BANGO

SOFTWARE AND COMPUTER SERVICES

20 March 2020

BGO.L

94p

Market Cap: £66.5m

SHARE PRICE (p)

12m high/low	151p/62p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£1.6m
Enterprise value	£62.9m
Index/market	AIM
Next news	AGM, May-20
Shares in Issue (m)	70.7
Executive Chair	Ray Anderson
Chief Executive	Paul Larbey
Finance Director	Carolyn Rand

COMPANY DESCRIPTION

Bango links global merchants with payment partners from Africa to the Americas.

www.bango.com

BANGO IS A RESEARCH CLIENT OF PROGRESSIVE

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FY 19 in-line, upbeat outlook in challenging times

Bango has announced FY 19 results in-line with the December-19 trading statement and our forecasts. The business has grown strongly throughout the Brexit hiatus, notably FY 19 saw the key End User Spend ("EUS") metric double once again to £1.1bn. With the global macro-economic situation continuing to be impacted by the Coronavirus, we believe market attention will focus on the outlook. The release confirms that Bango has no supply chain dependencies, its products are available without interruption. Furthermore, management has re-iterated its expectation for continuing exponential growth in EUS. We maintain FY 20E estimates following the release and will revisit as visibility on "stay at home" behaviour improves.

- **FY 19 results in line with our forecasts:** Bango reported FY 19A revenue of £9.31m (+41% YoY) and EBITDA of £0.45m. We had forecast £9.3m and £0.4m respectively. The closing (gross) cash position was confirmed at £2.69m, a £0.44m improvement on the H1 19 level.
- **Momentum remains strong:** The release highlights that Bango is achieving momentum in a number of areas. We note: 1) EUS of £1.1bn continues the five-year trend of annual doubling. Growth continues to be driven by a combination of new routes (e.g. Google Play, Amazon and Microsoft), new merchants (Spotify, AE Tolls, YouTubeTV) and increased user activity. 2) Bango Resale was expanded to Pre-pay mobile (>3bn subscribers globally); launched with fixed-line, and payTV operators; and has entered mainstream retailing. 3) With verifiable improvement in marketing RoI of up to 9x, Bango Marketplace is gaining repeat business from app developers. 4) Via the strategic partnership with NHN, Credit Card payment data has been introduced to the Bango Platform.
- **Positive outlook commentary:** We contend that the services offered by Bango – particularly payments for digital content – are likely to experience increased demand in times of population lock- down. The announcement confirms that Bango has no supply chain dependencies and c98% of customer contact is remote. With strong operational momentum being reported across the business (*see above*), and incremental growth opportunities in retail sales, bundling and digital wallets, management has reiterated their expectation for ongoing exponential growth in EUS.
- **Earnings estimates unchanged:** We leave FY 20E earnings estimates unchanged following the release.

FYE DEC (£M)	2016	2017	2018	2019	2020E
EUS (Non-GAAP)	132.3	271.4	558.2	1,093.4	2,287.3
Revenue	2.6	4.2	6.6	9.3	14.2
Adj EBITDA	-2.4	-1.6	-0.9	0.4	2.9
Fully adj PBT	-4.1	-3.6	-2.9	-2.0	0.6
Fully adj EPS	-6.3	-5.5	-4.2	-2.9	0.8
EV/EBITDA	-26.0x	-40.1x	-72.6x	140.0x	21.8x
PER	N/A	N/A	N/A	N/A	111.4x

Source: Company Information and Progressive Equity Research estimates

FY 19 Results commentary

Revenue

FY 19A revenue increased by £2.6m to £9.31m, a 41% YoY increase. Both the payments business and the data business contributed to growth. Payment revenues (77% of turnover FY 20A) contributed the bulk of the increase (£1.91m), with the data business the remainder of the revenue growth. *(Note, on the following page we discuss Bango's key growth drivers.)*

Operating expenses

Cost of sales grew to £1.4m during the period, a near doubling of the FY 18 level. With payment processing a near 100% margin revenue stream, the uplift reflects increases in fees charged by data owners and by marketing channels.

Administration expenses grew by £0.7m in the period to £7.45m. However, this includes investment in the data business – which we estimate at an additional £1.3m compared to the previous year's investment level. Platform costs decreased 11% YoY during FY 19A - vs. EUS doubling.

Depreciation & amortisation rose by £0.58m to £2.2m, a 36% increase YoY. The uplift in depreciation reflects ongoing investment in both the platform and the data monetisation businesses, and also the adoption of IFRS 16 during the year (note, the prior year was not restated). Amortisation charges increased as a result of R&D projects capitalised in prior years being deployed during the period.

The share-based payment charge fell £0.23m during the year to £0.81m. This relates to the employee share option scheme and is calculated via the Black-Scholes model.

Profitability

Adjusted EBITDA for the year was positive and grew by £1.32m YoY to £0.45m (FY 18A £-0.87m). The group reported a £0.74m R&D tax credit during the period, further expanding profitability.

Cash

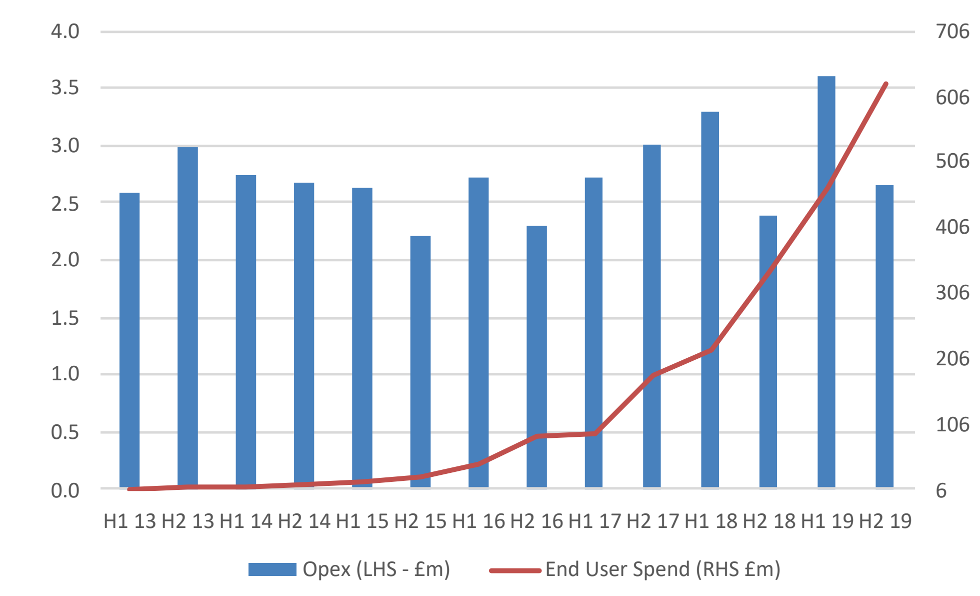
Bango closed FY 19A with a £2.7m gross cash position, ahead of our revised £2.5m forecast. Operating cash flows were £1.0m, a £2.6m improvement on FY 18. The uplift reflects the move to sustained profitability (FY 18 saw an EBITDA loss) and tight working capital management.

£1.1bn of lease liabilities were recognised on the FY 19A balance sheet (vs £0.3m FY 18), with the increase largely driven by the adoption of IFRS16. This reflects the introduction of IFRS 16. Bango therefore closed FY 19 with a net cash balance of £1.6m. With the group now moving into sustainable profitability, we continue to believe this will be sufficient through to positive cash generation and will provide headroom for growth and investment in the Bango Platform.

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 once again in H2 19, and below we present a summary of historical performance.

Bango Payment Business – Growth and Scalability

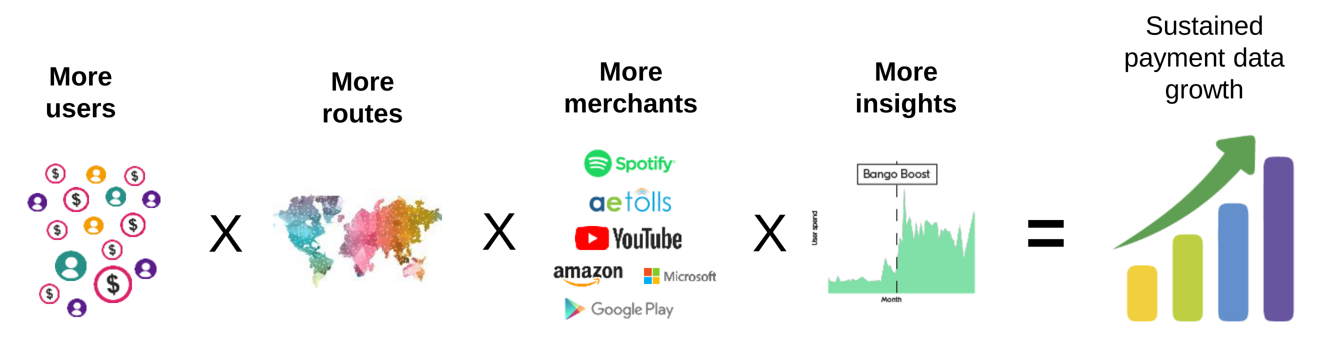


Source: Progressive Equity Research estimates

Growth

Bango reported FY 19A EUS at £1.1bn. For the fifth consecutive year, EUS has more than doubled. The following graphic pictorially demonstrates the group's key growth drivers:

Bango – growth drivers



Source: Company information

Growth was driven by the combination of:

More users

- 70% growth in unique users paying via DCB in the last twelve months.
- New technology (bundling and resale) allows an additional 3bn pre-paid subscribers access to subscription-bundled services (e.g. Amazon Prime Video in India).
- New Bango Boost technology is expected to drive increased MNO customer spend.

More routes

- FY 19A saw Bango launch new payment and resale routes across the world – From Morocco to Myanmar *(also India Philippines, New Zealand UAE, Chile, Singapore and Spain amongst others)*
- Although DCB via MNOs remains a Bango core strength, the platform has been extended to fixed-line carriers and Pay TV providers. In addition to other alternative payment mechanisms such as mobile wallets.
- Bango is expanding the scope of its resale and bundling technology, so that bricks and mortar retail merchants can collaborate with digital merchants to assemble high value, bundled offers of their products and services.

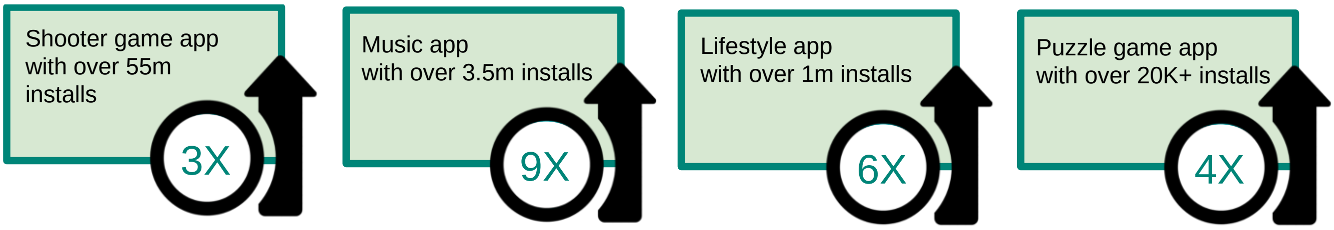
More merchants

- In August 2019, Bango announced a partnership with streaming music provider Spotify - the global leader in streaming music. This was followed by the announcement of DCB for YouTube TV in November 2019. In addition to adding another major streaming media client to the platform, this further deepens the relationship with key client Google.
- The Bango Platform has moved beyond online commerce with the IoT project for road-charging in the USA (AE Tolls). This represents Bango's first entry into the $7bn tolling market and we believe it can be extended to other territories.
- In early FY 20, Bango announced the launch of DCB for Hatch, the monthly subscription-based 5G games streaming platform.

More insights

- Bango Boost recommendations identified an additional EUS of £100m during FY 19A. This represents incremental revenue to clients, and at c4% of our £2bn EUS forecast 2020E, a material contribution to business performance.
- Management has also confirmed that Bango Boost verifiably provides a 15% increase in subscription conversions.
- Bango's insights now allow merchants to maximise subscription renewals. For example, the application of Bango's data analytics capabilities to streaming media services provides key customer insights - the likelihood that a customer will pay for a subscription (for example after the free period of use expires), how much they typically spend, when is the best time to trigger the renewal of a subscription from an affordability perspective, etc.
- The FY 19A results revealed a number of additional data points on the success of Bango Audiences in driving increased payment conversion rates from app developer user acquisition campaigns. These are summarised in the following graphic

Bango Marketplace – success stories



Source: Company information

The four examples shown relate to four specific apps. However, each shows a material uplift in the percentage of paying users from campaigns

Scalability

In our view the FY 19A results once again the scalability of the Bango Platform and also its capacity to support anticipated growth in the business.

Growth in the business continues to be delivered without a commensurate increase in opex. H2 19A EUS exceeded £626m, almost 24 times the H2 15A level. Over the same timeframe, semi-annual opex trended between £2 and £4m.

In addition to remaining stable against impressive growth in the business, it is also worth recapping that the group has made material investment in the Bango Platform over recent years. Investment in the platform in 2017 enabled the launches of both DCB for physical goods (with Amazon Japan), and resale and bundling with Amazon Prime Video and Bharti Airtel. Investment 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 MNO DCB connections to the Bango Platform and has developed new tools for customers to increase user acquisition, loyalty and increase revenues.

The Bango Platform has been successfully tested at over £25bn of annual EUS with zero incremental operating cost. In our view this is a further demonstration of the platform's inherent scalability.

Estimates

Following the release, we leave FY 20E earnings estimates unchanged.

Consistent with the five-year trend, we continue to expect a doubling of EUS in FY 20E. On pages three and four we presented a summary of the group's key growth drivers (more users x more payments routes x more merchants = growth). We expect these trends to continue to drive growth - the "Bango virtuous circle".

Whilst we forecast double-digit revenue growth FY 20E, clearly the rate is slower than growth in EUS. As we noted in recent research[1], this is a function of 1) Bango signing larger DCB deals with lower fees but effectively 100% margin and 2) changes in the business mix from growth in DCB for physical goods. We expect that the payments business will become highly cash generative in future years, with the data business becoming a significant contributor to revenue growth.

We expect a very modest increase in overheads. In our view the platform's scalability together with a lighter outlook for investment should drive a material improvement in profitability.

Our FY 20E forecast closing net cash position of £1.3m is c£0.5m lower than previously. This is largely driven by the lower opening balance.

With the group now moving into sustainable profitability, we continue to believe Bango is sufficiently funded and that the group's financial position will provide headroom for growth and investment in the Bango Platform.

[1] Expanding the ecosystem to drive growth. Progressive Equity Research 6-Feb-20.

Financial Summary: Bango

Year end: December (£m unless shown)

PROFIT & LOSS	**2016**	**2017**	**2018**	**2019**	**2020E**
EUS (Non-GAAP)	132.3	271.4	558.2	1,093.4	2,287.3
Revenue	2.6	4.2	6.6	9.3	14.2
Adj EBITDA	(2.4)	(1.6)	(0.9)	0.4	2.9
Reported PBT	(4.7)	(3.9)	(3.6)	(3.1)	0.3
Fully adj PBT	(4.1)	(3.6)	(2.9)	(2.0)	0.6
NOPAT	(2.9)	(2.0)	(1.8)	(0.9)	2.0
Reported EPS	(6.8)	(5.3)	(4.0)	(3.5)	1.8
Fully adj EPS	(6.3)	(5.5)	(4.2)	(2.9)	0.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2016**	**2017**	**2018**	**2019**	**2020E**
Operating cash flow	(2.6)	(0.7)	(2.3)	1.0	0.8
Free Cash flow	(6.0)	(2.2)	(4.4)	(1.2)	0.1
FCF per share	(9.2)	(3.4)	(6.3)	(1.7)	0.1
Acquisitions	0.0	0.0	(1.8)	0.0	(0.4)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.1	1.2	5.2	0.3	0.0
Currency effects	(0.1)	0.0	0.0	0.0	0.0
Net cash flow	(6.2)	(0.8)	(1.0)	(1.1)	(0.4)
Cash & equivalents	5.7	4.8	3.8	2.7	2.3
Net (Debt)/Cash	5.6	4.6	3.5	1.6	1.3
NAV AND RETURNS	**2016**	**2017**	**2018**	**2019**	**2020E**
Net asset value	12.4	10.7	16.0	14.7	12.6
NAV/share	19.1	16.2	22.9	21.1	18.1
Net Tangible Asset Value	6.3	4.6	4.0	2.5	5.3
NTAV/share	9.7	7.1	5.8	3.6	7.7
Average equity	14.1	11.5	13.3	15.3	13.7
Post-tax ROE (%)	(31.2%)	(30.3%)	(20.8%)	(15.8%)	9.4%
METRICS	**2016**	**2017**	**2018**	**2019**	**2020E**
EUS growth		105.1%	105.7%	95.9%	109.2%
Revenue growth		58.2%	59.4%	40.6%	52.2%
Adj EBITDA growth		(35.3%)	(44.7%)	(151.8%)	541.8%
Adj PBT growth		(12.0%)	(19.6%)	(29.3%)	(128.7%)
Adj EPS growth		(13.8%)	(23.9%)	(29.3%)	(128.7%)
Dividend growth		N/A	N/A	N/A	N/A
Margin on EUS		1.5%	1.2%	0.9%	0.6%
VALUATION	**2016**	**2017**	**2018**	**2019**	**2020E**
EV/Sales	24.0	15.2	9.5	6.8	4.4
EV/EBITDA	-26.0	-40.1	-72.6	140.0	21.8
EV/NOPAT	-21.5	-31.2	-34.8	-70.8	31.2
PER	N/A	N/A	N/A	N/A	111.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(9.8%)	(3.6%)	(6.7%)	(1.8%)	0.1%

Source: Company information and Progressive Equity Research estimates

20 March 2020

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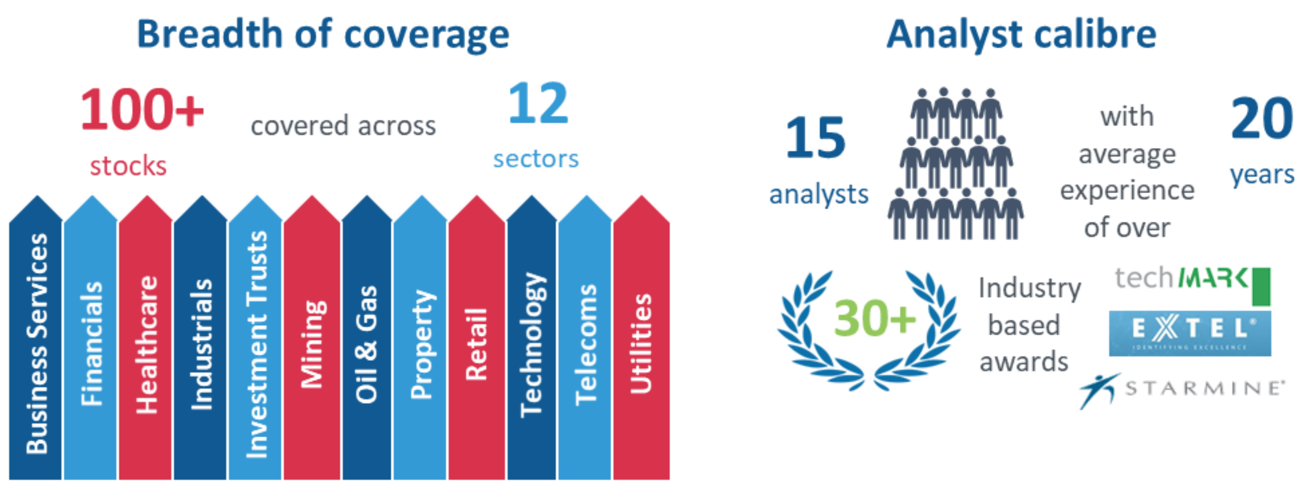

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