

StatPro Group

Contract win

£1.5m Revolution conversion with 77% uplift

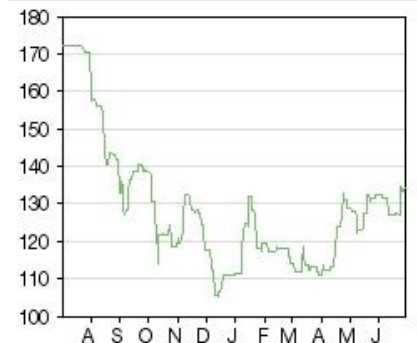
Software & comp services

1 July 2019

Price **133.50p**
Market cap **£88m**

Net debt (£m) at 31 December 2018	24.6
Shares in issue	65.8m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.9	19.6	(22.1)
Rel (local)	0.0	16.5	(19.6)
52-week high/low	172.00p	105.00p	

Business description

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

Next events

Interim results	Late July 2019
-----------------	----------------

Analysts

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

tech@edisongroup.com

[Edison profile page](#)

StatPro Group is a research client of Edison Investment Research Limited

Positive newsflow continues, with StatPro announcing a significant £1.5m conversion from its legacy Seven suite to its modern Revolution cloud platform. This follows the recent news of a partnership with JP Morgan's Data and Analytics business and the acquisition of an ESG research and index business. The deal is significant since it is a large contract with a key client, has an attractive 77% conversion premium and signals that the group is moving towards the end stages of conversions of its legacy Seven contracts. In our view, the shares continue to look undervalued, given the group's c £56m recurring revenue book and the attractive rating (c 14x FY20e), especially in light of the active M&A backdrop in the financial software sector.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	49.3	3.3	5.8	2.9	23.0	2.2
12/18	54.8	5.0	7.3	2.9	18.3	2.2
12/19e	58.4	6.2	8.0	2.9	16.6	2.2
12/20e	61.8	7.6	9.2	2.9	14.5	2.2

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

Conversions from Seven to Revolution progress

A large insurance company customer has agreed to convert from StatPro's legacy StatPro Seven software to its flagship StatPro Revolution cloud service. The three-year contract has a minimum value of £1.5m and represents a 77% increase in annual subscription. The customer selected StatPro Revolution following a competitive tender, and the capabilities of Revolution's new fixed income attribution and risk module were critical when the client reviewed its options. The contract also includes performance and equity attribution as well as composites. Following this conversion, the group has c £5m of legacy Seven annual software subscriptions to convert. StatPro is on course to complete the full conversion of most of the remaining Seven clients over the next two years. As the process of conversion comes to a close, the group will continue to realise significant operational savings in IT costs (primarily hosting costs) as well as simplify operational complexity.

Upward pressure on forecasts

We are maintaining our forecasts for now and will review them following the interim results. However, given the latest news, we acknowledge there is upward pressure to our forecasts.

Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 17x our FY19e EPS, which falls to c 14x in FY20e and to c 12x in FY21e. Alternatively, the shares trade on c 1.9x FY19 EV/sales, around a third of the level of StatPro's larger US financial software peers and a quarter of the level of US-based pure software-as-a-service companies. Our DCF model, when incorporating 10-year organic revenue CAGR of c 3.7%, terminal growth of 2%, a long-term operating margin target of 24.0% and a WACC of 9%, values the shares at 235p, 76% above the current share price.

Exhibit 1: Financial summary

	£000s	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		37,545	49,260	54,841	58,400	61,818	65,138
Cost of Sales		0	0	0	0	0	0
Gross Profit		37,545	49,260	54,841	58,400	61,818	65,138
EBITDA		5,104	6,838	9,011	9,544	10,677	12,475
Adjusted Operating Profit		3,461	4,917	7,214	7,925	9,064	10,803
Amortisation of acquired intangibles		(1,060)	(2,243)	(3,161)	(3,161)	(3,161)	(3,161)
Exceptionals		(11,378)	(3,934)	(2,578)	(1,000)	0	0
Share based payments		(361)	(626)	(207)	(675)	(700)	(725)
Operating Profit		(9,338)	(1,886)	1,268	3,089	5,203	6,917
Net Interest		(786)	(1,585)	(2,256)	(1,689)	(1,514)	(1,314)
Profit Before Tax (norm)		2,675	3,332	4,958	6,236	7,551	9,489
Profit Before Tax (FRS 3)		(10,124)	(3,471)	(988)	1,400	3,690	5,603
Tax		(489)	563	(141)	(935)	(1,435)	(1,898)
Profit After Tax (norm)		2,843	4,505	5,434	5,301	6,116	7,591
Profit After Tax (FRS 3)		(10,613)	(2,908)	(1,129)	465	2,255	3,705
Minority interests		(94)	(131)	(21)	0	0	0
Net income (norm)		2,186	3,764	4,796	5,301	6,116	7,591
Net income (statutory)		(10,707)	(3,039)	(1,150)	465	2,255	3,705
Average Number of Shares Outstanding (m)		65.3	64.8	65.7	65.9	66.2	66.5
EPS - normalised (p)		3.3	5.8	7.3	8.0	9.2	11.4
EPS - FRS 3 (p)		(16.4)	(4.7)	(1.8)	0.7	3.4	5.6
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 (%)		13.6	13.9	16.4	16.3	17.3	19.2
Operating Margin (before GW and except.) (%)		9.2	10.0	13.2	13.6	14.7	16.6
BALANCE SHEET							
Fixed Assets		59,088	70,864	69,615	67,713	65,692	63,601
Intangible Assets		55,696	64,793	63,701	61,958	60,004	57,956
Tangible Assets		2,742	3,303	3,447	3,288	3,221	3,178
Other assets		650	2,768	2,467	2,467	2,467	2,467
Current Assets		19,081	20,912	18,438	20,393	25,403	31,914
Stocks		0	0	0	0	0	0
Debtors		14,725	16,601	15,867	16,897	17,886	18,846
Cash		4,356	4,311	2,571	3,497	7,517	13,068
Current Liabilities		(35,686)	(38,171)	(35,224)	(37,509)	(39,813)	(42,145)
Creditors		(27,227)	(30,720)	(27,433)	(29,718)	(32,022)	(34,354)
Short term borrowings		(8,459)	(7,451)	(7,791)	(7,791)	(7,791)	(7,791)
Long Term Liabilities		(9,897)	(22,989)	(25,444)	(22,518)	(19,591)	(16,665)
Long term borrowings		(5,961)	(17,076)	(19,418)	(18,719)	(18,019)	(17,320)
Other long term liabilities		(3,936)	(5,913)	(6,026)	(3,799)	(1,572)	655
Net Assets		32,586	30,616	27,385	28,080	31,690	36,705
CASH FLOW							
Operating Cash Flow		7,454	10,676	12,839	15,748	17,313	19,404
Net Interest		(500)	(1,227)	(1,873)	(1,839)	(1,514)	(1,314)
Tax		(1,294)	(144)	(763)	(350)	(873)	(1,359)
Capex		(6,445)	(7,213)	(7,794)	(7,997)	(8,286)	(8,552)
Acquisitions/disposals		(4,786)	(10,269)	(3,417)	(2,026)	0	0
Equity financing		(2,079)	926	147	0	0	0
Dividends		(1,877)	(2,012)	(1,980)	(1,912)	(1,921)	(1,929)
Net Cash Flow		(9,527)	(9,263)	(2,841)	1,625	4,720	6,250
Opening net debt/(cash)		(1,283)	10,065	20,217	24,638	23,013	18,293
Other		(1,821)	(889)	(1,580)	()	0	0
Closing net debt/(cash)		10,065	20,217	24,638	23,013	18,293	12,043

Source: StatPro accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by StatPro Group and prepared and issued by Edison, in consideration of a fee payable by StatPro Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia