

30 January 2023



## SOPHEON (SPE): CORP

### Strong close to 2022; accelerated move to SaaS

A very strong trading update for the year ending December 2022 includes unexpectedly strong EBITDA, very positive ARR development, and unprecedented visibility for delivery of FY23 expectations. EBITDA of “approaching \$7m”, for which we assume \$6.8m (+36% vs \$5.0mE) was delivered from revenue of \$36.5m (vs \$37.0mE), leading to net cash of \$21m (\$21.3mE). \$24.3m ARR exceeded our anticipated year-end ARR of \$22.7m and underpinned record visibility for FY23 forecasts of \$28m. 15 of 16 new customers in FY22 were SaaS, and cloud uplift (= the movement of existing customers from perpetual to SaaS) accelerated to 13 customers in the year (FY21: 6), taking cloud-lifted customers to 23. With such confidence in performance, after an upbeat AGM statement, the \$11.2m US Navy deal announced in August 2022 and positive interims, the board has chosen to forcibly accelerate the transition to SaaS. Existing customer extensions or upgrades will necessitate a migration to SaaS, which also presents a revenue uplift opportunity where the customer does not already take hosting services from Sopheon. We review forecasts to replace the instant “high” of licence revenue, with the longer-term benefit of recurring SaaS revenue, representing a more predictably, better quality revenue stream. FY23 revenue moves to \$38m (from \$41mE) and EBITDA to \$5.5m (\$6.0mE); we introduce FY24 forecasts to show confident expectations of a positive outcome, with revenue of \$43m (+13% vs FY23) and EBITDA of \$7.8m (+41% vs FY24), and an improved working capital profile from an increase in deferred revenue and absence of licence-based high debtor days at year end. Cash of \$21m at FY22 grows to \$25.1m by FY24, for a growing and acquisitive company with momentum. TP 1250p reiterated.

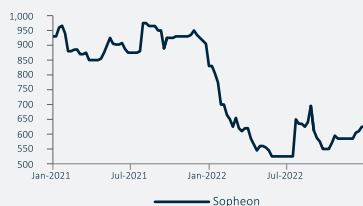
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## Corp

<b>Ticker</b>	<b>SPE:AIM</b>
<b>Software &amp; Computer Services</b>	
Shares in issue (m)	10.6
Next results	FY Mar
<b>Price</b>	
Price	625.0p
Target price	1,250.0p
Upside	100%
<b>Market cap</b>	
Market cap	£66.4m
Net debt/(cash)	-£17.0m
Other EV adjustments	£0.0m
Enterprise value	£49.4m

<b>What's changed?</b>	<b>From</b>	<b>To</b>
Adjusted EPS	3.8	20.2
Target price	1,250.0	n/c

### Share price performance



%	1M	3M	12M
Actual	6.8	13.6	-24.7

### Company description

International provider of software and services for product life cycle management

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## SOPHEON\*

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- **Sopheon has achieved EBITDA** well ahead of expectations from revenue in line with expectations. Unusually in context of prior years where recruitment had represented a challenge, the group ended the year with a full complement of staff – EBITDA outperformance has instead been achieved through careful, and sustainable cost management. The FY21 and FY22 acquisitions of ROIB and Solverboard have meant that equivalent platforms that were in development internally will be written off; ROIB is now branded Acclaim Projects, and Solverboard as Acclaim Ideas, within the Sopheon Accolade and Acclaim product family. The product launches alone extend the group TAM by an extraordinary \$2bn.
- **The transition to SaaS** is well advanced. It was often larger contracts preferring on-premise delivery – generating occasional large revenue surprises. Instead through increased SaaS, visibility is now stronger earlier, rising from 64% in FY21 (vs 63% median and 61% mean 2018-21 at end Jan) to 74% for FY23; and forecasts more robust, with increased visibility.
- **Maiden FY24 forecasts show the benefits of product & SaaS initiatives.** Growth continues in FY23 from contracts won in FY22, before a strong uplift in FY24, with a strong balance sheet, confident board and exciting future. **1250p = 3.2x FY24 EV/Sales, 17x EV/EBITDA, vs 1.3x & 7x currently.**

Key estimates		2020A	2021A	2022E	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	30.0	34.4	36.5	38.0	43.0
Adj EBITDA	\$m	5.9	6.2	6.8	5.7	8.0
Adj EBIT	\$m	2.2	2.2	2.5	1.1	3.0
Adj PBT	\$m	2.2	2.1	2.6	1.1	3.0
Adj EPS	c	17.2	15.5	20.2	7.0	24.4
DPS	p	3.3	3.3	3.3	3.3	3.3

Key valuation metrics		2020A	2021A	2022E	2023E	2024E
EV/EBIT (adj)	x	27.5	27.7	24.1	56.8	20.4
P/E (adj)	x	44.9	49.8	38.3	110.3	31.7
Dividend yield	%	0.5%	0.5%	0.5%	0.5%	0.5%
Free cash yield	%	2.2%	5.7%	-0.3%	3.1%	4.3%
Pre-tax ROCE	%	7.4%	7.0%	8.0%	3.4%	8.9%

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