

27 November 2009

## Allocate Software

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/08	11.6	2.0	3.1	0.0	18.7	N/A
05/09	15.8	2.6	4.2	0.0	13.8	N/A
05/10e	20.2	3.4	4.3	0.0	13.5	N/A
05/11e	26.6	5.2	5.8	0.0	10.0	N/A

Note: \* PBT and EPS are normalised, excluding goodwill amortisation, share based payments and exceptional items and are adjusted to a normalised tax charge of 25%.

### Investment summary: Scandinavian addition

Allocate has acquired Swedish workforce software company Time Care AB for a net consideration of £8.8m. The addition of Time Care brings a well run, complementary software business as well as the opportunity to expand Allocate's footprint into other Scandinavian countries. A price of c 8x EBIT looks attractive and the associated £8m equity placing highlights investors' appetite for Allocate's strategy. We believe Allocate operates in a structurally growing market, and with a business model well positioned to leverage this opportunity, in our view the shares are worth nearer 100p.

### Time Care AB acquisition

Allocate has acquired Time Care for £8.8m funded by an £8.3m placing and cash. The business has a similar workforce optimisation software portfolio to Allocate and the regional health sector accounts for the majority of revenues. The business is well positioned to deliver further strong growth domestically, and provides a bridgehead for Allocate to target other Scandinavian and North European countries and, in the medium term, the opportunity to streamline the product platforms.

### Allocate investment case

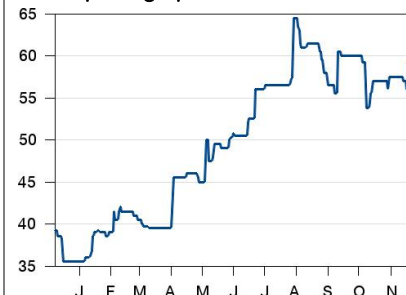
Allocate's software is used by large-scale organisations to optimise the scheduling of their human resources. At the core of the group's offering is the MAPS software platform; this solution is targeted at specific industry verticals and provides a major cost-saving opportunity for customers through the most efficient use of their staff. Payback periods vary across the customer base, but less than 12 months is often achievable. The recent deal with NHSP highlights the major opportunity to build partner SaaS revenues in the UK healthcare sector and today's acquisition underlines the board's strategy to grow the business into a £50m+ company.

### Earnings and valuation

Based on our assumptions for Time Care the deal is earnings neutral this year and enhances EPS by nearly 10% next year. Allocate's goal is to drive organic growth at over 20% pa and to move operating margins towards 20%, which, together with acquisitions, can drive group value through £50m supported by a DCF of c 100p.

Price 58p  
Market Cap £26m

#### Share price graph



#### Share details

Code ALL  
Listing AIM  
Sector Software & Computer Services  
Shares in issue 63m (post issue)

#### Price

52 week High 64.0p Low 35.5p

#### Balance Sheet as at 31 May 2009

Debt/Equity (%) N/A  
NAV per share (p) 16.7  
Net cash (£m) 3.5

#### Business

Allocate Software is the leading provider of software applications designed for workforce optimisation within global organisations employing large, multi-skilled workforces.

#### Valuation

	2009	2010e	2011e
P/E relative	132%	94%	84%
P/CF	15.1	15.0	8.1
EV/Sales	1.4	1.4	1.1
ROE	26%	29%	30%

#### Geography based on revenues

	UK	Europe	US	Other
N/A	N/A	N/A	N/A	N/A

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## Investment summary: Scandinavian addition

### Company description: Leader in workforce optimisation software

Allocate Software is the leading provider of software applications designed for workforce optimisation within global organisations employing large, multi-skilled workforces; the in-house developed software platform enables customers to match operational demands with workforce supply. The group's origins lie in serving the defence sector but healthcare is now the biggest contributor to sales and profits. Allocate also operates in the maritime sector, including offshore engineering and the cruise ship industry.

### Acquisition of Time Care AB

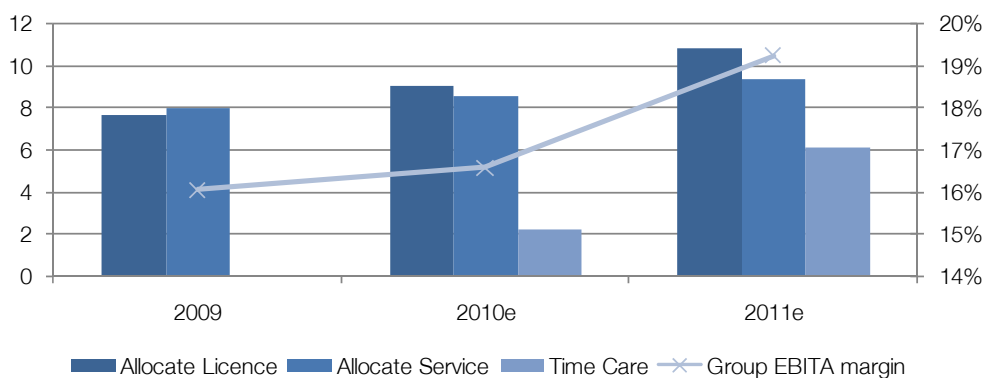
Allocation has acquired Swedish workforce management software supplier Time Care AB for a net consideration of c £8.8m (funded by a proposed £8.3m placing and the balance from the group's cash resources). The business brings a sizeable standalone asset in Sweden but more importantly the deal has a number of strategic attractions:

- 1) Time Care has a very similar product offering (workforce planning and optimisation), business model (increasingly shifting towards a three-year rental licence model with add-on consultancy) and market focus (over 75% of sales from the Swedish health sector) to Allocate.
- 2) The business was established in 1993 and has a very strong management team, providing the opportunity for Allocate to push its marketing efforts into other Scandinavian counties.
- 3) There is very little integration effort or cost required in the short term, but in the medium term there is the opportunity to standardise the R&D and technology roadmaps of both businesses.

### Financials: Operational leverage

We estimate Time Care is currently on a run-rate of £6m of revenues and around £1m of EBIT. The net purchase price of under 1.5x revenues and c 8x EBIT therefore looks sensible. Margins in the business have been on a declining trend over the last couple of years, but this reflects the shift from perpetual to rental software licences (fundamentally the business is highly profitable and cash generative).

#### Exhibit 1: Allocate revenue and margin forecasts



Source: Edison Investment Research estimates



## Exhibit 4: Financials

	£'000s	2008	2009	2010e	2011e
Year end 31 May		IAS	IAS	IAS	IAS
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>11,578</b>	<b>15,774</b>	<b>20,176</b>	<b>26,617</b>
Cost of Sales		(7,700)	(10,702)	(13,236)	(17,301)
Gross Profit		3,878	5,072	6,941	9,316
<b>EBITDA</b>		<b>1,949</b>	<b>2,700</b>	<b>3,594</b>	<b>5,407</b>
<b>Operating Profit (before GW, except &amp; int amortisation.)</b>		<b>1,850</b>	<b>2,531</b>	<b>3,341</b>	<b>5,116</b>
Goodwill Amortisation		(50)	(678)	(800)	(800)
IFRS 2 charges		0	0	0	0
SBP		(104)	(97)	(100)	(100)
<b>Operating Profit</b>		<b>1,696</b>	<b>1,756</b>	<b>2,441</b>	<b>4,216</b>
Net Interest		132	74	20	50
<b>Profit Before Tax (norm)</b>		<b>1,982</b>	<b>2,605</b>	<b>3,361</b>	<b>5,166</b>
<b>Profit Before Tax (FRS 3)</b>		<b>1,828</b>	<b>1,830</b>	<b>2,461</b>	<b>4,266</b>
Tax		(44)	1,217	(840)	(1,291)
<b>Profit After Tax (norm)</b>		<b>1,982</b>	<b>2,605</b>	<b>2,521</b>	<b>3,874</b>
<b>Profit After Tax (FRS 3)</b>		<b>1,784</b>	<b>3,047</b>	<b>1,621</b>	<b>2,974</b>
Average Number of Shares Outstanding (m)		44.6	44.7	54.9	63.0
EPS - normalised (p)		3.3	4.4	4.6	6.1
EPS - normalised fully diluted (p)		3.1	4.2	4.3	5.8
EPS - FRS 3 (p)		4.0	6.8	3.0	4.7
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		33.5	32.2	34.4	35.0
EBITDA Margin (%)		16.8	17.1	17.8	20.3
Operating Margin (before GW and except.) (%)		16.0	16.0	16.6	19.2
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>1,418</b>	<b>4,782</b>	<b>3,843</b>	<b>3,351</b>
Intangible Assets		795	2,723	1,923	1,123
Tangible Assets		521	673	1,420	1,728
Goodwill		0	0	0	0
Other		102	1,386	500	500
<b>Current Assets</b>		<b>6,883</b>	<b>9,603</b>	<b>12,817</b>	<b>19,570</b>
Stocks		0	0	0	0
Receivables		2,566	5,939	8,397	11,277
Cash		4,317	3,664	4,421	8,293
<b>Current Liabilities</b>		<b>(3,940)</b>	<b>(6,737)</b>	<b>(7,817)</b>	<b>(9,912)</b>
Payables		(3,940)	(6,737)	(7,817)	(9,912)
Short term borrowings		0	0	0	0
<b>Long Term Liabilities</b>		<b>(196)</b>	<b>(180)</b>	<b>(150)</b>	<b>(150)</b>
Long term borrowings		(196)	(180)	(150)	(150)
Other long term liabilities		0	0	0	0
<b>Net Assets</b>		<b>4,165</b>	<b>7,468</b>	<b>8,693</b>	<b>12,859</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>2,248</b>	<b>1,719</b>	<b>2,117</b>	<b>4,522</b>
Net Interest		132	80	20	50
Tax		47	0	(50)	(100)
Capex		(154)	(321)	(500)	(600)
Acquisitions/disposals		(386)	(2,395)	(8,800)	0
Financing		36	0	8,000	0
Dividends		0	0	0	0
Operating Cash Flow		1,923	(917)	787	3,872
<b>Opening net debt/(cash)</b>		<b>(2,409)</b>	<b>(4,121)</b>	<b>(3,484)</b>	<b>(4,271)</b>
HP finance leases initiated		0	0	0	0
Other		(211)	280	0	0
<b>Closing net debt/(cash)</b>		<b>(4,121)</b>	<b>(3,484)</b>	<b>(4,271)</b>	<b>(8,143)</b>

Source: Edison Investment Research

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