Date	Theme
13 December 2017	Company Update

WILSONS

Company

Citadel Group (CGL)

BUY: Upgrading for Charm and pipeline outlook

We maintain a BUY rating with an upgraded price target of $7.50 per share. We attended Citadel's recent Investor Day in Canberra and conducted a site visit to see its Charm Health oncology solution in action. There were three takeaways from our time on the road with Citadel. The new culture of centralised leadership with a focus on R&D is feeding new IP into and across its industry verticals and this is generating a deep pipeline, particularly in Health and National Security. Secondly, new core IP platforms allow further movement along the recurring revenue axis, underwriting the outlook for operating margin and valuation gains. Thirdly, Charm Health is an impressive addition to the Health stable with the potential to add an international dimension, via its oncology partners.

Key points

Investor day unveils R&D progress and suggests strong pipeline. Citadel hosted a day in Canberra for investors, showcasing its diverse customer and services range. We were impressed by the depth of talent assembled across each of the business units. Board and management are paying close attention to building cultural alignment across the business in terms of R&D, sales/marketing/tendering discipline and project management. The sessions also demonstrated new, scalable solutions from R&D that set the scene for further growth and earnings leverage. All divisions spoke confidently about organic upside from within their existing businesses + "new win" opportunities.

Long-dated, structural theme of secure information management. Health and National Security remain the key growth areas responding to increasingly stringent privacy and security requirements, nationally. Drivers: a) an eminently suggestible and growing client base on security matters; b) domestic healthcare system in need of smart integration and a dearth of trusted service providers.

Forecasts updated for Charm. We conducted a site visit at one of Charm's largest oncology day hospital implementations in Brisbane. Short-term EPS upgrades are modest (2-3%, underlying) and in this note we provide some insights on what could be Citadel's first genuinely international Health solution.

CGL stock is performing but the relative re-rate has room to run. At 8.9x EV/EBITDA Citadel has started to close the valuation gap relative to its domestic and international peers (~12x EV/EBITDA). Our $7.50 price target is based on DCF and suggests the re-rating can continue (TP implies 10.5x EV/EBITDA). Valuation increase reflects Charm addition and improved confidence in outlook.

Risks and catalysts

Risks: a) loss of contracts; b) loss of key management; c) technology obsolescence. **Catalysts**: a) organic revenue growth; b) evidence of margin expansion; c) new contract wins and/or renewals; d) accretive acquisitions.

Recommendation	BUY
12-mth target price (AUD)	**$7.50**
Share price @ 12-Dec-17 (AUD)	$6.35
Forecast 12-mth capital return	18.1%
Forecast 12-mth dividend yield	2.3%
12-mth total shareholder return	**20.4%**

Market cap	$312m
Enterprise value	$297m
Shares on issue	49m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	$0.1m

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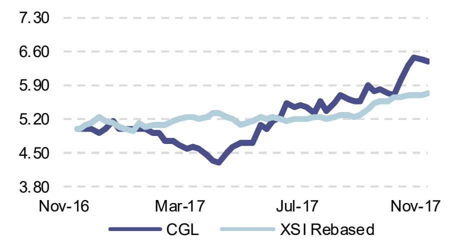
12-mth price performance ($)



	1-mth	6-mth	12-mth
Abs return (%)	6.8	38.4	31.3
Rel return (%)	5.6	25.8	16.5

Earnings forecasts

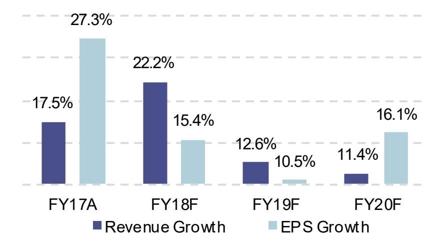
Year-end June (AUD)	FY16A	FY17A	FY18F	FY19F	FY20F
NPAT rep ($m)	8.2	11.4	14.8	17.0	19.8
NPAT norm ($m)	10.4	13.0	15.1	17.0	19.8
Consensus NPAT ($m)			15.8	17.6	19.2
EPS norm (cps)	21.4	27.3	31.5	34.8	40.4
EPS growth (%)	30.6	27.3	15.4	10.5	16.1
P/E norm (x)	29.6	23.3	20.2	18.3	15.7
EV/EBITDA (x)	14.1	9.9	8.9	8.0	7.2
FCF yield (%)	2.4	7.4	6.9	7.8	9.3
DPS (cps)	9.6	12.8	14.0	16.0	18.0
Dividend yield (%)	1.5	2.0	2.2	2.5	2.8
Franking (%)	100	100	100	100	100

Source: Company data, Wilsons estimates, S&P Capital IQ

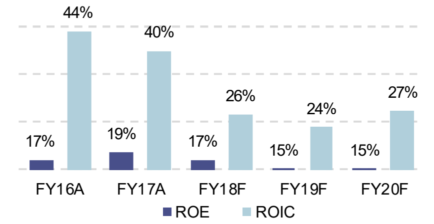
Key changes

		22-Aug	After	Var %
NPAT:	**FY18F**	14.6	15.1	3.8%
norm	**FY19F**	17.0	17.0	0.0%
($m)	**FY20F**	18.9	19.8	5.1%
EPS:	**FY18F**	30.5	31.5	3.0%
norm	**FY19F**	35.5	34.8	-2.1%
(cps)	**FY20F**	39.6	40.4	2.1%
DPS:	**FY18F**	14.0	14.0	0.0%
(cps)	**FY19F**	16.0	16.0	0.0%
	FY20F	18.0	18.0	0.0%
Price target:		6.26	7.50	19.8%
Rating:		**BUY**	**BUY**	

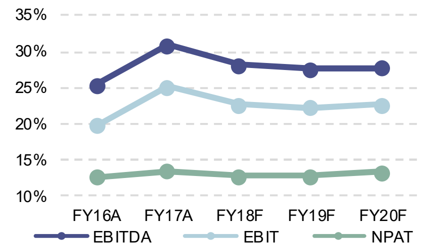
Growth rates



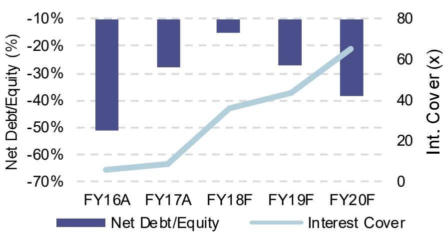
Returns



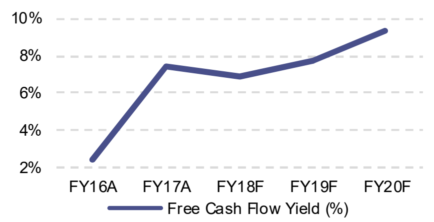
Margin trends



Solvency



Free cash flow yield



Interims ($m)

	1H17A	2H17A	1H18E	2H18E
Sales revenue	43.9	53.3	54.1	64.6
EBITDA	13.6	16.5	16.9	16.6
EBIT	10.6	13.8	13.9	13.0
Net profit	**4.5**	**8.5**	**8.1**	**7.0**
Norm EPS	**9.5**	**17.8**	**17.0**	**14.5**
EBIT/sales (%)	24.2	25.8	25.6	20.1
Dividend (c)	4.8	8.0	5.0	9.0
Franking (%)	100.0	100.0	100.0	100.0
Payout ratio (%)	50.8	44.9	29.4	62.4
Adj payout (%)	<0	23.4	35.4	23.6

Key assumptions

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue growth (%)		-0.8	45.9	14.3	17.5	22.2	12.6	11.4
EBIT growth (%)		30.0	72.6	77.3	48.7	10.1	11.0	13.6
NPAT growth (%)		20.2	61.9	55.1	25.3	16.2	12.1	17.0
EPS growth (%)		**22.5**	**32.3**	**30.6**	**27.3**	**15.4**	**10.5**	**16.1**
EBIT/sales (%)	8.2	10.8	12.8	19.8	25.1	22.6	22.3	22.7
Tax rate (%)	20.3	20.8	22.2	29.2	27.5	28.0	27.0	27.0
ROA (%)	**10.2**	**10.9**	**7.3**	**12.7**	**17.9**	**17.2**	**17.3**	**18.4**
ROE (%)	**15.9**	**16.4**	**11.7**	**14.0**	**15.7**	**13.8**	**13.5**	**14.6**

Financial ratios

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
PE (x)	63.3	51.7	39.1	29.9	23.5	20.4	18.4	15.9
EV/EBITDA (x)	60.2	48.6	28.9	14.1	9.9	8.9	8.0	7.2
Dividend yield (%)	3.1	3.1	0.9	1.5	2.0	2.2	2.5	2.8
FCF yield (%)	0.9	1.7	2.0	2.4	7.4	6.9	7.8	9.3
Payout ratio (%)	197.6	161.3	35.3	44.8	46.9	44.6	46.0	44.6
Adj payout (%)	46.8	24.3	67.1	66.3	33.4	29.7	28.4	27.0

Profit and loss ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Sales revenue	50.0	49.6	72.3	82.7	97.1	118.7	133.7	148.9
EBITDA	4.9	6.1	10.3	21.0	30.1	33.5	37.0	41.2
Depn & amort	0.8	0.7	1.2	4.6	5.7	6.7	7.2	7.4
EBIT	**4.1**	**5.4**	**9.1**	**16.4**	**24.4**	**26.8**	**29.8**	**33.8**
Net interest expense	-0.2	-0.2	-0.1	3.1	2.9	0.7	0.7	0.5
Tax	0.9	1.2	2.0	3.9	5.9	7.3	7.9	9.0
Minorities/pref divs	0.0	0.0	0.0	0.7	4.0	4.0	4.3	4.5
Equity accounted NPAT	0.0	1.4	1.8	1.3	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	**3.4**	**5.8**	**8.9**	**10.0**	**11.6**	**14.8**	**17.0**	**19.8**
Abns/exts/signif	0.0	-1.7	-2.4	-1.8	-0.2	0.0	0.0	0.0
Reported net profit	**3.4**	**4.1**	**6.5**	**8.2**	**11.4**	**14.8**	**17.0**	**19.8**

Cash flow ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA	4.9	6.1	10.3	21.0	30.1	33.5	37.0	41.2
Interest & tax	-0.2	-1.1	-1.8	-4.3	-6.1	-8.1	-8.5	-9.5
Working cap/other	-1.5	1.6	-1.6	-6.3	1.0	-1.9	-1.8	0.1
Operating cash flow	**3.3**	**6.6**	**6.9**	**10.4**	**24.9**	**23.6**	**26.7**	**31.8**
Maintenance capex	-0.6	-1.4	-0.8	-2.9	-1.9	-2.1	-2.4	-2.7
Free cash flow	**2.7**	**5.3**	**6.1**	**7.5**	**23.0**	**21.5**	**24.3**	**29.1**
Dividends paid	-1.3	-1.3	-4.1	-4.9	-7.7	-6.4	-6.9	-7.9
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	0.0	0.0	-9.1	-1.5	-23.2	-21.0	0.0	0.0
Oth investing/finance flows	1.1	3.1	-1.9	-1.1	-0.1	0.0	0.0	0.0
Cash flow pre-financing	**2.6**	**7.1**	**-8.9**	**0.0**	**-8.0**	**-5.9**	**17.4**	**21.3**
Funded by equity	0.0	0.0	25.0	0.1	0.3	0.0	0.0	0.0
Funded by debt	-1.9	-0.6	1.4	-1.9	7.9	0.0	0.0	0.0
Funded by cash	-0.6	-6.5	-17.5	1.9	-0.2	5.9	-17.4	-21.3

Balance sheet summary ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	13.0	19.3	37.2	34.6	29.8	23.9	41.3	62.6
Current receivables	11.2	12.1	21.3	12.5	17.1	19.8	22.0	23.5
Current inventories	0.4	1.5	1.8	1.1	2.0	3.1	5.0	9.0
Net PPE	0.9	1.7	2.6	6.0	6.2	7.6	6.6	5.9
Intangibles/capitalised	13.8	13.7	59.9	59.3	68.4	83.4	79.5	75.6
Total assets	**40.3**	**49.4**	**126.7**	**116.7**	**130.8**	**145.1**	**161.7**	**183.8**
Current payables	14.5	14.4	21.9	9.9	16.8	17.0	16.0	18.1
Total debt	0.6	0.1	1.5	1.3	8.9	8.9	8.9	8.9
Total liabilities	**18.7**	**24.1**	**69.7**	**52.2**	**55.3**	**42.5**	**41.5**	**43.6**
Shareholder equity	**21.6**	**25.3**	**57.0**	**64.6**	**75.5**	**102.6**	**120.3**	**140.2**
Total funds employed	**22.2**	**25.4**	**58.4**	**65.8**	**84.3**	**111.5**	**129.1**	**149.1**

Citadel Investor Day notes

The Citadel Group (CGL) held an Investor Day in Canberra. The event was reasonably well attended by both buy and sell side; and it provided a timely check on strategy following last year's change in senior management and exit from the education sector. For many participants, this was likely the first occasion to see Citadel's solutions demonstrated and explained in such a forum. Management spent time discussing the new directions being taken by R&D. We followed the meeting with our own visit to Icon Care's Chermside oncology day hospital. We were keen to understand this latest acquisition in the Health business and assess it from a valuation perspective.

Our key takeaways were:

- Citadel is transitioning from what was once a collection of interesting but siloed businesses towards a coherent, integrated group. We can already speak to examples of how both pieces of technology and expertise are now being shared across verticals. Over time, this should continue to clarify the company's focus on technology solutions for secure environments and make that concept easier for investors to appreciate and value.
- The focus on new product R&D is a welcome one, and is already generating core pieces of IP, some of which might be exploited across a number of Citadel's traditional sector strengths: security, risk management, military, intelligence, health and information management.
- Overarching impetus is towards bespoke solutions, within protected cloud environments, on a managed services basis. Recurring revenue will continue to grow from today's level of ~70-75% of mix. New product platforms seem immediately scalable.
- Sectorally, Citadel is still emphasising Health and National Security as the most active in terms of growth pipeline.
- The opportunity with Charm Health goes two ways. Charm's growth is likely to go faster with Citadel's support – both managerially and technologically. Embedded within Charm is new IP for managing complex treatment pathways which could dovetail nicely with Citadel's broader aspirations in national e-health solutions.

Citadel's stock has rallied in line with the broader market but is yet to see the specific, relative re-rating we see as justified. We continue to assess a >2-point valuation gap between Citadel and its sector median, which can close as the Citadel story simplifies and becomes more accessible.

We maintain our BUY rating with an upgraded price target of $7.50 per share.

Health

Charm Health

We visited Icon Care's Chermside oncology day hospital for a 1-1 demonstration of Charm Health's functionality across a range of modules. Icon Care is Australia's largest private provider of oncology services, managing approximately 90,000 admissions through 14 facilities including 8 day hospitals. The group were early adopters of Charm, in the first instance seeking a solution to the problem of better co-ordinating the multidisciplinary care they offer to optimise their profitability. Day hospital profitability is a strong function of occupancy, labour cost scheduling and waste minimisation. Charm modules take direct control of this by integrating diagnosis, treatment planning, scheduling, drug management, multidisciplinary treatment and survivorship into a straightforward enterprise system.

Who is Charm Health? Charm began in the early 2000s as a pharmacy solution to manage the safety and wastage aspects of scheduling cancer chemotherapy. Today it is the market leader in Australia/New Zealand (ANZ), installed in over 100 facilities. Customers include both public and private sector providers: Icon, Ramsay, Healthscope, Queensland Health and ACT government. We estimate that Charm has ~10% market share in ANZ but this will grow as the oncology services marketplace continues to privatise.

As a reminder, Citadel acquired Charm in August for an upfront payment of $8m, which represented ~6x FY17 EBITDA. Charm has two main competitors in ANZ but neither platform originated as a specialty, medical oncology offering. The two largest manufacturers of radiotherapy equipment Varian and Elekta provide medical oncology systems that interface with their radiotherapy modules. Charm's solutions are completely interoperable with both Varian's ARIA and Elekta's MOSAIC radiotherapy systems. The largest competitor Charm probably faces is that of incumbency: the legacy, in-house, paper-based management systems they seek to replace.

What did the Icon demonstration teach us? We were struck by how broadly Charm's solutions had infiltrated the Icon facility and had become the central platform on which disparate parts of the patient's treatment pathway interact with one another. From the medical oncologist's perspective, at the point of diagnosis, Charm provides decision support in the form of evidence based treatment recommendations. Although the system defaults to local eviQ guidelines, we understand that this is configurable to include international guidelines such as those maintained by the US National Comprehensive Cancer Network (NCCN). At the facility level, Charm guides treatment scheduling and patient flow through the facility – which reads into infusion suite scheduling, labour force rostering and other efficiency checkpoints. What impressed us most was the level of integration between oncologist prescribing, hospital formulary management, in-house pharmacy and the network of external drug manufacturers. Charm seems indispensable in ensuring that each patient's courses of chemotherapy are ordered, checked at least five times to verify dose/regime and rule out adverse drug-drug interactions, and then delivered on time.

Growth outlook. To our mind, Charm supports the further privatisation of ANZ oncology services and should grow at least in step with that structural shift. Private oncology will also become more competitive and Charm's current users are already seeking to access deeper analytics around patient outcomes (quality of care, quality of life and survivorship).

Charm's alignment with Icon, ANZ's largest operator, is important. Icon was recently acquired by a consortium including QIC Capital and Goldman Sachs Private Equity. Icon's national footprint continues to grow via both acquisition and greenfield development and is expected to extend beyond its current QLD/SA base. Icon has already entered the NZ oncology market and has interests in further developing the Asian market. Equally, Charm's association with the leading private hospital groups Ramsay and Healthscope is growing domestically. There may also be an option for international expansion, principally through Ramsay's UK and French hospital networks.

As was the case with the Kapish acquisition, there are potential synergies to develop under Citadel's stewardship. Citadel may bring a new level of sales and marketing discipline to Charm's organic growth. Technologically, Citadel sees a number of growth options with cloud, managed services, big data analytics and even leveraging parts of the solution into other care settings such as renal support, IVF and organ transplant.

Pathology

Citadel Health provided a helpful demonstration of the EVOLUTION and AUSCARE systems which form the basis of its pathology contract business (formerly PJA Solutions). There was no specific update on ongoing business, with all major contracts locked in for FY18 and the largest (QLD) extending to 2022. Anecdotally, we are aware of new business potentially coming to market over the next 12-24 months that Citadel could pursue as new wins. Examples include:

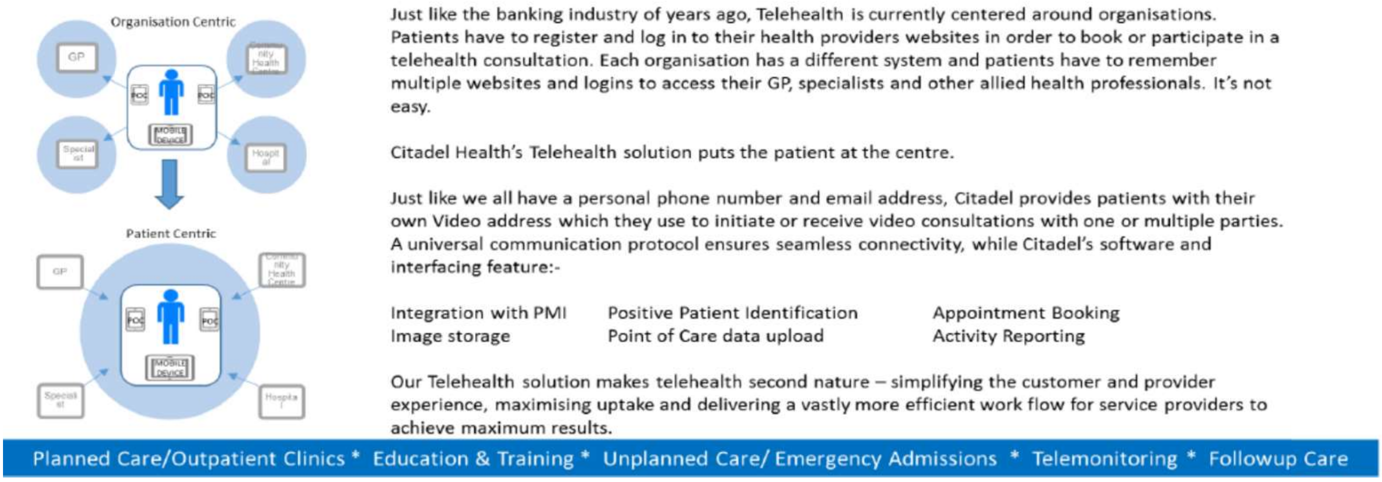
- **NSW contemplating consolidation**. NSW public pathology is currently divided into five regions. Citadel already holds a contract with Pathology North until 2019 (with whom it developed the e-Bloods blood inventory and supply chain solution).
- **TAS, ACT**. Smaller state/territory public pathology may be coming to market over the next 12-18 months, seeking laboratory information system (LIS) managed services.
- **Private operators**. We understand that at least one of Australia's large, private pathology service providers will come to market next year, seeking a managed service to replace legacy systems developed and maintained in house. This is likely to be the largest piece of labs business coming to market next year and we would expect all of Citadel's traditional competitors to bid (Cerner, InterSystems, Sunquest, ISS, SCC).

Citadel Health Exchange Platform (CHEX)

Citadel seems close to announcing its first commercial contracts in this area, gauging by the progress described. Customers from both private and public sector seem likely:

- **Interoperability**. Just as EVOLUTION/AUSLAB is interoperable with hundreds of different devices and analysers, Citadel's proposals around "next generation telehealth" seeks similar scope. The creation of a unified, centrally consistent, national health data exchange needs to combine federal government data (Medicare, the Pharmaceutical Benefits Scheme, Aged Care) with state government data (public hospitals and other settings) along with private healthcare service providers (hospitals, pathology, radiology), private physicians and allied health caregivers.
- **Analytics and decision support**. Citadel alluded to its work in consolidating and 'triaging' diverse data sets into a single, longitudinal patient record. Public and private providers both seek insights into health trends and the relative effectiveness of interventions. Inevitably, HCIT will allow more precise analysis of which interventions are cost effective and which are not – leading to "value-based" reimbursement models taking hold in Australia.

Figure 1: Citadel contemplating a patient-centric healthcare data exchange as the core of next generation telehealth solutions



Source: Citadel

National Security

The client base that Citadel has attracted in this area (Defence, Immigration & Border Protection, DFAT) again highlights: a) the value of relationships and incumbency in securing this important recurring revenue + incremental upside; and b) the strategic value of Citadel's "panel status" as a preferred provider in some of these areas. If there is an "Australia First" ideology taking shape in Canberra, then the value of Citadel's status as a trusted partner can only increase, especially in the eyes of international solutions developers seeking to maintain and/or protect the business they do with this country.

On national security matters, there is also obviously a large and voracious appetite at all levels of government there to be fed. What struck us most about this part of the Citadel Investor Day was that there were new platforms on show, the products of internal R&D, developed in a pre-emptive way in terms of their content and function.

Figure 2: New Citadel platforms described at the Investor Day

Product	Overview	Representative Customer Base
CiX	▪ Secure cloud-based information management platform supporting SharePoint, TRIM and Objective. There is also a related product, SC2S, which is a very secure SharePoint environment coupled with compression technologies enabling operational information sharing across low-bandwidth coalition networks at the secret level	▪ Large corporates and government agencies
Citadel Overwatch	▪ Security Incident & Event Management solution that remotely monitors and ingests all system, network & application logs. Coupled with automated intrusion alerts, quarantining, escalation management and leading cybersecurity defence & forensics tools	▪ Recently released R&D
AIM	▪ Oracle-based identity manager that enables single sign-on and regulates systems access, including cross-organisation	▪ Recently released R&D
Social Safeguard	▪ Monitors all social media activity for potential threats, leaks and adverse media and records all activity ▪ Can also link identities across corporate and private settings for tracking insider trading	▪ Recently released R&D

Source: Citadel

New platform IP means new cross-selling across the client base. R&D activity is supporting the company's focus on increasing the proportion of recurring revenue in the mix. Consultancy and design work naturally evolves into managed services contracts and the discovery of new problems to solve.

All of the new platforms offer potential earnings leverage. Alongside the technical descriptions of what these new platforms do, Citadel provided details on how it might begin to monetise this new IP and generate new sources of earnings leverage. Many, if not all, of the new platforms are deliverable across a common infrastructure, which should make it easier for clients to access multiple modules easily. As an example, Citadel described a recent new contract win for the CiX product, being made available to 7,000 users at QLD Transport. Citadel is hosting CiX on a platform that can support orders of magnitude more users as the Transport work expands and as CiX adds new clients. Equally, Transport could access other scalable products (eg Social SafeGuard, Overwatch) over the same delivery system.

The R&D, set-up and operating costs are relatively fixed, so the broader adoption of these products could lead to earnings leverage very quickly. Nor are the products limited to traditional National Security clients. Management provided particularly good examples marketing Overwatch for public entertainment venues, universities and even infrastructure.

Forecast changes

Adding Charm to the model

Citadel completed the Charm acquisition in mid-September. As a reminder, Citadel agreed to pay $8.2m upfront which equated to approximately 6x FY17e EBITDA. We are forecasting that Charm can continue to grow its underlying earnings contribution in the double-digit percentages. Charm's specific contribution in FY19 is offset by additional R&D and marketing investments. The net effect of our operating EPS changes: +4% in FY18e, flat in FY19e and +5% in FY20e.

Table 1: Changes to forecasts FY18-20e

		FY18e	FY19e	FY20e
Sales revenue - Before	$m	115.2	128.5	143.2
Sales revenue - After	**$m**	**118.7**	**133.7**	**148.9**
- Change	*%*	*3.0%*	*4.0%*	*4.0%*
EBITDA - Before	$m	32.7	36.9	39.9
EBITDA - After	**$m**	**33.5**	**37.0**	**41.2**
- Change	*%*	*2.4%*	*0.2%*	*3.4%*
NPAT (pre abs.) - Before	$m	14.3	17.0	18.9
NPAT (pre-abs) - After	**$m**	**15.1**	**17.0**	**19.8**
- Change	*%*	*5.7%*	*-0.3%*	*4.9%*
EPS (normalised) - Before	cps	30.5	35.5	39.6
EPS (normalised) - After	**cps**	**31.7**	**35.5**	**40.4**
- Change	*%*	*3.9%*	*0.0%*	*2.0%*
DPS - Before	cps	14.0	16.0	18.0
DPS - After	**cps**	**14.0**	**16.0**	**18.0**
- Change	*%*	*0%*	*0%*	*0%*

Source: Wilsons estimates

Operating revenue and earnings estimates across the base business remain unchanged (pre-Charm). Following the release of the latest Appendix 3B in November, we have also revised our share count for 2H18 which has resulted in a slight decline in the group level net EPS changes.

Valuation: authentic re-rating still yet to materialise – upside

DCF valuation up 20% to $7.50 per share

Discounted cash flow remains our preferred valuation technique for Citadel. The straightforward integration of Charm Health into our Citadel model has supported a ~12% lift in the fundamental DCF. The Investor Day also improved our understanding of and confidence in the outlook for new contract wins not already accommodated for by our model. Accordingly, this improved visibility on earnings and the outlook for recurring revenue mix should be reflected in the choice of discount rate.

Our revised 12-month forward DCF valuation of $7.50 per share implies EV at 10.5x FY18e EBITDA which would still represent a discount to domestic and international peers (12.8x and 11.9x, respectively). Our valuation still insists there is a further 2-point multiple re-rating gap that might close between Citadel's current pricing (8.9x) and peer benchmarks.

The recent movement in the CGL share price has really just been a general positive move in market values; and is yet to specifically reflect Citadel's attributes.

Table 2: Comparable company valuation analysis for Citadel

Data as at:	12/12/2017									
Company Name	**Ticker**	**Currency**	**Year-end**	**Mkt cap (m)**	**EV/EBITDA FY18**	**EV/EBITDA FY19**	**P/E (norm.) FY18**	**P/E (norm.) FY19**	**EBITDA margin FY18**	**EBITDA margin FY19**
Domestic developers										
Altium Limited	ASX:ALU	USD	30-Jun	1,671	29.1x	23.8x	36.3x	29.8x	33%	35%
Hansen Technologies Ltd	ASX:HSN	AUD	30-Jun	717	12.1x	11.1x	20.1x	18.7x	25%	26%
CSG Limited	ASX:CSV	AUD	30-Jun	169	15.0x	14.0x	11.7x	10.0x	11%	11%
Integrated Research Limited	ASX:IRI	AUD	30-Jun	623	14.4x	12.1x	27.1x	21.7x	41%	41%
Infomedia Ltd.	ASX:IFM	AUD	30-Jun	242	8.3x	6.8x	18.9x	14.7x	37%	41%
Melbourne IT Limited	ASX:MLB	AUD	31-Dec	424	12.8x	9.8x	21.5x	15.8x	18%	20%
Data#3 Limited	ASX:DTL	AUD	30-Jun	304	5.9x	5.5x	17.4x	15.9x	2%	2%
rhipe Limited	ASX:RHP	AUD	30-Jun	118	13.8x	10.3x	21.9x	17.9x	4%	5%
DWS Limited	ASX:DWS	AUD	30-Jun	197	7.7x	7.1x	11.0x	10.1x	20%	19%
Bravura Solutions Limited	ASX:BVS	AUD	30-Jun	365	9.6x	8.5x	14.5x	13.4x	17%	18%
Senetas Corporation Limited	ASX:SEN	AUD	30-Jun	124	16.5x	13.3x	31.5x	20.4x	31%	34%
Domestic median					**12.8x**	**10.3x**	**20.1x**	**15.9x**	**20%**	**20%**
International developers										
athenahealth, Inc.	Nasdaq:ATHN	USD	31-Dec	5,276	20.5x	16.0x	65.9x	46.8x	22%	25%
Allscripts Healthcare Solutions, Inc.	Nasdaq:MDRX	USD	31-Dec	2,578	11.9x	10.1x	23.1x	18.9x	20%	20%
Computer Programs and Systems, Inc	Nasdaq:CPSI	USD	31-Dec	388	10.8x	10.0x	18.0x	15.5x	18%	19%
Quality Systems, Inc.	Nasdaq:QSII	USD	31-Mar	881	11.2x	10.3x	20.5x	19.2x	15%	16%
Cerner Corporation	Nasdaq:CERN	USD	31-Dec	23,312	13.7x	12.5x	29.0x	27.0x	32%	33%
Medidata Solutions, Inc.	Nasdaq:MDSO	USD	31-Dec	3,887	28.2x	23.3x	52.3x	45.4x	25%	25%
Accenture plc	NYSE:AcN	USD	31-Aug	92,632	13.6x	12.7x	23.0x	21.1x	17%	17%
Capgemini SE	ENXTPA:CAP	EUR	31-Dec	15,407	10.3x	9.6x	16.3x	15.3x	13%	14%
PCI Holdings, Inc.	TSE:3918	JPY	30-Sep	11,567	11.6x	10.4x	21.3x	19.0x	7%	7%
Fujitsu Limited	TSE:6702	JPY	31-Mar	1,691,586	6.4x	5.9x	11.0x	11.0x	9%	9%
Lockheed Martin Corporation	NYSE:LMT	USD	31-Dec	90,655	14.6x	14.2x	24.2x	23.5x	14%	14%
International median					**11.9x**	**12.3x**	**23.0x**	**19.2x**	**17%**	**17%**
The Citadel Group Limited	**ASX:CGL**	**AUD**	**30-Jun**	**315**	**8.9x**	**8.0x**	**20.8x**	**18.6x**	**29%**	**28%**

Source: S&P Capital IQ, consensus estimates

Citadel Group (CGL)

Business description

The business of The Citadel Group Limited (CGL) is the development, marketing, contracting, implementation and support of integrated knowledge management and enterprise software. Citadel operates at the premium end of this market with respect to both its technology offering and clientele. Core clients are those that seek to capture and manage sensitive data in complex environments such as defence, immigration, health, education and government. These are a key verticals in which Citadel today demonstrates its national security and personal privacy credentials. Complexity takes many forms including logistics, geography, linguistic, technological and the challenge of integrating solutions with supporting infrastructure. Citadel differentiates itself from other enterprise systems/software developers by providing an end-to-end service which starts by helping clients define the desired application through to the development and implementation of the hardware and software. Many of Citadel's contracts translate into lengthy relationships with a high proportion of recurring revenue under a managed service model. Citadel's business model offers clients a complete solution managed by one company, with a premium applied to trusted incumbency.

Investment thesis

We attended Citadel's recent Investor Day in Canberra and conducted a site visit to see its Charm Health oncology solution in action. There were three takeaways from our time on the road with Citadel. The new culture of centralised leadership with a focus on R&D is feeding new IP into and across its industry verticals and this is generating a deep pipeline, particularly in Health and National Security. Secondly, new core IP platforms allow further movement along the recurring revenue axis, underwriting the outlook for operating margin and valuation gains. Thirdly, Charm Health is an impressive addition to the Health stable with the potential to add an international dimension, via its oncology partners.

Revenue drivers

- Technology – managed services contracts with an average ~4.6-year duration
- New contract wins

Margin drivers

- Cross-sales across the customer base and business units
- New contracts
- Level of R&D investment

Key issues/catalysts

- New contracts
- Contracts moving from start-up to mature phase often provides margin leverage
- Increased visibility into PJA Solutions driving a re-rating

Risk to view

- Contract losses
- Execution problems reducing the profitability of core contracts

Balance sheet

- Forecasting net cash of $15.1m at end FY18

Board

- Kevin McCann, Independent Chairman
- Dr Miles Jakeman, Executive Director and Deputy Chair
- Mark McConnell, Non-Executive Director
- Ms Deena Shiff, Non-Executive Director
- Lt General Peter Leahy, Non-Executive Director

Management

- Darren Stanley, CEO
- R. Andrew Burns, CFO
- Cindy Schwartz, GM Advisory, People and Knowledge
- Stephen Lynch, GM Health
- Mike Ricketts, GM Technology & Integration
- Brent Kuhl, GM Solutions

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