

9 October 2009

WorkPlace Systems International

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/08	10.8	1.2	0.9	0.2	7.9	2.8
03/09	9.6	(0.4)	(0.3)	0.0	N/A	N/A
03/10e	9.6	0.9	0.5	0.2	14.2	2.8
03/11e	11.7	1.4	0.8	0.2	8.9	2.8

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Recovery on track

WorkPlace has released another positive trading update following the AGM trading statement in late August which signalled a recovery in the group's target retail market. Momentum is largely being driven by the group's new SaaS product – WorkPlace OnLine. This web-based application is continuing to generate encouraging demand, with mid-sized business such as multi-format stores and security firms buying the service.

Trading update: Positive momentum continues

WorkPlace has reported a pick-up in activity over the summer months, which follows the sharp downturn experienced late last year. Healthy order activity has been maintained into September and overall the group was broadly break even in H1.

Contract wins: SaaS product continues to grow

In September the group won several small SaaS orders in the UK and, importantly, a major deal in the US. This US order followed a competitive pilot across 99 stores (live in under four weeks) and is set to be rolled out over thousands of stores over the next six months.

Forecasts: Maintained for now

We expect some reinvestment in the US cost base in H2 given the major market potential but the recent contract wins underpin our forecasts. We will review our forecasts with the interim results in December but importantly we expect both the UK and US operations to be profitable in H2.

Valuation: Trading less than 1x revenues

The US deal is a major step forward for the group as it highlights the potential to sign scalable and profitable SaaS deals with new large customers across the globe. In spite of doubling since June, the shares remain modestly valued at 0.7x our FY11 forecast revenues and 5.2x EBITDA. We believe this undervalues the short-term profit potential of the business as well as the medium-term potential for Workplace Online to accelerate top-line growth.

Price 7.1p
Market Cap £11m

Share price graph



Share details

Code WSI
Listing AIM
Sector Software & Computer Services
Shares in issue 147.5m

Price

52 week High 7.38p Low 3.25p

Balance Sheet as at 31 March 2009

Debt/Equity (%) N/A
NAV per share (p) 2.6
Net cash (£m) 2.4

Business

WorkPlace Systems International is a world leader in the development and supply of software products for workforce management.

Valuation

	2009	2010e	2011e
P/E relative	N/A	89%	74%
P/CF	13.5	13.3	8.0
EV/Sales	0.8	0.8	0.7
ROE	N/A	19%	23%

Revenues by geography (FY09)

UK	Europe	US	Other
57%	34%	6%	3%

Analysts

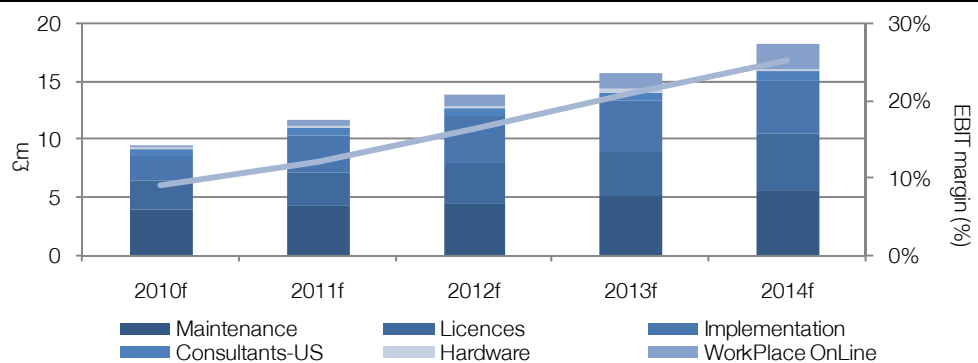
Richard Jeans 020 3077 5700
rjeans@edisoninvestmentresearch.co.uk
Andrew Bryant 020 3077 5729
abryant@edisoninvestmentresearch.co.uk

Trading statement: Positive momentum continues

WorkPlace saw a pick-up in June, July and August. Good order activity continued into September when it won several orders in the UK and very significant deal for a SaaS-based solution with a major US retailer. Workplace won a competitive pilot after going-live with time and attendance in 99 stores in just four weeks. This US customer is now targeting a roll-out across several thousand stores by the end of March next year. The retailer is paying a group wide fee depending on the number of employees being tracked by the software. In our view this deal is important for several reasons:

- it highlights the shortening sales cycle – this was a major order won in under six months and supported by an accelerated pilot programme;
- this major customer was looking for a SaaS solution rather than a traditional on-site installation – highlighting the new market opportunity for Workplace;
- management actions had pulled the US business back to break even in H1, focusing the operation on software and after-sales service and this deal supports a strong H2 contribution; and
- the deal adds significantly to the group's recurring revenue profile.

Exhibit 1: Group revenue and margin forecasts



Source: Edison Investment Research

Exhibit 2: Valuation

DCF valuation	% owned	£m	-- Per share --	Assumptions				
WorkPlace Systems	100.0%	16.5	11.2p	WACC: 15%				
				Number of shares 147.5m				
				Share price 7.1p				
				Market capitalisation £10.5m				
Group Enterprise Value		16.5	11.2p					
Less: Adjusted net (debt)/add cash		2.4	1.6p					
Group Equity Value (£m)		18.8	12.8p	Up / (down)side from current price 79%				
Ratio Analysis	2010f	2011f	Grp DCF Scenario's	Terminal growth rate				
				3.00%				
EV/Sales	0.8	0.7						
EV/EBITDA	8.5	5.2						
EV/EBIT	9.4	5.8						
Price/Book	2.6	2.1						
Price/Earnings	13.2	9.2						
Price/Op Cash Flow	13.3	8.0						
ROE	19%	23%						
Gearing	(58%)	(47%)						
Interest Cover	(50.5)	(47.5)						
			WACC					
			29.00%	6.3p				
			25.00%	7.3p				
			21.00%	8.8p				
			17.00%	11.1p				
			13.00%	15.0p				
			Breakeven WACC	25.7%				
Peer comparison (Year 2)	EV/Revs	EV/Ebitda	Revenue sensitivity					
--Human capital mgmt software--								
Allocate Software	1.6	8.8	Multiple	0.6x	0.8x	1.0x	1.2x	1.4x
Bond International Software	0.8	5.8						
ServicePower	0.5	N/A	Revenue Y2 (£m)	9.6	9.6	9.6	9.6	9.6
--Retail sector software--								
Clarity Commerce	0.9	6.7	Implied EV (£m)	5.8	7.7	9.6	11.5	13.4
K3	0.9	4.7	Net (debt)/cash (£m)	2.4	2.4	2.4	2.4	2.4
Prologic	0.2	3.2						
Median	0.8	5.8	Grp equity value (£m)	8.1	10.0	12.0	13.9	15.8
Mean	0.8	5.8						
WorkPlace Systems	0.7	5.2	Per share (p)	5.5	6.8	8.1	9.4	10.7

Source: Edison Investment Research

Exhibit 3: Financials

Year end 31 March	£'000s	2007	2008	2009	2010e	2011e	2012e
	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		8,808	10,844	9,561	9,584	11,729	13,965
Cost of Sales		(334)	(300)	(276)	(300)	(350)	(400)
Gross Profit		8,474	10,544	9,285	9,284	11,379	13,565
EBITDA		(1,492)	1,276	(364)	960	1,551	2,507
Operating Profit (before GW and except.)		(1,638)	1,137	(480)	866	1,403	2,293
Goodwill Amortisation		(669)	0	0	0	0	0
Exceptionals		(594)	112	(1,976)	0	0	0
Other		0	0	0	0	0	0
Operating Profit		(2,901)	1,249	(2,456)	866	1,403	2,293
Net Interest		92	91	90	17	30	48
Profit Before Tax (norm)		(1,546)	1,228	(390)	883	1,433	2,341
Profit Before Tax (FRS 3)		(2,809)	1,340	(2,366)	883	1,433	2,341
Tax		279	27	0	(88)	(287)	(656)
Profit After Tax (norm)		(1,267)	1,255	(390)	794	1,146	1,686
Profit After Tax (FRS 3)		(2,530)	1,367	(2,366)	794	1,146	1,686
Average Number of Shares Outstanding (m)		143.5	144.8	146.8	147.5	147.5	147.5
EPS - normalised (p)		(0.9)	0.9	(0.3)	0.5	0.8	1.1
EPS - FRS 3 (p)		(1.8)	0.9	(1.6)	0.5	0.8	1.1
Dividend per share (p)		0.0	0.2	0.0	0.2	0.2	0.3
Gross Margin (%)		96.2	97.2	97.1	96.9	97.0	97.1
EBITDA Margin (%)		-16.9	11.8	-3.8	10.0	13.2	17.9
Operating Margin (before GW and except.) (%)		-18.6	10.5	-5.0	9.0	12.0	16.4
BALANCE SHEET							
Fixed Assets		3,977	3,549	2,687	2,544	2,746	2,952
Intangible Assets		2,946	2,985	1,915	2,102	2,288	2,470
Tangible Assets		1,031	215	431	442	458	482
Investment in associates		0	349	341	0	0	0
Current Assets		4,971	6,710	4,886	5,373	6,465	8,115
Stocks		0	0	0	0	0	0
Debtors		3,073	3,983	2,512	2,583	3,226	3,906
Cash		1,898	2,727	2,374	2,790	3,238	4,209
Current Liabilities		(1,583)	(3,788)	(3,793)	(3,836)	(4,122)	(4,262)
Creditors		(1,583)	(3,788)	(3,793)	(3,836)	(4,122)	(4,262)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(2,766)	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(2,766)	0	0	0	0	0
Net Assets		4,599	6,471	3,780	4,080	5,088	6,805
CASH FLOW							
Operating Cash Flow		(1,923)	28	777	792	1,318	2,160
Net Interest		92	91	90	17	30	48
Tax		0	262	86	0	(88)	(287)
Capex		(64)	599	(643)	(393)	(516)	(656)
Acquisitions/disposals		(37)	(137)	(204)	0	0	0
Financing		0	0	0	0	0	0
Dividends		0	0	(293)	0	(295)	(295)
Net Cash Flow		(1,932)	843	(187)	417	449	970
Opening net debt/(cash)		(3,808)	(1,898)	(2,727)	(2,373)	(2,790)	(3,238)
HP finance leases initiated		0	0	0	0	0	0
Other		22	(14)	(167)	0	0	0
Closing net debt/(cash)		(1,898)	(2,727)	(2,373)	(2,790)	(3,238)	(4,209)

Source: Company accounts/Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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