

### IndigoVision Group (IND.L)

IT Hardware | FTSE AIM

## Platform Laid for Sustained Growth

As indicated in August's pre-close, the second interim period saw further positive trading momentum as benefits begin to emerge from the strategic changes and investments that have been made in recent periods. Management believes that the foundations have been laid for strong sustained progress in exciting growth markets. Our maiden forecasts for FY15 and FY16 reflect this expectation and we anticipate profit growth of more than 20% in both years. Coupled with a strong balance sheet and growing dividends, and on a P/E ratio of c.10.5x FY15 earnings falling to 8.0x FY16, the investment attractions, in our opinion, are clear.

- Positive Second Interim Period** – The second interims (of the 17 month period to December 2014) confirm that positive trading momentum continued in the period. The benefits of the strategic initiatives are starting to be seen and should continue for the remainder of the period and into FY15. Sales in the 12m period to July 14 were £37.2m, 15% ahead of the prior year (20% at constant currency); with PBT c.18% ahead at £2.45m, but c.52% ahead when adjusted for currency. Dil. EPS of 32.4p was 40% ahead of last year due to a 6% tax rate, thanks to extended tax loss and R&D related benefits. Net cash rose to £2.4m (£1.8m at 31/12/13). The second interim dividend of 6.0p is at the same level as the 1<sup>st</sup> interim payment, and there will also be a final dividend.
- Broad Geographic Growth, Significant Projects** – Revenue growth accelerated in H2 to 18% (14% in H1) driven by growth in all regions; EMEA, Asia and N. America all saw 20%+ growth, with only Latin America taking a slight breather after several very strong periods (+7%). Key projects included a first casino project in Macau, 'safe city' contracts in Latin America and energy related activity in North America.
- Period of Transition** – Since becoming Chief Executive in 2011, Marcus Kneen has undertaken a full review of Group operations and strategy and has implemented improvements in many areas, particularly sales and hardware. Some of the changes have been significant and are on-going, but are now starting to benefit the Group.
- FY14 Forecasts Unchanged; Strong Growth foreseen in FY15 and FY16** – Forecasts for the 17m period to Dec 14 are unchanged. We release maiden FY15 and FY16 forecasts today which show strong proforma PBT growth; see Page 2. It was also announced that IND will present its results in US Dollars (in line with the Group's business being mostly priced in USD) by the period end, so in due course our forecasts will be translated.

### Financials and Valuations

Year End Dec.	2012	2013	2014E*	2015E	2016E
Revenue (£m)	30.3	32.0	54.0	45.0	51.8
EBITDA (Adj.) (£m)	3.0	2.4	4.8	4.2	5.4
PBT (Adj.) (£m)	2.7	2.1	4.0	3.6	4.7
EPS (Adj., FD) (p)	25.0	23.1	48.9	43.6	57.7
Consensus EPS (p)	-	-	-	-	-
DPS (p)	80.0	11.0	18.0	13.2	14.5
Net Cash/(Debt) (£m)	6.0	0.8	2.5	4.4	6.4
EV/EBITDA (x)	9.4	14.0	n/a	7.2	5.2
P/E (x)	18.2	19.7	n/a	10.4	7.9
Dividend Yield (%)	17.6	2.4	n/a	2.9	3.2
FCF Yield (%)	4.7	2.4	n/a	8.2	8.9

Source: N+1 Singer, Company Accounts and FactSet Estimates

\* 2012 and 2013 are July year ends; 2014 is a 17 month period to 31 December 2014

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Date 17 September 2014

Price\* 455p  
2014E Dividend 4.0%  
\*Price as at COB 16/09/2014

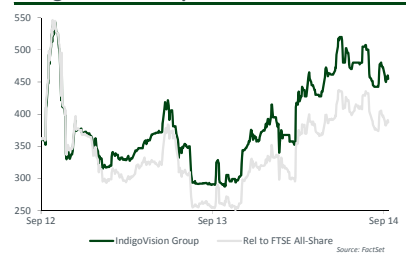
Forecast Sensitivity 3  
Fundamental View Positive

Market Cap (£m) 34  
Enterprise Value (£m) 32

Shares in Issue (m) 8  
Freefloat (%) 76%  
Avg. Daily Volume ('000s) 6

Next Event 05/01/2015  
Pre-close update

### IndigoVision Group Price Chart



	1M	3M	12M
Absolute %	2.2	-5.2	56.4
Rel. Market %	1.0	-5.5	52.6
Rel. Sector %	-0.8	-8.1	61.5

Source: FactSet

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## Forecasts

Year End July(13)/Dec(14,15,16)	2013 £m	2014E* £m	2015E £m	2016E £m
Revenue	32.0	54.0	45.0	51.8
Cost of Sales	-13.9	-23.0	-19.8	-22.8
Gross Profit	18.1	31.0	25.2	29.0
R&D expenses	-3.6	-5.4	-4.6	-5.2
SG&A	-12.5	-21.6	-17.0	-19.1
	-16.1	-27.0	-21.6	-24.3
Operating profit	2.0	4.0	3.6	4.7
Financial income	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>2.1</b>	<b>4.0</b>	<b>3.6</b>	<b>4.7</b>
<b>EPS p</b>	<b>23.3</b>	<b>50.2</b>	<b>43.6</b>	<b>57.7</b>
DPS p	11.0	18.0	13.2	14.5

\*17 month period

Source: Company/N+1 Singer

### 17m Period to 31 December 2014

Our P&L forecasts for the 17 month period to Dec 14 are unchanged at sales of £54.0m and PBT of £4.0m. We do, however, increase our dividend forecast for the period from 14.0p to 18.0p, assuming another 6.0p payment at the time of the finals.

We also release maiden forecasts for the FY15 and FY16 years today:

### Year to 31 December 2015

Proforma 12 month figures for FY14, i.e. estimating the final 12 months of the 17 month period, gives sales of c.£38.7m and PBT of c.£2.9m. On this basis, we are forecasting sales growth of c.17% to £45m in FY15 and PBT growth of 24% to £3.6m. We assume that gross margins are fairly flat at 56% and that overheads rise by c.12%, i.e. reflecting ongoing investment, but at a lower level than in recent periods. We assume that the low tax rate of c.6% continues in FY15 and FY16 using losses and R&D benefits.

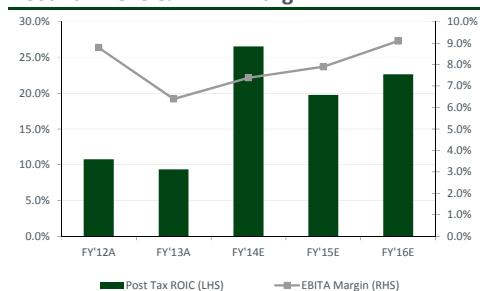
We expect net cash to grow to £4.4m and dividends to amount to 13.2p.

### Year to 31 December 2016

Clearly, our forecasts for FY16 are necessarily tentative at this stage but we see further strong growth in sales (15%) and PBT (31%) to £51.8m and £4.7m respectively, building on the investment that has been made in recent periods.

We expect net cash to grow again to £6.4m and dividends to amount to 14.5p.

## Post Tax ROIC & EBITA Margin



Source: N+1 Singer, Company Accounts

## Summary Financials (values in £m unless specified)

Income Statement - Year End Dec.	2012	2013	2014E	2015E	2016E
<b>Revenue</b>	<b>30.3</b>	<b>32.0</b>	<b>54.0</b>	<b>45.0</b>	<b>51.8</b>
<b>EBITDA (Adj.)</b>	<b>3.0</b>	<b>2.4</b>	<b>4.8</b>	<b>4.2</b>	<b>5.4</b>
Depreciation & Amortisation (Ex Acq'd Intangibles)	-0.4	-0.4	-0.8	-0.6	-0.7
<b>EBITA (Adj.)</b>	<b>2.7</b>	<b>2.0</b>	<b>4.0</b>	<b>3.6</b>	<b>4.7</b>
JVs, Associates & Other Income	0.0	0.0	0.0	0.0	0.0
Net Interest	0.0	0.0	0.0	0.0	0.0
IAS 19 Pension	0.0	0.0	0.0	0.0	0.0
<b>PBT (Adj.) *</b>	<b>2.7</b>	<b>2.1</b>	<b>4.0</b>	<b>3.6</b>	<b>4.7</b>
Amortisation of Acquired Intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT (IFRS)</b>	<b>2.7</b>	<b>2.1</b>	<b>4.0</b>	<b>3.6</b>	<b>4.7</b>
Tax (Adj.)	-0.8	-0.3	-0.2	-0.2	-0.3
Tax Rate (adj.) %	29.1	16.3	6.0	6.0	6.0
Minorities & Other	0.0	0.0	0.0	0.0	0.0
<b>Net Income (adj.)</b>	<b>1.9</b>	<b>1.7</b>	<b>3.8</b>	<b>3.4</b>	<b>4.5</b>
<b>EPS (Adj., FD) (p)</b>	<b>25.0</b>	<b>23.1</b>	<b>48.9</b>	<b>43.6</b>	<b>57.7</b>
EPS (Reported, Basic) (p)	25.4	23.3	50.2	44.8	59.2
<b>DPS (p)</b>	<b>80.0</b>	<b>11.0</b>	<b>18.0</b>	<b>13.2</b>	<b>14.5</b>
Average Number of Shares - Basic (m)	7.5	7.5	7.5	7.5	7.5
Average Number of Shares - Diluted (m)	7.6	7.5	7.7	7.7	7.7

Cash Flow - Year End Jul.	2012	2013	2014E	2015E	2016E
EBITA (Adj.)	2.7	2.0	4.0	3.6	4.7
Depreciation & Amortisation	0.4	0.4	0.8	0.6	0.7
Change in Working Capital	-0.4	-1.1	-1.0	-0.7	-1.5
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Other Cash & Non-Cash Movements	-0.6	0.1	-0.2	0.0	0.0
<b>Operating Cash Flow</b>	<b>2.0</b>	<b>1.4</b>	<b>3.6</b>	<b>3.5</b>	<b>3.9</b>
Net Interest	0.0	0.0	0.0	0.0	0.0
Tax	-0.0	-0.0	-0.1	-0.1	-0.2
<b>Cash Flow from Operations</b>	<b>2.0</b>	<b>1.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.7</b>
Net Capex	-0.3	-0.6	-0.6	-0.5	-0.6
JV/Minority Dividends	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>1.6</b>	<b>0.8</b>	<b>2.9</b>	<b>2.9</b>	<b>3.1</b>
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0
Net Share Issues	-0.2	0.0	0.0	0.0	0.0
Dividends	-0.6	-6.0	-1.3	-0.9	-1.0
FX/Other	0.1	0.0	0.0	-0.1	-0.1
<b>Change in Net Cash (Debt)</b>	<b>0.9</b>	<b>-5.2</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>
<b>Net Cash/(Debt)</b>	<b>6.0</b>	<b>0.8</b>	<b>2.5</b>	<b>4.4</b>	<b>6.4</b>
FCFPS - FD (p)	21.6	11.0	37.8	37.3	40.6

Balance Sheet - Year End Jul.	2012	2013	2014E	2015E	2016E
Property, Plant & Equipment	0.5	0.8	0.6	0.5	0.4
Intangible Assets	0.1	0.1	0.1	0.1	0.1
Investments, JVs & Other Non-Current Assets	3.6	3.3	3.0	2.5	2.0
Net Working Capital	8.2	9.3	10.3	11.0	12.5
Cash & Cash Equivalents	6.0	0.8	2.5	4.0	6.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Other Assets/Liabilities	-0.1	-0.2	0.4	1.4	2.2
<b>Net Assets</b>	<b>18.3</b>	<b>14.1</b>	<b>16.9</b>	<b>19.5</b>	<b>23.2</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>18.3</b>	<b>14.1</b>	<b>16.9</b>	<b>19.5</b>	<b>23.2</b>
NAV per Share (p)	243.9	188.6	224.8	260.0	308.7

Source: N+1 Singer, Company Accounts

\* In certain instances PBT (Adj.) excludes IAS-19 to avoid distortions.

<b>Company Description</b>	<b>Enterprise Value - Year End Dec.</b>					
	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
IndigoVision is a leading manufacturer of complete end-to-end IP video and alarm management solutions. IndigoVision is widely chosen for applications in airports, city centres, ports, mines, road and rail systems, education, banking, casinos, prisons, government and military.	<b>Market Cap.</b>	<b>34.5</b>	<b>34.5</b>	<b>34.5</b>	<b>34.5</b>	<b>34.5</b>
	Net Debt/(Cash)	-6.0	-0.8	-2.5	-4.4	-6.4
	Pension Deficit	0.0	0.0	0.0	0.0	0.0
	Minorities/Investments/Other	0.0	0.0	0.0	0.0	0.0
	<b>Enterprise Value</b>	<b>28.5</b>	<b>33.6</b>	<b>32.0</b>	<b>30.1</b>	<b>28.0</b>
	<b>Valuation (Current price) - Year End Dec.</b>					
	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
	EV/Sales (x)	0.9	1.1	n/a	0.7	0.5
	EV/EBITDA (x)	9.4	14.0	n/a	7.2	5.2
	EV/EBITA (x)	10.7	16.4	n/a	8.5	6.0
	EV/NOPAT (x)	15.1	19.6	n/a	9.0	6.3
	P/E (x)	18.2	19.7	n/a	10.4	7.9
	Dividend Yield (%)	17.6	2.4	n/a	2.9	3.2
	FCF Yield (%)	4.7	2.4	n/a	8.2	8.9
	P/B (x)	1.9	2.4	n/a	1.8	1.5
	<b>Growth Rates (Adj.) - Year End Dec.</b>					
	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
	Revenue (%)	4.8	5.7	n/a	n/a	15.0
	EBITDA (%)	101.5	-20.2	n/a	n/a	30.2
	EBITA (%)	123.2	-23.1	n/a	n/a	32.5
	PBT (%)	121.4	-22.4	n/a	n/a	32.2
	EPS (%)	207.9	-7.6	n/a	n/a	32.2
	DPS (%)	966.7	-86.3	n/a	n/a	9.8
	FCFPS (%)	13.4	-49.1	n/a	n/a	8.8
	NAV (%)	4.5	-22.8	n/a	n/a	18.8
	<b>Margins/Returns - Year End Dec.</b>					
	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
	EBITDA Margin (%)	10.0	7.5	8.9	9.2	10.5
	EBITA Margin (%)	8.8	6.4	7.4	7.9	9.1
	PBT Margin (%)	8.9	6.5	7.4	8.0	9.2
	ROE (%)	10.4	12.3	n/a	17.2	19.2
	ROCE (%)	10.5	10.6	n/a	18.3	20.7
	<b>Ratios - Year End Dec.</b>					
	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
	Interest Cover (x)	n/m	n/m	n/a	n/m	n/m
	Dividend Cover (x)	0.3	2.1	n/a	3.3	4.0
	NWC/Revenue (%)	27.0	29.1	n/a	24.5	24.2
	Cash Conversion (%)	86.3	47.5	n/a	85.6	70.4
	Net Debt/EBITDA (x)	n/m	n/m	n/a	n/m	n/m
	Gearing (%)	n/m	n/m	n/a	n/m	n/m

Source: N+1 Singer, Company Accounts

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#### Companies mentioned in this report\*

IndigoVision Group (2,3,6,11,12)

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Rating	Recommendation Universe*	Portion of these provided with investment banking services**
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Hold	39.6%	0%
Sell	7.3%	0%

\* The percentage of recommendations published within this rating category within the previous calendar quarter.

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IndigoVision Group Jon Lienard

Key: Buy Hold Sell Corporate

Share Price Target Price

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