

IndigoVision (B)(A)

Software & Computer Services

BUY

Special Dividend Caps a Year of Transformation

This has been a year of transformation for IndigoVision; the new Chief Executive Marcus Kneen has carried out a full review of Group operations and strategy and implemented a number of changes. The repositioning of the Group was considered necessary to ensure that IndigoVision at least keeps pace with the high growth markets in which it operates. We highlight some of the key developments within this note.

This morning's results confirm a strong year of progress (operating profit +123% to £2.7m in line with expectations) and a positive start to the current year. The highlight of the announcement, however, is undoubtedly the proposal of a 70p special dividend which, combined with the full year dividend of 10p, represents a full year yield of 22.4%. We increase our price target (cum div) to 496p and retain our Buy recommendation.

Final Results

Sales for the year to July 2012 increased by 5% to £30.3m. H2 was particularly strong, as expected, with sales growth in that period up 14%. Group operating profit increased by 123% to £2.66m. PBT was £2.69m against our forecast of £2.68m. The very strong profit growth in 2012 reflected the benefit of a number of management initiatives and the effect of operational gearing on the improving sales performance.

The final dividend of 5.0p, giving a full year dividend of 10.0p, was in line with expectations. However, there was also the announcement of a special dividend amounting to 70.0p. The 70p alone is a yield of 19%.

This reflects the strength of the balance sheet with net cash at the year end of £6.0m and no long term liabilities. The 70p equates to a cash cost of c.£5.3m, therefore we expect the Group to remain in a net cash position this year.

Forecasts

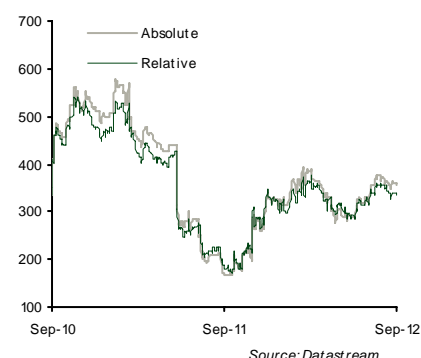
The current year has started positively but at this early stage in the year, we leave our 2013 PBT and EPS forecasts (£3.4m and 32.7p) unchanged. If current momentum continues, we expect to be able to increase our forecasts later in the year and we therefore retain our forecast sensitivity of 4. Our maiden 2014 forecasts (PBT of £3.7m, EPS of 35.6p) anticipate 9% growth in PBT, but again this could potentially be conservative, particularly if progress is made towards the Board's objective of achieving growth rates over the next 18 months that are at least in line with market in which IndigoVision operates.

Valuation

Our 496p SOTP cum-div valuation comprises 80p per share for the net cash/dividend, 30p per share for the deferred tax asset and 386p per share for a 12x P/E valuation (approximate peer valuation) of the next 12 months' earnings.

Date 27th September 2012

| | |
|--------------------------|----------|
| Share Price: | 356.5p |
| 12m Price Target: | 496p |
| Upside: | 39% |
| Forecast Dividend Yield | 3% |
| Total Shareholder Return | 42% |
| Fundamental View: | Positive |
| Forecast Sensitivity: | 4 |
| Shares in Issue: | 7.5m |
| Market Cap: | £26.9m |
| Forecast Cash/(Debt): | £2.8m |
| Enterprise Value: | £24.1m |



Reuters: IND.L

Analysts:

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| Year End July | Sales £m | PBT* £m | Tax % | EPS† p | PE Ratio x | EV/EBITDA x | FCF/Share p | DPS p | Yield % |
|---------------|----------|---------|-------|--------|------------|-------------|-------------|-------|---------|
| 2011(A) | 28.9 | 1.2 | 48.5 | 8.1 | 43.9 | 14.6 | 21.3 | 7.5 | 2.1 |
| 2012(A) | 30.3 | 2.7 | 29.1 | 25.0 | 14.3 | 6.9 | 25.4 | 80.0 | 22.4 |
| 2013(E) | 32.4 | 3.4 | 27.0 | 32.7 | 10.9 | 6.4 | 36.9 | 12.0 | 3.4 |
| 2014(E) | 33.7 | 3.7 | 27.0 | 35.6 | 10.0 | 5.4 | 39.5 | 14.0 | 3.9 |

*Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/N+1 Brevin Forecasts

Final Results

| Year End July | 2010 £m | 2011 £m | 2012 £m |
|--------------------|------------|------------|------------|
| Revenue | 28.0 | 28.9 | 30.3 |
| Cost of Sales | -11.2 | -12.7 | -12.4 |
| Gross Profit | 16.8 | 16.1 | 17.9 |
| R&D expenses | -3.0 | -3.0 | -3.4 |
| SG&A | -10.7 | -11.9 | -11.8 |
| Operating profit | 3.1 | 1.2 | 2.7 |
| Financial income | 0.0 | 0.0 | 0.0 |
| PBT | 3.1 | 1.2 | 2.7 |
| EPS p | 47.6 | 8.4 | 25.4 |
| DPS p | 7.5 | 7.5 | 10.0 |
| Special Dividend p | 0.0 | 0.0 | 70.0 |
| | 7.5 | 7.5 | 80.0 |

Source: Company

Results Highlights

Sales for the year to July 2012 increased by 5% to £30.3m. H2 was particularly strong, as expected, with sales growth in that period up 14%. Group operating profit increased by 123% to £2.66m. PBT was £2.69m against our forecast of £2.68m.

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Regional Performance

All regions increased their operating contribution to the Group, a good result, given regional variations in sales performances.

A highlight of the results was the very strong sales growth in Latin America (+56% to £6.1m), which resulted in a doubling of the contribution from the region. In North America, sales increased by 5% to £8.1m, as a 21% increase in Canadian sales more than offset the impact of a 5% decline in USA sales. As discussed elsewhere in this note, significant steps have been taken to improve the performance of the North American business.

Asia Pacific sales reduced by 1% to £5.21m but gross margin improved, as did the regional contribution.

Sales in EMEA reduced by 9% to £10.9m but again an improved gross margin and lower regional costs resulted in a stronger contribution overall. The Middle East and Africa saw a return to growth, sales in Europe were stable but there was a significant decline in UK sales. Again, steps are being taken to address the underperformance in the UK.

A Year of Change

This has been a year of transformation for IndigoVision; the new Chief Executive Marcus Kneen has carried out a full review of Group operations and strategy and implemented a number of changes. We highlight some of the key areas of focus below:

Product Development and Quality

Management has driven the production of formal three year hardware and software roadmaps, these will give a focus to the engineering and development work with 12, 24 and 36 month programmes. This should assist IndigoVision to regain its position at the forefront of the industry. Management feels that the Group has lagged in terms of innovation in recent years and now seeks to regain a leadership position. Programmes are reviewed every quarter to ensure that they are still relevant in terms of the marketplace, technical advances and commerciality.

Hardware

Over the past year, IndigoVision has significantly increased its camera range with the launch of 14 new and improved cameras covering both SD and HD resolution and a range of price points. Plans are in place to launch further 14 new cameras in the next 12 months to provide even greater market coverage.

IndigoVision's transmitter and receiver range has been a mainstay of the business historically with industry leading compression technology generating premium pricing. Price competition is now being experienced and in order to maintain share lower price per channel products are being developed and will be launched in the following six months.

Software

One key driver of future growth is expected to be the Camera Gateway software product which enables integration of other manufacturers' IP cameras with IndigoVision's security management software thereby making it easier for customers to make the switch to IndigoVision. Integration and open systems are key to the future business model and will be embraced in all areas of development.

Product Quality

In conjunction with the product development points mentioned above, product quality had been an issue and this has been addressed aggressively during the year. Progress has been rapid and the metrics governing this part of the business confirm the scale of the improvement.

Sales Operations

A comprehensive review of the sales function has led to a number of personnel changes and has also seen an increase in training and a change in culture.

North America has underperformed in recent years and this year a lot of changes have been made. A new head is expected to be appointed soon. A complete rebuild of the North American team and offering is underway. A new head of North America partner support has been appointed with a particular focus on the implementation of customer service improvements.

A new regional sales director for Europe, the Middle East and Africa was appointed in March and improvements are already being seen. The UK is targeted for improvement. Management changes have also been made in India.

In terms of the culture, change is ongoing and will take time to show through in improved business results.

Importantly, many sales personnel have been on one to two week induction/refreshers at head office to gain a fuller understanding of the product offering. As the products are relatively complicated with many features, this is key to successful selling. There has been very positive feedback to this initiative. There has also been a push for more reliability in sales budgeting, greater accuracy is now expected.

Markets

The Group's marketing activity has been focused on clearly defined end markets such as Oil & Gas, Transport (airports, rail, ports), Casinos etc. This focus will then link in to the product roadmaps mentioned above in tailoring new products to the specific requirements of the end user in their specific niche. Strategies for each end market are being developed now.

FINANCIALS

| Income Statement | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|-----------------------------|-------------|-------------|-------------|-------------|
| Year End July | £m | £m | £m | £m |
| Sales | 28.9 | 30.3 | 32.4 | 33.7 |
| EBITDA | 1.5 | 3.0 | 3.7 | 4.1 |
| Depreciation | 0.3 | 0.4 | 0.4 | 0.4 |
| Operating profit | 1.2 | 2.7 | 3.4 | 3.7 |
| Other Income | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT (normalised) | 1.2 | 2.7 | 3.4 | 3.7 |
| Exceptionals | 0.0 | -0.3 | 0.0 | 0.0 |
| Goodwill | | | | |
| PBT (reported) | 1.2 | 2.4 | 3.4 | 3.4 |
| Tax Rate (%) | 48.5 | 29.1 | 27.0 | 27.0 |
| Minority Int | 0.0 | 0.0 | 0.0 | 0.0 |
| Pref Dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| Av. No. Shares | 7.4 | 7.5 | 7.5 | 7.5 |
| F. Dil. No. Shares | 7.7 | 7.6 | 7.6 | 7.6 |
| EPS(nm - F.Dil.) (p) | 8.1 | 25.0 | 32.7 | 35.6 |
| DPS (p) | 7.5 | 80.0 | 12.0 | 14.0 |

| Ratios | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|-------------------|---------|---------|---------|---------|
| Sales Growth (%) | 3.1 | 4.8 | 7.0 | 4.0 |
| EBITDA Margin (%) | 5.2 | 10.0 | 11.6 | 12.0 |
| Op Margin (%) | 4.1 | 8.8 | 10.5 | 11.0 |
| Int Cover (x) | -56.8 | -110.9 | -135.7 | -147.7 |
| EPS Growth (%) | -68.2 | 207.9 | 30.7 | 8.8 |
| DPS Growth (%) | 0.0 | 966.7 | -85.0 | 16.7 |
| Div Cover (x) | 1.1 | 0.3 | 2.8 | 2.6 |

| Valuation | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|-------------------------|---------|---------|---------|---------|
| P/E (@current price) | 43.9 | 14.3 | 10.9 | 10.0 |
| P/E (@target price) (x) | 61.0 | 19.8 | 15.2 | 13.9 |
| EV/EBITDA (x) | 14.6 | 6.9 | 6.4 | 5.4 |
| EV/Sales (x) | 0.8 | 0.7 | 0.7 | 0.7 |
| FCF Yield (%) | 6.1 | 7.2 | 10.5 | 11.2 |
| Dividend Yield (%) | 2.1 | 22.4 | 3.4 | 3.9 |

| Cash Flow | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|---------------------------------|-------------|-------------|-------------|-------------|
| Year End July | £m | £m | £m | £m |
| Operating profit | 1.2 | 2.7 | 3.4 | 3.7 |
| Depreciation/Amortisation | 0.3 | 0.4 | 0.4 | 0.4 |
| Working Capital | 0.2 | -0.4 | -0.4 | -0.5 |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | -0.3 | 0.0 | 0.0 |
| Other Operating Cashflows | 0.2 | -0.3 | -0.2 | -0.2 |
| Cash flow from Ops | 1.9 | 2.0 | 3.2 | 3.4 |
| Net Capex | -0.5 | -0.3 | -0.4 | -0.4 |
| Acqs/Disposals | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing Cashflows | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash Flow from Investing | -0.5 | -0.3 | -0.4 | -0.4 |
| Ord Div | -0.9 | -0.6 | -6.0 | -0.9 |
| Share Issues | 0.1 | 0.0 | 0.0 | 0.0 |
| Other Financing Cashflows | 0.0 | -0.2 | 0.0 | 0.0 |
| Cash Flow from Financing | -0.7 | -0.8 | -6.0 | -0.9 |
| Net Inc/Dec in Cash | 0.6 | 0.9 | -3.2 | 2.1 |
| Y/E Cash/(Debt) | 5.1 | 6.0 | 2.8 | 4.8 |
| Enterprise Value | 21.8 | 20.9 | 24.1 | 22.1 |

| Balance Sheet | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|---------------------------|-------------|-------------|-------------|-------------|
| Intangibles | 4.4 | 3.6 | 2.7 | 1.7 |
| Tangibles | 0.6 | 0.6 | 0.6 | 0.7 |
| Net Current Assets | 7.8 | 7.3 | 7.1 | 7.1 |
| LT Creditors | -0.3 | -0.3 | -0.3 | -0.3 |
| & Provisions | | | | |
| Shareholders funds | 17.5 | 17.2 | 12.9 | 14.0 |

| Ratios | 2011(A) | 2012(A) | 2013(E) | 2014(E) |
|---------------------|---------|---------|---------|---------|
| NAV (p) | 235.8 | 229.7 | 171.4 | 186.0 |
| Gearing (%) | -28.9 | -34.8 | -21.3 | -34.4 |
| ROCE (%) | 9.6 | 23.7 | 33.5 | 40.3 |
| FCF/Share (p) | 21.3 | 25.4 | 36.9 | 39.5 |
| Cash Conversion (%) | 161.2 | 85.3 | 92.8 | 90.8 |

Source: Company/N+1 Brewin Estimates

Company Description

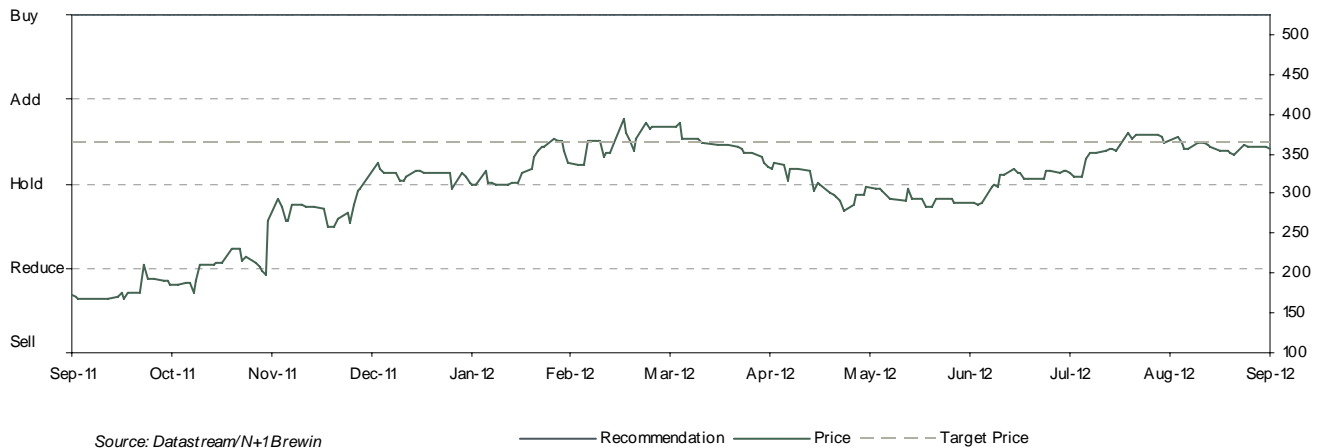
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Future Newsflow

Nov 12

AGM

RECOMMENDATION HISTORY - INDIGOVISION (B)(A)



The chart above illustrates changes in recommendation and 12m Price Target over the past two years. Please note that prior to 1st February 2012 NPlus1 Brewin LLP ("N+1 Brewin") was formerly the Corporate Advisory and Broking division of Brewin Dolphin Ltd. As from 1st February N+1 Brewin has adopted a different recommendation structure which is detailed below. Please take this into account when interpreting the chart above. The recommendation structure used prior to 1st February 2012 was based on the upside to the 12m Price Target; Buy (>20% upside), Add (10% to 20% upside), Hold (-10% to 10% upside), Reduce (10% to 20% downside) and Sell (>20% downside).

(B) Denotes N+1 Brewin acts as broker to the company (A) Denotes AIM listing

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Buy – Expected total return of 20% or more
 Add – Expected total return of between 10% and 20%
 Hold – Expected total return of between 0% and 10%
 Reduce – Expected negative total return of between 0% and 10%
 Sell – Expected negative total return of 10% or more

Fundamental View:

Positive - quality company, strong management, strong fundamentals, focused strategy.
 Neutral - ambivalent over the company's strategy, market place, management.
 Negative - N+1 Brewin believes company has fundamental flaws and is not a long term investment.

Forecast Sensitivity:

1 = highly likely downgrade 2 = likely downgrade 3 = neutral 4 = likely upgrade 5 = highly likely upgrade

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