

Stock Data

Share Price: 0.29p
Market Cap.: £3.3m
Shares in issue 1,143m

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

Past performance is not an indication of future performance.

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Toople plc

Over the last six months, Toople has experienced accelerated growth in customer acquisition numbers. We expect this to translate into increased sales over H2 and an improvement in margins as a function of increased orders for superfast fibre broadband in the product mix.

In the months of April, May and June 2019, Toople received over 900, 1,000 and 1,100 orders respectively. In particular, order numbers for May 2019 were three and half times the level achieved only 12 months previously. This momentum has continued in Q2 with strong growth in the traditionally seasonally affected period of July and August 2019 and Toople added a further 1,300 and 1,000 new customer orders respectively in these months.

In revenue terms, the contract value of the new customers signed in May 2019 is expected to deliver sales of £500,000 over a 24 month period and Toople expects that the new customer orders won between June and August will deliver revenues over and above this amount.

On the corporate side of the business, Toople has invested in an in-house sales and marketing channel, which in tandem with the company's digital marketing strategy is delivering increased numbers of customer enquiries.

Toople also notes that its new sales facility established in Durban, South Africa, which went live in July, is making a positive impact. This facility enhances Toople's sales capability and extends working hours beyond 8pm GMT on weekdays and also on weekends which are both peak times for SME enquiries.

The company states that early customer conversion rates from the Durban facility are good and comparable to those achieved by the UK team and the commercial impact is an overall lower cost of acquisition per customer and revenue generating unit. The company is confident that this will deliver margin improvements over the medium term.

At the end of March 2019, Toople's balance sheet had cash of almost £1.15m. This cash was topped up by a private placing at the end of May 2019 whereby Toople issued 189.2 million new shares at 0.35p per share to raise gross proceeds of £0.662m.

In the interim statement, the balance sheet showed an outstanding shareholder loan with a present value of approximately £0.6m. This interest free loan originated from former director, Mr David Breith, who made loans totalling £0.75m to the company prior to admission to the Standard List in May 2016.

The present value of the loan was not repayable for three years after admission and only in the event that the company was profitable. Given that the conditions of the loan were not met, Mr Breith accepted a payment of £150,000 in full and final settlement of the loan and Toople is also now debt free. With the loan repaid at a significant discount to its book value, Toople now has additional funds available to invest in its digital marketing strategy and accelerate sales leads and customer conversion rates.

Toople has strengthened the balance sheet in Q3 providing additional working capital for the business. With the establishment of a sales centre in South Africa to extend Toople's sales hours, we believe that the company will focus on converting increased numbers of leads at an accelerated pace to deliver sales growth and lower unit costs for customer acquisition over H2 2019 and into the next financial period.

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)

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

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.

**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.

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 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

Growth strategy

Toople is keen to become the telecoms supplier of choice for SMEs. The company announced a raft of new channel partnering deals in 2018 (outlined in the Turner Pope research report dated 20 September 2018) which 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.

The company is focusing on cloud-based telephony which is its fastest growing product line and a higher margin product. In addition, Toople's channel partnering agreements complement this by providing opportunities to upsell and cross sell its products and generate recurring revenue streams through longer term contracts. In this regard, the company states that 90% of its broadband contracts are 24 months with 99% of cloud telephony contracts extending to 36 months each.

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. Within this huge target market, 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.

Uncertain outlook requires stability

We believe that macroeconomic uncertainty in the UK is at the highest level since the global financial crisis, particularly with Brexit and 'no deal' uncertainty on the horizon on 31 October 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 successful placings to raise £2.2m of new funds in September 2018 and a further £0.66m in May 2019 (see the financial summary section of this report), has provided the company with the 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).

Trading in the year to September 2019

Strong trading over the earlier interim period ended 31 March 2019 of the current year is outlined in the next section of this report. In the second half of the financial year, the company has demonstrated continued strong growth in customer orders which is expected to translate into revenue growth in the year ending 30 September 2019.

Toople received over 900 new customer orders in April 2019 and over 1,000 orders in May 2019. By comparison with May 2018, this represented year on year growth of 250%. In June, the company reported a further 1,100 orders from over 800 new customers received and this momentum continued in July and August with a further 1,300 and 1,000 new customer order received respectively. We believe that the result for August is particularly positive given the traditional summer lull in order activity.

The contract value of new customers signed in May 2019 amounts to revenue in excess of £500,000 for Toople over a 24 month period and the additional orders received over the period June to August 2019 are expected to deliver revenue over and above this amount.

South African sales facility established

Toople's new sales facility in Durban, South Africa went live in July 2019 and is showing major promise. The facility enhances the company's sales capabilities as it extends working hours into the evenings beyond after 8 pm and also at the weekends, which are peak times for SME enquiries.

Toople has noted that early conversion rates are good and comparable to those achieved by the UK team. The management's strategy is to deliver an overall lower cost of acquisition per customer and revenue generating unit which has the potential to deliver margin improvements over the medium term and move the company into profitability.

Financial summary

At the interim period ended 31 March 2019, Toople generated revenue of almost £1.1m, a 57% increase on the same period in 2018. Interim gross profit also increased from £82,953 to £207,494, a result which surpassed the total for the full year to March 2018.

After central administration charges and interest, the loss before tax was almost £0.84m compared to £0.71m in 2018. With estimated annual administration costs running at an anticipated £2.0m-£2.2m in the current year, we expect that the company will report a loss in the year ending September 2019. However, such is the nature of Toople's leveraged business model; increasing revenue on a comparatively static cost base will move the company into profit once group administration costs are covered by sales in subsequent years.

Financial performance since admission to the Standard List

Year ended Sept (£m)	FY 2015	FY 2016	FY 2017	H1 2018	FY 2018	H1 2019
Revenue	0.0	1.0	1.3	0.7	1.5	1.1
Operating profit	-0.4	-1.7	-1.3	-0.7	-1.3	-0.8
Profit (loss) before tax	-0.4	-1.7	-1.4	-0.7	-1.4	-0.8
EPS (p)	-1.02	-2.76	-1.11	-0.35	-0.60	-0.09
Net debt (cash)	-0.1	-0.3	-0.3	0.2	-1.6	-0.5

Source: Toople

Financial position

On 29 May 2019, Toople raised gross proceeds of £662,231 from the placing of 189.2 million new shares at 0.35p per share. This followed an earlier placing on 11 September 2018 where the company placed 733.3 million new shares at the lower price of 0.3p per share to raise £2.2m of new funds in an oversubscribed placing with institutional and retail investors.

A portion of the funds raised in May 2019 were used to redeem the outstanding loan to the company from former director David Breith at a substantial discount to its book value. Mr Breith made loans totalling £750,000 to Toople at the time of the company's admission to the Official List of the London Stock Exchange in May 2016. Under the terms agreed, the loan was interest free and not repayable for three years from admission and then only in the event that the company was profitable and had sufficient funds to make the repayment.

In May 2017, the company and Mr Breith entered into a deed of variation to restate the balance owed under the loan to £606,756 with all other terms remaining in place. In the 2019 interim results, the loan was subsequently disclosed at a present value of £601,327 based on current International Financial Reporting Standards.

As the conditions of the repayment of the loan in May 2019 were not met, Mr Breith agreed to accept a payment of £150,000 in full and final settlement of the loan at that time. Consequently, Toople is now debt free and the balance of the net proceeds from the May 2019 placing has provided the company with additional capacity to invest in other areas of the business including:

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

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.

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