

IndigoVision Group (IND LN)

Technology

Current price* 194p

CORPORATE

Strong cash performance

IndigoVision announced solid FY'19 results highlighting a 6th consecutive half year of top-line growth, improved profitability, and materially stronger than forecast cash generation (\$3.6m; N1S: \$1.8m). Strong cost control and tight cash-flow management have led to a much higher year end net cash figure than forecast (\$2.2m; N1S: \$0.4m), and we push up FY'20E net cash forecasts to £3.9m (was \$1.1m) although P/L forecasts remain broadly unchanged. The Group also announced its updated 'IndigoVision 2020' strategy targeting further top-line growth, whilst also reintroducing a dividend (2p/share) to return cash to investors alongside \$0.5m of share repurchases during the year. The Group currently trades on 6.1x P/FY'20E earnings; peers currently trade on 10.8x inclusive of a 33% liquidity discount.

Solid results

IndigoVision delivered a solid set of FY'19 results, achieving a 6th consecutive half of top-line growth, materially improved profitability, and positive cash generation. Adjusted EBITDA of \$3.3m was in-line with expectations as better than expected margin performance offset some minor project slippage into FY'20E. Adj FD EPS was 7% ahead of N1S forecasts.

Refreshed strategy announced

Management have laid out 'IndigoVision 2020', mapping the next phase for the business following a successful return to profitability. Key themes are: 1) technology innovation (including cloud/IoT, as well as Command and Control which has been accelerated through the acquisition of Agora); 2) investment into sales, increased focus on digital channels and customer centric approach; 3) further diversification of supply chain; and 4) Investment into additional senior management hires.

Improved cash generation, dividend announced

The Group delivered materially stronger FCF than forecast (\$3.6m inc IFRS16 lease payments; N1Se: \$1.8m), a significant improvement from the \$2.5m FY'17 outflow. As such, management have reintroduced a dividend (2p/share), with progression aligned with EPS growth going forward. The dividend will be paid alongside ongoing share buybacks, which amounted to \$0.5m in FY'19, as management continue to return cash to shareholders.

Forecast changes and valuation

The key change to N1S FY'20E estimates is cash, with forecast net cash increased to \$3.9m from \$1.1m reflecting lower expansionary working capital consumption than previously forecast. Elsewhere, we have tweaked down FY'20E revenue, although this is offset by upgraded operating margin expectations, with EBITDA unchanged. IndigoVision trades on 6.1x FY'20E P/E. A selected peer-group trades on 10.8x FY'20E (inc. 33% liquidity discount).

Financials and valuations**

Year end Dec	2016	2017	2018	2019	2020E
Revenue (\$m)	45.9	42.1	46.0	50.2	54.2
EBITDA (adj.) (\$m)	1.4	-1.4	0.3	3.3	3.9
PBT (adj.) (\$m)	0.5	-2.3	-0.6	2.0	2.9
EPS (Adj., FD) (¢)	10.4	-27.6	-3.8	31.2	41.2
Consensus EPS (¢)	-	-	-4.2	29.4	40.7
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) (\$m)	6.2	2.6	2.0	2.2	3.9
EV/EBITDA (x)	8.8	n/m	60.0	4.9	3.7
P/E (x)	23.9	n/m	n/m	8.0	6.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

* Price as at COB 03/03/2020. ** Sources: N+1 Singer, Company accounts, FactSet

05 March 2020

Key data

2019E dividend (%)	0.0
Forecast sensitivity	3
Fundamental view	Positive
Market cap (£m)	14
Enterprise value (£m)	13
Shares in issue (m)	7
Free float (%)	58
Avg. daily volume (000)	6

Next event:	Q2 2020 Earnings Release		
	1m	3m	12m
Absolute %	-4.9	-6.7	54.6
Rel. market %	4.0	-0.6	61.7
Rel. sector %	-	-	-

Share price chart



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FY'19: A year of delivery

IndigoVision has reported a solid set of FY'19 numbers, a significant turnaround from where the Group was two years ago. Sales have risen 19% since FY'17, with the Group's half-on-half ('HoH') run-rate consistently positive since the nadir of H1'17. A restructured board and management team, a focus on optimisation of sales process, and achieved operational efficiencies has seen the Group return to profitability, delivering adjusted operating profit ('AOP') of \$2.2m (FY'19: -\$0.6m). The Group has now announced its 'IndigoVision 2020' plan, which looks to lay out the future strategic direction of the Group as it seeks to capitalise on growing demand for next generation end-to-end video surveillance management solutions.

Strong results delivered

Figure 1: FY'19 key result items

	FY'18	FY'19	growth	FY'19E	difference
Revenue	46.0	50.2	9%	52.2	-4%
Gross profit	26.4	28.9	10%	29.8	-3%
Gross margin	57.4%	57.7%		57.0%	
Opex	26.1	25.6	-2%	26.9	-5%
Adj EBITDA	0.3	3.3	1116%	3.3	1%
	0.6%	6.6%			
Adj EBITDA (pre-IFRS16)	0.3	2.9	970%	2.9	2%
Adj EBIT	- 0.6	2.2	557%	2.1	5%
Adj PBT	- 0.6	2.0	519%	2.0	0%
Adj FD EPS (\$c)	- 3.8	31.5	1038%	29.5	7%
Net cash	2.0	2.2	8%	0.4	448%

Sources: Company data, N+1 Singer estimates

- Revenues grew by 9% y/y to \$50.2m, with the Group delivering its 6th consecutive half year period of sequential growth.
 - Revenue growth has been supported by further investment into sales headcount, with sales headcount having increased from 63 to 75 FTE over the last year.
 - Revenues were modestly light versus expectations as a result of lighter than expected sales of the Group's lower margin profile SME product, as well as a small amount of deployment work landing in FY'20E.
- EBITDA rose 11x (c.10x excluding the beneficial impact of IFRS16 to margins), with absolute EBITDA reaching \$3.3m (FY'18: \$0.3m). Improved cost control has seen operational expenses reduce by 2% y/y, coming in 5% below forecasts. Whilst the Group will be focused on external growth and expansion into new markets, review of cost lines will continue into FY'20E. EBITDA margins have reached 6.6% (Pre-IFRS16: 5.8%), we see 10-12% as potentially achievable in the medium term.
- Adjusted fully diluted EPS has risen to \$0.315c/share, 7% ahead of our forecast.
- FCF (inc. lease payments) was \$3.6m, its highest level since 2016. The Group has improved creditor management, with trade creditor days extending out to 74 days (previously 47), delivering a net working capital boost of \$0.9m. This, plus better profitability than forecast has led to a \$1.8m FCF outperformance versus our forecasts in FY'19.
- Net cash of \$2.2m was well ahead of NIS forecasts driven largely by FCF outperformance. The net cash increase of \$0.2m in the year is after consideration payment of \$2.7m in respect of the Agora acquisition.

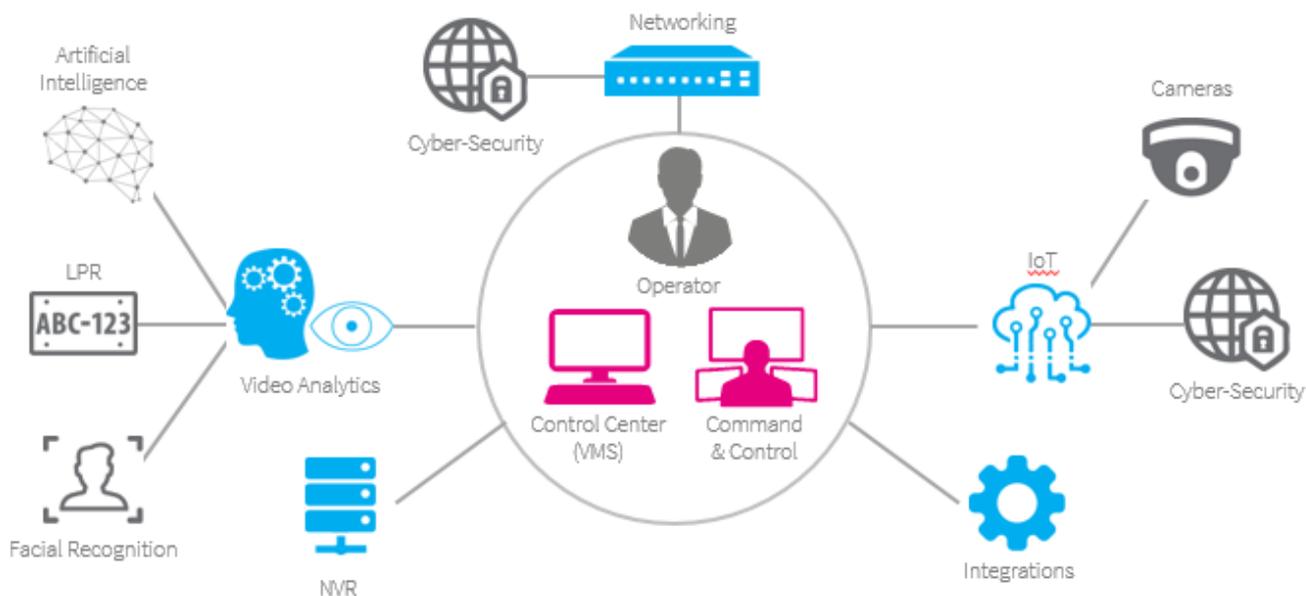
IndigoVision 2020

Technology innovation

The Group's strategic update looks to position IndigoVision as a leading provider of end-to-end next generation video surveillance management solutions in a fragmented market with no dominant players. The Group aims to remove customer pain points surrounding industry fragmentation and the associated technical challenges of bringing together a diverse range of hardware and software solutions provider by numerous global vendors. IndigoVision's surveillance management solution can currently be integrated with a wide range of best-of-breed or commoditised hardware or software products, yet the Group's updated strategy is focused on extending the solution further into new markets and products, as well as improving current offerings such as business intelligence and analytics for example.

Technology innovation is aimed at maintaining the Group's lead in a market with shortening product lifecycles and high demand for new features. IndigoVision focuses in-house development primarily on software innovation, with hardware developed either in partnership, or sourced-in, integrated and optimised from third-parties. Key areas for investment focus are: 1) rebuilding of existing software to increase scalability for use in more complex networks and functions; 2) Command and Control, with the Agora acquisition (the Group's first piece of M&A) accelerating investment in this area; and 3) Cloud and IoT, although this is seen as a long-term investment area. Average in-house development staff increased to 40 in FY'19, from 36 in the prior year.

Figure 2: Enhanced end-to-end video surveillance solution



Sources: Company data

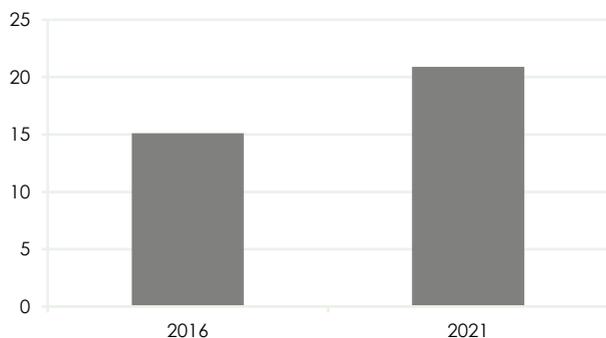
Sales and marketing investment

The Group sells in to the Professional Video Surveillance Equipment market, estimated to be worth c.\$20bn, and growing at a rate of 7% CAGR (source: IHS markit). Sales and marketing teams are spread regionally, selling solutions into >100 countries. The Group also has >1,000 authorised partners and distributors supporting sales delivery, with an installed base of 15,000+. As part of this investment into sales, headcount has been increased to 75 in FY'19 (FY'18: 63).

As part of the Group's refreshed strategy, management have increased focus on lead development through digital channels. The shift increases focus on search engine optimisation ('SEO'), customer data analytics and targeted media buying in order to generate new leads, whilst reducing reliance on trade shows and events. Investment into digital channels aligns with the Group's global focus, and has the potential to lead to broader reach for lower cost over time.

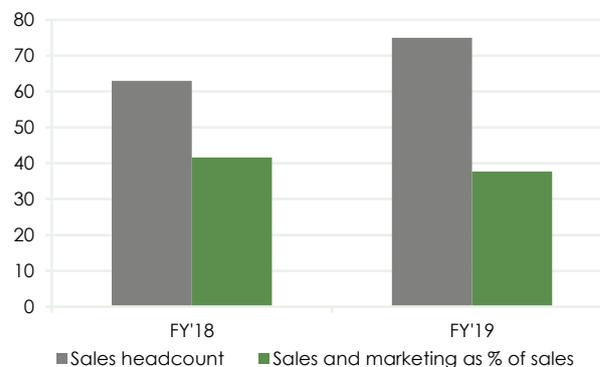
The Group continues to closely monitor key customer relationships, whilst new market development remains a core part of the Group's ongoing strategy.

Figure 3: Professional Video Surveillance Equipment Market (\$'bn)



Sources: Company data, N+1 Singer estimates

Figure 4: Sales headcount; Sales and Marketing as a % of sales (%)



Sources: Company data, N+1 Singer estimates

Supply chain and logistics

The Group has already taken steps to diversify its supply-chain, with a diverse network of suppliers consolidating into three main logistics centres in Malaysia, the US and the UK. Following the implementation of the US National Defence Authorization Act 2019 ("NDAA"), the Group also looked to mitigate potential tariff impact by further broadening its supply chain, as well as the firm's principle camera supplier now manufacturing certain models in Mexico. Whilst US tariffs are now reducing, the benefits of a diverse range of suppliers remain, reducing risk surrounding supply chain shock (ie from Covid-19).

Senior management

The Group has continued to invest in senior management, aiming to successfully position the business for long-term growth:

- Vikki Macleod was appointed to the Board in March 2019, adding expertise in software development;
- Further hires, including a new Head of Marketing, Vice-President of Product and Engineering, and Head of Customer Care and Operations appointed have been appointed from outside the business;
- Management team and key personnel bought in with the Agora acquisition have also been incentivised using deferred consideration and incentives.

Forecasts and valuation

Figure 5: Forecast changes

	OLD		NEW	Change
	FY'20E	FY'19E	FY'20E	
Revenue	56.5	50.2	54.2	-4%
EBITDA	3.9	3.3	3.9	1%
EBITDA margin (%)	6.9%	6.6%	7.3%	
Adj EBIT	3.0	2.2	3.0	0%
Adj PBT	2.9	2.0	2.9	0%
Adj PAT	3.0	2.3	3.0	0%
FD Adj EPS (\$c/share)	40.1	31.2	41.2	3%
Net cash/ (debt)	1.1	2.2	3.9	252%

Sources: Company data, N+1 Singer estimates

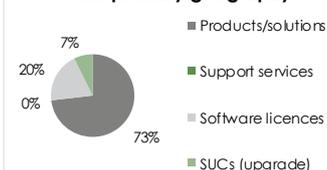
- We retain our 8% revenue growth forecasts, albeit from a lower FY'19 base. Forecast growth of 8% is marginally ahead of the market growth rate (7%), and we see as justified given a higher proportion of software sales, increased sales headcount and an extended product range enabling upsell into the current base.
- Profit and earnings forecasts are left broadly unchanged, with higher margin expectations, driven by a greater proportion of forecast software sales, offsetting the modest reduction in forecast sales.
- Net cash forecasts are increased by \$2.8m to \$3.9m in FY'20E. The increase reflects better than anticipated working capital performance in FY'19 that led to a material outperformance in the period (\$3.6m; N1Se: \$1.8m). Expansion is now expected to be less cash consumptive than previously estimated, and we reduce expected working capital consumption to \$1.0m in FY'20E (previously \$2.0m).
- A dividend of \$0.2m has been introduced reflecting the announced 2p/share pay-out.

Valuation

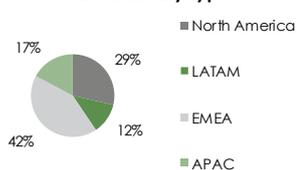
IndigoVision's FY'19 earnings multiple of 6.1x compares to a peer-group multiple of 16.2x. Inclusive of a liquidity discount of 33%, a peer-based approach suggests an intrinsic P/E valuation multiple of 10.8x is potentially achievable over time if management continue to deliver against the group's current growth strategy. This equates to an intrinsic value per share of 350p/share based on our FY'20E forecasts.

Summary financials* & Key data											
Income statement**	2016	2017	2018	2019	2020E	Enterprise value**	2016	2017	2018	2019	2020E
Revenue	45.9	42.1	46.0	50.2	54.2	Market cap	18.3	18.3	18.3	18.3	18.3
EBITDA (adj.)	1.4	-1.4	0.3	3.3	3.9	Net debt/(cash)	-6.2	-2.6	-2.0	-2.2	-3.9
Dep. & amort. (ex acq'd intangibles)	-0.9	-0.9	-0.9	-1.1	-1.0	Pension deficit	0.0	0.0	0.0	0.0	0.0
EBITA (adj.)	0.5	-2.3	-0.6	2.2	3.0	Minorities/investments/other	0.0	0.0	0.0	0.0	0.0
JVs, associates & other income	0.0	0.0	0.0	0.0	0.0	Enterprise value	12.1	15.7	16.2	16.1	14.4
Net interest	0.0	0.0	0.0	-0.2	-0.1	Valuation (current price)**	2016	2017	2018	2019	2020E
IAS 19 pension	0.0	0.0	0.0	0.0	0.0	EV/sales (x)	0.3	0.4	0.4	0.3	0.3
PBT (adj.) *	0.5	-2.3	-0.6	2.0	2.9	EV/EBITDA (x)	8.8	n/m	60.0	4.9	3.7
Amort. of acquired intangibles	0.0	0.0	0.0	0.0	0.0	EV/EBITA (x)	25.9	n/m	n/m	7.3	4.9
Exceptionals	-0.1	-0.2	-0.2	-0.8	-0.4	EV/NOPAT (x)	15.5	n/m	n/m	6.2	4.6
PBT (IFRS)	0.4	-2.4	-0.8	1.1	2.5	P/E (x)	23.9	n/m	n/m	8.0	6.0
Tax (adj.)	0.3	0.2	0.3	0.3	0.2	Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Tax rate (adj.) %	-67.2	9.0	54.9	-17.4	-6.0	FCF yield (%)	21.4	-13.3	-2.2	21.6	14.8
Minorities & other	0.0	0.0	0.0	0.0	0.0	P/B (x)	0.9	1.1	1.1	1.0	0.9
Net income (adj.)	0.8	-2.1	-0.3	2.3	3.0	Growth rates (adj.)**	2016	2017	2018	2019	2020E
EPS (adj., FD, ¢)	10.4	-27.6	-3.8	31.2	41.2	Revenue (%)	-2.5	-8.3	9.2	9.2	8.0
EPS (reported, basic) (¢)	-33.3	-29.6	-4.1	22.7	36.9	EBITDA (%)	320.9	n/m	n/m	1,115.9	19.4
DPS (¢)	0.0	0.0	0.0	0.0	0.0	EBITA (%)	n/m	n/m	n/m	n/m	34.7
Avg no. of shares - basic (m)	7.5	7.4	7.4	7.3	7.1	PBT (%)	n/m	n/m	n/m	n/m	45.5
Avg no. of shares - diluted (m)	7.5	7.4	7.4	7.4	7.3	EPS (%)	n/m	n/m	n/m	n/m	32.2
DPS (%)	-	-	-	-	-	DPS (%)	-	-	-	-	-
FCFPS (%)	409.7	n/m	n/m	n/m	n/m	FCFPS (%)	409.7	n/m	n/m	n/m	-31.8
NAV (%)	-15.2	-14.4	-2.6	9.8	12.8	NAV (%)	-15.2	-14.4	-2.6	9.8	12.8
Cash flow**	2016	2017	2018	2019	2020E	Margins/returns**	2016	2017	2018	2019	2020E
EBITA (adj.)	0.5	-2.3	-0.6	2.2	3.0	EBITDA margin (%)	3.0	-3.4	0.6	6.6	7.3
Depreciation & amortisation	0.9	0.9	0.9	1.1	1.0	EBITA margin (%)	1.0	-5.4	-1.3	4.4	5.5
Change in working capital	4.2	0.6	-0.7	0.9	-0.2	PBT margin (%)	1.0	-5.4	-1.3	3.9	5.3
Exceptional items	0.0	0.0	0.0	0.0	0.0	ROE (%)	3.9	-12.1	-1.7	12.8	14.9
Other cash & non-cash movements	-1.6	-0.3	0.2	-0.2	0.2	ROCE (%)	3.9	-12.2	-1.7	14.2	15.4
Operating cash flow	4.0	-1.1	-0.2	4.0	3.8	Ratios**	2016	2017	2018	2019	2020E
Net interest	0.0	0.0	0.0	0.0	-0.1	Interest cover (x)	n/m	189.1	n/m	n/m	32.9
Tax	0.7	0.2	0.2	0.5	0.2	Dividend cover (x)	n/m	n/m	n/m	n/m	n/m
Cash flow from operations	4.7	-0.9	-0.0	4.5	3.9	NWC/revenue (%)	23.6	25.8	25.9	19.1	18.0
Net capex	-0.7	-1.6	-0.4	-0.6	-1.2	Cash conversion (%)	511.3	120.2	147.7	171.6	88.7
JV/minority dividends	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	n/m	1.8	n/m	n/m	n/m
Free cash flow	4.0	-2.5	-0.4	4.0	2.7	Gearing (%)	n/m	n/m	n/m	n/m	n/m
Acquisitions/disposals	0.0	0.0	0.0	-2.7	0.0	Company description	IndigoVision Group Plc engages in the development, manufacture, and sale of networked video security systems. It operates through the following geographical segments: Europe, Middle East, and Africa; North America; Latin America; and Asia Pacific. Its products include management software; artificial intelligence; management hardware; cameras and encoders; recorders; specialized cameras; body worn video; and integration. The company was founded by Oliver Richard Vellacott in 1994 and is headquartered in Edinburgh, the United Kingdom.				
Net share issues	0.0	-0.3	0.0	-0.6	-0.5						
Dividends	0.0	0.0	0.0	0.0	0.0						
FX/other	-0.5	-0.9	-0.1	-0.5	-0.5						
Change in net cash (debt)	3.4	-3.6	-0.6	0.2	1.7						
Net cash/(debt)	6.2	2.6	2.0	2.2	3.9						
FCFPS - FD (¢)	53.3	-33.2	-5.5	53.8	36.7						
Balance Sheet**	2016	2017	2018	2019	2020E						
Property, plant & equipment	1.2	1.5	1.0	0.7	0.3						
Intangible assets	0.0	0.4	0.4	4.1	5.0						
Inv., JVs & other non-curr. assets	1.7	1.8	1.7	3.9	3.6						
Net working capital	10.9	10.9	11.9	9.6	9.7						
Cash & cash equivalents	6.2	2.6	2.0	4.8	6.4						
Borrowings	0.0	0.0	0.0	-2.6	-2.6						
Other assets/liabilities	-0.2	-0.2	-0.5	-2.4	-2.1						
Net assets	19.8	16.9	16.5	18.1	20.4						
Minorities	0.0	0.0	0.0	0.0	0.0						
Shareholders' equity	19.8	16.9	16.5	18.1	20.4						
NAV per share (¢)	264.6	227.6	223.5	247.6	285.9						

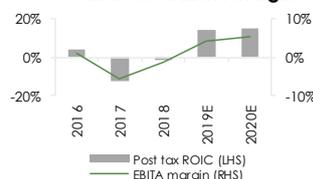
Gross profit by geography



Revenue by type



Post Tax ROIC & EBITA Margin



Shareholders (%)

New Pistoia Income Limited	27.5	Archon Capital Management	4.4
FARMILOE RICHARD WINSTON	6.7	GYLLENHAMMAR PETER JAN PATRICK VALENTIN	4.3
Sorbus Partners LLP	6.1	Chruch House Investments	3.8
Interactive Investor	6.1	Hargreaves Lansdown Asset Management Ltd	3.4
GROSSART HAMISH MCLEOD	5.6	THOWLESS REEVES MAX WILLIAMS	2.1

*In certain instances PBT (adj.) excludes IAS-19 to avoid distortions. **Year end Dec. All sources: N+1 Singer, Company accounts, FactSet

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Stock ratings

Recommendation / Shares outstanding (m) / Target price

IndigoVision Group (GBP)

Date	Rec	Shares	TP
22-Oct-19	Corporate	7	
As of 04-Mar-19	Corporate	7	

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