Transformation with purpose

Executive summary

Price:	122p
Shares in issue:	67m
52 week high/ low:	155p/48p
Market cap:	£82m
Market:	AIM
Broker:	Dowgate/Stifel
Ticker:	TPX.L
Target price:	**180p**

Activities

The Panoply is a digitally-native technology services group focused on digital transformation. It provides services primarily to government, education, charities and industry.

Management

Mark Smith	Chairman
Neal Gandhi	Chief Executive
Oliver Rigby	CFO
Chris Sweetland	Non-Exec Director
Isabel Kelly	Non-Exec Director

Major shareholders

Neal Gandhi	14.1%
Oliver Rigby	7.6%
Octopus	3.3%
Gresham House	2.4%
Rathbones	2.3%
Other employees	47.8%

Analysts

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The Panoply is a digitally-native technology services group that is focused on delivering sustainable digital transformation, primarily for clients in the public sector. Digital transformation within the UK public sector is growing rapidly (17% p/a) and is forecast to be worth £20bn by 2025, with growth further accelerated by COVID-19. Combining deep expertise in organisational design with technology transformation, we view The Panoply as being in a sweet spot whereby it has the scale and resources to deliver projects that are beyond the capabilities of niche players, while not being hampered by the legacy thinking and bureaucracy that afflicts the large consultancies. The Panoply is trusted by the government, education and charities and has a blue-chip client list including the Department of Education, Department for Transport, the NHS, Unicef and Cancer Research UK, and has a high proportion of recurring and repeat revenues. We believe the group has a notably strong ethos, including a commitment to diversity and the Panoply Profit pledge, which will enable it to continue to combine purpose, practice and profit. The Panoply intends to combine continued double-digit organic revenue growth with selective acquisitions to deliver £100m run rate revenues at a 12-14% margin by March 2023, which our sensitivity analysis indicates would deliver pro forma EPS of over 8p. We initiate coverage with a Buy recommendation and 180p price target.

- **The Panoply Team.** The Panoply was founded by technology entrepreneur Neal Gandhi (CEO) and Oliver Rigby (CFO) in 2016. It grew to encompass four technology consultancies and came to the market in 2018. It has since grown to 11 partner companies. The group has a notably strong board, comprising Chairman Mark Smith (ex-COO/CFO of Chime), NED Chris Sweetland (ex-Deputy CFO of WPP) and NED Isabel Kelly (Founder of Profit for Purpose). The board has a 22% shareholding.
- **Pre-Close Update.** The group released a Pre-Close Update for the 6m to September stating LFL revenue growth had accelerated from +10% in Q1 to +18% for H1, indicating Q2 growth of comfortably over +20%. Key contract wins including BEIS vindicates the strategy of combining niche, agile agencies to create a group that is able to win larger contracts with recurring revenues. The Panoply reiterated its guidance for FY LFL revenue growth of 10-15% with profit growth ahead of this.
- **Dividend.** The Group will announce a maiden dividend with its interims and will grow this progressively to a pay-out ratio of 15-20%.
- **Balance sheet.** The group will keep leverage below 1x EBITDA.

Financials (Pro-Forma)

Year to March £m	2019	2020	2021E	2022E
Revenues	22.1	31.5	42.5	52.5
Adjusted EBITDA	2.1	3.8	5.6	6.5
Adjusted PBT		2.9	4.7	5.5
Adjusted EPS, p		5.1	5.9	5.8
EPS with max DC, p		3.6	4.8	5.0
DPS, p			0.6	0.8
Net cash/(debt)		(0.4)	(1.0)	3.1

Source: The Panoply, Dowgate Capital (forecast)

Dowgate CAPITAL

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Company History

The Panoply was founded by Neal Gandhi (CEO) and Oliver Rigby (CFO) in 2016 with the intention of identifying and acquiring leading technology, design and innovation consulting businesses.

The group is focused on creating an agile, decentralised group where employees join a culture of autonomy, purpose, collaboration, and innovation, which we detail further in the section on Company Values on page 7.

IPO

The Panoply floated on the AIM market in 2018 at a price of 74p, raising gross proceeds of £5m. The four companies that comprised The Panoply at the time of admission were as follows:

- **Manifesto Digital.** A digital experience agency.
- **Notbinary (now foundry4).** IT & digital transformation consultancy.
- **Questers.** Agile software development services.
- **Bene Agere.** Strategy & management consultancy.

We detail the activities of these companies in further detail in section on Company Descriptions on page 30.

Development since IPO

The Panoply has been active since its IPO two years ago, and the group has grown to 11 companies, including the transformational acquisition of FutureGov.

The table below shows the date of the seven acquisitions completed over this period, in addition to the initial cash and equity consideration and the maximum deferred consideration that could be paid.

Acquisition history

Date	Acquisitions	------------------------- Initial consideration				Maximum	Total
		Cash, £m	Shares, £m	Shares, m	Total, £m	Earnout, £m	£m
Dec 2018	Deeson	0.6	1.4	1.6	2.0	1.7	3.6
Jan 2019	D/SRUPTION	0.0	0.1	0.1	0.1	3.5	3.6
Feb 2019	GreenShoot Labs	0.0	0.0	0.0	0.0	7.4	7.4
Jun 2019	FutureGov	6.0	5.8	6.6	11.8	9.2	21.0
Mar 2020	AMEO	2.2	4.8	5.9	7.0	3.5	10.5
Jun 2020	Arthurly	0.2	0.3	0.4	0.4	1.1	1.5
Sep 2020	Difrent	4.0	4.8	3.9	8.8	4.5	13.3
	Total	**13.0**	**17.1**	**18.5**	**30.0**	**30.8**	**60.8**

Source: The Panoply

As can be seen, The Panoply has completed transactions of a broad range of sizes, from innovative start-ups (D/SRUPTION and Greenshoots Labs) to larger, more established companies such as FutureGov.

Transactions are typically structured as a combination of cash and equity for the initial consideration, with the aggregate expenditure of £30m since approximately evenly between cash and equity.

Deferred consideration is used to retain and incentivise the management team of the acquired companies. The total deferred consideration, which is a stretch target, is typically equal to the initial consideration and is payable over several years in shares, with the number of shares to be issued governed by cap and collar arrangements.

We detail the companies acquired since IPO in the section on Company Descriptions from page 30.

Acquisition multiples

The table below shows the multiples of revenues and EBITDA represented by the initial consideration for the acquisitions completed in the two years since IPO.

Acquisition multiples

Acquisitions	Description	Consideration £m	Revenues £m	EBITDA £m	EV/revenues x	EV/EBITDA x
Deeson	Digital agency	2.0	2.2	0.5	0.9	4.1
D/SRUPTION	Group marketing platform	0.1	n/a	n/a	n/a	n/a
Greenshoots	AI & Conversational Interfaces	0.0	n/a	n/a	n/a	n/a
FutureGov	Public & Health digital services	11.8	6.4	1.5	1.8	7.8
AMEO	Public sector digital services	7.0	6.9	1.0	1.0	7.0
Arthurly	Microsoft tech specialist	0.4	0.5	0.1	0.8	4.2
Difrent	Healthcare digital consultancy	8.8	5.7	0.7	1.5	12.6
Total		**30.0**	**21.7**	**3.8**	**1.4**	**7.9**

Source: The Panoply

The aggregate acquisition multiple is 1.4x revenues, which we view as fair for businesses that on average are delivering an 18% margin, while the EBITDA multiple of 8x is, in our view, attractive for consultancies in fast-growth areas.

Board & Key Personnel

The Panoply was founded by Neal Gandhi (CEO) and Oliver Rigby (CFO) in 2016. Upon flotation in 2018, Mark Smith joined as Chairman while Chris Sweetland and Isabel Rigby were appointed as Non-Executive Directors.

- **Non-Executive Chairman - Mark Smith.** Mark has held several senior roles in creative and innovative communication businesses. He began his career as a chartered accountant at Touche Ross & Co. (Deloitte). He then spent 30 years at Chime Communications, which was acquired by Providence Private Equity in 2015. Mark is currently chairman of Holiday Extras, a market leader in the provision of online ancillary travel services, a position which he has held for 15 years. He is also a non-executive director and acting Chairman at The Dods Group, an AIM listed intelligence, media, training and events company, operating in over 50 countries.

- **Co-Founder and Chief Executive Office - Neal Gandhi.** Neal is a serial technology entrepreneur, having co-founded four companies that exited successfully with a combined value of £117m. He co-founded his first company at the age of 21 and, under the brand name of Jungle.com, that company went on to be sold to GUS for £37m. In 1996 he co-founded Xplora and sold it to Nasdaq-listed USWeb in 1998. Neal then co-founded Attenda, a managed services consultancy which went on to be sold for £72m; one part to Telecity Plc and the other to Darwin Private Equity. In 2006 he founded QuickStart Global, an off-shore IT service provider, which grew rapidly, and in 2010 was listed in the Sunday Times Tech-Track 100 at number 3, his second company in that list with Attenda having been listed at number 2 in 2001.

- **Co-Founder and Chief Financial Officer - Oliver Rigby.** Oliver qualified as an accountant with MRI Moores Rowland LLP in 2006 before spending six years as an adviser in corporate finance with Daniel Stewart and Deloitte. Oliver acted as a Nominated Adviser to the AIM Market of the London Stock Exchange and was one of their youngest Qualified Executives. Prior to co-founding The Panoply, Oliver set up Growth Company FD Limited in 2012 to provide part time CFO and corporate finance support to growing businesses.

- **Non-Executive Director - Christopher Sweetland.** Chris qualified as a chartered accountant with KPMG before spending 9 years overseas in a variety of financial roles with PepsiCo Inc. In 1989, when he was CFO for the Central Europe Beverages Division, he was recruited by WPP to be part of their small central team. Chris retired from his role as WPP Deputy Group Finance Director in 2016 having spent 27 years helping build the company and having been involved in all aspects of operations, investor relations and the many acquisitions that built that Group. Chris also represented WPP on the boards of a number of companies both in the UK and overseas.

- **Non-Executive Director - Isabel Kelly.** Isabel is the founder of Profit with Purpose, a social purpose consultancy working with companies and non-profits. She is also an Industry Careers Advisor for MBA students at the Saïd Business School, focused on social impact. In 2002 Marc Benioff, CEO of Salesforce.com, hired Isabel to establish the Salesforce Foundation internationally (now Salesforce.org). For 12 years she led an international team delivering technology, grants and programmes in 110 countries, as well as generating revenue of $12m to fund the work. Isabel worked at Oxfam and Amnesty International for 12 years prior to joining Salesforce.

Company Values

It is clear that The Panoply has a particularly strong corporate ethos. The group has detailed its company values in the diagram below.

Company values

Source: The Panoply

The group has developed an operating model called Consistent Autonomy. This operates at the intersection of delivering impactful work, achieving profitable organic growth while still retaining the individuality of the companies that form The Panoply.

The Panoply is committed to creating sustainable change in the world by enabling communities and organisations to be more effective in shaping inclusive, equitable and productive societies.

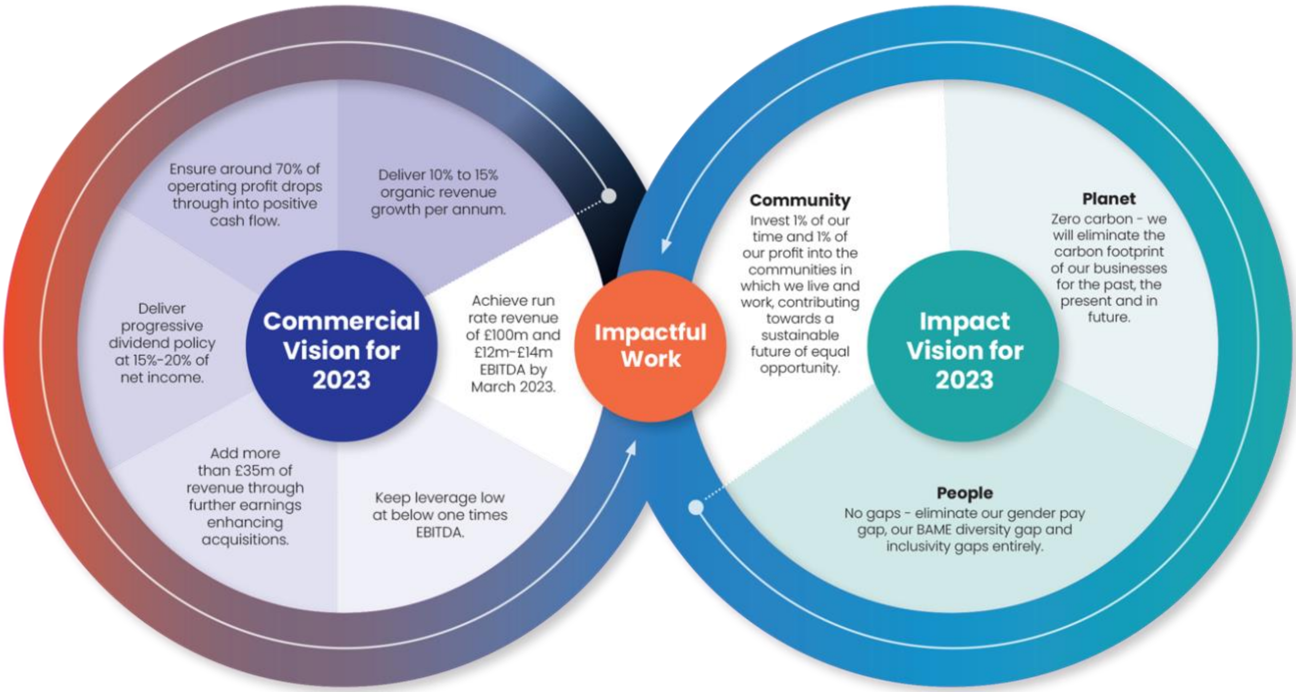
We now see businesses committing to initiatives around the UN's Sustainable Development Goals, fostering increased diversity in talent pipelines, and making a positive impact in the local communities in which they operate.

The Panoply was founded as a values-driven business and its values are the glue that bonds the group together. In particular, the group has a shared outlook on the world that underpins its culture, principles, and everything it does.

Commercial & Impact Vision 2023

The Panoply has set out its Vision for 2023 on how it will behave in terms of its Commercial activities and how this integrates with its corporate culture and ethos to generate a wider positive impact.

Commercial and Impact Vision 202



Source: The Panoply

The diagram above shows the virtuous circle of cumulative causation whereby the Commercial Vision feeds into the Impact Vision, which then in turn feeds back into the Commercial Vision.

We detail the Commercial Vision of The Panoply on page 36 at the beginning of the Financials section.

The Impact Vision of The Panoply for 2023 centres on three key areas of focus which we detail below.

- **Community.** The Panoply has committed to investing 1% of its time and profit into the communities in which we live and work, contributing towards a sustainable future of equal opportunity.
- **Planet.** The group has made a zero carbon pledge and is taking action to eliminate the carbon footprint of its businesses.
- **People.** The Panoply has a culture of No Gaps and the group will ensure that there are no gaps for gender pay, BAME diversity and inclusivity.

Industry background

The Panoply operates in the fast-growing area of digital transformation, which IDC forecasts is growing at 17% p/a. Further, digital transformation is an area where we believe growth can only be accelerated by COVID-19, which has highlighted the need for fundamental structural change both in private and public service organisations.

Digital transformation encompasses a broad range of activities, but essentially is the application of technology to facilitate the transformation of organisations and development of more efficient and effective operating practices. Digital transformation is a combination of one or more of the following five areas:

- **Data.** By capturing, processing and analysing digital data organisations can improve predictions and support decision-making processes
- **Automation.** By combining traditional technologies with Artificial Intelligence, systems can be developed that can work autonomously.
- **Connectivity.** By connecting value chains to high-bandwidth telecom networks, supply chains can be synchronised which shortens lead times for productions and innovation cycles.
- **Digital consumer access.** The fixed and mobile internet have transformed ways for consumers to access products, services and information through websites and apps.
- **Education**. By providing coaching, skills and change management, digital transformation consultancies can help organisations and their workforces to think and operate more efficiently and effectively.

As more organisations across the public and private sectors are embracing, or being forced to embrace, digital transformation the technology consultancies have also adapted to the requirements of these organisations.

First, as a result of years of traditional outsourcing, many organisations have lost their internal technology capability. As they have become dependent on large, slow-moving external consultancies organisations have themselves become too slow to adapt to the need for change at pace.

Second, there has been a shift towards contracts of smaller value, with very large contracts broken down into small/medium-sized contracts that are easier to manage and implement.

Company Strategy

The Panoply is perfectly positioned to benefit from these trends as it is structured to work alongside clients in an agile manner and the group's companies have the capability to work on small projects in a solo capacity or to combine forces to deliver medium-sized projects.

The Panoply is predominantly focused on delivering digital transformation for government departments, local authorities, healthcare organisations and other public sector bodies.

As can be seen from the recent comment below from the Rt Hon Michael Gove MP, there is a clear intention by public sector bodies to move away from large, monolithic contracts with bureaucratic consultancies and move towards consultancies that are established, but are sufficiently nimble to drive innovation.

'It is a cliché to say of Government that no-one ever lost their job for recommending the contract go to IBM.

If you decide that you will procure services from a new organisation and, if things go wrong, you will face the wrath of the National Audit Office, the criticism of self-righteous chairs of parliamentary select committees, the hindsight-rich rancour of newspaper columnists as well as the disappointed froideur of your Permanent Secretary and Secretary of State.

On the other hand, if you choose to have the service performed by an established supplier, choose to assess their performance by deferring to management consultants, set up a board to manage the process with officials from lots of different departments then you are insulated from failure.

The delivery companies are too big to fail, too embedded in so much else that Government does, too sanctified by the faith other departments have already placed in them. The consultants are an invaluable prophylactic – if these super bright people from the private sector with MBA degrees and huge earnings outside said it was okay, well, it must have been. And the cross-Whitehall board is the biggest insurance policy of all. You can't hold me accountable – it was a 'shared' decision.

All of these factors work against innovation – and accountability. Innovation comes when people take reasonable risks – and also responsibility.'

Rt Hon Michael Gove MP, 27th June 2020

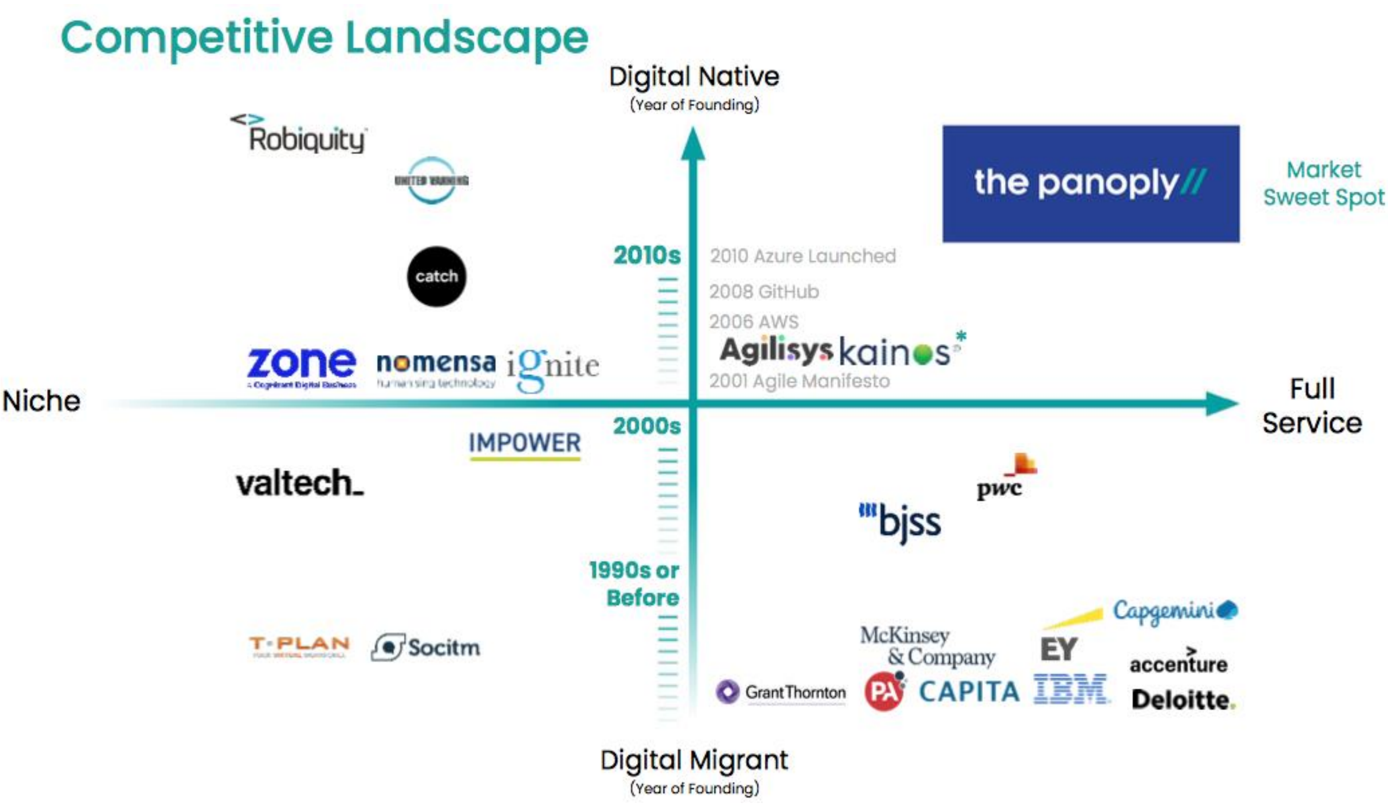
Competitive Landscape

The Panoply illustrates its competitive positioning by considering two factors, scale and age.

Scale is clearly important as organisations are keen to work with technology consultancies that offer a joined-up offering rather than a number of disparate entities that do not have experience of working together.

The second key attribute is age. The traditional consultancies were established in the analogue era and have had to themselves grapple with migrating their own business practices to the digital age. By contrast, digitally-native consultancies know no other way of operating than in an agile, open and collaborative manner.

Competitive Landscape



Source: The Panoply

The chart above illustrates how by coming together as The Panoply, the digitally-native technology consultancies that comprise the group have achieved the scale to compete for medium-sized contracts while not losing their inherent agility.

By contrast, the larger consultancies can suffer from bureaucracy and legacy thinking, while nimble, niche players do not have the breadth and depth of offering to provide digital transformation at scale.

Full Service Brands

The Panoply has grown rapidly since formation and particularly since its 2018 IPO. We have detailed the 11 companies that now comprise the group and the group is now bringing these businesses together under two brands, FutureGov and foundry4.

Full Service Brands

Source: The Panoply

The two Full Service brands which The Panoply operates under are FutureGov, that delivers Organisational Design and foundry4, which provides technological transformation. We detail these Full Service brands, which operate for a broad range of clients as illustrated below, in the following section and then provide detailed case studies to bring to life the digital transformation projects delivered by the group.

The Panoply client list

Source: The Panoply

FutureGov

Focused on Organisational Design, the stated aim of FutureGov is to create public services fit for the 21st century by the application of design, technology and organisation development approaches.

- **Organisations.** FutureGov helps to build organisations that are fit for the future by working alongside clients and helping them to review their ways of working, by designing new capabilities and rethinking structures to deliver better ways of working.
- **Services.** FutureGov designs services that combine people, infrastructure, communications and technology to deliver high quality user outcomes and experiences. Through a process of discovery, it works to understand user needs, policy, technology and future opportunity. The consultancy takes a design-led approach, and analyses research and data to guide and inform its work inside organisations.
- **Technology.** FutureGov designs products that have a material benefit on public services. Starting from an analysis of the current service, the consultancy will upgrade the offering of an organisation by building, testing and iterating solutions at scale to meet government service standards.

FutureGov has worked with over 50 local authorities over the past decade and is increasingly working with central government organisations. An illustration of its client list is below.

FutureGov client list

Source: The Panoply

In addition to the case studies that we provide on pages 19 and 24, further examples of the digital transformation projects undertaken by FutureGov can be seen by following the link below –

https://www.wearefuturegov.com/

foundry4

foundry4 helps organisations to deliver products and services more effectively by harnessing the combined power of people and technology. The individual consultancies that are being brought together under one full service brand combine expertise across insight, design, technology and data.

The key capabilities of foundry4 are as follows:

- **Data and Intelligence.** foundry4 leverages data-driven models to make better informed decisions.
- **Engineering Excellence.** The consultancies deliver industry-leading products underpinned by trusted best practice.
- **Product Design and Build.** foundry4 is able to apply collaborative and scalable approaches to product development.
- **Intelligent Automation.** The partner companies have deep expertise in harnessing the power of human and AI-powered automation
- **User Experience.** A core skill of foundry4 is building engaging digital experiences that combine the best of people, products and services.
- **Platforms and Integration.** foundry4 works to accelerate application deployment, integration and enhancement.

foundry4 companies work for a broad spectrum of private and public sector organisations and have strong relationships with key technology partners including Amazon, Google and Microsoft.

foundry4 client list and technology partners

Source: The Panoply

Further detail on the client list of foundry4 is available from the link below –

https://foundry4.com/who-we-help

Case studies

The Panoply has provided detailed case studies that showcase the work that it has done with its clients. We believe these bring to life the digital transformation projects in real world situations and have reproduced them below.

NHS Business Services Authority

The first case study shows how Difrent worked with the NHS Business Services authority to transform their recruitment platform.

NHS Business Services Authority

Source: The Panoply

Below, The Panoply details the challenges facing the NHS Business Service Authority, the approach that Difrent took to solve these challenges and then the impact that this had to date.

Challenge

The NHS Business Services Authority want to encourage and hire the right people into the right NHS roles across the UK, through the most accessible and efficient way possible.

Difrent were appointed as their transformation partner to help rebuild their NHS Jobs recruitment platform around the needs of users, making it quicker, easier and smarter for NHS job applicants and hiring managers.

Approach

Difrent began by clarifying the vision and goals of the NHS Business Service Authority, key user groups from workshops with their key stakeholders.

The consultancy then conducted a Wardley Map of potential technical solutions for the future NHS Jobs which informed build vs buy decisions.

In Alpha, Difrent prototyped solutions for usability testing with job applicants and hiring managers.

The delivery manager, designers, developers, business analysts and researchers from Difrent worked with the Product Owner to define and prioritise the Private Beta MVP backlog.

Difrent is currently building the service in Private Beta phase, enrolling thousands of GPs and NHS Trusts onto the new platform, continuously iterating from their feedback.

Impact

Over 4,000 GPs and NHS Trusts are now hiring through the new NHS Jobs platform.

Difrent passed Alpha GDS service assessment and is preparing for Beta assessment.

Difrent has helped to reduce the total cost of ownership for the platform, exploring interGovernmental PaaS commercialisation options together.

Department for Business, Energy & Industrial Strategy

The second case study shows how foundry4 worked with the Department for Business, Energy & Industrial Strategy to create a digital platform for ventilators in the early days of the COVID-19 crisis.

Department for Business, Energy & Industrial Strategy

GOV.UK

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Departments Worldwide How government works Get involved
Consultations Statistics News and communications

Coronavirus (COVID-19): what you need to do

Hide message

Home > Business and industry > Manufacturing

News story

Call for businesses to help make NHS ventilators

We are looking for businesses to support in the production and supply of ventilators and ventilator components.

Published 16 March 2020
From: Department for Business, Energy & Industrial Strategy

Credit: ugurhan / iStock

The government is looking for businesses who can support in the supply of ventilators and ventilator components across the UK as part of our response to COVID-19.

Source: The Panoply

Below, The Panoply details the challenge facing the BEIS, the approach that foundry4 took to solve this challenge and then the impact that this had.

Challenge

As part of the government's response to the Covid-19 outbreak, The Department for Business, Energy and Industrial Strategy (BEIS) asked businesses nationwide to offer their support in the production of ventilators and ventilator components.

foundry4 worked with BEIS to create a digital form to collect businesses' information, building and publishing the form in just one day.

Approach

Key to this project was pace, as BEIS needed the form to go live within a day. Therefore, foundry4 deployed a small squad (two developers and a product manager) to tackle the challenge.

foundry4 used the GDS front end kit to develop a form with the required questions, building on a Heroku application with a PostgreSQL database and Fathom analytics.

Once live, foundry4 then iterated the form over the next two weeks to make it increasingly robust and user friendly. This involved key principles of Product Thinking.

Impact

When BEIS asked for help manufacturing ventilators, its call centres and email accounts were quickly overloaded.

The digital form created by foundry4 provided a much more efficient way of collecting businesses' details, ensuring that no offers of assistance were missed.

Thanks to the development of this form in a single day, the government was able to proceed with the production of ventilators - a key aspect of its response to the coronavirus crisis.

In less than a fortnight the form had over 200,000 unique visits and collected more than 5,000 responses, which foundry4 then delivered to the Cabinet Office via BEIS

FamilyStory

The third case study shows how FutureGov helped to work with three local councils in London to help social workers provide social care for children.

FamilyStory

Source: The Panoply

Below, The Panoply details the challenge facing the councils, the approach that FutureGov took to solve this challenge and then the impact that FamilyStory has had.

Challenge

Legacy case management systems, which are focused on collecting information, are costing local authorities hundreds of thousands of pounds per year in licensing and maintenance. Although social workers achieve amazing things with families, they are held back by the systems and technology they work with.

Hammersmith and Fulham, Kensington & Chelsea and Westminster Children's Services recognised this problem and asked FutureGov to help them radically rethink how technology can support children's social care.

Together, FutureGov and the councils explored how they could approach child protection in a more user-centred way, that supports the people working hard to improve the lives of families and young people, so that they will be able to help to keep children safe.

Dowgate CAPITAL

Approach

During the initial Discovery phase conducted by FutureGov, user research helped the company explore the current experience of social workers and families. FutureGov found that on average, social workers can spend 60% of their time on a computer writing, recording and processing data.

With a design-led approach, FutureGov started working with frontline teams across the child protection journey, from referrals to leaving care. Meeting with a range of stakeholders, the company worked with the councils to turn insights into a future journey, putting the user's experience at the heart of the entire service.

Spending time with families and young people, FutureGov sought to understand what it feels like to be using and going through these services. Challenges around transparency, having ownership over their story and tense relationships with practitioners showed an opportunity to improve the experiences and relationships both for families and social workers.

FutureGov created FamilyStory, a set of digital case management tools for social care designed to meet the needs of social workers, partner agencies and families.

Impact

FamilyStory reduced the administrative burden placed on social workers and increased the time they have available to work directly with families. FamilyStory aims to increase productivity by up to 30% and improve the ability for families and social workers to collaborate by:

- significantly reducing report writing and time taken on administrative tasks
- improving transparency, increasing the quality of relationships and trust between practitioners and families
- improving collaboration between social work teams and other professionals
- collaboratively building a picture of need, supporting social workers to manage risk and informing decision-making

"FamilyStory is really useful, especially for initial assessment - the location, who was there - it all helps. Right now, we do so much copying and pasting from different places."

– Social Worker, London Borough of Hammersmith and Fulham

Hello Nina

The fourth case study shows how Greenshoots Labs worked with a leading global accountancy firm to improve the efficiency of the auditing process by using conversational AI.

Challenge

Auditing is a very manual and complex process for both the Auditor and the Auditee and has not significantly changed for over ten years.

The client of Greenshoots Labs, a top 10 global accountancy firm, recognised this and wanted to explore if conversational AI could improve internal efficiency as well as provide a differentiated product to their customers.

Approach

Greenshoots Labs used Microsoft Azure's Cognitive Services platform to create a Natural Language Processing (NLP) conversational application. This application allowed common questions from the auditee to be answered automatically, whilst escalating more complex queries to a team member.

Reflecting the client's multinational business, the application understands multiple languages. The application can be trained by the client over time to become accurate and answer more questions.

Impact

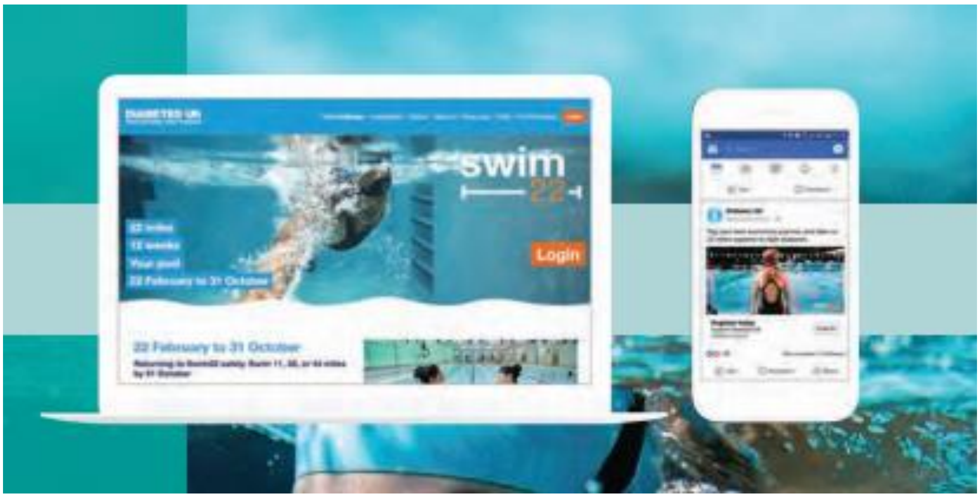
The application has been an innovation success story at a global level, with testing being rolled out across multiple territories. After submission of the audit data the AI algorithm helps to classify audit type, highlight anomalies and recommend outcomes and responses.

This approach is also the foundation of an improved data strategy enabling improved processing & business insight, in comparison to data fragmented across spreadsheets.

Diabetes UK

The fifth case study is how Manifesto worked with Diabetes UK to help with fundraising from participation events.

Diabetes UK



Source: The Panoply

The challenge, approach and impact are detailed below.

Challenge

Manifesto's partnership with Diabetes UK focused on helping the charity boost fundraising through its participation events programme.

This is a major source of fundraising revenue for Diabetes UK, with sponsorship money from swimmers, runners and walkers helping fund vital research work and supporting people with the disease.

But with an ad hoc approach to planning, executing and evaluating digital acquisition campaigns, the charity was struggling to systematically improve the return it saw on digital advertising spend designed to drive sign ups.

Approach

Working collaboratively across a range of established and new events, Manifesto helped Diabetes UK better plan, execute and gain insight from its paid search, display and social campaigns.

Manifesto helped the charity adopt a more far-sighted approach to event acquisition, using live reports and custom dashboards to combine data from a variety of campaigns and channels, to gain insight and optimise activity for maximum value.

As well as maintaining regular contact to develop a shared pool of strategic insight, Manifesto also helped Diabetes UK trial new channels and technologies, including Spotify Ads, for reaching and engaging target audiences more cost effectively.

Impact

During the first two years of the Manifesto and Diabetes UK partnership, the participation events programme raised a projected £2.3m, a 227% increase over the prior period.

The partnership has also boosted the total number of event participants by 93% and led to a 98% increase in the average amount raised per participant.

Continuous knowledge sharing and regular reviews have also helped Diabetes UK expand the scope of their paid acquisition to encompass more channels and execute campaigns with greater confidence.

"We're really impressed with the continuous improvements Manifesto have implemented to our paid search, display and social campaigns over the past couple of years. It's a pleasure working with the team and we've learnt so much from their expertise.

It's brilliant to see our participation events programme grow so effectively, and we look forward to our continued partnership."

– Daniel Larcey, Senior Events and Mass Participation Manager, Diabetes UK

Good Work Camden

The sixth case study is the work that FutureGov did with Camden Council to improve the lives of council tenants in its borough.

Challenge

Camden Council's 2025 vision is that jobs will pay people what they need to earn to live and businesses will provide jobs that are flexible for modern lives. Camden borough has over eleven thousand council tenant households not in work, meanwhile, there are growing numbers of people in work who are struggling to meet their outgoings.

The Council wanted to leverage the rich assets in their borough to widen the impact of the work of their partners and local support services. FutureGov was invited to take the lead in preparing the borough to grow a support system of services that can help residents in their job search.

Approach

The Good Work Camden project took a whole system view to improving employment outcomes, working across the entire employment landscape from support providers to employers. A human-centred approach throughout ensured the Camden job market is inclusive and accessible for all.

- **Neighbourhood focused.** Camden wanted to extend their employment support via a neighbourhood approach that was bespoke to local people and the lives they lead. FutureGov developed a neighbourhood hub, building neighbourhood profiles, integrating assets, and ensuring the service serves long term resident needs.
- **Strategic collaboration.** Residents often found it hard to know where to go for employment support. FutureGov built on existing collaboration and joint working amongst providers in the Employment and Skills Network (ESN), running ESN workshops, reshaping the existing ESN format and prioritising opportunity areas.
- **Digital platform.** Before Good Work Camden, there wasn't one centralised place for employment support. FutureGov ran a provider workshop and three rounds of resident interviews and test sessions to understand what information people need, and how different digital solutions could help.

- **Inclusive business**. Residents on employment support lacked a clear and consistent path to move into good work. Inclusive job opportunities were not readily available, and poor employment practices meant that people in low-paid roles could not progress. FutureGov ran a literature review into interventions and 'good work' practices and conducted research via workshops and employer interviews to refine the most promising interventions.
- **Earn and grow.** As of September 2019, over five thousand households in Camden were in in-work poverty. The council wanted to design an intervention for residents for whom the 'welfare and work relationship' presented a fundamental challenge. FutureGov's work in this area was informed by policy, service design and data: the company explored external examples of similar interventions for inspiration; used a test and learn approach by engaging with residents to understand their experience; and used data to understand users and prioritise its work.

Impact

During the first phase of the Good Work Camden project, FutureGov provided the Council with outcomes within each focus area, contributing to their vision of a human-centred approach to employment within the borough.

- Extended the employment support available in Camden through the development of a neighbourhood hub and job hub.
- Working with the Employment and Skills Network, FutureGov prioritised opportunity areas and built a clear pathway for residents receiving employment support.
- Presented the Council with four recommendations around a digital platform. FutureGov advised that they conduct more testing with residents and providers to develop their ideas for a digital offer, its backend systems, and how it connects with office services.
- Identified further interventions for Camden to test and pilot. These included the provision of free technology devices to enable people to access the support they need; increasing access to employment opportunities and services through free transport; a discretionary social fund to support single parents with unexpected costs; and a support package for residents transitioning onto Universal Credit.

Food Standards Agency

The seventh case study is how Notbinary (now foundry4) helped the Food Standards Agency to improve its services and ensure best practice across its operations.

Challenge

Foundry4 supports clients at every point in the delivery lifecycle, from Discovery through Alpha and Beta all the way to supporting live services. Working with the Food Standards Agency (FSA), Foundry4 led a portfolio of Discovery Projects across the organisation to consider potential improvements to its services.

Before committing to building or improving a service, it is critical to understand the problem to be solved. This means finding out about your users and what they're trying to achieve, any pain points and where opportunities to improve things lie.

During a Discovery, it is the responsibility of Foundry4 to understand individual user needs, how the current service operates, and its systems and dataflows.

Approach

The FSA had not been as exposed to the Government Digital Service standard ways of working due to falling outside of the GOV.UK remit. They therefore wanted Foundry4 to help set their internal standards and build their capability.

The company worked closely with the Food Standards Agency to develop a repeatable and highly efficient, user-focused approach to conducting holistic Discoveries across the agency.

Foundry4 held 50 qualitative interviews with representatives from across the FSA. This helped the company to understand key service components in enough detail to analyse how the people, processes and technology involved were interacting.

Foundry4's work ensured that a service would be built that was more robust and better able to meet modern standards, and that data can flow and be used more easily.

The teams from Foundry4 were collocated with the FSA business teams and their Digital, Data & Technology (DDAT) team.

These teams worked across multiple sites across the UK; travelling to meet users at their places of work to get hands-on experience of being a food business operator. DDAT colleagues were paired up with key members of our team to encourage upskilling and coaching throughout our Discoveries.

Impact

Over a year of working with the FSA, Foundry4 successfully completed more than a dozen Discoveries across a vast range of domains including:

- incident management and reporting
- allergen reporting
- business advice
- business registration and approvals
- local authority dataflows
- intelligence and surveillance
- science committee content
- HR and financial processing
- customer services
- operations and inspections
- digital badges

As part of the drive by Foundry4 to instil robust and effective practices for the FSA, the company introduced Government Digital Service standard assessments for its Discoveries to ensure they were being run well across the organisation.

Another key development Foundry4 introduced was working in the open, documenting its Discovery Findings as they went.

This meant that its research, insights and analysis were constantly available for all to see, comment on and challenge. This helped with getting feedback as early as possible and negated any surprises at the final playback sessions.

It also helps open up the research conducted by Foundry4 to the wider digital community who can access its open repositories.

UCL

The Panoply established Human+ as a subsidiary of Notbinary (now Foundry4) to focus on the delivery of robotic process automation. The final case study is how Human+ worked with University College London (UCL) to automate repetitive tasks undertaken by its HR Services department.

Challenge

HR Services at University College London (UCL) were interested in the potential benefits Intelligent Robotic Process Automation (RPA) could bring to their department.

The team dealt with many repetitive, manual tasks, and faced large fluctuations in workload throughout the year, leading to additional stress and the need to hire temporary workers.

The characteristics of these processes were ideal for Intelligent RPA, but the university had little or no experience with automation solutions, and staff were understandably wary of a potential threat to their jobs.

Approach

Human+ worked with HR Services at UCL to select and implement two automation solutions in the first quarter of 2019.

Aware of the need to get all staff on board with the project, the team selected a widely unpopular process as the first contender for automation.

This dealt with payroll for casual workers – a manual, repetitive task which consisted of making 1500-2000 one-off payments per month.

A human employee was capable of approving around 100 payments per day, but no one enjoyed completing this task and it was always put off until the last minute.

When speaking to departmental staff about the technology, HR leaders were careful to position Intelligent RPA as an automation solution – capable of relieving them of unpleasant tasks – rather than a more threatening sounding "robot".

The team collectively named their RPA solution 'Barbara', quickly coming to see it as another member of staff who could take care of the jobs no one wanted to do.

Impact

Barbara was particularly impactful in helping the team to deal with fluctuations in workload. In October, for example, payroll volumes at the university typically double in value, making it difficult for the HR team to cope.

When Barbara was built, every new staff member was successfully added to the October payroll on time – a feat which had never been achieved before.

The automation of the payroll process resulted in a yearly saving of approximately 750 employee hours in the HR department.

When combined with the second automation solution which dealt with the resignation process for staff - the HR team saved around 1,000 hours annually.

As a result, they worked less overtime in busy periods and temporary staff costs were reduced.

As testament to the success of this project, a Continuous Improvement team has been created within the UCL shared service centre and two finance solutions have already been built with Intelligent RPA.

The team is also now working to take the technology in-house by training their own RPA developer.

Company Descriptions

The Panoply floated on the AIM market in 2018 at a price of 74p, raising gross proceeds of £5m. The four companies that comprised The Panoply at the time of admission were Manifesto Digital, Notbinary (now foundry4), Questers and Bene Agere. We detail the activities of each of these companies below.

Manifesto Digital

Manifesto is a multi-award-winning, top 100 UK digital experience agency based in London and Bristol. It provides user-centred services focused on creative design, as well as the technical build and integration of digital products and services, particularly content management and marketing automation.

Manifesto focuses on customer and audience-facing elements of digital transformation. It has several key technical partnerships, particularly with technology vendors that help organisations manage their content and content distribution.

Most notably, it has commercial partnerships with Oracle (Manifesto is an Oracle Partner Network Gold partner), Acquia.com (Acquia focus partner), BloomReach (BloomReach Gold partner), Adobe and WPEngine.

The majority of its customers are in the not-for-profit sector, though it also provides services to commercial clients in the arts, entertainment, travel, technology, and healthcare sectors. Its client list includes The National Trust, Kew Gardens, Parkinsons UK, Resmed, the Royal British Legion, Shelter and Unicef UK.

Notbinary (now foundry4)

Established in 2017, Notbinary is a digital services company working with clients to help them evolve into modern digital businesses. It has since been rebranded as foundry4, one of The Panoply's two full service brands. foundry4 is trusted by the government, academics and clients in the financial and industrial sectors to design and implement digital change based on modern cloud platforms.

Alongside cloud technology, foundry4 uses automation, data and AI to enable digital change. The business is organised into three practices: software development; data; and automation and has established relationships with technology vendors including Darktrace, Thoughtonomy, Microsoft and Amazon Web Services.

In February 2019, the group launched human+ as a subsidiary of Notbinary (foundry4). human+is a provider of robotic process automation services, primarily to the government and not for profit sectors. The business developed organically to fulfil strong demand from the existing client base of Notbinary (foundry4).

The Panoply has entered into strategy partnerships with leading software vendors including Blue Prism, UiPath and Thoughtonomy and human+ will act as an implementation partner and consultancy to these groups.

The client list of foundry4 includes DVLA, Registers of Scotland, London Southbank University, the BBC, East West Rail Company and Unilever.

Questers

Questers provides dedicated, highly-skilled IT teams from its technology campus in Sofia, Bulgaria to businesses located in Europe and the US. With a focus on complex software development, Questers is a respected and award-winning employer in Bulgaria, having recruited more than 800 engineers for over 45 clients enabling them to execute their strategic plans.

Questers provides infrastructure and office facilities, recruitment and talent acquisition capacity, human resources and performance management of remote teams. This enables clients to access a high quality technical talent pool without a detailed understanding of the local talent market.

Questers specialises in BOT (build-operate-transfer) projects in technology with a number of large scale executions, where engineering teams of 50-100 people have been deployed to clients such as eCommera, Accenture Strategy (Javelin Group) and Ocado Technology.

Current clients of Questers include Funding Circle, Schonfeld and Bosch Software Innovations.

Bene Agere

Bene Agere is a Norwegian boutique strategy and management consultancy with a focus on digital transformation. Its core business is focused on exploring, designing and delivering sustainable business transformations. Bene Agere has been working in digital transformation for many years, starting with early digitalised industries like retail banking and telecoms, and more recently expanding into a wide range of companies and other industries.

Bene Agere has been instrumental in building and establishing Digital Norway, a unique, nationwide, business-driven initiative founded by a broad spectrum of major Norwegian corporations. The purpose of the initiative is to enable sharing and more efficient digitalisation across all types of businesses. Bene Agere serves Norwegian, Nordic and international clients out of its Oslo head office.

The company has a blue chip client list including Digital Norway, Karsten Moholt, Arendals Fossekompani, KONGSBERG Gruppen, Linstow and Spleis.

Dowgate CAPITAL

Acquisition history

The Panoply has been active since its IPO two years ago, and the group has grown to 11 companies, including the transformational acquisition of FutureGov.

The table below shows the date of the seven acquisitions completed over this period, in addition to the initial cash and equity consideration and the maximum deferred consideration that could be paid.

Acquisition history

Date	Acquisitions	------------------------- Initial consideration				Maximum	Total
		Cash, £m	Shares, £m	Shares, m	Total, £m	Earnout, £m	£m
Dec 2018	Deeson	0.6	1.4	1.6	2.0	1.7	3.6
Jan 2019	D/SRUPTION	0.0	0.1	0.1	0.1	3.5	3.6
Feb 2019	GreenShoot Labs	0.0	0.0	0.0	0.0	7.4	7.4
Jun 2019	FutureGov	6.0	5.8	6.6	11.8	9.2	21.0
Mar 2020	AMEO	2.2	4.8	5.9	7.0	3.5	10.5
Jun 2020	Arthurly	0.2	0.3	0.4	0.4	1.1	1.5
Sep 2020	Difrent	4.0	4.8	3.9	8.8	4.5	13.3
	Total	**13.0**	**17.1**	**18.5**	**30.0**	**30.8**	**60.8**

Source: The Panoply

As can be seen, The Panoply has completed transactions of a broad range of sizes, from innovative start-ups (D/SRUPTION and Greenshoots Labs) to larger, more established companies such as FutureGov.

Transactions are typically structured as a combination of cash and equity for the initial consideration, with the aggregate expenditure of £30m since approximately evenly between cash and equity.

Deferred consideration is used to retain and incentivise the management team of the acquired companies. The total deferred consideration, which is a stretch target, is typically equal to the initial consideration and is payable over several years in shares, with the number of shares to be issued governed by cap and collar arrangements.

We detail the companies acquired since IPO below.

Dowgate CAPITAL

Deeson

Based in Canterbury, Deeson is a digital agency that designs and builds websites, intranets, data platforms, business systems and system integrations primarily for the media and culture industries.

Deeson is particularly complementary to Manifesto, which focuses on the not-for-profit sector with potential to provide partnership opportunities for both businesses.

In addition, the acquisition of Deeson will reinforce TPX Manifesto's already strong relationship with Acquia, a leading digital experience platform provider.

The key clients of the company include ITV, Robbie Williams, Royal Collection Trust and the Imperial War Museums.

D/SRUPTION

Now merged with foundry4, D/SRUPTION is business intelligence website that holds a series of events including Disruption Summit Europe and Disruption X, a leading business experience programme. D/SRUPTION is an established thought-leader with over 17,500 subscribers, including representatives from 88 of the FTSE100, numerous Government departments, Fortune 500 companies and other large organisations.

The Panoply acquired D/SRUPTION to support expansion with the intention for it to become a key marketing platform for its Group companies. Through its magazine, newsletter, research papers and events, D/SRUPTION currently reaches the senior management within many large organisations involved in digital transformation.

The combination of D/SRUPTION with The Panoply will enable group companies to leverage content, sponsorship and advertising opportunities at limited or no cost.

GreenShoot Labs

GreenShoot Labs is the creator of OpenDialog, an open source framework for building enterprise automation services using applied Artificial Intelligence and conversational interfaces.

Key customers include a global accounting firm where GreenShoot Labs is creating an AI auditor, while other recent work includes the first chatbot supporting cybercrime victims which is currently being tested by UK police forces.

GreenShoot Labs also recently received significant media coverage for their voice-enabled AI football coach, created to promote awareness of STEM careers amongst young people.

FutureGov

Founded in 2008, FutureGov uses design, technology and organisation development approaches to create public services fit for the 21st century.

The combination of services offered by FutureGov and The Panoply transforms the offering of the enlarged group, which will now be able to offer public sector clients an end-to-end service from discovery through to live digital transformation programmes, which is entirely tailored to the needs of the industry.

FutureGov has a client list which includes Homes England, Essex County Council, Stockport Council, London Borough of Hackney, North East Lincolnshire Council and NHS Digital.

The Acquisition transformed the shape of The Panoply, with circa 45% of Group revenues, on a proforma basis, originating from the health and public sectors following completion.

FutureGov's CEO, Dominic Campbell became MD, Public Sector and Health following the acquisition, with a focus on securing transformational projects through the provision of a compelling alternative to the incumbent digital service providers.

AMEO

Ameo has been working with businesses for over a decade to deliver long-lasting, cost-effective change across a wide range of areas, from financial reporting and process design to digital innovation.

Public sector work represents over 90% of revenues from a broad base of over 100 clients. The combination with the products and services already offered by FutureGov and The Panoply provides the basis for targeting and winning increasingly large digital transformation projects in the UK public sector.

Ameo's extensive public sector experience includes the delivery of more than 400 projects to deliver positive change for council, including supporting the Local Government Reorganisation for Dorset Council and the development and delivery of a new Council Operating Model for Warwickshire County Council

In healthcare, developing multi-agency healthcare partnerships and supporting initiatives in fields such as operational improvement, procurement and service integration. Ameo has delivered projects to NHS Trusts, Clinical Commissioning Groups (CCGs) and health system partnerships.

Ameo has considerable experience delivering projects across other sectors, including higher education, energy and utilities, and within the private sector.

Arthurly

Arthurly provides design, development and engineering services to build software and data products, services and solutions on the large cloud vendor platforms, Microsoft Azure, Google Cloud Platform (GCP) and Amazon Web Services (AWS).

Prior to its acquisition in June, Arthurly had been working in partnership with foundry4, one of the founding companies of The Panoply on a number of projects, including work with The Department for Business, Energy and Industrial Strategy (BEIS), UK Export Finance (UKEF), North East London Commissioning Alliance (NELCA), North Bristol Health Trust (NBT), British Red Cross (BRC), Camden Borough Council and a number of other data intensive government agencies.

Difrent

Difrent offers strategic consultancy, user-centred design, business analysis, business change, procurement, and front and back end development. Difrent specialises in remote-first delivery, enabling organisations to deliver outcomes entirely remotely.

Approximately 75% of Difrent's revenues are currently generated from the health and social care sectors and the acquisition therefore represented a significant expansion of the reach of The Panoply into those sectors.

Difrent's clients include NHSX, Department of Health and Social Care, NHS Business Services Authority, Public Health England, World Health Organisation, DEFRA and Department of Work and Pensions.

Group forecasts

In this section, we detail the Commercial Vision of The Panoply before providing an update on trading in the 6m to September, detailing our forecasts through to 2023 and showing our sensitivity analysis.

Commercial Vision

The Panoply has a very clear Commercial Vision which is its financial roadmap, initially for the three years to March 2023.

- **Organic growth.** The group aims to produce 10% to 15% organic revenue growth per annum.
- **Cash generation.** The Panoply aims for c.70% of operating profit dropping through into positive cash flow to generate significant cash reserves.
- **Progressive dividend.** The group will use this cash to set up a progressive dividend policy for shareholders at approximately 15%-20% of net income.
- **Further acquisition.** The Panoply will use a mixture of positive cashflow and shares to make further earnings enhancing acquisitions to add more than £35m of revenue.
- **Modest leverage.** Given the group's size and scale it believes that liquidity is important and will therefore keep leverage low at below 1x EBITDA
- **2023 ambition.** On this basis, the group is targeting run rate revenue of £100m and £12m-£14m EBITDA by March 2023.

Below, we detail the encouraging Pre-Close Trading Update for the 6m to September, then show our current forecasts for the group through to 2023 and finally provide a Sensitivity Analysis to illustrate how The Panoply could deliver pro forma EPS of over 8p in 2023.

Dowgate CAPITAL

Pre-Close Trading Update

The Panoply reported a very robust Pre-Close Trading Update for the 6m to September on 12th October.

Group revenues for the 6m to September will be not less than £20.5m, with growth of +18% on a LFL basis rising to over +50% on a reported basis. We note that LFL growth was +10% in Q1 indicating an acceleration to comfortably over +20% in Q2.

The group guides to EBITDA of not less than £2.4m, which is nearly triple the £0.9m reported in 1H19 and up not less than +25% on a LFL basis.

The Panoply secured £25m of total contract wins in the half, firmly underpinning guidance for the full year. The group also provided colour on significant contract wins in the period, which we detail below –

- **Planning Inspectorate.** The Panoply has been awarded a 2yr contract worth a total of £4m to help the Planning Inspectorate deliver their planning appeals service into beta. This contract was won by a combined proposal by Difrent and foundry4, which in our view vindicates the strategy of The Panoply to bring together consultancies with specialist expertise that can now pitch for, and win, contracts that would have been beyond the capabilities of either consultancy on a standalone basis.
- **foundry4 Intelligent Automation.** The Intelligent Automation practice has recently launched a managed service proposition which supplements the group's growing professional service offering. This enables foundry4 to offer a combination of Robotic Process Automation (RPA), conversational AI and machine learning to deliver greater efficiencies and enhancing the experience of users. The new offer has led to four significant contracts with Kettering General Hospital, the University of Law, Linc Cymru and UCL which are worth a total of £825k over the next three years.

In our view, the strong performance in the half in securing these contracts demonstrates both how combining individual practices enables the group to secure larger contracts and also that these are increasingly on a multi-year basis, providing a highly attractive base of predictable, recurring income.

The robust H1 performance and strong new business performance firmly underpins our FY forecasts with the group reiterating its guidance for LFL revenue growth of 10-15% with EBITDA growing in excess of this.

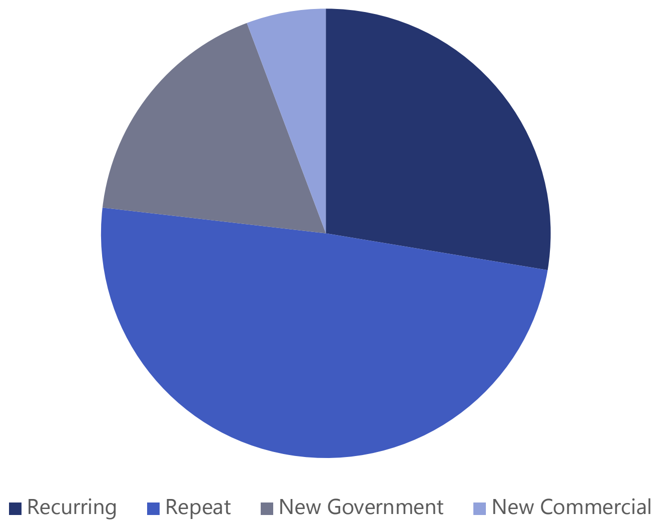
We detail our forecasts in the section below.

Revenue

The Panoply generates revenues from digital transformation projects that are predominantly recurring or repeat in nature, providing strong revenue visibility.

Further, following the acquisitions of FutureGov, Ameo and most recently Arthurly and Difrent, The Panoply is now in a position whereby it can provide an end-to-end offering to clients for larger projects, starting with strategy and organisational design, through to a full complement of technology solutions. These larger projects further increase the revenue visibility of the group.

Revenue by type (£m), 2020



Source: The Panoply

The chart above shows the mix of recurring, repeat and new business delivered in fiscal 2020. In the year, 28% of revenues came from recurring projects, with a significant proportion from blue-chip commercial clients including News UK, Funding Circle and Cargill. As the group has increased its capabilities, its client base has evolved from SMEs to larger scale enterprise clients. Following the period end, The Panoply won a 12 month contract to help build Times Radio.

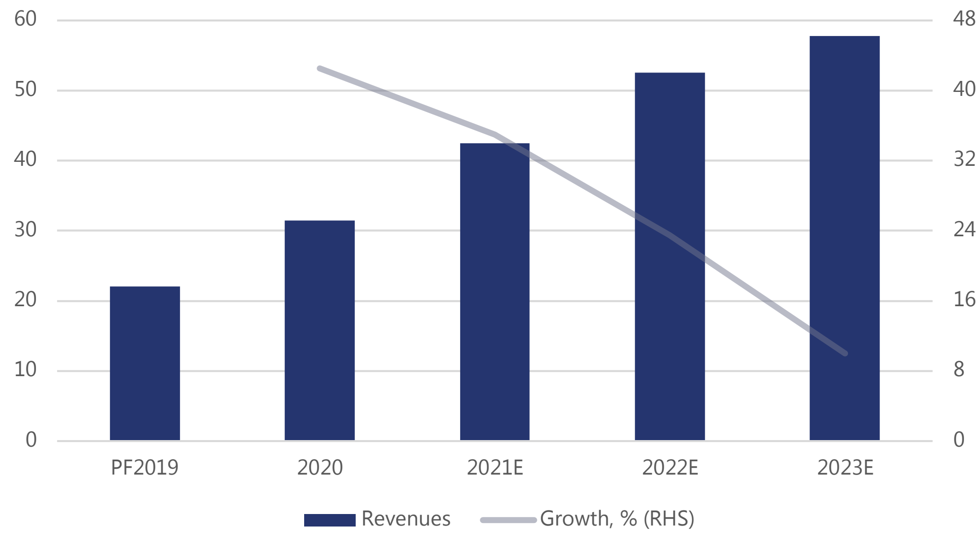
In fiscal 2020, 64% of revenues came from assignments in the public sector, which rises to 70% assuming a full year contribution from FutureGov, Ameo and Difrent. These contracts are often on a repeat basis.

Increasingly, the group is securing multi-disciplinary engagements where two or more group companies work together to deliver digital transformation. In fiscal 2020, 28% of revenues were from projects involving two or more group companies and we believe that this will grow significantly over the medium term.

During fiscal 2020, The Panoply undertook major collaborative projects with a broad range of clients, including NHSx, the Food Standard Agency, Camden Council and the British Film Institute. Early in fiscal 2021, the group secured a $5m contract with a global philanthropic organisation.

The chart below illustrates the rapid growth of The Panoply since its IPO in 2018. The group delivered PF19 revenues of £22.1m, almost entirely from the four founding companies, with early acquisitions contributing £600k. In the year to March 2020, group revenues rose +43% to £31.5m.

Revenues (£m), 2019-23E



Source: The Panoply, Dowgate Capital estimates

In July, The Panoply provided an encouraging Q1 update that indicated organic revenue growth was +10%. At the Pre-Close Update the group reported this had accelerated to +18% for H1, indicating Q2 growth of comfortably over +20%. It also noted that it had secured a strong pipeline of new projects and accordingly reiterated its guidance for FY organic growth of 10-15%; we model +15%.

The group will benefit from first time, full year contributions from FutureGov and Ameo in addition to part year contributions from Arthurly and Difrent. On a reported basis, we forecast revenues will grow +35% to £42.5m.

We model organic revenue growth of +15% in fiscal 2022, which rises to +24% on a reported basis reflecting first time, full year contributions from Arthurly and Difrent.

In fiscal 2023, we forecast organic revenue growth of +10%, which we view as conservative, resulting in revenues of £58m.

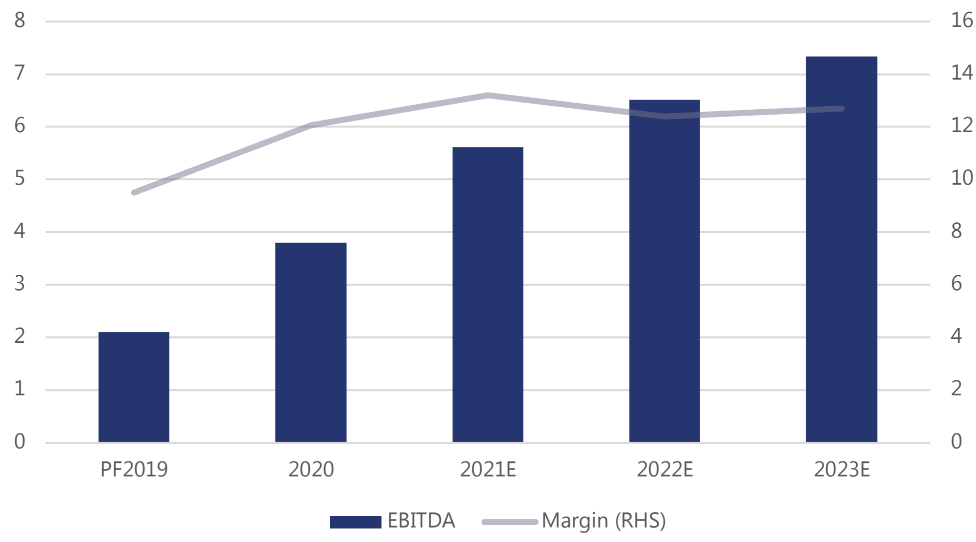
EBITDA & Margin

The Panoply operates with a structure of Consistent Autonomy, with individual operating businesses retaining a high degree of individual freedom to ensure continued entrepreneurial drive with these practices supported by the centre. The businesses within the group deliver an Operational EBITDA margin in the high teens which we view as typical for consultancies. On a reported basis, this is reduced by central costs that were 6pts of margin in 2020, though we forecast this will reduce in future as The Panoply grows without adding materially to the centre.

The businesses that combined The Panoply at the time of IPO generated EBITDA of £2.1m at a margin of 10% for Pro Forma 2019, with Operational EBITDA of £4.0m at an 18% margin offset by central costs of £1.9m/9pts.

In the year to March 2020, EBITDA nearly doubled to £3.8m, with margin rising to 12% as Operational EBITDA of £5.7m at an 18% margin was offset by central costs held at £1.9m, equal to 6pts of margin.

EBITDA (£m) and Margin (%), 2019-23E



Source: The Panoply, Dowgate Capital estimates

We forecast EBITDA growth of +50% to £5.6m in 2021 with robust underlying growth fortified by contribution from acquisitions. We forecast a margin of 13.2%, with Operational EBITDA margin of 18% offset by 5pts of central costs.

For 2022 we model EBITDA growth of +16%, with margin curtailed to 12.4% due to lower IFRS16 costs and the dilutive impact of a full year contribution from Difrent.

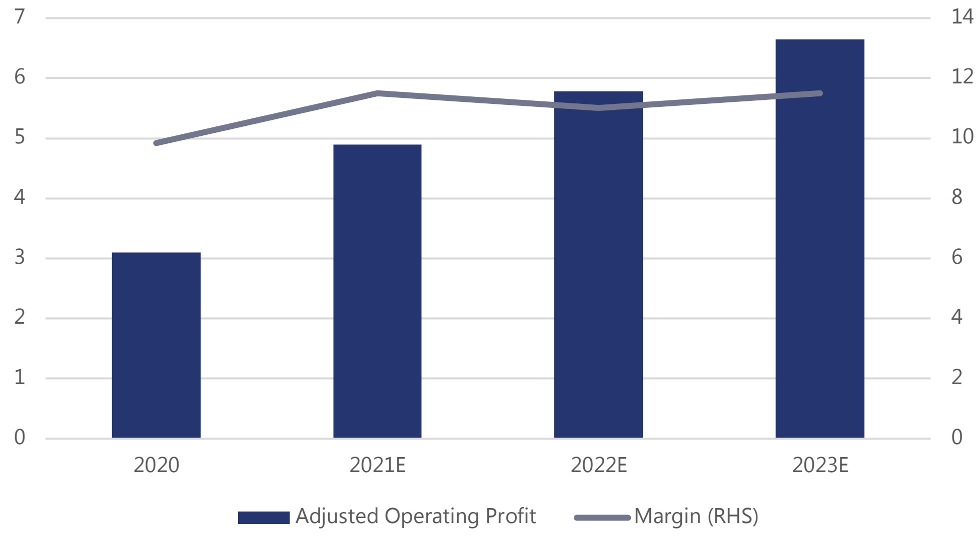
In 2023 we model growth of +12% to £7.3m with margin emerging at 12.7%, towards the lower end of the group's ambition of 12-14%.

Adjusted Operating Profit & Margin

The Panoply has a capital light operating model and therefore incurs modest charges for depreciation, amortisation of internally generated assets and IFRS16 costs.

In the year to March 2020, the group generated an Adjusted Operating Profit of £3.1m, with EBITDA of £3.8m offset by £0.7m of D&A costs and the Operating Margin emerging at 10%.

Adjusted Operating Profit (£m) and Margin (%), 2020-23E



Source: The Panoply, Dowgate Capital estimates

We model D&A costs gradually reducing as a percentage of revenues, from the 2.2% reported in March 2020 to 1.2% at the end of the forecast period in FY23. This reflects the combination of scale benefits and reduced IFRS16 costs (FY21 £0.6m, FY23 £0.3m) as property is rationalised and leases come to an end.

We model growth in Adjusted Operating Profit of +58% to £4.9m in 2021, with an operating margin of 11.5%.

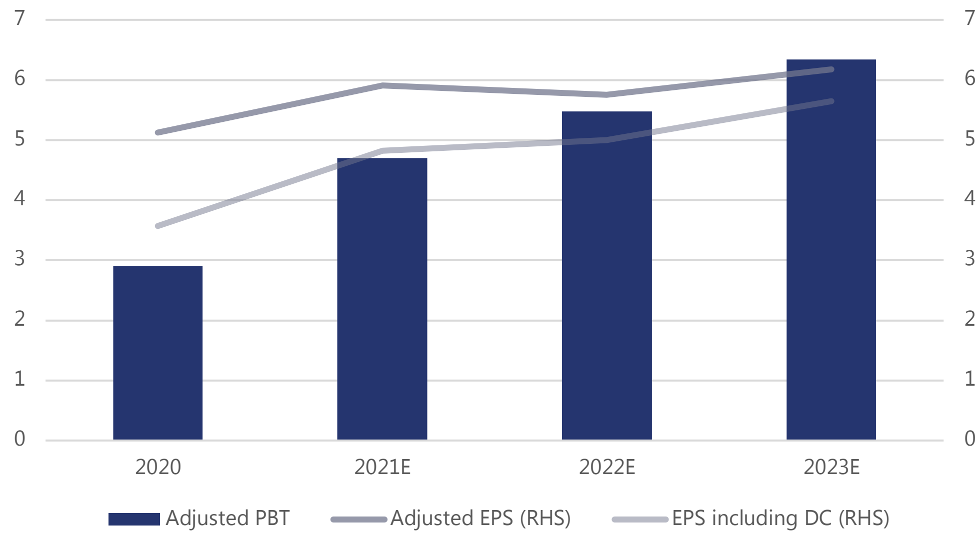
We forecast growth of +18% to £5.8m in 2022, with margin edging back to 11.0% as a result of dilution from a full year contribution from Difrent which currently generates a margin below the Operational EBITDA average.

In 2023 we estimate Adjusted Operating Profit of £6.6m, growth of +15% on the prior year. We assume a return to an Operating Margin as The Panoply continues to scale over relatively fixed central overheads.

PBT & EPS (p)

The chart below shows our forecasts for PBT and EPS to 2021. The group has committed to modest leverage of 1x or under and accordingly there is de minimis difference between Adjusted Operating Profit and Adjusted PBT. We model an all-in interest cost including IFRS16 of £0.3m p/a over the forecast period to FY23.

PBT (£m) and EPS (p), 2020-23E



Source: The Panoply, Dowgate Capital estimates

The Panoply prepares Adjusted EPS on a notably conservative basis. In FY20, The Panoply had 48m weighted average shares in issue. For Adjusted EPS the group diluted for 4m options and 23m shares that could be issued for deferred consideration. These 23m shares were calculated using the floor share price in purchase agreements, in this instance an average of 75p, rather than the current share price of 115p. The group shows dilution as if all the shares were in issue for all of 2020, whereas of the 23m shares, 9m were issued 10 days after publication of the Report & Accounts, 11m up to a year after and the final 3m over a year after.

We forecast Adjusted EPS assuming maximum deferred consideration shares will grow +35% to 4.8p in FY21, with growth curtailed by a higher tax charge of 15% (2020: 8%). We model further growth to 5.0p in 2022 and 5.6p in 2023.

We have also calculated an Adjusted EPS measure that includes deferred consideration shares when they are issued and assuming the current share price, which produces EPS of 5.9p in 2021.

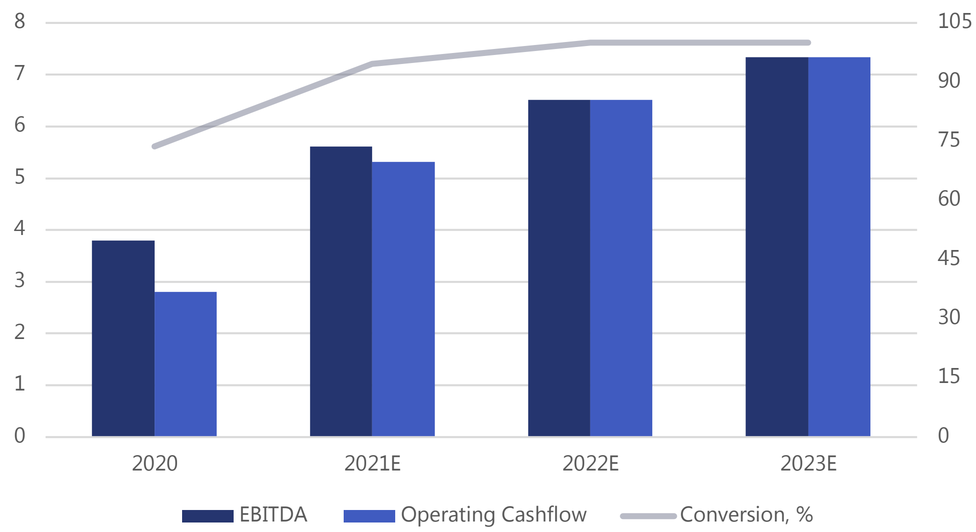
Over time, these EPS measures converge as shares are issued and the variance between the two EPS measures will depend upon the difference between the floor share price and actual price at which deferred consideration shares are issued.

Cash Flow

The Panoply is highly cash generative and has pledged to operate with modest levels of leverage.

In 2020 the group converted 74% of EBITDA into Operating Cash Flow, with conversion curtailed by modest working capital absorption and exceptional costs.

Operating Cash flow (£m) & Conversion (%), 2019-21E



Source: The Panoply, Dowgate Capital estimates

Looking forwards, we forecast that the group will convert approximately 100% of EBITDA into Operating Cash Flow.

The group also has modest capital requirements and we model Capex as equal to Depreciation and Amortisation of Internally Generated Assets going forwards.

We model deferred consideration on a gross rather than net basis, and therefore including equal and opposite amounts in Acquisitions and Issue of Shares, as shares are issued to settle deferred consideration. We have modelled the number of shares issued at the current share price, rather than the floor price set out in acquisition agreements.

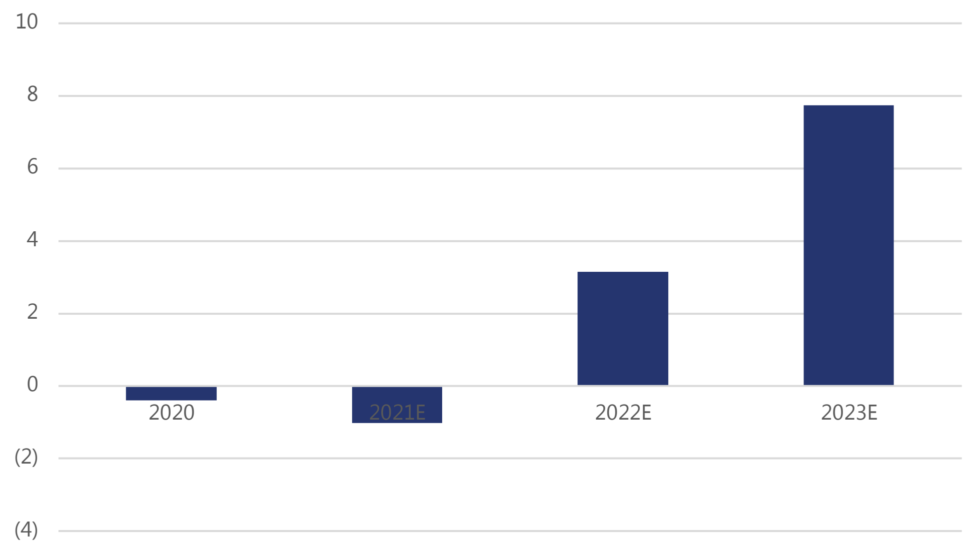
We forecast that the group will start to pay dividends imminently. We have modelled a 10% pay-out ratio for FY21 rising to 16% in 2023, consistent with the group's intention to move towards a distribution of 15-20% of net income.

Balance sheet

The Panoply has pledged to retain leverage at a prudent level of 1x or under.

The group ended the year to March 2020 with a neutral balance sheet, with gross cash of £4.6m and gross debt of -£5.0m.

Net cash (£m), 2020-23E



Source: The Panoply, Dowgate Capital estimates

Since the period end, the group has increased its debt facility with HSBC to a £7m Revolving Credit Facility and in addition also has access to a £3m accordion.

As noted in the section on acquisitions, Initial Consideration is typically settled in mixture of shares and cash while Deferred Consideration is subject to financial performance and payable by the issuance of shares.

The most recent acquisition by the group was Difrent. Initial consideration of £8.8m was funded by £4.0m in cash and the issue of £4.8m equity (3.9m shares at 122p). The initial consideration split was 45% in cash and the 55% balance in equity.

Deferred consideration of up to £4.5m is subject to revenue growth for the years to March 2021 and 2022, with clawback if revenues decline below a set level. This deferred consideration will be settled in equity at a price which is the greater of 122p and the VWAP 30 days prior to settlement. Deferred consideration shares will be subject to a 12m lock in and then orderly market arrangements for a further 12m.

Sensitivity Analysis

We have constructed a Sensitivity Analysis that shows how The Panoply could deliver EPS of over 8p on a pro forma basis for the year to March 2023.

We have taken our FY23 revenue forecast of £58m as a starting point. We have then doubled our £31m forecast for 2H23 to given an annualised run rate of £62m. For the group to achieve its ambition of £100m run rate by the end of fiscal 2023 it therefore needs to acquire £38m of revenues, consistent with its stated aim to acquire over £35m of revenues in this period.

Sensitivity Analysis

Year to March £m	DCe 2023	Acquisitions	Target
Revenues	57.8		
Run Rate Revenues	**61.8**	**38.2**	**100.0**
EBITDA	7.2		
Run Rate EBITDA	**7.7**	**4.8**	**12.5**
EBITDA margin, %	*12.5*	*12.5*	*12.5*
Depreciation	0.7		1.2
As % of revenues	*1.2*		*1.2*
Adjusted Operating Profit	6.5		11.3
Operating margin, %	*11.3*		*11.3*
Average net cash/(debt)	5.3	(17.8)	(12.5)
Interest rate, %		*5.0*	
Net interest	(0.3)	(0.9)	(1.2)
Net debt/EBITDA, x	Net cash	0.0	1.0
Normalised PBT	**6.3**	**3.8**	**10.1**
Tax	(1.2)	(0.7)	(1.9)
Tax rate, %	19.0	19.0	19.0
Earnings	5.1	3.0	8.2
Shares, m	83.2	16.6	99.8
Earnings per share, p	**6.2**		**8.2**
Accretion, %			*33*

Source: The Panoply, Dowgate Capital estimates

Our current PBT/EPS forecast for the year to March 2023 is £6.3m/6.2p using our EPS measure which models deferred consideration shares when they are issued and using the current share price.

We have tried to limit the number of assumptions in our model and therefore assume The Panoply acquires £38m of revenues with financial characteristics identical to its existing operations.

We model a 12.5% margin, which we view as conservative as the margin of The Panoply is struck after central costs and its operational EBITDA margin is 17%.

We calculate that if the group acquires £38m of revenues at a 12.5% margin then it would add £4.8m to group EBITDA on a pro forma basis.

We have assumed an acquisition multiple of 8.0x, which is consistent with the multiple paid for acquisitions since IPO. This gives consideration of £38m.

We have modelled leverage of 1.0x, which on pro forma EBITDA of £12m would enable the group to settle £18m of the target consideration in cash with the £20m balance in equity to vendors. This is again consistent with the acquisition structure since IPO, with an approximately equal weighting of cash and equity for initial consideration.

We have not modelled deferred consideration as this would depend on financial performance beyond the forecast period. We note that additional consideration would by offset by the continued financial performance of the acquired companies over the earnout period.

On assumptions of an acquisition multiple of 8x EBITDA, leverage of 1.0x and using the current share price of 123p, our sensitivity analysis arrives at pro forma EPS of 8.2p. This represents accretion of 33% compared with our current forecast of 6.2p.

We note that the pro forma EPS calculation assumes a full year contribution from the acquired companies on top of run rate Revenues from existing operations. Accordingly, the actual EPS delivered will depend on the timing of acquisitions.

Sensitivity Analysis

EBITDA multiple, x Share price, p	6	7	8	9	10
120	8.9	8.5	8.2	7.9	7.6
140	9.0	8.7	8.4	8.1	7.8
160	9.1	8.8	8.5	8.3	8.0
180	9.2	8.9	8.7	8.4	8.2
200	9.2	9.0	8.8	8.6	8.3

Source: Dowgate Capital estimates

The table above shows a matrix of how pro forma 2023 EPS could vary depending on the price paid for acquisitions and the share price for equity consideration. Our central scenario is predicated on 8x EBITDA and the current share price of 123p and arrives at pro forma EPS of 8.2p.

We have bracketed the consideration from 6x-10x in 1x increments. We expect a large number of smaller acquisitions would be towards the bottom end of this range, while a small number of larger ones would be at the top end. We have shown how EPS varies depending on the price shares are issued at, from 120p to 200p.

The output of the sensitivity analysis matrix is for EPS of 7.6p (acquisition multiple of 10x EBITDA, shares issued at 120p) up to EPS of 9.2p (6x EBITDA, 200p).

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Profit & Loss

Year to March £m	2020	2021E	2022E	2023E
Profit & Loss				
Revenues				
Group	**31.5**	**42.5**	**52.5**	**57.8**
Growth, %	43	35	24	10
Organic, %		15	15	10
EBITDA				
Operational EBITDA	5.7	7.6	8.6	9.5
Central costs	(1.9)	(2.0)	(2.1)	(2.2)
EBITDA	**3.8**	**5.6**	**6.5**	**7.3**
Margin, %	12.1	13.2	12.4	12.7
Adjusted Operating Profit	3.1	4.9	5.8	6.6
Operating margin	9.8	11.5	11.0	11.5
Net interest	(0.2)	(0.3)	(0.3)	(0.3)
Share Based Payments	(0.1)	(0.2)	(0.3)	(0.4)
Exceptional costs	(0.6)	(0.1)	--	--
Pre tax - Normalised	**2.9**	**4.7**	**5.5**	**6.3**
Pre tax - Headline	2.2	4.4	5.2	5.9
Tax - Normalised	(0.2)	(0.7)	(0.9)	(1.2)
Tax rate (%)	8	15	17	19
Attributable - Normalised	2.7	4.0	4.5	5.1
Attributable - Headline	2.2	3.7	4.3	4.8
Shares – average dil, m	52.1	67.6	78.9	83.2
Shares - incl max DC, m	74.8	82.8	91.0	91.0
Shares - period end dil, m	58.9	75.8	82.1	84.3
Dividends	--	(0.5)	(0.7)	(0.8)
Retained earnings	2.2	4.2	5.0	5.7
EPS - Normalised (p)	5.1	5.9	5.8	6.2
EPS – Incl max DC (p)	3.6	4.8	5.0	5.6
EPS – Headline (p)	4.2	5.5	5.4	5.8
DPS	--	0.6	0.8	1.0

Source: The Panoply, Dowgate Capital estimates

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Cash Flow & Balance Sheet

Year to March £m	2020	2021E	2022E	2023E
Cash flow				
Operating profit	3.1	4.9	5.8	6.6
Depreciation	0.7	0.7	0.7	0.7
Working capital	(0.6)	(0.2)	--	--
Other	(0.4)	(0.1)	--	--
Cash from operations	**2.8**	**5.3**	**6.5**	**7.3**
Interest	(0.2)	(0.3)	(0.3)	(0.3)
Taxation	--	(0.7)	(0.9)	(1.1)
Net cash from operating	**2.6**	**4.4**	**5.3**	**5.9**
Acquisitions	(7.0)	(22.9)	(7.2)	(2.6)
Capex & leases	(0.9)	(0.7)	(0.7)	(0.7)
Disposals	--	--	--	--
Other	--	--	--	--
Net cash in investing	**(7.9)**	**(23.6)**	**(7.9)**	**(3.3)**
Issue of shares	--	18.8	7.2	2.6
Dividends	--	(0.2)	(0.5)	(0.7)
Forex/other	(0.8)	--	--	--
Net cash from financing	**(0.8)**	**18.6**	**6.7**	**1.9**
Net flow	**(6.1)**	**(0.6)**	**4.1**	**4.5**
Balance sheet				
Closing net cash/debt	**(0.4)**	**(1.0)**	**3.1**	**7.6**
Deferred Consideration	(16.7)	(12.0)	(4.8)	(2.2)
Net cash/debt incl DC	(17.1)	(13.0)	(1.7)	5.3

Source: The Panoply, Dowgate Capital estimates

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We expected the indicated target price to be achieved within 12 months of the date of publication. Expected absolute returns:

- BUY is an expected return greater than 10%;
- HOLD is an expected return -10% to +10%;
- SELL is an expected return less than -10%.

Distribution of Investment Recommendations as per 30/9/2020

	Corporate No.	Corporate %	No.	%
Buy	142	100	142	100
Hold	0	0	0	0
Sell	0	0	0	0

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