

### IndigoVision Group (IND LN)

IT Hardware

Current price\* 117p

**CORPORATE**

#### Losses narrowing and guidance reiterated

FY18 is expected to be a year of stabilisation and management has reiterated guidance of a break even position in the current year. Significant Board, leadership and strategic changes were made in H2'17, and in H1'18 the Company launched a number of new products and services. The benefits of these actions are starting to come through, with losses narrowing in H1'18 vs. H2'17 and revenue continuing to grow. We therefore retain our revenue and profit forecasts for FY18. We introduce a new FY19 forecast year, assuming a return to profitability with continued sales growth. The shares are trading on an FY19 P/E of 5.1x. Should management deliver on our forecasts and successfully turn the business around, this multiple is undemanding.

#### Interims in line with expectations

Interim results report revenue growth of 10% to \$22.2m (H1'17: \$20.3m), with gross profit increasing by 23% to \$12.9m (H1'17: \$10.5m) and the adj. operating loss increasing by 49% to -\$1.1m (H1'17: -\$0.7m). The adj. loss before tax was -\$1.1m from -\$0.7m in H1'17 and -\$1.7m in H2'17. Half on half losses narrowed in the period, showing progress towards a break even position at the full year. Net cash at the period end stood at \$2.7m (Dec. '17: \$2.6m).

#### Improving outlook

Actions taken by management continue to drive an improved performance. As in previous years, sales are expected to be weighted towards H2. Current indicators continue to support the Board's target to at least break even in FY18 and to deliver an increase in revenues and profitability from FY19. We have therefore introduced an FY19 forecast, assuming a return to profitability.

#### Solid progress across geographies

The Group made solid progress across all geographies. All regions reported sales increases, except Latin America, where sales were flat year on year. Asia Pacific and North America achieved growth of 54% and 16% respectively. Growth in the EMEA region was 7%, within which the UK saw 13% revenue growth. We expect another period of growth through H2'18 and beyond, forecasting sales growth of 14% in FY18.

#### Valuation undemanding on FY19E

On our FY19 forecast, the shares are trading on a P/E of 5.1x. Should management deliver on these forecasts, this multiple looks undemanding. Losses narrowed in H1'18 vs. H2'17, a first step towards break even in FY18. Management has put a number of measures in place, including significant Board, leadership and strategic changes, in order to deliver improved profitability through the forecast period.

#### Financials and valuations\*\*

Year end Dec	2015	2016	2017	2018E	2019E
Revenue (\$m)	47.1	45.9	42.1	48.0	54.0
EBITDA (adj.) (\$m)	0.4	1.3	-1.6	0.9	2.9
PBT (adj.) (\$m)	-0.8	0.4	-2.4	0.0	2.0
EPS (Adj., FD) (¢)	0.0	9.0	-29.6	2.7	29.8
Consensus EPS (¢)	-	-	-25.8	33.6	-
DPS (¢)	2.5	3.0	0.0	0.0	3.7
Net cash/(debt) (\$m)	2.8	6.2	2.6	-2.6	-1.1
EV/EBITDA (x)	23.0	4.2	n/m	16.6	4.3
P/E (x)	n/m	17.1	n/m	57.6	5.1
Dividend yield (%)	1.6	2.0	0.0	0.0	2.4

\* Price as at COB 19/09/2018. \*\* Sources: N+1 Singer, Company accounts, FactSet

20 September 2018

#### Key data

2018E dividend (%)	0.0
Forecast sensitivity	3
Fundamental view	Positive
Market cap (£m)	9
Enterprise value (£m)	11
Shares in issue (m)	8
Free float (%)	50
Avg. daily volume (000)	3

Next event: Year end

31/12/2018

	1m	3m	12m
Absolute %	-11.1	5.0	-52.3
Rel. market %	-12.3	5.0	-56.6
Rel. sector %	-18.7	-1.7	-67.9

#### Share price chart



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## Interim results highlights and forecast update

### H1'18 in line with expectations

Interim results report revenue growth of 10% to \$22.2m (H1'17: \$20.3m). All regions reported sales increases, except Latin America, where sales were flat year on year. Asia Pacific and North America achieved growth of 54% and 16% respectively. Growth in the EMEA region was 7%, within which the UK saw 13% revenue growth.

Gross profit increased by 23% to \$12.9m (H1'17: \$10.5m), with gross margins improving to 58.0% (H1'17: 51.5%) due to a variety of factors including an increase in software revenues, improvements in managing product warranty costs, geographical and product mix, and a comprehensive review of product margins.

Overheads (pre-FX) increased by 21% to \$13.9m. Within this, research and development spend increased 31% reflecting greater investment in product development. The Group incurred an immaterial FX loss in the six month period (H1'17: \$0.3m gain).

The adj. operating loss increased by 49% to -\$1.1m (H1'17: -\$0.7m) and the adj. loss before tax was -\$1.1m from -\$0.7m in H1'17 and -\$1.7m in H2'17.

Net cash at the period end stood at \$2.7m (Dec. '17: \$2.6m).

### Forecast update

Half on half losses narrowed in the period, showing progress towards a break even position at the full year. We have retained our revenue and profit forecasts in FY18. We introduce an FY19 forecast, assuming continued revenue growth and a return to profitability (\$2.0m PBT).

We expect net debt to be \$2.6m in FY18, falling to \$1.1m in FY19.

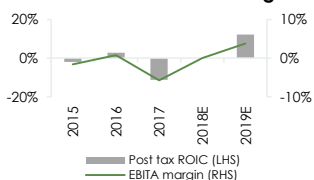
**Figure 1: Summary income statement**

Year end Dec (US Dollar)	2015	2016	H1	H2	2017	H1	H2E	2018E	2019E
<b>Revenue</b>	<b>47.09</b>	<b>45.923</b>	<b>20.277</b>	<b>21.823</b>	<b>42.100</b>	<b>22.210</b>	<b>25.790</b>	<b>48.000</b>	<b>54.000</b>
% growth	-42.9%	-2.5%	-6.9%	-9.6%	-8.3%	9.5%	18.2%	14.0%	12.5%
COGS	-22.881	-22.558	-9.827	-9.500	-19.327	-9.325	-11.315	-20.640	-23.760
<b>Gross Profit</b>	<b>24.212</b>	<b>23.365</b>	<b>10.450</b>	<b>12.323</b>	<b>22.773</b>	<b>12.885</b>	<b>14.475</b>	<b>27.360</b>	<b>30.240</b>
% margin	51.4%	50.9%	51.1%	56.5%	54.1%	58.0%	56.1%	57.0%	56.0%
Other expenses	-24.955	-23.006	-11.157	-14.036	-25.193	-13.938	-13.422	-27.360	-28.200
% of sales	53%	50%	55%	64%	60%	63%	52%	57%	52%
<b>Adj. operating profit</b>	<b>-0.743</b>	<b>0.359</b>	<b>-0.707</b>	<b>-1.713</b>	<b>-2.420</b>	<b>-1.053</b>	<b>1.053</b>	<b>0.000</b>	<b>2.940</b>
% margin	-1.6%	0.8%	-3.5%	-7.8%	-5.7%	-4.7%	4.1%	0.0%	3.8%
Net interest	-0.010	0.000	0.006	0.006	0.012	0.001	-0.001	0.000	0.000
<b>Adjusted PBT</b>	<b>-0.753</b>	<b>0.359</b>	<b>-0.701</b>	<b>-1.707</b>	<b>-2.408</b>	<b>-1.052</b>	<b>1.052</b>	<b>0.000</b>	<b>2.040</b>
Exceptionals	0.000	-3.464	0.000	0.000	-0.396	0.000	0.000	0.000	0.000
<b>Reported PBT</b>	<b>-0.753</b>	<b>-3.105</b>	<b>-0.701</b>	<b>-1.707</b>	<b>-2.804</b>	<b>-1.052</b>	<b>1.052</b>	<b>0.000</b>	<b>2.040</b>
Tax	0.269	0.313	0.011	0.193	0.204	-0.001	0.201	0.200	0.200
<b>Adj. PAT</b>	<b>-0.484</b>	<b>0.672</b>	<b>-0.690</b>	<b>-1.514</b>	<b>-2.204</b>	<b>-1.053</b>	<b>1.253</b>	<b>0.200</b>	<b>2.240</b>

Sources: Company data, N+1 Singer estimates

Summary financials* & Key data											
Income statement**	2015	2016	2017	2018E	2019E	Enterprise value**	2015	2016	2017	2018E	2019E
<b>Revenue</b>	<b>47.1</b>	<b>45.9</b>	<b>42.1</b>	<b>48.0</b>	<b>54.0</b>	Market cap	11.5	11.5	11.5	11.5	11.5
<b>EBITDA (adj.)</b>	<b>0.4</b>	<b>1.3</b>	<b>-1.6</b>	<b>0.9</b>	<b>2.9</b>	Net debt/(cash)	-2.8	-6.2	-2.6	2.6	1.1
Dep. & amort. (ex acq'd intangibles)	-1.1	-0.9	-0.9	-0.9	-0.9	Pension deficit	0.0	0.0	0.0	0.0	0.0
<b>EBITA (adj.)</b>	<b>-0.7</b>	<b>0.4</b>	<b>-2.4</b>	<b>0.0</b>	<b>2.0</b>	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	<b>Enterprise value</b>	<b>8.7</b>	<b>5.3</b>	<b>8.9</b>	<b>14.1</b>	<b>12.6</b>
Net interest	-0.0	0.0	0.0	0.0	0.0	<b>Valuation (current price)**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>
IAS 19 pension	0.0	0.0	0.0	0.0	0.0	EV/sales (x)	0.2	0.1	0.2	0.3	0.2
<b>PBT (adj.) *</b>	<b>-0.8</b>	<b>0.4</b>	<b>-2.4</b>	<b>0.0</b>	<b>2.0</b>	EV/EBITDA (x)	23.0	4.2	n/m	16.6	4.3
Amort. of acquired intangibles	0.0	0.0	0.0	0.0	0.0	EV/EBITA (x)	n/m	14.8	n/m	n/m	6.2
Exceptionals	0.0	0.0	0.0	0.0	0.0	EV/NOPAT (x)	n/m	7.9	n/m	-	5.6
<b>PBT (IFRS)</b>	<b>-0.8</b>	<b>0.4</b>	<b>-2.4</b>	<b>0.0</b>	<b>2.0</b>	P/E (x)	n/m	17.1	n/m	57.6	5.1
Tax (adj.)	0.3	0.3	0.2	0.2	0.2	Dividend yield (%)	1.6	2.0	0.0	0.0	2.4
Tax rate (adj.) %	35.7	-87.3	8.5	-	-9.8	FCF yield (%)	675.7	4,825.5	-1,960.4	-4,525.3	1,337.6
Minorities & other	0.0	0.0	0.0	0.0	0.0	P/B (x)	0.0	0.0	0.0	0.0	0.0
<b>Net income (adj.)</b>	<b>-0.5</b>	<b>0.7</b>	<b>-2.2</b>	<b>0.2</b>	<b>2.2</b>	<b>Growth rates (adj.)**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>
<b>EPS (adj., FD, €)</b>	<b>0.0</b>	<b>9.0</b>	<b>-29.6</b>	<b>2.7</b>	<b>29.8</b>	Revenue (%)	-42.9	-2.5	-8.3	14.0	12.5
EPS (reported, basic) (€)	-6.5	-37.3	-34.9	2.7	29.8	EBITDA (%)	-93.2	232.0	n/m	n/m	245.9
<b>DPS (€)</b>	<b>2.5</b>	<b>3.0</b>	<b>0.0</b>	<b>0.0</b>	<b>3.7</b>	EBITA (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - basic (m)	7.5	7.5	7.4	7.5	7.5	PBT (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - diluted (m)	7.5	7.5	7.4	7.5	7.5	EPS (%)	-100.0	72,348.4	n/m	n/m	1,020.0
<b>Cash flow**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	DPS (%)	-85.3	20.0	n/m	-	n/m
EBITA (adj.)	-0.7	0.4	-2.4	0.0	2.0	FCFPS (%)	-79.9	614.2	n/m	n/m	n/m
Depreciation & amortisation	1.1	0.9	0.9	0.9	0.9	NAV (%)	-6.3	-15.2	-12.9	0.0	0.0
Change in working capital	1.0	4.2	0.6	-5.3	-1.5	<b>Margins/returns**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	0.8	2.8	-3.7	1.8	5.4
Other cash & non-cash movements	0.0	0.0	0.0	0.0	0.5	EBITA margin (%)	-1.6	0.8	-5.7	0.0	3.8
<b>Operating cash flow</b>	<b>1.4</b>	<b>5.5</b>	<b>-0.9</b>	<b>-4.4</b>	<b>1.9</b>	PBT margin (%)	-1.6	0.8	-5.7	0.0	3.8
Net interest	-0.0	0.0	0.0	0.0	0.0	ROE (%)	-2.1	3.4	-12.8	1.2	13.0
Tax	0.2	0.7	0.2	0.2	0.2	ROCE (%)	-2.0	3.1	-12.0	-	12.3
<b>Cash flow from operations</b>	<b>1.6</b>	<b>6.2</b>	<b>-0.7</b>	<b>-4.2</b>	<b>2.1</b>	<b>Ratios**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>
Net capex	-0.8	-0.7	-1.5	-1.0	-0.6	Interest cover (x)	n/m	n/m	201.7	n/m	n/m
JV/minority dividends	0.0	0.0	0.0	0.0	0.0	Dividend cover (x)	0.0	3.0	n/m	n/m	8.1
<b>Free cash flow</b>	<b>0.8</b>	<b>5.5</b>	<b>-2.2</b>	<b>-5.2</b>	<b>1.5</b>	NWC/revenue (%)	30.6	23.6	26.5	34.3	33.3
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0	Cash conversion (%)	-159.9	823.1	101.4	-2,605.0	68.8
Net share issues	0.0	0.0	-0.3	0.0	0.0	Net debt/EBITDA (x)	n/m	n/m	1.6	3.1	0.4
Dividends	-0.6	-0.3	-0.3	0.0	0.0	Gearing (%)	n/m	n/m	n/m	15.3	6.4
FX/other	-0.0	-1.8	-0.8	0.0	0.0	<b>Company description</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>Change in net cash (debt)</b>	<b>0.2</b>	<b>3.4</b>	<b>-3.6</b>	<b>-5.2</b>	<b>1.5</b>						
<b>Net cash/(debt)</b>	<b>2.8</b>	<b>6.2</b>	<b>2.6</b>	<b>-2.6</b>	<b>-1.1</b>						
FCFPS - FD (€)	1,035.4	7,394.3	-3,004.0	-6,934.2	2,049.6						
<b>Balance Sheet**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>						
Property, plant & equipment	1.4	1.2	1.5	1.7	1.4						
Intangible assets	0.1	0.0	0.4	0.4	0.4						
Inv., JVs & other non-curr. assets	4.9	1.7	1.8	2.0	2.0						
Net working capital	14.4	10.9	11.2	16.5	18.0						
Cash & cash equivalents	2.8	6.2	2.6	3.0	4.0						
Borrowings	0.0	0.0	0.0	0.0	0.0						
Other assets/liabilities	-0.2	-0.2	-0.2	-6.2	-8.4						
<b>Net assets</b>	<b>23.3</b>	<b>19.8</b>	<b>17.2</b>	<b>17.2</b>	<b>17.2</b>						
Minorities	0.0	0.0	0.0	1.0	1.0						
<b>Shareholders' equity</b>	<b>23.3</b>	<b>19.8</b>	<b>17.2</b>	<b>18.2</b>	<b>18.2</b>						
NAV per share (€)	31,232.1	26,462.5	23,159.9	24,264.3	24,264.3						

### Post Tax ROIC & EBITA Margin



### Shareholders (%)

New Pistoia Income Ltd.	27.6	GYLLENHAMMAR PETER JAN PATRICK VALENTIN	3.0
FARMILOE RICHARD WINSTON	6.7	KNEEN MARCUS	2.9
GROSSART HAMISH MCLEOD	5.6	Alliance Trust Savings Ltd. (Private Ban)	2.1
Church House Investments Ltd.	3.8	Hargreaves Lansdown Stockbrokers Ltd.	2.0

\*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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#### Recommendation / Shares outstanding (m) / Target price

##### IndigoVision Group (GBP)

Date	Rec	Shares	TP
As of 20-Sep-17	Corporate	8	

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