Date
11 May 2017

Theme
Company Update

Company

WILSONS

The Citadel Group (CGL)

BUY: Citadel's valuation gap can close over 2H

We maintain a BUY rating with a revised price target of $6.01 per share. The Citadel Group has more defensible earnings growth and margins than most of its peers, yet it trades at a deep discount to the domestic and international technology solutions developers it so often beats for contracts. DCF valuation insists that a 2.5-point valuation re-rating is available on this stock over the next 12 months. Recent discussions with management frame their 2H17 result as a potential catalyst in achieving this outcome, which is long overdue. Spelling out the organic aspects of what this business is achieving in good markets should prove some important points about strategy, management and earnings quality.

Key points

Forecast and model review bodes well for FY17 earnings. Recent discussions with management have increased our confidence around the 2H17 earnings drivers and that our FY17e forecasts ($97.6m revenue, $27.8m EBITDA and $13.9m normalised NPAT) remain well supported. This year's performance is underpinned by the long tenured contracts within the familiar verticals of Government and Health. Growth is a function of successful execution over the first parts of the relatively new Federal Agency contract which commenced in Dec-16, incremental extensions plus margin development within the Monash University project. The consolidation of filosoph-e earnings and a full-year contribution from the Kapish acquisition (knowledge management business) round out the major moving parts of 2H17.

Strategy, R&D and business development activities suggest a strong pipeline moving into FY18-19. R&D investments in Health may be approaching "line of sight" in attracting new business. Citadel Health has made good progress in reconfiguring the pathology laboratory information systems (LIS) business it acquired in 2015, both technologically and commercially. A cloud-based solution has been in train for some time and we like how this business is placed for major contract retention (specifically in QLD) and new market share in both public and private pathology. We understand that Citadel also has a number of exploratory projects in healthcare IT integration and homecare under development (Citadel has previously called out ~$20m in potential new business there). We understand that upgrading the resources available to Kapish has helped that business win work from strong competitors.

Valuation disconnect can resolve itself over next 12 months. Citadel is trading at a 30% discount to domestic peers, notwithstanding its long track record of beating international solutions developers for work in Australia. Our DCF price target of $6.01 per share implies a 2.5-point re-rating in multiple is available from current levels. The 2H17 result is an important catalyst because it promises a cleaner look at Citadel's organic growth and margin structure.

Recommendation	**BUY**
12-mth target price (AUD)	**$6.01**
Share price @ 10-May-17 (AUD)	$4.23
Forecast 12-mth capital return	42.0%
Forecast 12-mth dividend yield	3.1%
12-mth total shareholder return	**45.1%**
Market cap	$203m
Enterprise value	$193m
Shares on issue	48m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	$0.0m

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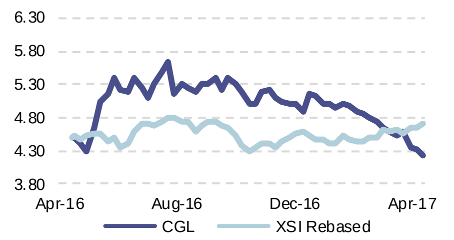
12-mth price performance ($)



	1-mth	6-mth	12-mth
Abs return (%)	-8.0	-14.6	-4.2
Rel return (%)	-10.3	-21.5	-8.8

Earnings forecasts

Year-end June (AUD)	FY15A	FY16A	FY17F	FY18F	FY19F
NPAT rep ($m)	6.5	8.2	8.3	13.4	16.1
NPAT norm ($m)	6.7	14.5	13.9	17.4	18.9
Consensus NPAT ($m)			11.9	14.7	17.4
EPS norm (cps)	16.4	30.0	29.2	36.5	39.6
EPS growth (%)	32.3	82.9	-2.6	25.0	8.5
P/E norm (x)	25.8	14.1	14.5	11.6	10.7
EV/EBITDA (x)	18.8	9.0	6.9	5.9	5.3
FCF yield (%)	3.0	3.7	5.6	7.2	8.4
DPS (cps)	5.8	9.6	11.1	14.0	16.0
Dividend yield (%)	1.4	2.3	2.6	3.3	3.8
Franking (%)	100	100	100	100	100

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

Key changes

		21-Feb	After	Var %
NPAT:	**FY17F**	13.9	13.9	0.1%
norm	**FY18F**	17.3	17.4	0.4%
($m)	**FY19F**	18.7	18.9	1.0%
EPS:	**FY17F**	29.2	29.2	0.1%
norm	**FY18F**	36.4	36.5	0.4%
(cps)	**FY19F**	39.2	39.6	1.0%
DPS:	**FY17F**	11.1	11.1	0.0%
(cps)	**FY18F**	14.0	14.0	0.0%
	FY19F	16.0	16.0	0.0%
Price target:		5.95	6.01	1.0%
Rating:		**BUY**	**BUY**	

Price target

	Valuation	Price target
DCF methodology		
WACC (%)	10.8	
Terminal growth (%)	2.5	
PV of forecast FCFs ($m)	25.2	
PV of terminal value ($m)	252.7	
Enterprise value ($m)	277.9	
Net debt (cash) ($m)	-9.7	
Equity value ($m)	287.7	
Price target ($/share)		**6.01**

Key assumptions

Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Revenue growth (%)		-0.8	45.9	14.3	18.0	16.9	19.7	6.4
EBIT growth (%)		30.0	72.6	131.4	22.3	18.0	8.3	1.7
NPAT growth (%)		20.2	61.9	117.2	-4.1	25.0	8.5	1.5
EPS growth (%)		**22.5**	**32.3**	**82.9**	**-2.6**	**25.0**	**8.5**	**1.5**
EBIT/sales (%)	8.2	10.8	12.8	25.9	26.8	27.0	24.5	23.4
Tax rate (%)	20.3	20.8	22.2	29.2	28.6	28.1	27.0	27.0
ROA (%)	**10.2**	**10.9**	**7.3**	**15.5**	**17.4**	**17.1**	**17.1**	**16.6**
ROE (%)	**15.9**	**16.4**	**11.7**	**19.6**	**16.9**	**17.2**	**16.4**	**15.5**

Interims ($m)

Half-year (AUD)	Dec 15	Jun 16	Dec 16	Jun 17
	1HA	2HA	1HA	2HE
Sales revenue	46.4	36.2	43.9	53.7
EBITDA	12.6	8.8	13.6	14.1
EBIT	10.5	5.9	10.6	10.6
Net profit	**9.1**	**5.4**	**7.2**	**6.7**
Norm EPS	**18.8**	**11.2**	**15.1**	**14.1**
EBIT/sales (%)	22.6	16.3	24.2	19.7
Dividend (c)	4.8	4.8	4.8	6.3
Franking (%)	100.0	100.0	100.0	100.0

Financial stability

Year-end June (AUD)	FY16A	FY17F	FY18F
Net debt	-33.3	-9.7	-1.0
Net debt/equity (%)	<0	<0	<0
Net debt/EV (%)	**<0**	**<0**	**<0**
Current ratio (x)	3.5	3.3	3.8
Interest cover (x)	5.2	8.0	12.6
Adj cash int cover (x)	**4.6**	**7.3**	**11.4**
Debt/cash flow (x)	0.1	0.1	0.6
Net debt (cash)/share ($)	<0	<0	<0
NTA/share ($)	1.3	1.7	2.0
Book value/share ($)	1.3	1.6	1.9
Payout ratio (%)	32	38	38
Adj payout ratio (%)	66	40	37

EPS reconciliation ($m)

	FY16A		FY17F	
	Rep	Norm	Rep	Norm
Sales revenue	83	83	98	98
EBIT	14.6	21.4	19.8	26.2
Net profit	**8.2**	**14.5**	**8.3**	**13.9**
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	**8.2**	**14.5**	**8.3**	**13.9**
Diluted shrs (m)	48	48	48	48
Diluted EPS (c)	**17.0**	**30.0**	**17.4**	**29.2**

Returns

	FY16A	FY17F	FY18F	FY19F
ROE (%)	24	19	20	18
ROIC (%)	44	29	22	21
Incremental ROE	40	-5	23	10
Incremental ROIC	68	13	10	13

Profit and loss ($m)

Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Sales revenue	50.0	49.6	72.3	82.7	97.6	114.1	136.5	145.3
EBITDA	4.9	6.1	10.3	21.4	27.8	32.6	36.7	37.5
Depn & amort	0.8	0.7	1.2	5.0	6.6	6.7	7.2	7.4
EBIT	**4.1**	**5.4**	**9.1**	**16.4**	**21.2**	**26.0**	**29.5**	**30.1**
Net interest expense	-0.2	-0.2	-0.1	3.1	2.6	2.1	2.0	1.9
Tax	0.9	1.2	2.0	3.9	5.3	6.7	7.4	7.6
Minorities/pref divs	0.0	0.0	0.0	0.7	3.6	3.8	3.9	4.1
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**	**9.7**	**13.4**	**16.1**	**16.4**
Abns/exts/signif	0.0	-1.7	-2.4	-1.8	-1.4	0.0	0.0	0.0
Reported net profit	**3.4**	**4.1**	**6.5**	**8.2**	**8.3**	**13.4**	**16.1**	**16.4**

Cash flow ($m)

Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
EBITDA	4.9	6.1	10.3	21.4	27.8	32.6	36.7	37.5
Interest & tax	-0.2	-1.1	-1.8	-4.3	-8.1	-8.8	-9.4	-9.5
Working cap/other	-1.5	1.6	-1.6	-6.7	-6.7	-7.1	-7.8	-7.6
Operating cash flow	**3.3**	**6.6**	**6.9**	**10.4**	**13.0**	**16.7**	**19.4**	**20.3**
Maintenance capex	-0.6	-1.4	-0.8	-2.9	-1.7	-2.1	-2.4	-2.7
Free cash flow	**2.7**	**5.3**	**6.1**	**7.5**	**11.2**	**14.7**	**17.0**	**17.6**
Dividends paid	-1.3	-1.3	-4.1	-4.9	-4.5	-5.4	-6.7	-7.7
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	-28.2	-18.0	0.0	0.0
Other inv flows	1.1	3.1	-1.9	-1.1	-1.7	0.0	0.0	0.0
Cash flow pre-financing	**2.6**	**7.1**	**-8.9**	**0.0**	**-23.2**	**-8.8**	**10.3**	**9.9**
Funded by equity	0.0	0.0	25.0	0.1	0.0	0.0	0.0	0.0
Funded by debt	-1.9	-0.6	1.4	-1.9	10.0	15.0	0.0	0.0
Funded by cash	-0.6	-6.5	-17.5	1.9	13.2	-6.2	-10.3	-9.9

Balance sheet summary ($m)

Year-end June (AUD)	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Cash	13.0	19.3	37.2	34.6	20.4	26.6	36.9	46.9
Current receivables	11.2	12.1	21.3	12.5	13.0	19.8	33.0	45.0
Current inventories	0.4	1.5	1.8	1.1	5.2	9.1	9.0	9.0
Net PPE	0.9	1.7	2.6	6.0	6.0	7.2	6.3	5.6
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles/capitalised	13.8	13.7	59.9	59.3	76.8	89.0	85.1	81.2
Other	1.1	1.2	3.8	3.3	16.4	16.4	16.4	16.4
Total assets	**40.3**	**49.4**	**126.7**	**116.7**	**137.8**	**168.1**	**186.8**	**204.0**
Current payables	14.5	14.4	21.9	9.9	12.9	14.7	16.6	17.5
Total debt	0.6	0.1	1.5	1.3	10.6	25.6	25.6	25.6
Other liabilities	3.6	9.5	46.4	41.0	32.8	32.8	32.8	32.8
Total liabilities	**18.7**	**24.1**	**69.7**	**52.2**	**56.3**	**73.1**	**75.1**	**76.0**
Minorities/convertibles	0.0	0.0	0.0	3.6	4.3	4.3	4.3	4.3
Shareholder equity	**21.6**	**25.3**	**57.0**	**64.6**	**81.5**	**95.0**	**111.6**	**128.0**
Total funds employed	**22.2**	**25.4**	**58.4**	**65.8**	**92.1**	**120.6**	**137.3**	**153.7**

Buying Citadel – extending the IP and evolving the earnings model

Investment thesis

We maintain a BUY rating with a revised price target of $6.01 per share. The Citadel Group has more defensible earnings growth and margins than most of its peers; yet it trades at a deep discount to the domestic and international technology solutions developers it so often beats for contracts. DCF valuation insists that a 2.5-point valuation re-rating is available on this stock over the next 12 months. Recent discussions with management frame their 2H17 result as a potential catalyst in achieving this. Spelling out the organic aspects of what this under-rated business is achieving should prove some important points about strategy, management capabilities and earnings quality.

Outlook

Our forecasts describe 30% EBITDA growth in FY17e with an average 15% growth over the two following years, largely supported by contracts in hand and parts of the pipeline we think have a probability of conversion. Management continues to execute well within their more familiar verticals including government, defence and security. Citadel's next financial result in August will be a straightforward 2H on 1H comparison showcasing organic activity levels across various segments of the business. That could go some way towards addressing the stock discount, in our assessment. Another factor is the ability to grow earnings both within existing contracts and through bringing in new business; which is what must set this company apart from peers that rely on new contract momentum for growth. We are excited about what Citadel is developing in the Health and Knowledge domains and are keen to see what they do with the IP being created there. Citadel is led by a capable and thoughtful management team, and we expect the company to remain focused on high-growth, durable solutions for specialty technology situations that can be marketed with a narrow sales force to a high calibre customer base.

Valuation and risks

We value Citadel using a DCF framework with a relatively limited visibility horizon (FY23). Our revised price target of $6.01 per share implies 16.5x FY18e EPS and an EV/EBITDA multiple of ~8.5x. Our DCF valuation implies multiples much closer to those of domestic developers in Citadel's sector at this time: medians of ~9.1x EV/EBITDA and 15.0x PER on an FY18e basis. Our fundamental valuation insists that Citadel's current market pricing (6.0x EV/EBITDA and 11.7x PER) is unreasonably low.

The key risks include contract losses, execution problems reducing the profitability of key business units, increased competition and access to talent in a competitive technology recruitment market.

Reflections on recent discussions with Citadel management

- **Forecasts feel well supported**. Management describe continued momentum in the 3Q, following on from what we assessed as a solid 1H result. Our sense is that the investments Citadel has made in their systems and in bringing more rigor/discipline to their sales and customer support functions are paying off in the form of incremental contract wins and margin. Given that the average available runway on key contracts is ~4.5 years now, it has a strong underpinning on which to build earnings via new wins and optimising the economics of existing service delivery. For FY17e we are forecasting $97.6m revenue, $27.8m EBITDA and $13.9m NPAT (normalised for the post-tax impact of amortisation and other expense items relating to the acquisitions of PJA Solutions and Kapish).
- **2H17 result should showcase a convincing organic picture**. The revenue and earnings structure in FY17 is very different to that in FY16, with additions (new organic contracts, the consolidation of filosoph-e and the acquisition of Kapish) far outweighing the contract roll-off effect from the New Royal Adelaide Hospital (NRAH) project (~$12m revenue in FY16 that is not repeated in FY17). Our forecasts are looking for 22% organic revenue growth within Technology for 2H vs 1H:

- In Health, we highlight two potential developments: a) as we've indicated previously, Citadel may be asked to deliver a managed service component at NRAH; and b) announcing further progress with QLD Health on the public pathology front. While the February announcement of an extension to the QH contract was pleasing, any opportunity to implement the upgraded, cloud-hosted parts of that solution would help cement that contract further. Health accounts for ~35% of our FY17e EBITDA forecast.
- In Knowledge, we noted a strong debut for Kapish in the 1H and expect that business has continued to benefit from drawing upon Citadel's resources, contacts and structure. We understand that Kapish has made progress in reaching out beyond its traditional customer base in Victoria with good competitive outcomes. Original guidance at the time of acquisition was $4m in sustainable EBITDA.
- In Technology, the major changes in 2H are the new Federal Agency contract (commenced in Dec-16) and an improved contribution from the contract with Monash University. The Federal program is a large scale, multi-year piece of business, the first part of which delivers $24.8m in revenue over the first two years. The work at Monash is considered a test-case to market into other universities seeking to upgrade audio-visual and secure videoconferencing capabilities.

Chart 1: Estimated FY16-17E EBITDA waterfall

Source: Wilsons' estimates

- **The pipeline appears to be very active with a number of opportunities presenting across different verticals**.

- **Health**. Citadel has made health a focus of its R&D and business development efforts over the past 12 months or more. We see at least three opportunities developing over the forecast period:

  a) protect and grow market share in public pathology;

  b) marketing its "back end" laboratory information systems (LIS) to the major private pathology players which account for at least 50% of the market; and

  c) healthcare information integration, particularly in the homecare setting. At the 1H result Citadel called out $20m in potential new healthcare business. Given the increased community health activity that we observe more broadly across the sector, we think this aspect can evolve into an important niche for Citadel Health. The group already has significant national presence processing ~40% of Australia's public pathology information.

- **Knowledge**. Further market share and technology development opportunities for both Kapish and filosoph-e.

- **Technology**. The Federal Agency contract is a large multi-year project that should evolve and grow over the forecast period. Recent world political events may drive a more insular approach to national security in Canberra, influencing its choice of contractors. We think this could favour Australian companies with established track records and "panel status" as preferred providers to government. Foreign firms may find it more difficult to be competitive for Australian government contracts, increasing Citadel's strategic value.

Valuation

Target price based on a DCF framework with a relatively restricted forecast horizon (FY23). Beyond our explicit earnings forecast we apply a terminal growth assumption of 2.5%. Our revised price target of $6.01 per share implies 16.5x FY18e EPS and an EV/EBITDA multiple of ~8.5x. Our DCF valuation implies multiples much closer to those of domestic developers in Citadel's sector at this time: medians of ~9.1x EV/EBITDA and 15.0x PER on an FY18e basis. Our fundamental valuation insists that Citadel's current market pricing (6.0x EV/EBITDA and 11.7x PER) is unreasonably low. Our BUY rating is predicated on the idea that this apparent valuation disconnect will ultimately resolve itself.

The catalysts include:

- a clearer picture emerging as to the sources and structure of sustainable organic EBITDA within Citadel's Technology business;
- confidence in management's ability to maintain momentum in new contract wins;
- tangible progress in converting R&D investment into scalable IP; and
- further development in the Health IT business, where Citadel addresses perhaps its largest opportunity set.

Table 1: Comparative valuations for domestic and international technology solutions developers

Data as at:	10/05/2017												
Company Name	Ticker	Currency	Year-end	Mkt cap	EV/EBITDA			P/E (norm.)			EBITDA margin		
				(m)	FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18	FY19
Domestic developers													
Altium Limited	ASX:ALU	USD	30-Jun	1,113	23.7x	19.5x	16.2x	29.9x	24.6x	20.0x	32%	33%	35%
Hansen Technologies Ltd	ASX:HSN	AUD	30-Jun	644	12.8x	11.8x	11.0x	22.2x	20.0x	18.7x	28%	28%	29%
CSG Limited	ASX:CSV	AUD	30-Jun	151	14.3x	9.7x	9.0x	7.3x	5.2x	5.1x	11%	14%	14%
Integrated Research Limited	ASX:IRI	AUD	30-Jun	491	12.8x	10.6x	8.9x	25.7x	20.1x	16.2x	40%	40%	41%
Infomedia Ltd.	ASX:IFM	AUD	30-Jun	218	8.1x	7.2x	6.0x	17.9x	16.0x	13.2x	34%	36%	38%
Melbourne IT Limited	ASX:MLB	AUD	31-Dec	248	8.2x	7.1x	6.4x	14.8x	12.2x	11.1x	18%	18%	19%
Data#3 Limited	ASX:DTL	AUD	30-Jun	259	9.3x	7.8x	7.0x	15.8x	14.0x	12.7x	2%	3%	3%
Objective Corporation Limited	ASX:OCL	AUD	30-Jun	203			NM			0.0x	NM	NM	NM
DWS Limited	ASX:DWS	AUD	30-Jun	204	8.0x	7.6x	7.3x	11.3x	10.7x	10.2x	18%	18%	18%
SMS Management & Technology Limi	ASX:SMX	AUD	30-Jun	109	11.4x	8.6x	7.3x	17.4x	12.7x	10.6x	4%	5%	5%
Senetas Corporation Limited	ASX:SEN	AUD	30-Jun	99	15.5x	10.6x	7.8x	30.2x	17.5x	12.7x	25%	33%	38%
Domestic median					**12.1x**	**9.1x**	**7.6x**	**17.6x**	**15.0x**	**12.7x**	**22%**	**23%**	**24%**
International developers													
athenahealth, Inc.	Nasdaq:ATHN	USD	31-Dec	4,237	16.9x	13.8x	11.9x	57.0x	42.8x	32.7x	21%	23%	23%
Allscripts Healthcare Solutions, Inc.	Nasdaq:MDRX	USD	31-Dec	2,210	11.1x	10.2x	9.9x	19.6x	17.2x	15.2x	20%	21%	21%
Computer Programs and Systems, In	Nasdaq:CPSI	USD	31-Dec	428	11.7x	10.7x	9.6x	19.1x	16.5x	12.6x	18%	19%	19%
Quality Systems, Inc.	Nasdaq:QSII	USD	31-Mar	897	9.5x	9.3x	8.5x	17.8x	17.0x	16.1x	19%	19%	19%
Cerner Corporation	Nasdaq:CERN	USD	31-Dec	21,349	12.5x	11.4x	10.6x	25.8x	23.3x	20.8x	33%	33%	33%
Medidata Solutions, Inc.	Nasdaq:MDSO	USD	31-Dec	3,986	28.6x	23.0x	18.4x	52.9x	44.2x	35.8x	25%	26%	28%
Accenture plc	NYSE:ACN	USD	31-Aug	75,098	12.5x	11.6x	10.7x	20.7x	18.9x	17.3x	17%	17%	17%
Cap Gemini S.A.	ENXTPA:CAP	EUR	31-Dec	15,803	9.7x	9.1x	8.4x	16.3x	15.0x	13.7x	14%	14%	15%
PCI Holdings, Inc.	TSE:3918	JPY	30-Sep	9,736	NM	NM	NM	21.6x	19.3x	16.9x	0%	0%	0%
ULS Group, Inc.	JASDAQ:3798	JPY	31-Mar	7,680	NM	NM	NM	12.8x	11.8x	11.0x	0%	0%	0%
Fujitsu Limited	TSE:6702	JPY	31-Mar	1,624,799	5.3x	5.0x	4.6x	12.6x	11.7x	9.3x	9%	9%	10%
Lockheed Martin Corporation	NYSE:LMT	USD	31-Dec	78,872	13.3x	12.4x	11.6x	21.8x	19.5x	16.7x	14%	14%	14%
International median					**12.1x**	**11.1x**	**8.7x**	**20.1x**	**18.0x**	**13.2x**	**17%**	**18%**	**19%**
The Citadel Group Limited	**ASX:CGL**	**AUD**	**30-Jun**	**205**	**7.1x**	**6.2x**	**5.5x**	**17.2x**	**13.8x**	**11.7x**	**29%**	**30%**	**29%**

Source: Capital IQ, Wilsons

The 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 business 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.

Investment thesis

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.

Our core thesis is that Citadel's valuation multiples can re-rate over the next 12-18 months as the market recognises and values the link between these differentiation points and earnings quality.

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

Key issues/catalysts

- New contracts
- Divestment of education business
- 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 $11.2m at end FY17

Board

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

Management

- Darren Stanley, CEO
- Dr Miles Jakeman,
- R. Andrew Burns, CFO

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Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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