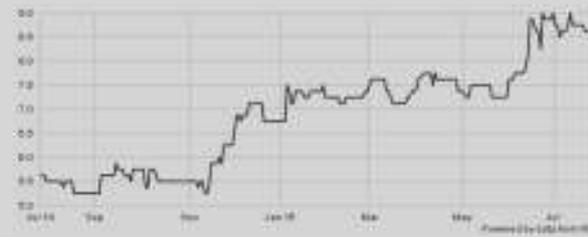


#### Key Statistics

Code	: UNG
Listing	: AIM
Sector	: Technology
Market Cap	: £19.92m
Share in issue	: 220.28m
Current Price	: 8.73p
12 month High/Low:	: 9.25p/4.50p

#### Stock Performance



Source: InvestEgate

#### Financials

£'m	2014	2013	2012	2011
Revenue	20.75	15.87	11.85	10.46
PBT	1.75	1.2	1.01	0.31
Profit	1.41	1.33	1.01	0.34

Source: Universe Group Full Year Results

#### Company description

Universe provides some of the world's leading retailers with point of sale, payment and loyalty solutions. This PCI compliant proprietary software is deployed as a cloud based service into demanding, mission-critical trading environments. The Group's solutions are offered on software as a service model with its data centres processing in excess of 3 billion transactions every year. Through product innovation and customer service level excellence it builds multi-year partnerships with customers who include some of the world's leading retailers, particularly in the petrol forecourt and convenience store markets.

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## Hubble's Law

**Jeremy Lewis took over as CEO of Universe Group in September 2013. His plan was to build on the turnaround work that had already been done by his predecessor and grow the business. At that time the share price – the ultimate KPI - was 4.75p. It is now 8.625p giving an annualised rate of return around 35%; so he is certainly doing something right. Yet the story has hardly begun...**

- **Profitable** – Sticky and recurring revenues – Throwing off cash
- **Barriers to Entry** – IP - Know-how - Reputation
- **Scaleable:** Plenty of headroom in existing and new vertical markets UK & Overseas – acquisition possibilities
- **Management:** Proven delivery of high quality and growing earnings
- **Valuation:** Around 1x EV/sales, or 10x historic EPS

The latest reported figures are the full year to December 2014. Revenues were up 31% to £20.75m and cash generated by operations was up 43% to £2.96m. EPS was small down (2%) owing to tax having to be paid, compared to the FY 2013 where there was a tax credit. A change of mix and some lower margin business, taken on as part of an acquisition, caused Gross Margins to dip to 31% (vs. 35% 2013) but there will be some recovery as those factors come out of the numbers this year. In fact H2 2014 saw margins at 33%, compared to 29% in H1 2014; reflecting the integration of RST, Retail Services Team, acquired in 2013. The mix between Hardware and Services is around 20:80.

**By William Lynne** - For disclosures, refer to the Disclosure Section

**Operating Subsidiary - HTEC Ltd**

Established in 1979, HTEC has enjoyed major growth from its investments in software and specialist hardware and the Company now provides payment and loyalty solutions for some of the UK's major retailers. The product offerings can be broken down thus:

**Convenience and Retail:**

- RetPOS – Point of Sale software
- RetCON – Linking back office to wholesaler
- IBOS – scaling over multiple sites
- DRS – for franchise calculations.

**Loyalty:**

- GemPOINTS – low level loyalty
- On Line loyalty

**Services:**

- Deployment
- Field maintenance service
- In-house services
- Outsourcing
- Discontinued Products

**Forecourt:**

- GemPAY - EFT and Fuel Card Terminal
- HydraPOS - Touch-Screen Point of Sale System
- HydraSMART - centralised, web-based Back and Head Office System
- HydraOPT - integrated into petrol pumps
- HydraPOD - secure Pin Entry Device (PED) which can be used for both Chip and PIN and magstripe transactions in an unattended or cardholder activated environment.
- HydraANPR - the only solution which will physically 'Stop the Pump'.
- Barrier ANPR- Automatic Number Plate Recognition, Access & Monitoring
- Forecourt Protect- Standalone ANPR Solution for Petrol Forecourts

The businesses combined, have high barriers to entry. In part because there is proprietary software employed, in part because there is technical knowhow, and mostly because this is mission critical equipment for retailers and reliability, service, support and reputation are more important than price.

**Outlook**

The recent past has been a happy place for Universe: the products and services obviously work well and the Company has several tier 1 customers, much recurring revenue and is throwing off plenty of cash. The prospects for the future are arguably even more promising.

Universe has rolled out a series of technically complex projects for key customers and there is scope for cross selling and upselling the new and refreshed products to the existing customers. 16% reported organic growth in sales has come from the growth development programme that Universe has been investing in over the last three years and this rate of growth is likely to dip into single digit for this year. 2014 saw the continued expansion of the installed base of the GemPAY payment terminal estate and the first large scale roll out of the new outdoor payment terminal: boosting revenues and maintaining high recurring revenues.

There is also considerable scope to expand the customer base and bring more diversity; the top three customers represented around 60% of revenues in 2014. Universe has a strong position in petrol forecourts but is now pushing into convenience stores, potentially an even bigger market and it has further vertical markets under review too.

Additionally there is potential to expand geographically, though this might be better done through acquisition, as scale is very important when setting up in a new region. The services Universe offers are business critical, and the service, maintenance and reliability are dependent upon having sufficient numbers of qualified engineers available, and with the right parts and equipment, to do the job. To set up in a new geography will therefore require a significant fixed overhead from day one and ideally would have a matching customer base too.

Universe made two acquisitions in 2013, Indigo Retail Holdings and Retail Services Team (RST) both of which have been successfully absorbed and integrated. In April 2015, it has acquired Spedinorcon (Spedi) a developer and supplier of retail software specialising in the convenience store market. Spedi has brought 1,500 new customers many within the Londis and Costcutter chains. It is obviously early days, but it is perhaps indicative of the sort of acquisition that can work for Universe. The cost of Spedi is not disclosed but the full benefit- synergies and revenues - will kick in through 2016; though of course by then there may well be additional acquisitions to take into account. The arrival of Spedi and continuing organic growth should boost sales this year.

**Balance Sheet**

The Company has around £1.8m in loans, £2m in cash and £600k deferred consideration for the former owners of Indigo giving net debt around £360k. All pretty tidy.

**Valuation**

At around 1x EV/sales, or 10x historic EPS, Universe seems very reasonably valued, given it is profitable, growing rapidly, has high recurring revenues and is throwing off cash. With overheads pretty much fixed and sales growing there is some good operational gearing which should power the lower lines of the P&L. That combined with a potential change of multiple should ensure the share price still has plenty of upside.

## Consolidated Statement of Total Comprehensive Income For the year ended 31 December 2014

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>		
<b>Revenue</b>	<b>20,749</b>	15,874
Cost of sales	-14,261	-10,391
<b>Gross profit</b>	<b>6,488</b>	5,483
Administrative expenses	-4,760	-4,137
<b>Operating profit</b>	<b>1,728</b>	1,346
Finance income	220	9
Finance costs	-195	-155
<b>Profit before taxation</b>	<b>1,753</b>	1,200
Taxation	-345	131
<b>Total comprehensive income and expense attributable to equity holders</b>	<b>1,408</b>	1,331
<b>Earnings per ordinary share</b>		
Basic earnings per share	0.65p	0.66p
Diluted earnings per share	0.60p	0.62p

*Source: Universe Group PLC Preliminary Results*

**Consolidated Balance Sheet as at 31 December 2014**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>		
Goodwill and other intangible assets	14,121	14,219
Development costs	2,382	1,837
Property, plant and equipment	2,466	2,348
Deferred tax	-	83
	<b>18,969</b>	18,487
<b>Current assets</b>		
Inventories	1,406	1,125
Trade and other receivables	4,221	4,223
Cash and cash equivalents	2,064	978
	<b>7,691</b>	6,326
<b>Total assets</b>	<b>26,660</b>	24,813
<b>Current liabilities</b>		
Trade and other payables	-5,138	-5,115
Current tax liabilities	-188	-182
Borrowings	-477	-397
Deferred consideration	-597	-414
Contingent consideration	-103	-66
	<b>-6,503</b>	-6,174
<b>Non-current liabilities</b>		
Borrowings	-1,350	-1,196
Deferred consideration	-	-603
Contingent consideration	-87	-316
Deferred tax	-258	-
	<b>-1,695</b>	-2,115
<b>Total liabilities</b>	<b>-8,198</b>	-8,289
<b>Net assets</b>	<b>18,462</b>	<b>16,524</b>
<b>Equity</b>		
Share capital	2,203	2,115
Capital redemption reserve	4,588	4,588
Share premium	12,716	12,381
Merger reserve	2,269	2,269
Translation reserve	-225	-225
Profit and loss account	-3,089	-4,604
<b>Total equity</b>	<b>18,462</b>	<b>16,524</b>

Source: Universe Group PLC Preliminary Results

**Consolidated Cash Flow Statement for the year ended 31 December 2014**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities:</b>		
Profit before tax	1,753	1,200
Depreciation and amortisation	1,630	1,110
Share based payments	107	45
Net finance (income)/costs	-25	146
	<b>3,465</b>	2,501
Movement in working capital:		
Increase in inventories	-281	-514
Decrease/(increase) in receivables	2	-1,244
(Decrease)/increase in payables	-96	1,720
Interest paid	-124	-100
Tax paid	-4	-293
<b>Net cash inflow from operating activities</b>	<b>2,962</b>	2,070
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiary undertakings	-57	-694
Purchase of property, plant & equipment	-243	-399
Expenditure on product development	-1,146	-731
<b>Net cash outflow from investing activities</b>	<b>-1,446</b>	-1,824
<b>Cash flow from financing activities:</b>		
Proceeds from issue of shares	23	-
Repayments of obligations under finance leases	-453	-402
<b>Net cash outflow from financing</b>	<b>-430</b>	-402
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1,086</b>	-156
Cash and cash equivalents at beginning of year	978	1,134
<b>Cash and cash equivalents at end of year</b>	<b>2,064</b>	978

*Source: Universe Group PLC Preliminary Results*

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