

# StatPro Group

Acquisition

Bolt-on of an ESG research and index business

StatPro has acquired ECPI, a small private Italian environmental, social and governance (ESG) research and index business, from its management for a total consideration of c €2.9m (c £2.6m). While the deal is small, we believe there is significant potential to add value by cross-selling the products to StatPro's large global client base. In our view, the shares continue to look undervalued, given the group's c £56m recurring revenue book and the attractive rating (c 14x FY20e), especially in light of the active M&A backdrop in the financial software sector.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	49.3	3.3	5.8	2.9	22.8	2.2
12/18	54.8	5.0	7.3	2.9	18.2	2.2
12/19e	58.4	6.2	8.0	2.9	16.5	2.2
12/20e	61.8	7.6	9.2	2.9	14.3	2.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Acquisition of ECPI

StatPro has acquired ECPI from its management for an initial payment of €0.9m with an additional deferred contingent payment in March 2022, which StatPro currently estimates at €2.0m. ECPI provides ESG indices and benchmarks and related services including constructing client-specific benchmarks. It carries out ESG research and produces ratings on an active universe of approximately 3,500 companies (total universe of 4,500+) globally and uses these ratings to qualify companies for inclusion into a series of ESG investable indices, or to provide portfolio screening services. ECPI operates a recurring revenue business model and has annualised recurring revenues (ARR) of c €0.9m. StatPro can cross-sell the service to its substantial client base and plans to incorporate it into its flagship StatPro Revolution cloud services product.

## Forecasts: Edging up EBITDA and EPS

We have added £0.4m of revenues in FY19 and £0.8m in FY20 and FY21 with EBITDA little changed in FY19, and rising by c 2% in each of FY20 and FY21. With forecast interest costs increasing by £25k in FY19 and £50k in FY20, EPS edges up c 1% in each of FY20 and FY21. After adding the initial £0.8m payment in FY19, we now forecast the group to end FY19 with net debt of £23.0m (previously £22.2m), which falls to £18.3m a year later (£17.5m).

## Valuation: Highly scalable cloud computing upside

StatPro's stock trades on c 16x our FY19e EPS, which falls to c 14x in FY20e and to c 12x in FY21e. Alternatively, the shares trade on c 1.9x FY19 EV/sales, around a third of the level of StatPro's larger US financial software peers and a quarter of the level of US-based pure software-as-a-service companies. Our DCF model, when incorporating 10-year organic revenue CAGR of c 3.7%, terminal growth of 2%, a long-term operating margin target of 24.0% and a WACC of 9%, values the shares at 235p (vs 230p before), 77% above the current share price.

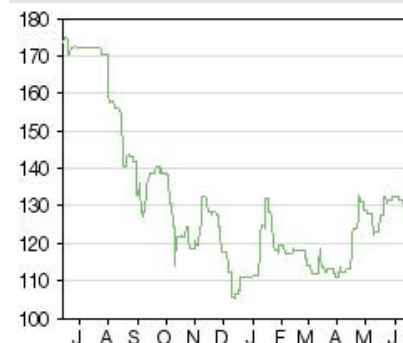
Software & comp services

12 June 2019

**Price** **130.00p**  
**Market cap** **£86m**

Net debt (£m) at 31 December 2018	24.6
Shares in issue	65.6m
Free float	82%
Code	SOG
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	4.9	15.2	(24.1)
Rel (local)	2.7	11.5	(19.9)
52-week high/low	175.00p	105.00p	

### Business description

StatPro Group provides cloud-based portfolio analytics solutions to the global investment community.

### Next events

Trading update	July
Interim results	August

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## Acquisition of ESG research and index business

StatPro has acquired ECPI from its management for an initial €0.9m with an additional deferred contingent payment in March 2022, which StatPro currently estimates at €2.0m. The reason the vendors are selling is because the business is subscale and they are finding it harder to generate growth. However, StatPro can extend the products to its global client base. The ECPI management are staying with StatPro and have a lot of incentive to gain new business given the deferred consideration structure, which can pay out up to €10m in March 2022. We note the highly successful 2016 acquisition of InfoVest is perhaps a useful model, as it beat expectations through selling the products to StatPro's client base.

The deal was driven by Gordon Bloor, who heads up the group's new 'StatPro: Source' data division, and ECPI will become part of this division, while being integrated into the group's Italian business.

ECPI has annualised recurring revenues (ARR) of c €0.9m and generated EBITDA of c €0.3m in FY18. StatPro says it expects the deal to enhance its EPS in the first full year following the acquisition. StatPro is paying an initial €0.9m with an additional payment in March 2022, depending on the level of ARR as at end-FY21. StatPro will pay twice the net increase in ARR, capped at €10m, with the multiple reduced if the EBITDA margin is below 20%.

ECPI's customers are European financial institutions, which pay for the service in one- to five-year contracts. With growing demand from investors for ethical investing, asset managers are finding it important to provide data to their customers on investment suitability. We note the London Stock Exchange recently acquired Beyond Ratings, a fixed income ESG data business.

### Exhibit 1: Forecast changes

	Revenue, £m			EBITDA, £m			Normalised EPS, p		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019e	58.0	58.4	0.7	9.5	9.5	0.0	8.0	8.0	0.0
2020e	61.0	61.8	1.3	10.5	10.7	1.9	9.1	9.2	1.1
2021e	64.3	65.1	1.2	12.3	12.5	1.6	11.3	11.4	0.9

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	£000s	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		37,545	49,260	54,841	58,400	61,818	65,138
Cost of Sales		0	0	0	0	0	0
Gross Profit		37,545	49,260	54,841	58,400	61,818	65,138
EBITDA		5,104	6,838	9,011	9,544	10,677	12,475
Adjusted Operating Profit		3,461	4,917	7,214	7,925	9,064	10,803
Amortisation of acquired intangibles		(1,060)	(2,243)	(3,161)	(3,161)	(3,161)	(3,161)
Exceptionals		(11,378)	(3,934)	(2,578)	(1,000)	0	0
Share based payments		(361)	(626)	(207)	(675)	(700)	(725)
Operating Profit		(9,338)	(1,886)	1,268	3,089	5,203	6,917
Net Interest		(786)	(1,585)	(2,256)	(1,689)	(1,514)	(1,314)
Profit Before Tax (norm)		2,675	3,332	4,958	6,236	7,551	9,489
Profit Before Tax (FRS 3)		(10,124)	(3,471)	(988)	1,400	3,690	5,603
Tax		(489)	563	(141)	(935)	(1,435)	(1,898)
Profit After Tax (norm)		2,843	4,505	5,434	5,301	6,116	7,591
Profit After Tax (FRS 3)		(10,613)	(2,908)	(1,129)	465	2,255	3,705
Minority interests		(94)	(131)	(21)	0	0	0
Net income (norm)		2,186	3,764	4,796	5,301	6,116	7,591
Net income (statutory)		(10,707)	(3,039)	(1,150)	465	2,255	3,705
Average Number of Shares Outstanding (m)		65.3	64.8	65.7	65.9	66.2	66.5
EPS - normalised (p)		3.3	5.8	7.3	8.0	9.2	11.4
EPS - FRS 3 (p)		(16.4)	(4.7)	(1.8)	0.7	3.4	5.6
Dividend per share (p)		2.90	2.90	2.90	2.90	2.90	2.90
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		13.6	13.9	16.4	16.3	17.3	19.2
Operating Margin (before GW and except.) (%)		9.2	10.0	13.2	13.6	14.7	16.6
<b>BALANCE SHEET</b>							
Fixed Assets		59,088	70,864	69,615	67,713	65,692	63,601
Intangible Assets		55,696	64,793	63,701	61,958	60,004	57,956
Tangible Assets		2,742	3,303	3,447	3,288	3,221	3,178
Other assets		650	2,768	2,467	2,467	2,467	2,467
Current Assets		19,081	20,912	18,438	20,393	25,403	31,914
Stocks		0	0	0	0	0	0
Debtors		14,725	16,601	15,867	16,897	17,886	18,846
Cash		4,356	4,311	2,571	3,497	7,517	13,068
Current Liabilities		(35,686)	(38,171)	(35,224)	(37,509)	(39,813)	(42,145)
Creditors		(27,227)	(30,720)	(27,433)	(29,718)	(32,022)	(34,354)
Short term borrowings		(8,459)	(7,451)	(7,791)	(7,791)	(7,791)	(7,791)
Long Term Liabilities		(9,897)	(22,989)	(25,444)	(22,518)	(19,591)	(16,665)
Long term borrowings		(5,961)	(17,076)	(19,418)	(18,719)	(18,019)	(17,320)
Other long term liabilities		(3,936)	(5,913)	(6,026)	(3,799)	(1,572)	655
Net Assets		32,586	30,616	27,385	28,080	31,690	36,705
<b>CASH FLOW</b>							
Operating Cash Flow		7,454	10,676	12,839	15,748	17,313	19,404
Net Interest		(500)	(1,227)	(1,873)	(1,839)	(1,514)	(1,314)
Tax		(1,294)	(144)	(763)	(350)	(873)	(1,359)
Capex		(6,445)	(7,213)	(7,794)	(7,997)	(8,286)	(8,552)
Acquisitions/disposals		(4,786)	(10,269)	(3,417)	(2,026)	0	0
Equity financing		(2,079)	926	147	0	0	0
Dividends		(1,877)	(2,012)	(1,980)	(1,912)	(1,921)	(1,929)
Net Cash Flow		(9,527)	(9,263)	(2,841)	1,625	4,720	6,250
Opening net debt/(cash)		(1,283)	10,065	20,217	24,638	23,013	18,293
Other		(1,821)	(889)	(1,580)	0	0	0
Closing net debt/(cash)		10,065	20,217	24,638	23,013	18,293	12,043

Source: StatPro accounts, Edison Investment Research

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