THE PANOPLY

SOFTWARE AND COMPUTER SERVICES

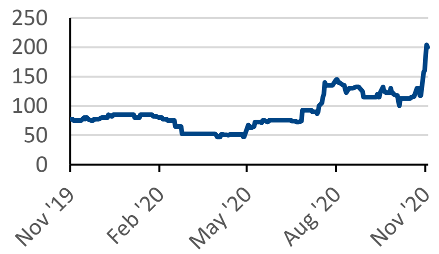
30 November 2020

TPX.L

200p

Market Cap: £136.7m

SHARE PRICE (p)



12m high/low	204p/47p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(1.2)m *(at 30/09/20)*
Enterprise value	£137.9m
Index/market	AIM
Next news	Trading Update, Apr-21
Shares in Issue (m)	68.3
Chairman	Mark Smith
Chief Executive	Neal Gandhi
Finance Director	Oliver Rigby

COMPANY DESCRIPTION

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

www.thepanoply.com

THE PANOPLY IS A RESEARCH CLIENT OF PROGRESSIVE

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H1 21A: Strong financial performance

Digital transformation services provider The Panoply has reported a strong H1 21A financial performance in our view. Revenue grew 58% YoY during the period (+18% YoY organically) and adjusted EBITDA by 142%, reflecting the impressive commercial progress made and the impact of acquisitions. Client billings showed a solid improvement on H1 20. Commentary on the outlook is positive and underpinned by a £17.5m sales backlog to March 2021. Overall, we believe this is a very positive release from The Panoply and that the group remains well placed to achieve its targets.

- **Strong financial performance:** The group reported statutory revenue of £21.2m (+58% YoY) and adjusted EBITDA of £2.9m (+142% YoY, +37% YoY organically). The business remains cash generative operationally, reporting a £1.8m YoY improvement in net cash flow from operations during the period to £3.2m
- **Impressive commercial progress:** 225 clients were billed during H1 21A, up from 209 in the comparable period. Furthermore, repeat business volumes remain high; 84% of customers billed during H1 21A were billed during FY 20A, FY 19A and/or FY 18A. The group secured £25m of total contract wins during the period and with revenues of £14.9m (70% of the total), the group continues to gain traction with public sector clients.
- **Positive outlook commentary:** The release confirms that momentum built in H1 21A has continued into H2, with higher-value contracts being signed across the group. With a sales backlog of £17.5m to March 2021, visibility on FY 21E performance remains high. Management remain confident that the group is in on track to achieve the commercial vision of both (run-rate) £100m revenue and £12-14m adjusted EBITDA by March 2023.
- **Dividend payments commenced:** The group has declared a maiden dividend of 0.2p for H1 21A. Against the backdrop of ongoing COVID-19-driven macroeconomic uncertainty, we believe this demonstrates a clear sign of management's confidence in the group's prospects.
- **Forecasts revised:** We publish revised estimates in this report. Our new EBITDA forecasts include IFRS 16 adjustments to be consistent with the group's reporting. However, these are offset by an expectation of increased amortisation leaving PBT unchanged. We have also revised our forecast of future share issuance in consideration for past acquisitions, which results in a small decline in our EPS 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	43.9	52.3	57.2
Adj EBITDA	2.1*	3.4	5.7	6.5	7.2
Adj PBT	0.3	2.9	4.7	5.8	6.7
Fully Adj EPS (p)	0.7	3.6	5.2	6.0	6.8
EV/Sales (x)	3.1x	4.8x	3.7x	3.1x	2.9x
EV/EBITDA (x)	32.3x	44.1x	28.3x	25.2x	23.1x
PER (x)	N/A	N/A	38.8x	33.1x	29.2x

Source: Company Information and Progressive Equity Research estimates

H1 21A financial performance

With the group's financial year ending in March, The Panoply's H1 21A financial performance was delivered against a challenging COVID-19 backdrop. Having identified that COVID-19 was a potential risk in January 2020, management took decisive action back in February 2020, focussing on staff and client well-being. To give some examples of actions taken, offices were closed when management felt the risk to employees was too great, onsite working was relaxed and underutilised roles weren't made redundant – affected employees were asked to volunteer in their communities to assist in the crisis. In addition, the group has made no use of any furlough schemes. As the H1 21A results in our opinion demonstrate, the group has continued to operate effectively despite the pandemic.

Recent commentary on trading from the Panoply has been positive. The July 20 trading update heralded a record revenue and EBITDA performance for Q1 21A and the recent AGM statement confirmed that trading in the first two months of Q2 21A had remained "strong". With those two announcements covering five of the six months of H1 21A, the group's delivery of a strong financial performance in these results is therefore unsurprising.

Double-digit organic revenue growth was accompanied by a strong margin improvement and a robust cash performance. Each of those three areas is analysed below, followed by commentary on the reinstated dividend.

Revenue: Double-digit organic growth & high repeatable revenue

The group recorded revenue of £21.2m, +58% YoY. Key drivers of the improvement were the group's increasing ability to win larger contracts, the impact of successful acquisitions and the accelerated move towards digital transformation from both public and private sector clients. Excluding acquisitions, organic revenue growth was an impressive 18% YoY for the period.

The comment on the group's ability to win larger contracts is in our view particularly noteworthy and underpins the growth story. In the collective multi-year history of the Group companies, just two contracts of over £4m in value had ever been won. During H1 21A alone, two contracts above that size were awarded to the group (Bloomberg Philanthropies, HM Land Registry) with a further win announced post-period (HM Planning Inspectorate).

At 70% of the total, public sector clients continue to contribute the bulk of revenues (vs 56% H1 20A). The period also saw a small uptick in concentration risk versus the FY 20A level, with the top 10 clients generating 34% of total revenue vs 31% in FY 20A. Note, however, this represents a decline on the H1 20A level which was 42%.

Repeat business levels remain high, with 84% of clients billed during H1 21A also having been billed during FY 20A, FY 19A and/or FY 18A.

Profitability: Strong EBITDA margin improvement

At £2.9m, adjusted EBITDA saw a 142% YoY improvement. On an organic LFL basis, adjusted EBITDA grew by 37%. The release notes that H1 21A financial performance benefitted from one-off COVID-driven cost savings in areas such as rent, marketing and travel spend. However, these were offset by some reduced rates on sales, delays to certain projects and increased spend on other projects due to COVID.

Cash & debt

Net cash generated from operating activities was £3.2m, more than double the H1 20A level. The group continues to report impressive cash conversion, with the £3.2m representing 136% of adjusted pre-tax profit (£2.3m H1 21A). The group closed the period with a gross cash balance of £5.9m and a net debt position of £1.2m (vs £0.4m FY 20A).

Dividend

The announcement confirms the declaration of a maiden dividend of 0.2p for H1 21A. In comparison to the current share price, this may appear a relatively modest level in absolute terms. Nevertheless, we believe the commencement of dividend payments against the backdrop of ongoing COVID-19- driven macroeconomic uncertainty represents a clear sign of management's confidence in the group's prospects.

Outlook

The release signals management's confidence that the group is in on track to achieve the commercial vision of £100m revenue and £12-14m adjusted EBITDA both on a run rate basis by 31 March 2023.

In the nearer term, momentum built in H1 21A has continued into the second half, with higher value contracts being signed across the group. This is evidenced by the £4m HM Planning Inspectorate contract announced in October 2020, a new project being undertaken for the Welsh Government and various NHS projects.

Acquisitions are a key part of The Panoply's growth strategy, and the group continues to assess further enhancing acquisition opportunities.

Progress against the commercial vision

The FY 20A results release laid out the group's six-step commercial vision. To recap, this contains a number of goals which the group aims to achieve over the next three years. We believe the group has made notable progress in delivering the commercial vision during H1 21A. Below we summarise the six steps and the progress made during the period.

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

  The group reported 18% organic revenue growth H1 21A, ahead of the top end of the target range. This continues a positive trend, with the group also having delivered double-digit growth in the FY 19A and FY 20A results. With the expanded platform, enhanced E2E product set, consolidated marketing with the two full-stack brands (see page five) and increasing commercial traction in both public and commercial verticals, our view remains that this is not an unrealistic target.

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

  We estimate that the group converted c78% of adjusted EBIT into operating cash flow in H1 21A[1]. Our forecasts (detailed on page seven) assume the group will continue to sustain high cash conversion levels.

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

  We believe the commencement of dividend payments will be warmly welcomed by the investment community and represents the key first step in achieving this target. We will revisit our dividend expectations as further clarity on the COVID-19 situation emerges.

- **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.

  Assuming no further acquisitions, our forecasts assume the group will achieve a closing net cash position of £7m FY 23E. With a current market capitalisation of £126m, net debt of £1.2m and an 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 debt position of £1.2m H1 21A and based upon our estimates, will generate positive cash flow over our visible forecast period. We therefore remain of the view that 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 £57.2m and £7.2m 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.

[1] Based upon estimated adjusted EBIT of £2.5m and net cash generated from operating activities of £3.2m

Benefits of consolidated marketing being felt

The Panoply's growth strategy is predicated both organic and acquisition-driven expansion. Having made eleven successful acquisitions to date, we believe the group's track record in M&A is firmly established. Furthermore, we expect further acquisitions to made in the future in order for the business to deliver the stated commercial vision discussed on the previous page.

However, growth via acquisition typically involves the collection of individual brands. In order to win larger contracts – and drive organic growth in the business – management identified that it needed to present a more unified marketing message, rather than just going to market with a collection of individual trademarks. A number of the group's brands were recently consolidated into two full-stack offerings, as presented in the following chart:

The Panoply – full stack brands

Source: Company materials

The Panoply's two distinct brands serve different client needs:

- FutureGov focusses on CEO/COO type buyers seeking organisational digital transformation from E2E service design including technology.
- Foundry4 targets CTO/CIOs demanding digital transformation through the adoption of hyper-scale cloud, data analytics, AI, machine learning and RPA.

To date, two brands – Ameo and FutureGov have been integrated under the FutureGov brand and four – Notbinary, Arthurly, Disruption & Human+ - have been integrated into Foundry4.

The group has also identified a third kind of buyer of digital transformation services – Heads of Digital in the commercial or not-for-profit sectors who are focussed on revenue generation, customer acquisition and lifetime value. The group expects to launch a third brand to target this type of customer in due course. Some of the group's other companies will become part of the new third brand.

Simplifying the marketing message brings key advantages in winning new business, notably in leveraging the group's combined scale. To quote management:

> *"it is far easier for a procurement department to feel comfortable awarding a £4m contract to a growing organisation with run-rate annual revenues approaching £50m than it is to award the same contract to a company with annual revenues of £5-10m"*

Noting that The Panoply often competes with a number of larger organisations in winning new business, we view the brand consolidation as a strategically sensible move. As discussed on page two, H1 21A saw the group win the same number of contracts with value in excess of £4m as had been won by group companies in their collective history, with a further win of similar scale announced post-period end. We believe this evidences the value in consolidating the group's marketing activities.

Financials

We make revisions to forecasts. These are summarised in the following table.

The Panoply – forecast revisions

	FY 21E			FY 22E			FY 23E		
£m unless stated	**Old**	**New**	**Chg (%)**	**Old**	**New**	**Chg (%)**	**Old**	**New**	**Chg (%)**
Revenue	43.0	43.9	2.0%	52.3	52.3	0.0%	57.2	57.2	0.0%
Adj EBITDA	5.1	5.7	12.4%	6.2	6.5	5.6%	7.1	7.2	1.1%
Fully adj PBT	4.7	4.7	0%	5.8	5.8	0%	6.7	6.7	0%
Fully adj EPS (p)	5.2	5.2	-1.6%	6.1	6.0	-0.6%	6.9	6.8	-0.2%
Net (Debt) /cash	-1.1	-1.2	n/a	2.5	2.5	0%	7.0	7.0	0%

Source: Progressive Equity Research estimates

- We have made a minor increase in our FY21E revenue forecast, reflecting revised assumptions on the size of certain contracts billed during the year. Our FY 22E and FY 23E revenue forecasts are unchanged.
- We have also revised the presentation of our adjusted EBITDA forecasts to include IFRS 16 adjustments. The upgrade reflects a number of current leases coming to an end, with the impact declining over time. In offset, we have revised assumptions on amortisation. The net effect is that adjusted PBT is unchanged in our visible forecast period.
- Our EPS forecasts are slightly reduced, reflecting the updated schedule for the remaining value of acquisition consideration to be issued as announced on 05 November 2020. The impact of this is a higher number of shares outstanding than we had previously forecast.
- Finally, our net (debt)/cash expectations are broadly unchanged.

Financial Summary: The Panoply

Year end: March (£m unless shown)

PROFIT & LOSS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Revenue	22.1*	31.5	43.9	52.3	57.2
Adj EBITDA	2.1*	3.4	5.7	6.5	7.2
Adj EBIT	0.4	3.7	5.6	6.4	7.0
Adj PBT	0.3	2.9	4.7	5.8	6.7
Reported EPS (p)	(9.2)	(4.9)	2.9	3.8	4.4
Fully Adj EPS (p)	0.7	3.6	5.2	6.0	6.8
Dividend per share (p)	0.0	0.0	0.6	0.7	0.8
Adjusted share count (Dil. M)	36.8	74.8	80.2	83.5	86.4
Average Shares outstanding (Dil. M)	18.2	48.2	63.5	77.1	84.4
CASH FLOW & BALANCE SHEET	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Operating cash flow	(1.2)	2.7	4.1	5.2	6.2
Free Cash flow	(1.2)	2.5	3.2	3.78	4.50
FCF per share (p)	(1.8)	3.6	4.7	5.5	6.6
Acquisitions	1.4	(7.0)	(2.0)	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)	1.2	1.8	2.5
Overdrafts / borrowings	0.0	(5.0)	(7.0)	(5.0)	(3.0)
Cash & equivalents	5.7	4.6	5.8	7.6	10.1
Net (Debt)/Cash	5.7	(0.4)	(1.2)	2.5	7.0
NAV AND RETURNS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Net asset value	19.3	27.3	30.6	33.6	38.1
NAV/share (p)	52.3	36.5	38.2	40.2	44.1
Net Tangible Asset Value	0.3	0.3	0.1	0.0	0.0
NTAV/share (p)	0.8	0.4	0.2	0.1	0.0
Average equity	9.6	23.3	28.9	32.1	35.8
Post-tax ROE (%)	3.6%	1.5%	10.1%	14.6%	16.1%
METRICS	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Revenue growth		42.9%	39.2%	19.2%	9.5%
Adj EBITDA growth		61.9%	67.8%	14.4%	9.7%
Adj EBIT growth		934.2%	50.4%	14.8%	10.0%
Adj PBT growth		N/A	60.1%	23.1%	16.5%
Adj EPS growth		N/A	N/A	17.1%	13.3%
Dividend growth		N/A	N/A	16.7%	14.3%
Adj EBIT margins		11.7%	12.7%	12.2%	12.3%
VALUATION	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EV/Sales (x)	3.1	4.8	3.7	3.1	2.9
EV/EBITDA (x)	32.3	44.1	28.3	25.2	23.1
EV/EBIT (x)	N/A	40.6	29.1	25.8	23.6
PER (x)	N/A	N/A	38.8	33.1	29.2
Dividend yield	N/A	N/A	0.3%	0.4%	0.4%
FCF yield		N/A	2.3%	2.8%	3.3%

Source: Company information and Progressive Equity Research estimates

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

30 November 2020

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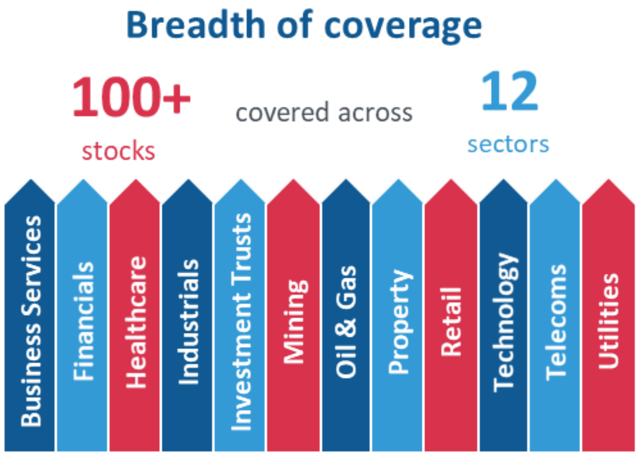

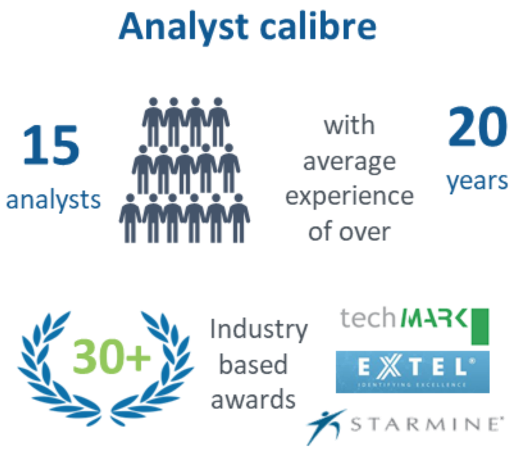

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