

StatPro Group

Broadening managed-services capabilities for risk

Acquisition

StatPro has acquired the regulatory risk services bureau from ODDO BHF for an undisclosed sum. The acquisition significantly broadens the group's managed-services capabilities in risk and creates cross-selling opportunities. Our EPS rises by 3% in FY18 and FY19; we believe the deal demonstrates how StatPro can add value for shareholders through bolt-on acquisitions. Given the busy M&A backdrop in financial software and the significant valuation disparity between StatPro and its US-listed financial software peers, we continue to see strong upside potential in the shares.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	37.5	2.7	3.3	2.9	51.4	1.7
12/17	49.3	3.4	5.9	2.9	28.9	1.7
12/18e	57.3	5.4	7.0	2.9	24.7	1.7
12/19e	60.1	6.4	8.0	2.9	21.5	1.7

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

Acquisition of regulatory risk services bureau

The acquisition of the regulatory risk services bureau from ODDO BHF adds a full managed service for regulatory risk reporting capability, and StatPro will transition the clients from a legacy technology to the Revolution platform. It also adds 10 new asset management and fund administration clients to StatPro's client base in Germany and Luxembourg. The service will be marketed throughout the EU.

Divisional CEO appointed for Source: StatPro

In March StatPro announced it was introducing a new corporate structure that will be effective from 2019: Revolution (analytics), Source: StatPro (data services) and Infovest (integration services). StatPro has announced the appointment of Gordon Bloor, who has a wealth of expertise and extensive background in market data business development, to head the group's Source: StatPro division. StatPro has significant data IP that has not been effectively commercialised due to lack of resources, and we view this appointment as a very positive step.

Forecast changes: FY19 EPS rise by 3%

We have incorporated the acquisition into our forecasts and have assumed a cost of £1.7m, or c 7x EBITDA. Group revenue and EPS both rise by c 3% in each of FY19 and FY20. We now forecast the group to end FY18 with net debt of £22.7m (previously £21.0m), which falls to £20.6m at end FY19 (£19.7m).

Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 25x our increased FY18 EPS, which falls to c 21x in FY19 and to c 19x in FY20. Alternatively, the shares trade on c 2.3x FY19 EV/sales, around half of the level of StatPro's larger US peers and well below half of US-based pure software as a service (SaaS) companies. When incorporating 10-year organic revenue growth of c 3.8%, a terminal growth of 2%, a long-term margin target of 24.0% and a WACC of 9%, our DCF model values the shares at 223p (previously 220p), c 31% above the current share price.

Software & comp services

5 July 2018

Price 172.00p
Market cap £113m

Net debt (£m) at 31 December 2017	20.2
Shares in issue	65.6m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.4)	5.9	45.2
Rel (local)	(2.4)	(1.6)	40.0
52-week high/low	186.50p	114.0p	

Business description

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

Next events

Interim results	1 August
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Acquisition of regulatory risk services bureau from ODDO BHF

StatPro has acquired ODDO BHF's regulatory risk services bureau, for an undisclosed cash sum. The acquisition adds a full managed service for regulatory risk reporting with the unit producing AIMFD reports, UCITS reports, liquidity reports, liquidity risk reports and Solvency 2 reports. To this effect the unit uses a legacy technology that will transition to the StatPro Revolution platform over the next six months.

StatPro's clients have the option of taking either the SaaS option or using StatPro's new managed service. However, to use the SaaS option, clients require headcount to operate the software and it is typically more cost effective for small and medium-sized institutions to outsource this function to specialists (eg, fund administrators or StatPro) to focus on analysis and trade decision making and execution.

The unit has operated in the Germany and Luxembourg markets for more than a decade and it has 10 asset management and fund administration clients. Once the software replacement is completed, StatPro plans to expand the service to other regions. StatPro will take on the employees of ODDO BHF risk services in Frankfurt, where they will be integrated with StatPro's existing operations and StatPro plans to double the size of the unit to six to eight people.

ODDO BHF risk services has annualised recurring revenues of approximately €1.7m and StatPro expects annual revenue levels for the acquired service to remain broadly similar for 2018. It will incorporate ODDO BHF Risk Service revenues from 1 July 2018 and StatPro says the acquisition is expected to be earnings enhancing in FY19.

Appointment of divisional CEO at Source: StatPro

From 1 January 2019, StatPro will be structured into three divisions: Revolution (analytics), Source: StatPro (data services) and Infovest (integration services). This structure will make the operations of the business clearer, provide distinct divisional management focus and enable growth in each division based on specific divisional priorities.

Source: StatPro provides a sophisticated pricing service for a wide range of assets and will contain StatPro's data revenues from market data managed services, evaluated bond prices, index services, yield-curves and complex asset pricing.

The interesting aspect about Source: StatPro is that it has significant data IP that has not been effectively commercialised due to lack of resources, as the group has been focused on its cloud transitioning. The initial focus is on the following areas:

- Evaluated bond prices
- Index services
 - Managing index data for customers, whereby customers pay the licence to the index firms, but StatPro manages the data
 - Freedom index, which is a series of indices owned by StatPro that correlate closely to the major international benchmarks of the UK, US, Australia and South Africa
- Yield curves; a major strength of the acquired Delta business
- Complex asset prices; StatPro offers modelled prices on complex illiquid instruments such as collateralised debt obligations (CDOs).

Forecast changes: Revenue and EPS move up by c 3%

We have incorporated the acquisition into our forecasts and have assumed a purchase price of £1.7m in cash, or c 7x EBITDA, in line with the multiple paid for UBS Delta. We forecast revenues from the acquisition of £0.8m for six months in FY18, rising to £1.6m in FY19 and £1.7m in FY20. Consequently, group revenue rises by 1.3% in FY18 and 2.8% in FY19 and FY20. We have edged up our net interest forecasts for the higher net debt levels and EPS is broadly unchanged in FY18 at 7.0p, while rising by 3% in each of FY19 and FY20 to 8.0p and 9.1p respectively. We now forecast the group to end FY18 with net debt of £22.7m (previously £21.0m), which falls to £20.6m at end FY19 (£19.7m).

Exhibit 1: Forecast changes

£000s	2018e		Change (%)	2019e		Change (%)	2020e		Change (%)
	Old	New		Old	New		Old	New	
Revenues									
Traditional software rental	17,580	17,580	0.0	15,580	15,580	0.0	13,580	13,580	0.0
StatPro Revolution	32,708	33,459	2.3	36,440	38,054	4.4	40,821	42,549	4.2
Data	4,151	4,151	0.0	4,359	4,359	0.0	4,555	4,555	0.0
Professional services	2,060	2,060	0.0	2,102	2,102	0.0	2,144	2,144	0.0
Group revenue	56,500	57,251	1.3	58,480	60,095	2.8	61,100	62,828	2.8
Growth (%)	14.5	16.0		3.5	5.0		4.5	4.5	
Opex (before devt costs depn)	(48,771)	(49,446)	1.4	(49,835)	(51,230)	2.8	(51,435)	(52,879)	2.8
Capitalisation of dev costs (net)	938	938	0.0	610	647	6.1	485	506	4.4
Adjusted EBITDA	8,666	8,743	0.9	9,255	9,511	2.8	10,149	10,455	3.0
Depreciation	(1,900)	(1,925)	1.3	(1,850)	(1,869)	1.0	(1,800)	(1,813)	0.7
Adjusted operating profit	6,766	6,818	0.8	7,405	7,643	3.2	8,349	8,642	3.5
Operating margin (%)	12.0	11.9	(0.6)	12.7	12.7	0.4	13.7	13.8	0.7
Growth (%)	34.5	35.5	2.9	9.4	12.1	28.2	12.8	13.1	2.5
Net interest	(1,396)	(1,439)	3.0	(1,221)	(1,264)	3.5	(1,071)	(1,114)	4.0
Profit before tax (norm)	5,370	5,379	0.2	6,184	6,379	3.2	7,278	7,528	3.4
Amortisation of acquired intangibles	(3,243)	(3,243)	0.0	(3,243)	(3,243)	0.0	(3,243)	(3,243)	0.0
Share based payments	(650)	(650)	0.0	(675)	(675)	0.0	(700)	(700)	0.0
Profit before tax	1,477	1,486	0.6	2,266	2,461	8.6	3,335	3,585	7.5
Taxation	(752)	(753)	0.2	(1,051)	(1,084)	3.2	(1,456)	(1,506)	3.4
Minority interest	(40)	(40)	0.0	0	0	0.0	0	0	0.0
Net income	685	693	1.1	1,215	1,377	13.3	1,880	2,080	10.6
Adjusted EPS (p)	7.0	7.0	0.2	7.8	8.0	3.2	8.8	9.1	3.4
P/E - Adjusted EPS (p)		24.7			21.5			18.9	

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		30,187	37,545	49,337	57,251	60,095	62,828
Cost of Sales		0	0	0	0	0	0
Gross Profit		30,187	37,545	49,337	57,251	60,095	62,828
EBITDA		4,044	5,104	6,951	8,743	9,511	10,455
Adjusted Operating Profit		2,852	3,461	5,030	6,818	7,643	8,642
Amortisation of acquired intangibles		(32)	(1,060)	(2,243)	(3,243)	(3,243)	(3,243)
Exceptionals		0	(11,378)	(3,934)	0	0	0
Share based payments		(121)	(361)	(626)	(650)	(675)	(700)
Operating Profit		2,699	(9,338)	(1,773)	2,925	3,725	4,699
Net Interest		(290)	(786)	(1,585)	(1,439)	(1,264)	(1,114)
Profit Before Tax (norm)		2,562	2,675	3,445	5,379	6,379	7,528
Profit Before Tax (FRS 3)		2,409	(10,124)	(3,358)	1,486	2,461	3,585
Tax		(788)	(489)	537	(753)	(1,084)	(1,506)
Profit After Tax (norm)		1,774	2,843	4,592	4,626	5,295	6,023
Profit After Tax (FRS 3)		1,621	(10,613)	(2,821)	733	1,377	2,080
Minority interests		0	(94)	(131)	(40)	0	0
Net income (norm)		1,774	2,186	3,851	4,586	5,295	6,023
Net income (statutory)		1,621	(10,707)	(2,952)	693	1,377	2,080
Average Number of Shares Outstanding (m)		67.6	65.3	64.8	65.7	66.0	66.3
EPS - normalised (p)		2.6	3.3	5.9	7.0	8.0	9.1
EPS - FRS 3 (p)		2.4	(16.4)	(4.6)	1.1	2.1	3.1
Dividend per share (p)		2.90	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 (%)		13.4	13.6	14.1	15.3	15.8	16.6
Operating Margin (before GW & except.) (%)		9.4	9.2	10.2	11.9	12.7	13.8
BALANCE SHEET							
Fixed Assets		51,857	59,088	70,864	68,974	67,106	65,235
Intangible Assets		48,613	55,696	64,793	63,282	61,480	59,537
Tangible Assets		2,233	2,742	3,303	2,924	2,858	2,930
Other assets		1,011	650	2,768	2,768	2,768	2,768
Current Assets		10,665	19,081	20,717	20,190	22,501	24,765
Stocks		0	0	0	0	0	0
Debtors		8,462	14,725	16,406	19,038	19,983	20,892
Cash		2,203	4,356	4,311	1,153	2,518	3,873
Current Liabilities		(19,778)	(35,686)	(40,011)	(43,264)	(45,458)	(47,662)
Creditors		(19,660)	(27,227)	(32,560)	(35,813)	(38,007)	(40,211)
Short term borrowings		(118)	(8,459)	(7,451)	(7,451)	(7,451)	(7,451)
Long Term Liabilities		(1,227)	(9,897)	(22,416)	(21,717)	(18,790)	(15,864)
Long term borrowings		(801)	(5,961)	(17,076)	(16,377)	(15,677)	(14,978)
Other long term liabilities		(426)	(3,936)	(5,340)	(5,340)	(3,113)	(886)
Net Assets		41,517	32,586	29,154	24,184	25,358	26,474
CASH FLOW							
Operating Cash Flow		6,548	7,454	10,676	14,659	15,782	17,170
Net Interest		(84)	(500)	(1,227)	(1,439)	(1,264)	(1,114)
Tax		(832)	(1,294)	(144)	(1,253)	(699)	(1,021)
Capex		(4,999)	(6,445)	(7,213)	(8,114)	(8,419)	(8,793)
Acquisitions/disposals		0	(4,786)	(10,269)	(4,431)	(1,429)	(2,274)
Equity financing		64	(2,079)	926	0	0	0
Dividends		(1,960)	(1,877)	(2,012)	(1,879)	(1,907)	(1,915)
Net Cash Flow		(1,263)	(9,527)	(9,263)	(2,458)	2,064	2,055
Opening net debt/(cash)		(2,680)	(1,283)	10,065	20,217	22,675	20,610
Other		(134)	(1,821)	(889)	0	0	0
Closing net debt/(cash)		(1,283)	10,065	20,217	22,675	20,610	18,556

Source: Company accounts, Edison Investment Research

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