

SOPHEON

SOFTWARE & COMPUTER SERVICES

SPE.L

680p

Market Cap: £69.4m

SHARE PRICE (p)



12m high/low

690p/328p

Source: LSE Data

KEY INFORMATION

Enterprise value	£62.6m
Index/market	AIM
Next news	AGM, Jun 2018
Gearing	N/A
Interest cover	N/A

 SOPHEON IS A RESEARCH CLIENT OF
 PROGRESSIVE

ANALYSTS

Gareth Evans
 +44 (0) 20 7781 5301
 gevens@progressive-research.com

Ian Poulter
 +44 (0) 20 7781 5307
 ipoulter@progressive-research.com

Powering ahead

Sopheon has delivered a very strong 2017 – in line with the previous trading updates, and benefiting from a very good end to the year. The group is ahead of our estimates on all metrics, and is well placed going into 2018 and beyond. Management have signalled their confidence with the welcome introduction of a maiden dividend (2.5p). We upgrade our estimates for both 2018 and 2019.

- 2017 delivered** The group has reported a highly successful 2017 – revenues were some \$28.5m, against our recently-upgraded \$28.0m and previous expectations of \$26.0m. Adjusted EBITDA was \$8.0m, up from \$5.2m in 2016 and well ahead of our \$6.9m expectation – this outperformance flowed through the P&L leading to EPS also well ahead of our estimate. Cash generation was strong, and the group has announced a maiden dividend of 2.5p to reflect management's confidence in the sustainability of recent growth and profitability.
- Winning on multiple fronts** Sopheon has seen a significant level of contract wins during the year – some 59 licence sales, up from 49 in 2016, driving both the strong 2017 outturn and a very good level of visibility over current-year revenues, up to \$19.3m from \$14.5m last year. Importantly, the group is seeing a good balance of repeat custom (or expansion of existing client usage), new name sales, and a steady but notable extension into new areas of Enterprise Innovation Management, outside of the traditional product development heartland.
- 2018 estimates** Given the exceptional finish to 2017, it is tempting to materially upgrade our 2018 estimates – we choose a hopefully-cautious uplift from \$29m to c\$30m of revenue, with EBITDA raised from \$6.1m to \$7.0m. This figure is still slightly below the 2017 outturn, as the group is expecting to recruit additional staff across the year, positioning it well to continue to benefit from clear market trends. We also make a slight change to our tax treatment to aid in comparison of the group's performance over time – see overleaf.

As we saw when we attended their recent customer forum, Sopheon continues to benefit from an increasing level of Enterprise focus on both product development and broader enterprise management. The group's Accolade platform is enjoying material wins in its traditional spheres, but also seeing success in new and emerging areas. We note that the RNS also alludes to the possibility of M&A further accelerating this growth, and we look forward to ongoing success in 2018 and beyond.

FYE DEC (\$M)	2016	2017	2018E	2019E
Revenue	23.2	28.5	30.1	33.9
Adj EBITDA	5.2	8.0	7.0	8.5
Fully adj PBT	2.7	5.1	4.4	5.7
Fully adj EPS (c)	27.6	48.4	39.4	50.8
EV/Sales (x)	2.7	2.2	2.1	1.8
EV/EBITDA (x)	11.9	7.8	8.9	7.4
PER (x)	34.5	19.7	24.1	18.8

Source: Company Information and Progressive Equity Research estimates

Changes to estimates

The table below details the changes to our estimates on the back of the 2017 results.

We have assumed revenues build from the already-strong 2017 level of \$28.5m to \$30.1m in 2018 (up from our previous expectation of \$29.0m), and that this continues into 2019, with our new forecast of \$33.9m raised from the previous level of \$32m.

At the EBITDA level, we expect the group to continue to expand its investment in new staff, as it moves to capitalise on the growth in its marketplace – Sopheon is expecting to hire a number of new staff across the year, mainly in product and sales roles. This investment suggests that we should remain cautious in our 2018E EBITDA forecasts, which we raise from \$6.1m to \$7.0m – as previously was the case, this represents a decline from 2017 due to the planned investment in team expansion, but the upgrade reflects the sooner-than-expected boost to revenues. Similar dynamics drive the 2019E uplift from \$7.3m to \$8.5m.

EPS metrics are now presented on a different basis – we continue to include within our adjusted (diluted) EPS the actual tax charges for both the US and German operations – where lack of tax losses generates a real tax charge on profits made locally. We are now, however, stripping out the benefits (both historically and in forecast periods) of the deferred tax credits – these being simply an accounting estimate. The overall impact of this change is to increase the tax charge (reducing adjusted EPS) for historic years, and we also assume a modest tax charge in the forecast period. This slightly dampens the upward EPS move from our EBITDA upgrades, but has the benefit of making the group's tax position more comparable over time. It will also reduce the drag on EPS as the group moves (probably beyond the forecast period) to paying a normalised tax charge once the accumulated tax losses are fully utilised.

Finally, note that we have assumed growth in the dividend from the declared maiden level of 2.5p, but that the dividend remains well-covered at these levels on our estimates.

CHANGES TO ESTIMATES

\$m unless stated	FY18E			FY19E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	29.0	30.1	4%	32.0	33.9	6%
Adj EBITDA	6.1	7.0	15%	7.3	8.5	16%
Fully adj PBT	3.5	4.4	25%	4.6	5.7	24%
Fully adj EPS (c)	35.1	39.4	12%	46.0	50.8	10%

Source: Progressive Equity Research estimates

Financial Summary: Sopheon

Year end: December (£m unless shown)

	2016	2017	2018E	2019E
PROFIT & LOSS				
Revenue	23.2	28.5	30.1	33.9
Adj EBITDA	5.2	8.0	7.0	8.5
Adj EBIT	3.0	5.6	4.8	6.2
Reported PBT	3.0	5.1	4.4	5.7
Fully adj PBT	2.7	5.1	4.4	5.7
NOPAT	2.9	5.1	4.4	5.7
Reported EPS (c)	42.2	52.6	42.5	55.2
Fully adj EPS (c)	27.6	48.4	39.4	50.8
Dividend per share (p)	0.0	0.0	2.5	3.0
CASH FLOW & BALANCE SHEET				
Operating cash flow	5.4	6.0	6.4	9.0
Free Cash flow	2.8	3.4	5.6	5.1
FCF per share (c)	27.4	32.9	55.2	49.9
Acquisitions	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	0.1	0.0	0.0	0.0
Net cash flow	2.8	3.1	3.2	5.5
Overdrafts / borrowings	(5.8)	(3.2)	(3.3)	(3.4)
Cash & equivalents	10.1	12.7	15.9	21.4
Net (Debt)/Cash	4.2	9.5	12.6	18.0
NAV AND RETURNS				
Net asset value	10.4	18.6	22.4	27.3
NAV/share (c)	101.5	182.4	219.7	267.2
Net Tangible Asset Value	0.2	0.4	0.5	0.6
NTAV/share (c)	2.4	4.0	4.9	5.8
Average equity	7.9	14.5	20.8	25.7
Post-tax ROE (%)	37.0%	35.4%	21.2%	22.0%
METRICS				
Revenue growth	11.1%	23.0%	5.5%	12.7%
Adj EBITDA growth	27.4%	53.3%	(12.8%)	20.7%
Adj EBIT growth	94.8%	85.7%	(14.7%)	29.3%
Adj PBT growth	84.2%	93.1%	(14.3%)	29.7%
Adj EPS growth	98.3%	75.7%	(18.6%)	28.7%
Dividend growth	N/A	N/A	N/A	20.0%
Adj EBIT margins	13.0%	19.6%	15.8%	18.2%
VALUATION				
EV/Sales (x)	2.7	2.2	2.1	1.8
EV/EBITDA (x)	11.9	7.8	8.9	7.4
EV/NOPAT (x)	21.3	12.2	14.2	11.0
PER (x)	34.5	19.7	24.1	18.8
Dividend yield	N/A	N/A	0.3%	0.3%
FCF yield	2.9%	3.5%	5.8%	5.2%

Source: Company information and Progressive Equity Research estimates

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