

Key Statistics

Code	: PHD
Listing	: AIM
Sector	: Technology
Market Cap	: £38.05m
Share in issue	: 39.42m
Current Price	: 97.50p
12 month High/Low:	: 98.60p/61.00p

Stock Performance



Source: InvestEgate

Financials

£'m	2014	2013	2012	2011
Revenue	10.15	8.04	7.51	6.24
PBT	0.15	0.30	0.09	-0.61
Profit	0.32	0.35	0.15	-0.57

Source: PROACTIS Holdings Full Year (July) Results

Company description

PROACTIS is engaged in development and sale of business software, installation and related support services. The Group is a global provider of Spend Control and eProcurement solutions that help hundreds of organisations around the world to better control expenditure on all goods and services. The company has three main areas of focus: Source-to-Contract Solutions, Purchase-to-Pay Solutions and Supplier Interaction and Commerce

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PROACTIS Makes Perfect!

Sir Bobby Robson, long-time manager of some of the world's greatest football clubs* and the English national team, is credited with a similar quote, "*Practise makes permanent.*" Which might also have been a suitably punned title for this note. For PROACTIS is approaching 'scale', and is doing it profitably, safely and rapidly...but definitely permanently; which I would argue is more important than trying to make it perfect.

- **Rapid growth business with multiple growth channels**
- **Highly scalable model, with high margins and good operational gearing**
- **Sticky customers and strong visibility**
- **Driven and competent management**
- **Modest valuation**

PROACTIS' business is the provision of tools and services to improve the efficiency and effectiveness of buying organisations and their suppliers. These are products and services for the running and maintenance of the operations of the customers and not products for re-sale as part of their businesses. PROACTIS' business models are both SaaS and Perpetual licence with the SaaS model providing higher returns over the lifetime of the customer. The lifetime of the customers is still being discovered as a good many of them have never left.

The Group's operations have good margins and throw off cash. The business is easily scaled in terms of implementation but the customers are very sticky once the products and services are embedded. There is consequently very high visibility of earnings.

* Most notably Ipswich Town (1969-1982)

The Business

The PROACTIS Group is a global provider of Spend Control and eProcurement solutions that help organisations better control expenditure on all goods and services. Over 500+ customers benefit from PROACTIS software solutions and expert assistance to reduce costs, improve efficiencies and mitigate supplier risk. This includes large and mid-size organisations in a wide range of industries, as well as the not-for-profit and public sectors.

PROACTIS' business models are a blend of both SaaS subscriptions and perpetual licences with the SaaS model providing higher returns over the lifetime of the customer. The mix has been broadly 50:50 since 2010. The average lifetime of the customers is still growing as a good many of them have never left.

The markets are significant in size and PROACTIS is focussed on the UK/EMEA and US. Consolidation is prevalent and new products and services are being driven by evolving technology, both in terms of the products: Spend Analytics: Supplier Network Services: Early Payments &c. and also in terms of the delivery: Internet; Mobile: App: Big Data &c.

Proactis has a broad range of customers and on a recurring basis has no significant dependency on any one customer or industrial sector. There is no external breakdown but the UK public sector (including Further & Higher education) is certainly an important vertical for the group. Of course, a new large 'licence' customer can make a useful impact in the first year.

Both Private and Public Sector companies and organisations are continuously under pressure to save money. This is where PROACTIS helps to cut costs painlessly. Its cloud based SaaS model is very effective, in that it need not require physical implementation, it is very flexible and virtually cap-ex free, thus forestalling bottlenecks from occurring.

Growth Strategy

PROACTIS' growth strategy has four legs:

New Buyers: The Company aims to expand the customer list through; the acquisition of new customers (currently ~40+ pa) and upgrading existing customers (~80+ pa). At the same time it will be adding new suppliers (100k-200k pa) to widen the offering. The sales are currently are 50:50 between in-house and re-seller partners and the offering is 'vertical' agnostic. Driving the top-line will improve the geared bottom line as many of the operational and HQ costs are fixed and the technical development is now somewhat restrained.

New Products: New tools and services not only open up new markets and new customers but also give the opportunity for cross-selling and up-selling too. New products from recent

acquisitions include Optical Character Recognition (*OCR Scanning*) (converting scanned and other documents or photographs into searchable and editable data); *Reverse e-auctions* (where the sellers compete to fill the order) and *Marketplace* (automation and streamlining of entire purchase-to-pay lifecycle.)

Mergers & Acquisitions: Looking ahead the Company is focussed on acquisitions where it can consolidate technology, extend procurement services in its existing strongholds of the UK and US. Strict criteria are applied with regards to; revenue and earnings structures; being in procurement; and the quality of the management teams.

Supplier Network: There is also considerable scope to build on the Supplier network support systems Enabling e-Procurement and Supplier interactive portals. A modest fee of £50 pa can bring a 3 year revenue opportunity around £10m pa. Implementing an Accelerated Payment Facility will offer buying organisations flexible advantages in the form of participating in discounts and optimising working capital as well as offering suppliers fast invoice settling facilities. Over the next three years this could potentially generate additional revenues in the region of £50m pa.

Recent Acquisitions

The latest acquisitions all have 'managed service' offerings. These were acquired with Intesource and within Intelligent Capture (they offer document scanning as a managed service as well as through the sale of licences). Both these lines of business behave just like the SaaS/subscription business model for Proactis' own software, and the EGS software was only ever sold that way.

EGS (*Marketplace*), was acquired in January 2014. It brought over 70 new clients to the Group, managing more than £2.5bn of spend through 40,000 suppliers. More than 90 percent of its clients followed a subscription business model with 3 or 4 year terms contracts and the acquired annual recurring revenue was anticipated to be more than £1.6m. EGS brought operational synergies to enhance the Group's profitability and it was funded with non-dilutive capital.

Intesource (*Reverse e-auctions*), arrived in April 2014 to increase the Group's scale and profitability, and provide a substantial footprint and expertise in the US market. The Acquisition brought a Gartner recognised expert reverse e-auction offering, delivered as true Software as a Service, which is complementary to the Group's existing service and software suite and over 25 new clients and significant scope for cross-selling opportunities. The Customers follow a subscription based business model with, typically, 2 to 4 year term contracts and annual recurring revenue to be acquired was anticipated to be in excess of \$4.5m. The net cash consideration was approximately \$2.9m.

Intelligent Capture (*OCR Scanning*), was the most recent acquisition arriving in August 2014. Intelligent Capture has brought over 40 new customers to the Group with significant scope for cross-selling opportunities. Customers follow a subscription based business model with high

retention rates giving expected annual recurring revenue anticipated to be in excess of £1.25m and total revenues of approximately £1.5m. The net consideration paid was £1.4m, in cash and shares.

Outlook

Revenue grew to around £17.2m last year (7/2015), representing growth of around 46 percent. Though this level of acceleration may not be sustainable, the Company believes that a CAGR above 25 percent is attainable over the next several years.

PROACTIS has 80 percent visibility of sales for the current year. The Company is already profitable and already pays a dividend (1.3 percent yield).

However management believe that 'Scale' will be achieved at around £50m revenue. So there is plenty of operational gearing upside to come

The business is highly scalable and the current management have demonstrated that they are capable and willing to grow it fast through the four approaches detailed above. The company is actively taking on 40 new customers per annum. The products are quick, easy and cheap to implement yet modular, flexible and robust. Plans to open up revenue streams from the supplier network will boost the growth further.

The management have demonstrated that they are more than capable of making and integrating good acquisitions, having integrated 5 companies since 2006, and the recent full time appointment of FD Tim Sykes (July 2015) is a positive signal that the group is approaching scale and has further ambitions beyond. Both Tim and Rod Jones (CEO) come across as a tight team, confident and capable, in equal measure, as to how they will grow this Company fast but permanently and profitably.

In terms of forex, the Group have circa \$7.5m of revenue in the US, so there is a translation exposure, of course. However Proactis carries US and UK \$ accounts to self-hedge at this stage, as well as putting in an internal leverage instrument to repatriate \$ into the UK untaxed and untranslated.

Margins

Acquisitions inevitably generate non-recurring overheads. For as long as there is an acquisition policy there will be significant one-off expenses. However, Gross Margins for the FY to July 2014 were a very creditable 74 percent (70 percent 7/2013), EBITDA was around 20 percent and cash from operations was around 16 percent.

Valuation

The recent trading update (RNS 6 Aug 2015) confirmed revenues for the year to 31 July 2015 would be approximately £17.2m. This would boil down to something like 6.1p EPS giving a PE multiple of around 16x. This is not a stretch when looking at larger comparable companies and particularly not when taking the rate of growth, the quality of the earnings and operational gearing into account.

Conclusion

Proactis is a well-run enterprise with multiple growth engines and great margins. It operates in large markets with a broad and diverse group of very sticky customers. It is already profitable and has an undemanding valuation and a dividend to boot. At 98p the share price is near its all-time high, which perhaps is holding it back, but then the underlying business has never been stronger.

	Unaudited 6 months to 31 January 2015 £000	Unaudited 6 months to 31 January 2014 £000	Audited Year ended 31 July 2014 £000
Revenue			
Continuing	8,371	4,025	10,150
Cost of sales	-1,762	-1,234	-2,675
Gross profit	6,609	2,791	7,475
Administrative costs	-5,676	-2,475	-7,315
Operating profit	933	316	160
Finance income	6	6	12
Finance expenses	-41	-1	-26
Profit before taxation	898	321	146
Taxation	194	-43	176
Profit for the period	1,092	278	322
Earnings per ordinary share :			
- Basic	2.8p	0.9p	1.0p
- Adjusted	3.7p	0.9p	2.7p
- Diluted	2.7p	0.8p	0.9p

Source:

PROACTIS Holdings Interim Results

	Unaudited As at 31 January 2015 £000	Unaudited As at 31 January 2014 £000	Audited As at 31 July 2014 £000
Non-current assets			
Property, plant & equipment	286	66	168
Intangible assets	16,562	6,868	15,365
Deferred tax asset	160	-	143
	17,008	6,934	15,676
Current assets			
Trade and other receivables	2,839	1,404	2,169
Cash and cash equivalents	3,082	2,351	3,124
	5,921	3,755	5,293
Total assets	22,929	10,689	20,969
Current liabilities			
Trade and other payables	1,090	727	1,769
Deferred income	6,151	2,309	4,726
Income taxes	51	158	31
Borrowings	650	-	400
	7,942	3,194	6,926
Non-current liabilities			
Deferred income	450	-	728
Deferred tax liabilities	2,608	1,118	2,697
Borrowings	1,588	-	1,100
	4,646	1,118	4,525
Total liabilities	12,588	4,312	11,451
Net assets	10,341	6,377	9,518
Equity attributable to equity holders of the Company			
Called up share capital	3,902	3,182	3,825
Share premium account	5,777	3,073	5,477
Merger reserve	556	556	556
Capital reserve	449	449	449
Foreign exchange reserve	-301	-1	-23
Retained earnings	-42	-882	-766
Total equity	10,341	6,377	9,518

Source: PROACTIS Holdings Interim Results

Condensed consolidated cash flow statement for the six months ended 31 January 2015

	Unaudited 6 months to 31 January 2015	Unaudited 6 months to 31 January 2014	Audited Year ended 31 July 2014
	£000	£000	£000
Operating activities			
Profit for the period	1,092	278	322
Amortisation of intangible assets	1,115	456	1,219
Depreciation	75	18	53
Net finance expense/(income)	35	-5	14
Income tax charge/(credit)	-194	43	-176
Share based payment charges	61	8	78
Operating cash flow before changes in working capital	2,184	798	1,510
Movement in trade and other receivables	-250	-33	257
Movement in trade and other payables and deferred income	-376	69	-128
Operating cash flow from operations	1,558	834	1,639
Finance income	6	10	12
Finance expense	-41	-	-26
Income tax received	92	-	61
Net cash flow from operating activities	1,615	844	1,686
Investing activities			
Purchase of plant and equipment	-70	-14	-57
Payments to acquire subsidiary undertakings	-1,101	-	-3,909
Development expenditure capitalised	-956	-534	-1,200
Net cash flow from investing activities	-2,127	-548	-5,166
Financing activities			
Proceeds from issue of new shares	77	35	3,084
Receipts from borrowings	1,000	-	1,500
Repayment of borrowings	-262	-	-
Dividend payment	-428	-318	-318
Net cash flow from financing activities	387	-283	4,266
Net increase/(decrease) in cash and cash equivalents	-125	13	786
Cash and cash equivalents at the beginning of the period	3,124	2,338	2,338
Effects of currency translation on cash and cash equivalents	83	-	-
Cash and cash equivalents at the end of the period	3,082	2,351	3,124

Source: PROACTIS Holdings Interim Results

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