

# SOPHEON

## SOFTWARE & COMPUTER SERVICES

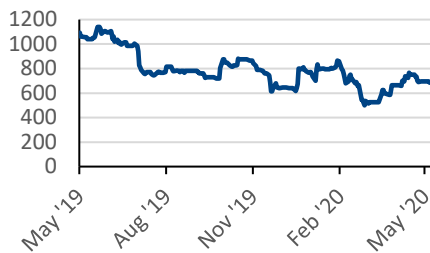
28 May 2020

### SPE.L

684p

Market Cap: £69.6m

#### SHARE PRICE (p)



12m high/low 1,140p/500p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	\$21.8m
Enterprise value	£51.7m
Index/market	AIM
Next news	AGM, 11 June 2020
Shares in Issue (m)	10.2
Chairman	Barry Mence
Chief Executive	Andy Michuda
Finance Director	Arif Karimjee

#### COMPANY DESCRIPTION

Sopheon is an international provider of software and services for product life cycle management

[www.sopheon.com](http://www.sopheon.com)

SOPHEON IS A RESEARCH CLIENT OF PROGRESSIVE

#### ANALYSTS

##### Gareth Evans

+44 (0) 20 7781 5301

[gevans@progressive-research.com](mailto:gevans@progressive-research.com)



##### Ian Poulter

+44 (0) 20 7781 5307

[ipoulter@progressive-research.com](mailto:ipoulter@progressive-research.com)



[www.progressive-research.com](http://www.progressive-research.com)

## Innovation like never before

COVID-19 continues to have a profound impact on virtually every industry, on a global basis. Enterprises of all types and sizes are racing to adapt their models to the “new normal”. The more thoughtful are looking not just to effect change, but to improve how change happens, to become more flexible and more nimble as organisations. Sopheon has today announced some major developments to its Accolade platform which look to assist the group’s customers in this endeavour. This note describes the changes to the product range, and draws on a recent customer webinar used by Sopheon to highlight the evolving challenges to enterprise innovation management.

- Accolade product development** Today’s RNS is focussed on the release of the latest version of Accolade (13.1) and an important collaboration tool, Accolade Connect for Microsoft 365. The product upgrade itself provides additional tools for roadmap planning, and the connector allows Accolade users to share and discuss the Accolade outcomes within the Microsoft (and crucially Microsoft Teams) environment. We hear continued evidence of the success of Teams within large organisations, and including Accolade within these corporation-wide discussions is a logical step, allowing clients to get better use of their Accolade information, and spreading the use and knowledge of Sopheon’s platform within client organisations.
- COVID-19 driving enterprise innovation faster than ever** Clearly the COVID-19 pandemic is pushing organisations to adapt their business models rapidly and dramatically. What is just as important is that the more-enlightened groups are also using the current flux to “improve how they change” – to become more flexible and more adaptable, because one thing is clear...the future is less certain than we all thought, so large corporations need to be able to re-engineer themselves more completely and more efficiently. We discuss this further in the pages overleaf, drawing on some of the attributes of Accolade, some of the updates in the 13.1 release, and in particular highlighting some comments made by Accolade users on a recent webinar.

Product version upgrades are not normally a major news item – investors (and customers) just expect them. Nevertheless, we believe that today’s announcement, and the intelligent connection to the explosive growth of MS Teams, suggests that Accolade is well positioned just as Sopheon’s customers are pushing for ever-better innovation and enterprise management tools.

FYE DEC (\$M)	2016	2017	2018	2019
Revenue	23.2	28.5	33.9	30.3
Adj EBITDA	5.3	8.2	9.4	6.4
Fully adj PBT	2.7	5.3	6.9	3.1
Fully adj dil EPS (c)	28.1	50.9	59.8	26.5
EV/Sales (x)	2.7x	2.2x	1.9x	2.1x
EV/EBITDA (x)	11.9x	7.7x	6.7x	9.8x
PER (x)	29.7x	16.4x	14.0x	31.4x

Source: Company Information and Progressive Equity Research estimates

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## Sopheon moves rapidly to help its customers do likewise

### Quick reminder: what Sopheon does...

Sopheon provides a software platform, Accolade, which helps customers manage innovation – mainly product portfolios, and in particular the “stage-gate” approach to new product research, development, preparation and launch. Accolade has traditionally been sold as a perpetual licence and delivered on-premise (installed at customer sites), but recently there has been a trend towards SaaS (software-as-a-service) deployment with the associated improvement in revenue visibility. The figure below includes a snapshot of example Accolade customers:

### EXAMPLE SOPHEON ACCOLADE CUSTOMERS



Source: Company information

### Today's news: product upgrade and rapid move to connect to Microsoft Teams

Sopheon has today announced Accolade 13.1, a version upgrade including enhanced features for product roadmap planning. There is also an additional capability, Accolade Connect for Microsoft 365, allowing customer staff members to seamlessly incorporate Accolade into their Teams-based interaction, and building Teams into the way they use Accolade. We believe that this addition of a Teams connector is highly relevant for Sopheon for two key reasons:

- Firstly, Microsoft Teams has seen a very rapid expansion of its user base during COVID-19, becoming the enterprise collaboration platform of choice – so allowing customers to integrate Teams with their Accolade implementations will allow clients to extend and expand the benefits they see from the Sopheon platform.
- Secondly, by allowing clients to “percolate” elements of the Accolade output more broadly, Sopheon should be able to extend the use of Accolade and drive into additional areas within client organisations....as more users experience Accolade and see the benefits of its consistent processes and rigour, applied to not just innovation management but also more broadly, additional opportunities for the software may become apparent – this could lead to additional or extension licence sales.

## Background from recent client webinar

During April, Sopheon ran a webinar in conjunction with a number of customers who provided insights on the way their organisations have been adapting to COVID-19, and the way they feel that their (and other) groups will continue to evolve their product and more general innovation processes.

### SOPHEON'S APRIL COVID-19 RESPONSE WEBINAR



*Source: Company information*

The participants were drawn from a variety of end markets (from domestic appliances, through consumer product ingredients and to high-tech), and their employers were of different sizes with a range of different approaches to innovation. Although all the organisations are to a degree global (or at least multi-national) the inclusion of Turkish conglomerate Arcelik (known in the UK through the Beko brand) added an additional angle of geographic diversity.

Each panel member serves in a senior role within their organisations, with job titles such as SVP R&D, Innovation Management & Digital Innovation, Office of CTO, and Director of Product Management.

The event was almost entirely devoid of mention of the Accolade product – it was not intended to promote the software’s benefits or features; rather the event was for the benefit of Sopheon’s broad customer base, to learn from each other, discuss the way they’re adapting in the face of unprecedented market change, and to share best practice. Clearly, Sopheon will have followed up with attendees in terms of their potential requirement for Accolade or specific angles, but from our perspective the hour-long session (recording available at [www.sopheon.com](http://www.sopheon.com)) gave a very useful and timely insight into how Sopheon’s customers are thinking. We highlight overleaf our key takeaway points.

**Key takeaway points from webinar:**

■ **COVID-19 response and employee team dynamics**

All participants have successfully engaged their employees in adapting to the work from home environment during the COVID-19 lock down. Those with factories or other physical production locations were also having to deal not just with home working arrangements, but also with physical distancing within laboratory or factory settings.

A number of speakers described that they had successfully managed their teams' transitions to Microsoft Teams or other digital platforms. It was also highlighted that such platforms can allow teams to work more effectively than even in an office setting, but that to achieve the real benefits, **"going digital was not the difficult part...aligning people was the difficult part."**

Some speakers also described higher levels of integration and innovation with their partners, as large organisations seldom operate entirely in product vacuums. Dealing with suppliers and other partners involves sharing raw material lists, travel to proposed production sites, acceptance testing, consumer testing and so on. **In some cases, the work required to integrate with suppliers around these "now more complex" aspects has in fact led to an increased level of cooperation across a supply chain.**

One organisation in particular had seen significant benefit by taking lessons learned in its Chinese operations, early in the global pandemic, and applying them rapidly in Europe even before the need was apparent.

A frequent comment related to staff using chat facilities or other aspects on "the edge" of conference calls or video meetings, which was increasingly being used to replicate the social interaction on the fringes of large organised events and conferences.

■ **Product portfolio plans**

Given the challenges facing many traditional channels between large organisations and the end consumers, a number of the participants described an increased focus on new routes direct to the consumer, with consequent impact on product and service development plans.

Many companies are looking to sell product lines direct to consumers where they have previously not done so, and even those involved in durable goods, such as domestic appliances, are finding that consumers are unwilling to allow access to service engineers, and are keen to be educated around how to repair and maintain such products themselves.

A number of participants on the call were involved in major digitalization projects, but some of these which may have been planned to last 12, 18 or 24 months were now being massively accelerated to deal with the COVID-19 challenges. Groups always evaluate product portfolios over time, but again the timelines have shrunk - one of the panel members stated that **"we are actually re-evaluating our portfolio over the next couple of weeks, to see where our priorities are"**.

All panellists described additional pressures on product portfolio decision-making, as scarce available resources were insufficient to meet a burgeoning number of new product or service needs. One member of the panel noted **"we have to prioritise - we can't do everything"**.

One participant described the current climate as being like a racing car slowing as it entered a corner in the track. The CEO described the necessary slowdown in pace, but was keen for the whole business to focus on achieving the maximum possible speed on exit, and product portfolio planning was a key tool to achieve this.

■ **Changes to the innovation process**

A common theme related to the requirement to make the innovation process more flexible and agile, embedding this in a more adaptable development culture.

One organisation has, in response to the COVID-19 developments, developed a “virtual consumer community”, allowing it to test and trial new brands and new products with end users without the need for physical interaction.

The pandemic has also led to increased use of modelling, simulation and Augmented Reality (AR) or Virtual Reality (VR) tools. Again, this allows more detailed analysis of potential products at an earlier stage in their development and involving feedback and input from a broad range of market participants such as suppliers, customers and end market consumers.

One panellist described the pandemic and its impact on corporations as being similar to the organisations physically breaking, like a smashed ornament. He stated **“this is a moment made for innovators....do we try and make our companies look just the way they were before? Let's put the pieces back together and make something different.”**

COVID-19 has also led to changes in the way the products are assessed within organisations, with an increased focus on levels of sustainability and environmental impact within the product portfolio, and the importance of cashflow, stock holdings and sales velocity even greater than in the past. All these factors lead to greater requirements for complex and methodical analysis and planning.

Another panel member highlighted that innovation development “cannot just be agile, because this risks becoming chaotic very rapidly”. **The right answer must be a hybrid approach of agile development and disciplined, rigorous methodology.**

**Relevance to Sopheon**

Sopheon’s Accolade product is specifically designed to address these key aspects of innovation management....the platform facilitates rapid (and agile) communication across and between teams, yet it also imposes a rigorous and consistent approach to modelling, measurement and comparison in order to achieve the alignment that is crucial within large organisations. Accolade allows “go/no-go” decisions around development priorities to be reached with the right information from a range of relevant sources, presented in a comparable and consistent format, and delivered in a timely manner. The product is also helping customers such as the Joint Strike Fighter (JSF) Joint Program Office to transition to more consistent decision-making processes with highly distributed participants (government, partner countries, military branches, and industry). This is particularly relevant as workplaces become increasingly virtual and supply chains therefore more reliant on co-operation.

Many of the current pressures and challenges described above serve only to highlight the importance of running innovation processes (and indeed other processes within large organisations) in efficient and consistent ways, while at the same time enabling speed and agility. The unique value is in how Accolade manages this very balance.

Accolade, in our opinion, remains very well placed to serve this market. Clearly, 2020 may be a challenging year for Sopheon along with all other software providers – but we believe that many of the market disruptions will, over time, tend to focus successful corporations on “innovating like never before”, which should play to Sopheon’s core strengths, and hopefully drive both revenue and shareholder value over time.

**Financial Summary: Sopheon**

Year end: December (\$m unless shown)

	2016	2017	2018	2019
<b>PROFIT &amp; LOSS</b>				
Revenue	23.2	28.5	33.9	30.3
Adj EBITDA	5.3	8.2	9.4	6.4
Adj EBIT	3.1	5.8	6.9	3.0
Reported PBT	3.1	5.1	6.4	2.5
Fully adj PBT	2.7	5.3	6.9	3.1
NOPAT	3.0	5.3	6.3	2.8
Reported Dil EPS (c)	42.8	55.9	65.0	19.2
Fully adj dil EPS (c)	28.1	50.9	59.8	26.5
Dividend per share (p)	0.0	2.5	3.25	3.25
<b>CASH FLOW &amp; BALANCE SHEET</b>				
Operating cash flow	5.5	6.0	9.8	7.1
Free Cash flow	3.0	2.8	7.0	3.4
FCF per share (c)	29.5	27.1	65.6	31.6
Acquisitions	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	0.1	0.0	0.2	0.1
Net cash flow	2.9	3.1	7.2	2.7
Overdrafts / borrowings	(5.8)	(3.2)	(0.4)	0.0
Cash & equivalents	10.1	12.7	17.1	19.4
Net (Debt)/Cash	4.2	9.5	16.7	19.4
<b>NAV AND RETURNS</b>				
Net asset value	10.4	18.6	25.6	27.9
NAV/share (c)	142.3	186.0	252.2	274.2
Net Tangible Asset Value	0.2	0.4	0.5	0.5
NTAV/share (c)	3.3	4.1	5.2	5.0
Average equity	7.9	14.5	22.1	26.7
Post-tax ROE (%)	37.7%	36.5%	28.7%	10.5%
<b>METRICS</b>				
Revenue growth	11.1%	23.0%	18.9%	(10.8%)
Adj EBITDA growth	28.9%	54.8%	14.7%	(31.6%)
Adj EBIT growth	98.8%	87.5%	19.6%	(55.9%)
Adj PBT growth	88.5%	95.1%	30.5%	(55.5%)
Adj EPS growth	102.4%	80.7%	17.5%	(55.6%)
Dividend growth	N/A	N/A	30.0%	0.0%
Adj EBIT margins	13.2%	20.2%	20.3%	10.0%
<b>VALUATION</b>				
EV/Sales (x)	2.7	2.2	1.9	2.1
EV/EBITDA (x)	11.9	7.7	6.7	9.8
EV/NOPAT (x)	21.1	12.0	10.0	22.6
PER (x)	29.7	16.4	14.0	31.4
Dividend yield	N/A	0.3%	0.4%	0.4%
FCF yield	3.5%	3.2%	7.9%	3.8%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

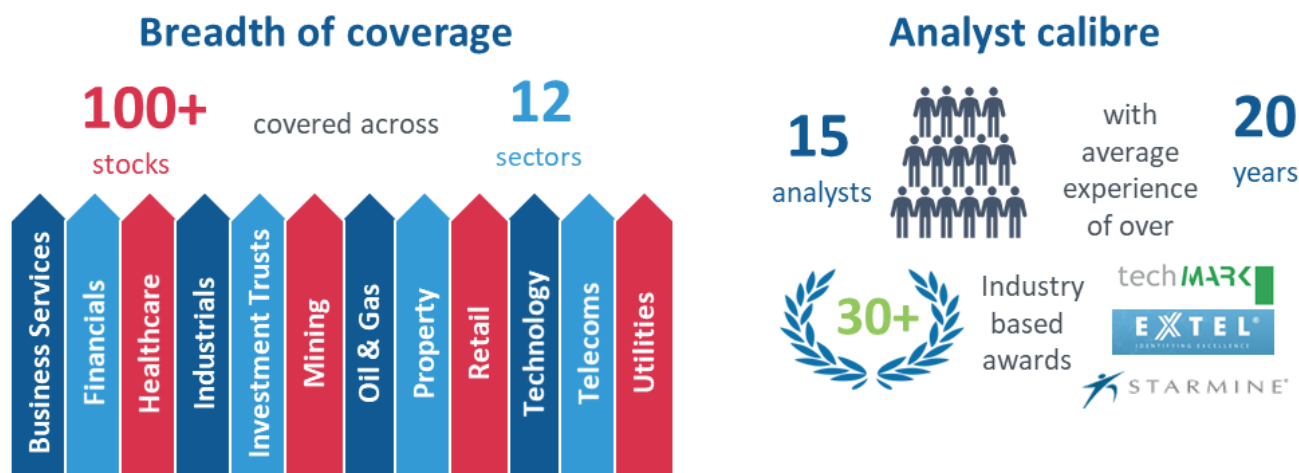
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To arrange a meeting with the management team, or for further information about Progressive, please contact:

Emily Ritchie  
+44 (0) 20 7781 5311  
eritchie@progressive-research.com