

## Accelerating the transition to a subscription model

29th July 2021

Amidst all the recent football hullabaloo, England weren't the only side scoring from every angle. Team Eleco, an ambitious *BuildTech* software firm, also "**performed extremely well**". Saying that **H1'21 turnover jumped to not less than £13.7m**, or +13% LFL vs LY (£12.2m) and +9% vs H1'19 (£12.7m). With **growth accelerating sequentially from 9% in Q1 to approx 17% LFL in Q2**.

An excellent result by anyone's standards, assisted by:

- A large Powerproject order from an Austrian based 'Smart factory' group.
- Building products firm Kingspan extending its rollout of ShireSystem into Poland.
- Greater use by Asda of the ICON, BIM platform.
- The Turkish Minister of Transportation approving Powerproject for Public projects.

Similarly, **adjusted PBT rose to not less than £2.6m**, up +22% vs LY & 39% H1'19. Albeit partially offset by higher growth investment with more scheduled for H2 & beyond, as ELCO aggressively executes its expansion strategy. Elsewhere **net cash closed June at a healthy £8.5m** (10p/share) vs £6.1m at y/e, with recurring revenues (SaaS/maintenance) climbing +8% to £7.4m (+54% of total).

## H1 sales jump 13% to £13.7m, driving net cash up to £8.5m

So what does this all mean? Well big picture, **we believe the Board's new strategy has success written all over it**. Sure it's still early days, yet first impressions are promising. In addition, the **company plans to fast-track its transition to a full recurring revenue model**. By placing greater emphasis on this option in H2, particularly in the US where SaaS adoption is already high.

To us this makes perfect sense. Not only enhancing a customer's life-time value and enabling future software upgrades to be quickly rolled out. But also reducing complexity by allowing older versions to be retired earlier. In turn, bolstering Eleco's competitive position and sales visibility, whilst equally stream-lining operations and lifting retention rates.

The only temporary downside being that this migration will temporarily dampen headline LFLs, alongside reducing 2021 EBIT margins to 16% from 20% LY. Consequently despite the impressive H1 performance, we've prudently held our FY21 turnover of £26.7m (+6%), with adjusted PBT coming in at £4.1m (vs £4.8m LY) after absorbing greater personnel, IT & infrastructure spend.

## Valuation rises from 125p to 135p/share

Nonetheless, **our valuation nudges up to 135p/share** from 125p, thanks to the improved earnings quality. Moreover the stock trades at a wide-discount to peers, on 3.9x 2021 EV/Revs & 15.7x EV/EBITDA compared to 11x & 30x for the sector. Plus **with a 3-5 year view, we could readily see ELCO justify a price of above 200p**.

Elsewhere, research house Gartner predicts the \$123bn B2B cloud software market will expand at a 19% pa clip over the next 2 years, as corporates digitise post pandemic. Likewise providing another powerful tailwind behind the group's cutting edge *BuildTech* & visualisation products.

Executive Chairman, Serena Lang adding: "*Eleco performed extremely well in H1'21, with **strong organic revenue, profit and cash flow growth**, while also transforming the business to meet its future needs. This strong performance ideally positions us to accelerate the execution of our strategy to increase subscription income, which is **focused on driving long-term organic revenue growth and enhancing the value we provide to our customers. Eleco will continue to generate positive cash flow in H2'21, and is on track to deliver in line with consensus market expectations.***"

### Company Data

| EPIC                     | AIM: ELCO  |
|--------------------------|------------|
| Price (last close)       | 135p       |
| 52 week High/Low         | 139p/71p   |
| Market cap               | £112m      |
| Net cash as at June 2021 | £8.5m      |
| ED valuation / share     | 135p/share |
| Share count              | 83.1m      |

### Share Price, p



Source: Yahoo

### Description

Eleco is a *BuildTech*, asset/property maintenance & visualisation software specialist for the Architectural, Engineering, Construction & digital marketing industries. Its award winning 6D solutions (>100,000 users) cover project planning, estimating, design/CAD, visualisation, site operations/maintenance & Building Information Modelling (BIM). BIM acts as the glue connecting all the various parts.

**Visibility is robust**, with c. **56% of 2020 revenues recurring and >90% customer retention rates**. Landmark implementations include: The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome. **62% of the business is generated from outside the UK**, and there are c. 246 staff.

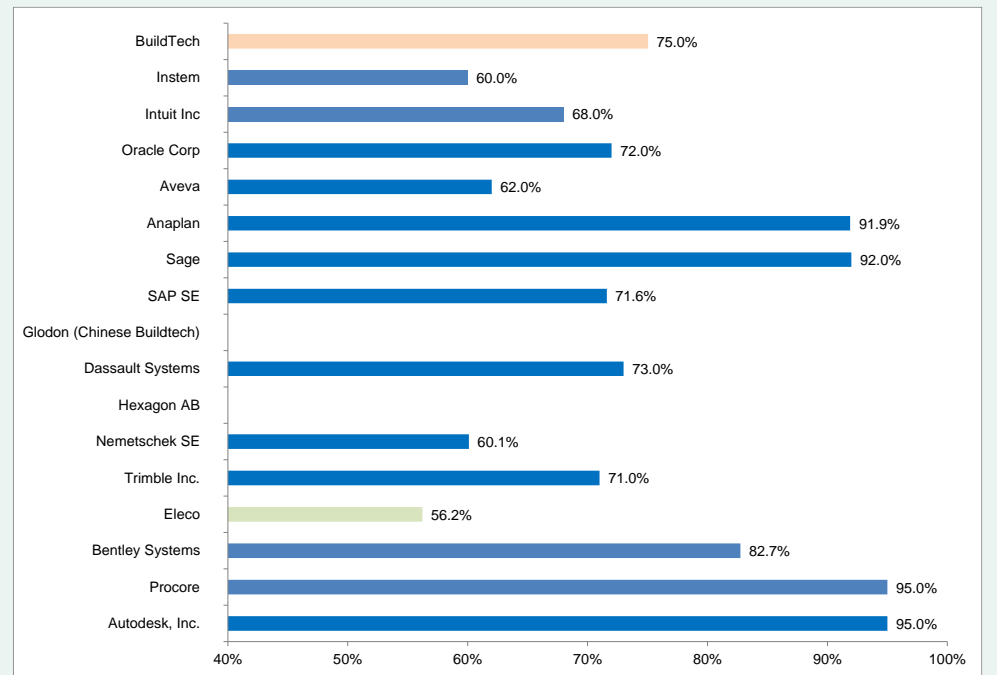
**Next news:** Interims in September

### Paul Hill (Analyst) \*

0207 065 2690  
[paul.hill@equitydevelopment.co.uk](mailto:paul.hill@equitydevelopment.co.uk)

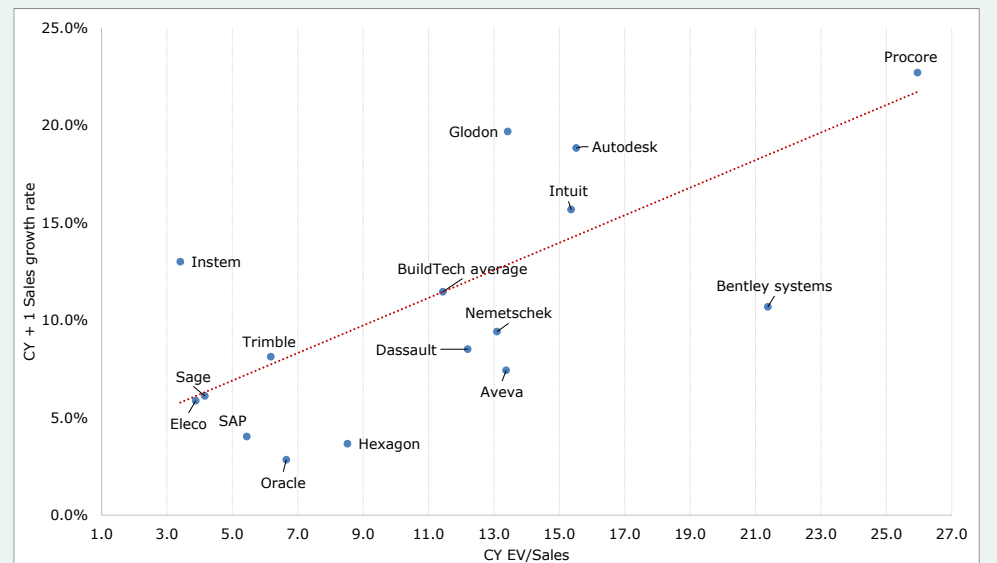
\*a shareholder in Eleco plc

### 2021 recurring revenues as a % of group for *BuildTech* sector



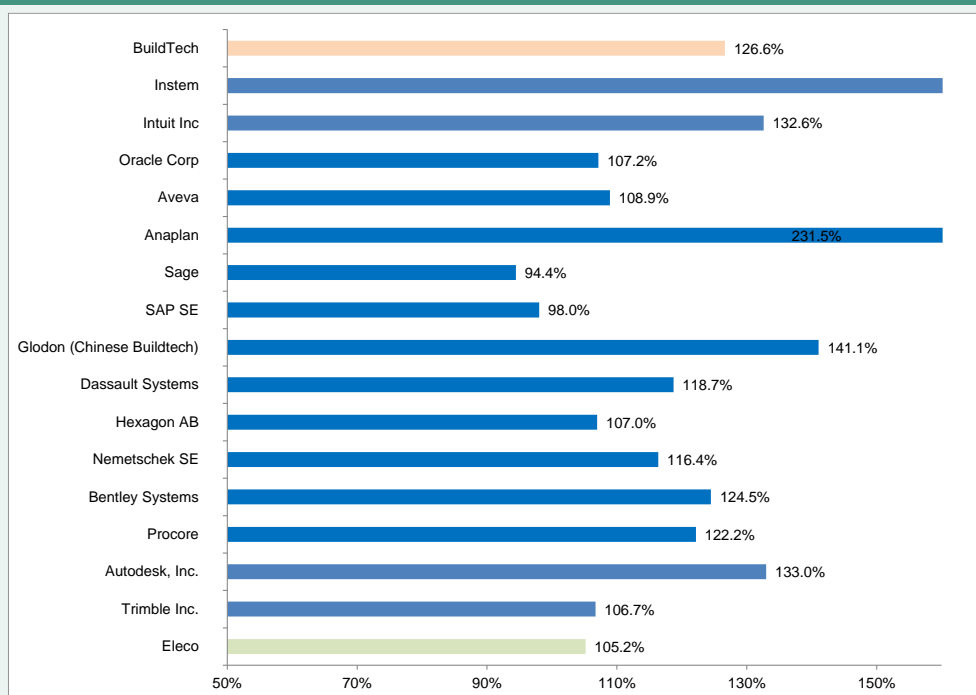
Source: Equity Development

### BuildTech EV/sales vs CY+1 sales growth rates



Source: Equity Development. FY21 for Eleco

### CY sales as % of Pre-Covid



Source: Equity Development

### 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 order flow, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts.
- Foreign exchange. However, this is primarily a translation risk with 62.5% 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.

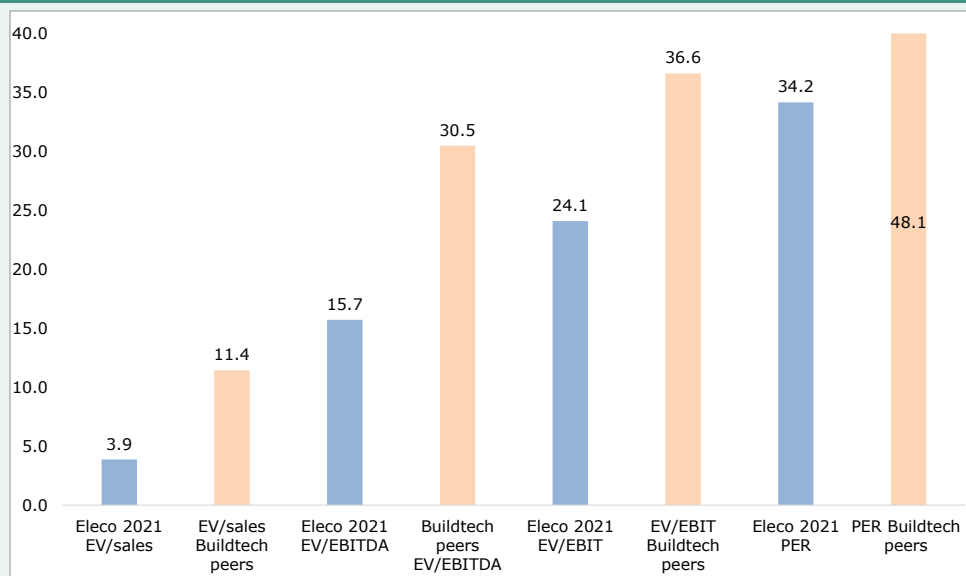
### Summary projections (£'000s)

| Eleco plc<br>(Dec yearend)                       | 2016 Act<br>£'000s | 2017 Act<br>£'000s | 2018 Act<br>£'000s | 2019 Act<br>£'000s | 2020 Act<br>£'000s | 2021 Est<br>£'000s |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  |                    |                    | Restated           |                    |                    |                    |
| Software licenses                                | 4,955              | 5,135              | 5,540              | 5,877              | 5,442              | 5,224              |
| ARR (recurring SaaS & support)                   | 8,622              | 11,018             | 12,326             | 13,557             | 14,186             | 15,605             |
| Services (eg training)                           | 4,218              | 3,843              | 4,354              | 5,964              | 5,604              | 5,884              |
| <b>Turnover</b>                                  | <b>17,795</b>      | <b>19,996</b>      | <b>22,220</b>      | <b>25,398</b>      | <b>25,232</b>      | <b>26,713</b>      |
| % growth   | 16.6%              | 12.4%              | 11.1%              | 14.3%              | -0.7%              | 5.9%               |
| <b>Gross Profit</b>                              | <b>15,560</b>      | <b>17,575</b>      | <b>19,536</b>      | <b>22,751</b>      | <b>22,703</b>      | <b>24,036</b>      |
| % margin   | 87.4%              | 87.9%              | 87.9%              | 89.6%              | 90.0%              | 90.0%              |
| <b>Adj. EBITDA (post SBPs)</b>                   | <b>2,753</b>       | <b>3,643</b>       | <b>5,257</b>       | <b>6,302</b>       | <b>7,003</b>       | <b>6,591</b>       |
| % Margin   | 15.5%              | 18.2%              | 23.7%              | 24.8%              | 27.8%              | 24.7%              |
| <b>Adj. EBIT (post SBPs)</b>                     | <b>2,207</b>       | <b>2,773</b>       | <b>3,951</b>       | <b>4,545</b>       | <b>5,069</b>       | <b>4,300</b>       |
| % Margin   | 12.4%              | 13.9%              | 17.8%              | 17.9%              | 20.1%              | 16.1%              |
| <b>Adj. Profit before Tax</b>                    | <b>2,117</b>       | <b>2,666</b>       | <b>3,670</b>       | <b>4,206</b>       | <b>4,807</b>       | <b>4,100</b>       |
| <b>Adjusted EPS (p)</b>                          | <b>2.39p</b>       | <b>2.87p</b>       | <b>3.82p</b>       | <b>4.10p</b>       | <b>4.80p</b>       | <b>3.95p</b>       |
| EPS growth rate                                  | 58.2%              | 20.2%              | 33.3%              | 7.1%               | 17.2%              | -17.6%             |
| <b>Dividend (p)</b>                              | <b>0.40p</b>       | <b>0.60p</b>       | <b>0.68p</b>       | <b>0.30p</b>       | <b>0.40p</b>       | <b>0.70p</b>       |
| Yield  | 0.3%               | 0.4%               | 0.5%               | 0.2%               | 0.3%               | 0.5%               |
| ARR (% recurring revenues)                       | 48.5%              | 55.1%              | 55.5%              | 53.4%              | 56.2%              | 58.4%              |
| Adjusted cash conversion                         | 69.8%              | 102.2%             | 114.4%             | 120.2%             | 133.4%             | 81.8%              |
| Average headcount                                | 190                | 201                | 228                | 251                | 246                | 261                |
| Revenues (£ks) / employee                        | 93.7               | 99.5               | 97.5               | 101.2              | 102.6              | 102.5              |
| <b>Valuation benchmarks</b>                      |                    |                    |                    |                    |                    |                    |
| P/E ratio  | 56.6               | 47.1               | 35.3               | 33.0               | 28.1               | 34.2               |
| EV/Sales   | 5.8                | 5.2                | 4.7                | 4.1                | 4.1                | 3.9                |
| EV/EBITDA  | 37.6               | 28.4               | 19.7               | 16.4               | 14.8               | 15.7               |
| EV/EBITA   | 46.9               | 37.4               | 26.2               | 22.8               | 20.4               | 24.1               |
| Adjusted tax rate                                | -16.1%             | -17.9%             | -19.4%             | -19.0%             | -18.7%             | -19.5%             |
| EBITDA drop through rates                        | 37.8%              | 40.4%              | 72.6%              | 32.9%              |                    | -27.8%             |
| ROCE   | 15.5%              | 21.3%              | 15.5%              | 16.4%              | 16.2%              | 12.5%              |
| Dividend cover                                   | 6.0                | 4.8                | 5.6                | 13.7               |                    | 5.6                |
| PEG ratio  | 0.97               | 2.33               | 1.06               | 4.61               | 1.64               | -1.94              |
| <b>Net cash/(debt) - excluding IFRS16 leases</b> | <b>-1,304</b>      | <b>1,031</b>       | <b>-1,814</b>      | <b>1,101</b>       | <b>6,154</b>       | <b>8,600</b>       |
| Sharecount (Ks)                                  | 74,433             | 76,309             | 77,400             | 81,100             | 81,400             | 83,495             |
| <b>Shareprice (p)</b>                            | <b>135p</b>        |                    |                    |                    |                    |                    |

Source: Equity Development

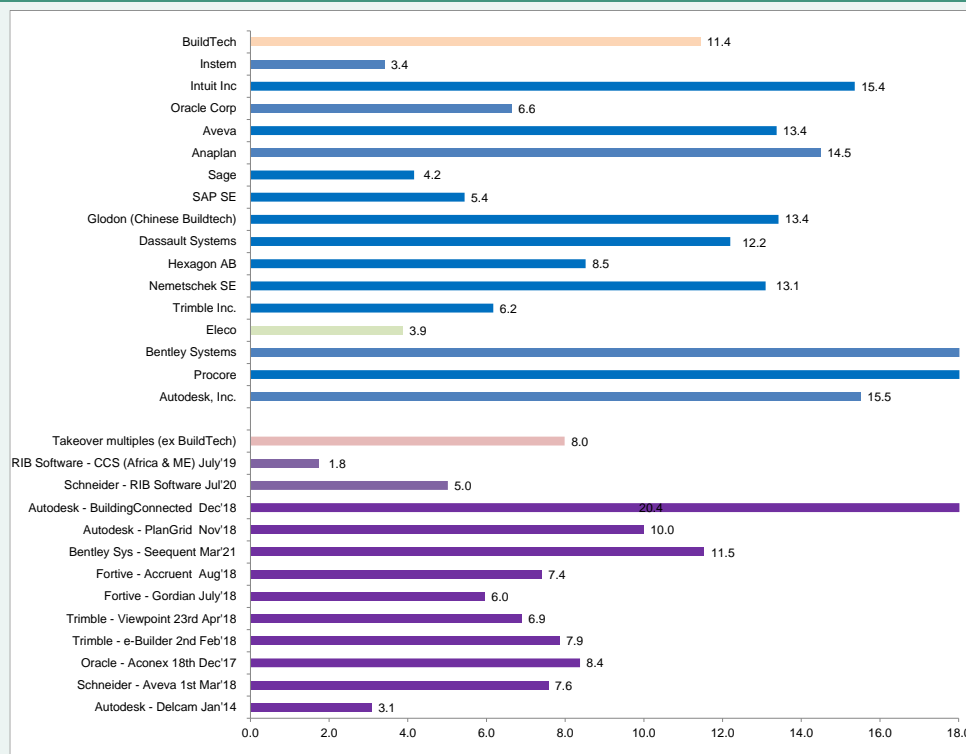
## Appendices

### Valuation benchmarks vs *BuildTech* peers



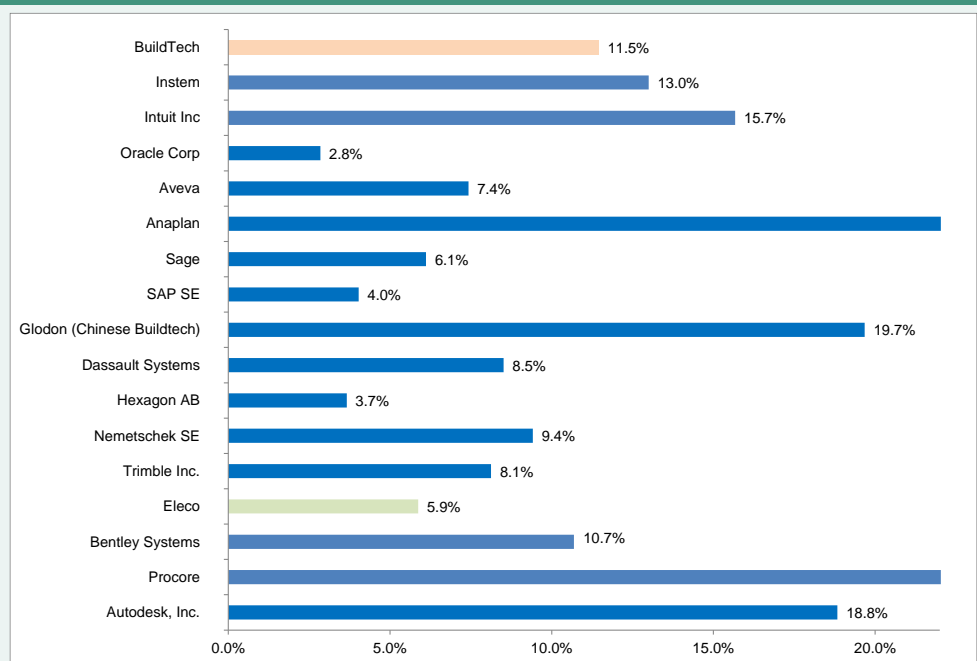
Source: Equity Development

### Current Year (CY) EV/sales multiples vs peers



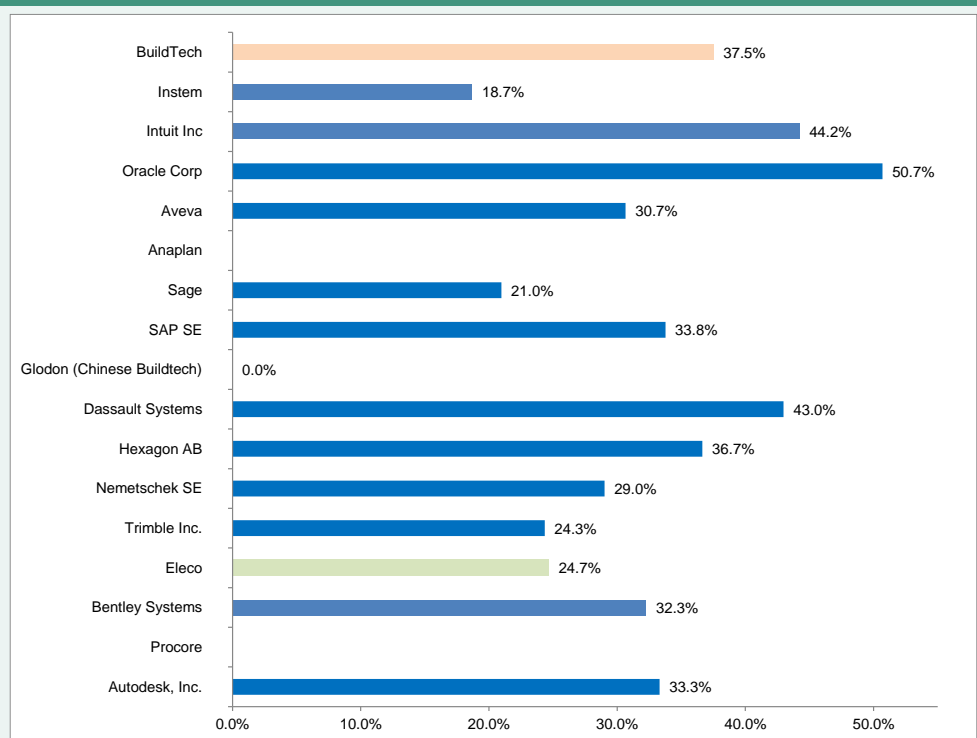
Source: Equity Development

### Current Year +1: percentage sales growth vs peers



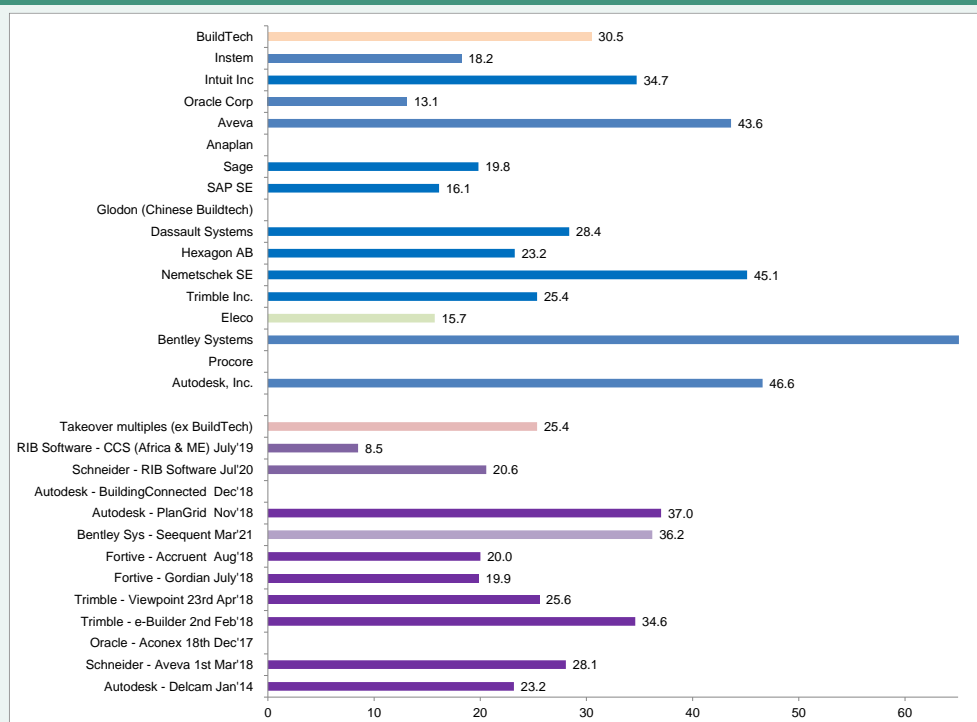
Source: Equity Development. Eleco 2021

### CY EBITDA margins



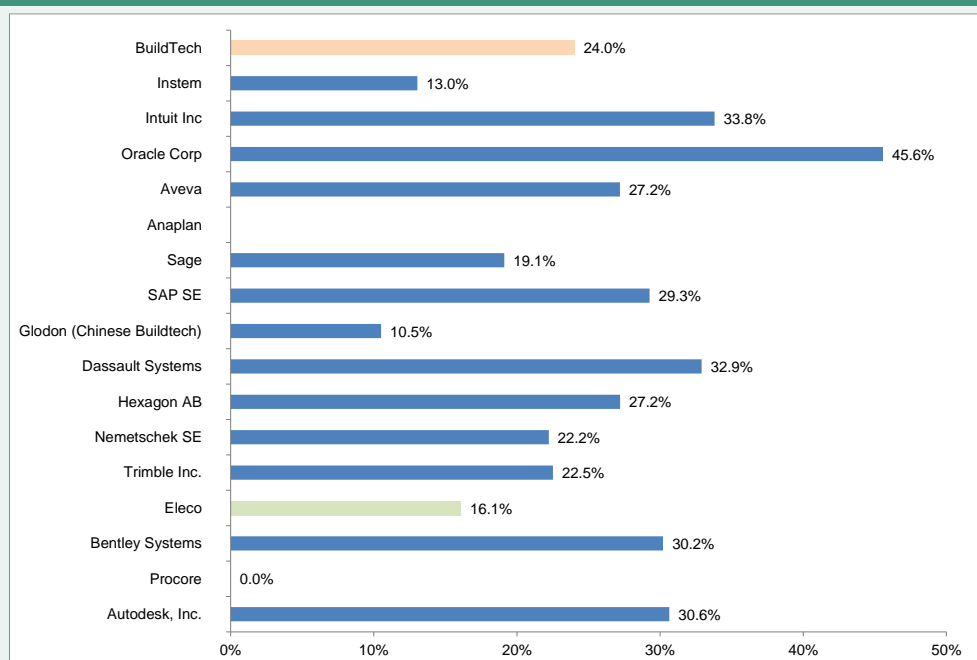
Source: Equity Development

### CY EV/EBITDA multiples vs peers



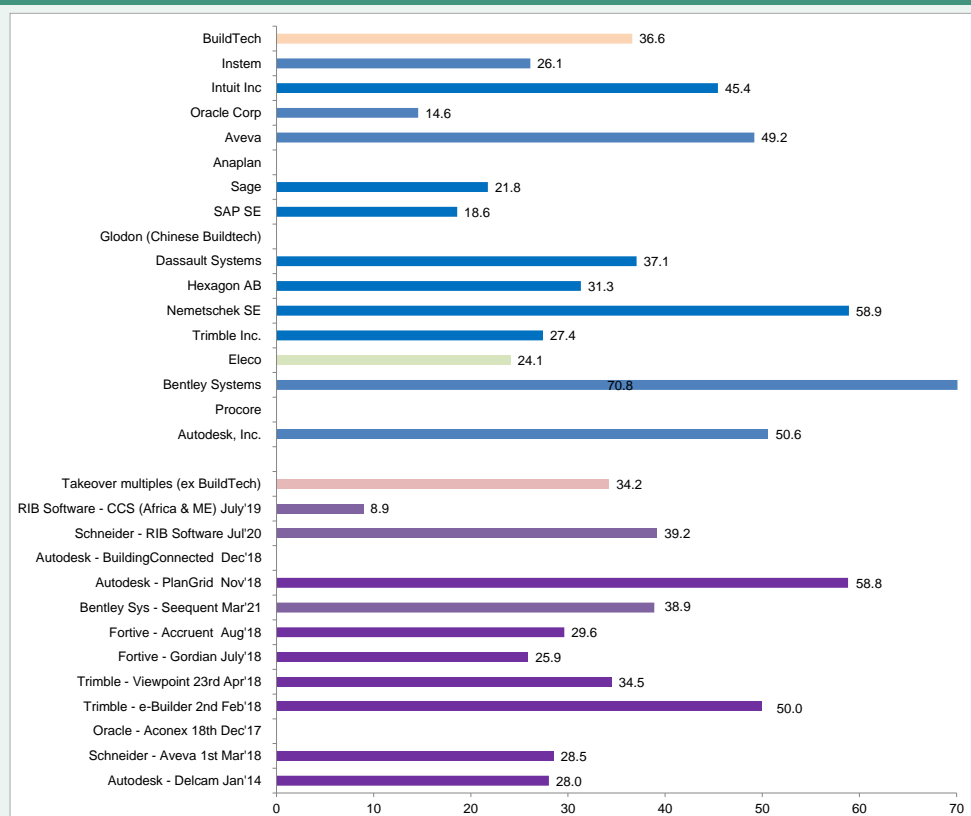
Source: Equity Development

### CY EBIT margins



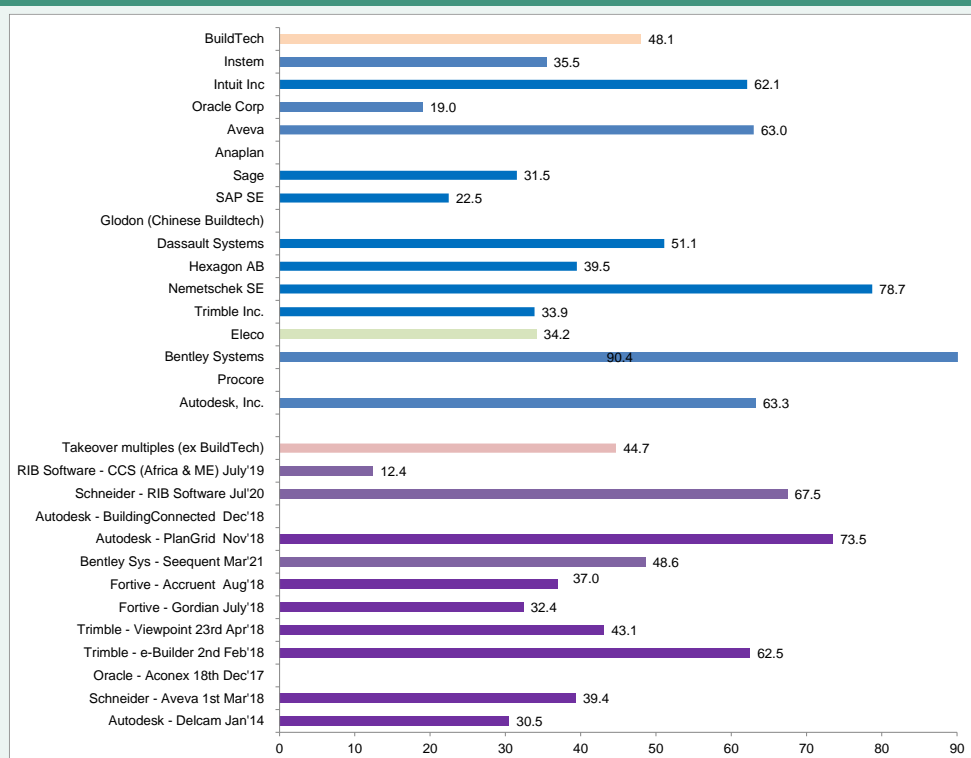
Source: Equity Development

### CY EV/EBIT multiples vs peers



Source: Equity Development

### CY PERs vs peers



Source: Equity Development



**Market capitalisation of peers**

|                               | Share price | Mrk. Cap<br>(Millions) | CY net cash /<br>(debt) Millions | Enterprise<br>Value<br>(Millions) |
|-------------------------------|-------------|------------------------|----------------------------------|-----------------------------------|
| Eleco                         | 135p        | £112.2                 | £8.6                             | £103.6                            |
| Trimble Inc.                  | \$83.0      | \$20,750               | -\$752                           | \$21,502                          |
| Autodesk, Inc.                | \$310.0     | \$67,890               | \$336                            | \$67,554                          |
| Procore                       | \$99.0      | \$12,692               | \$0                              | \$12,692                          |
| Bentley Systems               | \$60.0      | \$19,680               | \$76                             | \$19,604                          |
| Nemetschek SE                 | € 74.0      | € 8,547                | € 62                             | € 8,485                           |
| Hexagon AB                    | € 13.8      | € 33,957               | -€ 1,657                         | € 35,614                          |
| Dassault Systems              | € 46.0      | € 57,040               | -€ 1,131                         | € 58,171                          |
| Glodon (Chinese<br>Buildtech) | \$9.38      | \$11,132               | \$819                            | \$10,313                          |
| SAP SE                        | € 120.0     | € 140,400              | -€ 6,595                         | € 146,995                         |
| Sage                          | 695p        | £7,791                 | £185                             | £7,606                            |
| Aveva                         | £39.30      | £11,299                | £133                             | £11,166                           |
| Oracle Corp                   | \$87.0      | \$238,119              | -\$43,291                        | \$281,410                         |
| Intuit Inc                    | \$520.0     | \$140,400              | \$2,240                          | \$138,160                         |
| Insitem                       | 745p        | £161.7                 | £4.9                             | £156.8                            |

Source: Equity Development



## Contacts

### **Andy Edmond**

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### **Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

**Equity Development Limited is regulated by the Financial Conduct Authority**

## Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. Paul Hill, the author of this note, is a shareholder in Eleco. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website [www.equitydevelopment.co.uk](http://www.equitydevelopment.co.uk)

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690