2016	10.1
Shares in issue	64.7m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	22.0	1.4	42.6
Rel (local)	21.5	(0.2)	21.0
52-week high/low		113p	73.5p

Business description

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

Next events

AGM	May 2017
H1 trading update	July 2017
Interim results	September 2017

Analysts

Richard Jeans	+44 (0)20 3077 5700
Dan Ridsdale	+44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

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Acquisition of UBS Delta

StatPro is acquiring UBS Delta from UBS for €13.05m in cash, spread over three years. The deal is expected to complete in mid-May. StatPro will pay an initial €8.70m on closing, with further payments of €1.74m in two years and €2.61m in three years. The attractive price reflects the fact that the software needs to be upgraded. It also reflects the fact that its owner is not a software house, and that software applications are increasingly difficult for non-software businesses to maintain.

UBS Delta is a portfolio analysis and risk management system that enables clients to measure risk and performance across fixed income, commodities, equities and FX. UBS Delta is used by front offices of institutional investors for portfolio management and marketing purposes, while StatPro's traditional market is the middle office, largely used for internal management functions and client reporting. UBS Delta's roots are in fixed income and consequently it has established a special focus on fixed income attribution and risk. It is reputed to have the best fixed income analytics in the European market. UBS Delta has 115 clients of which c 100 are new to StatPro, including UBS. This will take StatPro's total client base to c 550, including 105 of the world's top 500 asset managers.

UBS Delta is an early generation private cloud application, developed on a Sybase platform. As such, it is multi-tenant, meaning that all its users share the same instance of the software, in the same way that we use Google, for example. However, it is nearly 20 years old and therefore needs either a major upgrade or to be transitioned to a new platform. StatPro is ideally positioned to offer the latter option, as it has its own multi-tenant cloud platform, StatPro Revolution, to which UBS Delta can be transitioned. UBS Delta has 24 full-time employees, including 4-5 in sales, and c 30 contractors.

UBS Delta's functionality will be incorporated into StatPro Revolution, with the help of UBS Delta's developers, and its customer base transitioned to Revolution within three to five years. Once transitioned, the customers will benefit from a modern cloud platform and greater functionality. StatPro Revolution will benefit from the additional fixed income and risk functionality that can be offered to its existing clients, creating cross-selling opportunities. In the meantime, UBS Delta's clients will continue to be offered support for five years.

UBS Delta has c £14.5m in recurring revenues, growing gently. StatPro expects these revenues to remain broadly unchanged in FY17 and this will take StatPro's annualised recurring revenue run-rate to c £53m. StatPro says adjusted EBITDA from the acquisition is expected to be £2.0m to £2.5m in the first 12 months of ownership. UBS Delta's revenue model is based on number of users, and this will transition to StatPro's model, which is based on number of portfolios.

Competing solutions include Barclays Point (legacy of Lehman Brothers and recently sold to Bloomberg), Yield Book (owned by Citi) and BondEdge (acquired by ICE when it purchased Interactive Data).

In order to finance the deal, StatPro has increased its debt facilities with Wells Fargo by £15.9m to £41.1m, of which £33.6m is committed.

Forecasts: FY18 sales up 33%, EBITDA & EPS up 40%

We have incorporated UBS Delta into our forecasts, conservatively assuming a revenue run-rate of £14m in FY17 (£8.8m in seven-and-a-half months), rising by 2% in FY18. We have maintained all our operating assumptions for the rest of the business. Our adjusted EBITDA forecasts rise by

£1.2m in FY17 (ie, £1.9m annualised) and by £2.5m in FY18. We note that there will not be any additional costs in transitioning UBS Delta to StatPro Revolution, as UBS Delta's developers will shift their focus on to this task, and once the process is completed, the group R&D in relation to sales is expected to decline.

We have also significantly increased the interest charge in both years, to reflect the higher debt levels, and we have eased our tax charge forecasts from 23% to 21%, given the favourable corporate tax environment. In all, group revenue rises by 22% in FY17 and by 33% in FY18, while adjusted EBITDA rises by 20% and 40% in the respective years, and adjusted EPS goes up by 22% and 40% respectively. We now forecast the group to end FY17 with net debt of £19.7m (previous forecast was £12.8m) falling to £17.7m a year later (previously £12.1m). There are also £3.6m of outstanding UBS Delta acquisition liabilities, payable in FY19 and FY20.

We have assumed that costs relating to the transaction are included in the adjusted EBITDA. We have also ignored amortisation of acquired intangibles, which have no impact on cash flows.

Exhibit 1: Forecast changes						
	Old	New	Change	Old	New	Change
	2017e	2017e	(%)	2018e	2018e	(%)
Revenues (£'000s)						
Traditional software rental	16,920	16,920	0.0	14,920	14,920	0.0
StatPro Revolution	16,449	25,199	53.2	21,139	35,419	67.6
Data	4,039	4,039	0.0	4,119	4,119	0.0
Professional services	2,790	2,790	0.0	2,846	2,846	0.0
Group Revenue	40,198	48,948	21.8	43,024	57,304	33.2
Growth (%)	7.1	30.4		7.0	17.1	
Gross Profit	40,198	48,948	21.8	43,024	57,304	33.2
Opex (before devt costs depn)	(34,801)	(42,362)	21.7	(37,103)	(48,977)	32.0
Capitalisation of dev costs (net)	444	444	0.0	459	588	28.0
Adjusted EBITDA	5,841	7,030	20.4	6,381	8,916	39.7
Depreciation	(1,704)	(1,800)	5.6	(1,410)	(1,800)	27.6
Adjusted operating profit	4,136	5,230	26.4	4,970	7,116	43.2
Operating margin (%)	10.3	10.7		11.6	12.4	
Growth (%)	19.5	51.1		20.2	36.1	
Net interest	(550)	(998)	81.3	(450)	(1,021)	126.9
Profit before tax norm	3,586	4,232	18.0	4,520	6,095	34.8
Amortisation of acquired intangibles	(1,060)	(1,060)	0.0	(1,060)	(1,060)	0.0
Share based payments	(213)	(213)	0.0	(225)	(225)	0.0
Exceptional items (net of tax)	0	0	N/A	0	0	N/A
Profit before tax	2,313	2,960	27.9	3,235	4,810	48.7
Taxation	(825)	(889)	7.8	(1,040)	(1,280)	23.1
Minority interest	(121)	(121)	0.0	(129)	(129)	0.0
Net income	1,368	1,950	42.6	2,066	3,401	64.6
Adjusted EPS (p)	4.1	5.0	22.1	5.1	7.2	39.8
P/E - Adjusted EPS		21.2			14.7	

Source: Edison Investment Research

Peer analysis

StatPro's stock trades on c 21x our FY17e EPS, which falls to c 15x in FY18e, putting it at a significant discount to its UK-quoted peers. Alternatively, the shares trade on c 1.6x FY18e EV/sales, less than one-third of the level of StatPro's larger US peers, which mostly trade above 5x EV/sales, and less than one-third of the level of US-based pure SaaS companies. Additionally, the P/E ratio discounts have increased, despite the share price gains, given the acquisition and falling tax assumptions. We are confident that StatPro will show healthy margin progression as its ARR book continues to grow, which will lead to sharply declining P/S ratios.

Exhibit 2: Peers

	Price	Market cap	EV/sales (x)		EV/EBITDA (x)		PE (x)	
	Local currency	Local currency	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
StatPro	105.5	68	1.9	1.6	13.0	10.3	21.2	14.7
1) US-quoted investment management software peers								
MSCI	97.79	8851	8.2	7.6	16.1	14.7	27.4	23.5
FactSet	161.13	6375	5.4	5.0	15.7	14.6	22.0	20.0
SS&C	35.15	7168	5.7	5.4	13.8	12.8	18.2	16.2
DST Systems	121.15	3797	1.7	1.5	9.2	8.3	18.6	16.1
Envestnet	33.75	1466	2.6	2.3	13.5	10.9	27.0	20.9
Medians			5.4	5.0	13.8	12.8	22.0	20.0
2) Investment management software peers quoted in other countries								
GBST	2.90	197	2.0	2.0	15.1	11.7	23.0	16.8
Iress	11.55	1964	4.8	4.4	16.1	14.4	23.3	20.8
Linedata	48.82	358	2.1	2.0	7.6	7.3	14.5	13.7
SimCorp	424.10	17600	6.9	6.4	24.7	22.1	32.2	28.5
Medians			3.4	3.2	15.6	13.0	23.2	18.8
3) UK-quoted financial software peers								
Fidessa	2594.00	1002	2.6	2.4	11.3	10.7	27.9	25.5
First Derivatives	2700.00	672	4.8	4.3	25.7	23.0	48.1	43.9
Microgen	297.50	181	3.6	3.5	14.9	13.4	23.6	20.8
Brady	74.00	62	1.8	1.8	18.0	9.8	56.9	23.9
Lombard Risk	10.63	43	1.1	0.9	N/A	5.5	N/A	26.6
Medians (excl Lombard)			3.1	2.9	16.5	12.0	38.0	24.7
4) US companies with SaaS business models								
Callidus	19.75	1259	4.4	3.7	31.3	24.4	63.3	50.1
Cornerstone OnDemand	37.78	2140	4.3	3.7	37.2	23.6	106.4	50.0
Paycom Software	57.90	3443	8.1	6.5	29.8	22.6	56.9	43.2
Paylocity	38.27	1969	6.4	5.1	44.9	34.2	90.0	67.4
Salesforce	85.00	60138	5.9	4.9	27.1	21.6	67.4	51.9
Ultimate Software	198.09	6124	6.2	5.1	25.7	20.7	49.9	40.2
Workday	82.97	16843	7.6	6.1	71.0	48.3	163.6	112.0
Medians			6.2	5.1	31.3	23.6	67.4	50.1

Source: Bloomberg, Edison Investment Research. Note: Prices as at 7 April 2017.

Exhibit 3: Financial summary

	£'000s	2013	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		32,486	32,018	30,187	37,545	48,948	57,304
Cost of Sales		0	0	0	0	0	0
Gross Profit		32,486	32,018	30,187	37,545	48,948	57,304
EBITDA		5,463	4,359	4,044	5,104	7,030	8,916
Adjusted Operating Profit		4,327	2,875	2,852	3,461	5,230	7,116
Amortisation of acquired intangibles		(402)	(188)	(32)	(1,060)	(1,060)	(1,060)
Exceptionals		(347)	0	0	(11,378)	0	0
Share based payments		(192)	(26)	(121)	(361)	(213)	(225)
Operating Profit		3,386	2,661	2,699	(9,338)	3,958	5,831
Net Interest		(273)	(291)	(290)	(786)	(998)	(1,021)
Profit Before Tax (norm)		4,054	2,584	2,562	2,675	4,232	6,095
Profit Before Tax (FRS 3)		3,113	2,370	2,409	(10,124)	2,960	4,810
Tax		(1,030)	(774)	(788)	(395)	(889)	(1,280)
Profit After Tax (norm)		3,024	1,810	1,774	2,843	3,344	4,815
Profit After Tax (FRS 3)		2,083	1,596	1,621	(10,519)	2,071	3,530
Minority interests		0	0	0	(94)	(121)	(129)
Net income (norm)		3,024	1,810	1,774	2,280	3,223	4,686
Net income (statutory)		2,083	1,596	1,621	(10,613)	1,950	3,401
Average Number of Shares Outstanding (m)		67.5	67.5	67.6	65.3	64.9	65.2
EPS - normalised (p)		4.5	2.7	2.6	3.5	5.0	7.2
EPS - FRS 3 (p)		3.1	2.4	2.4	(16.3)	3.0	5.2
Dividend per share (p)		2.80	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 (%)		16.8	13.6	13.4	13.6	14.4	15.6
Operating Margin (before GW and except.) (%)		13.3	9.0	9.4	9.2	10.7	12.4
BALANCE SHEET							
Fixed Assets		55,992	56,113	51,857	59,088	71,757	72,285
Intangible Assets		53,524	52,546	48,613	55,696	68,452	68,774
Tangible Assets		1,883	2,470	2,233	2,742	2,655	2,861
Other assets		585	1,097	1,011	650	650	650
Current Assets		10,312	10,441	10,665	19,081	24,018	28,637
Stocks		0	0	0	0	0	0
Debtors		6,167	7,722	8,462	14,725	19,197	22,475
Cash		4,014	2,692	2,203	4,356	4,821	6,162
Current Liabilities		(18,514)	(20,271)	(19,778)	(35,686)	(42,727)	(47,207)
Creditors		(18,502)	(20,259)	(19,660)	(27,227)	(34,268)	(38,748)
Short term borrowings		(12)	(12)	(118)	(8,459)	(8,459)	(8,459)
Long Term Liabilities		(882)	(598)	(1,227)	(9,897)	(22,223)	(21,523)
Long term borrowings		0	0	(801)	(5,961)	(16,060)	(15,360)
Other long term liabilities		(882)	(598)	(426)	(3,936)	(6,163)	(6,163)
Net Assets		46,908	45,685	41,517	32,586	30,826	32,191
CASH FLOW							
Operating Cash Flow		9,403	7,705	6,548	7,454	11,604	14,417
Net Interest		(98)	(10)	(84)	(500)	(998)	(1,021)
Tax		(1,616)	(1,173)	(832)	(1,294)	(1,000)	(846)
Capex		(4,412)	(5,904)	(4,999)	(6,445)	(6,486)	(7,808)
Acquisitions/disposals		(990)	0	0	(4,786)	(10,861)	(820)
Equity financing		0	2	64	(2,079)	0	0
Dividends		(1,856)	(1,889)	(1,960)	(1,877)	(1,893)	(1,881)
Net Cash Flow		431	(1,269)	(1,263)	(9,527)	(9,633)	2,041
Opening net debt/(cash)		(3,667)	(4,002)	(2,680)	(1,283)	10,065	19,698
Other		(96)	(53)	(134)	(1,821)	0	0
Closing net debt/(cash)		(4,002)	(2,680)	(1,283)	10,065	19,698	17,657

Source: StatPro Group accounts, Edison Investment Research estimates

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