

6 April 2017

Intercede Group plc

Flash Note

Price 47.5p
TDIM

IGP

Market Cap

£23.4m

Gross Cash (E)

£6.9m

Free Float

59.0%

Avg Daily Volume

51.8k

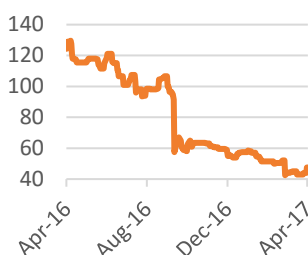
Broker

FinnCap

Listing

AiM

Share Price Performance



Source: Bloomberg

Intercede Group plc is a UK-based software and service company. It specialises in developing and supplying identity and credential management software.

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Back to the Future

Providing a further update reflecting its success in securing some of its outstanding pipeline contracts, Intercede has signalled that the second half of 2016/17 is likely to be materially stronger than the first. There is clearly a return in momentum within its core “occupational” market (MyID) which bodes well for the current year (2017/18). We remain convinced that the move to mobile usage in this market and the roll-out of the Rapid product in mobile transactions will drive substantial improvements such that the Group returns to profit by 2018/19. Moreover, the success it has had in generating cash underpins both our confidence in the operational improvement and our positive view of the shares’ theoretical value. We upgrade forecasts and our estimate of NPV as a result.

Year to	Sales	Gross Profit	EBIT	PBT	Gross Cash
March	£m	£m	£m	Previous	Previous
FY16a	11.04	10.59	(1.92)	-	(1.89)
FY17e	8.30	8.13	(5.04)	(5.33)	(5.02)
FY18e	13.00	12.74	(3.51)	-	(3.84)
FY19e	20.50	20.09	0.62	-	0.29

Trading Update

Intercede has updated the market (4th April 2017) following its earlier statement (3rd March 2017) which highlighted the timing issues relating to c. £2.0m of orders in the year to 31st March 2017. The Group secured three of these orders before the end of the trading period and, as a result, now expects total revenue to be between £8.2m and £8.4m, a potential 5.0% uplift on its previous expectation.

In addition, Intercede expects to report gross cash balances for the year of £6.9m compared to the £6.0m highlighted in the statement on 3rd March 2017. We believe that this uplift is due to the Group’s success in collecting cash through to the end of the period.

Impact on Forecasts

In light of the further trading update, we have increased our 2016/17 revenue estimate by 3.8% to £8.3m, driven exclusively by an additional £0.3m within Software Licenses. Maintaining our estimate for Operating Expenses, This produces reductions of 1.7% at operating and 5.5% at pre-tax forecasts for the year.

We have not altered our income statement forecasts for 2017/18 or 2018/19 although our confidence is improved by the statement. This highlights growing momentum within Intercede’s core markets as the previous US Budget logjam is resolved.

The greatest impact is within cash flow where Intercede has clearly performed better than expected. We believe that the £0.9m improvement in estimated gross cash balances (excluding £4.5m of Convertible Loan Notes) is a result of strong working capital management, particularly within debtors. We have allowed for greater working capital demands in the current year as revenues improve. As a result, we increase our 2017/18 gross cash estimate by 15.5% to £3.5m.

Theoretical Value Uplift

The improvement in cash generation raises the theoretical equity market value of Intercede. Although we retain our e discount rate at 12.5%, the gain in 2016/17 gross cash balances, and the subsequently higher levels thereafter, imply a theoretical NPV of 238p, some 12.2% higher than our initial estimate (212p).

Intercede: Data Bank

Figure 1: Intercede Revenue Forecasts

Year to March (£000's)	2015/16A	2016/17E	Change (%)	2017/18E	2018/19E
Support & Maintenance	3,500.0	3,800.0	-	4,500.0	5,870.0
Professional Services	2,604.0	1,700.0	-	2,800.0	3,230.0
Software Licences	4,800.0	2,800.0	+12.0%	5,700.0	8,000.0
Subscription Services	0.0	0.0	-	0.0	3,400.0
Other	100.0	0.0	-	0.0	0.0
Revenue	11,004.0	8,300.0	+3.8%	13,000.0	20,500.0

Source: Intercede Group plc Report & Accounts and Capital Access Group Forecasts

Figure 2: Intercede Income Statement Forecasts

£000's	FYR 2014/15	FYR 2015/16	H1 2016/17	H2 2016/17	FYR 2016/17	FYR 2017/18	FYR 2018/19
Revenue	8,819.0	11,004.0	2,828.0	5,472.0	8,300.0	13,000.0	20,500.0
COGS	(344.0)	(410.0)	(58.0)	(109.4)	(167.4)	(260.0)	(410.0)
Gross Profit	8,475.0	10,594.0	2,770.0	5,362.6	8,132.6	12,740.0	20,090.0
Gross Margin	96.1%	96.3%	97.9%	98.0%	98.0%	98.0%	98.0%
OpEx	(10,215.0)	(12,511.0)	(6,448.0)	(6,723.0)	(13,171.0)	(16,250.0)	(19,475.0)
OpEx/Revenue	115.8%	113.7%	228.0%	122.9%	158.7%	125.0%	95.0%
Operating (Loss)/Profit	(1,740.0)	(1,917.0)	(3,678.0)	(1,360.4)	(5,038.4)	(3,510.0)	615.0
Finance	68.0	32.0	7.0	13.0	20.0	(330.0)	(330.0)
(Loss)/Profit before tax	(1,672.0)	(1,885.0)	(3,671.0)	(1,347.4)	(5,018.4)	(3,840.0)	285.0
Taxation	363.0	892.0	898.0	(20.0)	878.0	750.0	500.0
(Loss)/Profit	(1,309.0)	(993.0)	(2,773.0)	(1,367.4)	(4,140.4)	(3,090.0)	785.0

Source: Intercede Group plc Report & Accounts and Capital Access Group Forecasts

Figure 3: Intercede Cash Flow Forecasts

£000's	2015/16	2016/17	2017/18	2018/19
Operating Profit/(Loss)	(1,917.0)	(5,038.4)	(3,510.0)	615.0
Depreciation	186.0	250.0	300.0	400.0
Employee Incentive/Share Save	535.0	545.0	500.0	550.0
Debtors	(100.0)	500.0	(823.6)	(810.0)
Creditors	611.0	100.0	0.0	0.0
Deferred Revenue	(66.0)	20.0	150.0	150.0
Interest Received/(Paid)	36.0	20.0	(330.0)	(330.0)
Cash Used in Operations	(715.0)	(3,573.4)	(3,763.6)	575.0
Taxation	892.0	878.0	750.0	500.0
Net Cash Generated/(Used)	177.0	(2,695.4)	(3,013.6)	1,075.0
Capital Expenditure	(197.0)	(120.0)	(300.0)	(500.0)
Purchase of Own Shares	(610.0)	(110.0)	(100.0)	(100.0)
Share Issues	0.0	4,500.0	0.0	0.0
Net Increase/(Decrease) in Cash Held	(630.0)	1,574.6	(3,413.6)	475.0
Opening Cash Balances	5,895.0	5,289.0	6,888.6	3,500.0
FX	24.0	25.0	25.0	25.0
Closing Cash Balances	5,289.0	6,888.6	3,500.0	4,000.0

Source: Intercede Group plc Report & Accounts and Capital Access Group Forecasts

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