ServicePower Technologies

SALES DESK NOTE

2nd April 2015

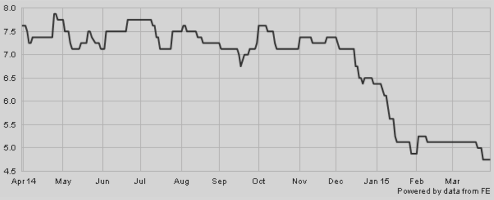
HYBRIDAN

Re-loaded and Ready To Go

Key Statistics

Code	: SVR
Listing	: AIM
Sector	: Saas/Software
Market Cap	: £9.50m
Share in issue	: 199.77m
Current Price	: 4.75p
12 mnth High/Low	: 7.87p/4.75p

Stock Performance



Source: Investegate

Financials

£m	2013A	2014A
Revenues	14.0	12.7
EBT	0.04	-1.0

Source: ServicePower Tech Annual reports

Company description

ServicePower provides connected field services solutions that bring together the customer and the dispatch centre, technician, claims and warranty processes, parts, the contracted workforce, assets, mobility, business intelligence, and social collaboration. ServicePower connects all aspects of the field service value chain through the use of innovative technology that accelerates business efficiency gains and customer satisfaction while reducing costs. ServicePower is uniquely positioned to offer end to end connected field services solutions on one underlying platform that can been utilised for employees and contractors alike.

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The recent full year 2014 numbers reflected the transition that ServicePower is undergoing, as it moves away from low margin service contracts towards higher margin recurring SaaS revenues. However, they also pointed towards significantly enhanced prospects for the future, as the new business model powers up.

2014 was a year of change for ServicePower, following on from Marne Martin's appointment as CEO being made permanent in September 2013 and Tajinder Sandhu's appointment as CFO in December 2013. New branding, new website and new content are the visible signs of change but there has also been a significant change in the business model. The new model is to focus much more upon higher margin and recurring SaaS revenues and move away from lower margin service contracts. Moving from gross margins of around 13% on some contracts towards a more reasonable 50/60%. In the short term this has created a lag in revenues as SaaS revenues typically are taken in monthly installments after implementation. Inevitably this has created a dip in earnings, but this will be more than compensated over the longer term by higher and more predictable revenue streams.

At the same time ServicePower has been upgrading and launching new functionality and services for its products which has absorbed management and personnel time from implementation; which has also had a knock on effect on revenues. However, most of this restructuring is now done and the Company is now fully re-set and accelerating delivery of its products to existing and new customers.

ServicePower is made up of three business units: *Scheduling: Mobilised Field Techs* and *3rd Party Management*.

Scheduling is the original business of ServicePower. It comprises the management of scheduled services, basically ensuring that a business can have the right technician attending the right job at the right time with the right tools and parts to complete the job. The system also manages Service Level Agreements (SLA), provides dynamic route optimisation and consumes M2M data to facilitate proactive servicing. Ultimately the significant efficiencies offered save money as well as making for happy end customers.

Mobilised Field Techs are to push jobs out to field operatives – not necessarily employees - in real time. Like the service scheduling, the system enables logistical efficiencies and greatly improved rates of first-time fixing. This system is now fully on the cloud and additional functions continue to be added increasing the attractiveness of this service to Smaller and Medium sized Enterprises (SME) who are a key focus.

3rd Party Management is what the Company used to call *Service Ops*. It offers 'slot-based' dispatching with customisable files for parts, model lists &c and real time claim processing status reports for contractors.

ServicePower estimates that its systems and services offer around 40% increase in field resource efficiency, 30% cost savings through improved line-of-sight & fraud control and 50% increase in field productivity.

The Outlook

Customer Acquisition: 2014 has been a year of frenetic activity and the fruits of that work are only just beginning to kick in. Lead generation activities started twelve to eighteen months ago are only now feeding into new contracts. More recently in December 2014, Gartner recognised ServicePower as 'Visionaries' in its 'Magic Quadrant for Field Service Management'. The Company has received ten Requests for Proposals (RFPs) where they had never had one before. Upgrades to the products took longer than expected and this inevitably had an impact on the pace of implementation as resources were stretched. Implementation has been the bottleneck for ServicePower, rather than customer acquisition, and with these upgrades out of the way and some strategic new hires the rate of customer take on should accelerate markedly. To add to all this the Company has signed new resellers in Q1 2015 and that work will start to kick in over the next several quarters.

Margins: The pipeline doubled in 2014 and this is now maturing in 2015, with scheduling accounting for 80% of sales. The average margin for scheduling was 54%, though this included the contract work at 13%. With that lower margin work working through, and not being repeated, new averages could be heading towards and beyond 60%. On the 3rd party side margins are typically 40% though the software element runs closer to 74%. So there is also plenty of scope for improvements here, particularly when renewal rates are at 100%.

Internal Re-Organisation: It is not just the products that have been upgraded. The new management has made changes within the organisation as well. The business has been re-focussed towards the higher margin SaaS model and away from the lower margin Service Contracts. This has resulted from some personnel changes, which are now largely complete, though there are some more hires to come. It has also allowed the Company to bring in new information sharing protocols between staff. The sharing of information up and down and across the Company is already yielding positive results.

Global Reach: Until recently the products have been only available in the English language. A German language version is now being pushed out both by direct sales and partners and French and Spanish versions will follow shortly. It is planned to bring additional languages over time and this will open up not just Europe but swathes of Latin America, Asia and Africa too.

Conclusion

ServicePower has a product that works: They have Tier 1 customers renewing orders and new business is flowing in. The new business has great margins and these are also growing.

The new management has made a very impressive start and have an extremely credible plan to expand the business rapidly, but also sensibly, looking for high quality 'sticky' revenues, which take longer to get started but are a good foundation for the long term prospects of the business.

The current valuation reflects the recent decline in numbers, but arguably does not give much credit for the future prospects, despite a good deal of the execution risk already being dealt with. As the Company has drifted into a small loss, the operational gearing has become quite extreme, representing a significant turnaround potential for earnings from a relatively modest increase in revenues. Combine this with a potential increase in multiple that could follow a return to profitability, and the share price could easily get back to its highs and beyond.

Consolidated income statement for the year ended 31 December 2014

		2014 £'000	2013 £'000
Revenue	-ServiceScheduling	6,873	7,569
	-ServiceOperations	5,855	6,433
Total Revenue		**12,728**	14,002
Cost of Sales		-6,684	-7,380
Gross Profit		**6,044**	6,622
Administrative Expenses			
-other expenses		-6,899	-7,067
-foreign exchange loss/gain		-22	274
-gain on bargain purchase		-	381
Total administrative expenses		**-6,921**	-6,412
Operating loss/profit		**-877**	210
Investment income		2	2
Finance costs		-167	-167
Loss/profit before taxation		**-1,042**	45
Tax		98	155
Loss/profit after taxation for the year		**-944**	200
Loss/earnings per share			
Basic		-0.5p	0.1p
Diluted		-0.5p	0.1p

Source: ServicePower plc Annual Reports

Consolidated balance sheet at 31 December 2014

	2014	2013
	£'000	£'000
Assets		
Non-current assests		
Intangible assets	2,098	1,602
Property, plant and equipment	239	129
	2,337	1,731
Current assets		
Trade and other receivables	2,465	3,399
Cash and cash equivalents	2,702	2,672
	5,167	6,071
Total Assets	**7,504**	7,802
Current liabilities		
Trade payables	-1,246	-1,106
Deferred revenues	-2,736	-2,587
Other creditors	-36	-35
Convertible loan notes	-1,068	-902
	-5,086	-4,630
Net assets	**2,418**	3,172
Equity		
Share capital	10,032	10,032
Share premium account	18,994	18,994
Share scheme reserve	1,041	975
Exchange translation reserve	-1,478	-1,602
Equity reserve	401	401
Merger reserve	-3,008	-3,008
Retained earnings deficit	-23,564	-22,620
Total equity attributable to the owners of the Company	**2,418**	3,172

Source: ServicePower Technologies Annual Reports

Consolidated cash flow statement for the year ended 31 December 2014

	2014 £'000	2013 £'000
Net cash inflow/-outflow from operating activities	**828**	-789
Investing activities		
Interest Received	2	2
Purchases of property, plant and equipment	-221	-103
Proceeds from sale of intangible asset	-	3
Expenditure on intangible assets	-714	-571
Net cash used in investing activities	**-933**	-669
Financing activities		
Repayment of convertible loan note	-	-366
Net cash used in financing activities	-	-366
Net decrease in cash and cash equivalents	**-105**	-1,824
Cash and cash equivalents at beginning of year	**2,672**	4524
Effects of exchange rate changes	135	-28
Cash and cash equivalents at end of year	**2,702**	2,672

Source: ServicePower Technologies Annual Reports

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