

BANGO

SOFTWARE AND COMPUTER SERVICES

15 September 2020

BGO.L

177p

Market Cap: £131.3m

SHARE PRICE (p)



12m high/low 191p/62p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£3.6m (at 30/06/20)
Enterprise value	£127.8m
Index/market	AIM
Next news	Trading update, Dec-20
Shares in Issue (m)	74.4
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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Growth, profits and positive cash flow

Against a backdrop of global economic turbulence driven by COVID-19, Bango's H1 20A results confirm robust growth in End User Spend ("EUS") and revenues, alongside record EBITDA and a solid improvement in operating cash flow. Execution in the payments business remains strong, and growth in Bango Marketplace in our view demonstrates the group's increasing traction in data monetisation. The outlook statement is positive, and we make no changes to underlying estimates following the announcement. Overall, we continue to believe that momentum remains strong, and that the group is well placed to deliver its FY 20E targets.

- Robust growth in EUS and revenue:** Consistent with the July-20 trading update, Bango reported H1 20A EUS of £743m (+59% YoY) and revenue from continuing operations of £4.8m (+50% YoY). Momentum in the payments business remains strong. H1 20A saw the launch of a number of new payment routes, new merchants joining the platform and 45% growth in end-users compared to 1H19. Bango Marketplace demonstrated impressive commercial progress during the period, with over 1200 new developers engaging with the service.
- Record EBITDA:** The group reported adjusted EBITDA of £1.09m for the period. This is more than double the entire FY 19A level and represents a 23% margin. With H1 20A adjusted operating expenditure at £3.6m (vs £3.25m H1 19A), we believe the H1 20A results continue to demonstrate the operating leverage inherent in the Bango Platform.
- Improving cash flow, solid financial position:** The improvement in profitability was the key driver of a significant improvement in operating cash flow. Bango delivered operating cash flow of £0.2m during the period, a £0.6m improvement on H1 20A. The closing gross cash position was confirmed at £4.2m (£3.6m net of lease liabilities) and we note this figure includes the net proceeds from the NHN transaction and payment of the Audiens earnout and transaction costs.
- Positive outlook statement:** Citing a strong pipeline, an expanding addressable market and new service launches, management signal their confidence that the group is on track to deliver FY 20E EUS of over £2bn.
- Underlying estimates unchanged:** Our FY 20E revenue and EBITDA forecasts are unchanged, reflecting unaltered expectations on the performance of the Bango Platform. Included in our revised forecasts are losses from the Newdeep associate and the amortization of the IP in the JV. The net result is a 16% reduction in FY 20E adjusted PBT to £0.6m.

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	11.7
Adj EBITDA	-2.4	-1.6	-0.9	0.4	3.0

Source: Company Information and Progressive Equity Research estimates

The Virtuous circle continues to deliver

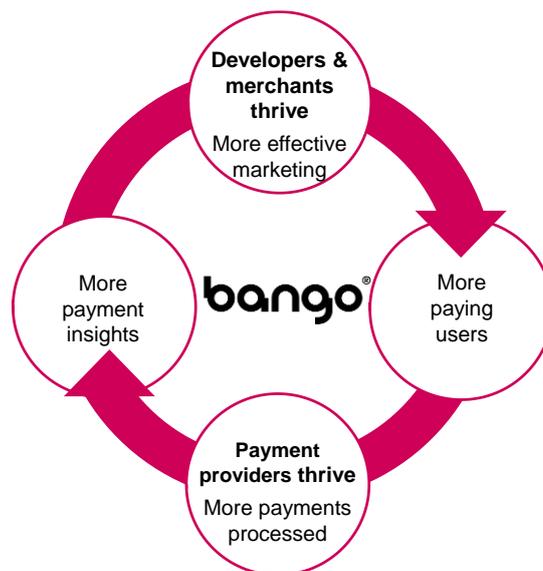
A quick recap on the strategy...

The Bango strategy has been to deploy a global payment platform that enables online merchants to offer alternative payment mechanisms – for example direct carrier billing – to their customers in app stores, for streaming media content and other online services

Processing £2bn of transaction value annually (FY 20E), the platform has recently seen significant expansion and now connects customers of Pay TV, cable and fixed-line telecoms operators with online merchants and traditional “bricks and mortar” retailers. The platform also facilitates payment for physical goods, in addition to digital content.

As a global business connecting customers of some of the world’s leading merchants such as Amazon, Google and Microsoft with customers of some of the world’s leading telecoms operators such as Verizon, NTT DoCoMo, and Vodafone, the Bango platform generates material quantities of (valuable) payment insight data. Over the past 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:

The Bango virtuous circle



Source: Company materials

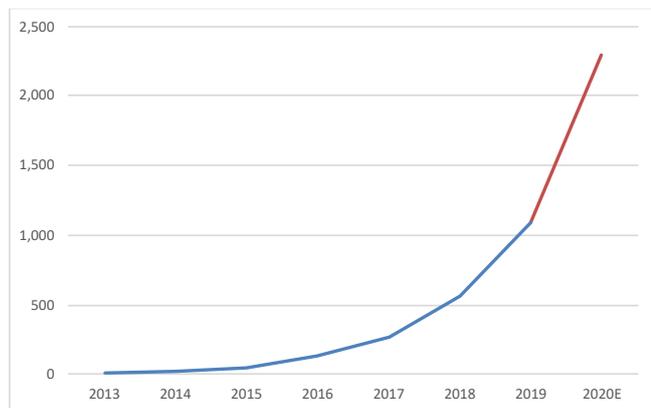
...and H1 20E demonstrates continuing delivery

With Bango delivering impressive growth in EUS and revenues, record EBITDA and a strong improvement in cash generation, in our view the virtuous circle strategy is working. We believe the strong execution demonstrated during the first half of 2020, against global COVID driven economic turbulence, provides grounds for optimism in the group’s ability to create further value from the platform and continue on its strong growth path.

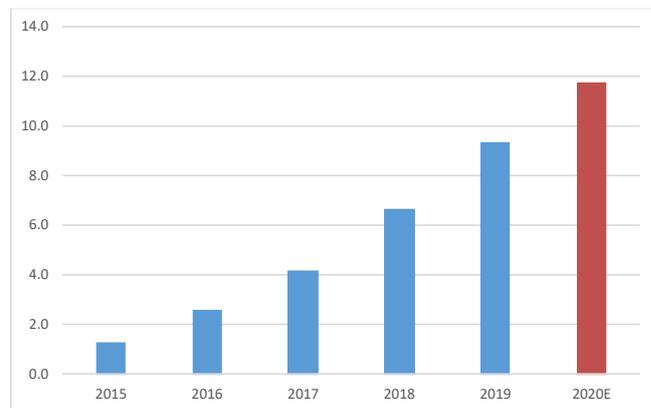
Recent trends in EUS and revenue are shown below.

Bango – recent trends in key financial metrics

EUS (£m)



Revenue (£m)



Source: Company data

A simple formula for growth

Bango’s business model has a multi-dimensional formula to drive growth. This is summarised in the following graphic.

Bango – growth drivers



Source: Company information

During H1 20A, the group delivered growth in all four areas:

- **More Users:** The global COVID-19 pandemic has seen significant growth in e-commerce. In the UK alone, a recent industry report¹ suggested COVID will add £5.3bn to domestic e-commerce sales in 2020. According to IBM’s annual US retail Index, COVID-19 has accelerated retail trends by almost five years – particularly in the shift to online

¹ <https://www.prnewswire.com/news-releases/covid-19-to-add-5-3bn-to-uk-ecommerce-in-2020--301080427.html>

spending². As a result of COVID, and associated lockdowns, Bango saw 45% YoY growth in users (globally) making payments using the Bango Platform during H1 20A.

- **More Routes:** Amongst other initiatives, H1 20A saw Bango launch new Google play routes in three continents, extend DCB for Amazon to Softbank subscribers in Japan and sign a major deal with a global telco for the client to use Bango as their sole integration point for all third-party services.
- **More Merchants:** A number of new merchants joined Bango during H1 20A, with a highlight being Hatch, the monthly subscription- based 5G games streaming platform. Post-period end, the group signed a number of new partners including ODK Media.
- **More Insights:** The release heralds that Bango Boost delivered good growth across all existing connections for merchants including Amazon, Google and Microsoft during H1 20A. Highlights during the period were UAE-based MNO du Telecom seeing a 20% re-engagement rate within two weeks of launching a marketing campaign based upon Bango technology and an un-named Asian operator delivering a 10 percentage point improvement in subscription renewals for one merchant.

Positive outlook

The release confirms management’s confidence of delivering FY 20E EUS in excess of £2bn, continuing the exponential growth delivered over the past six years. The release highlights:

- **A strong pipeline:** H2 20E is expected to see initial revenues from a number of activities undertaken in the first half. (*See below for further commentary*). The deal pipeline for H2 is “very strong”, with a number of new streaming, games and lifestyle brands expected to join the Bango circle that will start to contribute in H2 and over future years.
- **The addressable market is expanding:** In 2019, Bango expanded from Mobile Network Operators to include Pay TV, cable and fixed-line telecoms operators. 2020 has seen further expansion of the platform into a new vertical – “bricks and mortar” retail. In addition, the group has recently signed an agreement with an (un-named) agency who will use Bango Audiences in marketing campaigns for their retail customers, signalling the first use beyond app developers.
- **Rapid growth in m-commerce:** To quote a recent article from Internetretailing.net³, “with COVID-19 driving stay-at-home orders, consumers seem to be leaning on mobile shopping even more readily” Bango is benefitting from this structural shift in consumer behaviour, seeing increasing volumes of new users making initial purchases on the app stores and subscribing to streaming services for the first time. Furthermore, these additional users generate more data monetisation opportunities and further stimulate demand for the Bango Marketplace suite.
- **5G mobile will stimulate new service launches:** 5G mobile offers higher bandwidth and lower latency than previous mobile platforms. This is expected to facilitate the creation of new services that were not previously viable – such as augmented and virtual reality but also enhancements to existing services, such as increasing the quality of streaming video. With a robust, scalable global payments platform and strong market position, Bango is well placed to capture growth from emerging technologies.

² <https://techcrunch.com/2020/08/24/covid-19-pandemic-accelerated-shift-to-e-commerce-by-5-years-new-report-says>

³ <https://internetretailing.net/mobile-theme/mobile-theme/shopping-apps-reap-golden-age-of-m-commerce-as-shoppers-go-mobile-in-lockdown-21567>

Estimates

We make revisions to FY 20E estimates following the announcement. These are summarised in the following table:

Bango – forecast changes (continuing operations)			
£m unless stated	FY 20E		
	Old	New	Change (%)
End-user spend	2287.3	2287.3	0.0%
Revenue	11.71	11.71	0.0%
Fully adj EBITDA	3.0	3.0	0.0%
Fully adj PBT	0.8	0.6	-15.8%

Source: Progressive Equity Research estimates

- Our FY 20E EUS and revenue estimates are unchanged, reflecting unaltered expectations on the performance of the Bango Platform. We continue to expect a doubling of EUS during the year and maintain our forecast of the proportion of EUS to be retained by Bango. At £3.0m, our FY 20E EBITDA estimate is also unaltered.
- Following the NHN transaction, and confirmation of the H1 20A financial outcome, we have revised our expectations of full-year depreciation and amortisation charges. Included in our new forecasts are the losses from the Newdeep associate and also the amortisation of the Intellectual Property in the joint venture. The net result of these changes is a 16% reduction in adjusted PTP.
- We forecast a FY 20E closing net cash position of £3.7m. This compares to £3.0m previously, with the improvement reflecting lower lease liabilities than we had previously forecast, alongside an improved working capital performance.

A comment on H1/H2 performance

Bango delivered EUS of £743m and revenue of £4.77m H1 20A. This implies significant additional EUS will be required in the second half to meet our FY 20E estimates. However Bango typically records higher EUS during Q3 and Q4, with peak buying periods around holidays, Black Friday promotions on top of normal underlying growth. We highlight:

- Bango signed a three-year platform deal with a global telco during H1 20A, worth at least £1.5m in revenue terms, with opportunities for further growth.
- The period saw the launch of new Google routes across three continents, with launches in Asia, Africa and Latin America.
- H1 20A saw Bango enable DCB for Amazon Japan to Softbank customers, thereby extending the service to reach over 100m subscribers in that country.
- Bango launched bundled merchant services with a retail giant in the USA during H1 20A.
- H1 20A saw c1200 new developers register and engage with the Bango Marketplace.
- Post-period end, the group signed a number of new partners including ODK Media. The group also announced further expansion of the Bango Marketplace in Asia, with new partnerships in China, Hong Kong, Taiwan, India and Indonesia.

Many of these new revenue streams will generate initial revenues in the second half and continue to contribute in future years. With growth also expected from existing routes and customers, we believe the ambitious H2 20E outcome is achievable.

Financial Summary: Bango

Year end: December (£m unless shown)

	2016	2017	2018	2019	2020E
PROFIT & LOSS					
EUS (Non-GAAP)	132.3	271.4	558.2	1,093.4	2,287.3
Revenue	2.6	4.2	6.6	9.31	11.7
Adj EBITDA	(2.4)	(1.6)	(0.9)	0.4	3.0
Reported PBT	(4.7)	(3.9)	(3.6)	(3.1)	(0.6)
Fully adj PBT	(4.1)	(3.6)	(2.9)	(2.0)	0.6
NOPAT	(2.9)	(2.0)	(1.8)	(0.9)	1.3
Reported EPS	(6.8)	(5.3)	(4.0)	(3.5)	6.3
Fully adj EPS	(6.3)	(5.5)	(4.2)	(2.9)	0.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(2.6)	(0.7)	(2.3)	1.0	0.3
Free Cash flow	(6.0)	(2.2)	(4.4)	(1.2)	(0.4)
FCF per share	(9.2)	(3.4)	(6.3)	(1.7)	(0.5)
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	2.5
Currency effects	(0.1)	0.0	0.0	0.0	0.0
Net cash flow	(6.2)	(0.8)	(1.0)	(1.1)	1.6
Cash & equivalents	5.7	4.8	3.8	2.7	4.3
Net (Debt)/Cash	5.6	4.6	3.5	1.6	3.7
NAV AND RETURNS					
Net asset value	12.4	10.7	16.0	14.7	20.7
NAV/share	19.1	16.2	22.9	21.1	28.5
Net Tangible Asset Value	6.3	4.6	4.0	2.5	14.1
NTAV/share	9.7	7.1	5.8	3.6	19.3
Average equity	14.1	11.5	13.3	15.3	17.7
Post-tax ROE (%)	(31.2%)	(30.3%)	(20.8%)	(15.8%)	25.8%
METRICS					
EUS growth		105.1%	105.7%	95.9%	109.2%
Revenue growth		58.2%	59.4%	40.6%	25.8%
Adj EBITDA growth		(35.3%)	(44.7%)	(151.8%)	560.6%
Adj PBT growth		(12.0%)	(19.6%)	(29.3%)	(131.1%)
Adj EPS growth		(13.8%)	(23.9%)	(29.3%)	(129.9%)
Dividend growth		N/A	N/A	N/A	N/A
Margin on EUS		1.5%	1.2%	0.9%	0.5%
VALUATION					
EV/Sales	48.7	30.8	19.3	13.7	10.9
EV/EBITDA	-52.7	-81.5	-147.4	284.5	43.1
EV/NOPAT	-43.7	-63.4	-70.6	-143.9	101.4
PER	N/A	N/A	N/A	N/A	200.8
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(5.2%)	(1.9%)	(3.6%)	(1.0%)	(0.3%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

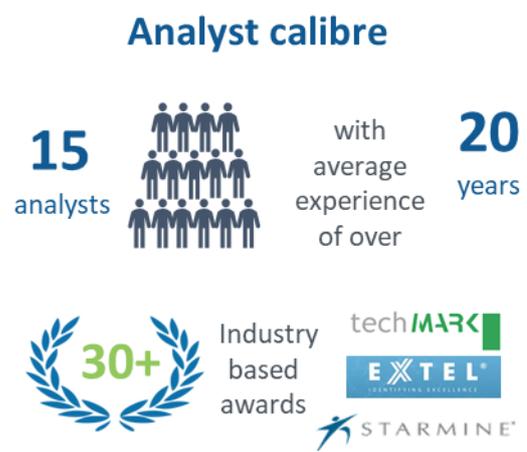
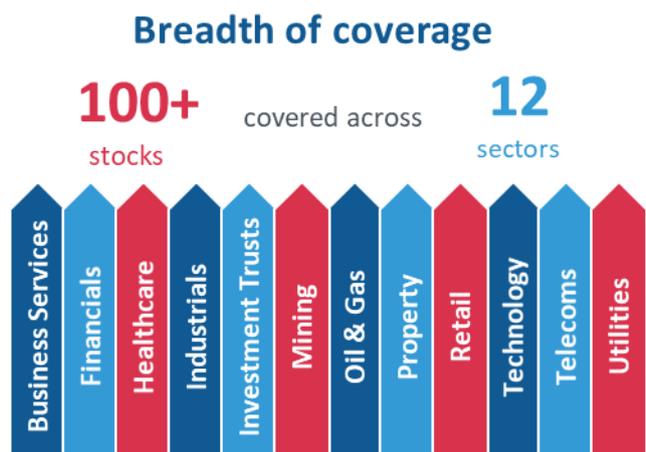
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