

THE PANOLY

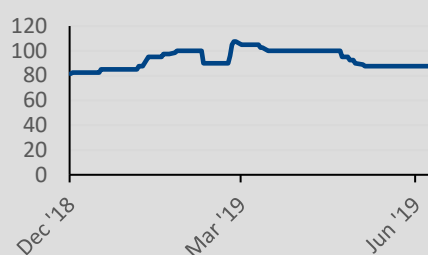
SOFTWARE AND COMPUTER SERVICES

TPX.L

88p

Market Cap: £37m

SHARE PRICE (p)



12m high/low

108p/83p

Source: LSE Data

KEY INFORMATION

Enterprise value	£33.5m
Index/market	AIM
Next news	FY 19 results, Jul-19
Gearing	N/A
Interest cover	N/A

 THE PANOLY IS A RESEARCH CLIENT OF
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Transformational step in Government and Healthcare

The Panopoly has announced the acquisition of FutureGov Limited, a profitable digital services provider to the Public Sector and Healthcare verticals. With an initial consideration of £11.8m, the deal is in our view both material and transformational. FutureGov is The Panopoly's largest acquisition to date and following completion, c45% of proforma group turnover will originate from the Health and Public sectors. We believe FutureGov is a strategically sensible acquisition for The Panopoly and upgrade forecasts following the announcement (FY 20E EPS +8%).

- Deal details:** FutureGov reported revenue of £6.4m and EBITDA of £1.5m for the year to December 2018. The initial consideration is £11.8m, payable c£6m in cash and the issue of 6.6m new ordinary shares. There is also a deferred earn-out consideration (payable 96% in new ordinary shares), with the total consideration capped at £21m.
- A transformational acquisition:** FutureGov is The Panopoly's largest acquisition to date and in our view adds significant additional scale, skills and a high-quality client list to the group. We expect the addition of FutureGov to boost group revenues by 17% FY 20E, with the result that c45% of proforma group turnover will originate from the Health and Public Sectors. We note the combined group will employ c305 staff (versus 238 currently), improving the group's ability to deliver larger projects.
- About FutureGov:** Founded in 2008, FutureGov has over a decade of digital transformation programme delivery. We believe FutureGov has a strong market position in early-stage transformations – e.g. user research, service design and policy design and brings complementary skills to The Panopoly. The Panopoly's NotBinary business is a leader in complex data-driven engineering projects with a strong reputation in security and cloud-based delivery platforms. The group's ability to deliver end-to-end transformations is we believe, greatly enhanced. FutureGov has a high-quality, largely public-sector client list, including the City of Westminster, Essex County Council and the London Borough of Hackney.
- Accretive deal, forecasts increased:** For FY 20E, the first full year of consolidation, we upgrade revenue, EBITDA and EPS by 17%, 21% and 8% respectively. Our revised forecasts are summarised below and detailed overleaf.

FYE MAR (£M)	2017	2018	2019E	2020E	2021E
Revenue	10.6	18.5	21.1	30.2	35.0
Adj EBITDA	1.7	3.3	3.0	4.0	5.0
Fully Adj PBT	1.7	3.2	2.9	3.8	4.7
Fully Adj EPS (p)	4.0	6.9	3.7	4.1	5.1
EV/Sales (x)	3.3x	1.8x	2.2x	2.1x	1.7x
EV/EBITDA (x)	20.9x	10.1x	15.4x	15.5x	12.1x
PER (x)	22.0x	12.6x	23.8x	21.2x	17.0x

Source: Company Information and Progressive Equity Research estimates

Details on FutureGov

FutureGov is a well-established, profitable business with a broad product set and a high-quality, largely public-sector client base. Operationally, we believe the business has a highly complementary skill-set to The Panoply's existing businesses – especially NotBinary.

Profitable, with over a decade of transformation service delivery

FutureGov was founded in 2008 and is based in London, UK. The company has been delivering digital transformation services to Public-sector clients for over a decade. The company is profitable, reporting revenue of £6.4m and EBITDA of £1.52m for the year to December 2018.

Good operational fit with The Panoply

We believe FutureGov has a good operational fit with The Panoply's existing business, particularly with NotBinary.

- FutureGov has a strong market position in the so-called “Discovery and Alpha” (i.e. early) phases of transformation programmes, where tasks include user research, service design and policy design. NotBinary is a leader in the “Beta and Live” phases of transformations, with a strong reputation in complex data-driven engineering projects, security and cloud-based delivery platforms

The skill sets are therefore highly complementary – FutureGov helps clients plan and design projects, and NotBinary helps implement and install. The deal therefore can be seen to enhance the group's ability to deliver both end-to-end solutions and larger projects.

- The FutureGov client base is also highly complementary: NotBinary has traditionally served central government with a growing presence in the “third sector”. FutureGov's client base (see below) is more focussed on local government and more recently health, but is gaining traction in central government.
- We understand that FutureGov and NotBinary have in the recent past jointly bid on several separate projects. Management and project teams are therefore known to each other, giving The Panoply further insight into the business being acquired.

A high quality client base

Key FutureGov clients amongst others include the City of Westminster, Essex County Council, the London Borough of Hackney and Homes England.

Case studies

We believe the following case studies (London Boroughs, Essex County Council, Essex & Suffolk County Councils and Wyndham Council) demonstrate some of the value FutureGov delivers for customers and some of the benefits the acquisition brings to The Panoply. Each of the project involved a Local Authority client(s), with differing work packages. However, the common threads are that FutureGov developed deep relationships with each client and each programme identified material cost saving opportunities.

Client – London Boroughs

Brief: FutureGov was commissioned by the London Borough of Chelsea & Fulham, the Royal Borough of Kensington & Chelsea and City of Westminster Council to explore how technology for children's social care could be radically re-designed.

Work undertaken: FutureGov discovered that frontline practitioners were spending up to 70% of their week on a computer: writing up notes, recording vital information and creating recommendations. Whilst these are essential tasks in social work, it was felt that administration reduced time to spend with families and young people, assessing and managing risk and helping to create a pathway forward.

Building from previous experience from the Family and Children's Service in Australia FutureGov wanted to test out a new approach to case management. Using a designed approach, FutureGov started working with frontline teams across the whole of the Child Protection journey, from referrals to leaving care. This included meeting with a wide range of stakeholders and turning user insights into a future user journey which puts user experience at the heart of the journey through the service.

The FutureGov team also spent time with families and young people to understand what goes through these services felt like. Challenges around transparency, having ownership over their story and tense relationships with practitioners were insights the team understood well.

Results: FutureGov is now redesigning a new 'user experience' layer to sit over the top of existing systems before phasing out that will enable a greater user experience for practitioners and increase productivity by 30%. This includes access for families and young people to enable them to take control of their own journey through services and greater use of data, automation and analytics throughout the process.

Client – Essex County Council

Background/ Brief: Essex County Council had a vision to be a digital leader in the sector. However it needed to understand where it was, where it wanted to go, and how to get there

Work undertaken: FutureGov reviewed current strategies and processes, ran digital maturity exercises, and engaged the corporate management team and cabinet in articulating their ambition.

It also delivered three service exemplars, to understand challenges and deliver change at the frontline.

FutureGov have also delivered four further exemplars to demonstrate digital: SEN Transport (December 2016); Adult Social Care placements (Jan-March 2017); Business Model Redesign Archive Services (March-July 2017); Hospital Discharge - redesigning the interface between Health and Social Care (May 2017 - present).

Results: FutureGov were able to begin significant organisational step change: embedding digital service standards in the corporate strategy and business planning process; defining the digital capability requirement and running skills workshops; hiring an alpha digital delivery team; influencing the corporate restructure; and shaping the vision for an agile, cloud based approach to technology.

Client – Essex & Suffolk County Councils

Background: Accessible and affordable transport is a vital service for many rural residents. However, with a backdrop of budget cuts, Suffolk and Essex county councils were finding it challenging to sustain the existing transport network and meet statutory commitments

Brief: The councils jointly commissioned FutureGov as part of a Department for Transport (DfT) funded project that explored opportunities for radically redesigning the way rural transport services are supplied

Work undertaken: FutureGov initially carried out in-depth research, including interviews and ride- alongs, with rural residents, transport suppliers, and industry experts. The company looked to understand the problem areas and spot opportunities.

FutureGov designed a concept for a digital platform that enabled existing transport providers to provide a flexible “better bus” service to rural communities by utilising their spare capacity

Results: FutureGov believe the concept could increase the number of paying passengers on rural services by over 50% and save up to £4m for Essex by boosting competitive commissioning.

Client – Wyndham Council

Background: The population of Wyndham is forecast to increase by over 210,000 residents between 2016 and 2036 – approximately 233 people moving in each week (net). There is a need to move the council towards more sustainable ways of working in order to meet the increased needs of residents and make a positive impact to vulnerable families.

Brief: The Council asked FutureGov to review processes, rethink structures and explore opportunities to drive a significant culture and attitude shift within the council to create a greater positive impact in its community.

Work Undertaken: Through in-depth user research, FutureGov provided clear principles to help with the Council's organisation level change and facilitated rapid design challenge sessions to change their attitudes towards collaborative problem-solving.

The insights were used to recommend organisation improvements, technology and service opportunities. FutureGov recommended that the council establish an Innovation Lab to push innovation projects forward.

Results: Wyndham City Council is currently building a business case to maintain momentum and take on some of the opportunities for change that FutureGov identified.

Details on the deal and forecast revisions

The deal

The initial consideration for FutureGov is £11.8m, payable c£6m in cash and the issue of 6.6m new ordinary shares. There is also deferred earn out consideration, contingent on the future EBITDA performance of FutureGov during the fifteen-month period to March 2020 and the twelve-month period ending March 2021. The total consideration is capped at £21m.

At £11.8m, the implied historic EBITDA multiple is 7x taking into account FutureGov's cash position. We believe this to be higher than the historic average paid by The Panoply for the acquisitions made to date. However, the complementary nature of the business to NotBinary, FutureGov's market position and The Panoply management's familiarity with the business having previously worked together, make us comfortable with the slightly higher rating.

With the significant cash component, the FutureGov deal is structured somewhat differently to The Panoply's previous acquisitions, which have been almost exclusively funded via share issuance. In order to fund the deal, The Panoply has entered into a three-year £5m revolving credit facility with HSBC.

We understand that certain FutureGov shareholders cannot directly hold shares in listed companies, hence the deal being funded primarily with cash. That said, FutureGov management are highly incentivised by The Panoply share performance post-deal completion – 90% of their initial consideration is payable in shares, with the earn out 96% share-based in aggregate and 100% for management.

Forecast revisions

Following the deal, we make (upward) revisions to forecasts. These are shown in the table below and detailed overleaf.

We have assumed nine months' contribution to FY 20E financials from FutureGov, with a full-year contribution being made from FY 21E onwards. We have also assumed a degree of integration costs during FY 20E.

We have also forecast that no further consideration becomes payable from the earn out.

FORECAST CHANGES

£m unless stated	FY20E			FY21E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	25.8	30.2	17%	27.5	35.0	27%
Adj EBITDA	3.3	4.0	21%	3.6	5.0	39%
Fully adj PBT	3.2	3.8	17%	3.4	4.7	38%
Fully adj EPS (p)	3.8	4.1	8%	4.1	5.1	27%

Source: Progressive Equity Research estimates.

Summary and conclusion

In our view, the FutureGov deal is both material and transformational for The Panoply. FutureGov is the group's largest acquisition to date and following completion, c45% of proforma group turnover will originate from the Health and Public sectors.

We believe FutureGov has a good operational fit with The Panoply's existing business, particularly with NotBinary. FutureGov has a strong market position in the so-called "Discovery and Alpha" (i.e. early) phases of transformation programmes. NotBinary is a leader in the subsequent "Beta and Live" phases of transformations. The skill sets are therefore highly complementary and the deal therefore can be seen to enhance the group's ability to deliver both end-to-end solutions and larger projects.

The FutureGov client base is also highly complementary: NotBinary has traditionally served central government with a growing presence in the "third sector". FutureGov's client base is more focussed on local government, but is gaining traction in central government. The deal enhances the opportunities for cross-selling.

Financial Summary: The Panoply

Year end: March (£m unless shown)

	2017	2018	2019E	2020E	2021E
PROFIT & LOSS					
Revenue	10.6	18.5	21.1	30.2	35.0
Adj EBITDA	1.7	3.3	3.0	4.0	5.0
Adj EBIT	1.6	3.2	2.9	3.9	4.8
Fully Adj PBT	1.7	3.2	2.9	3.8	4.7
Reported EPS (p)	3.90	4.60	2.73	4.46	5.54
Fully Adj EPS (p)	3.97	6.93	3.68	4.13	5.13
Dividend per share (p)	0.0	0.0	0.0	0.7	0.7
Avg shares outstanding (non-dil.)	40.6	40.6	57.0	74.2	74.2
Period-end Shares outstanding (Dil. m)	42.3	42.3	62.7	80.1	80.1
CASH FLOW & BALANCE SHEET					
Operating cash flow	1.3	2.7	1.9	5.5	4.3
Free Cash flow	0.0	1.2	1.5	4.9	3.0
FCF per share (p)	0.0	2.9	3.5	11.6	7.1
Acquisitions	0.0	0.0	0.0	(6.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.6	5.0	0.0	0.0
Net cash flow	0.0	1.9	1.5	2.4	(0.6)
Overdrafts / borrowings	0.0	0.0	0.0	(3.6)	0.0
Cash & equivalents	1.6	3.5	4.9	7.4	6.8
Net (Debt)/Cash	1.6	3.5	4.9	3.8	6.8
NAV AND RETURNS					
Net asset value	2.2	3.6	20.0	20.8	24.3
NAV/share (p)	5.3	8.4	47.3	49.2	57.4
Net Tangible Asset Value	0.3	0.3	0.2	0.2	0.1
NTAV/share (p)	0.8	0.7	0.6	0.4	0.3
Average equity	1.9	2.9	11.8	20.4	22.5
Post-tax ROE (%)	89.4%	111.2%	24.5%	18.4%	21.0%
METRICS					
Revenue growth		74.3%	14.1%	43.2%	16.0%
Adj EBITDA growth		96.6%	(9.6%)	34.1%	22.6%
Adj EBIT growth		95.8%	(10.0%)	35.0%	23.4%
Adj PBT growth		94.1%	(10.2%)	30.0%	25.7%
Adj EPS growth		74.5%	(46.8%)	12.1%	24.3%
Dividend growth		0.0%	N/A	N/A	10.0%
Adj EBIT margins		17.4%	13.7%	12.9%	13.7%
VALUATION					
EV/Sales (x)	3.3	1.8	2.2	2.1	1.7
EV/EBITDA (x)	20.9	10.1	15.4	15.5	12.1
EV/EBIT (x)	21.6	10.5	16.1	16.1	12.4
PER (x)	22.0	12.6	23.8	21.2	17.0
Dividend yield	N/A	N/A	N/A	0.7%	0.8%
FCF yield		3.3%	4.0%	13.2%	8.1%

Source: Company information and Progressive Equity Research estimates

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