PROGRESSIVE
EQUITY RESEARCH

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# BANGO

## SOFTWARE AND COMPUTER SERVICES

**BGO.L**

132p

Market Cap: £93.5m

**SHARE PRICE (p)**


| | |
|---|---|
| 12m high/low | 176p/77p |

***Source: LSE Data***

**KEY INFORMATION**

| | |
|---|---|
| Enterprise value | £89.9m |
| Index/market | AIM |
| Next news | Trading Update, Dec-19 |
| Gearing | N/A |
| Interest cover | N/A |

**BANGO IS A RESEARCH CLIENT OF PROGRESSIVE**


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## The virtuous circle strategy continues to deliver

**Bango has announced solid H1 2019A results in our view, with momentum remaining strong. At £467m, End User Spend ("EUS") was confirmed as having more than doubled for a fifth consecutive year, and underlying opex levels remain broadly stable. A further highlight was the positive contribution from the data business, which now contributes over 25% of group revenue. We make revisions to FY 2019E earnings estimates following the release, noting, *inter alia*, Bango's continuing commitment to investment in R&D to support its innovative product development. We also introduce FY 2020E forecasts for the first time which reflect the fruits of that investment.**

- **Solid H1 2019A results:** Bango reported H1 2019A revenue of £4.3m (+64% YoY) and EBITDA of £0.01m (H1 2018A £-0.92m). The closing cash position was confirmed at £2.25m. Although lower than the FY 2018A level, we note management commentary in the H1 2019A release that cash burn levels have significantly decreased on the back of the positive EBITDA performance.
- **Momentum remains strong:** With EUS of £467.2m (+112% YoY), H1 2019A represents a fifth consecutive year where EUS has more than doubled. New commerce routes launched during the half include India, Chile, Singapore and Spain. The Amazon relationship was also expanded, and now includes Amazon Prime Now and Amazon Twitch.
- **Scalability once again a highlight of the results:** Underlying Opex remained under control during the period, growing by £0.3m YoY. The Bango Platform is regularly tested with transaction volume at over £15bn/year, giving further confidence in its ability to support anticipated growth in the business.
- **A positive contribution from the data business:** With data revenues now contributing over 25% of group revenue, in our view H1 2019A demonstrates that Bango's virtuous circle strategy continues to deliver.
- **Positive outlook statement:** Management continues to expect an annual doubling of EUS in the years ahead, driven by new payment route migration onto the Bango Platform, alongside new brands and commerce types joining the Bango ecosystem. Growth will enhanced by natural synergies between the payments and data businesses.
- **Forecast revisions:** We make revisions to forecasts following the results. FY 2019E EBITDA falls by £1.8m, due to higher assumptions of investment in the data business and spend on supporting sales and new product development. We also introduce FY 2020E forecasts.

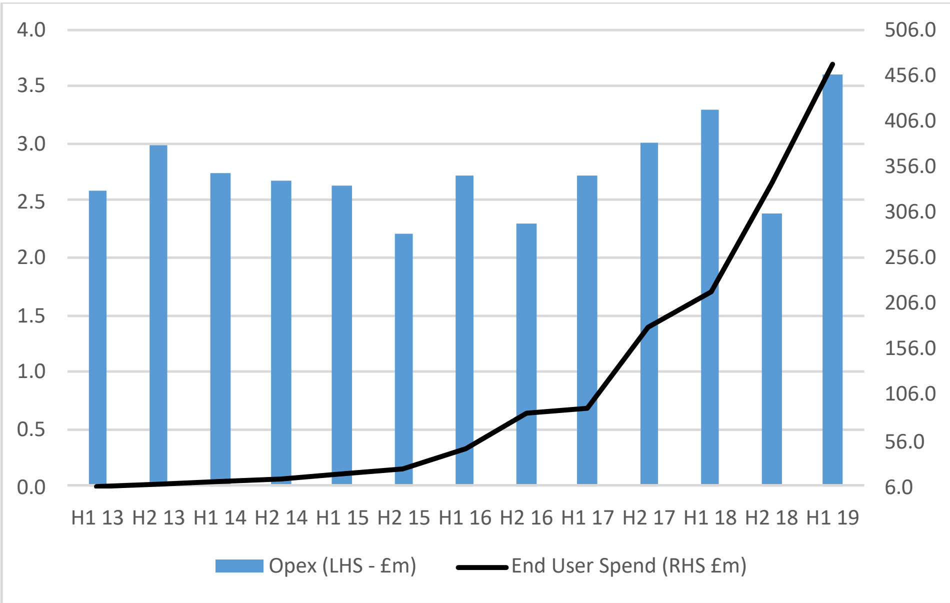
| FYE DEC (£M) | 2016 | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|---|
| **EUS (Non-GAAP)** | 132.3 | 271.4 | 558.2 | 1,237.5 | 2,475.0 |
| **Revenue** | 2.6 | 4.2 | 6.6 | 11.3 | 16.8 |
| **Adj EBITDA** | -2.4 | -1.6 | -0.9 | 2.5 | 5.0 |
| **Fully adj PBT** | -4.1 | -3.6 | -2.9 | 0.1 | 2.6 |
| **Fully adj EPS** | -6.3 | -5.5 | -4.2 | 0.2 | 3.7 |
| **EV/EBITDA** | -37.1x | -57.4x | -103.7x | 36.7x | 18.1x |
| **PER** | N/A | N/A | N/A | 636.9x | 35.8x |

***Source: Company Information and Progressive Equity Research estimates***

## Growth and scalability

Growth and scalability in the payments business have been key highlights of Bango's recent financial releases. Positive trends in both continued in H1 2019, and below we present a summary of historical performance.

**Bango payment business – growth and scalability (£m)**




***Source: Company data***

For the fifth consecutive year, EUS has more than doubled. Growth is being fuelled by multiple drivers, including new payment routes, new customers, increasing spend from existing customers and new content types.

We have long highlighted tight operating cost management as a core Bango virtue. As the chart shows, growth in the business has been delivered without a commensurate increase in opex. H1 2019A EUS exceeded £467m, over 25 times the H1 2015A level. Over the same timeframe, semi-annual opex trended between £2.2-3.6m. The result of impressive growth and broadly stable opex, was that the payment business moved into profitability during FY 2018A and has remained so during H1 2019A.

It is also worth noting that opex levels in the payments business have remained stable, against a recent backdrop of significant investment in the platform. In 2017, investment in the platform enabled the launches of both DCB for physical goods (with Amazon Japan), and resale and bundling with Amazon Prime Video and Bharti Airtel. Investment has continued during 2019 with elements of the platform moved to the cloud to enhance platform peak-load performance and reduce ongoing opex. Bango has also invested in streamlining the migration of direct DCB connections to the Bango Platform and has developed new tools for customers to better self-manage their use of the platform.

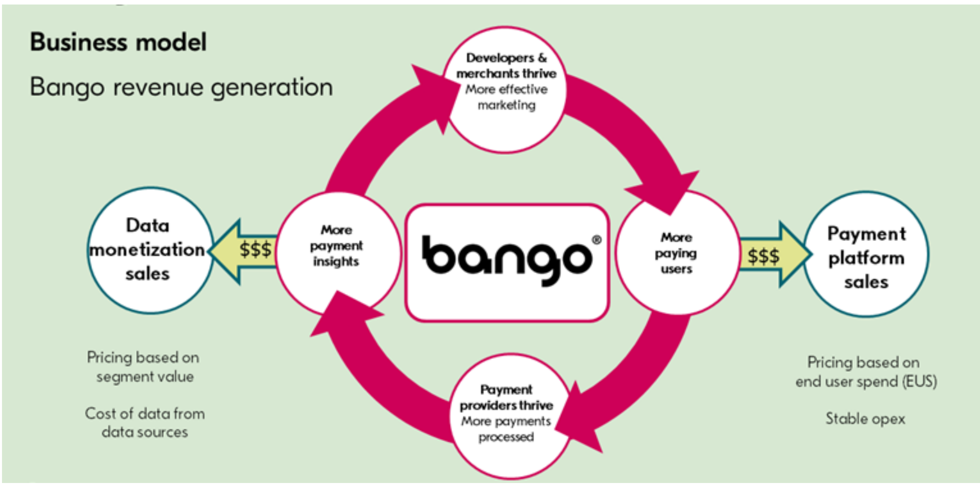
Bango datacentres are regularly tested at a sustained transaction rate of over £15Bn/yr, over 12x FY 2019E EUS value. We make two conclusions from that multiple. Firstly that the platform retains significant headroom before additional investment will be required and secondly, that Bango has a solid platform to support the growth ambitions of its partners.

## Leveraging data to deliver the next phase of growth

Bango's historical strategy has been to deploy and operate a global, alternative payment platform connecting mobile telephone subscribers with online merchants, thereby allowing the former to pay for digital content ordered from the latter.

As a global business connecting customers of some of the world's leading online merchants such as Amazon, Google and Microsoft with customers of some of the world's leading MNOs such as Verizon, NTT DoCoMo, and Vodafone, the Bango platform generates voluminous amounts of (valuable) payment insight data. Over the past 18/ 24 months, management attention has focussed on leveraging the value of data generated by the platform. The rationale behind this move is summarised in the following chart:

**Bango – Virtuous strategic circle**




***Source: Company Materials***

With strong synergies between mobile marketing and mobile payments, the Bango strategy creates a virtuous circle, by increasing the customer base to generate more payments, this attracts more merchants, which attracts more customers. The addition of the data business supercharges this process. More customers = more customer insight data = more effective marketing which grows the customer base more rapidly, generating more payments and more data.

Management has long seen value of data in growing the payments business – as evidenced by the historic development of the BANGO DASHBOARD and BANGO BOOST services. In 2018 the group acquired the Audiens business, expanding the customer base for Bango's customer data beyond the traditional MNO client base. Marketing efforts to one particular client group – app developers – significantly increased during 2018, and a new service was launched during H1 2019 to directly target the segment – Bango Marketplace. This online product allows app developers and other merchants to select the customer insight data segments they wish to use as the basis of marketing activities. Online campaigns can be started as quickly as the same day.

With the app advertising market expected to grow to US$64bn in 2020, we believe there is a material incremental growth opportunity for Bango. Providing additional customer insight to app developers should also stimulate additional Direct Carrier Billing ("DCB") payment volumes and generate incremental revenue via the Bango Marketplace.

**The data business reported material progress during H1 2019A, with a 9x increase in registrations. In addition, data revenues are now contributing over 25% of group revenue (H1 2019A). In our view growth in the data business over the past eighteen months represents a material step forward for the virtuous circle strategy.**

## Estimates

We make revisions to FY 2019E estimates. These are summarised in the following table.

**Bango – FY 19E estimate changes**

| | | FY 19E | |
|---|---|---|---|
| **£m unless stated** | **Old** | **New** | **Change (%)** |
| End-user spend | 1237.5 | 1237.5 | 0% |
| Revenue | 11.3 | 11.3 | 0% |
| Fully adj EBITDA | 4.3 | 2.5 | -43% |
| Fully adj PBT | 2.0 | 0.1 | -93% |
| Net debt / (cash) | 7.8 | 4.8 | -38% |

***Source: Progressive Equity Research estimates***

- Our EUS forecast is unchanged. We maintain our expectation that spend will more than double FY 2019E – a continuation of the recent trend.
- We also retain our forecast for the proportion of EUS to be retained by Bango. The result is that our revenue forecast is also unchanged.
- We continue to expect positive EBITDA for FY 2019E. However, our forecast is reduced by £1.8m. This reflects an increase in our assumptions for investment in the data business and for further planned investment to grow sales and develop new products. Note that we see this increase as discretionary, and our assumptions for underlying opex are unchanged. This uplift in investment is also the key driver of the reductions in our estimates for adjusted PBT and the closing net cash position.
- We continue to forecast a positive cash balance for the current year-end.
- We introduce FY 2020E forecasts. These are detailed overleaf but reflect the new base of our FY 2019E estimates and the higher investment spend which we have factored in for this year. The resulting good growth produces a doubling of Adjusted EBITDA from the reduced level in our new FY 2019E estimates. In summary, we forecast strong growth in EUS (+100% YoY) and revenues (+49% YoY), EBITDA margin improvement and positive cash flow.

## A comment on H1/H2 performance

Bango delivered EUS of £465m and revenue of £4.32m H1 2019A. This implies a significant operational improvement will be required in the second half to meet the full-year estimates contained above. Our growth expectations in both the current financial year and next are predicated on the group adding new payment routes and launching new products. We highlight:

- Bango launched a number of new DCB and resale routes during H1 2019 – India, Philippines, New Zealand UAE, Chile, Singapore and Spain and partners include both mobile and fixed-line operators.
- The (global) relationship with Amazon was also expanded during the first half, to new markets and with new products including Amazon Prime Now and Twitch Prime.
- Post period-end, Bango announced a partnership with Spotify and also new DCB routes with Google in Morocco and Myanmar. A “major new merchant” has also joined the platform, with service launch expected in H2 2019E.
- Bango has announced an IoT project for road-charging in the USA, a new offering for the group. This represents Bango’s first entry into the $7bn tolling market.

**Many of these new routes and products will generate revenues for the first time in the second half. With growth also expected from existing routes and customers, we believe the H2 outcome is less challenging than it may appear.**

## Financial Summary: Bango

**Year end: December (£m unless shown)**

| **PROFIT & LOSS** | **2016** | **2017** | **2018** | **2019E** | **2020E** |
|---|---|---|---|---|---|
| EUS (Non-GAAP) | 132.3 | 271.4 | 558.2 | 1,237.5 | 2,475.0 |
| Revenue | 2.6 | 4.2 | 6.6 | 11.3 | 16.8 |
| Adj EBITDA | (2.4) | (1.6) | (0.9) | 2.5 | 5.0 |
| Reported PBT | (4.7) | (3.9) | (3.6) | (0.2) | 2.3 |
| Fully adj PBT | (4.1) | (3.6) | (2.9) | 0.1 | 2.6 |
| NOPAT | (2.9) | (2.0) | (1.8) | 1.8 | 4.2 |
| Reported EPS | (6.8) | (5.3) | (4.0) | 0.2 | 3.7 |
| Fully adj EPS | (6.3) | (5.5) | (4.2) | 0.2 | 3.7 |
| Dividend per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| **CASH FLOW & BALANCE SHEET** | **2016** | **2017** | **2018** | **2019E** | **2020E** |
| Operating cash flow | (2.6) | (0.7) | (2.3) | 3.4 | 2.8 |
| Free Cash flow | (6.0) | (2.2) | (4.4) | 1.7 | 1.6 |
| FCF per share | (9.2) | (3.4) | (6.3) | 2.4 | 2.3 |
| Acquisitions | 0.0 | 0.0 | (1.8) | (0.4) | (0.4) |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares issued | 0.1 | 1.2 | 5.2 | 0.0 | 0.0 |
| Currency effects | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (6.2) | (0.8) | (1.1) | 1.3 | 1.2 |
| Cash & equivalents | 5.7 | 4.8 | 3.8 | 5.0 | 6.2 |
| Net (Debt)/Cash | 5.6 | 4.6 | 3.5 | 4.8 | 6.0 |
| | | | | | |
| **NAV AND RETURNS** | **2016** | **2017** | **2018** | **2019E** | **2020E** |
| Net asset value | 12.4 | 10.7 | 16.0 | 11.8 | 18.8 |
| NAV/share | 19.1 | 16.2 | 22.9 | 16.8 | 27.0 |
| Net Tangible Asset Value | 6.3 | 4.6 | 4.0 | 3.6 | 8.6 |
| NTAV/share | 9.7 | 7.1 | 5.8 | 5.1 | 12.3 |
| Average equity | 14.1 | 11.5 | 13.3 | 13.9 | 15.3 |
| Post-tax ROE (%) | (31.2%) | (30.3%) | (20.8%) | 1.0% | 16.9% |
| | | | | | |
| **METRICS** | **2016** | **2017** | **2018** | **2019E** | **2020E** |
| EUS growth | 196.1% | 105.1% | 105.7% | 121.7% | 100.0% |
| Revenue growth | 101.8% | 58.2% | 59.4% | 70.0% | 49.2% |
| Adj EBITDA growth | (22.9%) | (35.3%) | (44.7%) | (382.6%) | 102.6% |
| Adj PBT growth | (18.6%) | (12.0%) | (19.6%) | (105.0%) | 1678.9% |
| Adj EPS growth | (33.0%) | (13.8%) | (23.9%) | (105.0%) | 1678.9% |
| Dividend growth | N/A | N/A | N/A | N/A | N/A |
| Margin on EUS | 2.0% | 1.5% | 1.2% | 0.9% | 0.7% |
| | | | | | |
| **VALUATION** | **2016** | **2017** | **2018** | **2019E** | **2020E** |
| EV/Sales | 34.3 | 21.7 | 13.6 | 8.0 | 5.4 |
| EV/EBITDA | -37.1 | -57.4 | -103.7 | 36.7 | 18.1 |
| EV/NOPAT | -30.7 | -44.6 | -49.7 | 51.4 | 21.5 |
| PER | N/A | N/A | N/A | 636.9 | 35.8 |
| Dividend yield | N/A | N/A | N/A | N/A | N/A |
| FCF yield | (7.0%) | (2.6%) | (4.7%) | 1.8% | 1.8% |

***Source: Company information and Progressive Equity Research estimates***

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