Utilitywise

Entering a new growth phase

Strategic refresh

Industrial support services

Utilitywise (UTW) continues to grow and has drawn up plans to extend this growth profile out to 2021. Recent accounting changes have resulted in a higher net debt figure, but UTW remains within its banking covenants and should continue to generate cash on an underlying basis. However, the shares are trading at a significant discount to the market and offer a yield of over 5% based on a DPS well-covered by earnings and cash flow.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/15	69.1	16.7	17.9	5.0	7.9	3.5
07/16	84.4	17.7	19.3	6.5	7.3	4.6
07/17e	94.7	18.7	19.5	6.9	7.3	4.9
07/18e	105.9	20.3	21.2	7.3	6.7	5.2

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

Further growth achieved in H117

The H117 results demonstrated a continuation of UTW's growth trajectory but also a significant exceptional charge (£14.4m – the majority relating to an impairment charge to goodwill associated with the acquisition of t-mac Technologies), as well as changes to the business "modus operandi" and accounting treatments. Prior to exceptional items, UTW reported 11% growth in revenue, flat EBITDA, a 4% rise in profit before tax and a 5% increase in the DPS. UTW also decided to discontinue the practice of taking cash advances from suppliers and will now include cash repayments to the suppliers that are not under UTW's control, as debt. These changes (c £20m in FY17) have increased our forecasts for FY17 net debt, but should strengthen the relationship between cash and reported earnings. Despite the higher level of net debt, UTW remains within its revolving credit facility (£25m) and within its banking covenants (2.0x net debt /EBITDA).

Establishing a platform for growth

The new management team of Brendan Flattery (CEO) and Richard Laker (CFO) has refreshed UTW's corporate strategy and put in place a plan for extending the company's growth profile (2018-21). UTW sees a significant opportunity in the UK energy procurement and controls market and has set ambitious targets for market share of energy controls (5%) and energy procurement (7%). Visibility on progress towards these targets will be limited in the short term, but in the longer term success could lead to share price upside given the current undemanding rating.

Valuation: Significant discount to market

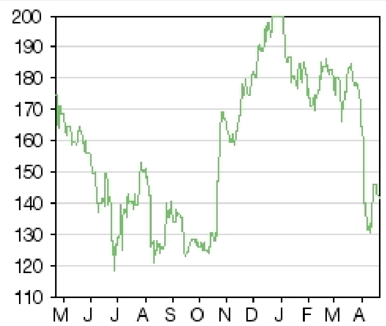
Adjusted figures for calendar year 2017 (based on a price of 140p) indicate that UTW trades on multiples of 6.9x (P/E), 6.2x (EV/EBITDA) and a 5.0% yield. These multiples place UTW on a discount to the wider market valuation (c 50% on P/E), and reflect a significant discount for competitive, accounting or regulatory threats. That said, the share price appears modest given UTW's plans for growth, the attractive yield (DPS well covered by EPS in FY17 and FY18 and free cash flow from FY18) and an expected profile of declining indebtedness.

21 April 2017

Price	**141.50p**
Market cap	**£111m**

Net debt (£m) at 31 January 2017	9.6
Shares in issue	78.5m
Free float	83.%
Code	UTW
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(23.4)	(23.4)	(22.3)
Rel (local)	(20.9)	(23.7)	(30.4)
52-week high/low		202.0p	118.2p

Business description

Utilitywise is an independent cost management consultancy offering energy procurement and management products to the business market

Next events

FY results	October 2017

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Edison profile page

Utilitywise is a research client of Edison Investment Research Limited

Investment summary

Company description: Procurement and energy services

UTW offers energy procurement and management products to the business market, mainly in the UK but with a developing focus on Europe. UTW also offers analysis of water and electricity consumption data, energy and water saving advice, energy consumption management tools and fixed and flexible procurement contracts.

Valuation: Current significant discount to the market

We have compared UTW's ratings to those of the FTSE All Share and Support Service indices. We have also adjusted our forecasts for UTW (July year-end) to provide annualised figures for FY17 and FY18. According to our adjusted figures, and based on a market price for its shares of 140p, UTW trades on CY17 multiples of 6.9x (P/E), 6.2x (EV/EBITDA) and a 5.0% yield, despite robust EPS and free cash flow (FCF) coverage of the DPS. These multiples place UTW on a significant discount to the wider market valuation and appear to be taking a conservative view of any further impact of accounting changes designed to align cash flow and earnings.

Financials: Growth in EBITDA but higher net debt

Our forecasts for revenue, EBITDA and EPS remain broadly unchanged (Exhibit 1). Our projections for net debt have, however, significantly altered following H1's announced changes to business practice and accounting. We have also reduced our projections for DPS growth.

- Revenue – We expect revenue to rise at a CAGR of 12% in the period 2016-18, with the majority of the growth coming from the core energy procurement business.
- Cash flow and balance sheet – We are now forecasting significantly higher net debt figures for FY17 (£18.5m net debt vs £3m cash) and FY18 (£13.4m net debt vs cash £9.5m). The changes broadly reflect the c £20m impact of the board's decision to change business practice and the associated accounting changes (£5.5m H117 restatement and anticipated £14.6m H217 impact). We expect greater cash conversion of earnings in the future and a profile of falling indebtedness. UTW will comment on any potential impact of IFRS 15 (revenue from contracts with customers) by the time of its FY17 results (October 2017).
- DPS growth – We forecast that the DPS will be increased by c 5% in FY17 and FY18, leaving cover at a robust 2.9x in FY18.

Exhibit 1: Changes to forecasts

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	20.0	19.5	-2.5%	19.1	18.7	-2.1%	19.4	19.8	+2.1%
2018e	23.2	21.2	-8.6%	22.2	20.3	-8.6%	22.2	21.8	-1.8%

Source: Edison Investment Research

Sensitivities: Competition, regulation and accounting

- Competition: An intensification of competition beyond that assumed in our forecasts could pose a threat to growth and margins.
- Accounting changes: Significant changes to accounting standards for revenue recognition could require changes to published profitability.
- Legislation and regulation: Unforeseen changes to regulation governing the UK energy market and the role of third-party intermediaries (TPIs) could pose a threat to the business.

Procurement and energy services

UTW has established a track record of growth. Energy procurement in the UK remains the principal engine of the business, although UTW has added to the range of products and services that it offers, via both organic development and acquisition. The new management team recently set out its strategy for continuing UTW's growth and we examine their plans in this report.

Servicing SMEs and large corporate clients

UTW provides energy procurement and other energy services to the business market, principally in the UK, although with a nascent European operation. UTW segments its business into two divisions: Enterprise and Corporate. The Enterprise Division services SME and mid-market customers, while the Corporate Division focuses on the larger industrial & commercial (I&C) clients. The Enterprise Division was the original core of UTW's operation and still accounts for the majority of its profits. The business employs energy consultants, who seek, using tele-marketing, to win contracts by targeting customers identified by UTW's in-house CRM system (Quantum). In addition to the tele-marketing approach, UTW sources new business from partner referrals and field based consultants and is looking to extend its new business channels. The Corporate division, which targets larger clients, although still focused on wining energy procurement contracts, has a more consultative approach to contract sales and aspires to the status of a trusted advisor, offering a range of energy service products. These services can include energy monitoring and reporting, energy controls (including remote control) and usage reduction, compliance and accreditation.

Growth via organic and acquisitive means

UTW was founded by Geoff Thompson in 2006 to assist SME companies with energy procurement. Since its inception UTW has added other energy services to its offering. The business is now focused on three overarching strategic objectives:

- Continuing organic growth via increases in consultant headcount in the Enterprise Division, improved productivity and the development of additional services across its business including, for example, the provision of water and electricity consumption data, water and energy saving advice, and real-time control of consumption.
- Further acquisitive growth that will add to the overall proposition that UTW is able to offer its customers, such as in the case of the acquisition of t-mac in April 2015.
- UTW is also intent on expanding in Europe. UTW acquired ICON to act as a base for its operations in continental Europe and is now focused on Belgium, the Netherlands, France and Germany (in addition to the UK).

A year of significant management change

There have been a number of changes to the composition of the board at UTW in recent months, notably to the ranks of the executive team. At the beginning of October 2016 Brendan Flattery joined UTW as CEO (from Sage), succeeding Geoff Thompson, founder of the business. In turn, Geoff Thompson assumed, successively, the roles of executive and then non-executive chairman. UTW also saw the departure of the CFO and company secretary, Jon Kempster (December 2016). Jon Kempster was succeeded as CFO by Richard Laker, who had previously worked as CFO at waste company Augean, and as company secretary by internal appointee, Julianne McCorry. In addition to changes to the executive team, Simon Waugh joined as a non-executive director and senior independent director in October 2016. At the start of 2017, Kathie Child-Villiers replaced Tom Maxwell as a non-executive director. Following these changes the board of UTW is now comprised of 9 directors (3 executives and 6 non-executives).

A story of continued growth

UTW's business grew again in H117 and the company recently set out plans to extend its growth profile to 2021. In the short term, changes to business practice and accounting treatment have led to a significant increase in our projected FY17 net debt figure, although our EBITDA projections for FY17 are little changed. Recent share price falls, resulting from the announced changes, have left UTW trading at a significant discount to market multiples and offering a significant yield (above 5%) for CY17 despite a dividend that is well covered by both EPS and (from FY18) FCF.

H117 results: Gain and pain

UTW's H117 results were characterised by continuing growth in a number of key metrics but also a significant exceptional charge, changes to the business modus operandi and accounting treatments.

Underlying growth

Prior to exceptional items, UTW reported 11% growth in revenue, flat EBITDA but a 4% rise in profit before tax and a 5% increase in the DPS. The key figures shown in Exhibit 2 are prior to exceptional items, share-based payments and intangible amortisation. At the EBITDA level, a £1.4m increase from the Enterprise Division was offset by £1.4m decline at the Corporate business. We examine the divisional split in more detail later in this report.

Beyond the figures highlighted, UTW also achieved a 14% increase in UK customer numbers to 33,495, a 24% uplift in order book growth, to £50.2m, demonstrating improved productivity given the 6% rise in consultant headcount, and a closing order book of £28m (+9%). Of the closing order book, 89% is expected to go live in the next 18 months.

Exhibit 2: UTW H117 financial performance, before exceptional items, share-based payments and amortisation of intangible assets

		H117	H116 (restated)	Change (%)
Revenue	£m	46.1	41.6	11%
Adjusted EBITDA	£m	9.7	9.7	-
Depreciation	£m	(0.4)	(0.4)	-
Adjusted PBT	£m	9.4	9.1	4%
Diluted EPS	p	9.6	9.6	-
DPS	p	2.3	2.2	5%

Source: Utilitywise

Exceptional Items

UTW incurred an exceptional charge in H117 of £14.4m. The most significant portion (£13.4m) related to an impairment charge to the carrying value (goodwill) of t-mac Technologies. While management remains confident of the longer-term prospects of the business, a more cautious attitude towards the short-term revenue generation potential has led to a diminution of value (as derived from UTW's DCF model of the business). A smaller amount, £1.2m, related to legal restructuring and other costs. Set against the exceptional charges, UTW released provisions worth £0.25m (historic dilapidations provision).

Business practice, accounting treatment and cash flow

The new management team also made an important strategic decision regarding business practice, which has resulted in accounting changes and in turn prior year adjustments to the level of net debt. The changes to business practice will also lead to a one-off lower cash flow in H217.

Henceforward UTW will discontinue the practice of taking cash advances from suppliers. Historically, these advances took two forms: advances against future commissions earned on the sale of contracts from that supplier, and quasi loans. As commissions were earned on sales, the level of the advance was correspondingly reduced. The second form of advances, which were not dependent on commissions, took the form of loans, repayable at pre-defined times and levels.

As at 31 July 2016, UTW cash advances totalled £10.4m. UTW has decided those advances not related to commission sales, but that include cash repayments to the client that are not in UTW's control, should more properly be regarded as debt and have therefore been reclassified as such in the balance sheet. Further, commission-related advances of £4.5m will be repaid in H2 and additional cash advances, totalling £9.2m, will not be pursued in the period, ensuring that by year end UTW will no longer have any volume related supplier advances on balance sheet. These changes, while not having a significant impact on FY17 income, have increased historic debt balances (Exhibit 3) and our forecasts for FY17, but should ensure a stronger relationship between cash earnings and reported earnings in the future. By putting its sales business on a more transparent basis, UTW believes it will enhance its competitive position and increase the rate of customer capture.

UTW also made prior period adjustments in respect of some of its own shares repurchased through an employee benefit trust as a hedge against share option exercises. The shares, formerly held as cash (£0.75m), will now be classified as equity "own shares reserve". Despite the accounting changes and the resultant higher level of net debt, UTW remains comfortably within its revolving credit facility (£25m) and within its banking covenants (2.0x net debt/EBITDA).

Exhibit 3: Accounting adjustments

£m	January 2017	January 2016	July 2016
(Net debt) prior to restatement	(4.1)	(10.2)	(0.2)
Supplier loans reclassified from trade payables to net debt	(4.7)	(5.3)	(4.0)
Loan value adjustment	-	(0.5)	(0.5)
Own shares reclassified out of cash	(0.8)	(0.8)	(0.8)
Net debt after restatement	(9.6)	(16.8)	(5.5)

Source: Utilitywise

Enterprise Division

The Enterprise Division is still responsible for generating the majority of UTW's revenue (83% of group revenue in H117) and profits. After a record year in FY16, the Enterprise Division increased profits again in H117. Revenue rose by 20% in total in H117 (vs H116) and EBITDA increased by 18%, with the nascent European business moving into profitability. Significantly the business demonstrated improved productivity, with revenue and EBITDA growth achieved with only a 6% increase in consultant headcount (clients +12.7% during the same period). The rise in headcount, after limited growth in FY16 (+15 during the year), was achieved by a reduction in attrition rates from 39% in H116, to 25% in H117.

Telesales still accounts for the majority of the sales activity (c 72%) but only 23% of business is now generated from same supplier renewals (vs c 45% of total business in FY14). Nevertheless, given the nature of UTW's business and the continued growth achieved, accrued revenue rose to £46.1m in H117. Encouragingly the number of UK Enterprise customers rose to 31,978 (vs 30,552 at FY16) and the closing order increased to £28m (£25.6m FY16). Of the closing order book, £13.7m is scheduled to unwind in the current year and 89%, in total, by the end of FY17.

Exhibit 4: Enterprise division

£m	H116	H117	% increase
Revenue			
UK	29.2	34.5	+18%
Europe	3.4	4.6	+37%
Total	**32.6**	**39.1**	**+20%**
Adjusted EBITDA			
UK	8.0	9.1	13.%
Europe	N/A	0.4	N/A
Total	**8.0**	**9.5**	**18%**

Source: Utilitywise, Edison Investment Research

Corporate division

After a tough FY16, the Corporate business also suffered a difficult H117 (revenue down 19% and EBITDA down 87% vs H116). The performance did, however, show some improvement (EBITDA +£0.7m) versus H216. While energy procurement remained broadly flat, energy services, which comprises a much greater share of the business in the Corporate division than it does for Enterprise, suffered greater pressures. Revenue declined as a result of a deferral of some client plans for the roll-out of UTW's technology and the loss of ESOS revenue (£0.6m), which benefited H116. The ongoing investment in the business, which depressed H216, also weighed on the H117 figures.

Despite the tough conditions there were some grounds for optimism and the management team remains confident on the outlook, pointing to continuing pipeline growth. Customer numbers continued to grow and the number of SmartDash meters rose to 11,811 (+119%). WiseLife, which is due for commercial roll-out in H217, is currently being trialled by 193 customers.

Exhibit 5: Corporate division

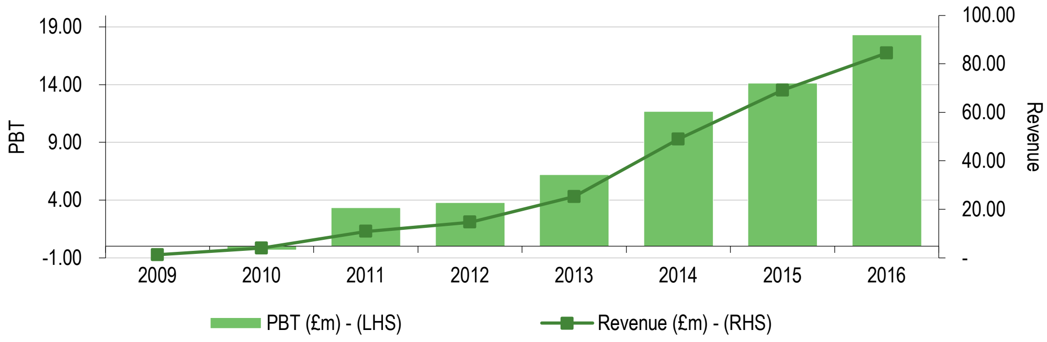
£m	H116	H117	% increase
Revenue			
Procurement	4.3	4.2	-2%
Energy services	5.1	3.6	-30%
Total	**9.4**	**7.8**	**-19%**
Adjusted EBITDA			
Procurement	1.1	1.1	-
Energy services	0.6	(0.9)	N/A
Total	**1.7**	**0.2**	

Source: Utilitywise, Edison investment Research

A record of sustained growth

While H117 demonstrated growth over H116 (revenue +11%, PBT +4%), it also represented an extension of the period of growth achieved by UTW since its foundation in 2006 and its market listing in 2012. The progression of the FY revenue and profitability is shown in Exhibit 6.

Exhibit 6: UTW progression of revenue and PBT since 2009



Source: Edison Investment Research, Utilitywise

UK market opportunity for energy procurement

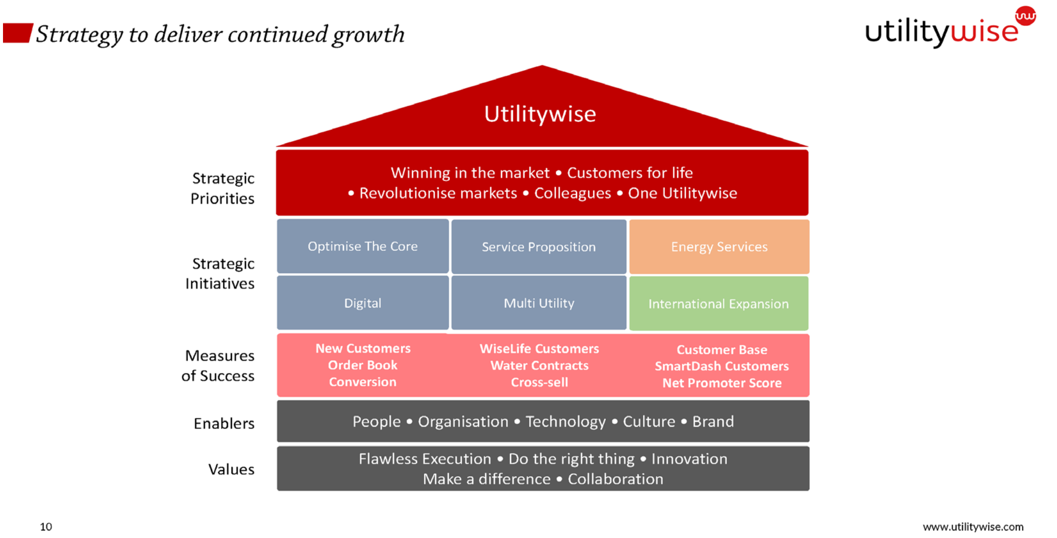
Although UTW is active in extending the scope of its business into other services and geographies in its search for growth, it continues to see a significant opportunity in the UK energy market for its procurement activities, in spite of the strong growth achieved in recent years. The potential market is estimated to consist of c 2.45m customers. The vast majority (over 2.1m) of these businesses are what UTW classifies as micro-businesses and would be serviced by the Enterprise Division. Large and upper-mid market clients would number only c 7,500 and would be serviced by the Corporate Division. With a total UK customer base of c 32,000, UTW believes it has significant scope to expand.

Figures produced by the energy regulator, Ofgem, support UTW's assumption. According to Ofgem's figures, 37% of the potential market for energy procurement contracts has never switched supplier, with 47% of those eligible to switch having done so directly. Only 16% of the market has used a TPI, and of this segment UTW estimates it has a c 12% share. Assuming that 80% of the combined FY16 turnover of the Enterprise and Corporate divisions related to UK energy procurement (80%×[£15.6m+£68.8m] = £67.5m) and assuming UTW services c 1.9% of the total market (12%×16%), then the total market would be in the region of c £3.6bn (£67.5m/1.9%). Of course it could be that the customers that have switched represent larger companies within the designated market, yielding greater revenue to the TPIs and overstating the size of the market in monetary terms. However, the figures suggest that there is still a significant proportion of the market that remains untapped by TPIs.

The strategic goals and priorities

Following recent changes to the management team, UTW has developed a new strategic plan, designed to capitalise on the opportunities in the UK energy procurement market but remaining aligned with the overarching target of continued growth. At its capital markets day, held at the beginning of March 2017, UTW set out the key elements of this new plan, including not only its strategic priorities but also the initiatives designed to deliver on its objectives. Exhibit 7 sets out UTW's plan and we provide additional information in the following section.

Exhibit 7: UTW's strategic plan for growth



Source: Utilitywise

Below is a summary of the key initiatives to be undertaken to provide the targeted growth.

- "Optimising the Core" focuses on the approach to market (developing alternative sales channels), improvements in the operating model and productivity, some of which is already evident (H117 order book +25%, headcount +7%).
- A "Digital Initiative" will seek to exploit the untapped market of 1.5m SME customers (84% of the market) that have never switched energy supplier.
- The "Multi-Utility" initiative is designed to allow businesses to manage all their interactions with utilities on a single platform (UTW's research suggests that 70% of customers want a multi-utility service). Currently UTW is working on adding water procurement services to its existing energy platform. We examine this opportunity in more detail in a later section of this report.
- The "Service Proposition" will seek to drive recurring revenue from developing customer service plans using UTW's IoT "Wiselife" platform, which is scheduled for rollout in the summer of 2017.
- "Energy Services" is seen as an opportunity for developing UTW's internet-enabled control devices, while "International Expansion" remains a medium-term objective.

Enabling implementation

UTW has identified a number of "enablers" that are crucial to the successful implementation of its new plan. The list of "enablers" includes people, organisation, technology, culture and brand. In this section we focus on technology as a key enabler and how UTW believes technology will allow it to capture new customers, increase productivity, diversify its route to market, deepen its relationship with the customer and differentiate itself from the competition.

We expect UTW to develop a digital interface with its client base that would allow the customer to sign procurement contracts online. Analysis carried out by UTW indicates that over 50% of SME customers choose online as a preferred source of information and UTW has observed that SME customers are behaving in an increasingly similar manner to domestic customers who use online switching sites to secure the most advantageous deals. Online switching capability would allow UTW to develop another route to market to complement its existing telesales partner channel and field sales and improve the efficiency of the business.

SmartDash, which is already operational and is currently deployed at c 11k clients, will also play a significant part in UTW's digital strategy. SmartDash is UTW's energy and water monitoring system, enabling consumers to monitor usage on an annual, monthly, weekly and daily basis, and enabling clients to receive a comprehensive consumption profile and insight, which can facilitate money saving behavioural changes. SmartDash can be used to monitor a whole business, a site only, or just part of a site, identifying peaks, spotting anomalies and reducing waste.

The WiseLife product is seen by UTW as a first step into the Internet of Things (IoT). WiseLife enables the user to control electrical devices from their phones or tablets, enhancing customer energy efficiency. For half hourly billed sites, strategies can be put in place to reduce demand at times of peak consumption, thereby reducing costs. In addition, alarms can be set to notify customers of irregular consumption patterns. WiseLife sits above existing Building Energy Management System (BEMS) and can be linked to other asset management systems including security and stock control. The product is designed to be easy to connect (10 minutes according to UTW) and is due to be launched formally this summer. In the meantime UTW is trialling the system with c 200 clients with a view to enhancing its usability. WiseLife will be available to customers as part of a subscription service, which will allow UTW to begin to develop a stream of recurring revenue.

Evaluating progress

UTW intends to measure its progress towards meeting its targets against a range of benchmarks. These benchmarks include: new customers, WiseLife Customers, Customer base, order book, water contracts, SmartDash customers conversion, cross-selling and net promoter score (currently +59). While UTW has not revealed explicit targets for each of these benchmarks, it has established clear targets for two important objectives: customer numbers and revenue from the energy controls market.

Specifically UTW aims to increase UK SME customer numbers to 130,000 by July 2021, equivalent to a market share of 7% of the micro SME and SME market combined. To put these targets into context, UTW had c 32,000 SME customers at the end of FY16 (c 2% of the market) and therefore UTW will need to achieve a CAGR in customer numbers of 33% in the period 2016-21 to meet its target. The target for revenue from the corporate energy controls of 5% (ie £75m), of the £1.5bn UK market by 2021, appear similarly ambitious.

Exhibit 8: Customer growth (UK only) and Enterprise division order book additions

	2012	2013	2014	2015	2016	H117
Customer numbers						
Enterprise (n)	10,000	15,333	19,966	25,185	30,552	31,978
Corporate (n)	N/A	550	662	991	1,427	1,517
Total	10,000	15,883	20,628	26,176	31,979	33,495
Order book additions (£m)				62.7	84.5	

Source: Utilitywise, Edison Investment Research

The plan is designed to be implemented in the period 2018-21 and there are likely to be few short-term indicators of success. In turn, the market is unlikely to accord any short-term valuation uplift based on these targets. They do, however, remain useful in monitoring the progress of UTW towards its strategic objectives and provide a clear indication of the management's view of the scope for further growth.

Developing the multi-utility model

Beyond targeting growth in its core UK energy procurement market, UTW is extending its multi-utility offering into the water market. UTW market intelligence shows that 70% of customers want a multi-utility offering. The entry into the water market marks UTW's first step outside its traditional energy market core, but could be followed, over time, by forays into the telco, webservice and insurance markets.

Water

From 1 April 2017 the water market for non-domestic users in England and Wales opened to competition (Scotland deregulated 2008). The opening of the market has increased the number of customers eligible to source competitively supplied water from c 26k to c 1.2m. The size of the market, at £2.5bn, is large in absolute terms, but is significantly smaller than the UK energy market (£55bn).

To provide a broad brush indication of the opportunity available to UTW, we assume that the market of £2.5bn operates on a retail margin of c 3%, ie £75m. If UTW were to capture just 5% of the available market (£3.75m), and this were to be shared equally between the wholesaler and UTW, the potential additional revenue would be worth in the region of £1.5-2.0m. The figure of £2m, while not game-changing for a company the size of UTW, would provide an attractive addition to its revenue stream and could be augmented by the opportunity to sell gas and electricity contracts to any water clients not already using UTW's energy procurement services.

DPS

UTW increased the H117 DPS by 5% as a mark of continuing confidence in the future of the business. Based on our normalised and fully diluted EPS figure of 19.5p for FY17, a 5% increase for the year would be covered 2.8x. We have reduced our FY17 forecast for DPS to reflect H117's 5% increase but given the high level of cover and the improving cash flow that we are forecasting beyond FY17, UTW remains in a strong position to continue delivering attractive DPS increases.

Exhibit 9: UTW DPS – historic and forecast growth

(p/share)	FY13	FY14	FY15	FY16	CAGR 2012-16	FY17e	FY18e
DPS	2.6	4.0	5.0	6.5	36%	6.9	7.3
EPS	8.7	14.6	17.9	19.4	30%	19.5	21.2
Cover (x)	3.4	3.7	3.6	3.0	N/A	2.8	2.9

Source: Utilitywise, Edison Investment Research

Management

Over the course of the last year there have been significant changes to the composition of the executive and non-executive ranks at UTW.

At the beginning of October 2016 Brendan Flattery joined UTW as CEO (from Sage) succeeding the founder of the business, Geoff Thompson, who assumed the role of executive chairman. In April 2017 Geoff Thompson relinquished executive responsibilities entirely, becoming non-executive chairman. Other changes included the departure of the CFO and company secretary Jon Kempster (December 2016). Jon Kempster was succeeded as CFO by Richard Laker who had previously worked as CFO at waste company, Augean, and as company secretary by internal appointee, Julianne McCorry.

In addition to changes to the executive team, the non-executive ranks have also been strengthened. Simon Waugh, who has held senior roles at Centrica, joined as a non-executive director and senior independent director in October 2016. At the start of 2017 Tom Maxwell, a non-executive director of UTW since its listing, was replaced by Kathie Child-Villiers who has experience in energy and resources banking. Following these changes the board of UTW is now comprised of 9 directors (3 executive and 6 non-executive roles).

Sensitivities and risks

- **Competition:** Increased competition beyond that assumed in our forecasts could pose a threat to growth and margins.
- **Accounting changes:** Further significant changes to the way in which UTW accounts for revenue recognition could require changes to published profitability.
- **Recruitment and retention:** Failure to recruit and retain personnel could restrict the growth of the company both in terms of reduced revenue expectations and additional costs associated with a high turnover of staff.
- **Acquisitions:** Acquisition of complementary businesses remains a key part of UTW's strategy. As with all acquisitive companies there is a risk that UTW could overpay for an acquisition or become distracted from the pursuit of its central strategy.
- **Legislation and regulation:** Unforeseen changes to regulations governing the UK energy market and the role of TPIs could pose a threat to the business.

Valuation

We have compared UTW's ratings to those of the FTSE All Share and Support Service indices. To make the comparison meaningful we have adjusted our forecasts for UTW (July year-end) to provide an annualised figure for FY17 and FY18.

According to our adjusted figures, and based on a market price for its shares of 140p, UTW trades on CY17 multiples of 6.9x (P/E), 6.2x (EV/EBITDA) and a 5.0% yield. These multiples place UTW on a significant discount to the wider market valuation as shown in Exhibit 11.

Exhibit 10: UTW multiples versus the wider market

	FTSE ALLSH 2017e	FTSE ALLSH 2018e	Support Services 2017e	Support Services 2018e	Utilitywise 2017e	Utilitywise 2018e
P/E	14.7	13.5	16.4	15.0	6.9	6.4
EV/EBITDA	8.5	7.9	9.8	9.2	6.1	5.3
Yield	3.9	4.2	2.4	2.6	5.0	5.3

Source: Bloomberg, Edison Investment Research. Priced at 21 April 2017

UTW's rating appears modest for a company with a track record of growth and which is expected to continue to grow in our forecast period. By definition, this analysis takes no account of any growth in the period beyond 2018 related to the implementation of the new strategic plan.

Following a 5% increase in the H117 DPS and based on our new forecasts for the DPS for FY17, UTW offers an attractive yield of c 5%. The DPS remains well covered by earnings (FY18 c 2.9x) and free cash flow (FY18 1.9x). With a forecast decline in indebtedness we expect continued growth (c. 5%) over the forecast period.

Financials

Our forecasts for revenue, EBITDA and EPS remain broadly unchanged (see Exhibit 1). Our projections for net debt have, however, significantly altered following H1's announced changes to business practice and accounting. We have also reduced our projections for DPS growth. Below we outline the principal assumptions that underpin our forecasts:

- Revenue: We expect revenue to rise at a CAGR of 12% in the period 2016-18 with the majority of the growth coming from the core energy procurement business.

- Gross margins: We expect that development expenditure (expensed) in the Corporate division will decline from the levels seen in FY16 and H117. As a result, we forecast that gross margins will rise to c 40% for FY17 and FY18.
- Cash flow and balance sheet: Reflecting recent accounting changes we now forecast significantly higher net debt figures for FY17 (£18.5m net debt vs our previous forecast £3m cash) and FY18 (£13.4m net debt vs cash £9.5m). The changes broadly reflect the c £20m impact of the board's decision to change business practice and the associated accounting changes (£5.5m H117 restatement and anticipated £14.6m H217 impact). We expect greater cash conversion of earnings in the future and, in the absence of acquisitions, a profile of falling indebtedness. UTW will comment on the prospective impact of IFRS 15 (revenue from contracts with customers) by the time of its FY17 results (October 17), although some of the accounting changes announced already are likely to have gone some way to meeting demands for greater comparability of revenue recognition and receipt.
- DPS growth: We have reduced our expectations for the rate of dividend growth following H117's 5% increment, but we expect that UTW will continue to increase the DPS. We forecast that the DPS will rise by c 5% in FY17 and FY18 leaving cover at a robust 2.9x in FY18. We estimate FCF coverage of the DPS to be c 1.9x in FY18.

Exhibit 11: Financial summary

£000s	£000s	2016	2017e	2018e
Year end 31 July		IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue		84,428	94,658	105,942
Cost of Sales		(51,638)	(56,795)	(63,565)
Gross Profit		32,791	37,863	42,377
EBITDA		18,268	19,763	21,787
Operating Profit (before amort and except)		17,511	18,858	20,766
Intangible Amortisation		(1,940)	(1,963)	(1,611)
Exceptionals		3,192	(14,360)	0
Share Based Payments		(639)	(756)	(794)
Other		0	0	0
Operating Profit		18,124	1,779	18,361
Net Interest		184	(168)	(424)
Profit Before Tax (norm)		17,695	18,690	20,342
Profit Before Tax (FRS 3)		18,308	1,611	17,937
Tax		(2,548)	(3,194)	(3,408)
Profit After Tax (norm)		15,147	15,496	16,934
Profit After Tax (FRS 3)		15,760	(1,583)	14,529
Average Number of Shares Outstanding (m)		77.4	78.4	78.6
EPS – normalised (p)		19.6	19.8	21.5
EPS – normalised fully diluted (p)		19.3	19.5	21.2
EPS – (IFRS) (p)		20.4	(2.0)	18.5
Dividend per share (p)		6.5	6.9	7.3
Gross Margin (%)		38.8	40.0	40.0
EBITDA Margin (%)		21.6	20.9	20.6
Operating Margin (before GW and except.) (%)		20.7	19.9	19.6
BALANCE SHEET				
Fixed Assets		69,475	62,695	71,238
Intangible Assets		34,234	19,345	17,734
Tangible Assets		5,591	5,350	5,505
Investments & Other		29,650	38,000	48,000
Current Assets		32,452	33,325	41,965
Stocks		559	614	688
Debtors		19,657	29,000	32,457
Cash		12,237	3,711	8,820
Other		0	0	0
Current Liabilities		(22,643)	(15,199)	(22,199)
Creditors		(21,071)	(15,199)	(22,199)
Short term borrowings		(1,572)	0	0
Long Term Liabilities		(21,251)	(28,092)	(28,653)
Long term borrowings		(16,187)	(22,187)	(22,187)
Other long term liabilities		(5,064)	(5,905)	(6,466)
Net Assets		58,032	52,729	62,351
CASH FLOW				
Operating Cash Flow		13,731	(4,237)	15,633
Net Interest		(654)	(168)	(424)
Tax		(1,814)	(3,194)	(3,408)
Capex		(786)	(665)	(1,175)
Acquisitions/disposals		0	0	0
Financing		1,258	470	0
Dividends		(4,218)	(5,160)	(5,516)
Net Cash Flow		7,517	(12,954)	5,109
Opening net debt/(cash)		13,039	5,522	18,476
HP finance leases initiated		0	0	0
Other		0	0	0
Closing net debt/(cash)		5,522	18,476	13,367

Source: Utilitywise accounts, Edison Investment Research

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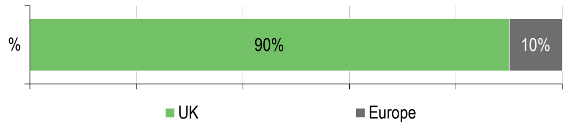
Revenue by geography (H117)



Executive Management team

CEO: Brendan Flattery

Brendan Flattery succeeded Geoff Thompson as CEO in October 2016. Mr Flattery joined Utilitywise from Sage where he held a number of roles in the period 2003-13 including that of CEO (UK & Ireland). Prior to Sage Mr Flattery held senior positions at Yates Group, Intercare and Park Group

CFO: Richard Laker

Richard Laker joined Utilitywise as CFO in January 2017. Mr Laker joined Utilitywise from Augean where he was Group Finance Director. Prior to Augean Mr Laker was at Northgate plc (2004-14) where he held a number of finance roles including that of UK Finance Director. Mr Laker qualified as an accountant in 2001 with PwC.

COO: Brin Sheridan

Brin Sheridan joined the Board of Utilitywise as COO in November 2015. Previously Mr Sheridan was MD of Energy Solutions Group and held senior positions at Satchwell Control Systems and Schneider Electric

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Principal shareholders (taken from Bloomberg 21 April 2017)	(%)
Woodford Investment Management	29.2
2Capita Financial Managers	19.6
Geoffrey Thompson	10.1
River & Mercantile	6.1
Investec	6.0

Companies named in this report