

THE PANOPY

SOFTWARE AND COMPUTER SERVICES

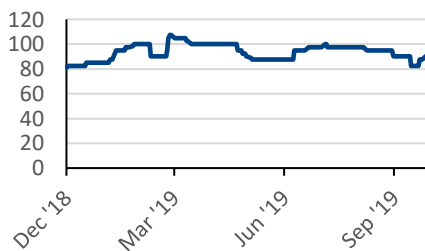
1 October 2019

TPX.L

90p

Market Cap: £44m

SHARE PRICE (p)



12m high/low 108p/82p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£5.7m
Enterprise value	£38.4m
Index/market	AIM
Next news	Interims, Dec-19
Shares in Issue (m)	48.9
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

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Investing in growth

Digital transformation services provider The Panopy's AGM statement highlights the momentum in the Greenshoot Labs (Artificial Intelligence solutions) and Human+ (Robotic Process Automation) businesses. Although in the early stages of their lifecycles, both units have recorded a number of contract wins over the past seven months and are gaining traction with major institutional clients. As a result of these successes, management has announced increased investment in the two operations in the current financial year. We take the company's cue and have reduced FY 2020E EBITDA by 19% to £3.3m. Our FY 2021E and FY 2022E estimates are unchanged.

- Strong momentum in Greenshoot Labs and Human+ businesses:** The Panopy's AGM statement highlights that two of the group's early stage businesses, Greenshoot Labs and Human+, have made considerable operational progress since February 2019. Greenshoot Labs has signed contracts with the Defence Science and Technology Laboratory, Brunel University and a global telecoms client. Human+ is already working with the Food Standards Agency, University College London and NHS Wales.
- AGM statement confirms increased investment:** As a result of the momentum in the two businesses being achieved, the AGM statement reveals that management have been increasing investment in both units to capture emerging growth opportunities.
- The outlook remains positive:** The release confirms that management remain "excited" about the group's growth prospects. Note also, that we continue to forecast the commencement of dividend payments in the current financial year.
- Forecast revisions:** We take management's cue and make revisions to forecasts. Our FY 2020E EBITDA estimate is reduced by 19% to £3.3m. Our FY 2021E and FY 2022E earnings estimates are unchanged.

Greenshoot Labs was acquired in February 2019, and Human+ launched from within the group in the same month. In our view both businesses are operating in emerging technology areas with strong growth potential, and both are demonstrably gaining commercial traction. These are strong grounds for management to increase investment in the respective businesses.

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

FYE MAR (£M)	2018	2019	2020E	2021E	2022E
Revenue	15.6*	22.1*	30.2	35.0	40.0
Adj EBITDA	2.7*	3.5*	3.3	5.0	5.8
Fully Adj PBT	-0.3	-0.1	3.0	4.7	5.6
Fully Adj EPS (p)	N/A	N/A	3.5	5.5	6.5
EV/Sales (x)	2.8x	1.7x	2.3x	1.9x	1.6x
EV/EBITDA (x)	16.3x	11.1x	21.1x	13.4x	10.9x
PER (x)	N/A	N/A	25.4x	16.4x	14.0x

Source: Company Information and Progressive Equity Research estimates

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Forecast revisions

Following the AGM announcement, we make revisions to earnings estimates. These are summarised in the following table.

The Panoply – Forecast revisions									
£m unless stated	FY 20E			FY 21E			FY 22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	30.2	30.2	0%	35.0	35.0	0%	40.0	40.0	0%
Adj EBITDA	4.0	3.3	-19%	5.0	5.0	0%	5.8	5.8	0%
Fully adj PBT	3.8	3.0	-20%	4.7	4.7	0%	5.6	5.6	0%
Fully adj EPS (p)	4.4	3.5	-20%	5.5	5.5	0%	6.4	6.5	0%
Net Debt /cash	3.4	2.9	-16%	6.3	5.7	-8%	10.1	9.6	-5%

Source: Progressive Equity Research estimates.

- Our FY 2020E revenue estimates are unchanged. Our EBITDA estimate of £3.3m is 19% lower than previously. The reduction reflects higher levels of investment in the Greenshoot Labs and Human+ businesses than contained in our prior forecast.
- The reduced EBITDA flows into the cash flow, where our FY 2020E closing net cash position is £2.9m, £0.5m lower than previously. Clearly the £0.5m delta is a smaller quantum than the £0.7m decline in EBITDA. The variance is due to a reduced tax charge resulting from lower profits (note our forecast tax rate is unchanged).
- For 2021E and 2022E, our revenue and earnings estimates are unchanged. Forecast closing cash positions are lower in both years, reflecting the flow through from the 2020E reduction. Our forecast for net cash flow in both years is unaltered.
- We continue to forecast that dividend payments commence in the current financial year.

Financial Summary: The Panoply

Year end: March (£m unless shown)

	2018	2019	2020E	2021E	2022E
PROFIT & LOSS					
Revenue	15.6*	22.1*	30.2	35.0	40.0
Adj EBITDA	2.7*	3.5*	3.3	5.0	5.8
Adj EBIT	(0.3)	0.4	3.1	4.8	5.8
Fully Adj PBT	(0.3)	(0.1)	3.0	4.7	5.6
Reported EPS (p)	N/A	N/A	1.2	3.5	4.5
Fully Adj EPS (p)	N/A	N/A	3.5	5.5	6.5
Dividend per share (p)	0.0	0.0	0.7	0.7	0.8
Avg shares outstanding (non-dil.)	0.0	18.2	55.8	71.1	71.1
Period-end Shares outstanding (Dil. m)	48.9	48.9	75.0	75.0	75.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(0.4)	(1.5)	3.6	4.1	5.3
Free Cash flow	(0.4)	(1.6)	3.2	2.9	3.8
FCF per share (p)	(0.7)	(3.2)	6.6	5.9	7.8
Acquisitions	0.0	1.4	(6.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.5	5.4	0.0	0.0	0.0
Net cash flow	0.1	5.2	0.8	(0.7)	3.8
Overdrafts / borrowings	0.0	0.0	(3.6)	0.0	0.0
Cash & equivalents	0.1	5.7	6.4	5.7	9.6
Net (Debt)/Cash	0.1	5.7	2.9	5.7	9.6
NAV AND RETURNS					
Net asset value		19.3	17.9	20.3	23.3
NAV/share (p)		39.4	36.6	41.6	47.6
Net Tangible Asset Value		0.3	0.2	0.2	0.1
NTAV/share (p)		0.6	0.5	0.4	0.2
Average equity		9.6	18.6	19.1	21.8
Post-tax ROE (%)		(0.9%)	16.3%	24.8%	25.8%
METRICS					
Revenue growth			36.9%	16.0%	14.1%
Adj EBITDA growth			(5.4%)	51.0%	16.2%
Adj EBIT growth			777.4%	52.5%	20.1%
Adj PBT growth			N/A	56.7%	18.6%
Adj EPS growth			N/A	54.6%	17.6%
Dividend growth			N/A	10.8%	4.2%
Adj EBIT margins			10.4%	13.7%	14.4%
VALUATION					
EV/Sales (x)	2.8	1.7	2.3	1.9	1.6
EV/EBITDA (x)	16.3	11.1	21.1	13.4	10.9
EV/EBIT (x)	N/A	107.2	22.0	13.9	10.9
PER (x)	N/A	N/A	25.4	16.4	14.0
Dividend yield	N/A	N/A	0.7%	0.8%	0.8%
FCF yield		N/A	7.4%	6.5%	8.7%

Source: Company information and Progressive Equity Research estimates

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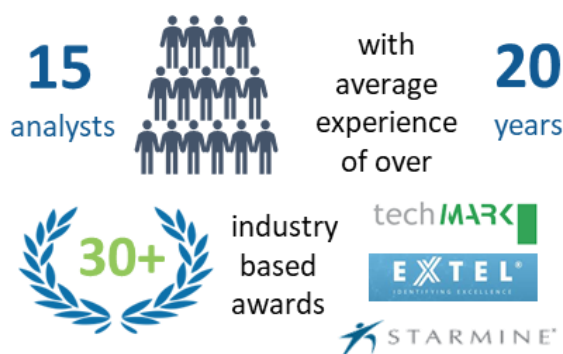
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