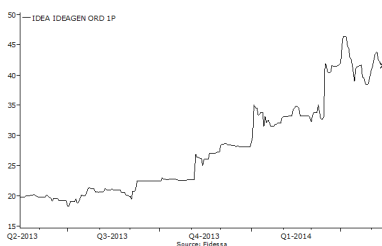


14th May 2014

Software & Computing Services



Market Data

Price (p)	42
12m High (p)	48
12m Low (p)	18
Mkt Cap (£m)	51.2
Shares (m)	122
Market	London AIM
Website	www.ideagen.com

Description

Ideagen provides clients in high-compliance industries with record management solutions, globally.

Next Events

Final results:	Jul-14
AGM:	Oct-14

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Ideagen (IDEA.L)

Plethora of linked opportunities being addressed

Ideagen is a software development business whose product range is risk and compliance software for policy and process management in high-compliance industries. In healthcare, the business is Clinical Solutions patient information. The common theme is managing documentation for high-compliance environments.

Growth proposition: The addressable market is beyond a size to hold relevance for Ideagen. The determinant of growth quantum is the money invested in sales and marketing or in acquisitions. We anticipate the model of the combination of the two to continue.

EBITA margins: The margins have proved to be stable and vary somewhat between markets addressed and the routes to market. The key to future visibility is that like-for-like margins are set to remain stable.

Acquisitions: Two were made in 2013, with the previous in December 2012. We see no reason for the rate of acquisition materially and permanently to change. The primary purpose of acquisitions is to expand into newer verticals with the key being that all relate to management of documentation.

Risks: Ideagen is a small company dealing with large customers. Indeed the entry to the health market was in part triggered by the difficulties of a much larger NHS-wide IT document project. This of course was positive for Ideagen but it illustrates the impact of political issues.

Valuation: EV/Sales is falling significantly both as sales grow and cash mounts (or cash is deployed to accelerate sales growth through acquisition). Whilst the PE is not at a discount to the market, this is a company which is growing consistently and at a premium rate.

April Year End	FY12	FY13	FY14E	FY15E
Sales (£m)	4.0	6.5	9.0	11.0
EBITA (£m)	1.1	1.9	2.6	3.2
PBT (£m)	1.1	1.9	2.6	3.2
EPS Adj. (p)	1.1	1.5	1.7	2.0
EPS Reported (p)	0.1	(0.9)	0.9	1.3
DPS (p)	-	-	0.150	0.165
Net cash (£m)	0.6	2.6	4.2	-
P/E (x)	38.2	28.0	24.7	21.0
EV/EBITDA (x)	41.5	22.4	16.9	13.2
EV/EBITA (x)	45.3	23.6	18.2	14.5
Dividend Yield (%)	0.0%	0.0%	0.4%	0.4%

What Ideagen does

Ideagen's two business streams are both addressing documentation management in high-compliance businesses. Clinical solutions covers a range of patient information data (from accident and emergency to trust-wide data). This allows control of infections as well as patient documentation. The market includes healthcare, and ranges much more broadly, across a number of industries. It offers a complete content lifecycle solution (expanding its IT since 2000). Ideagen's Mission Statement is: "To enable our clients to improve their organisations by providing the tools which can help improve customer service, increase efficiency, reduce risk, enhance compliance, and lower costs".

Its 850 clients are mostly UK, many in healthcare. It is expanding overseas (e.g. USA). The focus is on high-compliance rather than specific industries. Thus the client base includes aerospace, automotive, food and beverages. It plans and manages internal audits of client records, procedural and financial processes and healthcare, financial services and complex manufacturing sector systems. The range of clients includes international banks, insurance, international construction groups, energy and other industrial and consumer companies as well as pharmaceutical and health organisations.

In terms of the systems technology, this is a single solution configurable for all industries, broken out to two sets, one for each business stream. Growth is broadly based: Ideagen stated a strong pipeline at 1H14, both healthcare and non healthcare related.

Growth

Organic growth recently has been running at 13% pa, as this is a strong market and there are a broadening number of sectors being addressed. The addressable market is large and Ideagen is broadening its capabilities. There also is an increase in the non healthcare sales force recruited some months ago. Investment in salesforce is key to rate of growth. Organic growth took Ideagen into the nuclear sector in 2013, highlighting the ability of the existing technology solution to be rolled out into new industries. It is effectively the same product suite. Further, contract renewal rates are running (2013) at 96% so this is a robust base, just as important as the expansion metric.

We consider the driver to growth to be the broadening of Ideagen's capabilities. The Ideagen expansion decision is as to the appropriate mix of investment into sales and marketing as opposed maximising cash generation for the future rather the shorter term. With 40% of people being technical staff, the importance of sales infrastructure to the growth is clear.

The acquisitions are a part of broadening capabilities. In addition to adding their own client base, they are crucial to enhance the group-wide IP, thus enhancing growth to industries in Ideagen but outside the newly acquired business. Given that there were three acquisitions in the past year, we see scope for an acceleration in organic growth momentum. The strong recent level is not unsustainable.

Ideagen operates in a niche market, but one pertinent across a broad range of sectors and geographies, so the breadth – built on the healthcare foundation – is important. We do see organic growth remaining strong and enhanced directly by rolling out new expanded IP from acquisitions across the broadened client base. Ideagen is clearly investing in sales teams, support and development.

We also see here a group with a wide base and one in areas where the environment should be target rich, given broader HM Government funding and policy. Contract wins are client-by-client. i.e. Although there is HMG money for the NHS to move to paperless patient records, Ideagen is winning clients Trust by Trust – highlighting the importance of investment in sales. In the USA its healthcare clients are individual hospitals, healthcare networks in an individual State and a State (Indianapolis). Overseas work derives in part from SaaS (Software as a Service).

Operationally, its historic core and largest focus area of operations is Knowledge Worker/dart solutions for Healthcare. Dart/KW is the Group's electronic medical record solution. Ideagen supplies eight Trusts across the whole Trust and in addition provides over 100 more individual department solutions. Newer technology is usually piloted, for example a paperless results delivery system for Abbott medical devices through Midlands NHS Acute Trust. This is growing as Government-mandated NHS electronic records changes (patient information repository) having only been adopted by c.20% of NHS Trusts. The 'Safer hospitals, safer wards technology fund was launched in May 2013 with £260m and a further £250m in September.'

Acquisitions

Acquisitions form a part of the core business model. Pentana, involved in risk management, was acquired late in November 2013 and is important as its strong IP has more of a focus to financial clients. In addition to that, it is being integrated to the existing Ideagen base to enhance the platform on risk and compliance group-wide. It has US as well as UK offices, with 20 partners.

Ideagen's business plan encompasses acquisitions as an integral part. December 2012 saw Plumtree acquired, with MSS (NHS Emergency Department) in 2013. The customer list adds scope for Ideagen's products and services. E.g. the MSS July 2013 acquisition brought ten new Acute Trusts and was followed by a September contract win. Its latest acquisition, Pentana, in November, provides financial disclosure, internal audit, and risk management software to 350 customers, including 8 of the top 10 UK accounting firms, and internal audit departments at top utilities, banks and industrial companies.

The base for Pentana gives an indication of typical costs: the consideration was £2.25m (plus deferred conditional £0.8m) which is 90% historic sales.

Trading update to end April; Financials

Revenue FY14 is set to rise 38%, in line with previous expectations, but is a figure which indicates the 22% sales growth we estimate for FY15 is a robust and fair number.

As per the 7th May trading update: "The two latest NHS contract wins further validate the Group's strategy of developing a robust and scalable healthcare proposition and deliver revenue of approximately £0.5m, of which approximately 80% has been recognised in the year ending 30 April 2014."

"Furthermore, our strong balance sheet will continue to support the Group's 'buy and build' strategy and we are currently evaluating further acquisition opportunities."

FY15: EBITDA margins are anticipated to be steady at 32%. In addition to full year (vs 5 month) contribution from Pentana, there should be some synergy benefits too. Free cash flow is anticipated to remain strong and note 2H14 has, as earlier indicated, seen strong free cash flow as there were some significant sales just before the interim period end.

Key Financials

Year end April £m	FY12	FY13	FY14E	FY15E
Revenue				
Sales	4.0	6.5	9.0	11.0
Gross profit	3.6	5.6	7.7	9.4
<i>Gross margin %</i>	90.0	86.2	85.6	85.5
EBITA	1.1	1.9	2.6	3.2
EBITA margin	27.5	29.2	28.9	29.1
Net Finance costs	0.0	0.0	0.0	0.0
Profit before tax	1.1	1.9	2.6	3.2
Intangible amortisation	-0.4	-1.1	-1.2	-1.2
Other adjustments [1]	-0.4	-2.2	-0.2	0.0
EPS (p) Diluted adjusted	1.1	1.5	1.7	2.0
EPS (p) Diluted reported	0.1	-0.9	0.9	1.3
DPS (p)	0.0	0.0	0.150	0.165
Balance sheet				
Net current assets (incl cash)	-0.8	5.0	3.4	4.7
Shareholders' funds	5.8	12.3	13.3	14.7
Net cash (debt)	1.4	6.4	4.0	4.9
Cash flow				
Cash from operations net tax	1.1	1.9	1.4	2.6
Capex	-0.2	-0.5	-0.6	-0.6
Interest	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	-0.1	-0.2

[1] principally share based payments, acquisition costs; 2012 AIM flotation; 2013 impairment acqntang net fair value contingent consideration

Source: Company data, Hardman & Co

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