

Access Intelligence

CORPORATE*

Strong results and acquisition of Cobent

5.5p[#]

Year-end November	2008A	2009A	2010E	2011E
Turnover (£k)	3967	6015	9623	11660
Adj. EBIT (£k)	(655)	620	1475	2050
Adj. PBT (£)	(645)	570	1365	1940
Rep. basic EPS (p)	(5.27)	0.38	0.46	0.56
DPS (p)	0.0	0.0	0.0	0.0
Net Cash/(Debt) (£k)	709	59	1435	2832
P/E (x) - undiluted	Na	14.5	12.0	9.8
EV/EBITDA (x)	Na	12.2	7.3	5.1
EV/sales (x)	2.0	1.4	1.2	0.9

Key Data	
Ticker	ACC.L
Shares in issue	251m
Market cap	£13.8m
12-mth price range	2.5p-7.5p
Net cash	£59k
Next events	AGM - 14 April

Source: Company, Astaire Securities estimates

*Priced at close, 1 March 2010

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Access Intelligence has announced full year results and the acquisition of Cobent, a compliance solutions business, for £5.2m in a mixture of shares and cash. The business looks a good fit and complements Access Intelligence's existing exposure to both compliance and SaaS solutions. Cobent has a competitive software offering and strong management team and looks capable of delivering high rates of profitable growth. We are forecasting 10% accretion to EPS in the first full year post acquisition.

- **A good fit:** Cobent is a supplier of training and compliance software that helps customers to comply with FDA, FSA, Health & Safety and Fire regulations. It fits well with Access Intelligence's existing compliance businesses and, with around 50% of customers already buying the software as a service, Cobent is well aligned with the strategy of focussing on the recurring and cash generative SaaS business model. We expect recent investment in sales to drive growth in Cobent of around 40% and margins of at least 25% look achievable. The compliance market proved very resilient in 2009 and in 2010 we anticipate plentiful new customer wins for a proven product.
- **Strong results:** For the year to November 2009 sales were up over 50%, EPS reached 0.38p after a loss in the comparative period and gross cash stood at £1.7m.
- **The price looks right:** The price tag of £5.2m represents just over 2x forecast sales for 2010. Despite this valuation, we expect the deal to be accretive in its first full year. The valuation is justified in our view by the high rates of growth, visibility, defensive qualities and demonstrably high margin potential. Based on our new EPS numbers, Access Intelligence is trading close to a market multiple for 2010, which looks good value for such high rates of growth, visibility, cash conversion and its ability to do further earnings enhancing deals with sound business logic.

Company description

Provider of software, predominantly as a hosted service, in the areas of compliance, procurement, media relations and PR.

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Acquisition of Cobent

Access Intelligence is acquiring Cobent, an on line compliance and training specialist, for £5.2m. Cobent is a high growth company with a strong technology platform, experienced management and a differentiated approach to delivery. We expect the deal to be earnings enhancing in its first full year.

Cobent is growing rapidly, has proven software and a strong management team

About the acquisition

Cobent was founded six years ago to exploit a gap in the market for the deployment and tracking of training in FDA (Food and Drugs Administration) regulated markets. This led to an early focus on the Food and Pharmaceutical verticals although more recently the company has diversified into newer areas of regulation such as Banking, Health & Safety and Fire. This has brought exposure to other markets with recent client wins including DSG, Ladbrokes and Drake (HR management).

A tough regulatory environment slowed early progress but has helped to build competitive advantage

Progress in the early years was slow without the help of external funding and the lengthy approvals process required for newcomers to FDA approved markets. It took around three years to develop a competitive product and it was 2007 before the company started to make meaningful progress. Since then Cobent has benefited from continued regulatory tightening and the expansion of its addressable vertical markets.

Addressable markets have been increased

Cobent has 20 employees, up from 14 in 2009, with the addition of 6 new people in the Sales & Marketing already in 2010. This increased emphasis on the sales process is expected to be a key growth driver in the first year post acquisition and beyond. We understand that the new hires have already started to have a positive impact on the pipeline.

Emphasis on sales and marketing has recently been increased

Products

The core product is a learning management system, with built in compliance audit trails, aimed predominantly at the areas of FDA, FSA, Fire and Health & Safety regulations. Customers use the software to train and assess employees and monitor competence and compliance with regulations. Growth is expected to be strong due to increasing regulation and companies' desire to avoid expensive fines for non-compliance. We also expect new product areas to be added, such as Green compliance, and a high level of visibility should be derived from supplying markets in which cost cutting is not an option for customers.

Products have both growth and defensive characteristics

Competitive positioning

The competitive landscape for Cobent is made up of half a dozen mid-sized companies including Kaplan (owned by The Washington Post), Pilgrim Software, Sum Total Systems and Nasdaq listed Saba. Cobent is small in relation to these 500 to 1,000 employee organisations and therefore prefers to pursue tier two customers rather than going head to head for tier one wins, even though it has had some success in doing this.

The competitive landscape is made up of a small number of mid-sized players

Cobent has made good early progress in its markets without significant investment in sales and marketing. During 2009, sales grew by 75% - largely as a result of increasing penetration at existing clients. In 2010 we expect growth to be more dependent on new client wins and we understand that the year has started very well in this regard. This has largely been achieved through the strength of senior

Growth has been rapid and is now expected to shift from increasing penetration to new customer wins

management and the quality, functionality and price point of the software platform. We expect the competitive positioning of the company to be further enhanced as investment is accelerated in the selling process and a new product due for release in June 2010 adds document management capability to the learning management platform.

Business fit

The Access Intelligence strategy is based on growth, visibility, strong cash conversion and adherence to the SaaS business model. The Cobent acquisition would appear to have a good strategic fit, although we note that today only around 50% of customers are on the SaaS model. The reason for this is largely to do with strict FDA rules that prevent certain procedures taking place off the premises. Also, as a small private company, Cobent has up until now been less concerned about building its SaaS revenues and more concerned about overall growth.

The acquisition looks a very good fit...

The area of compliance and its defensive attractions are well known to Access Intelligence. Its Compliance division subsidiary, MS2M, sells into the financial services industry and its e-procurement software is used by the public sector to provide a transparent tendering process in addition to helping control costs. There is also an element of compliance in the Media Relations division where Access Intelligence provides government news alerts.

...common themes include compliance, growth and visibility

Rationale for the deal

Access is paying £5.2m for Cobent, of which £200k is deferred. 62% will be in cash and 38% in shares. In order to finance the deal, the company is raising £3m from the issue of new shares at 5p. Howard Sears, the MD of Cobent, is joining the board of Access Intelligence.

Access is paying £5.2m of which 62% will be in cash and the remainder in shares

Earnings Accretion Table

			2010			2011	
	Access	Cobent	Total	Access	Cobent	Total	
PBT	1.0	0.5	1.5	1.2	0.7	1.9	
28% tax	(0.3)		(0.4)	(0.3)		(0.5)	
PAT	0.71		1.06	0.86		1.39	
Shares (m)	193	93*	286	193	93*	286	
EPS dil.	0.37		0.37	0.44		0.49	
Accretion			1%			10%	

We look for accretion of 10% in the first full year of ownership

Source: Company, Astaire Securities estimates. * £3m placing at 5p and £2m of equity at 6p

We estimate that the deal will be broadly earnings neutral in 2010 and 10% accretive in 2011. Our diluted EPS forecast for 2010 therefore remains at 0.37p, assuming Cobent is consolidated for nine months (our table is based on a full 12m inclusion but the difference is lost in rounding). We note that our forecast ignores interest on the extra £750k of cash that has been raised, above what was originally planned. Investors are effectively being asked to trade year one accretion for a stronger balance sheet and the capacity to do more deals sooner. The accretion anticipated in 2011 is driven by higher margins as £3.0m of forecast sales generate the benefits of operational gearing.

In 2010 Cobent is expected to deliver £500k of EBITDA on sales of £2.2m. This would represent a lower margin than the 35% achieved in 2009, due to new investment in the sales process. It would also represent sales growth of just over 40% after delivering 75% growth in 2009. In 2011 we expect growth to remain close to 40% generating £3.0m of sales and EBITDA of £0.75m representing a margin improvement to 25% from 22.5% in 2010. As a pure software business, we see no reason why margins should not in time move above these levels.

We expect Cobent to grow at around 40% and achieve margins of at least 25%

The price looks full but fair for a high growth software business

A price of £5.2m represents just over 2x the sales forecast for 2010. While this looks a full valuation for a private company, it is not unusual for a software business. This is largely because the high operational gearing of the software business model can lead to very high operating margins which in some cases can reach as high as 50%.

The price has been driven by growth, profitability and visibility. Cobent scores highly on all of these measures

Last Two Years Summary Results for Cobent

Year to December (£k)	Adjusted	Unaudited and adjusted
	2008	2009
Sales	884	1549
Growth	18%	75%
Gross Margin	721	1296
	82%	84%
Overheads	678	743
EBITDA	43	553
	5%	36%

Source: Company

Another driver of the multiple is growth and here the expectations for Cobent are also high. A combination of high growth and high margins makes it much easier to justify a high sales multiple. Although growth forecasts of around 40% over the next two years look demanding, it is worth pointing out that the company will be operating with a significantly strengthened salesforce compared with the one at its disposal in 2009 when it delivered 75% growth. The shift to SaaS is not going to help the task at hand but, as noted before, FDA regulated markets are not yet comfortable having software hosted offsite and much of the short term growth is expected to come from this area.

In 2010 Cobent will have a strengthened salesforce

Visibility is also an important consideration when considering the price being paid. Compliance solutions have defensive characteristics which help visibility and the SaaS model also brings the benefit of recurring revenues. We note that Cobent has grown without external financing and has already achieved margins in excess of 30% as shown in the table above. This should give investors some comfort that forecast levels of profitability are readily achievable.

Finally, we expect additional value to be derived from this deal as the strong management team apply their expertise to other parts of the Access Intelligence group and the software platform has the potential to be adapted for alternative applications. These benefits are hard to quantify but need to be taken into consideration when looking at the price being paid.

Earnings accretion is not the only benefit we expect to be derived from this deal

Investment case

Access Intelligence has an experienced management team with a buy and build strategy and a focus on the provision of software as a hosted service. The company benefits from the visibility afforded by recurring revenues and growth driven by the increasing acceptance of SaaS, which is a cash generative business model. We believe this strategy, combined with a focus on three niche areas of growth, represents an exciting investment opportunity.

- **Focus on SaaS drives growth:** We believe the SaaS business model has the ability to drive value for both sellers and customers alike. There are many reasons for expecting it to eventually supersede the old perpetual license model. We believe that the only major factor holding back its adoption is the hole in revenues suffered by companies as they attempt to switch models. As a predominantly SaaS company already, Access Intelligence will not face this headwind.
- **Defensive markets & recurring revenues:** Attractions of the SaaS model include the recurring nature of revenues and visibility this affords investors. As revenues are spread evenly over the hosting contract, the many problems associated with taking large license fees up front are avoided. Thus, we believe the SaaS model leads to better cash conversion and better matching of revenues with costs. Access Intelligence also has many solutions that help public sector customers cut costs. As investors recognise the company's strong cash generation and high visibility combined with exposure to defensive markets, we expect its rating to move to sustainably higher levels.

Access Intelligence is a management story with an investment case based on growth, visibility and strong cash conversion

Delivering on promises

The results for the year ended November 2009 were just ahead of our forecasts and a massive improvement on the losses seen in the prior year. Sales were up over 50% to just above £6m compared with our forecast of £5.98m. Operating profit came in at £631k compared with our forecast of £620m and a loss in the previous year. This represented a margin of 10.5% and we see scope for this to move considerably higher.

During FY 2009, Access Intelligence completed the acquisition of Ether Ray and won significant contracts with RBS and Aviva. The year was characterised by the tough stance taken on costs such that all divisions traded profitably. The company has delivered on its promises and is now on a firm footing, with a strong management team to exploit the opportunities ahead of it.

FY 2009 saw a successful acquisition and all divisions move into profit. Margins were over 10% and have the potential to move much higher

Growth potential

We believe that all three operating divisions are capable of producing strong organic growth. However, recent results have shown a wide variation in the rate of growth. Most impressive to date had been Procurement, which grew at almost 25% in FY 2009. The Compliance division has experienced a short term contraction in revenues, however, visibility has improved for 2010 as a significant contract with RBS is moving into the SaaS phase. In Media, organic growth rates are harder to establish due to two recent acquisitions. However, we estimate growth over the last twelve months to have been around 20%.

Strong organic growth supplemented by earnings enhancing acquisitions

Margin upside

Access Intelligence's gross margins of 56% are low for a software business, although this is largely due to the dilutive impact of the Willow Starcom business services activities. Cobent has a gross margin of 80%, which is more typical for software companies. We had expected to see gross margins move higher even before this deal due to the increasing software content in the mix of the business.

Operational gearing combined with tight cost control

At the operating level, we forecast margins of just over 15% in FY 2010. We see no reason why this should not move up beyond this level over the next few years. The combination of top line growth and margin expansion should enable the group to make good progress with operating profits over the next few years.

Strong earnings growth supported by good cash conversion

The Cobent acquisition is an example of the strong cash generation of the group being used for earnings enhancing acquisitions. Future strong cash conversion can be expected to be used on similar deals but if these are not available, the benefits to shareholders will come in the form of lower debt levels.

Gross margins can be expected to improve

A combination of operational gearing and tight cost control suggest ample room for margin expansion

Strong cash generation adds to earnings growth through acquisitions or simply paying down debt

Access Intelligence Income Statements and Forecasts

Year to Nov (£k)	2008	2009	2010E	2011E
Total group sales	3967	6015	9623	11660
Cost of sales	(2146)	(2665)	(3682)	(4220)
Gross profit	1821	3350	5941	7440
Gross margin	46%	56%	62%	64%
Admin expenses	(2395)	(2639)	(4371)	(5285)
Depreciation	(81)	(80)	(95)	(105)
Adj operating profit	(655)	631	1475	2050
	(17%)	10%	15%	18%
Interest	10	(65)	(110)	(110)
Adj PBT	(645)	566	1365	1940
Goodwill	(2950)	0	0	0
Non-recurring	(532)	0	0	0
Other exceptionals	(439)	0	0	0
Reported PBT	(4566)	566	1365	1940
Taxation	258	35	(310)	(543)
	6%	-6%	23%	28%
Normalised rate	28%	28%	28%	28%
Loss on discontinued	(1751)	0	0	0
Attributable profit	(6059)	601	1055	1397
Adj profit	(464)	408	983	1397
EPS (p) - adj, dil.	(0.40)	0.20	0.37	0.49
EPS (p) - rep, basic	(5.27)	0.38	0.46	0.56
Basic no. of shares	115.0	158.3	228.1	251.0
Diluted no. of shares	115.0	208.2	263.1	286.0
Dividend	0.0	0.0	0.0	0.0
Net cash/(debt)	709	59	1435	2832

Source: Company data and Astaire Securities estimates

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