

Ideagen (IDEA)

AIM



INVESTMENT SUMMARY

- Ideagen is a software company which has seen very strong growth since the appointment of David Hornsby as CEO in 2009. Revenues and adjusted pre-tax profits have increased rapidly as the group has expanded its operations through a combination of organic growth and acquisition and further strong growth is expected
- The move from Plus Markets to AIM opens up Ideagen to a broader range of potential investors and will help in the development of the group going forward. It will also raise the company's profile not only with investors but also with potential customers.
- The company is operating in a growth market and benefits from a high proportion of recurring revenues which currently cover approximately 90% of overheads, thus putting it in a strong financial position. The five year contract with the US Department of Veterans Affairs also helps to provide some visibility of future revenues.
- The acquisition of niche compliance and quality management software supplier Proquis in January 2012 should help drive further value into the business. This deal was completed on sensible terms and Ideagen operates in a fragmented industry so further acquisitions seem likely going forward.
- Ideagen appears to be well positioned in a growth market. The shares trade on a modest p/e ratio and with organic growth over the longer term likely to be supplemented by acquisitions, there is plenty of scope for upside. Putting the shares on a p/e ratio of 12x for 2013 would suggest a share price target of 20p, an increase of over 42% from the current level.

Results and Consensus Forecasts

| Year to 30th April | Revenue (£m) | Pre-Tax Profit (£m) | Earnings per share (p) | P/E Ratio | Net Dividend (p) | Net Yield (%) |
|--------------------|--------------|---------------------|------------------------|-----------|------------------|---------------|
| 2010A | 0.97 | 0.19 | 0.58 | 24.1 | - | - |
| 2011A | 2.25 | 0.50 | 0.93 | 15.1 | - | - |
| 2012E | 4.00 | 1.04 | 1.16 | 12.1 | - | - |
| 2013E | 5.80 | 1.70 | 1.66 | 8.4 | - | - |

KEY DATA

| | |
|----------------------------|--------|
| Share Price: | 14p |
| Prospective p/e ratio: | 12.1x |
| Prospective net yield: | N/A |
| Market Capitalisation: | £10.9m |
| Next Results Due (Finals): | JUL |
| Net Cash (at 31 Oct): | £1.1m |
| NAV per share: | 4.4p |

BULLET POINTS

- Strong growth is being generated despite the economic backdrop
- Acquisitions are likely to drive further shareholder value
- The shares are modestly rated
- The move to AIM provides access to a wider pool of prospective investors
- High level of recurring revenue
- Putting the shares on a prospective p/e ratio for 2013 of 12x gives a share price target of 20p

Date of Report : 2 July 2012

www.brokerlink.co.uk

Executive Summary

- *Ideagen is a supplier of 'Compliance Based Enterprise Information Management Software'. The company focuses on the development of software solutions for document control, compliance and standards management and has been a leading software supplier since 1993.*
- *Having been a constituent of PLUS-SX, the company has decided to transfer its listing onto AIM. This is a natural progression and the planning for this move was already in place prior to the recent uncertainty which was created when PLUS Markets Group announced that it would be closing PLUS-SX.*
- *A recent update on trading confirmed that trading for the year ended 30 April 2012 was comfortably in line with market expectations. Results for the year, which are due to be announced before the end of July, will show significant growth in revenues, profits and earnings per share. Cash generation was also strong and the company is understandably confident with regards to prospects moving forward.*
- *Although Ideagen continues to grow organically, further acquisitions are likely going forward as the group looks to increase both its product offering and geographical reach. Although the acquisition of Proquis in January 2012 will only have a slight impact on the 2012 results, significant benefits are anticipated in the current year and beyond. By utilising its sales expertise, Ideagen should be able to more fully utilise Proquis' software and attractive customer base.*
- *The contract with the US Department of Veterans Affairs, which was won by Proquis last November, not only underpins forecasts going forward but also serves to validate the quality of the flagship Proquis Enterprise product. This contract is expected to be worth \$10.6m over the next five years and winning this is a major achievement for the company. It also demonstrates that the company can compete on the global stage.*
- *The company is currently very much in a phase of strong growth. From a base of £1.0m in 2009/10, sales are forecast to hit £5.8m in the current financial year. This represents compound annual growth of almost 80%. No dividend payments are anticipated in the short term as cash generated can be reinvested within the business to fund acquisitions and support organic growth. Given a double-digit return on capital employed this appears a sensible strategy for the time being.*
- *Given the strength of the company's balance sheet, even after the Proquis acquisition, the current share price does not look excessive. With adjusted earnings per share of 1.66p per share forecast for the current financial year and further sustained growth likely, we feel that a forward multiple of 12x 2013 earnings is easily justified. This translates into a share price target of 20p.*

History

The company was originally formed in 1993 by current director Leslie Paul as a consultancy business providing advice, training and implementation resources for Enterprise Content Management (ECM) to organisations. In 2000, the group started to develop the ECM software application known as 'KnowledgeWorker®' which Ideagen continues to develop. The group, then known as Datum International, floated on PLUS in 2005.

Significant growth since the appointment of CEO David Hornsby

The current CEO, David Hornsby, joined the company in 2009, since when it has grown significantly, making three acquisitions. During this period, the company's share price has risen from 2.1p on 1 May 2010 to 14p, and the market capitalisation has grown from approximately £0.6m to £10.9m.

The first acquisition was Root3 Systems Limited (now Ideagen Capture Limited), a document capture business which was acquired in 2010 for initial consideration of £600,000, which was raised through an equity placing.

Transformational acquisition of Filebutton, parent company of Ideagen, announced in March 2011

In 2011, the company acquired Filebutton Limited, together with its trading subsidiary Ideagen Software Limited for £1.4m net of cash. This acquisition was also funded by an equity placing. Ideagen Software develops, supplies and maintains the 'Workbench' software package, which is the group's regulatory and quality compliance software suite. This transformational acquisition added some attractive products to the company's armoury and also saw the addition of 160 customers, including blue-chip names such as Siemens, Bosch and the RAF. Ideagen Software is focused on highly-regulated industries such as pharmaceuticals, manufacturing and aerospace and defence.

In July 2011, the group changed its name to Ideagen Plc.

Acquisition of Proquis in January 2012

Finally, in January 2012, the group completed the purchase of Proquis Limited, together with the US subsidiary Proquis Inc. Proquis is a developer and supplier of compliance and quality management software to highly regulated industries and, as such, is a highly complementary business to Ideagen. The company supplies a number of sectors with a focus on aerospace and defence, healthcare, energy and manufacturing markets with operations in both the UK and the US. It has an impressive customer base including Airbus, BAE Systems, British American Tobacco and the Nuclear Decommissioning Agency. The initial consideration was £1.04m, of which £0.2m was paid in cash with the balance being satisfied by the issue of 8m shares at 10.5p. A further 4m shares will also be issued to the vendors on the first anniversary of the date of completion, with further payments due dependent upon the completion of a large contract with the US Department of Veterans Affairs over the next three years.

Activities

Ideagen is a supplier of 'Compliance Based Enterprise Information Management Software' with operations in the UK and US serving a number of sectors. The group specialises in information management solutions for organisations that generally operate in industries subject to high regulatory standards. As the authors of Workbench Professional, Proquis Enterprise and KnowledgeWorker® software products, Ideagen can provide complete content lifecycle solutions that enable organisations to meet their Regulatory and Quality Compliance standards, thus helping them to reduce costs and improve efficiency. The group operates from four locations across the UK, at Bristol, Matlock, Stevenage and Sittingbourne and one location in the US at Schaumburg, Illinois. Customers range from internationally recognised organisations, governments and local authorities through to SMEs.

The group generates its revenues from the sale of software licences, product implementation and ongoing customer support and maintenance. The latter are recurring income streams and account for 56% of the group total.

The group's software products are as follows:-

Proquis Enterprise

This consists of a number of modules including audit management, personnel/training and competency, document control, customer care, issues and actions, equipment control, management review, health and safety, supplier control and process management. When combined, these modules allow organisations to improve their Regulatory and Quality Compliance, provide risk assessment and analysis, control processes and documentation, provide skills and competence appraisals, handle complaints efficiently and manage assets and equipment. The software is a highly scalable internet based platform.

Allclear

This is a process charting tool which can be run independently or as a module within Proquis Enterprise. A unique charting feature allows text to be input and automatically converted to a graphical process chart.

Workbench

This is the group's Client Server Regulatory and Quality Compliance software through which documents can be controlled and stored in a tailored system. This can then be used as a resource by the customer organisation to improve quality, environmental or other standards and in compliance management such as audits, change management and document control.

KnowledgeWorker®

This is the group's ECM software system, which was developed in-house with Microsoft development tools and designed to work with Microsoft Office and Outlook. The programme addresses content/document management and collaboration by storing, indexing, classifying and cataloguing information from many sources including electronic documents, scanned documents, web forms, email and output from back office business software applications. Once the information is captured, the search technology in KnowledgeWorker® allows users to easily retrieve the stored information and view related records and data, unlocking the wealth of data contained in corporate documentation. KnowledgeWorker® is also available as a Software as a Service (SaaS) product and is operated as a multi-tenanted ECM platform.

Group supplies Information Management Software

Recurring income accounts for 56% of group total

Activities (cont.)

In addition to the software products detailed on the previous page, the group also provides data capture services through its subsidiary Ideagen Capture Limited.

Data Capture

Ideagen Capture Limited provides integrated scanning and capture solutions that enable customers to transform their paper documents and business forms into searchable electronic documents and information that can be used to power front and back office line-of-business applications. Typically, digitally captured documents are stored in either the group's on-site KnowledgeWorker® SaaS platform or on other third parties' document management systems. When used with KnowledgeWorker's web services architecture, customers are able to scan directly to the "cloud" and automatically initiate business processes (workflow) to be processed across an organisation and its supply chain or customers.

Ideagen Capture has over 20 years of knowledge and experience in its specialised markets

The Market

The group is focused on providing compliance based information management solutions to businesses in highly regulated industries, including aerospace and defence, pharmaceuticals, food and beverages, healthcare and utilities. These solutions are used by companies throughout the world to help them maintain compliance with internationally recognised standards and business processes. There are over 19,000 ISO standards published by the International Organisation for Standardization.

The group's software covers a number of specific standards relating to health and safety, information security, the automotive industry and environmental compliance, although the main standards with which it is concerned are based around ISO9000 Quality Management. The ISO9000 family of standards are related to quality management systems and are designed to ensure that organisations meet the needs of customers and other stakeholders. As at December 2009, more than 1m organisations worldwide were independently certified for ISO9001, suggesting that it is one of the most widely used management tools in the world today.

There is therefore a significant market opportunity which the group believes can be exploited through the Proquis Enterprise and Workbench Regulatory and Quality Compliance software solutions.

Compliance solutions are used by companies throughout the world

Over 1m organisations are certified for ISO9001.

.....creating a significant market opportunity for the group

Interim Results/Financial

Revenue up 57% at the half year stage

.although a significant increase in margins meant that adjusted EBITDA more than doubled

Strong cash generation leading to net cash

Successful integration of Ideagen Softwarewith potential to become a global leader

The Proquis acquisition should have a meaningful positive impact from 2012/13 onwards

The interim results covering the six months to 31 October 2011 were released in January. These demonstrated ongoing progress at the group, with revenue rising by 57% to £1.71m (2010: £1.08m). Adjusted EBITDA more than doubled to £513k (2010: £254k) and adjusted profit before tax rose by 96% to £480k from £245k a year earlier. Earnings per share on the same basis were 0.58p (2010: 0.48p) and, on a diluted basis, were 0.55p (2010: 0.45p). Cash generated by operations was £590k versus an outflow of £105k a year earlier and this led to cash and cash equivalents of £1.17m at the period end compared with net debt of £41k a year earlier.

Given the difficult economic climate, these were excellent results and continued the momentum built up in the previous financial year. During the period, five new deals were closed, each with a value in excess of £150,000, whilst the release of Workbench V10 also demonstrated continued investment in core product development, which is vital for the group. It was also pleasing to see that there was a 95% renewal rate for recurring support and maintenance contracts.

The results also benefited from the acquisition of Ideagen Software in April 2011, which was successfully integrated during the period. This acquisition was seen as strategically important and the company now believes that it can establish itself as a global leader in compliance based information management software. Increasing amounts of legislation are leading to higher demand for software that allows organisations to manage their content and processes and the success of the group in selling into both Europe and the US suggests that the management's optimism is justified.

Since the period end, the group has acquired Proquis Limited and its US subsidiary Proquis Inc. for initial consideration of £1.04m with potential deferred consideration of up to £2.2m. The initial consideration was satisfied by £0.2m in cash with the balance being satisfied by the issue of 8m shares at a price of 10.5p. The potential deferred consideration is due over the next five years and depends on the performance of the Proquis business - if paid in full it would be satisfied by the payment of £0.1m in cash and the balance of £2.1m in Ideagen shares priced at 10.5p.

Last November, Proquis won a landmark contract with the US Department of Veterans Affairs to deploy its flagship Proquis Enterprise product. The contract is expected to be worth \$10.6m over the next five years and could extend to over 150 hospitals and more than 50,000 users. The acquisition is expected to be earnings enhancing immediately.

In the group's most recent trading update, issued on 2 July, it confirmed that trading had been robust in the year to 30 April with results comfortably in line with expectations.

Prospects

The future for Ideagen looks very promising. The company has managed to make good headway despite trading conditions being far from ideal. The acquisition of Proquis appears to have provided a timely boost and further acquisitions may well supplement organic growth.

The future looks very promising with the acquisition of Proquis being timely

After the confident trading statement regarding the results for the year to 30 April 2012, further strong growth in both revenue and profits is forecast for the current financial year, with the acquired Proquis business set to make a meaningful contribution. Ideagen has a specialised offering and, as a result, benefits from attractive margins so that the forecast sales growth will have a positive impact on the bottom line.

Forecasts

For the year ended 30 April 2012, revenue is forecast to rise from £2.25m to £4.00m. Adjusted profit before tax is expected to double to £1.04m (2011: £0.50m), translating into adjusted earnings per share of 1.16p (2011: 0.93p). No dividend is expected.

Forecasts for the current financial year are for significant growth in revenues, profits and earnings per share

For the current financial year, which will benefit from a full year's contribution from the Proquis acquisition, revenue of £5.8m is forecast. This represents impressive growth of 45% and while much of this will be due to Proquis, there will also be significant organic growth. Adjusted profit before tax is expected to rise further to £1.7m, being an increase of 63% on last year, helped by an improvement in margins. Earnings per share of 1.66p are expected, an improvement of 43%, with the lower level of growth due to a higher tax charge and an increase in the number of shares in issue following the Proquis acquisition.

The addition of Proquis is key to the short term progress of Ideagen. For example, it is hoped that cross selling between the Proquis and KnowledgeWorker® customer base will help drive growth moving forward. Further acquisitions are a possibility and these are likely to be earnings enhancing. Although current forecasts do factor in significant growth, this is realistic and a number of deals have already been secured which underline the potential for growth.

Valuation

Ideagen is an exciting growth story

With Proquis now integrated, a solid base has been built from which further growth can be delivered. We feel that this is an exciting growth story which should be valued accordingly.

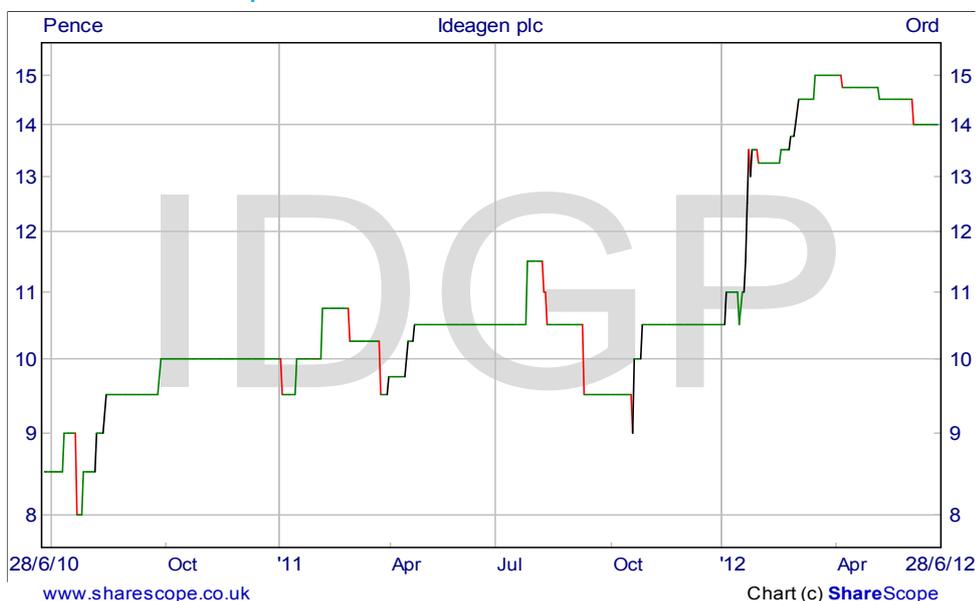
The market capitalisation of £10.9m looks modest

The balance sheet is in good shape and although the bulk of the net asset value is comprised of intangibles, the lack of debt is clearly very welcome. Adjusted earnings per share are forecast to have hit 1.16p per share in 2011/12, rising to 1.66p per share in the current financial year to 30 April 2013. We believe that the market capitalisation of £10.9m looks modest given the scope for further growth.

We believe a sensible rating is 12x 2012/13 earnings. This equates as a price target of 20p

A rating of 12x 2012/13 earnings looks appropriate given the strong growth in profit which is being delivered. This translates into a price target of 20p, a premium of over 42% to the current price.

Share Price Graph



| Profit and Loss Year End 30 April | 2010 (£m) | 2011 (£m) | 2012(E) (£m) | 2013(E) (£m) |
|--------------------------------------|--------------|--------------|-----------------|-----------------|
| Revenue | 0.97 | 2.25 | 4.00 | 5.80 |
| Cost of Sales | (0.07) | (0.26) | (0.30) | 0.46 |
| Gross Profit | 0.90 | 1.99 | 3.70 | 5.34 |
| Admin Expenses | (0.84) | (1.72) | (2.65) | 3.63 |
| Exceptional Items | 0.12 | 0.24 | - | - |
| Operating Profit | 0.18 | 0.51 | 1.05 | 1.71 |
| Net finance | 0.01 | (0.01) | (0.01) | (0.01) |
| Profit before Tax | 0.19 | 0.50 | 1.04 | 1.70 |
| Tax | 0.20 | 0.20 | (0.20) | (0.35) |
| Adjustments | - | (0.21) | - | - |
| Profit after Tax | 0.19 | 0.49 | 0.84 | 1.35 |
| Av number of shares | 32.88 | 52.46 | 72.19 | 81.25 |
| EPS (p) | 0.58 | 0.93 | 1.16 | 1.66 |
| DPS (p) | 0.0 | 0.0 | 0.0 | 0.0 |

| Cash flow Year end 30 April | 2010 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Profit for the period | 72 | 570 |
| Adjustments | 31 | (140) |
| Operating cash flow | 103 | 430 |
| Changes in working capital/provisions | (343) | (466) |
| | (240) | (36) |
| Interest paid | (6) | (6) |
| Net cash flow from operating activities | (246) | (42) |
| Purchase of assets | (216) | (981) |
| Net proceeds from equity Issued | 850 | 1,595 |
| Financing activities | (152) | (30) |
| Net Increase in cash and cash equivalents | 236 | 542 |
| Cash and cash equivalents at start of year | (16) | 220 |
| Cash and cash equivalents at end of year | 220 | 762 |

| Ratios | 2010 | 2011 | 2012(E) | 2013(E) |
|-----------------------------|-------------|-------------|--------------|-------------|
| Sales Growth (%) | - | 133 | 77.7 | 45.0 |
| Operating Margin (%) | 18.6 | 22.7 | 26.25 | 29.3 |
| EPS Growth (%) | - | 60.3 | 24.7 | 43.1 |
| DPS Growth (%) | - | - | - | - |
| Dividend Cover (x) | N/A | N/A | N/A | N/A |

| Balance sheet Year End 30 April | 2010 £'000 | 2011 £'000 |
|------------------------------------|---------------|---------------|
| Intangible assets | 1,269 | 3,113 |
| Other non-current assets | 59 | 283 |
| Total | 1,328 | 3,396 |
| Current assets | 644 | 1,864 |
| Current liabilities | (813) | (2,193) |
| | 1,159 | 3,067 |
| Non-current liabilities | (300) | - |
| Net Assets | 859 | 3,067 |
| Share Capital | 509 | 697 |
| Share Premium | 2,933 | 1,406 |
| Other Reserves | 277 | 321 |
| Retained earnings | (2,860) | 643 |
| Shareholders funds | 859 | 3,067 |
| Ratios | 2010 | 2011 |
| NAV per share (p) | 1.69 | 4.40 |
| Net Cash (£'000) | 180 | 752 |

DIRECTORS

Jonathan Wearing - Non-Executive Chairman (aged 59)

Previously a director in the London corporate finance department of Citicorp Investment Bank Limited, Jonathan has run corporate advisory and consultancy businesses in the City of London for the last 20 years. He is an early stage investor in technology companies and holds a number of directorships.

David Hornsby - Chief Executive (aged 44)

Appointed as CEO in June 2009, David has over 20 years' experience in the technology sector, holding senior management positions in both UK and US based software companies. These include Smart Workforce Management Plc, Parametric Technology Corporation and Profund Systems Limited.

Graham Harrop - Chief Operating Officer (aged 50)

Graham has significant senior executive experience within the IT industry having worked for a number of Nasdaq-listed companies including Informix, Oracle and Microsoft. At Microsoft, he was director of the UK Government Business where he was responsible for revenues of \$500m. He is currently a director of CTPR Limited, the Centre for Technology Policy Research, which engages with politicians and public sector policy makers regarding public sector IT policy. He joined the Board in March 2012.

Graeme Spenceley - Finance Director (aged 47)

Graeme has been a chartered accountant for over 20 years and spent 18 years with KPMG. Initially involved in audit, where he managed a number of public company clients, he later became an associate director in transaction services which specialised in the provision of due diligence and reporting accountant services.

Leslie Paul - Chief Technology Officer (aged 53)

The original founder of the company, Leslie has over 30 years experience in the IT industry with considerable experience gained at Rank Xerox. In 2000, he began the development of the KnowledgeWorker ECM system, one of the group's key products, which continued to be updated and supported today. He is the group's chief technology officer.

Alan Carroll - Independent Non-Executive Director (aged 60)

Alan has 25 years' experience in the information systems industry during which he has worked in a senior capacity in the development of the Ministry of Defence's Information System Strategy. He has also been a senior sales manager and advisor to a number of major companies including Unisys where he was head of sales for defence. More recently he has founded a number of systems and software consultancies.

GENERAL INFORMATION

COMPANY DATA

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Information:

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FINANCIAL CALENDAR

| | |
|--------------------------------|-----------------|
| Interim Dividend Payment Date: | N/A |
| Next Year End: | 30 April 2012 |
| Final Results Announcement: | July 2012 |
| Expected AGM Date: | October 2012 |
| Final Dividend Payment Date: | N/A |
| Interim Results Period End: | 31 October 2012 |
| Interim Results Expected: | January 2013 |

Significant Shareholders

Ordinary shares of 1p each

| | Number | % |
|--|------------|-------|
| Williams de Broe Limited | 11,633,482 | 14.94 |
| Maven Income & Growth VCT5 | 10,689,231 | 13.72 |
| David Hornsby (Chief Executive) | 8,284,833 | 10.64 |
| Les Paul | 7,268,640 | 9.33 |
| Jonathan Wearing | 4,514,066 | 5.80 |
| William Best | 3,550,476 | 4.56 |
| HSBC Global Custody UK Nominee Limited | 2,666,673 | 3.42 |
| Hargreave Hale Nominees Limited | 2,651,106 | 3.40 |
| David George Best | 2,636,190 | 3.38 |

Advisers

Stockbrokers: finnCap Limited
Auditors: RSM Tenon Audit Limited
Solicitors: Finers Stephens Innocent LLP

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