Eleco plc



'Grow baby grow...'

31st March 2022

Covid19 has changed the world in many ways. Accelerating the shift towards digitisation, remote work and all things 'cloud-related'. Alongside improving efficiency, project planning, quality & the planet (eg COP26 'net zero' target) by deploying cutting edge applications like 'Buildtech' software. An £8.5bn industry expanding at a circa 10% pa.

One company ideally positioned to thrive in this environment is Eleco, who delivered 'in line' results today. Posting adjusted EBITDA & EPS of £7.2m & 4.0p respectively on record turnover up 8.4% to £27.3m (+7.7% vs FY19). Further bolstered by 100% cash conversion (£4.75m, representing a 5.7% yield), whilst equally ending the period with a hefty £10m net cash balance (12p/share) – even after spending 12% of revenues on R&D.

...driven by strong secular demand & best-of-breed software

All told, providing ample capital to pay a 0.6p dividend, alongside investing both internally (eg R&D, marketing, geographical expansion, headcount, etc) &/or in possible future M&A.

9% growth in recurring revenues (ARR) to £15.4m (or 58.3% of H2 turnover)

Summary Financials (£'000s)	FY19	H1'20	H2'20	FY20	Act H1'21	Act H2'21	Act FY21	Est FY22
Software licenses ARR (recurring SaaS & support) Services (eg training) Sales	5,877 13,557 5,964 25,398	2,721 6,953 2,541 12,215	2,721 7,233 3,063 13,017	5,442 14,186 5,604 25,232	3,253 7,543 3,035 13,831	2,660 7,881 2,972 13,513	5,913 15,424 6,007 27,344	5,357 16,812 5,442 27,612
Reported % growth rate Acquisition growth % Estimated forex Estimated % LFL (constant currency)	14.3% 13.1% -2.0% 3.2%	-3.9% 0.0% -0.9% -3.0%	2.6% 0.0% -0.9% 3.5%	-0.7% 0.0% -0.9% 0.2%	13.2% 0.0% 1.0% 12.2%	3.8% 0.0% 0.0% 3.8%	8.4% 0.0% 0.5% 7.9%	1.0% 0.0% 100.5% -99.5%
% recurring revenues	53.4%	56.9%	55.6%	56.2%	54.5%	58.3%	56.4%	60.9%
Gross Profit % margin	22,751 89.6%	10,917 89.4%	11,786 90.5%	22,703 90.0%	12,513 90.5%	12,077 89.4%	24,590 89.9%	24,831 89.9%
Operating expenses (excl D&A)	-16,449	-7,634	-8,066	-15,700	-8,864	-8,475	-17,339	-18,605
Adjusted EBITDA (post SBPs) % margin	6,302 24.8%	3,283 26.9%	3,720 28.6%	7,003 27.8%	3,649 26.4%	3,602 26.7%	7,251 26.5%	6,226 22.5%
Depreciation Amortisation of intangibles	-902 -855	-426 -491	-450 -577	-866 -1,068	-368 -551	-354 -1,235	-722 -1,786	-726 -2,400
Adjusted EBIT (post SBPs) % margin	4,545 17.9%	2,366 19.4%	2,693 20.7%	5,069 20.1%	2,730 19.7%	2,013 14.9%	4,743 17.3%	3,100 11.2%
Net interest Adjusted PBT PBT margin	-339 4,206 16.6%	-141 2,225 18.2%	-109 2,584 19.9%	-262 4,807 19.1%	-106 2,624 19.0%	-109 1,904 14.1%	-173 4,570 16.7%	-200 2,900 10.5%
Tax Adjusted earnings <i>Margin</i>	-884 3,322 13.1%	-470 1,755 14.4%	-430 2,154 16.5%	-900 3,907 <i>15.5%</i>	-532 2,092 15.1%	-931 973 7.2%	-1,463 3,107 <i>11.4%</i>	-609 2,291 8.3%
Adjusted Cashflow Cash conversion	5,465 120%	4,154 176%	1,362 51%	5,516 109%	3,264 120%	1,487 74%	4,751 100%	3,376 109%
Adjusted EPS (pence) EPS growth % Dividend (pence)	4.10p 7.1% 0.30p	2.16p 8.0% 0.00p	2.64p 25.9% 0.40p	4.80p 17.2% 0.40p	2.57p 19.2% 0.20p	1.43p -46.0% 0.40p	4.00p -16.7% 0.60p	2.74p 6.5% 0.66p
Net cash / (debt) - Ex IFRS16 leases	1,101	4,435	6,154	6,154	8,470	9,954	9,954	11,970

Source: Equity Development

Indeed Eleco's award winning applications are being increasingly adopted by construction firms, asset/property managers, manufacturers and retailers everywhere. For instance helping:

 Site planners (eg Vinci, McCarthy Stone, etc) minimise supply chain bottlenecks (rescheduling), labour shortages, cost inflation & carbon emissions (re Powerproject & Bidcon).

Company Data

EPIC	AIM: ELCO
Price	100p
52 week High/Low	147p/83p
Market cap	£83.2m
Net cash Dec'21	£10m
ED valuation / share	150p/share
Share count	83.2m

Share Price, p



Source: Yahoo

Description

Eleco is a *Build*Tech, asset/property lifecycle (64.5% sales) & visualisation/CAD (29%) software developer. Its award winning 6D solutions cover project planning, estimating, design, site operations/maintenance & Building Information Modelling (BIM). BIM acts as the glue connecting all the various parts.

Revenue visibility is robust, with c. 56% of 2021 revenues recurring & >90% customer retention rates. Landmark implementations include: The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome. 46% of revenues are generated outside the UK. Headcount 245.

Next news: AGM in May 2022

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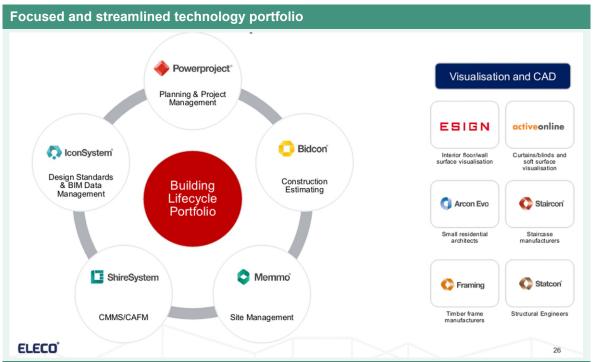
*a shareholder in Eleco plc



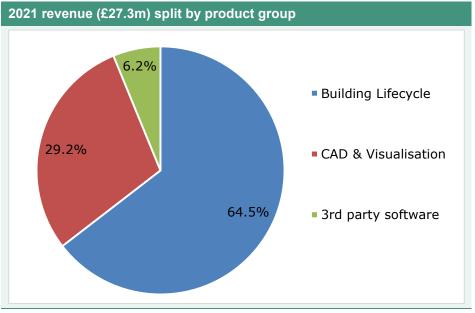
- Flooring (eg Karndean), paint (eg Benjamin Moore) & soft-furnishing suppliers (re Al enabled visualisation tools) optimise their online stores.
- Factories (eg Wren Kitchens) quickly resolve maintenance issues, improve plant availability & lift ROCEs (Shire)

....covering cutting edge building lifecycle & CAD/visualisation

So if you have the right products (see below) generating 90% gross margins in a buoyant market, driven by powerful secular drivers (including new infrastructure, data centre, smart factory, IoT, warehouse & BtR spend), what should you do?



Source: Company



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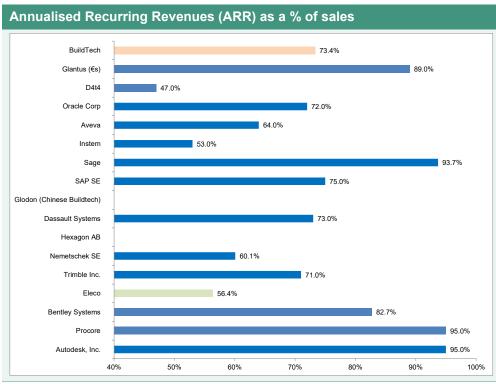




Well not surprisingly, it makes perfect sense to push one's foot down hard on the 'growth pedal' - especially transitioning towards recurring/SaaS revenues from perpetual licenses.

ARR set to climb from 56% of sales to >75% by 2026

A strategy also being aggressively pursued by most of Eleco's Buildtech peers (see below), particularly in the US, where encouraging progress is already being made through channel partners.



Source: Equity Development

Albeit 'no gain without a little pain'

Nonetheless in the short term this will temporarily impact the headline numbers (ED est FY22 LFL sales growth & EBIT margin drag of 5%+) - reflecting the associated longer sales recognition and greater upfront investment (all self-funded). Yet ultimately, the transition to SaaS is the right thing to do. Later reaping the rewards of predictable income streams and positioning the group to flourish in the new cloud & digital age.

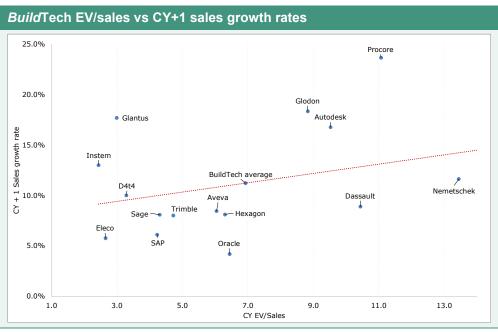
Elsewhere, the company's refreshed 'client centric' (vs product orientated B4) structure is bedding down well, especially relating to the X-fertilisation of pipeline leads, solution sales, team-work, R&D and career development.

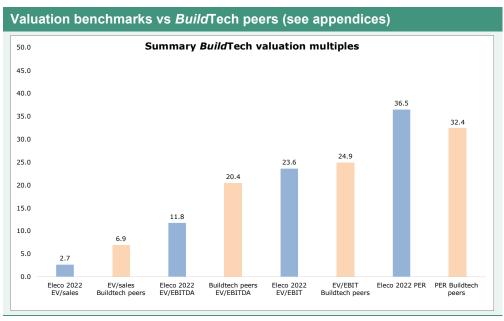
Significant price appreciation possible

Consequently given the **strong industry tailwinds and positive start to 2022**, we've held our FY22 forecasts (re adjusted PBT £2.9m & turnover £27.6m), and have a **150p/share valuation**.

Plus at 100p, Eleco trades on modest 2022 EV/sales & EV/EBITDA multiples of 2.7x and 11.8x respectively, equivalent to a wide discount vs *Build*Tech peers (see below).





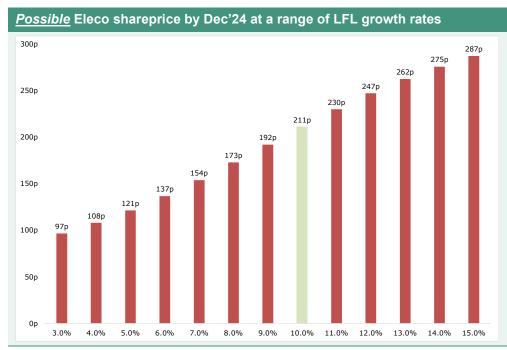


Source: Equity Development

Recognising too that if things go to plan, then we think the stock would justify trading on a 5x EV/sales multiple, or (hypothetically) >200p by late 2024 (see below).







Source: Equity Development hypothetical price estimates

Exec leadership changes & confident outlook

Lastly after appointing new Product, Technology & Transformation directors to the operational Board, we understand encouraging progress is also being made in the search for a replacement CFO - with industry professional Rose Clark admirably standing in.

CEO Jonathan Hunter adding: "Our customer-centric approach, strong values and clear vision make us well placed to compete with the best in the market, and we look forward with confidence to the year ahead, with our transition to subscription, continued investment in software development and increased focus on strategies opening further exciting prospects for growth in our core markets."

Key risks

- Substantial slowdown in global GDP which could impact the worldwide property, construction and infrastructure markets.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Larger license deals can lead to lumpy orderflow, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts.
- Foreign exchange. However, this is primarily a translation risk with 46% of Eleco's turnover being generated outside the UK.
- Regulatory and tax changes. Generic risks of retention/recruitment of key staff, etc.
- Competition may intensify due to new/existing players. Indeed being relatively small, Eleco could get squeezed by larger rivals, partners and customers.
- As with many small cap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.



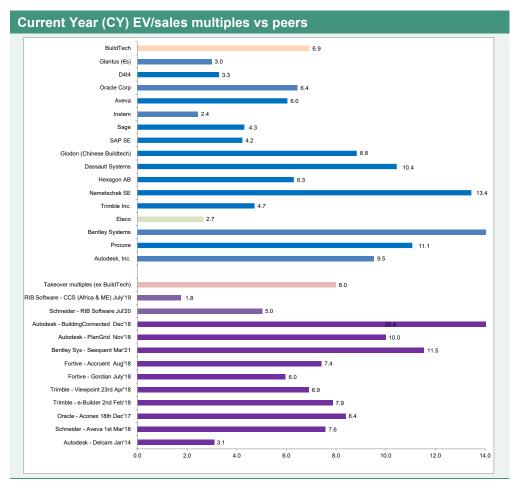




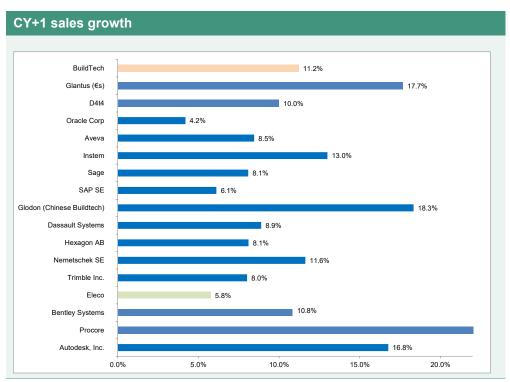
Summary projections (£'000	s)							
Eleco plc	2019 Act	2020 Act	2021 Act	2022 Est	2023 Est	2024 Est	2025 Est	2026 Est
(Dec yearend)	£'000s							
Software licenses	5,877	5,442	5,913	5,357	4,821	4,339	3,905	3,515
ARR (recurring SaaS & support)	13,557	14,186	15,424	16,812	18,830	21,654	25,119	29,389
Services (eg training)	5,964	5,604	6,007	5,442	5,551	5,662	5,775	5,891
Turnover	25,398	25,232	27,344	27,612	29,202	31,656	34,800	38,795
% growth	14.3%	-0.7%	8.4%	1.0%	5.8%	8.4%	9.9%	11.5%
Gross Profit	22,751	22,703	24,590	24,831	26,261	28,467	31,295	34,887
% margin	89.6%	90.0%	89.9%	89.9%	89.9%	89.9%	89.9%	89.9%
Adj. EBITDA (post SBPs)	6,302	7,003	7,251	6,226	6,571	7,883	9,671	11,899
% Margin	24.8%	27.8%	26.5%	22.5%	22.5%	24.9%	27.8%	30.7%
Adj. EBIT (post SBPs)	4,545	5,069	4,800	3,100	3,425	4,504	5,995	7,847
% Margin	17.9%	20.1%	17.6%	11.2%	11.7%	14.2%	17.2%	20.2%
Adj. Profit before Tax	4,206	4,807	4,743	2,900	3,275	4,404	5,945	7,847
Adjusted EPS (p)	4.10p	4.80p	4.00p	2.74p	3.00p	4.02p	5.40p	7.09p
EPS growth rate	7.1%	17.2%	-16.7%	-31.5%	9.5%	33.8%	34.3%	31.3%
Dividend (p)	0.30p	0.40p	0.60p	0.66p	0.73p	0.80p	0.88p	0.97p
Yield	0.3%	0.4%	0.6%	0.7%	0.7%	0.8%	0.9%	1.0%
ARR (% recurring revenues)	53.4%	56.2%	56.4%	60.9%	64.5%	68.4%	72.2%	75.8%
Adjusted cash conversion	120.2%	108.8%	107.2%	108.9%	105.4%	104.4%	102.1%	103.3%
Average headcount	251	246	245	257	264	270	278	287
Revenues (£ks) / employee	101.2	102.6	111.6	107.4	110.8	117.2	125.4	135.1
Valuation benchmarks								
P/E ratio	24.4	20.8	25.0	36.5	33.3	24.9	18.5	14.1
EV/Sales	2.9	2.9	2.7	2.7	2.5	2.3	2.1	1.9
EV/EBITDA	11.6	10.5	10.1	11.8	11.1	9.3	7.6	6.2
EV/EBITA	16.1	14.4	15.3	23.6	21.4	16.3	12.2	9.3
Adjusted tax rate	-19.0%	-18.7%	-30.8%	-21.0%	-23.0%	-23.0%	-23.0%	-23.0%
EBITDA drop through rates	32.9%		11.7%	-383.1%	21.7%	53.5%	56.9%	55.8%
ROCE	16.4%	16.2%	14.3%	8.7%	9.2%	11.2%	13.6%	15.9%
Dividend cover	13.7		6.7	4.2	4.1	5.0	6.1	7.3
PEG ratio	3.42	1.21	-1.50	-1.16	3.50	0.74	0.54	0.45
Net cash/(debt) - excl IFRS16 leases	1,101	6,154	9,954	11,970	14,068	16,984	20,943	26,422
Sharecount (Ks)	81,100	81,400	82,000	83,570	83,988	84,408	84,830	85,254
Shareprice (p)	100p							



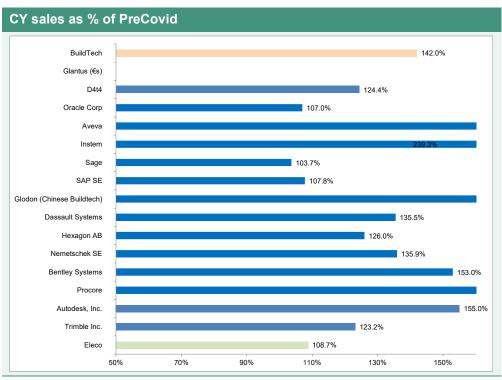
Appendices

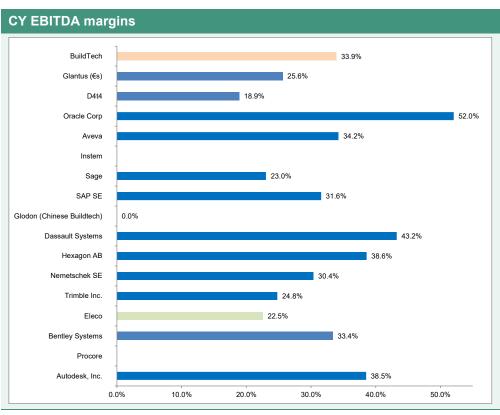


Source: Equity Development

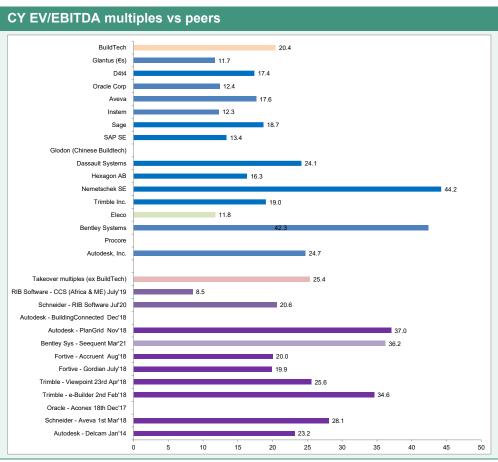


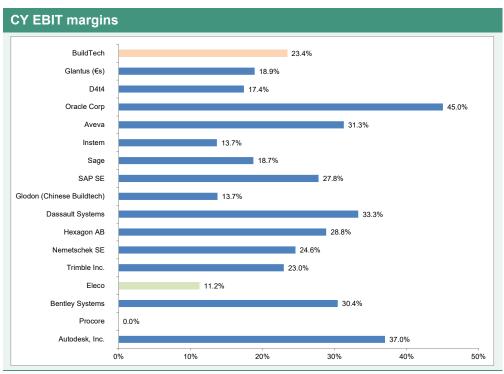












£8,258

£8,148

\$272,254

£89 € 49.0



Market capitalisation of peers								
	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)				
Eleco	100p	£83.2	£10.0	£73.2				
Trimble Inc.	\$72.0	\$18,000	-\$968	\$18,968				
Autodesk, Inc.	\$220.0	\$48,840	\$489	\$48,351				
Procore	\$61.0	\$7,820	\$471	\$7,349				
Bentley Systems	\$45.0	\$14,760	-\$1,162	\$15,922				
Nemetschek SE	€ 89.0	€ 10,280	€ 104	€ 10,176				
Hexagon AB	€ 12.5	€ 30,770	-€ 237	€ 31,007				
Dassault Systems	€ 46.0	€ 55,936	-€ 890	€ 56,826				
Glodon (Chinese Buildtech)	\$7.7	\$9,152	\$838	\$8,314				
SAP SE	€ 103.0	€ 121,540	-€ 3,914	€ 125,454				

£7,751

£7,615

\$218,207

£105

€ 40.5

704p £25.25

\$83.0

260p

€ 91.6

-£507

-£533

-\$54,047

£16

-€ 8.5

Source: Equity Development

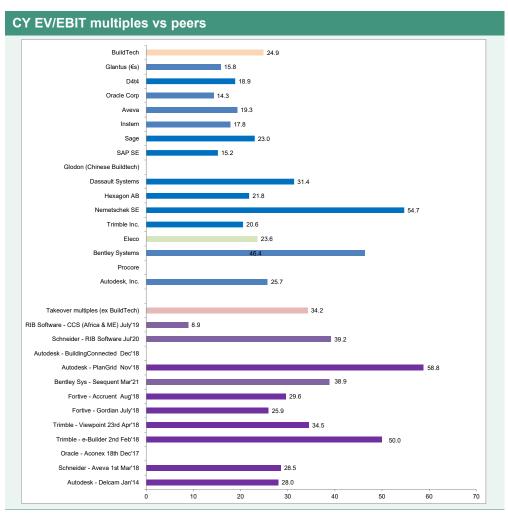
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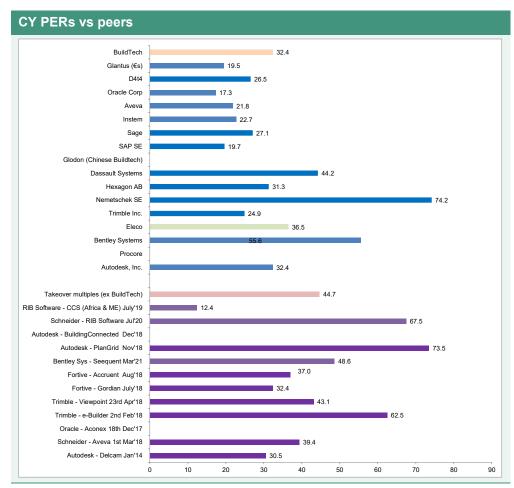
D4t4

Oracle Corp

Glantus (€s)









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