

Stock Data

Share Price: 0.32p
 Market Cap.: £3.1m*
 Shares in issue 954.4m*
 *Pro forma until 25 Sept 2018

Company Profile

Sector: Telecoms
 Exchange: Standard List (LSE)
 Ticker: TOOP

Activities

Provider of bespoke telecoms services to small and medium sized businesses (SMEs) in the UK. Core products and services include cloud-based phone services, business broadband, data services, business mobiles and SIM only packages in addition to traditional telephony services.

Share price performance chart



Source: LSE

Turner Pope contact details

Turner Pope Investments (TPI) Ltd
 6th Floor
 Becket House
 36 Old Jewry
 London
 EC2R 8DD

Tel: 0203 621 4120
 Email: info@turnerpopecom
 Web: www.turnerpopecom

Attention is drawn to the disclaimers and risk warnings at the end of this document.

This is a non-independent marketing communication. The analyst who has prepared this report is aware that TPI has a relationship with the company covered in this report. Accordingly, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

TPI acts as joint broker to Toople plc.

Retail clients (as defined by the rules of the FCA) must not rely on this document.

Barney Gray Research analyst
 Tel: 0203 621 4120
barney@turnerpopecom

Toople plc

Toople provides bespoke telecoms solutions to a range of UK small and medium sized enterprises (SMEs). The company's services include hosted cloud-based business telephone services, business broadband, fibre broadband, data services and business mobile phones in addition to traditional calls and telephone lines services. After a raft of new contract wins over the last six months, Toople recently completed a conditional placing to raise £2.2m with which to fund the future growth of the business.

Toople provides a wide range of telecoms services to both retail and wholesale customers which are outlined in this report. Through the company's proprietary cloud based 'Merlin' software platform, Toople delivers standalone solutions or highly bespoke bundled packages to its customers on behalf of Tier 1 carriers, including BT, TalkTalk, O2 and Vodafone, which supply network connectivity at competitive prices.

However, Toople is carrier network agnostic and its services are supplied according to the customers' precise requirements. Toople aims to provide the best deal to customers optimising a combination of bandwidth, speed, availability and price from a range of providers. All Toople's services are delivered online through the Merlin platform which provides a full suite of resource planning services including instant quotes, order tracking, transparent pricing and billing services.

Toople's long term strategy is to grow its business by targeting a large proportion of the 5.4 million SMEs in a growing UK market still dominated by legacy player, BT, particularly in the fixed line market. Toople notes that one of its key competitive advantages is its provision of maximum flexibility to customers coupled with transparent fixed pricing over the duration of a contract. This has enabled the company to focus increasingly on higher margin business with longer 36 month contracts for hosted business telephony contracts, rather than the 12-24 months for broadband and mobile services, implying a growing proportion of recurring revenue in the future sales mix.

Since the end of March, Toople has signed several new contracts, all of which are expected to represent both multi-year revenue streams and new opportunities for selling Toople services. During March-May, Toople announced new contracts to supply a range of telecoms products to a multi-site bakery business in London, a prominent tyre company in southern England and an IT services provider in the same region.

Since June 2018, Toople has also announced several deals with new customers which offer major upselling and cross selling opportunities through the customers' B2B business models. These deals offer Toople the longer term potential to expand its SME customer base through new channel partners. Of this new business, the most recent contract signed, with a large telecoms re-seller, is estimated by Toople to be worth at least £3.5m in new revenue over a three year period.

Toople recently raised £2.2m of new funds through the conditional placing of 733.3 million new shares at 0.3p per share. This cash will be used to augment the group's ongoing digital marketing strategy with targeted marketing initiatives and also enhancing Toople's service offering through both organic investment and potentially bolt-on earnings enhancing acquisitions. Toople offers customers transparent fixed cost telecoms solutions in an uncertain economic environment and with a highly scalable business model; any acceleration of revenue growth is likely to move the company towards profitability.

Introduction to Toople

Admitted to the Standard List of the LSE in May 2016, Toople provides a wide range of telecoms services targeted primarily at the SME (small and medium-sized enterprises) market in the UK. The core services offered to customers by Toople include:

- Business broadband
- Fibre*
- EFM and Ethernet data services**
- Business mobile phones
- Cloud PBX and SIP Trunking***
- Traditional telecom services (calls and lines)

With this wide range of services, Toople is in a position to provide highly bespoke, flexible and reliable telecoms solutions to its target market represented by SMEs with 1-50 employees. The company markets its services through multiple channels, one of the most important of which is digital marketing, and has the ability to provide instant quotes and competitive pricing to all potential customers.

All of the company's services are delivered to customers and managed through Toople's proprietary cloud-based software platform, 'Merlin'.

**Fibre optic broadband provides faster internet connectivity using plastic or glass fibre cables compared to copper wire used in standard broadband connections.*

***EFM (Ethernet First Mile) or Ethernet is a low cost, leased line technology delivered over fibre optic lines which can provide significant cost savings compared to traditional leased fibre lines. EFM is delivered to a customer's premises and requires the installation of a physical Ethernet connection.*

****Cloud PBX (private branch exchange) is a cloud-hosted telephone system within an enterprise which enables the users to communicate within their company and also in the outside world using different channels such as Voice over IP (internet protocol) or analogue. This is complemented by SIP Trunking which is a form of telephony that connects an enterprise with the Public Telephone Network via IP/broadband.*

A market opportunity

Toople notes that the company has a significant opportunity to grow its business aggressively over the next five years given that BT has announced that it will be switching off the PSTN (public switched telephone network), the familiar landline telephone system and the main carrier for internet activity, and ISDN (Integrated Services Digital Networks), which allows the transmission of voice and video simultaneously using the PSTN network, in 2025. As early as 2020, all businesses will be forced to seek other IP based options for all their long term business communication requirements. These legacy services are being phased out as a function of the high maintenance and ongoing operating costs associated with running these networks.

Ofcom estimates that in 2017, there were still over 2 million businesses with an ISDN connection in the UK, all of which will be impacted by the upcoming 2025 switch off deadline. With migration to cloud based telephony and broadband representing the clear solution to mitigate the switch off of legacy BT services, we are confident that Toople, with its broad range of cloud-based telecoms service offering is very well placed to take advantage of this impending technology revolution.

Full service business model

Toople provides its business customers with three core requirements: These are:

Connectivity: Toople provides businesses with high quality, high speed broadband with network connections supplied by a range of Tier 1 carriers at a fixed competitive price.

Mobility: A wholesale mobile offering for business mobile phones including both SIM-only and handset deals with unlimited calls, SMS and data bundles. Toople also supplies the mobile app, Toople Premium (Business telephony) which is available for both iOS (the Apple operating system) and Android.

Business telephony: Toople provides cloud based telephony and calls & fixed lines. Cloud based telephony is ideal for small businesses to operate a maintenance free telephone system requiring no capex or advanced payments. Calls and lines are provided by Tier 1 carriers and provide unlimited anytime call allowances.

Typically, Toople signs customers up for 24 months for broadband and mobile telephony services and up to 36 months for business telephony contracts, thus providing the opportunity for longer term recurring revenue for the company.

Retail and wholesale covered

Toople's business model focuses on both retail and wholesale customers in the SME space. As described above, the company provides a range of products including cloud based telephone services, broadband, business mobile and traditional lines and calls to its retail customer base. However, Toople also provides white label services on behalf of other telecoms providers which have access to the Merlin platform. This enables wholesalers to connect with carriers and provide billing services to their own customer base.

Digital marketing

As noted previously, digital marketing represents the most important sales channel for Toople to propagate its services and the company estimates that over one million business owners see Toople's propositions every month via direct digital marketing, social media channels and B2B cost comparison sites.

Competitive advantages

We believe that Toople is introducing a significant degree of democracy to the SME telecoms market by providing the maximum amount for flexibility to customers. Primarily, Toople's services are carrier agnostic and transparent, therefore providing the customer with the best deal or product mix possible in terms of bandwidth, speed, availability and price.

Customers can elect to take a standalone solution or a bundled package, with unlimited calls, texts and data which is all delivered online through the Merlin platform. All prices are fixed and Merlin provides very straightforward aggregated billing for customers. Consequently, the company notes an average customer review score of 9/10 (rated excellent or good) on Trustpilot which is higher than many of its competitors.

Customer endorsement



Source: Trustpilot (Sept 2018)

The Merlin software platform

As outlined previously, Toople provides its services through a proprietary software platform called Merlin. This is a cloud-based planning platform that can manage all aspects of an SME's telecoms requirements. It has customer facing portals through which the user can build their own bespoke telecoms solutions appropriate to their business.

Merlin's customer facing solution enables SMEs to receive instant cost quotes for services that they require and orders can be tracked and managed online through to delivery, installation and configuration. Merlin's customer portal is also appropriate for multiple office or site locations given that it can be adjusted to account for varying numbers of employees.

Other key features

Merlin enables Call Detail Records (CDRs) to be rated or rerated from multiple carriers. This allows Toople to partner with the UK's largest network providers and provide bundles of call minutes across different communication types.

Consequently, the software creates a telecoms solution that can be shared across devices, employees regardless of the usage levels of individual employees. This is coupled with the provision of simple and transparent billing and pricing for customers.

Low cost but flexible

The Merlin platform is managed by an in-house team of four programmers rather than outsourced to a third party operator. This enables Toople to continually improve and develop the platform while the automated nature of the technology keeps costs low due to the relatively low Full Time Equivalent (FTE) manpower requirement.

Merlin provides access to Tier 1 carriers

The Merlin platform provides customers with an end-to-end cloud-based automated process, enabling them to place orders easily. Telecoms connectivity is provided by the carriers which comprise the UK's largest telecoms providers as outlined below.

Merlin is effectively a process management tool which enables an organisation to use a system of integrated applications to manage its business and also automate several back office functions including, HR, administration, billing and marketing.

Carriers accessed through Merlin



Source: Various, Toople

A growth opportunity

Toople estimates that there are approximately 5.4 million SMEs in the UK of which more than 90% have less than 50 employees. Of this huge target market, the Ovum SME (2017) report estimates that 73% of the smaller SME's with fewer than five employees are expected to grow over the next two years.

Organic growth prospects

Toople expects that demand for broadband will be driven by the UK government's commitment to expand the availability of superfast broadband across the UK. Given the uneven access to fast broadband that currently exists, particularly in more remote areas of the UK, we believe that this will be a major driver of growth over the next five years. This is complemented by the continued growth of independent infrastructure providers which are expected to augment the government's efforts to improve supply and access to faster broadband.

We believe that macroeconomic uncertainty in the UK is at the highest level since the global financial crisis, particularly with Brexit on the horizon in March 2019. As such, SMEs increasingly require value and pricing certainty and Toople's commercial proposition has the potential to provide stability to customers through transparent pricing, cost effective solutions and good customer service through cloud-based solutions during a very volatile economic period.

A potentially acquisitive strategy

While Toople has focused on organic growth since admission to the Standard List, the recent successful placing to raise £2.2m of new funds (see the financial summary section of this report), has provided the company with the potential opportunity to identify products or businesses that could complement Toople's existing business.

The highly fragmented nature of the telecoms market, characterised by a raft of smaller private companies seeking an exit and no single dominant player, implies that Toople is able to identify earnings enhancing acquisition opportunities with the option of deploying cash or paper to execute deals. This is complemented by an experience board of Directors with extensive M&A experience within the wider telecoms sector (see Appendix for more details).

Current trading is stronger

Announced in May 2018, Toople's interim results to the 31 March 2018 were flat on the comparable period in 2017. However, since the end of March, the company has signed several new contracts a rate of more than one a month, many of which represent multi-year revenue streams to the company. In a number of cases, Toople notes that new customers have moved from incumbent telecoms suppliers as a function of Toople's transparent fixed cost pricing structure.

Recent contract wins

On 26 March 2018, Toople signed a new contract with a London based bakery business with 52 retail sites and a company headquarters. This deal provides broadband, telephony and mobile Wi-Fi to the customer's retail sites and additional services including high speed broadband and ISDN (Integrated Services Digital Network) connectivity for simultaneous transmission of voice, video and data to the client's HQ. This contract is particularly positive for Toople given that it is for a minimum two-year duration and requires the full migration of services from BT to Toople.

On 11 April 2018, Toople signed a 24-month contract with a tyre company which also operates a fleet of mobile service vehicles based in the south of England. The contract is to provide the client with mobile connections for its fleet of vans and the deal involved the customer migrating from Vodafone to Toople using the O2 network.

The company followed this news with a further contract on 21 May 2018. This is a 24-month deal with an IT company based in southeast England, which moved its wholesale telecoms expenditure to Toople after a successful trial of the Merlin platform. Toople expects that this contract could be worth at least £360,000 to the company over the two year contract period.

New channel partners

On 25 June 2018, Toople announced a significant new 36-month contract with a Manchester based B2B utilities switching business. This deal, which is expected to run for at least three years, will provide the customer with Toople's full range of services as outlined on page 2 of this report. This deal could also provide significant upside to Toople given that the Merlin platform has been implanted in the client's business and is now live within the customers' in-house sales team. As such, all new customers coming through this channel will be able to contact Toople directly. This partnering deal could provide Toople with access to over 35,000 SMEs who currently receive energy switching advice and could be seeking an improved telecoms solution which Toople can provide.

On 5 July 2018, Toople added two further partnering contracts to its stable. One of these is with a leading energy company which supplies dual fuel (electricity and gas from the same energy supplier) to small businesses. This business is now offering telecoms and broadband solutions to its customers and has selected Toople as its provider of choice.

The other new contract is with a technology services business involved in the provision of server support, cloud systems and disaster recovery. This customer has added telecoms, delivered by Toople, to its product offering. In both of these cases, Toople has identified the potential to expand its customer base through these channel partners and expand its growth into the SME market.

August 2018 was also a busy month for the company winning two additional contracts. The first was with a southeast England based reseller of next generation broadband and cloud-based telephony services with multiple retail sites across the UK. This deal was driven by the retail sites migrating from traditional telecoms services to fibre broadband and VoIP telephony coupled with the incumbent telecoms provider, BT's decision to close down its legacy copper products, currently serving the retail sites, by 2025. Toople was selected by the reseller for its leading fibre broadband products and cloud based solutions and the management expects that this contract will provide significant revenue opportunities for Toople.

At the end of August 2018, Toople signed a major wholesale contract with a well-known telecoms reseller based in Southern England. This contract is for an initial three years and is expected to deliver at least £3.5m of additional revenue to Toople over this period. Over the initial months of the contract, the wholesale partner will migrate its current hosted telephony estate over to Toople's Merlin platform in addition to white labelling Toople's broadband propositions and marketing those to existing and new customers.

Future growth strategy

Toople is keen to build on recent progress and become ultimately the telecoms supplier of choice for SMEs. Partnering deals as described above are likely to keep the cost of customer acquisition low and this, coupled with direct digital marketing is being increasingly employed to drive customer growth.

While wholesale revenue growth is likely to deliver headline sales growth with increased visibility and predictability over the coming years, Toople has outlined its plans to orientate its revenue mix towards higher margin retail business where possible.

Focus on high margin business

The company is focusing on cloud-based telephony which is its fastest growing product line and a higher margin product. Toople now possesses a number of channel partnering opportunities to upsell and cross sell its products and generate recurring revenue streams through longer term contracts.

The company states that 90% of its broadband contracts are 24 months with 99% of cloud telephony contracts extending to 36 months each.

In-house sales

As outlined earlier, Toople is moving its sales function from an outsourced basis to its in-house sales team which has resulted in a higher conversion of generated leads into customer sales. This strategy is also expected to drive over £100,000 of annual cost savings to the business and improve margin per customer.

Financial summary

At the interim period ended 31 March 2018, Toople generated revenue of £0.69m and a modest gross profit of almost £83,000. After central administration charges and interest, the loss before tax was almost £0.71m which was slightly higher than the loss in the comparable period in 2017. With estimated annual administration costs running at £1.5m-£2.0m in the current year, we expect that the company will report a loss in the year ending September 2018. However, such is the nature of Toople's leveraged business model; increasing revenue on a comparatively fixed cost base will move the company into profit once group administration costs are covered by sales.

Financial performance since admission to the Standard List

Year ended Sept (£m)	FY 2015	FY 2016	H1 2017	FY 2017	H1 2018
Revenue	0.0	1.0	0.7	1.3	0.7
Operating profit	-0.4	-1.7	-0.6	-1.3	-0.7
Profit (loss) before tax	-0.4	-1.7	-0.6	-1.4	-0.7
EPS (p)	-1.02	-2.76	-0.60	-1.11	-0.35
Net debt (cash)	-0.1	-0.3	-0.2	-0.3	0.2

Source: Company, RNS

Recent fund raising

On 11 September 2018, Toople conditionally placed 733.3 million new shares at a price of 0.3p per share to raise £2.2m of new funds in an oversubscribed placing with institutional and retail investors. This placing is conditional on the publication of a prospectus by the company and trading on AIM for the new shares is expected to begin on 25 September 2018.

The net proceeds of the placing will be deployed in a number of areas including:

- Group working capital requirements
- Targeted marketing initiatives to grow revenue
- Enhancing Toople's service offering to customers
- Potential bolt-on earnings enhancing acquisitions

It is noted that three directors of the company, Mr Richard Horsman, Mr Geoffrey Wilson and Mr Kevin Lawrence, have agreed to receive outstanding remuneration settled by way of shares issued at the placing price amounting to £51,400 (approximately 17.1 million new shares).

Consequently, we expect that Toople will have approximately 954.4 million shares in issue after 25 September 2018.

Note to reader: Unless otherwise stated, factual information in the note has been sourced from the company and opinions are those of the author.

Appendix - Director's biographies

Andrew Hollingworth – Chief Executive Officer

Andy has 25 years' experience in the telecoms industry. As Director of Wholesale at TalkTalk Plc, he led a growth strategy in the UK reseller market from sub £50m turnover to £250m turnover (£150m net profit with around 30 staff). Andy then moved into an underperforming area of TalkTalk, the Small Business and Corporate segment. Within three years, he moved it from having an 18% customer loss figure into a business growing at over 3,000 customers per month. Andy was appointed to the Board of Toople on 2 March 2016, having worked with the Group for several months prior to joining.

Kevin Lawrence – Chief Financial Officer

Kevin has over 15 years' experience in delivering both organic and acquisitive growth in Finance Director and CFO roles. With the CEO, he grew Cybit Holdings from a shell company into a UK leader market leader with 20% market share in under seven years. In 2010, he oversaw a transaction which saw the group taken private by US Private Equity firm Francisco Partners. Kevin worked with the CEO and the then Chairman of Atego Group, Richard Horsman, (current Chairman of Toople), to overhaul business strategy and completed an US\$8m acquisition from IBM. Most recently, Kevin is responsible for leading finance teams across locations in Asia, North America and Europe as CFO at Gardien Group. Kevin was appointed as CFO of Toople on 28 June 2018.

Richard Horsman – Non-Executive Director

Richard was senior NED of Plethora Solutions Holdings Plc from early 2011 to mid-2013 and previously CEO of Cybit Holdings plc, both admitted to trading on the AIM market of the London Stock Exchange. During his tenure at Cybit the company grew, from inception, to revenues of £25m and made multiple acquisitions. In January 2010, Cybit was acquired in a deal with a US based private equity firm which returned £24m to shareholders at over a 100% premium to the prevailing market price.

Prior to this he held a number of senior roles in the IT industry, including with Global Telematics PLC and The Baan Company. Most recently (from 2011 to the end of 2014) Richard was Chairman/CEO of Atego Group, a privately held company providing mission and safety critical software and consulting services to the global aerospace, military and automotive sectors. Atego was sold to PTC who is listed on the US NASDAQ market.

Geoffrey Paul Wilson – Non-Executive Director

Geoffrey has held a number of senior positions within the telecoms industry. Most recently, he was employed as COO for TalkTalk Business where, over a four year period, overall operational costs reduced by 9% whilst supporting revenue growth of 33%. For two years prior to this he held the position of FD for TalkTalk Business. He first joined the telecoms industry in 1993 with Mercury Communications where he held a number of finance roles, becoming financial controller for the customer systems division in 1995. He gained wider experience of the industry as Commercial Manager with Siemens Communications Systems and then as Commercial Director for Your Communications, a subsidiary of United Utilities, which he joined in 1999. Whilst there, he led the corporate acquisition and integration programme increasing customer base and product range. He qualified as a Management Accountant in 1991 whilst working for Grand Metropolitan PLC in their licensed retail business, Chef & Brewer.

THIS DOCUMENT IS NOT FOR PUBLICATION, DISTRIBUTION OR TRANSMISSION INTO THE UNITED STATES OF AMERICA, JAPAN, CANADA OR AUSTRALIA.

Conflicts

This is a non-independent marketing communication under the rules of the Financial Conduct Authority (“FCA”). The analyst who has prepared this report is aware that Turner Pope Investments (TPI) Limited (“TPI”) has a relationship with the company covered in this report. Accordingly, the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by TPI or its clients ahead of the dissemination of investment research.

TPI manages its conflicts in accordance with its conflict management policy. For example, TPI may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese wall. Accordingly, information may be available to TPI that is not reflected in this document. TPI may have acted upon or used research recommendations before they have been published.

Risk Warnings

Retail clients (as defined by the rules of the FCA) must not rely on this document.

Any opinions expressed in this document are those of TPI’s research analyst. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price.

The value of securities, particularly those of smaller companies, can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of smaller company securities may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results.

The Standard List of the LSE is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority; consequently Standard Listed investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

Specific disclaimers

TPI acts as joint broker to Toople plc (“Toople”) in connection with the Toople’s listing on the Standard List of the London Stock Exchange. TPI’s private and institutional clients may hold, subscribe for or buy or sell Toople’s securities.

This document has been produced by TPI independently of Toople. Opinions and estimates in this document are entirely those of TPI as part of its internal research activity. TPI has no authority whatsoever to make any representation or warranty on behalf of Toople.

General disclaimers

This document, which presents the views of TPI's research analyst, cannot be regarded as "investment research" in accordance with the FCA definition. The contents are based upon sources of information believed to be reliable but no warranty or representation, express or implied, is given as to their accuracy or completeness. Any opinion reflects TPI's judgement at the date of publication and neither TPI nor any of its directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. TPI does not undertake to provide updates to any opinions or views expressed in this document. TPI accepts no liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document (except in respect of wilful default and to the extent that any such liability cannot be excluded by applicable law).

The information in this document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The material contained in the document is general information intended for recipients who understand the risks associated with equity investment in smaller companies. It does not constitute a personal recommendation as defined by the FCA or take into account the particular investment objectives, financial situation or needs of individual investors nor provide any indication as to whether an investment, a course of action or the associated risks are suitable for the recipient.

This document is approved and issued by TPI for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to professional clients, as defined by Directive 2004/39/EC as set out in the rules of the Financial Conduct Authority. This document may not be published, distributed or transmitted to persons in the United States of America, Japan, Canada or Australia. This document may not be copied or reproduced or re-distributed to any other person or organisation, in whole or in part, without TPI's prior written consent.

Copyright © 2018 Turner Pope Investments (TPI) Limited, all rights reserved.