investors CHRONICLE alpha

2 July 2020

Tap into the remote working boom with LoopUp

The Covid-19 lockdowns have enforced remote working on millions of organisations and could signal a major structural change. LoopUp is a major beneficiary

LoopUp (LOOP)

Ticker	LOOP
12-month target price	225p
Market cap	£74.5m
52-week high	296p
52-week low	39p
Net debt	£11.4m
Shares in issue	55.367m
Financial year-end	31 December
Next event	First-half pre-close trading update in mid-July 2020
Company website	loopup.com

Simon Thompson's view:

LoopUp appears to be in the early stages of an earnings upgrade cycle and that's simply not priced in, with the Aim-traded software company being valued on half the UK Small-Cap Technology sector average enterprise valuation to Ebitda multiple. Moreover, a brief trading update at last week's annual meeting revealed business activity continues to run well above pre-Covid-19 levels, highlighting potentially a secular change as more organisations adopt flexible remote working as the new norm. By targeting its sales efforts in professional services verticals, the company's strong trading prospects are set to drive a major re-rating.

Bull points

- Business critical secure communications for the professional market.
- Significant increase in new business volumes during lockdown and likely beneficiary of greater adoption of home working practices longer term.
- Scalable and secure software platform.
- High gross margins.
- High retention rate on core professional services customer base.
- Improved cash generation in 2020 and 2021 set to deleverage balance sheet.
- Earnings upgrade cycle in early stage and consensus earnings estimates still very conservative.
- MeetingZoom acquisition now integrated.
- Pod business model offers operational leverage to roll-out product suite.
- UK tax credit on capital expenditure and historic tax losses.

Bear points

- Economic recovery could make corporate customers more cautious.
- Small-cap liquidity discount and low free float.
- Underperformance in 2019 as MeetingZoom acquisition bedded in.

LoopUp share price history

Source: FactSet

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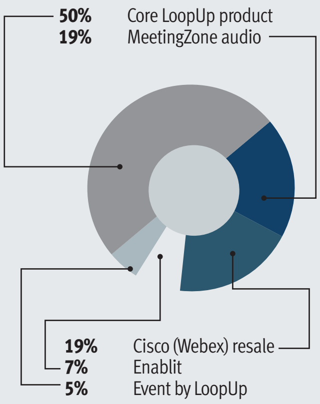
The Covid-19-imposed lockdown has severely hit activity levels across the country, as highlighted by the 20 per cent slide in the UK economy in the three months to April 2020. However, not all businesses have suffered. The key is to identify companies that have traded well during the lockdown, and that should maintain growth as restrictions are eased.

LoopUp (LOOP), a premium remote conference meetings company, is a clear winner. Revenues soared 40 per cent in the first four months of 2020, as existing customers have become far more active. New clients have switched to LoopUp after experiencing reliability issues with their incumbent product relating to VoIP-based audio over the public internet. Although usage of LoopUp is mainly for its secure audio-conferencing capabilities, the company has also seen marked increase in video usage and the number of events hosted on its 'Event by LoopUp' platform.

LoopUp revenue segmentation



Source: LoopUp annual report 2019

LoopUp revenue segmentation

Business activity	Percentage
Core LoopUp product	50%
MeetingZone audio	19%
Event by LoopUp	5%
Enablit	7%
Cisco (WebEx) resale	19%

Source: LoopUp annual report 2019

LoopUp's customers are mainly enterprises in professional service sectors such as law, accountancy, investment banking, corporate finance, private equity, venture capital, asset management, insurance, PR and marketing. As flexible working and remote working become the new norm post Covid-19, LoopUp is well placed to see a further uptick in business as even more companies decide to adopt a flexible approach and wish to enable their employees to work remotely and securely. This secular change in behaviour patterns is likely to mean that following this year's spike in activity levels – the company's May 2020 trading update highlighted inbound leads were four times pre-Covid-19 levels, and new customer contracts had doubled – trading levels are likely to normalise at a far higher run-rate than would have been the case in a world without Covid-19.

It's already happening, as the directors confirmed at last week's annual meeting that the business continues to trade materially above pre-Covid-19 levels. A pre-close trading update in mid-July will offer more insight into the numbers, but analysts at house broker Panmure Gordon are primed to push through yet more earnings upgrades, even after raising their earnings per share (EPS) estimates by 80 per cent in May.

LoopUp (LOOP)

Ord Price: 134.5p	**Market Value:** £74.5m
Touch: 131-138p	**12-Month High:** 296p **Low:** 39p
Dividend Yield: nil	**PE Ratio:** 17
Net Asset Value: 105p*	**Net Debt to Equity:** 20%

Year to 31 Dec	Revenue (£m)	Adjusted pre-tax profit (£m)	Diluted earnings per share (p)	Dividend per share (p)
2015	10.1	0.16	-2.4	nil
2016	13.6	1.13	0.5	nil
2017	17.5	0.73	4.4	nil
2018	34.2	4.08	9.3	nil
2019	42.5	0.50	2.2	nil
2020^	50.2	3.70	7.3	nil
2021^	52.7	4.00	7.7	nil
Forecast 2020-21 change	5%	8%	5%	–

Normal market size: 2,000 SETSqx
*Includes intangibles assets of £60.6m, or 109p a share
^Progressive Equity Research forecasts. Pre-tax profits and EPS stated before amortisation of intangible assets, share-based payments and exceptional items.
Source: Loopup annual report, London Stock Exchange

Remote meetings and conference calls

Remote meetings and conference calls have become a mainstay of day-to-day business life. Over two billion conference calls take place around the world each year, accounting for more than half of all voice calls at large enterprises. That number is likely to increase markedly in the coming years and not only because of changes in working practice stemming from the Covid-19 outbreak. There are other drivers at play here, too.

Firstly, organisations are coming under increasing pressure to reduce their carbon footprint and improve their environmental responsibility. Travel is the largest source of emissions for many businesses and approximately 14 per cent of greenhouse gases are attributed to travel. However, prior to the Covid-19 pandemic, business travel had been growing globally at 3 to 5 per cent each year ('10 Business Travel Trends for 2019', Skift Report 2018). The experience of many organisations with access to remote working technology during the global lockdown has shown that their employees are still able to conduct business without the same requirement to travel, thus potentially accelerating a structural change in working practises longer term. This can only be positive for LoopUp.

Secondly, the company is differentiated from broader competition through its focus on the professional services market, a segment accounting for over US$2bn of the US$7bn global market for remote meetings, according to Wainhouse Research. The needs and priorities of customers in professional service sectors are quite distinct from those of the general enterprise market. For instance, conference calls are predominantly with external guests, such as client and adviser-to-adviser meetings. LoopUp's software platform is ideally suited to this specific segment of the market for multiple reasons:

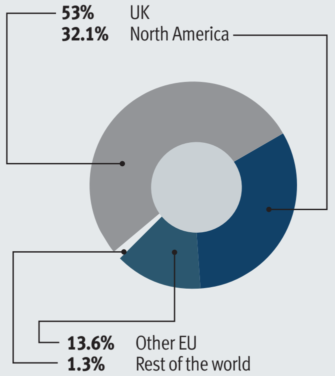
■ **Reliability.** This is non-negotiable for business-critical calls, hence why LoopUp's calls are always over tier-1 managed quality-of service networks, rather than over the public internet. This means that guests are never at the mercy of a bad internet connection or poor bandwidth, thus avoiding the embarrassment of the host having to ask guests to repeat themselves, or restarting the call because of a dropped connection. By contrast, VoIP audio makes sense for products targeting the general market, hence the key differentiation in LoopUp's offering to professional services clients which addresses the specific needs of this particular market segment.

■ **Information security.** Demonstrating the highest standards of information security is paramount given that highly confidential and commercially sensitive data is being discussed by end users and their external guests during conference calls. LoopUp is certified to ISO/IEC 27001 for information security management and all data is encrypted while stored and in transit. Also, a meeting dashboard provides the host with complete visibility and control on every call to see exactly who's joined and who's speaking, and to remove unidentified or unwanted guests if necessary.

For users, an Outlook plug-in means that meeting invites can be sent straight from the host's calendar, while apps for iOS and Android make it easy to schedule and join calls from a mobile device, so no more scrambling for access numbers and PIN codes. The technology avoids the major security issue with 'reservationless' conferencing of other providers, whereby the same dial in numbers and access codes are used time and time again, and often end up in different hands, with the obvious risk of a security breach.

■ **Functionality.** It's important that the user experience is not over complicated given that external guests may be using the software for the first time. Software downloads/installs can be problematic for external guests due to security permissions, whereas IT teams can pre-install the software for internal users. LoopUp provides a simple experience, focused first and foremost on the needs of these client guests. In fact, all they need is a phone and a web browser – no downloads and no training are required. The 'feature-lite' product is in contrast to nearly

LoopUp revenue by geographic region



Source: LoopUp annual report 2019

all other products targeting the mainstream market (dominated by the likes of Zoom and Microsoft Teams) where operators need to accommodate quite varied departmental use cases, adding to the complexity of their product offering.

Importantly, LoopUp integrates with important tools and processes, making it easy to use. The platform enables the host to share their screen with just one click so that other guests can view presentations, spreadsheets or contracts for more effective collaboration. For a more personal interaction, video can be added to any audio call at the click of a button.

Over 5,000 organisations trust and value LoopUp's simple, secure and reliable remote meetings, a user base that includes more than 20 per cent of both the AmLaw Global 100 firms and the world's top-100 private equity firms. The London-based company has 16 offices in North America, Europe, Hong Kong, Sydney and Barbados, so has a wide geographic footprint and covers the world's major business capitals.

LoopUp revenue by geographic region

Region	Percentage
UK	53.0%
Other EU	13.6%
North America	32.1%
Rest of the world	1.3%

Source: LoopUp annual report 2019

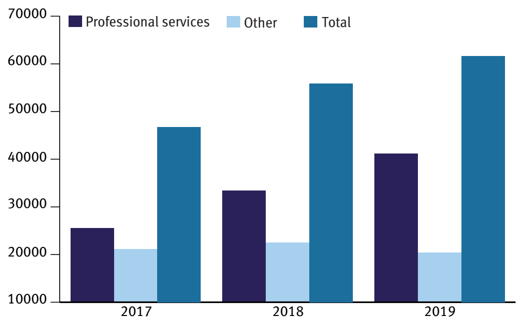
New business acquisition activities focused on professional services verticals

LoopUp operates its own 'Pods' organisational structure for new business acquisition activities. The company currently has 10 Pods, up from six at the time of the IPO in August 2016, located in London (two), San Francisco (two), New York, Boston, Chicago, Dallas, Los Angeles and Madrid.

A typical Pod comprises a mix of business development (three), sales (two) and account management (one) members of staff. Bonus payments are made solely on each Pod's – rather than individual – performance, and based on recurring revenue growth. Business development Pod members are incentivised only to seek qualified opportunities with genuine target market revenue potential, and sales Pod members are incentivised only to close accounts with genuine target market revenue potential.

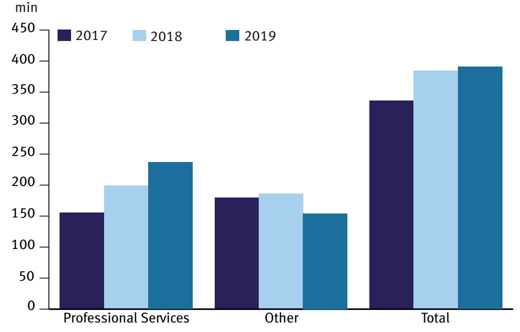
In the 2019 financial year, LookUp increased the volume of target-market inbound leads by 43 per cent by focusing marketing activity on reaching IT decision makers and users in professional services verticals. It also expanded

Professional services driving active user numbers



Source: LoopUp annual report

LoopUp user minutes driven by professional services



Source: LoopUp annual report

the range of marketing activities to include targeted digital display advertising in multi-tenanted office buildings and intent-based online display advertising.

The results of the sales effort are revealing. LoopUp active users in professional services verticals increased by 24 per cent to 41,209 in 2019, effectively accounting for all the 10 per cent growth (to 61,580 users) across the whole business. Moreover, the vertical's gross revenue churn rate of 5.6 per cent was well below the 14.4 per cent reported figure for the rest of the business and less than half the Software-as-a-Service (SaaS) benchmark 12.7 per cent churn rate (based on KBCM Technology Group's survey of 424 SaaS companies). Also, the professional services verticals' new customer acquisition cost ratio – the cost to acquire £1 of annual recurring revenue – was £0.96 compared with £2.43 for the rest of the business, and £1.34 for the SaaS benchmark.

Core LoopUp product KPIs

LoopUp product active users

	2017	2018	2019
Professional services	25,600	33,400	41,200
Other	21,200	22,500	20,400
Total	46,800	55,900	61,600

LoopUp minutes

	2017	2018	2019
Professional services	156m	199m	237m
Other	180m	186m	154m
Total	336m	385m	391m

LoopUp revenue

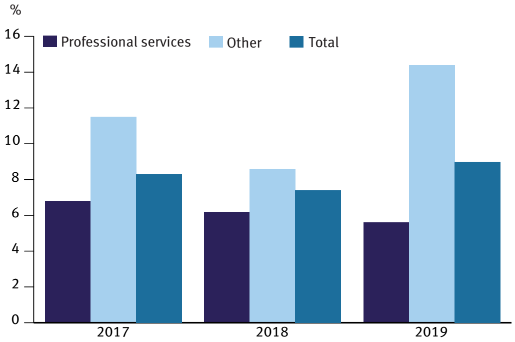
	2017	2018	2019
Professional services	£9.1m	£12.1m	£13.6m
Other	£8.7m	£9.2m	£7.6m
Total	£17.8m	£21.4m	£21.2m

Source: LoopUp annual report

Unsurprisingly, a strategic priority in 2020 is a more dedicated sales focus on professional services, LoopUp's most lucrative sales vertical. The sales effort is backed up by investment in both marketing and the platform to enhance the user experience. Initiatives include a new account area for users and administrators which is translated into six languages and has faster load times; co-branding, so customers can display their logo on every LoopUp meeting they host; and a new support site to make it easier for users and administrators to find support articles and other resources.

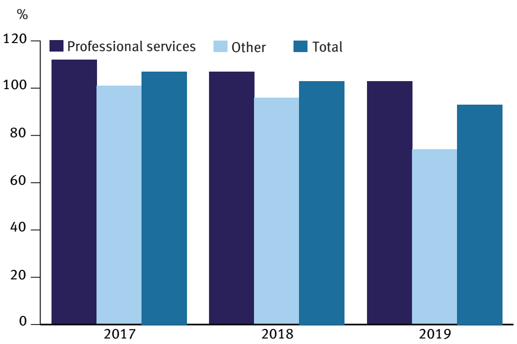
The launch of 'Event by LoopUp', an upgraded operator-assisted service for events with up to 10,000 guests, commonly used for town hall calls and important external announcements, highlights how product development spend is being targeted at optimising the platform for customers with large numbers of external guest in their remote meetings. It's already paying off as revenue generated from 'Event by LoopUp' surged by more than half to £2.2m in 2019, accounting for five per cent of total revenue, and the offering has since been expanded into the US market.

Professional services has low revenue churn rate



Source: LoopUp annual report

Professional services boasts leading net revenue retention rates



Source: LoopUp annual report

Core LoopUp churn and customer acquisition cost KPIs

Gross revenue churn (%)

	2017	2018	2019
Professional services	6.8%	6.2%	5.6%
Other	11.5%	8.6%	14.4%
Total	8.3%	7.4%	9.0%

Net revenue retention (%)

	2017	2018	2019
Professional services	112%	107%	103%
Other	101%	96%	74%
Total	107%	103%	93%

Customer acquisition cost to acquire £1 of new customer annual recurring revenue

	2017	2018	2019
Professional services	na	na	£0.96
Other	na	na	£2.43
Total	£1.02	£1.08	£1.38

Source: LoopUp annual report

MeetingZone integration complete

LoopUp raised £7.5m net proceeds at 100p a share to value the equity at £40.8m in the IPO. The company had been fast growing, increasing revenues at a compound annual growth rate of 37 per cent over the four financial years to 31 December 2017. However, it was still a relatively small player in what is a multi-billion dollar market.

So, to enable the business to scale up faster, the directors announced in May 2018 the £61.4m acquisition of MeetingZone, a UK-headquartered conferencing services provider with operations in the UK, Germany, Sweden and North America. MeetingZone sells its own standalone audio conferencing services, resells Cisco's WebEx and Spark collaboration services, and offers a value-added audio services product for Microsoft Skype for Business. The consideration equated to 12 times MeetingZone's pro forma earnings, before interest, depreciation and amortisation (Ebitda) for the 2017 financial year. The acquisition was funded by a £50m

"The Cisco Webex resale business has performed well"

placing of 12.5m new shares at 400p, and a £17m new term loan from Bank of Ireland. The plan was to generate £2.8m of cost savings, reinvest in the business to drive organic growth, and improve the free float and liquidity of the shares.

By the end of 2019, LoopUp had completed the transition of MeetingZone's audio conferencing customers over to its own LoopUp platform in the main UK, US and German geographies, with only Sweden to follow in 2020. Including both transitioned and untransitioned customers, Meetingzone's audio revenue increased by almost 40 per cent to £8.3m in 2019. The Cisco Webex resale business has performed well, increasing revenues from £4.7m to £8.1m in 2019 and the focus is to drive greater product adoption and upsell opportunities in this customer base.

Since the acquisition, LoopUp has rebranded MeetingZone's value-added audio services product for Microsoft Skype for Business to 'Enablit'. Specifically, the Enablit platform integrates with Microsoft Teams (and Skype for Business) to provide customers with a competitively priced and reliable telecoms termination. This business unit increased revenue by 75 per cent to £2.8m in 2020 and guidance is to expect further growth in 2020.

However, the MeetingZone acquisition represented the high-water mark for LoopUp's share price for the simple fact that there was a shortfall in the anticipated growth forecast. In fact, the £42.5m of revenue reported by LoopUp in 2019, the first full year post the acquisition, was only 5 per cent above the combined revenue the two companies made on a standalone basis in their 2017 financial years when they reported aggregate pro forma Ebitda of £8.4m on revenue of £39.9m.

LoopUp's reported Ebitda of £7.7m in 2018, including a seven-month contribution from MeetingZone, declined to £6.4m in 2019. Macroeconomic headwinds leading to fewer client meetings and reduced usage were certainly contributory factors for the underperformance given the majority of users are invoiced on a 'Pay as you go' basis. They were not the main issues though as LoopUp experienced growing pains, the primary reason for the underperformance in 2019.

LoopUp emerges stronger from annus horribilis

Having materially expanded its sales Pods, the company needed to ramp up new staff pipelines. This resulted in certain senior Pod staff being reallocated into management and training capacities, the effect of which

"Earnings downgrades last year had an accentuated negative impact on LoopUp's highly-rated share price"

was to hold back 2019 revenue growth at a time when staff numbers had increased 40 per cent to 269 employees, a major contributor to the 35 per cent rise in administration costs to £21.8m in 2019. Indeed, the £3.6m increase in staff costs to £14.4m in 2019 accounted for two thirds of the rise in administration costs. So, with revenue growth underwhelming, the operational leverage of the business worked in reverse, a major contributory factor behind the decline in underlying operating profit from £4.5m in 2018 to £1.1m in 2019.

In addition, the major transition of MeetingZone's audio conferencing customers over to the LoopUp platform was a demanding and complex project. The company held over 300 meetings with major accounts and worked on numerous platform and network initiatives to accommodate the transition and increase in scale. In hindsight, LoopUp's management was overly optimistic in both its execution and growth projections while undertaking such a complex project. The resultant earnings downgrades last year had an accentuated negative impact on LoopUp's highly rated share price.

However, the company has turned a corner on multiple fronts.

Trading prospects markedly improved

For starters, the completion of this significant project enables LoopUp to benefit from the 'network effect' of having more meetings hosted on the LoopUp platform and so more non-customer guests experience the technology, thus creating natural leads for new business as well as economies of scale in purchasing power. Importantly, it also frees up time for the account management team to refocus on growth in its major account base and to more proactively promote recent product enhancements.

Secondly, LoopUp is now benefiting from the operational leverage effect of the business model, whereby a higher proportion or incremental gross margin drops through to Ebitda on rising revenue, in what is a far more benign trading environment due to the marked increase in remote working. Gross margin in the core LoopUp platform, accounting for half of total revenue, increased from 78 per cent to 79 per cent in 2019, highlighting the efforts to cut supply costs as volumes increase. Furthermore, guidance is to expect further margin enhancement this year. This means that the key driver of LoopUp's growth is more profitable, a factor that is set to drive up profits at an even faster rate than revenues in 2020 and beyond.

Thirdly, the dramatic bounce back in stock markets from

"LoopUp has been providing 20 NHS trusts with its technology platform on a pro bono basis during the Covid-19 crisis"

their March lows and the easing of distress in financial market conditions is clearly positive for the trading activities of end users operating in mergers & acquisitions (M&A), corporate broking, private equity, venture capital and accountancy professions as well as law firms working on M&A deals. LoopUp has developed sector specific software that is integrated into its platform to capitalise on the new business opportunity in these key market segments. It is also well placed to prosper from a likely surge in the number of legal disputes resulting from this year's economic downturn and the fall-out from Covid-19, having won an account with the world's largest dispute resolution law firm last year.

It's well worth noting that LoopUp has been providing 20 NHS trusts with its technology platform on a pro bono basis during the Covid-19 crisis. Many of them will have benefited greatly from the flexibility of remote working and the efficiency savings it generates, so it's quite possible that the new 'norm' will result in greater adoption of the technology on a full-time and commercial basis. LoopUp is well placed to capitalise on this opportunity.

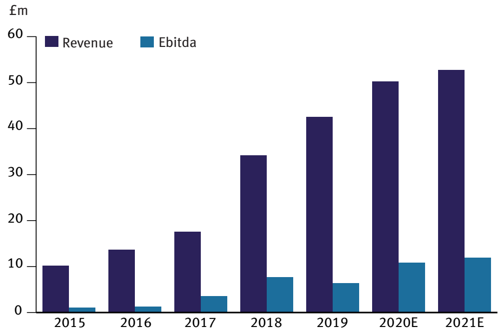
Earnings upgrades and deleveraging create positive tailwind

Analysts were predicting much improved trading performance for the 2020 financial year even before the Covid-19 pandemic sent LoopUp's business volumes soaring. It was reasonable to expect given that the major transition of MeetingZone's audio conferencing customers over to the LoopUp platform is almost complete, thus freeing up valuable management time to drive growth in the professional services vertical, which generates higher return on investment.

To put this into some context, following LoopUp's May trading update, analysts at house broker Panmure Gordon raised their 2020 revenue estimate by 16 per cent from £43.4m to £50.2m, up from £42.5m in 2019. Monthly sales during March and April are likely to have spiked to between £6m and £7m. As noted, a higher proportion of gross margin earned on incremental sales is converted into Ebitda, a reflection of LoopUp's ability to scale up on a relatively fixed cost base.

This explains why Ebitda of £6.4m in 2019 is expected to surge to £10.7m in 2020, so effectively over 60 per cent of the additional revenue earned in 2020 will be converted into cash profit. Progressive Equity Research have almost identical Ebitda forecasts for 2020. However, if monthly sales have stabilised at £4m to £5m after the initial spike when the UK lockdown was imposed, as now seems

LoopUp's profitability set to surge as revenues increase



Source: LoopUp annual report, Progressive Equity Research forecasts 2020 & 2021 highly likely, then both Panmure Gordon's and Progressive Equity Research's 2020 annual revenue estimate of £50m could be exceeded by quite some margin. That augurs well for chunky earnings upgrades following LoopUp's pre-close trading update in mid-July and for 2021 trading prospects, too.

LoopUp's profitability set to rebound

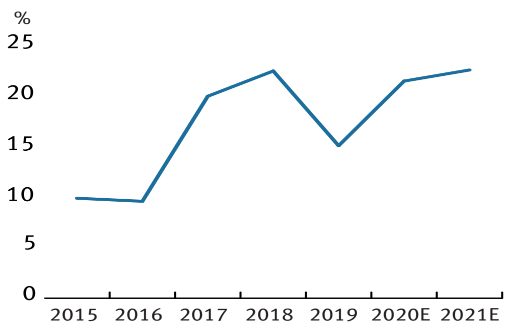
	2015	2016	2017	2018	2019	2020E	2021E
Revenue	£10.1m	£13.6m	£17.5m	£34.2m	£42.5m	£50.2m	£52.7m
Ebitda	£1.0m	£1.3m	£3.5m	£7.7m	£6.4m	£10.8m	£11.9m
Ebitda margin	9.9%	9.6%	20.0%	22.5%	15.1%	21.5%	22.6%

...and improving cash profits to deleverage balance sheet

	2015	2016	2017	2018	2019	2020E	2021E
Net cash (debt)	-£7.3m	£2.2m	£2.9m	-£10.6m	-£11.5m	-£6.9m	-£1.7m

Source: LoopUp annual report, Progressive Equity Research forecasts 2020 and 2021

LoopUp's Ebitda margins to recover

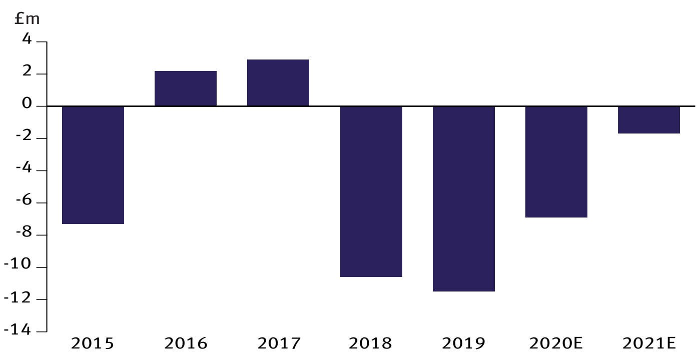


Source: LoopUp annual report, Progressive Equity Research forecast 2020-21

In turn, the higher revenue run rate will enable LoopUp to pay down its net debt at a faster rate. Analysts expect net borrowings to decline from £11.4m to a range £7.6m (Panmure) to £6.9m (Progressive Equity Research) by the end of 2020, falling to £4.6m (Panmure) to £1.7m (Progressive Equity Research) by end of 2021. The point is that as debt is repaid, a higher proportion of the economic interest in LoopUp is transferred from debt holders to equity shareholders, thus enhancing the share price.

For instance, if the company manages to pay off almost £10m of borrowings by the end of next year, reflecting the cumulative free cash flow Progressive Equity Research estimate the company will generate over the 2020 and 2021 financial years, this is worth 18p a share to shareholders, and arguably far more. That's because investors are more inclined to attribute higher earnings multiples to companies as their financial risk improves. It also means that more operating profit can be retained by shareholders.

Balance sheet to deleverage as net cash (debt) improves



Source: LoopUp annual report, Progressive Equity Research forecast 2020-21

“The company is also significantly undervalued using a standard PE ratio”

LoopUp’s earnings growth significantly undervalued
Based on 55.36m shares in issue, LoopUp has a market capitalisation of £74.5m. Add to that net debt of £6.9m forecast at the end of 2020 and the forward enterprise valuation (EV) is £81.4m, or only 7.5 times conservative Ebitda estimates of £10.8m before likely upgrades. That’s half the UK Small-Cap Technology sector average multiple of 15. For the 2021 financial year, LoopUp’s EV:Ebitda multiple shrinks to only 6.4 times based on Ebitda rising to £11.9m and net debt shrinking to £1.7m (Progressive Equity Research). That’s an incredibly low rating for a software company operating in a growth industry and one in which secular changes in working practises are driving end user demand.

The company is also significantly undervalued using a standard price/earnings (PE) ratio. Ahead of likely earnings upgrades when LoopUp announces its pre-close trading update in mid-July, analysts are currently conservatively expecting adjusted pre-tax profits to rise from a low point of £0.5m in 2019, to £3.7m in 2020 and £4m in 2021. With the benefit of a low tax charge – the company has £13m of accumulated UK tax losses for relief against future taxable profits and has submitted a claim for £1.4m of tax cash credit for research and development in the 2019 financial year – expect adjusted earnings per share (EPS) to surge from 2.2p to 7.4p in 2020 and 7.7p in 2021, implying a forward PE ratio of less than 18.

In a zero-interest rate policy environment, an earnings yield – the reciprocal of the PE ratio – of 5.5 per cent is attractive when the risk to revenue and profit forecasts is skewed to the upside. Indeed, analysts have taken a conservative view of 2021 revenues, too. Because 2020 has already benefitted from a Covid-19 related spike in volumes, year-on-year growth of just 4 per cent (to £52.7m) for 2021 has been pencilled in. However, current forecasts fail to factor in that LoopUp’s monthly sales are now likely to have stabilised at £4m to £5m, and that’s before winning more new business. Significant earnings upgrades beckon.

Meet the management

■ The company was founded in 2003 by 52-year-olds **Steve Flavell** and **Michael Hughes**, current co-chief executives, who met at Stanford Graduate School of Business in the mid-1990s. The business was transatlantic from the outset.

Mr Hughes is based in San Francisco and oversees product development, engineering and network operations worldwide. Prior to founding LoopUp, he was chief executive of Pagoo, a pioneering VoIP company, overseeing expansion into Europe and Asia.

Mr Flavell is based in London, tasked with overseeing global commercial activities and is accountable for delivering the company's financial plan. Prior to founding LoopUp, he was a main board director at GoIndustry, an online industrial auctioneering platform.

■ Finance director **Simon Healey** is also based in London where he oversees all global financial operations. Prior to joining LoopUp, the 46-year old was financial controller at Streetcar, a company which was sold to Zipcar in 2011. He is a Chartered Accountant and trained with KPMG.

■ The board is chaired by 73-year-old **Lady Barbara Judge** CBE, a trained commercial lawyer who is perhaps best known to UK technology investors for chairing the board of IT company Axon Group prior to its successful sale. Early in her career she was a commissioner of the US Securities & Exchange Commission, deputy chair of the UK Financial Reporting Council, chair of the Pension Protection Fund and the UK Atomic Energy Authority. Currently she is chair of Cifas, the UK membership organisation specialising in the prevention of fraud and financial crime.

■ There are three non-executive directors on LoopUp's board: **Mike Reynolds**, **Keith Taylor** and **Nicolas Goulet**.

Mike Reynolds recently held the position of executive vice-president at Syniverse Technologies, a global technology group based in Florida. Prior to that he served as chief executive of 2degrees Mobile, a mobile telecoms company in New Zealand. His experience includes a seven-year stint as president of Singapore-listed network operator, StarHub, where he was responsible for the day-to-day operations of 2,800 employees and US$1.4bn of revenue.

Keith Taylor has nearly 30 years' experience in senior roles across the finance industry. He has worked for Barclays for over 20 years, most recently as a managing director within the Corporate & Investment Banking division. He has a first-class honours degree from Cambridge University and an MBA with distinction from Cass Business School.

Nicolas Goulet is a managing partner at Adara Ventures where he has managed venture capital funds for the last 15 years. He has been actively involved with more than 25 early stage ventures and served on the boards of 15 companies. He has a MSc in Aeronautics & Astronautics from MIT, and an MBA from INSEAD.

In aggregate, the six directors were paid £762,000 in remuneration in 2019, not an unreasonable sum. They also own 21.8 per cent of the issued share capital worth £15.4m, so it's the investment upside from their shareholdings that provides the greatest financial incentive rather than salaries, thus aligning their interests with those of outside shareholders.

Shareholders and liquidity

Two-thirds of the issued share capital is controlled by the top 12 shareholders. This means that the free float is below average and over a third of the shares are not in public hands. The 12.6 per cent holding controlled by Adara Ventures SICAR represents that of Nicolas Goulet.

LoopUp's significant shareholders

Name	Percentage of issued share capital
Adara Ventures SICAR	12.6%
Andrew Scott (and related parties)	12.1%
Jupiter Asset Management	9.4%
Herald Investment Management	5.5%
Baillie Gifford	4.9%
Amati Global Investors	4.8%
Steve Flavell (CEO)	4.8%
Michael Hughes (CEO)	4.7%
Schroder Investment Management	4.1%
Soros Fund Management	3.9%
Total	**66.77%**

Source: LoopUp 2019 annual report and accounts, and London Stock Exchange RNS since 20 April 2020.

However, the shares can be traded in bargain sizes well above the London Stock Exchange normal market size of 2,000 shares. Indeed, individual trades of 10,000 shares or more regularly go through the market and well between the official 7p a share bid-offer spread. Following last week's annual meeting trading update, retail trades as large as £50,000 went through the order book and there were some institutional trades as large as £350,000.

Target price

There are several risks to consider before making an investment as highlighted in the risk assessment below, not least is the company's failure to deliver the growth anticipated in 2019 following the major acquisition in May 2018.

However, with the MeetingZone transition project largely completed, and LoopUp clearly prospering during the Covid-19 crisis as organisations adapt the way they operate, the company is well placed and appears to be in the early stages of an earnings upgrade cycle.

The strong trading performance this year helps explains why the share price is displaying positive momentum, too, since hitting an all-time low in March 2020. The share price recovery looks to have some way to run as there is potentially 67 per cent further upside to my 225p target price based on an enterprise valuation of £132m, the equivalent of 11 times conservative looking 2021 Ebitda forecasts. There is even the possibility that LoopUp could become a bid target for private equity firms.

For good measure, the share price has formed a solid base formation, having plunged following the July 2019 profit warning. Chart watchers will note that a break-out above the May 2020 high of 150p opens the possibility of a recovery towards my 225p target, and in the process closing the July 2019 gap down in the daily chart (from 230p and 165p). **Strong buy.**

Risk assessment
Of course, there are several risks to consider when making an investment:

■ **LoopUp capitalises development costs within intangible assets.** Development costs recognised as assets are amortised on a straight-line basis over their expected useful life. The amount capitalised in 2019 amounted to £5m (£4.3m in 2018) and the company also amortised £3.8m of development costs to end the financial year with a closing balance of £9.1m (£7.9m in 2018).

The capitalisation of development costs under International Accounting Standard ('IAS') 38 'Intangible Assets' involves significant judgement and there is a risk that a material error could occur if items have been incorrectly capitalised. Furthermore, any deterioration in trading could result in diminution of value of the business and asset impairments.

Assuming LoopUp delivers average annual operating cash flow of £10.8m this year and next as analysts predict, then it will be able to cover the projected £6m cost of software capitalisation spend in both years, and still have surplus cash flow left over to pay down debt significantly to enhance shareholder value, thus supporting the decision to capitalise some of the development costs. Please note that development costs are only capitalised if it can be demonstrated that the asset will generate probable future economic benefits.

■ **Goodwill on acquisition.** LoopUp's net asset value includes £60.6m of goodwill and intangible assets, half of which represents the goodwill acquired on buying MeetingZone. The balance is attributed to customer relationships in intangible assets. Any deterioration in trading could lead to an impairment of both goodwill and the value attributed to customer relationships. This risk is mitigated by the recent strong trading performance.

■ **Development and maintenance of internet and telecommunications infrastructure by third parties.** The delivery of LoopUp's products and services is dependent on third party telecommunications and internet service providers (ISPs) maintaining reliable and efficient networks with the necessary speeds, quality of service, capacity and security.

Changes in internet access fees (for example, the introduction of bandwidth caps or metered usage schemes) may adversely impact the ability or willingness of end users and their guests to access LoopUp's services. Changes in access fees to distributors, such as ISPs, or a departure from "net neutrality" (the principle that all forms of internet traffic is subject to equal treatment in transmission speed and quality) could lead to higher costs and ultimately deter customers from using LoopUp's services. In addition, any deterioration in the infrastructure or telephony quality and mobile phone reception may impact the ability or willingness of customers to use its services. The fact that the company has been able to increase gross margin in its core LoopUp business (mainly due to supply cost savings) suggests there is a low risk of higher access fees.

■ **Customer concentration risk.** The largest single receivable at any time typically constitutes no more than 3 per cent of total receivable balances and relates to a blue-chip customer. As such, the concentrated credit risk is considered minimal. Of the £6.9m gross receivables at the 2019 year-end, £3.8m was not overdue, £1.7m was less than 30 days overdue, and only £787,000 was more than 60 days overdue. The company took a £298,000 charge for bad debts in the 12-month trading period, a sum accounting for 4.3 per cent of the gross receivable balance. The decision to focus on the professional services verticals and larger organisations hopefully mitigates bad debt risk.

■ **Liquidity risk.** LoopUp arranged a £17m facility with the Bank of Ireland in June 2018 in connection with the acquisition of MeetingZone. The facility is a 5-year term loan – 50 per cent amortising, 50 per cent bullet repayment at maturity, at a floating interest rate of 2.5 per cent over LIBOR, with a zero LIBOR floor. Repayments of £0.85m are made every six months and the maturity date for the facility is June 2023. LoopUp also has access to a £3m revolving credit facility which has not been drawn at any stage. Based on analysts' forecasts in the market, the company is well on course to deleverage its balance sheet by the end of 2021, almost 30 months before the credit facility matures.

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