

Results Focus | Workplace Systems Int'l*

Turning a SaaS corner

Workforce management software vendor Workplace Systems has issued interim results which reflect delays in closing orders and investment in growth. However, it is also clear that business picked up sharply towards the end of the period as a number of long awaited new orders dropped into place. So, whilst profitability this year will now be weaker than expected, the much more significant point is that it now seems clear that the company's SaaS strategy is likely to pay off for investors. Recognition of this is starting to feed through into the shares which have gone up by a third in last few weeks (confounding our rather conservative short term expectations). Given the clear evidence of emerging success in the SaaS strategy, we expect continued outperformance and, putting the shares on an appropriate premium based on 2012 earnings would imply another 50% upside from here over the next 12 months

Company basics	
RIC	WSI
Share price £	0.12
Market cap £m	17.7
Net cash £m	2.1
Enterprise value	15.6

Estimates and valuation

Year end Mar	Financials					Valuation			
	Rev £m	Adj PBT £m	Adj EPS p	DPS p	Net cash £m	EV/ sales x	EV/ NOPAT x	PER x	Yield
FY-09A	9.6	-0.3	-0.1	0.0	2.4	1.6	na	na	0.0%
FY-10A	9.1	0.0	0.1	0.0	2.1	1.7	na	na	0.0%
FY-11E	10.4	0.4	0.2	0.0	2.8	1.4	na	na	0.0%
FY-12E	12.5	1.5	0.7	0.0	3.9	1.1	13.4	17.8	0.0%

Source: ISR, Company, Morningstar

- Slow start to H1; increased investment** Interim results reflect both a slow start to the period and increased investment in growth. Revenues of the six months to September were up 7% to £4.7m but the company reported a £0.5m operating loss compared to breakeven in H1 2010. The two main areas of investment were the establishment of a US office on the back of recent sales success and investment in hosting capacity for WorkPlace OnLine. Cash flow was ahead of EBITDA and the balance sheet remains solid with £2.1m of net cash; flat on the year end figure.
- Strong September; building pipeline** Notwithstanding the timing issues with contracts, like buses, they all seem to have come at once at the end of the period. No fewer than seven new customers were added in the period but most of the revenue from these new customers will be deferred into H2 and beyond. Importantly, the recent sales success has not raided the pipeline and there remain a number of large opportunities for WorkPlace OnLine to be closed over the next few months.
- SaaS strategy on track** As the momentum of WorkPlace Online builds, it is becoming increasingly clear that management's strategy to reposition the company as a SaaS vendor is starting to pay off. Although the investment has exceeded the incremental revenue in H1, from next year, we expect this strategy to deliver enhanced revenue growth, strong margins and much greater earnings visibility. In short, everything a successful SaaS strategy should do.
- Hosting demand further boost to recurring model** As an additional point, whilst it is unlikely that large on-premise customers such as Metro and H&M will move to a pure SaaS model, we were interested to note in conversations with management that many of the on-premise customers have started asking Workplace for hosted solutions. This should further help Workplace's recurring revenue profile.

* Workplace International Systems Plc is an equity research client of I S Research Ltd

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Revised estimates

Mar 2011	Old	Revised	Chg
Revenue £m	10.8	10.4	-3.7%
Adj EBIT £m	1.5	0.4	-74.7%
Adj PBT £m	1.5	0.3	-70.0%
Adj EPS p	0.7	0.2	
Net div p	0.00	0.00	-
Net cash £m	3.5	2.8	-20.5%

Estimates

In recognition of the slower than expected signing of new deals in the first half, we have downgraded our revenue and profit expectations for the full year. However, even after the downgrade, the H2 run rate for both revenue and profit is supportive of our existing 2012 estimates although we have also nudged those down slightly as a conservative measure.

It is important to note that essentially all of the growth is coming from contracts that generate some form of recurring revenue. In the first half, the proportion of recurring revenue increased from 40% to 54% which reflects the increasing proportion of SaaS based revenue. Our estimates assume that this trend continues which will result in an ongoing improvement in earnings quality.

Having been an issue for the company a couple of years ago, it is good to note that the balance sheet remains strong. Despite the weaker H1 profit performance, net cash at the end of September was flat on the year end figure and we expect it to reach nearly £3m by the end of March.

Estimates & metrics

	FY-08	FY-09	FY-10	FY-11	FY-12
Financials	£m	£m	£m	£m	£m
Profit & Loss	Act	Act	Act	Est	Est
Revenue £m	10.8	9.6	9.1	10.4	12.5
Adj EBITDA £m	1.2	-0.1	0.5	0.9	2.0
Adj EBIT £m	1.2	-0.3	0.2	0.5	1.5
Reported PBT	1.3	-2.4	0.0	0.4	1.5
PBT before excepts and AAG	1.2	-0.4	0.0	0.4	1.5
Fully adj PBT	1.3	-0.3	0.2	0.5	1.6
NOPAT £m	0.9	-0.2	0.1	0.3	1.0
Reported EPS	0.9	-1.4	0.0	0.2	0.9
EPS before excepts and AAG	0.5	-0.2	0.0	0.2	0.6
Fully adjusted EPS p	0.6	-0.1	0.1	0.2	0.7
Dividend per share p	0.2	0.0	0.0	0.0	0.0
Cash flow & Balance sheet					
Operating cash flow	0.0	0.8	0.2	1.2	1.5
Free Cash Flow	0.4	0.7	-0.2	0.8	1.1
FCF per share p	0.2	0.5	-0.1	0.5	0.7
Capex	0.6	-0.6	-0.5	-0.5	-0.5
Acquisitions	-0.1	-0.2	0.1	0.0	0.0
Net cash flow	0.8	-0.2	-0.3	0.7	1.1
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash	2.7	2.4	2.1	2.8	3.9
Metrics					
Revenue growth	23.1%	-11.8%	-5.2%	14.9%	19.8%
Adj EBITDA growth	na	na	na	83.0%	116.7%
Adj EBIT growth	na	na	na	195.7%	219.8%
Adj PBT growth	na	na	na	188.3%	241.5%
Adj EPS growth	na	na	na	188.3%	241.5%
Dividend growth	na	na	na	na	na
Adj EBIT margins	11.5%	-3.6%	1.7%	4.4%	11.8%
Operating cash conversion	2%	na	32%	133%	75%
Capex/Depreciation	na	308%	145%	111%	100%

Source: Company, I S Research Ltd



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