

'All systems go' at super-durable, BuildTech stock

15th September 2021

Super-durable, high margin growth stocks are rare. BuildTech software developer Eleco is one, having emerged from 2020 in fine fettle and is currently 'going like a train'. Saying today that H1'21 turnover jumped 13% to £13.8m vs LY (£12.2m) and +8.8% vs H1'19 (£12.7m). With LFLs accelerating sequentially from 9% in Q1 to c. 17% in Q2 (re partly reflecting catchup end-user training), alongside adjusted EBIT (margin 19.7% vs 19.4%) climbing +15% to £2.7m, despite absorbing £1.6m of R&D (£795k capitalised vs £551k amortisation).

Looking ahead H2 has started well, albeit as the company aggressively transitions from perpetual licensing (23.5% of H1'21 turnover, up 8% vs H1'19) to recurring revenues (55%, & +10% vs H1'19), this will inevitably temper top & bottom line progression. Involving longer sales recognition and greater upfront investment (all self-funded) in order to later reap the rewards of predictable & more profitable income streams (eg SaaS). Plus by switching from a product-led to a customer centric organisation, we believe this perfectly positions the group to flourish in the new cloud & digital age.

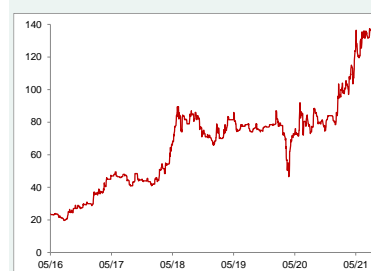
Yes the transformation won't happen overnight, yet equally the positive H1 results & customer/employee feedback demonstrate the new strategy is working. Not only winning several new large customers (Japan, Austria, Sweden, etc) at higher price points, but also improving client satisfaction, teamwork and X-selling opportunities (VINCI). For instance:

- PowerProject (+8.1% vs H1'19) is presently at the sharp end of the pandemic, helping construction site planners minimise supply chain disruptions (rescheduling), labour shortages, cost inflation and carbon emissions (re sustainability). A large Enterprise contract was secured too with a major Austrian firm that designs & kits out 'smart factories'.
- Similarly many flooring & soft-furnishing retailers are turning to Eleco's AI enabled visualisation tools to act as their virtual 'shop window' (+10.4% vs H1'19). Indeed as purchasing habits have changed, even my wife has just bought an entire set of new Karndean kitchen tiles online using [Eleco's white-labelled application](#).
- Manufacturers (eg Wren Kitchens) are implementing [Shire's smart facilities management software](#) to quickly resolve maintenance issues, improve plant availability & lift ROCEs.

Company Data

EPIC	AIM: ELCO
Price (last close)	143p
52 week High/Low	147p/73p
Market cap	£119m
Net cash as at June 2021	£8.5m
ED valuation / share	150p/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. 243 staff.

Next news: Trading update Jan '22

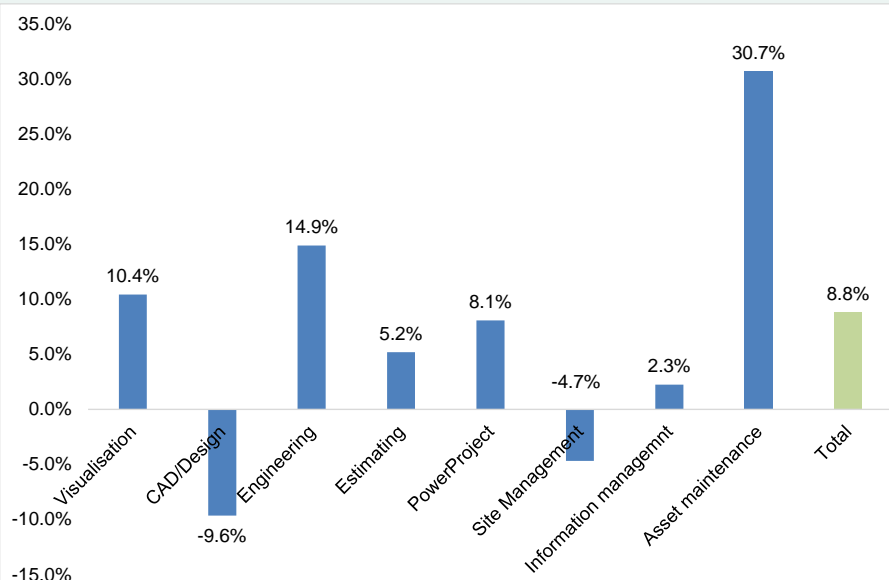
Paul Hill (Analyst) *

0207 065 2690

paul.hill@equitydevelopment.co.uk

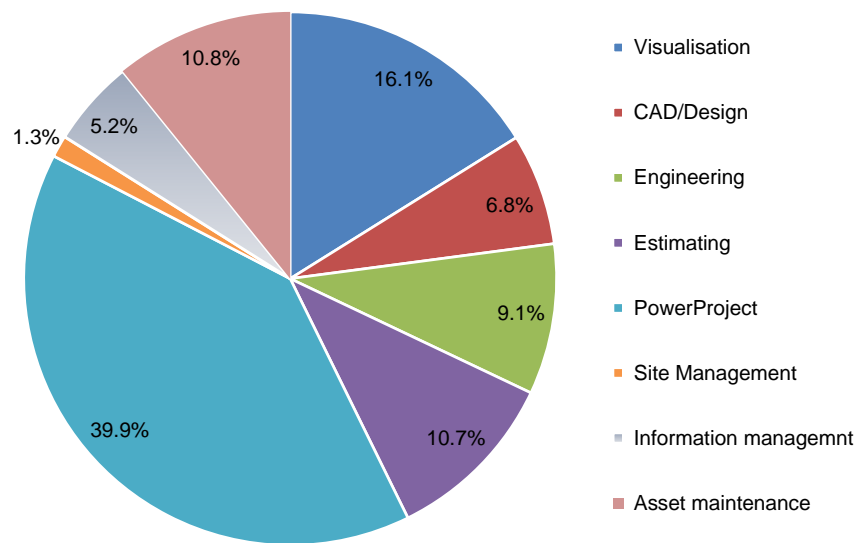
*a shareholder in Eleco plc

H1'21 product growth rates vs H1'19 levels (ie pre-pandemic)



Source: Equity Development.

H1'21 product split

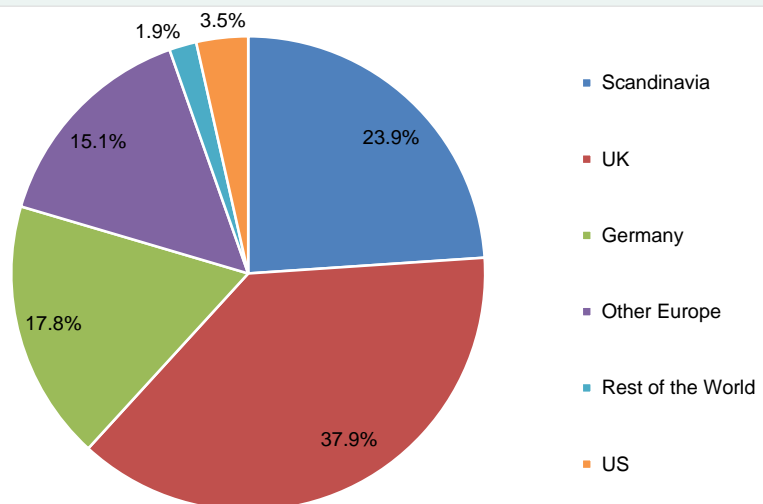


Source: Equity Development.

On track to achieve strategic targets

Elsewhere, these powerful 'tailwinds' have also enabled the Board to push the 'pedal to the metal' in terms of speed of execution. Ramping up new staff hires, expanding internationally (eg establishing a direct sales presence in Texas (GDP 70% of UK's) to act as a North American beachhead), spending more on IT/infrastructure and further developing the technology.

H1'21 geographic sales split



Source: Equity Development.

The only minor downside being that this strategic shift to recurring revenues will temporarily dampen headline LFLs to 6.2% this year & 5.0% next (ED est) – whilst equally trimming EBIT margins to 16% & 12% respectively from 20% LY. Conservatively therefore, **we've prudently held our FY21 turnover of £26.8m with adjusted PBT coming in at £4.1m (vs £4.8m LY) – see below.**

Half yearly financials (£'000s)

Summary Financials (£'000s)	H1'19	H2'19	2019	H1'20	H2'20	FY20	Act H1'21	Est H2'20	Est FY21
Software licenses	3,018	2,859	5,877	2,721	2,721	5,442	3,253	2,624	5,877
ARR (recurring SaaS & support)	6,763	6,794	13,557	6,953	7,233	14,186	7,543	7,494	15,037
Services (eg training)	2,930	3,034	5,964	2,541	3,063	5,604	3,035	2,849	5,884
Sales	12,711	12,687	25,398	12,215	13,017	25,232	13,831	12,968	26,799
<i>Reported % growth rate</i>	20.4%	8.8%	14.3%	-3.9%	2.6%	-0.7%	13.2%	-0.4%	6.2%
<i>Acquisition growth %</i>	19.5%	6.5%	13.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Estimated forex</i>	-2.0%	-2.0%	-2.0%	-0.9%	-0.9%	-0.9%	1.0%	1.0%	1.0%
<i>Estimated % LFL (constant currency)</i>	2.1%	4.2%	3.2%	-3.0%	3.5%	0.2%	12.2%	-1.4%	5.2%
<i>% recurring revenues</i>	53.2%	53.6%	53.4%	56.9%	55.6%	56.2%	54.5%	57.8%	56.1%
Gross Profit	11,392	11,359	22,751	10,917	11,786	22,703	12,513	11,600	24,113
<i>% margin</i>	89.6%	89.5%	89.6%	89.4%	90.5%	90.0%	90.5%	89.5%	90.0%
Operating expenses (excl D&A)	-8,446	-8,003	-16,449	-7,634	-8,066	-15,700	-8,864	-8,956	-17,820
Adjusted EBITDA (post SBPs)	2,946	3,356	6,302	3,283	3,720	7,003	3,649	2,644	6,293
<i>% margin</i>	23.2%	26.5%	24.8%	26.9%	28.6%	27.8%	26.4%	20.4%	23.5%
Depreciation	-450	-452	-902	-426	-450	-866	-368	-450	-893
Amortisation of intangibles	-358	-497	-855	-491	-577	-1,068	-551	-549	-1,100
Adjusted EBIT (post SBPs)	2,138	2,407	4,545	2,366	2,693	5,069	2,730	1,645	4,300
<i>% margin</i>	16.8%	19.0%	17.9%	19.4%	20.7%	20.1%	19.7%	12.7%	16.0%
Net interest	-179	-160	-339	-141	-109	-262	-106	-109	-200
Adjusted PBT	1,959	2,247	4,206	2,225	2,584	4,807	2,624	1,536	4,100
<i>PBT margin</i>	15.4%	17.7%	16.6%	18.2%	19.9%	19.1%	19.0%	11.8%	15.3%
Tax	-338	-546	-884	-470	-430	-900	-532	-288	-820
Adjusted earnings	1,621	1,701	3,322	1,755	2,154	3,907	2,092	1,248	3,280
<i>Margin</i>	12.8%	13.4%	13.1%	14.4%	16.5%	15.5%	15.1%	9.6%	12.2%
Adjusted Cashflow	2,519	2,946	5,465	4,154	2,610	6,764	3,264	-46	3,218
<i>Cash conversion</i>	118%	122%	120%	176%	97%	133%	120%	-3%	75%
Adjusted EPS (pence)	2.00p	2.10p	4.10p	2.16p	2.64p	4.80p	2.57p	1.37p	3.95p
<i>EPS growth %</i>	9.4%	5.1%	7.1%	8.0%	25.9%	17.2%	19.2%	-48.0%	-17.8%
Dividend (pence)	0.30p	0.00p	0.30p	0.00p	0.40p	0.40p	0.20p	0.40p	0.60p
Net cash / (debt) - Ex IFRS16 leases	-198	1,101	1,101	4,435	6,154	6,154	8,470	8,600	8,600

Source: Equity Development.

Nonetheless we reckon profitability & cashflow will recover thereafter - returning to pre-pandemic levels of >20% and 100%+ respectively by 2026. The important difference though being that by then, **ARR should be >74% of turnover** (vs 55% today), **driving consistent LFL growth of 10% and higher margins.**

This could literally transform the valuation too for patient investors. Bolstering customer life-time values (CLVs), accelerating the adoption of software upgrades and allowing older versions to be retired earlier. **Altogether, enhancing Eleco's competitive position and sales visibility, whilst stream-lining operations and lifting retention rates.** What's not to like?

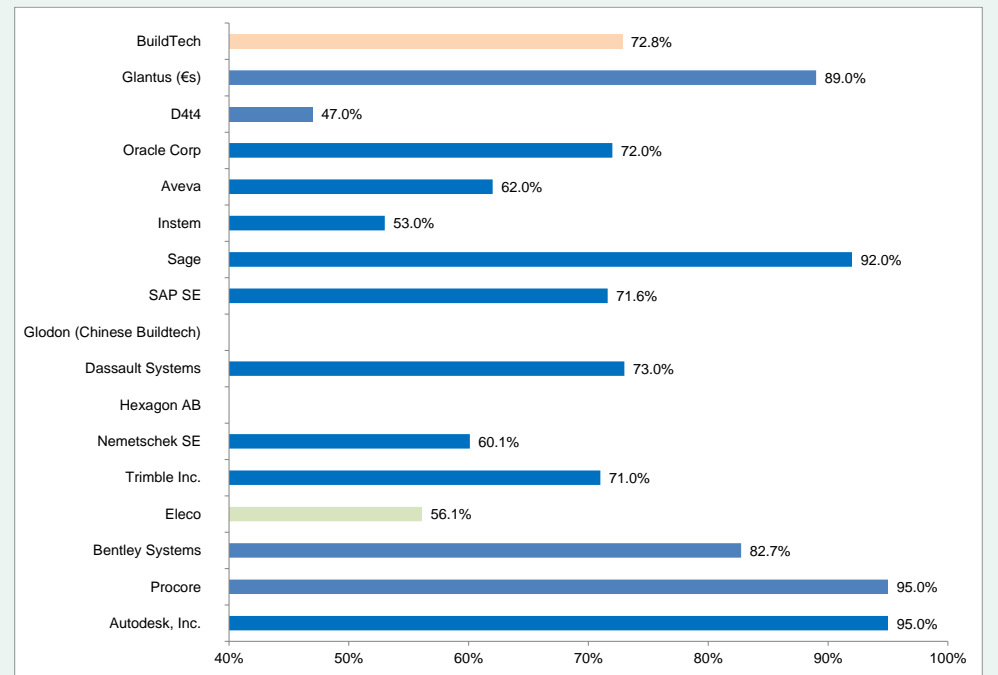
It's not as though Eleco can't afford it either, as these changes will be funded entirely from existing resources, given **net cash closed June at a healthy £8.5m** (10p/share) vs £6.1m at y/e (105% cash conversion in H1'21).

Valuation increases from 135p to 150p/share

So what does this all mean? Well big picture, **we think the Board is doing all the right things** - & have duly **raised our valuation from 135p to 150p/share**, thanks to the improved earnings visibility, CLVs and risk/reward profile.

Moreover the stock trades at a considerable discount to peers, on 4.1x 2021 EV/revs & 17.5x EV/EBITDA compared to 9.7x & 28.5x for the sector. Eventually this gap should close, which over a 3-5 year period, could (in theory) propel the price substantially higher.

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



Source: Equity Development

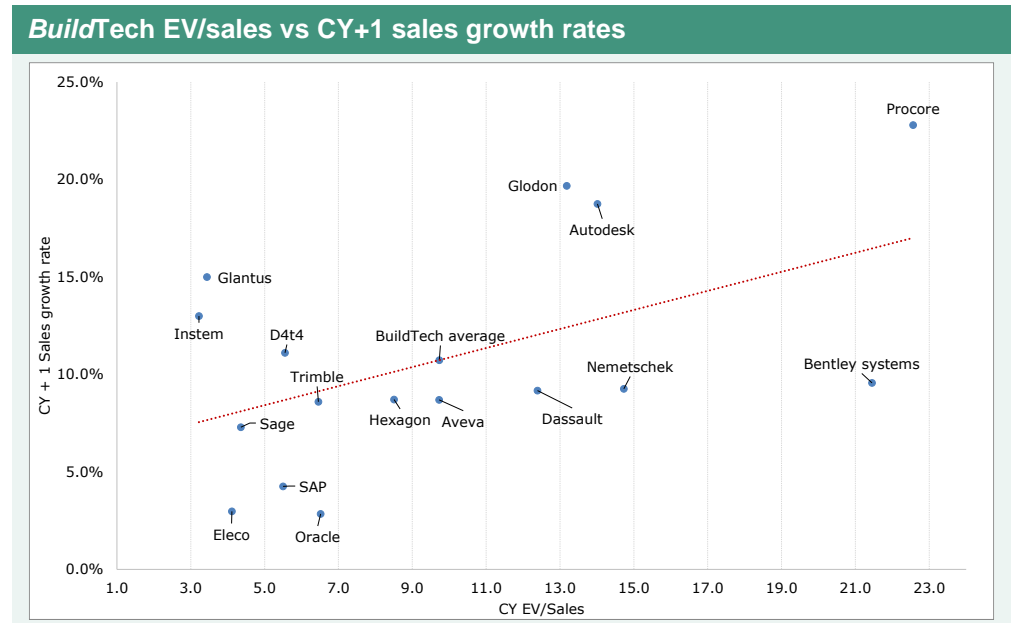
Lastly in terms of personnel, Eleco has appointed a well-respected industry veteran - Birgit Lenton (starting 20th Sept) – as the new Transformation Director. Responsible for M&A, integration and corporate change initiatives.

Executive Chairman, Serena Lang adding: *“Eleco delivered a positive performance in H1, with **growth in all regions across all customer segments**. Importantly strengthening our financial position [whilst] investing to growth. **Most notably having set up a direct business in Texas US and taken its maintenance management portfolio into the German market.**”*

*These pilot projects will take time to seed but ultimately are about growth...and **we are confident of meeting market expectations for FY21.***

The company is also undergoing some major transformational projects including the move towards a SaaS subscription model for many new customers. [Although this] will inevitably soften short term revenues and profits, the shift will steadily increase our recurring revenues and move us away from a perpetual licensing model.

We therefore expect a temporary reduction in our profits over the next 18 months as these initiatives bed in and deliver long term growth.”



Source: Equity Development.

Key risks

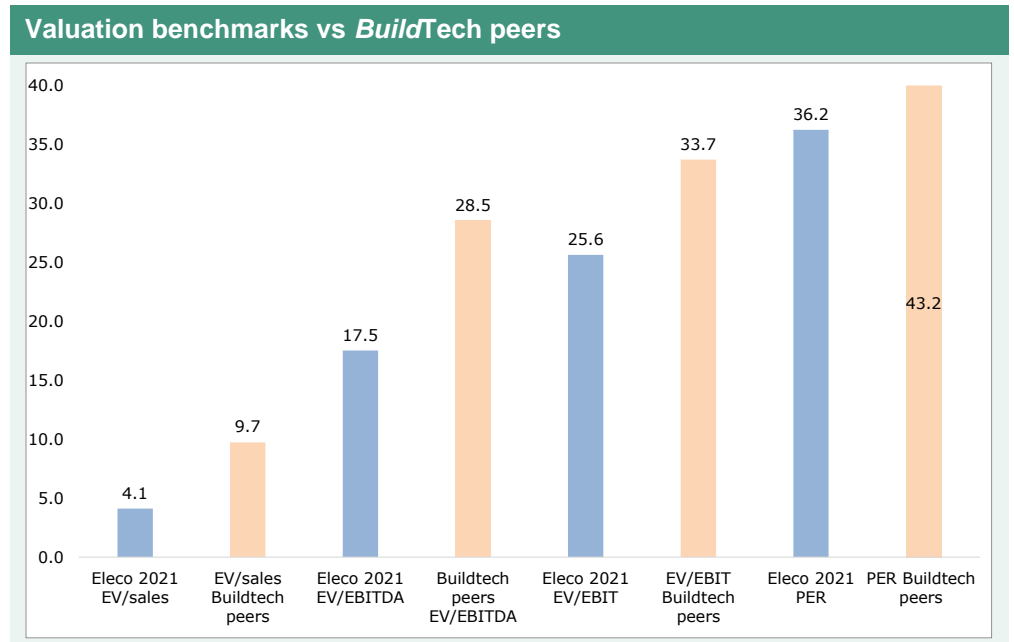
- Substantial slowdown in global GDP which could impact the worldwide property, construction and infrastructure markets.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Larger license deals can lead to lumpy orderflow, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts.
- Foreign exchange. However, this is primarily a translation risk with 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)

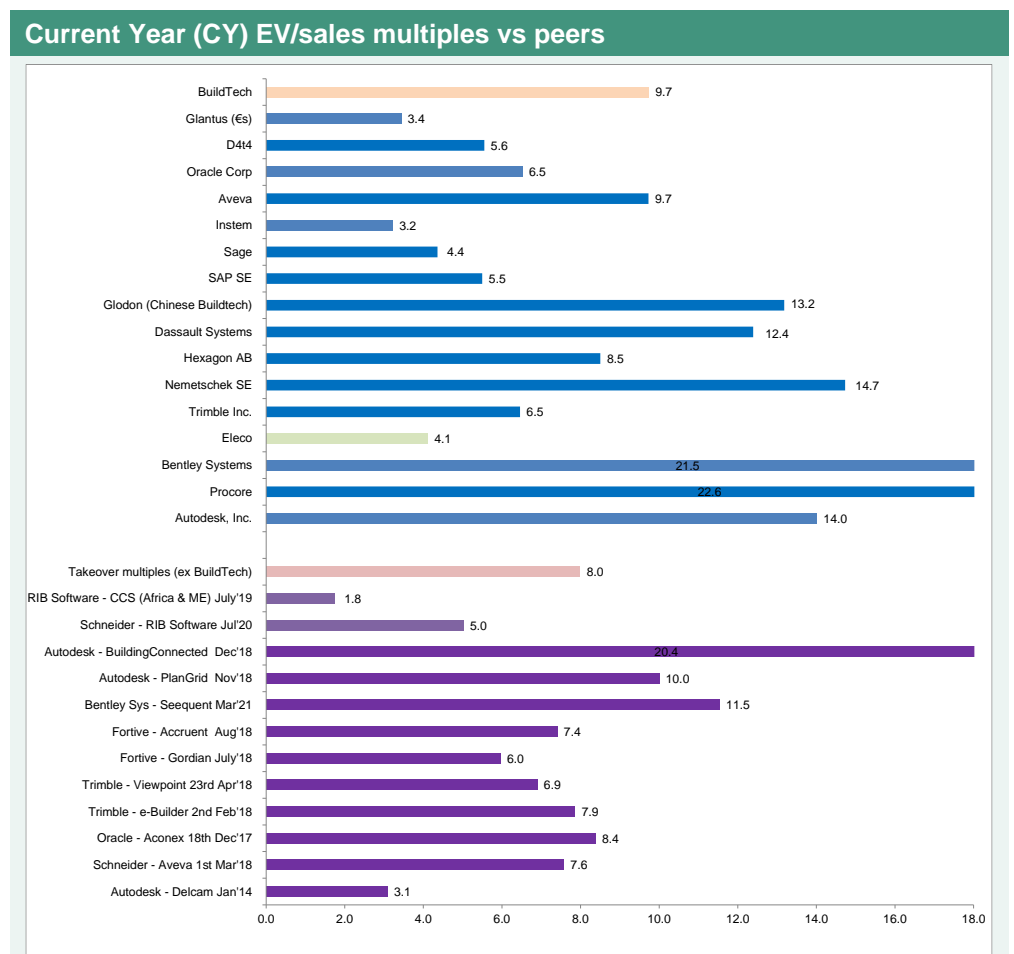
Eleco plc (Dec yearend)	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
Software licenses	5,877	5,442	5,877	5,172	4,655	4,189	3,770	3,393
ARR (recurring SaaS & support)	13,557	14,186	15,037	16,541	18,526	21,305	24,713	28,915
Services (eg training)	5,964	5,604	5,884	5,884	6,002	6,122	6,244	6,369
Turnover	25,398	25,232	26,799	27,597	29,183	31,616	34,728	38,677
% growth	14.3%	-0.7%	6.2%	3.0%	5.7%	8.3%	9.8%	11.4%
Gross Profit	22,751	22,703	24,113	24,831	26,258	28,447	31,247	34,801
% margin	89.6%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Adj. EBITDA (post SBPs)	6,302	7,003	6,293	5,106	5,406	6,609	8,253	10,294
% Margin	24.8%	27.8%	23.5%	18.5%	18.5%	20.9%	23.8%	26.6%
Adj. EBIT (post SBPs)	4,545	5,069	4,300	3,100	3,424	4,500	5,985	7,826
% Margin	17.9%	20.1%	16.0%	11.2%	11.7%	14.2%	17.2%	20.2%
Adj. Profit before Tax	4,206	4,807	4,100	2,900	3,274	4,400	5,935	7,826
Adjusted EPS (p)	4.10p	4.80p	3.95p	2.74p	3.00p	4.02p	5.39p	7.07p
EPS growth rate	7.1%	17.2%	-17.8%	-30.5%	9.5%	33.7%	34.2%	31.2%
Dividend (p)	0.30p	0.40p	0.60p	0.66p	0.73p	0.80p	0.88p	0.97p
Yield	0.2%	0.3%	0.4%	0.5%	0.5%	0.6%	0.6%	0.7%
ARR (% recurring revenues)	53.4%	56.2%	56.1%	59.9%	63.5%	67.4%	71.2%	74.8%
Adjusted cash conversion	120.2%	133.4%	74.8%	67.0%	105.4%	104.4%	102.1%	103.3%
Average headcount	251	246	261	274	281	288	296	306
Revenues (£ks) / employee	101.2	102.6	102.6	100.8	103.9	109.9	117.5	126.6
Valuation benchmarks								
P/E ratio	34.9	29.8	36.2	52.1	47.6	35.6	26.5	20.2
EV/Sales	4.3	4.4	4.1	4.0	3.8	3.5	3.2	2.9
EV/EBITDA	17.5	15.7	17.5	21.6	20.4	16.7	13.4	10.7
EV/EBITA	24.3	21.7	25.6	35.6	32.2	24.5	18.4	14.1
Adjusted tax rate	-19.0%	-18.7%	-20.0%	-21.0%	-23.0%	-23.0%	-23.0%	-23.0%
EBITDA drop through rates	32.9%		-45.3%	-148.6%	18.9%	49.4%	52.8%	51.7%
ROCE	16.4%	16.2%	12.5%	8.6%	9.0%	11.0%	13.4%	15.7%
Dividend cover	13.7		6.6	4.2	4.1	5.0	6.1	7.3
PEG ratio	4.89	1.73	-2.04	-1.71	5.02	1.06	0.78	0.65
Net cash/(debt) - excluding IFRS16 leases	1,101	6,154	8,600	9,316	11,414	14,327	18,277	23,740
Sharecount (Ks)	81,100	81,400	83,105	83,520	83,938	84,357	84,779	85,203
Shareprice (p)	143p							

Source: Equity Development estimates, Company historic data

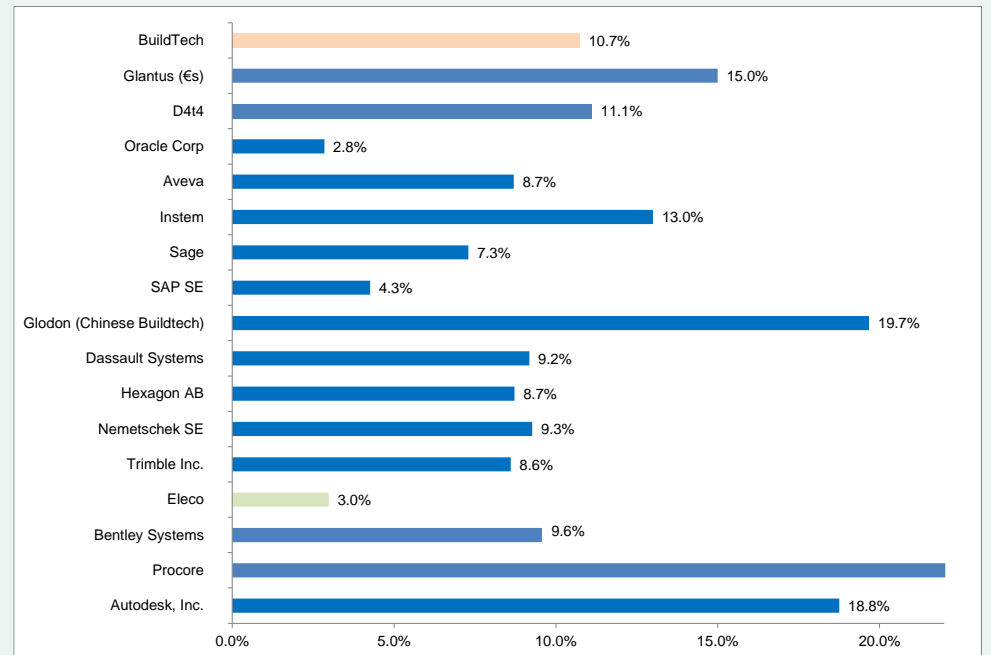
Appendices



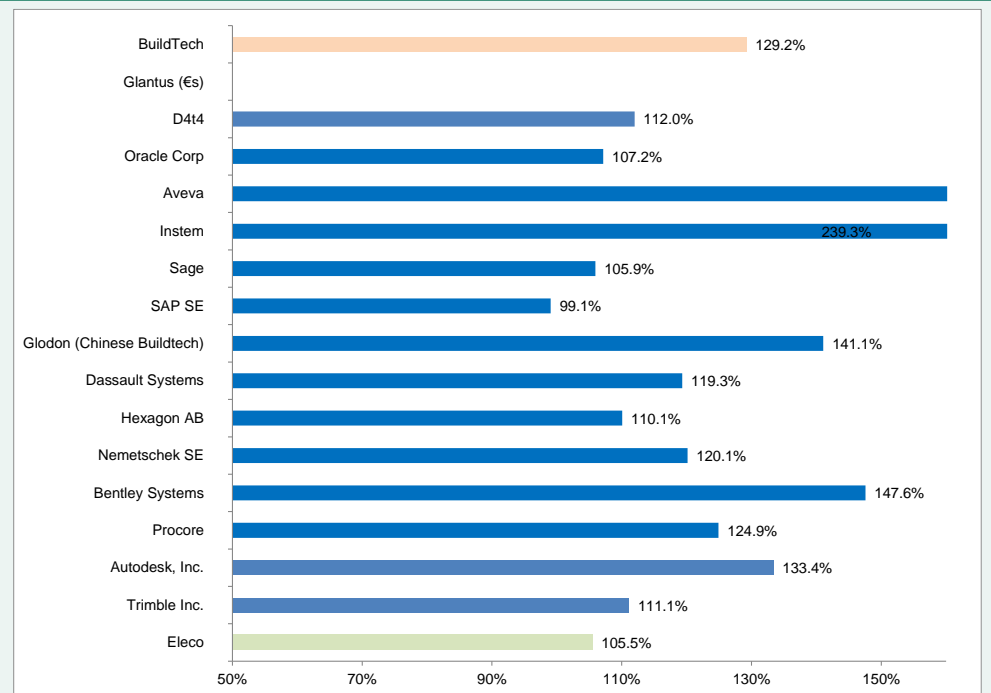
Source: Equity Development



Source: Equity Development

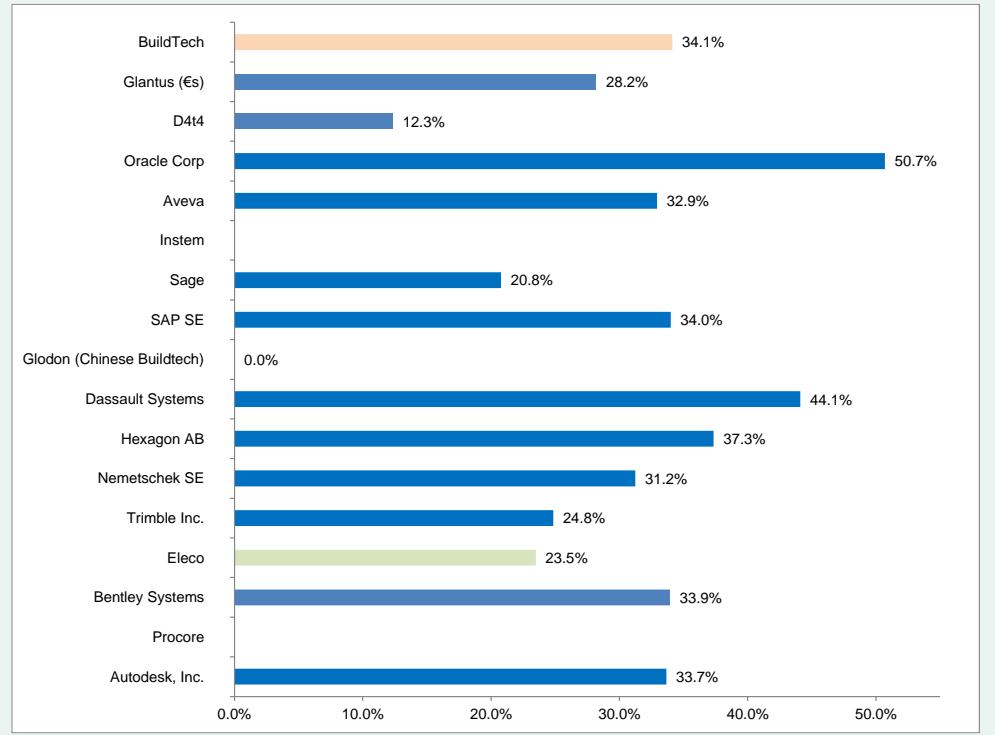
Current Year +1: percentage sales growth vs peers


Source: Equity Development. Eleco 2021

CY sales as % of PreCovid


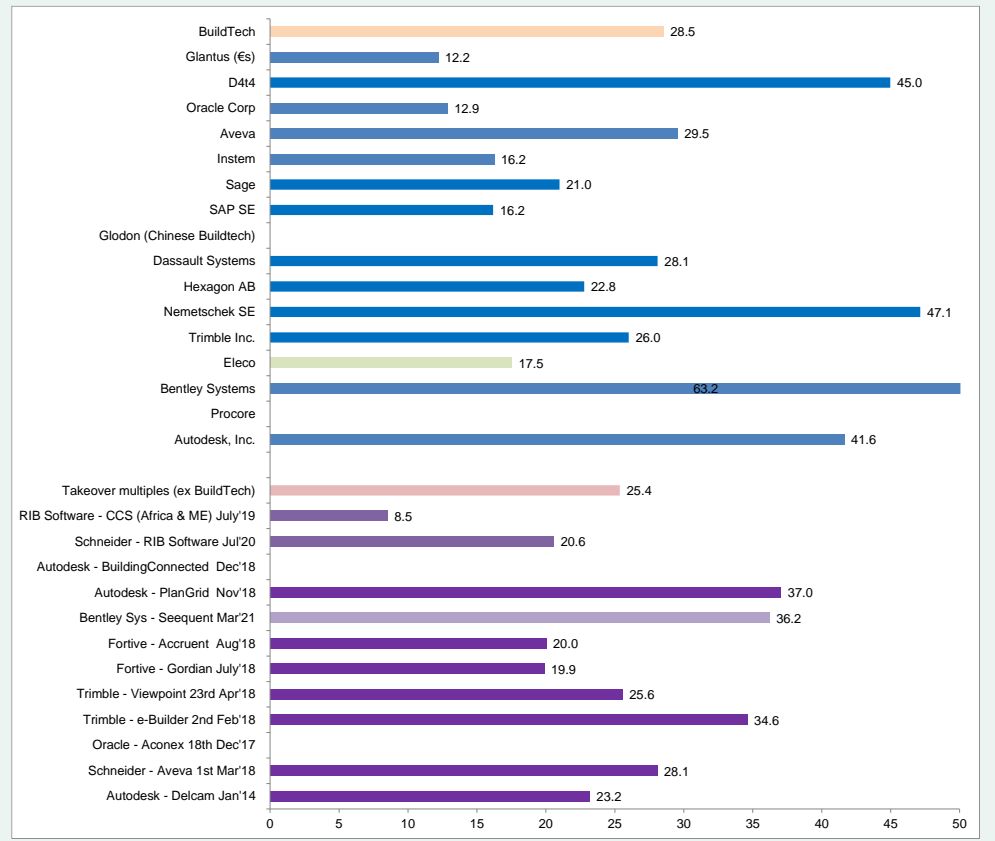
Source: Equity Development

CY EBITDA margins



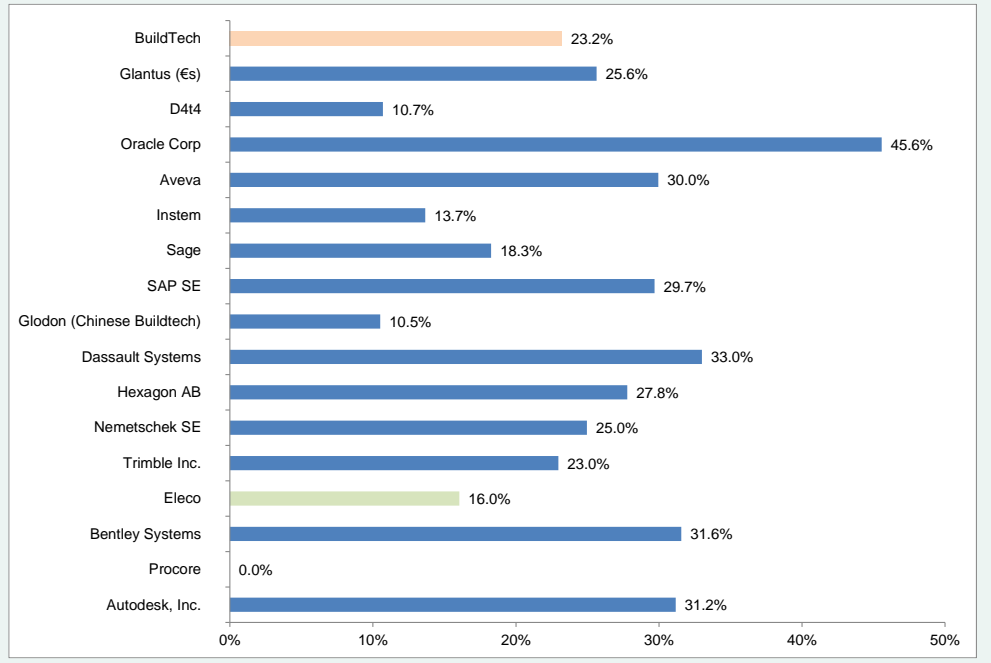
Source: Equity Development

CY EV/EBITDA multiples vs peers



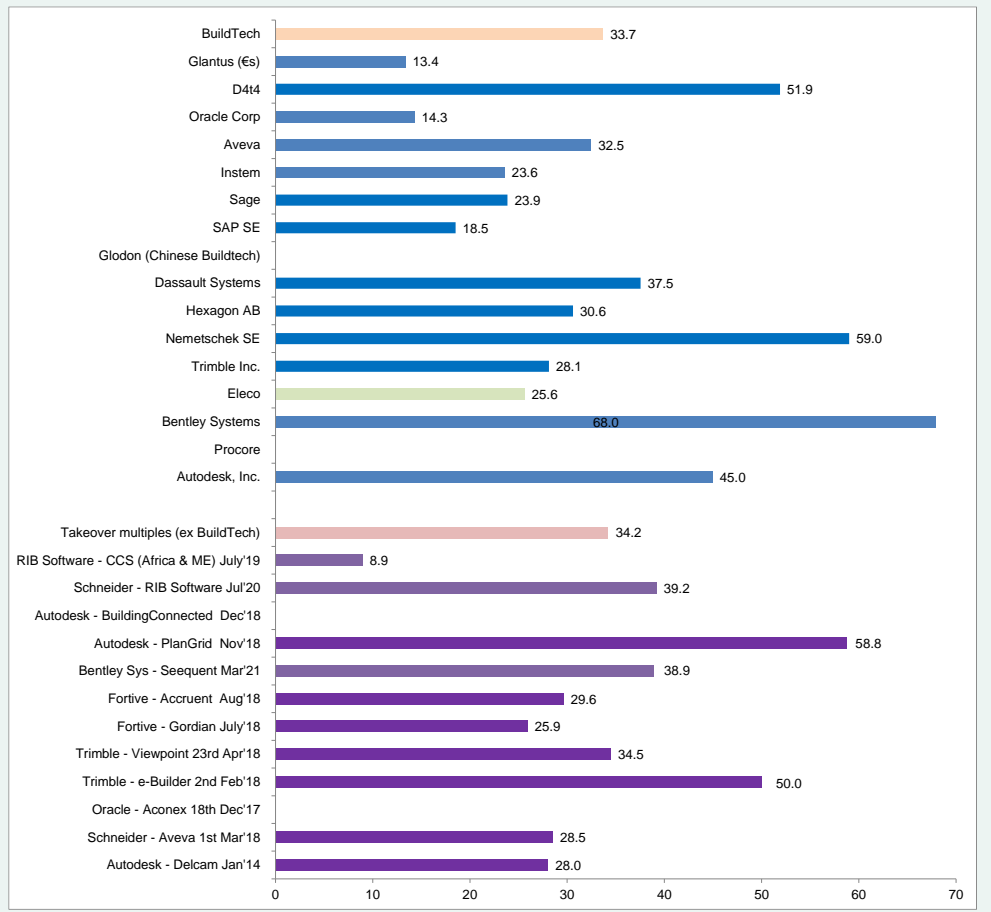
Source: Equity Development

CY EBIT margins



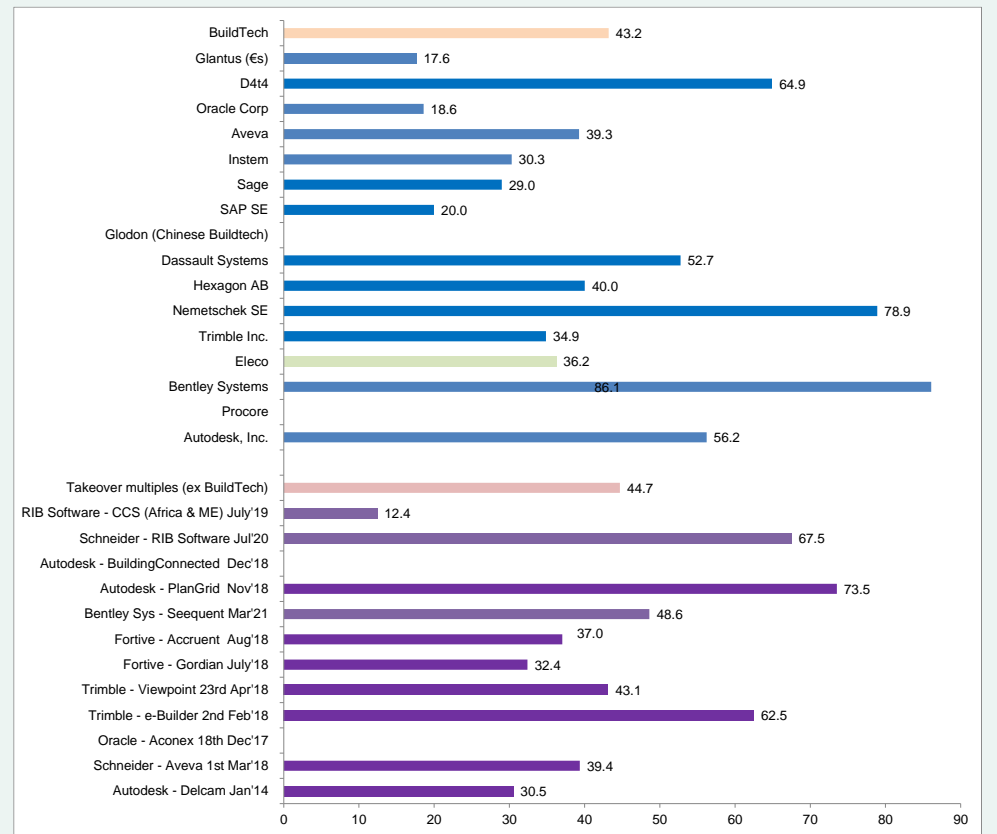
Source: Equity Development

CY EV/EBIT multiples vs peers



Source: Equity Development

CY PERs vs peers



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Eleco	143p	£118.8	£8.6	£110.2
Trimble Inc.	\$91.0	\$22,750	-\$676	\$23,426
Autodesk, Inc.	\$280.0	\$61,320	\$114	\$61,206
Procore	\$88.0	\$11,282	\$0	\$11,282
Bentley Systems	\$68.0	\$22,304	-\$1,013	\$23,317
Nemetschek SE	€ 86.0	€ 9,933	€ 79	€ 9,854
Hexagon AB	€ 14.8	€ 36,382	-€ 191	€ 36,573
Dassault Systems	€ 48.0	€ 58,368	-€ 1,034	€ 59,402
Glodon (Chinese Buildtech)	\$9.4	\$11,155	\$834	\$10,321
SAP SE	€ 122.0	€ 143,472	-€ 6,595	€ 150,067
Sage	742p	£7,873	-£670	£8,543
Aveva	£39.30	£11,869	-£213	£12,082
Oracle Corp	\$85.0	\$232,645	-\$43,291	\$275,936
D4t4	370p	£149	£14	£135
Glantus (€s)	€ 111.2	€ 47.2	-€ 6.4	€ 53.6

Source: Equity Development



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

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

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

Contact: info@equitydevelopment.co.uk | 020 7065 2690