

THE PANOPY

SOFTWARE AND COMPUTER SERVICES

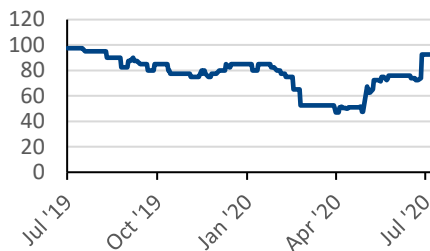
30 July 2020

TPX.L

92.5p

Market Cap: £50.9m

SHARE PRICE (p)



12m high/low

98p/47p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£1.8m (at 30/06/20)
Enterprise value	£49.1m
Index/market	AIM
Next news	Interims, Dec-20
Shares in Issue (m)	55.1
Chairman	Mark Smith
Chief Executive	Neal Gandhi
Finance Director	Oliver Rigby

COMPANY DESCRIPTION

The Panopy is a digitally-native technology services company, focused on digital transformation.

www.thepanopy.com

THE PANOPY IS A RESEARCH CLIENT OF
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FY 20: A year of growth and expansion

Digital transformation services provider The Panopy has reported FY 20 results (to the end of March) slightly ahead of our forecasts. The period saw impressive revenue growth and expansion of the platform. However, the FY 20 financial year only saw a short window impacted by COVID-19. The subsequent operating environment has changed markedly. The group responded quickly and has already reported a record performance in Q1 21E, with a stronger financial position at the end of June. We maintain our underlying FY 21E and FY 22E estimates and introduce FY 23E numbers. We continue to believe that the group is strongly placed to capture growth opportunities in digital transformation – particularly in the public sector.

- FY 20 results slightly ahead of forecasts:** Revenue of £31.5m (+43% YoY) and adjusted EBITDA of £3.4m (+32% YoY, 12.2% margin) were ahead of our respective £30.2m and £3.3m estimates.
- Expansion alongside growth:** FY 20 saw material expansion of the both the platform and the customer base. In our view the FutureGov and Ameo acquisitions completed during the year were transformational. The group now goes to market with the scale and ability to deliver large End-to-End (“E2E”) digital transformation projects and the benefits of these strategic moves are already being felt. A number of multi-disciplinary contract wins were recorded during FY 20, including NHSx, the Food Standards Agency and Camden Council. FY 20 saw an acceleration in growth in the total customer base, with 265 clients billed during the year (+39% YoY).
- Strong momentum in the public sector vertical.** Public sector clients contributed 64% of FY 20 revenue, with the group delivering a wide range of projects during the year, ranging from hyperscale cloud migration programmes through to high-level organisation change initiatives. The group now has an impressive list of reference public sector clients, including amongst others the DVLA, Highways England UK Hydrographics Office. The group is therefore demonstrably gaining traction in public services and gaining a reputation for being an innovative supplier.
- Positive outlook:** As confirmed in the recent trading update, The Panopy entered FY 21E with a £15m sales backlog and in Q1 21E won new contracts with a total value of £13m. We continue to believe the group has good visibility on our FY 21E forecasts.

* Indicates a pro forma figure, other data presented on a statutory basis. NB: EV calculations include forecast future share issuance.

FYE MAR (£M)	2019	2020	2021E	2022E	2023E
Revenue	22.1*	31.5	39.8	45.4	49.9
Adj EBITDA	2.1*	3.4	4.7	5.4	6.2
Fully Adj PBT	0.3	2.9	4.6	5.1	5.6
Fully Adj EPS (p)	0.7	3.6	4.9	5.4	5.9
EV/Sales (x)	2.1x	1.6x	1.8x	1.5x	1.2x
EV/EBITDA (x)	21.6x	15.1x	14.8x	12.2x	10.0x
PER (x)	N/A	N/A	18.9x	17.1x	15.8x

Source: Company Information and Progressive Equity Research estimates

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

FY 20E financial performance

With the group's financial year ending in March, The Panoply's FY 20 financial performance saw only a limited impact from the COVID-19 pandemic. Management took decisive action back in March 2020, instigating remote working two weeks ahead of HM Government's advice. As a result, the group saw very limited impact on FY 20 financials from COVID-19.

The Panoply's recent trading update encompassed the March-June 2020 quarter, during which many businesses saw a material impact from COVID-19. As we highlighted in our accompanying research, the group reported a strong start to FY 21E¹, without recourse to HM Government's furlough scheme. Nevertheless, in our view The Panoply delivered a strong financial performance FY 20, with the outcome slightly ahead of our forecasts for both revenue and EBITDA. Double digit revenue growth was accompanied with a strong margin improvement, albeit one masked by investment in the group's startup businesses - Human+ and Greenshoot Labs, and a robust cash performance. Each of the three areas are analysed below.

Revenue

The group recorded revenue of £31.5m, +43% YoY, with growth reflecting both an organic improvement, and contributions from the FutureGov and Ameo businesses acquired during the year.

At 64%, public sector clients contributed the bulk of revenues (vs 56% FY 19), although we note this figure increases to 68% if Ameo and FutureGov were included for the full-year. However, the period also saw a reduction in concentration risk, with the top 10 clients generating 31% of total revenue vs 54% in FY 19.

Repeat business levels remain high, with 70% of clients billed during FY 20 were also billed during FY 19.

Profitability

At 38%, gross margins remained firm during the year. However, the 3pp decline reported for the year reflects 1) the strong performance of the dedicated teams business (Questers), which delivers longer-term contracts but at a slightly lower gross margin than other parts of the group and 2) increased investment in the group's startup businesses.

At £3.4m, adjusted EBITDA saw a 32% YoY improvement. Excluding the investment in the startup businesses and central costs, underlying EBITDA stood at £5.7m, a 54% improvement.

Cash

Cash generated from operations was £2.3m, representing a cash conversion ratio of 91% of adjusted pre-tax profit. The group closed the period with a gross cash balance of £4.6m and a net debt figure of, £0.4m. We note however, the group's financial position had improved to a £1.8m net cash position by the end of Q1 21E.

¹ See The Panoply: A strong start to FY 21E. PERL 21/7/20

Outlining the commercial vision

The Panoply's FY 20 results release lays out the group's six-step commercial vision. This contains a number of goals which the group aims to achieve over the next three years. The targets are both clear and quite specific so warrant reader attention. We also believe that the additional transparency on the group's aims will be welcomed by the financial community. We summarise the six-steps below, with analysis below each of the points.

The group's commercial vision aims to:

- **Produce 10-15% organic revenue growth per annum**

The group reported 38% organic revenue growth FY 19 and 43% pro-forma revenue growth FY 20. Although these represent the first sets of full-year results releases following the 2018 IPO, both are more than double the upper end of the 10-15% target. With the expanded platform, E2E product set and increasing commercial traction in both public and commercial verticals, in our view this is not an unrealistic target.

- **Convert c70% of operating profit into positive cash flow to generate significant cash reserves**

The group converted c86% of adjusted EBIT into operating cash flow in FY 20. Our forecasts (detailed overleaf) assume the ratio will improve over our forecast period.

- **Use the cash to establish a progressive dividend policy at around 15-20% of net income**

Management clearly appreciate the importance of dividend income to shareholders, as outlined on page 31 of the Pre-IPO Admission Document. However, our current forecasts assume that no dividend payments will be paid FY 21E – FY 22E. We will obviously revisit our dividend expectations as further clarity on timing emerges, but welcome management's commitment to introduce dividend payments.

- **Enable the group to utilise the combination of cash flow and listed shares to make further earnings-enhancing acquisitions**

The group's stated growth strategy involves both organic and acquisitive growth.

Our forecasts assume the group will achieve a closing net cash position of £12.0m FY 23E. With a current market capitalisation of £50m and a (unused) £1.5m overdraft facility, we believe the group has flexibility on funding further acquisitions.

- **Maintain leverage below 1x EBITDA**

The group reported a net cash balance of £1.8m Q1 21E and our forecasts, will generate positive cash flow over our visible forecast period. We therefore believe this is a signal from management of a worst-case scenario if any future acquisitions required a significant level of debt funding.

- **Achieve run-rate revenue of £100m by March 2023 and deliver £12-£14m EBITDA.**

At first glance this appears to be a somewhat aggressive target given our FY 23E £49.9m and £5.9m revenue and EBITDA forecasts. However, we note these are run-rate targets, not annual ones. Furthermore, our model is based upon the group in its current form and as noted above, acquisitions are a key driver for the group to achieve its goals.

Forecasts

Following the announcement, we make revisions to forecasts. These are summarised in the following table.

The Panoply – forecast revisions						
£m unless stated	FY 21E			FY 22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	39.8	39.8	0%	45.4	45.4	0%
Adj EBITDA	4.7	4.7	0%	5.4	5.4	0%
Fully adj PBT	4.6	4.6	0%	5.3	5.1	-2.9%
Fully adj EPS (p)	4.9	4.9	-1%	5.6	5.4	-3.7%

Source: Progressive Equity Research estimates

- As the table shows, our underlying revenue and EBITDA expectations are unchanged in both years.
- For FY 22E, we have amended our amortisation forecasts, reflecting revised assumptions on average asset lives. Our expectations of financial expenses and taxation are broadly unchanged, so the new amortisation forecasts are the key driver of the 2.9% decline in fully adjusted PBT.
- We have also revised our assumptions of future share issuance, which impacts EPS in both years.
- Our forecast FY 21E and FY 22E closing net cash positions of £4.0m and £8.0m respectively are unchanged compared with previous estimates.
- We also introduce FY 23E forecasts for the first time and these are detailed overleaf. We expect the group to continue to win business with new and existing clients and forecast 10% YoY revenue growth during the year. We expect broadly stable margins and another year of strong cash flow, with a closing net debt estimate of £12.0m.

Financial Summary: The Panoply

Year end: March (£m unless shown)

PROFIT & LOSS	2019	2020	2021E	2022E	2023E
Revenue	22.1*	31.5	39.8	45.4	49.9
Adj EBITDA	2.1*	3.4	4.7	5.4	6.2
Adj EBIT	0.4	3.7	4.6	5.3	6.1
Fully Adj PBT	0.3	2.9	4.6	5.1	5.6
Reported EPS (p)	(9.2)	(6.3)	2.6	2.9	3.3
Fully Adj EPS (p)	0.70	3.6	4.9	5.4	5.9
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Avg shares outstanding (non-dil.)	18.2	48.2	74.3	77.7	77.7
Period-end Shares outstanding (Dil. m)	80.1	55.1	74.8	81.6	81.6
CASH FLOW & BALANCE SHEET	2019	2020	2021E	2022E	2023E
Operating cash flow	(1.2)	2.7	4.0	4.9	5.0
Free Cash flow	(1.2)	2.5	3.4	4.0	4.0
FCF per share (p)	(2.2)	4.5	6.3	7.2	7.2
Acquisitions	1.4	(7.0)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	5.4	0.0	0.0	0.0	0.0
Net cash flow	5.6	(1.0)	(0.6)	4.0	4.0
Overdrafts / borrowings	0.0	(5.0)	0.0	0.0	0.0
Cash & equivalents	5.7	4.6	4.0	8.0	12.0
Net (Debt)/Cash	5.7	(0.4)	4.0	8.0	12.0
NAV AND RETURNS	2019	2020	2021E	2022E	2023E
Net asset value	19.3	27.3	30.1	32.8	36.8
NAV/share (p)	35.0	49.5	54.7	59.7	66.9
Net Tangible Asset Value	0.3	0.3	0.1	0.0	0.0
NTAV/share (p)	0.5	0.5	0.2	0.1	(0.1)
Average equity	9.6	23.3	28.7	31.5	34.8
Post-tax ROE (%)	3.6%	1.5%	10.2%	14.6%	14.7%
METRICS	2019	2020	2021E	2022E	2023E
Revenue growth		42.8%	26.5%	14.0%	10.0%
Adj EBITDA growth		61.9%	39.6%	14.4%	14.6%
Adj EBIT growth		934.2%	24.4%	14.9%	15.1%
Adj PBT growth		N/A	57.2%	11.1%	9.9%
Adj EPS growth		N/A	N/A	10.2%	8.4%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		11.7%	11.5%	11.6%	12.2%
VALUATION	2019	2020	2021E	2022E	2023E
EV/Sales (x)	2.1	1.6	1.8	1.5	1.2
EV/EBITDA (x)	21.6	15.1	14.8	12.2	10.0
EV/EBIT (x)	N/A	13.9	15.3	12.5	10.2
PER (x)	N/A	N/A	18.9	17.1	15.8
Dividend yield	N/A	N/A	N/A	N/A	0.0%
FCF yield		N/A	6.8%	7.8%	7.8%

Source: Company information and Progressive Equity Research estimates

* Indicates pro forma figure. Other data presented on a statutory basis

** Our Enterprise valuation calculations include forecast future share issuance

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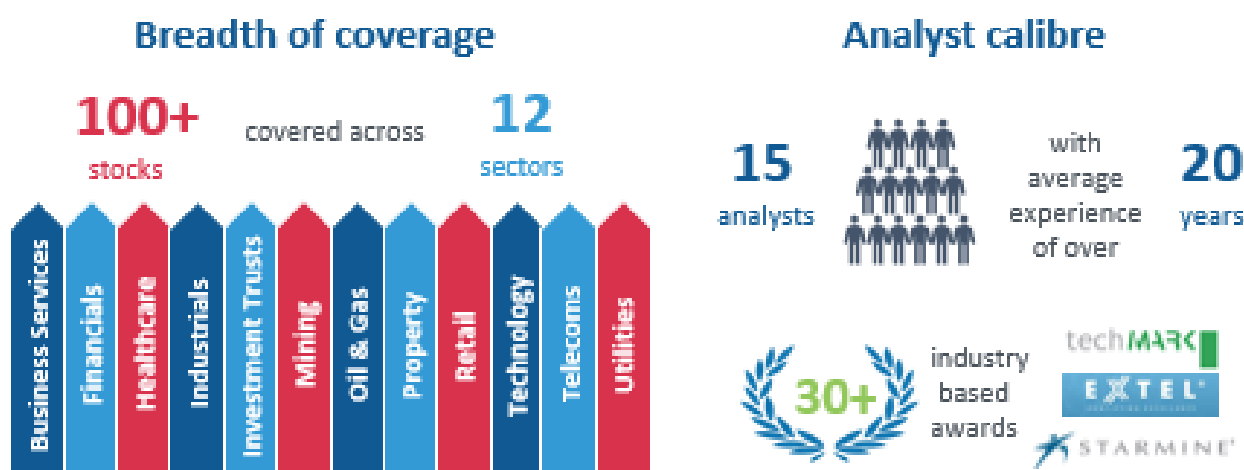
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