StatPro Group

Annual report

Anticipating an acceleration in organic growth

Software & comp services

After nearly a decade developing its cloud services platform for the asset management industry, the investment at StatPro is starting to pay off. Fund administrators have begun to extend their use of Revolution and StatPro has beefed up its sales team to drive direct sales. The acquisition of Delta in May 2017 has added depth to StatPro's front office capabilities, complementing its traditional middle office focus. Organic revenue growth was 2% in FY17 and management is optimistic that growth will accelerate over the next few years. Given the busy M&A backdrop, 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	48.4	1.8
12/17	49.3	3.4	5.9	2.9	27.3	1.8
12/18e	56.5	5.4	7.0	2.9	23.3	1.8
12/19e	58.5	6.2	7.8	2.9	20.8	1.8

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

Investment case: Scaling the cloud platform

Following the launch of the Performance module in 2016 and the acquisitions of Investor Analytics and Delta, StatPro now offers a significantly enhanced, multi-tenanted cloud platform. StatPro's solutions enjoy big advantages over traditional software as there are no hardware or IT support costs; the new technology is more efficient and faster at processing data, hence requiring a lower headcount; and the product can enable customers to streamline their processes and systems.

Final results: FY17 organic growth was 2%

FY17 revenue grew by 31%, or 26% at constant currencies, to £49.3m) and the recurring revenue book closed the year at £53.0m (organic growth of 1%). Adjusted operating profit rose by 45% to £5.0m, with the operating margin lifting by 100bp to 10.2%. Operating cash flow jumped by 43% to £10.7m, while adjusted free cash flow swung jumped from £0.7m to £5.2m.

Forecasts: FY18 eased for FX, FY19 introduced

We have eased our FY18 forecasts for the recent sterling strength, with revenues rising by 15% and operating profits by 35% for a 12.0% margin. We forecast revenues to rise by 3.5% in FY19, with the operating margin expanding to 12.7%.

Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 23x our FY18e EPS, which falls to c 21x in FY19e and to c 18x in FY20e. Alternatively, the shares trade on c 2.2x FY19e 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 c 3.8%, a terminal growth of 2%, a long-term margin target of 24.5% and a WACC of 9%, values the shares at 218p, 34% above the current share price.

19 April 2018

Price	**162p**
Market cap	**£106m**

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	(8.0)	8.0	29.1
Rel (local)	(9.7)	13.3	25.7
52-week high/low		186.50p	114.00p

Business description

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

Next events

AGM	24 May 2018
H1 trading update	July 2018
Interim results	August 2018

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Edison profile page

StatPro Group is a research client of Edison Investment Research Limited

Investment summary: Growth acceleration

Company description: Asset manager software supplier

StatPro's software products are used by asset managers to measure the performance and risk profile of their funds under management. StatPro's flagship product, StatPro Revolution, is a multi-tenant cloud services (or SaaS) application. The group has c 500 customers, including c 115 of the world's top 500 asset managers, and the largest customer generates less than 5% of group revenues. The group's products are primarily used by middle office functions, but the acquisition of Delta in early 2017 has significantly extended the offering into front offices. The challenge now is to accelerate the organic growth rate through exploiting the digital transformation occurring in the asset management industry and by broadening the functionality on the group's cloud platform.

Financials: Many years of healthy cash generation

StatPro has always operated a rental business model, hence recurring revenues are high, and contracts are typically for three years. At end-2017, the group's annualised recurring revenues (ARR) stood at £53.0m, underpinning our forecasts. StatPro has been profitable and generated positive free cash flows in each year since FY03. In FY17, StatPro Revolution grew by 91%, helped by a currency tailwind, a full period contribution from Investor Analytics and an initial eight months from Delta. The group's traditional software suite, Seven, has continued to prove more resilient than expected, growing by 5%. Operating cash flow jumped by 43% to £10.7m in FY17. We forecast operating cash flow to rise by 40% in FY18 to £14.6m and for net debt to edge up to £21.0m.

Exhibit 1: Revenue by type of service

£m	2016	2017			
		Existing ops	Acquisition	Total	Change (%)
StatPro Revolution	12.26	14.21	9.26	23.47	91%
StatPro Seven	18.92	19.78	-	19.78	5%
Data fees	3.81	4.07	-	4.07	7%
Total recurring revenue	34.99	38.06	9.26	47.32	35%
Professional services and other revenue	2.56	2.02	-	2.02	-21%
Total revenue	37.55	40.08	9.26	49.34	31%
Percentage of revenue that is recurring	**93%**	**95%**	**100%**	**96%**	

Source: StatPro accounts

Sensitivities: Financial market volatility, competition

We highlight three key sensitivities: market volatility (the health of the equity and bond markets will partly determine the IT investment budgets of the asset management firms), competition (we continue to believe StatPro holds a significant first-mover advantage in this cloud computing space and that its new cloud products are difficult to replicate) and sector evolution (there is a risk that large tech companies could enter the asset management space, and that the robo/online advisory industry could pose a threat to the traditional asset management industry).

Valuation: Sector deals indicate significant upside

The active M&A environment continues to run unabated across the financial software sector with SS&C and ION acting as major consolidators. Most notably, the group's key competitor, BISAM, was acquired by FactSet for 7.3x sales in March 2017, while Fidessa could be sold for more than 4x revenues. While StatPro is a small company, it has spent nearly a decade transitioning to the cloud and has the only cloud-based, multi-tenant portfolio analytics solution that can provide such a broad range of functions across performance, risk and regulation. With the heavy investment now beginning to pay off, we believe StatPro remains an attractive investment at 2.2x FY19 revenues.

Company description: Cloud-based portfolio analytics

StatPro is a specialist cloud-based analytics software provider, targeting the global asset management industry. The group's flagship solution, StatPro Revolution, is an integrated, cloud-based performance and risk platform designed to increase productivity and lower costs. StatPro Revolution is used both for internal purposes and for client reporting. The cloud software includes functionality across both equity and fixed income, for performance measurement, attribution analysis and risk management. Cloud-based technology enables a software vendor to increase its operational efficiency while allowing its clients to handle a larger and more complex workload, without increasing headcount or technology costs.

The company has c 500 clients, including c 115 of the world's top 500 fund managers and 10 of the top 15. The 500 clients also include c 50 asset service providers which can be viewed as StatPro Revolution resellers/distributors. However, they act as customers and handle their own support.

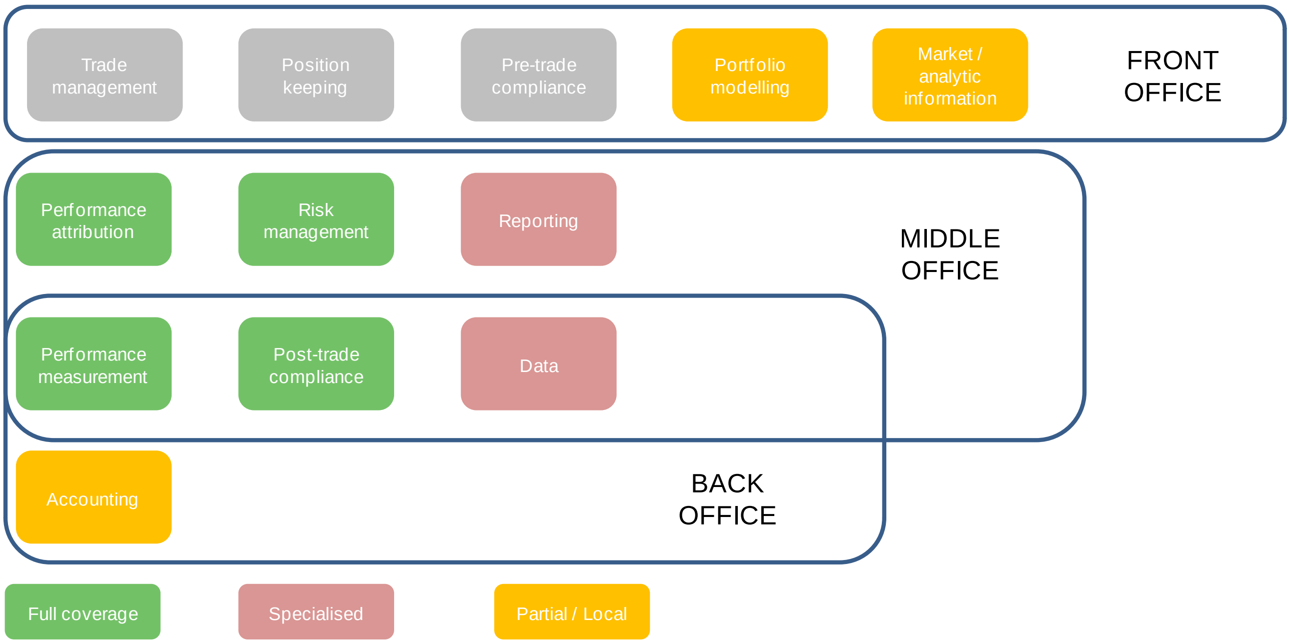
The complex portfolio analysis that StatPro's products perform helps in two ways:

1. The investment process relies on timely and accurate analytics. Analysing both performance and risk is essential to help deliver client returns that clients are expecting.
2. Through information distribution and reporting. Attracting new capital relies on clear, effective and visual portfolio analysis. By allowing this process to be truly digitised, StatPro helps investment managers explain their investment strategy to new and existing clients.

StatPro also has three traditional software modules that it maintains:

- **StatPro Composites (SC),** an industry-leading solution which enables the aggregation of individual portfolios representing a similar investment mandate and compliance with Global Investment Performance Standards (GIPS).
- **StatPro Portfolio Control (SPC),** which ensures managers are within the bounds of specified regulations.
- **StatPro Portfolio Management (SPM),** which offers an integrated suite of portfolio management software and investment accounting modules.

Exhibit 2: Product scope



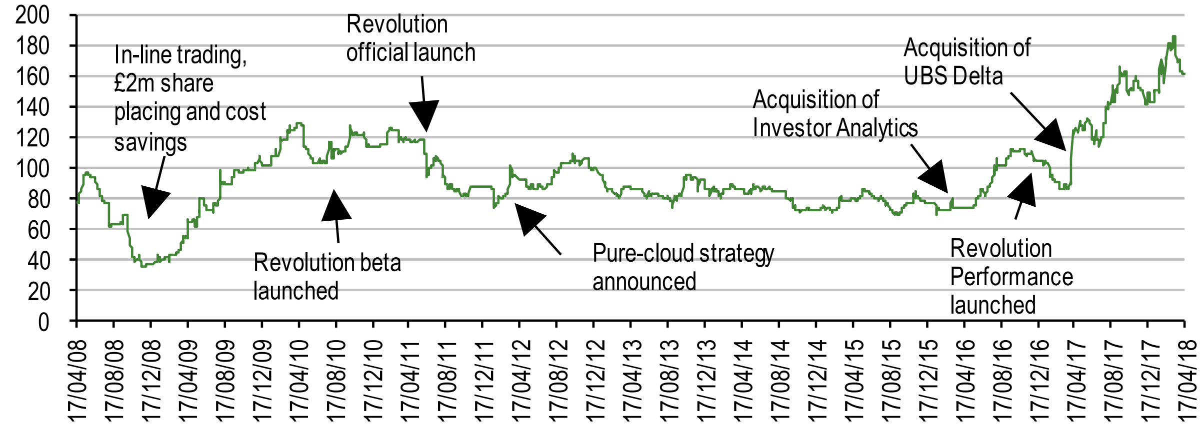
Source: StatPro

Strategy – Cloud transition and acquisitions

StatPro expanded its product suite and geographic position through a series of acquisitions over its 24-year history. Around 10 years ago, StatPro took the decision to build a cloud computing product. To achieve this, management exploited the group's domain knowledge, technical skills and access to data to develop an entirely new software application from scratch, and that product is now the group's flagship solution. The development and establishment of StatPro Revolution has focused management time for many years and the transition to cloud is a painful process for any software business to undergo. Now StatPro is emerging as a much more efficient and scaleable business with a solution at the forefront of the industry and 48% of FY17 revenues were from Revolution. The acquisition of Delta was a tremendous coup for StatPro, as it was able to acquire the business on very favourable terms. This was because UBS Delta's technology needs to be refreshed and it is increasingly difficult for non-software businesses to maintain an application.

Management is now shifting its focus on driving the growth, exploiting the group's high-quality client base, people talent and global office structure. Exhibit 3 below shows key staging points in the context of the company's share price history.

Exhibit 3: Share price history over 10 years



Source: Bloomberg, regulatory news

StatPro Revolution: Now 57% of the recurring revenue run rate

StatPro Revolution is a multi-tenant product (ie a single instance of a software application can serve multiple customers in a similar way to Google or Facebook). An initial version was launched commercially in late 2011, and the core transaction-based performance processing functionality was added in 2016. This Performance module runs off the Amazon Web Services platform, which means the solution can leverage vast computing power to process data in minutes, as and when required, giving it a significant advantage over traditional vendors that can only utilise the computing power of the hardware on which they are installed.

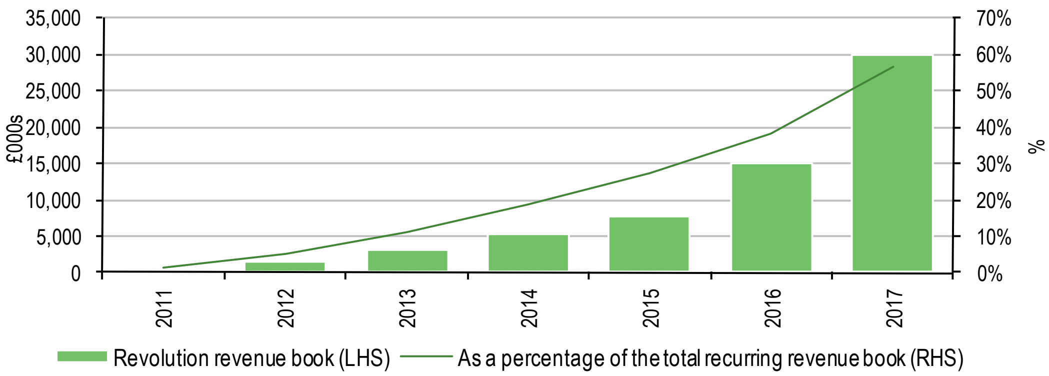
The company lists the following as key attributes of the Revolution product: it is priced per portfolio with an unlimited number of users (with a minimum price level). This gives the product a significant advantage over its competitors, which require additional terminals;

- ability to share portfolios (eg an asset manager could share controlled levels of portfolio analysis with a pension fund customer);
- multi-analytical functionality – performance, attribution and risk, across all asset classes in one integrated service;

- bi-monthly upgrades, automated over the internet, and everyone has the same version of the product;
- has an Advanced Risk component, which incorporates a numbers of risk methodologies, including VAR and Monte Carlo; and
- the software can incorporate third-party features.

The product roadmap includes fixed income attribution, scheduled for completion in July, and fund-of-funds functionality.

Exhibit 4: StatPro Revolution recurring revenue book since its launch in 2011



Source: StatPro. Note: Historical data have not been adjusted for movements in exchange rates.

New strategy and divisional structure underway

StatPro is currently working on a new growth strategy document, which sets out its ambitions to maximise shareholder value and more information will be given later this year. Meanwhile, from FY19, the group will be structured into three divisions as below:

- **Revolution:** the analytics division, comprising the cloud-based Revolution along with Delta and Alpha, which are being integrated into it. It also includes the legacy software modules of StatPro Seven, which are migrating to the cloud. It will all include StatPro Composites (SC), the group's traditional software module, which enables the aggregation of individual portfolios representing a similar investment mandate and enables compliance with GIPS.
- **Source: StatPro:** data division. StatPro has significant IP in its data business that it has not fully commercialised, and it is planning a strategy to amend this.
- **InfoVest:** integration and data management division, comprising InfoVest, which includes StatPro Portfolio Control (SPC), along with StatPro Portfolio Management (SPM), which offers an integrated suite of portfolio management software and investment accounting modules.

Acquisitions a key part of the strategy

Acquisitions form a key plank of StatPro's strategy. Over the past three years it has acquired UBS Delta for €13.05m in May 2017, InfoVest (100% owned since February this year) and Investor Analytics (renamed StatPro Revolution Alpha). These acquisitions have cemented StatPro's position at the forefront of the financial analytics space and help to accelerate the scalability of the platform. While strategically targeting accelerating organic growth, management will continue to target acquisitions consistent with its strategy and has the financial capability to do so.

Acquisition of UBS Delta: Integration plan is firmly on track

StatPro effectively completed the acquisition of Delta from UBS in May 2017. Delta's roots are in fixed income and consequently it has established a special focus on fixed income attribution and risk. Delta is used by front offices of institutional investors for portfolio management and marketing purposes. As StatPro's traditional solutions are focused on middle offices, Delta significantly enhanced the group's position in front offices, while also strengthening the group's fixed income and risk expertise.

The Delta team has swiftly integrated with StatPro and StatPro has already transitioned the business into profitability. Delta won additional business in 2017 from both new and existing clients. Delta has established a unique analytics offering, and has gained a strong reputation in the fixed income markets. The attractive price at c 0.8x revenues reflected the fact that Delta's platform was 20 years old and needed to be upgraded. StatPro has implemented a plan to reach functional parity within three to four years, at which stage there will be no reason for any customer to remain with Delta. Until StatPro has fully integrated Delta's functionality into Revolution, UBS will continue to operate and support Delta for its clients. However, the revenues and costs accrue to StatPro. Additionally, StatPro will enable an automated switchover for any Delta clients with all their portfolios to Revolution, which provides the opportunity for clients to take advantage of Revolution's extensive functionality.

There are £3.6m of outstanding Delta acquisition liabilities, payable in FY19 and FY20.

Acquisition of InfoVest: Expands StatPro's cloud transition capabilities

In February 2016, StatPro exchanged its existing StatPro Seven compliance module (SPC) licence contracts for a 51% stake in InfoVest Consulting. The shareholding was increased in February 2017 to 72.7% and to 100% on 23 February 2018. StatPro is acquiring the remaining 27.3% at approximately six times EBITDA which it says is EPS enhancing.

InfoVest is a South Africa-based software provider, specialising in data warehouse, ETL (Extract, Transform and Load) and reporting software for the asset management industry. InfoVest partnered with StatPro for more than two years, providing support for all StatPro's outstanding SPC contracts. SPC, which is StatPro's compliance solution, ensures that customers' portfolios are within predetermined parameters, such as the percentage that can be invested in specified asset classes. These parameters can relate to regulatory or in-house criteria and the solution is separate to StatPro's risk solution. Additionally, InfoVest has standardised data solutions that are very useful for the process of streamlining customer data in the implementation of cloud transition contracts.

Acquisition of Investor Analytics (renamed StatPro Revolution Alpha)

In February 2016, StatPro acquired Investor Analytics (IA), a US-based provider of cloud-based risk analytics solutions to hedge funds and asset managers, for c $10m over two years. IA is a front office-focused business and its Risk Factor and Monte Carlo models enable StatPro to provide a broader set of risk models to its customers. IA is integrated into the StatPro Revolution platform, and consequently performance has lagged since the acquisition. However, growth is expected once the integration is completed and StatPro anticipates that its existing equity-focused asset management clients will wish to subscribe for the additional functionality. Investor Analytics was rebranded as Revolution Alpha to reflect the increasing use among StatPro's client based of risk analysis in the investment decision-making process.

Market environment and StatPro's channels

Growth drivers: Providing solutions for asset management

StatPro's products are targeted at the global wealth management industry, which relies on assets under management (AuM) to provide a source of revenue from which to extract fees. StatPro provides solutions that enable its clients to increase their AuM and improve profit margins.

The outlook for fund managers has been showing improvements with global AuM rising by 7% to $69.1tn in 2016, according to Boston Consulting Group, compared with 1% growth in 2015. Growth in AuM comes from net inflows of capital from clients along with the market growth of asset prices. The world's top 500 asset managers grew AuM by 5.8% in 2016, according to Willis Towers Watson. Alternatively, PwC estimated global AuM were $84.9m in 2016, and expected to rise to $111.2m in 2020 (7.0% CAGR) and to $145.4m in 2025 (6.2% CAGR). In its report *Asset & Wealth Management Revolution: Embracing Exponential Change*, PwC points out that the asset and wealth management (AWM) industry is a digital technology laggard and it warns that firms need to take action now if they are to survive the exponential change that lies ahead.

Significant pressure on management fees has been encouraging asset managers to seek to manage their costs while increasing their service levels. Meanwhile, the rise in passive investing and the pressure on fees has been driving significant M&A activity in the investment management industry. Sector M&A reached an eight-year high in 2017, in value terms, although the number of transactions was relatively low, as the deals were focused on mid-sized players.

Asset managers have a reputation for being slow to adopt digital technology, but StatPro believes this is now changing. It says that many clients are now transforming the technology and the middle office, where StatPro is strong, is part of this process. StatPro is the first cloud-based analytics platform targeting the sector and is therefore well-placed to address the market. The group's cloud solutions offer greater flexibility, along with evolving development, exemplified by self-service reports, configurable dashboards (enable clients to specify precisely what each user can see) and the ability to link to other systems with APIs (application programming interface).

We highlight the following growth drivers.

Margin pressures: the pressures on the asset management sector continue to increase, exacerbated by the onset of MiFID II. StatPro's cloud-based technology offers asset managers a route to improving efficiency, reducing costs and upgrading legacy systems.

Fund administration channel: the company has begun to see significant acceleration in additional portfolios being subscribed to by fund administrators. This is largely due to the launch and roll-out of the Performance module in 2016, which has completed the offering.

New functionality: a priority will be to strengthen the group's front office and there are plans to expand functionality in the portfolio modelling space. Additionally, the Investor Analytics acquisition has yet to be fully realised.

Leveraging intellectual property: StatPro is seeking to leverage its Data division, where it believes it has not fully exploited the potential of its data.

Conversions: there remains £6.3m of traditional software that StatPro plans to convert to cloud over the next two to three years. There is typically a premium on conversions since the cloud solution offers cost efficiencies and a more powerful, modern solution.

Outsourcing: the group's cloud solutions offer the opportunity for customers to make greater use of outsourcing, eg reducing their hardware footprint.

New markets: StatPro wants to be the provider of portfolio analytics solutions for the growing number of financial information platforms. Many fund administrators and investment banks have these or are building them. Integration using APIs is the key to this strategy.

Acquisitions: the acquisition of Delta was a tremendous coup for StatPro, as it was able to acquire the business on very favourable terms. This was because UBS Delta's technology needs to be refreshed and it is increasingly difficult for non-software businesses to maintain an application. Acquisitions such as Investor Analytics create the potential for cross-selling.

StatPro's routes to market

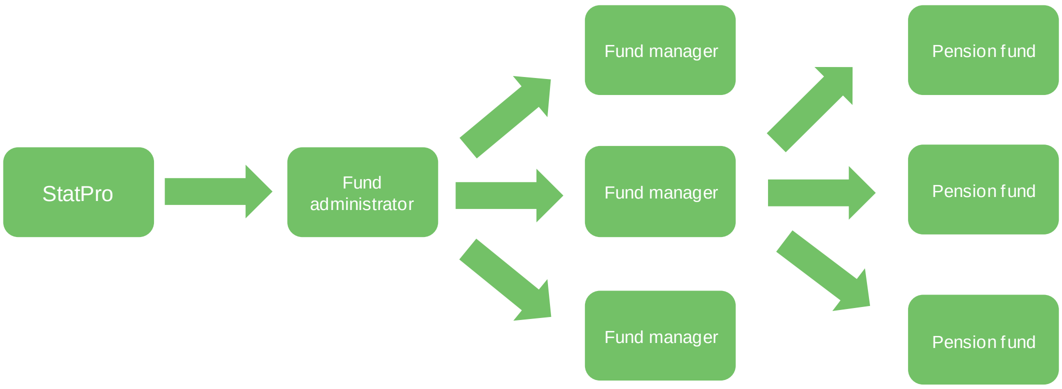
StatPro sells directly to fund managers and also uses the indirect sales channel, via asset service providers. StatPro has a team of 23 salespeople primarily focused on the direct sales channel. The strategy has evolved as Revolution has gained in sophistication, with the group hiring more senior salespeople. The team operates out of North America, Europe (London) and Asia Pacific (Sydney).

Direct channel: targeting investment managers of all types and sizes as they look to replace legacy technology and improve their digital distribution strategy. Profit margin pressure and competition are forcing asset managers to look at their technology footprint to ensure they are efficient, and allowing the business to focus on core operations and clients.

Indirect channel: primarily focused on fund administrators that are "gate keepers" to large pools of portfolios. These third parties effectively outsource their IT to StatPro, implementing the solution on a white-label basis. Historically, many of these players spent significant sums developing their own in-house solutions, which cost a lot to maintain. StatPro Revolution makes these solutions obsolete.

As StatPro Revolution gains scale, StatPro believes it will increasingly benefit from the viral effect of people sharing portfolio access with each other.

Exhibit 5: Fund administrator channel



Source: Edison Investment Research

Case study: National Australia Bank implements Revolution

The StatPro Revolution cloud services platform replaced a legacy system at this new client. National Australia Bank (NAB) provides the solutions, on a white-labelled basis, to its own asset management and pension fund clients. The key factor in the win was Revolution's then newly added functionality, which covers the new Australian Standard Risk Measure (SRM). SRM is a method used by Australian superannuation funds to describe investment risk and is an Australian Prudential Regulation Authority (APRA) requirement. StatPro's cloud platform has made the process of adding functionality like this far more viable. The new functionality was developed after rigorous research, and saves customers the time and costs associated with developing their own SRM tool in house. Further, the solution was fast to implement and customers benefit from the scalability, speed and cost efficiency of the cloud computing platform.

Competitive market environment

StatPro has two main sets of competitors – the major data suppliers (notably Bloomberg and FactSet) and smaller specialist players (including BISAM, now owned by FactSet), SS&C (Sylvan, Anova and HiPortfolio), Eagle (owned by BNY Mellon) and others. The data suppliers use mainframe systems and are multi-tenant by definition, but these platforms are much more expensive to run. Also, data suppliers lack data controls and users need to ensure the data are accurate before use.

StatPro's Performance module runs off Amazon Cloud, which means users can leverage vast processing (CPU) power when required so data can be processed at very high speed, while mainframe systems and traditional software installations can only use the CPU power on their systems. Most established players lack a pure cloud solution. While start-ups are likely to embrace the cloud, there are significant barriers to entry – business knowledge, technological know-how and, crucially, the data (which need to cover all assets and be accurate).

In the risk space, StatPro competes with heavyweights MSCI (RiskMetrics) and SunGard (owned by FIS), as well as a number of smaller players.

Exhibit 6: Competitors

System providers	Mainframe terminals
Aladdin (BlackRock)	Bloomberg
SimCorp	FactSet
Challenges: cost, complexity and time to market.	Challenges: cost, flexibility and integration.
Specialist risk software:	New entrants:
MSCI (RiskMetrics and Barra)	Cloud Attribution
Axioma	Clearwater Analytics
Challenges: cost, integration and technology.	Challenges: functional depth, data management & global support.

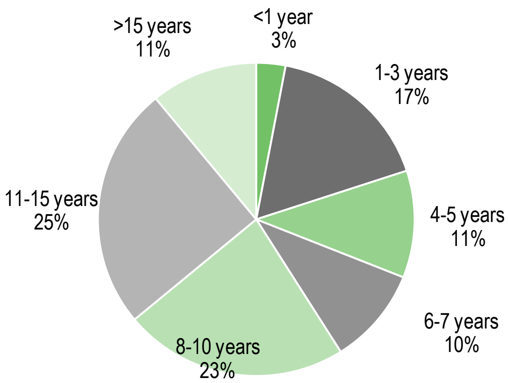
Source: StatPro

Financials: Traditional software holds up well

Business model: Priced per portfolio, long-term contracts

StatPro has always operated a rental model, with payments in advance, meaning the model is highly cash generative. A key objective has been to grow its annualised recurring revenue book, which has begun to accelerate, with the help of acquisitions, as shown in Exhibit 8. StatPro sells its software on a per-portfolio basis (similar to a per-user model) with a minimum required of $18k per annum ($1,500 per month). Sales cycles are typically six to nine months and StatPro aims to lock clients into multi-year deals; contract terms are typically three years. Taking professional services is typically recommended to ensure that customers are making full use of the products.

Exhibit 7: Client longevity



Source: StatPro

Final 2017 results: Cloud services continue to grow

Group revenue grew by 31%, or 26% at constant currencies, to £49.3m (we forecast £48.9m), helped by eight months' contribution from Delta, which grew by 1-2%. Alpha has lagged, having lost a few hedge fund clients during the transition, and StatPro does not expect to see growth from Alpha until FY19. Overall organic growth was 2%. Excluding conversions to Revolution, StatPro Seven was up 3% in constant currency terms. Adjusted operating profit rose by 45% to £5.0m, with the operating margin lifting by 100bp to 10.2%.

ARR grew 35% to £53.0m, driven by the acquisition of Delta and by the 13% organic growth in ARR in StatPro Revolution, while organic growth was 1%. Adjusted earnings per share rose 74% to 5.9p. The annual dividend was maintained at 2.9p.

Exhibit 8: Movement in annualised recurring revenue (ARR)

	As at 31/12/16	Net impact of FX	As 1/1/17	ARR from acquisitions	New contracted revenue/increases	Conversions	Cancellations/ reductions	Net change	Net increase/ decrease	Recurring licence fees as at 31/12/17	Change in total ARR	Change in ARR at constant FX	Change in ARR at constant FX excluding acquisitions
Revolution (Cloud)	15.04	(0.44)	14.60	14.47	2.32	1.09	(2.42)	0.99	15.46	30.06	100%	106%	7%
Seven (Software)	19.74	(0.28)	19.46		2.12	(1.09)	(1.57)	(0.54)	(0.54)	18.92	(4%)	(3%)	(3%)
Data	4.49	(0.42)	4.07		0.35		(0.36)	(0.01)	(0.01)	4.06	(10%)	(0%)	(0%)
Total	39.27	(1.14)	38.13	14.47	4.79	0	(4.35)	0.44	14.91	53.04	35%	39%	1%

Source: StatPro

There were acquisition-related restructuring costs of £3.53m. £2.3m relates to Delta, of which £1.02m were for transaction costs and the remainder were redundancies and onerous contracts. £1.23m relates to restructuring of the core business following the Delta acquisition, predominantly relating to the restructuring of the European sales and support team.

Exhibit 9 shows the ARR distribution profile for StatPro Revolution. The average ARR per client has jumped for three reasons. First, the acquisition of Delta has added customers with significantly higher levels of ARR – c £126k per customer based on the data published at the time of the acquisition. Second, StatPro has been shifting away from smaller customers, has a minimum price of $18k and is trying to encourage the small customers to take additional services. Third, the asset service providers have started to take more portfolios.

Exhibit 9: StatPro Revolution annualised recurring revenue (ARR) distribution profile

	Annualised revenue (£000s)	No of clients	Average revenue/ client (£000s)	Annualised revenue (£000s)*	No of clients	Average revenue/ client (£000s)*
Annualised revenue bands	**2017**	**2017**	**2017**	**2016**	**2016**	**2016**
<£10k	335	86	3.9	357	111	3.2
£10k-£50k	3,172	124	25.6	2,141	99	21.6
£50k-£100k	4,526	58	78	3,199	41	78
£100k-£200k	9,336	68	137.3	5,231	39	134.1
>£200k	12,688	33	384.5	3,670	10	367
Total	**30,057**	**369**	**81.5**	**14,598**	**300**	**48.7**

Source: StatPro. Note: *At constant currency.

SaaS KPIs – LTV:CAC ratio stands at an impressive 7.8

StatPro introduced a set of SaaS-based KPIs in 2015. The average cost of acquiring customers is calculated by dividing the sales and marketing spend by the number of new customers. The implied customer lifetime is 1 divided by the churn rate (currently 11%). The implied customer lifetime value is the implied customer lifetime multiplied by the ARR per customer. The data show the impact of the inclusion of Delta, which has added an additional boost to both the cost of acquiring customers and revenue per customer, and there has also been an increase in churn. The aim is the boost the LTV:CAC ratio, which has fallen back to a still highly respectable 7.8. This means that the value generated from a typical customer is 7.8x the cost of acquiring a customer; a ratio of 3 is seen as minimum in the SaaS industry and 5 is seen as good.

Exhibit 10: SaaS-based KPIs		
	FY16	FY17
Average Cost of Acquiring Customer (CAC) (£000s)	96.1	128.6
Implied Customer Lifetime (years)	10.8	9.4
Average ARR per customer (£000s)	86.6	106.1
Implied Customer Lifetime Value (LTV) (£000s)	938	997
LTV: CAC	9.8	7.8

Source: StatPro

Current trading and outlook – revenue acceleration from FY19

StatPro said it started FY18 in line with the board's expectations and is on course to show solid revenue and profit growth. Sales activity accelerated in the fourth quarter of FY17 and the new sales team has a very good pipeline in North America and Europe, along with a small amount in Asia, and a growing pipeline of larger prospects. Relationships with fund administrators have been maturing, and key fund administration clients have started to increase their use of Revolution significantly. One customer recently increased its number of portfolios from 100 to 1,200, and has since upped it again to 2,500. StatPro says that the combination of the two channels means the company should enjoy good organic revenue growth and profitability growth in FY18. StatPro said that InfoVest had a good end to the year and has strong growth prospects for 2018. Additionally, the company says it is engaging with a number of parties about partnering with their platforms to offer an enhanced combined service. As a result of the new business activity, management expects revenue to accelerate in FY19 and FY20.

Forecasts: FY18 eased for FX, FY19 and FY20 introduced

We have eased our FY18 forecasts, with revenues rising by 15% and operating profits by 35% for a 12.0% operating margin. We forecast revenues to rise by 3.5% to £58.5m in FY19, with the operating margin expanding to 12.7%, and for growth to accelerate to 4.5% in FY20, with the margin expanding to 13.7%.

Exhibit 11: Forecast changes

	Old	Actual	Change	Old	New	Change	New	New
Revenues (£000s)	**2017e**	**2017**	**(%)**	**2018e**	**2018e**	**(%)**	**2019e**	**2020e**
Traditional software rental	16,920	19,780	16.9	14,920	17,580	17.8	15,580	13,580
StatPro Revolution	25,199	23,470	(6.9)	35,419	32,708	(7.7)	36,440	40,821
Data	4,039	4,070	0.8	4,119	4,151	0.8	4,359	4,555
Professional services	2,790	2,020	(27.6)	2,846	2,060	(27.6)	2,102	2,144
Group Revenue	48,948	49,337	0.8	57,304	56,500	(1.4)	58,480	61,100
Growth (%)	30.4	31.4		17.1	14.5		3.5	4.5
Opex (before devt costs depn)	(42,362)	(43,966)	3.8	(48,977)	(48,771)	(0.4)	(49,835)	(51,435)
Capitalisation of dev costs (net)	444	1,580	255.8	588	938	59.6	610	485
Adjusted EBITDA	7,030	6,951	(1.1)	8,916	8,666	(2.8)	9,255	10,149
Depreciation	(1,800)	(1,921)	6.7	(1,800)	(1,900)	5.6	(1,850)	(1,800)
Adjusted operating profit	5,230	5,030	(3.8)	7,116	6,766	(4.9)	7,405	8,349
Operating margin (%)	10.7	10.2		12.4	12.0		12.7	13.7
Growth (%)	51.1	45.3		36.1	34.5		9.4	12.8
Net interest	(998)	(1,585)	58.9	(1,021)	(1,396)	36.7	(1,221)	(1,071)
Profit before tax norm	4,232	3,445	(18.6)	6,095	5,370	(11.9)	6,184	7,278
Amortisation of acquired intangibles	(1,060)	(2,243)	111.6	(1,060)	(3,243)	205.9	(3,243)	(3,243)
Share based payments	(213)	(626)	194.6	(225)	(650)	188.9	(675)	(700)
Exceptional items (net of tax)	0	(3,324)	N/A	0	0	N/A	0	0
Profit before tax	2,960	(2,748)	(192.8)	4,810	1,477	(69.3)	2,266	3,335
Taxation	(889)	537	(160.4)	(1,280)	(752)	(41.3)	(1,051)	(1,456)
Minority interest	(121)	(131)	8.5	(129)	(40)	(69.1)	0	0
Net income	1,950	(2,342)	(220.1)	3,401	685	(79.8)	1,215	1,880
Adjusted EPS (p)	5.0	5.9	19.6	7.2	7.0	(3.1)	7.8	8.8
P/E - Adjusted EPS		**27.3**			**23.3**		**20.8**	**18.5**

Source: Company accounts, Edison Investment Research

Revenues: we forecast traditional software revenue to decline by £2.2m in FY18 and £2.0m annually thereafter. This largely reflects the conversions to Revolution. We forecast Revolution to jump by 39% in FY18 and by 11% in FY19, driven by organic growth, conversions and a full year contribution from Delta in FY18. We forecast data revenues to grow by 2% in FY18 and by 5% in FY19, aided by the new initiatives to exploit the data IP. We forecast professional services to grow at 2% pa.

Costs: we forecast operating costs (excluding net capitalisation of development costs) to rise by 11% to £48.8m in FY18, by 2% to £49.8m in FY19 and by 3% to £51.4m in FY20.

Investment: we assume the group spends 15.5% of revenue on R&D in FY18, and 15% going forward, of which 75% is capitalised and amortised over three years.

Tax: we assume a 14% tax rate in FY18, rising to 17% in FY19 and to 20% in FY20.

Cash flow and balance sheet

FY17 operating cash flow jumped by 43% to £10.7m. After interest of £1.2m, tax of £0.1m and capitalised development costs of £6.0m and purchase of PPE of £1.2m, free cash flow was £2.1m. This compares with a £0.8m outflow in FY16. Excluding acquisition-related restructuring costs of £3.1m, the free cash flow was £5.2m, compared with £0.7m in FY16. After £10.3m of acquisition costs, £0.9m of share issues , £2.0m of dividends and £0.9m of currency movements, net debt increased by £10.2m to £20.2m.

For 2018 we estimate operating cash flow of £14.6m, comfortably accommodating net interest, tax and capex outlays of £10.7m. Dividend payments of £1.9m and acquisition expenditures of £2.8m (assumed final payment for SiSoft, and £1.9m for Infovest) lead to our expectation of net debt being a touch higher at end 2018, at £21.0m.

Expanded debt facility

StatPro expanded its facility in 2017 with Wells Fargo to £40.5m, from the original £20m. This includes a £10m committed revolving credit facility, £19m in committed term loans and £4m in committed deferred drawdown loans. There is also a £7.5m uncommitted additional facility. The facility is available for acquisitions, share buybacks or other general corporate purposes. The covenants of the facility are based on an absolute level of recurring revenues.

Sensitivities: Evolving end-market

The group's asset management customer base is one of the most high-beta sectors in the market and has been undergoing significant consolidation. Robo-advisers have been entering the market and there is a threat that tech giants could also do so. However, StatPro took the bold decision a decade ago to transition its business model to the cloud and, following years of heavy investment, its technology platform is industry leading and comfortably ahead of its major peers.

We highlight the following sensitivities:

- **Economic backdrop:** clearly, stock market performance will remain volatile and therefore retail investment flows into and out of portfolio asset managers will remain a cyclical feature. The health of the equity and bond markets will therefore partly determine the IT investment budgets of the asset management firms.
- **General competitive environment:** StatPro's main competitor is in-house IT departments, although we note that a self-built system is not an option for the smaller players. Once asset managers make the purchasing decision to buy an outside solution, there is a range of competing options.

- **Technological change:** there is a risk that a competitor could develop a superior cloud product. However, we know of no competitor that is currently offering a service like StatPro Revolution, and a player would require a combination of technological know-how, domain knowledge and access to data to build a competing product.
- **Alternative new entrants to end-market:** there is a risk that technology companies could enter the market and subsequently threaten StatPro's traditional customer base.. This threat has been discussed for a number of years but has so far failed to crystallise. At the smaller end, there is a growing number of specialist robo and online financial advisers, such as US firms Acorns Grow (associated with Paypal), Betterment, FutureAdvisor (BlackRock), Personal Capital and Wealthfront, which are entering the market and taking share. However, these companies are very small.
- **End-market mergers:** the asset management industry has undergone significant consolidation in recent years, and further consolidation is anticipated, partly driven by the pressure on fees. However, StatPro is somewhat insulated by its per-portfolio revenue model.
- **Acquisition risk:** implementation risk in the acquisition strategy.

Valuation: Unique cloud computing opportunity

StatPro is a rare example of a traditional software company that has successfully transitioned to the cloud, and indeed, is one of the few predominantly cloud companies quoted in London. It is rare as a quoted financial software company business that is predominantly cloud, and, as far as we are aware, unique in the asset management vertical.

While the stock is exposed to the volatile asset management sectors, this is tempered by the fact that 96% of group revenues are recurring in nature and 82% of StatPro's software sales are now SaaS. StatPro has always been conservatively financed, and has a reputation for generating healthy cash flows, having generated £101m of operating cash flow and £31m of free cash flow over the last 12 years. These numbers are after exceptional costs, which includes £3.1m in FY17.

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

- **Traditional valuation measures:** StatPro's stock trades on c 23.3x our FY18e EPS, which falls to c 20.8x in FY19e and to 18.5x in FY20e.
- **Strong cash generation:** StatPro has been profitable and generated positive cash flows for many years, and its payment-in-advance model typically generates cash from working capital. The group generated £5.2m of free cash flow before acquisition-related restructuring costs in FY17 (FCF yield of 4.9%) and we forecast this to dip to £4.5m in FY18, to £5.6m in FY19 and to £6.5m in FY20. The forecast numbers translate to FCF yields of c 4%, c 5% and 6% respectively.
- **DCF valuation:** our DCF model, when incorporating 10-year organic revenue CAGR of c 3.9%, a terminal growth of 2%, a long-term margin target of 24.5% and a WACC of 9%, values the shares at 218p, 34% above the current share price. Our margin assumption is broadly where the margins were in FY07-09, prior to the acceleration in investment to fund the transition to the cloud. Given the scalability of the platform, in our view this margin target is a fair assumption. An acceleration in the organic revenue CAGR to 5% lifts the valuation to 243p, while a 7% CAGR extends the valuation to 297p.
- **Peer comparison:** the stock trades on 20.8x our EPS forecasts in FY19e, which is broadly in line with its international peers, but generally below its UK peers. Relative to revenues, the stock trades on 2.2x FY19e revenues (around a third of its US peers and at the lower end of its UK peers) and 14.2x FY19e EBITDA (below both its US and UK peers).

Exhibit 12: Peers analysis

05/04/2018	Share price	Market cap	Market cap	EV/sales		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
StatPro	**162.00**	**106**	**106**	**2.3**	**2.2**	**12.0%**	**12.7%**	**15.2**	**14.2**	**23.3**	**20.8**
1) US-quoted investment management software peers											
MSCI	150.12	13,492	9569	10.2	9.4	48.8%	50.4%	18.9	16.9	29.0	25.4
SS&C	51.23	11,994	8506	6.8	6.1	40.9%	43.7%	15.5	13.8	22.9	20.1
FactSet	196.53	7,640	5418	5.9	5.5	31.7%	32.3%	17.8	16.4	23.2	20.7
Envestnet	54.75	2,485	1762	3.3	2.9	8.8%	11.3%	17.5	14.6	30.1	24.8
Medians				**6.3**	**5.8**	**36.3%**	**38.0%**	**17.6**	**15.5**	**26.1**	**22.8**
2) Investment management software peers quoted in other countries											
SimCorp	426.40	17,351	2029	6.2	5.8	26.4%	27.3%	22.4	20.5	29.8	26.9
Iress	9.85	1,694	925	4.0	3.7	23.6%	24.3%	14.9	13.4	22.1	19.4
Linedata	33.80	247	215	1.9	1.9	16.5%	16.5%	7.8	7.7	13.4	13.2
GBST	2.29	156	85	1.6	1.5	6.3%	6.4%	14.0	11.8	24.1	21.0
Medians				**2.9**	**2.8**	**20.1%**	**20.4%**	**14.4**	**12.6**	**23.1**	**20.2**
3) UK-quoted financial software peers											
Fidessa	4020.00	1,559	1559	4.2	4.1	14.3%	14.6%	18.4	17.2	39.8	37.0
First Derivatives	3750.00	963	963	5.4	4.8	14.5%	14.4%	30.3	26.8	55.8	49.7
Microgen	445.00	271	271	3.8	3.5	23.4%	25.6%	15.5	13.3	23.9	20.4
Gresham	183.50	124	124	4.9	4.6	18.7%	20.4%	19.7	17.2	27.8	25.8
Brady**	59.50	50	50	1.9	1.8	3.7%	6.0%	38.1	24.7	69.9	41.7
Medians				**4.2**	**4.1**	**14.5%**	**14.6%**	**19.7**	**17.2**	**39.8**	**37.0**
4) US companies with SaaS business models*											
Salesforce	123.35	90,339	64071	6.9	5.8	16.7%	18.1%	29.0	23.8	57.7	45.6
Workday	132.57	28,105	19933	9.8	8.0	11.9%	14.3%	53.3	39.1	110.7	81.5
Ultimate Software	249.01	7,790	5525	6.9	5.8	21.2%	22.3%	27.6	22.8	46.1	38.1
Paycom Software	116.03	6,853	4860	12.6	10.2	33.4%	33.0%	31.8	25.5	47.2	37.9
Paylocity	56.49	2,972	2108	7.7	6.3	13.4%	14.8%	37.1	28.8	63.9	51.0
Cornerstone OnDemand	44.32	2,540	1802	5.0	4.5	11.2%	16.5%	28.2	20.8	66.4	39.1
Instructure	42.10	1,443	1024	6.7	5.3	(15.2%)	(8.8%)	N/A	N/A	N/A	N/A
Medians				**6.9**	**5.8**	**13.4%**	**16.5%**	**30.4**	**24.6**	**60.8**	**42.4**

Source: Edison Investment Research, Bloomberg. Note: *These companies are predominantly in the human capital management software or CRM/ERP spaces and none is a direct competitor of StatPro. **Edison forecasts. Prices as at 18 April 2018.

Sector M&A: M&A remains highly active in the sector. SS&C has been the key sector consolidator, making a string of acquisitions including Advent and DST and it has shown an interest in Fidessa.

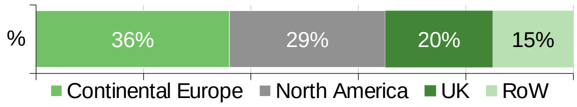
FY17 saw a number of transactions that make StatPro look attractively priced. Key competitor BISAM was acquired by FactSet in March for $205.2m or 7.3x sales. Separately, LSE acquired Yield Book (a key competitor of Delta) along with Citi Fixed Income Indices from Citi for 6.4x sales, although we understand that majority of the $685m price related to the indices. Additionally, in September 2017, Nasdaq announced the acquisition of eVestment, a subscription-based analytics and content provider to asset managers, for $705m, or c 8.7x FY17 revenues. In February, Fidessa announced that it had agreed to be acquired by Temenos for £1.32bn or 3.7x FY17 revenues and since then both SS&C and ION have shown an interest, with Fidessa now trading at over 4x sales.

Across the broader financial software sector, M&A has been very busy, eg ION has acquired Openlink, BlackRock has acquired a majority stake in the financial and risk business of Thomson Reuters and SS&C is acquiring DST Systems at c 2.4x 2018 sales.

Exhibit 13: 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	56,500	58,480	61,100
Cost of Sales	0	0	0	0	0	0
Gross Profit	30,187	37,545	49,337	56,500	58,480	61,100
EBITDA	4,044	5,104	6,951	8,666	9,255	10,149
Adjusted Operating Profit	2,852	3,461	5,030	6,766	7,405	8,349
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)	2,873	3,487	4,406
Net Interest	(290)	(786)	(1,585)	(1,396)	(1,221)	(1,071)
Profit Before Tax (norm)	2,562	2,675	3,445	5,370	6,184	7,278
Profit Before Tax (FRS 3)	2,409	(10,124)	(3,358)	1,477	2,266	3,335
Tax	(788)	(489)	537	(752)	(1,051)	(1,456)
Profit After Tax (norm)	1,774	2,843	4,592	4,618	5,133	5,823
Profit After Tax (FRS 3)	1,621	(10,613)	(2,821)	725	1,215	1,880
Minority interests	0	(94)	(131)	(40)	0	0
Net income (norm)	1,774	2,186	3,851	4,578	5,133	5,823
Net income (statutory)	1,621	(10,707)	(2,952)	685	1,215	1,880
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	7.8	8.8
EPS - FRS 3 (p)	2.4	(16.4)	(4.6)	1.0	1.8	2.8
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	12.0	12.7	13.7
BALANCE SHEET						
Fixed Assets	51,857	59,088	70,864	68,978	67,043	65,111
Intangible Assets	48,613	55,696	64,793	63,282	61,442	59,477
Tangible Assets	2,233	2,742	3,303	2,928	2,833	2,866
Other assets	1,011	650	2,768	2,768	2,768	2,768
Current Assets	10,665	19,081	20,717	21,585	23,472	25,532
Stocks	0	0	0	0	0	0
Debtors	8,462	14,725	16,406	18,788	19,446	20,318
Cash	2,203	4,356	4,311	2,797	4,026	5,215
Current Liabilities	(19,778)	(35,686)	(40,011)	(42,979)	(44,841)	(46,994)
Creditors	(19,660)	(27,227)	(32,560)	(35,528)	(37,390)	(39,543)
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	25,867	26,884	27,786
CASH FLOW						
Operating Cash Flow	6,548	7,454	10,676	14,579	15,516	16,844
Net Interest	(84)	(500)	(1,227)	(1,396)	(1,221)	(1,071)
Tax	(832)	(1,294)	(144)	(1,253)	(698)	(989)
Capex	(4,999)	(6,445)	(7,213)	(8,094)	(8,333)	(8,707)
Acquisitions/disposals	0	(4,786)	(10,269)	(2,771)	(1,429)	(2,274)
Equity financing	64	(2,079)	926	()	0	0
Dividends	(1,960)	(1,877)	(2,012)	(1,879)	(1,907)	(1,915)
Net Cash Flow	(1,263)	(9,527)	(9,263)	(814)	1,928	1,888
Opening net debt/(cash)	(2,680)	(1,283)	10,065	20,217	21,031	19,103
Other	(134)	(1,821)	(889)	()	0	0
Closing net debt/(cash)	(1,283)	10,065	20,217	21,031	19,103	17,214

Source: StatPro Group accounts, Edison Investment Research estimates

Contact details	Annualised recurring revenue by region (2017)
Mansel Court Mansel Road Wimbledon London SW19 4AA United Kingdom +44 (0)20 8410 9876 www.statpro.com	

Management team

CEO: Justin Wheatley	CFO: Andrew Fabian
Justin began his career at Micropal, selling performance measurement software to fund managers in the UK. In 1991, he founded an agency in Switzerland to distribute Micropal products and in 1993 he wrote the first version of TAP. Justin founded StatPro in 1994.	Andrew was appointed finance director in 2000. He was previously group financial controller at William Baird. Andrew is a chartered accountant and qualified corporate treasurer.
Marketing & Technology Director: Neil Smyth	**Non-executive Chairman: Rory Curran**
Neil is responsible for the overall technology strategy and global marketing activity. He joined StatPro in 1997 after completing his MSc in Multimedia Technology culminating in a six-month placement with Sony at its European R&D centre in Brussels. Neil has held positions in QA, client services and IT, and was the CTO before taking up his current position in January 2011.	Rory joined StatPro in November 2016 as a non-executive director and became chairman in November 2017. He was co-founder and executive chairman of 1st Software, which was sold in 2006. Rory left 1st Software in 2008 and has since been a director and investor in a number of technology companies. He is currently a non-executive director of Andromeda Enterprises (trading as Ecodesk), a cloud-based technology business.

Principal shareholders (as at 17 August 2017)	(%)
Liontrust Asset Management	21.8
Herald Investment Management	11.7
Stichting Bewaarder GFC (Depositary of Gran Fondo Capital)	11.6
Justin MBT Wheatley	11.3
Mark C Adorian	4.6
AXA Framlington	3.9

Companies named in this report

Brady (LON:BRY), Envestnet (NYSE:ENV), FactSet (NYSE:FDS), Fidessa (LON:FDSA), First Derivatives (LON:FDP), Gresham Technologies (LON:GHT), GBST (ASX:GBT), Iress (ASX:IRE), Linedata (EPA:LIN), Microgen (LON: MCGN), MSCI (NYSE:MSCI), SimCorp (CPH:SIM), SS&C (NASDAQ:SSNC)

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Germany	United Kingdom	US	NSW 2000, Australia