

LOOPUP

SOFTWARE AND COMPUTER SERVICES

30 March 2021

LOOP.L

73p

Market Cap: £40.4m

SHARE PRICE (p)



Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(0.7)m (at 31/12/20)
Enterprise value	£41.1m
Index/market	AIM
Next news	AGM, June 2021
Shares in Issue (m)	55.4
Co-CEO	Steve Flavell
Co-CEO	Michael Hughes
Finance Director	Simon Healey

COMPANY DESCRIPTION

LoopUp is a premium remote meetings solution that makes it easier to collaborate in real time.

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LOOPUP IS A RESEARCH CLIENT OF PROGRESSIVE

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A year of transition

LoopUp has managed its way through the challenges and opportunities brought about by COVID-19, and exits 2020 with a strong cash balance, a reinvigorated product line-up, and some promising pipeline opportunities. This year will be one of transition, as the group evolves and continues promoting its Cloud Telephony offering within Microsoft Teams, both selling directly to enterprise customers and indirectly via the large Microsoft partner ecosystem. The RNS strikes a cautious tone on near-term sales, so we take management's cue and modestly reduce expectation for 2021.

- 2020 outcome** The overall result for 2020 was as heralded in the two recent trading updates – late November and early February. Revenue was some £50.2m, and adjusted EBITDA £15.3m for the full year, suggesting H2 delivered sales of just under £20m, and EBITDA of over £3m. The group all but eliminated its net debt during the year, as it fell from £11.5m to just £0.7m.
- Product repositioning** As the pandemic pushed workforces into lockdown, and Microsoft Teams (along with Zoom) took hold of vast swathes of business interaction, LoopUp has engaged in a major and transformational evolution of its product offering. We describe further overleaf, but in essence the group is now targeting three specific areas – global cloud telephony within Microsoft Teams, remote meetings largely for professional services firms, and high-end managed webinars and webcasts.
- 2021 transition** The 2021 year is set to be one of transition, with the opportunities in Teams telephony beginning to develop, with clarity hopefully emerging over the “run-rate” of business within the remote meetings (LoopUp) product, and with the high-end webinar service presumably enjoying good growth for obvious reasons. We take the cue from today's RNS and reduce 2021E revenue estimates from £35.2m to £29.7m, but our Adjusted EBITDA only declines from £6.1m to £5.7m. We also introduce 2022E forecasts for the first time, as shown below and overleaf.

Significant opportunities remain for LoopUp; investors may need to be patient as changes will take some time to fully play through, but the group appears well positioned, and its existing knowhow, IP and relationships should help it effect this transition smoothly and in a managed way.

FYE DEC (£M)	2018	2019	2020	2021E	2022E
LoopUp Revenue	34.2	42.5	50.2	29.7	34.2
Adjusted EBITDA	7.7	6.4	15.3	5.7	7.5
Adjusted PBT	4.1	0.5	8.5	-1.6	0.1
Adjusted EPS	9.3	2.2	15.2	-0.2	2.6
EV/Sales	1.2x	1.0x	0.8x	1.4x	1.2x
EV/ Adj. EBITDA	5.4x	6.4x	2.7x	7.2x	5.5x
P/E	7.9x	33.8x	4.8x	N/A	28.3x

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

Product positioning

Given that much of the news in today's announcement was already known through the trading updates, we choose to consider the announcement along product lines, taking each of the three core areas in turn, and detailing a number of relevant factors. This will include (where available) comment on the 2020 outcome as well as views on the 2021 opportunity.

Cloud Telephony

This is the major new focus area for LoopUp during the latter part of 2020, although the knowhow within LoopUp has been present for many years – partly through the original LoopUp technology and partly through the acquisition of MeetingZone in 2018.

The group aims to capitalise on its strong knowledge of global voice telephony markets, its innovate network and voice capabilities, and its strong standing with a number of multinational customers. The offering is the provision of carrier-grade telephony within Microsoft Teams, differentiated through the geographic coverage of its licensed service provision, in-house Microsoft voice expertise, and quality of audio.

LoopUp has already seen some success – 3 new clients have been won for the services, with a Total Contract Value of £620,000. In addition, the group has six live “proof of concept” engagements, which stand a good chance of conversion to new contracts in our opinion, since a proof of concept project also involves a degree of commitment and interest from the customer. These six potential deals have a potential Total Contract Value of some £5m – suggesting (using the same metrics as described below for the broader pipeline) that these customers are three to four times the size of the average pipeline opportunity (c£30-40k per month of revenue potential).

Finally, the pipeline of further new business opportunities continues to grow – somewhat arbitrary in terms of measurement, and clearly less certain in terms of conversion, but the headline figure has risen from zero at the launch of the offering in July 2020, to £84m at November 2020, and now a value of £106m. This pipeline comprises some 454 individual opportunities, with an average of c.£10k per month in potential recurring subscription revenue. Assuming an average client lifetime of 2 years, the figure of £106m is derived.

Operationally, the group continues to push for regulatory licences as a telecoms provider in 60 country jurisdictions by the end of 2021. These legal frameworks will be extremely valuable, as LoopUp is working towards partnerships or arrangements with large global Microsoft partners who lack some of the telco expertise that LoopUp can offer.

The Microsoft ecosystem is populated by a number of large technology expert resellers of varying degrees of “value add”. In very few instances will these software experts have significant levels of multinational voice-call telephony experience, let alone within the Microsoft Teams environment, and they almost certainly lack the regulatory status to act as a telecoms provider. This represents a clear and significant “indirect” sales opportunity as LoopUp looks to scale its sales presence globally.

Remote Meetings

The original “LoopUp” product known by many investors and customers has continued to evolve. Clearly this business saw a “spike” in activity as customers’ staff all migrated to home working, and engaged in large numbers of lengthy meetings. This led to a degree of “bill shock” among customers, some of whom migrated to Teams (or other platforms, but mainly Teams) and some of whom elected to stay with the LoopUp platform, but on a committed-term contract (as opposed to pay-as-you-go pricing based on meeting usage).

This migration should allow the product to continue to generate revenue and good margins during 2021 and beyond, as its core customer base continues to enjoy the enhanced facilities offered (security, and top-notch voice call quality for critical meetings) while LoopUp continues to augment and improve the functionality – now up to 20 concurrent cameras and fully-furnished “LoopUp Rooms” for ease of use in high-end conferencing settings.

Managed Events & Webcasts

LoopUp also has a business (acquired through the MeetingZone deal) active in the area of high-end webcasts and managed online events. This “white glove” offering is at a premium price, and sold to large corporations running significant online events and requiring a very smooth and seamless experience, both for the presenters and the audience.

Overall group philosophy

LoopUp is, through the three separate offerings, aiming to capitalise on existing capability and expertise within the group, and aiming to target specialised and focussed customer bases, as shown in the table below :

THREE CORE CAPABILITIES – AND THEIR SPECIALIST MARKET SEGMENTS

LoopUp Platform Capability	Specialisation
Cloud Telephony	International / multinational clients looking for carrier-grade reliable telephony within existing Microsoft Teams implementations
Remote Meetings	Professional Services customers / others with need for high-end, reliable and secure remote meetings
Managed Events / Webcasts	Blue-chip enterprise customers needing a “white glove” premium experience for both panellists and attendees

Source: Company information, Progressive Equity Research

Financial Summary: LoopUp

Year end: December (£m unless shown)

PROFIT & LOSS	2018	2019	2020	2021E	2022E
LoopUp Revenue	34.2	42.5	50.2	29.7	34.2
Adj EBITDA	7.7	6.4	15.3	5.7	7.5
Adj EBITA	7.1	4.9	13.6	3.7	5.5
Reported PBT	0.4	(2.8)	5.7	(4.4)	(2.7)
Fully adj PBT	4.1	0.5	8.5	(1.6)	0.1
NOPAT	4.5	1.2	9.0	(1.2)	0.5
Reported EPS	2.3	(3.3)	12.1	(4.8)	(2.0)
Fully adj EPS	9.3	2.2	15.2	(0.2)	2.6
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	2018	2019	2020	2021E	2022E
Operating cash flow	4.4	6.7	17.8	0.4	7.6
Free Cash flow	4.4	4.4	17.7	0.7	7.9
FCF per share	8.3	7.4	29.3	1.1	13.1
Acquisitions/intangibles added	(65.9)	(5.0)	(6.9)	(6.0)	(6.0)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	47.9	0.1	0.1	0.0	0.0
Net cash flow	(13.5)	(0.9)	10.8	(5.3)	1.9
Overdrafts / borrowings	(16.2)	(14.5)	(12.8)	(11.1)	(9.4)
Cash & equivalents	5.6	3.0	12.1	5.0	5.3
Net (Debt)/Cash	(10.6)	(11.5)	(0.7)	(6.0)	(4.1)
NAV AND RETURNS	2018	2019	2020	2021E	2022E
Net asset value	59.9	58.1	66.0	59.5	56.4
NAV/share	109.0	105.2	119.5	107.6	102.1
Net Tangible Asset Value	2.2	6.0	5.0	3.8	2.6
NTAV/share	3.9	10.8	9.1	6.9	4.7
Average equity	35.2	59.0	62.1	64.5	62.4
Post-tax ROE (%)	11.6%	0.9%	13.7%	(2.6%)	0.1%
METRICS	2018	2019	2020	2021E	2022E
Revenue growth	95.9%	24.3%	18.1%	(40.9%)	15.0%
Adj EBITDA growth	121.1%	(16.2%)	139.1%	(62.7%)	31.3%
Adj EBITA growth	124.1%	(30.5%)	176.1%	(72.6%)	47.4%
Adj PBT growth	459.9%	(87.4%)	1553.2%	(119.4%)	(104.1%)
Adj EPS growth	109.8%	(76.8%)	603.3%	(101.6%)	(1155.6%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBITA margins	20.8%	11.6%	27.1%	12.6%	16.1%
VALUATION	2018	2019	2020	2021E	2022E
EV/Sales	1.2	1.0	0.8	1.4	1.2
EV/EBITDA	5.4	6.4	2.7	7.2	5.5
EV/NOPAT	9.0	35.4	4.5	-32.9	88.0
PER	7.9	33.8	4.8	N/A	28.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	11.4%	10.1%	40.2%	1.5%	17.9%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

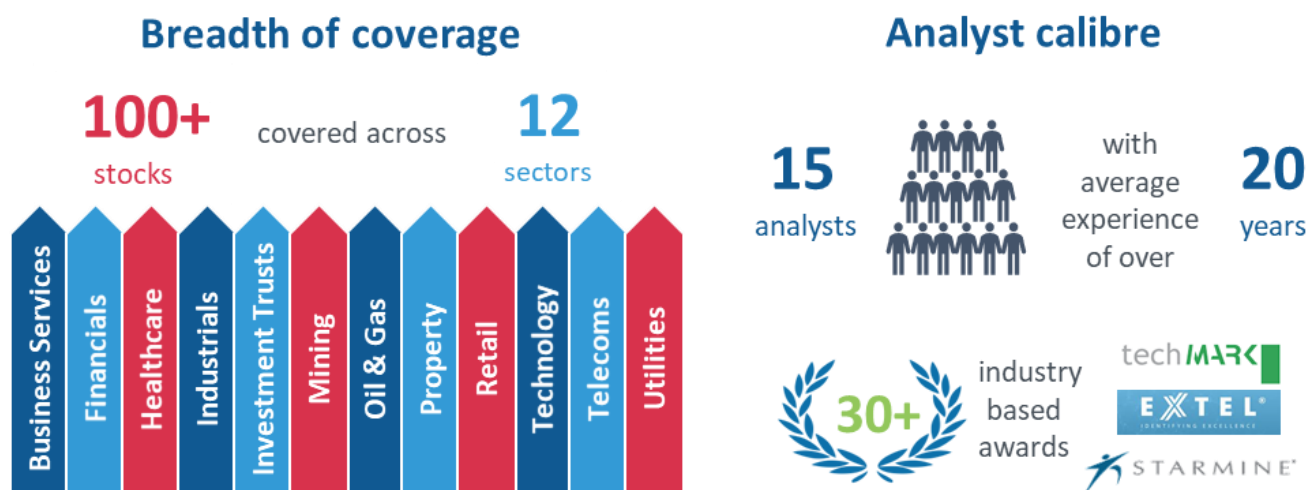
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