

## Time to buy the dip

25th January 2022

After the 1<sup>st</sup> dress-rehearsal 12 months ago, a full-bodied 'tech' bloodbath is underway - with around 40% of Nasdaq stocks down 50%+ from their 52-week peaks. Echoing the carnage last suffered during the dotcom crash.

Why? Well once again, look no further than central bank tightening, rising bond yields and geopolitical sabre-rattling (re Russia / Ukraine) – which together have melted away many 'Icarus-type' valuations.

However unlike 2000/02, many companies caught in the vortex this time, are actually generating bumper cashflows and profits. Offering compelling opportunities to 'buy the dip', and pick up long term positions in quality businesses that have been 'thrown out with the bathwater'. But which ones?

Well one **financially secure, IRP-rich firm that is trading at an unjustified discount to peers** (2.4x fwd EV/sales vs 7x sector) – yet benefitting from powerful, secular tailwinds (eg digitisation of all things construction/property related) - is **'Buildtech' software developer, Eleco**.

## FY21 EBITDA of £7m beats our estimates by 11%

They announced this morning that **FY21 EBITDA would hit £7m –11% above our £6.3m forecast** - on **turnover up 8% LFL to £27.3m** (£25.2m LY & ED £26.8m). This is driven by an **8.5% jump in recurring revenues to £15.4m** (see below) with **standout performances from ShireSystems and SaaS/subscription**.

Indeed a number of customers (eg a major Irish building products manufacturer operating across Europe) have even decided to standardise on the firm's mission-critical, collaborative and cloud-enabled asset management application.

### 14% growth in recurring revenues

Summary Financials (£'000s)	H1'19	H2'19	2019	H1'20	H2'20	FY20	Act H1'21	Est H2'21	Est FY21
Software licenses	3,018	2,859	5,877	2,721	2,721	5,442	3,253	2,661	5,914
ARR (recurring SaaS & support)	6,763	6,794	13,557	6,953	7,233	14,186	7,543	7,843	15,386
Services (eg training)	2,930	3,034	5,964	2,541	3,063	5,604	3,035	2,965	6,000
<b>Sales</b>	<b>12,711</b>	<b>12,687</b>	<b>25,398</b>	<b>12,215</b>	<b>13,017</b>	<b>25,232</b>	<b>13,831</b>	<b>13,469</b>	<b>27,300</b>
<i>Reported % growth rate</i>	20.4%	8.8%	14.3%	-3.9%	2.6%	-0.7%	13.2%	3.5%	8.2%
<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%	-0.9%	-0.9%	-0.9%	-0.9%	1.0%	0.0%	0.5%
<i>Estimated % LFL (constant currency)</i>	2.1%	4.2%	3.2%	-3.0%	3.5%	0.2%	12.2%	3.5%	7.7%
<i>% recurring revenues</i>	53.2%	53.6%	53.4%	56.9%	55.6%	56.2%	54.5%	58.2%	56.4%
<b>Gross Profit</b>	<b>11,392</b>	<b>11,359</b>	<b>22,751</b>	<b>10,917</b>	<b>11,786</b>	<b>22,703</b>	<b>12,513</b>	<b>12,051</b>	<b>24,564</b>
<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	-8,500	-17,364
<b>Adjusted EBITDA (post SBPs)</b>	<b>2,946</b>	<b>3,356</b>	<b>6,302</b>	<b>3,283</b>	<b>3,720</b>	<b>7,003</b>	<b>3,649</b>	<b>3,551</b>	<b>7,200</b>
<i>% margin</i>	23.2%	26.5%	24.8%	26.9%	28.6%	27.8%	26.4%	26.4%	26.4%
Depreciation	-450	-452	-902	-426	-450	-866	-368	-632	-1,000
Amortisation of intangibles	-358	-497	-855	-491	-577	-1,068	-551	-849	-1,400
<b>Adjusted EBIT (post SBPs)</b>	<b>2,138</b>	<b>2,407</b>	<b>4,545</b>	<b>2,366</b>	<b>2,693</b>	<b>5,069</b>	<b>2,730</b>	<b>2,070</b>	<b>4,800</b>
<i>% margin</i>	16.8%	19.0%	17.9%	19.4%	20.7%	20.1%	19.7%	15.4%	17.6%
Net interest	-179	-160	-339	-141	-109	-262	-106	-109	-200
<b>Adjusted PBT</b>	<b>1,959</b>	<b>2,247</b>	<b>4,206</b>	<b>2,225</b>	<b>2,584</b>	<b>4,807</b>	<b>2,624</b>	<b>1,961</b>	<b>4,600</b>
<i>PBT margin</i>	15.4%	17.7%	16.6%	18.2%	19.9%	19.1%	19.0%	14.6%	16.8%
Tax	-338	-546	-884	-470	-430	-900	-532	-388	-920
<b>Adjusted earnings</b>	<b>1,621</b>	<b>1,701</b>	<b>3,322</b>	<b>1,755</b>	<b>2,154</b>	<b>3,907</b>	<b>2,092</b>	<b>1,573</b>	<b>3,680</b>
<i>Margin</i>	12.8%	13.4%	13.1%	14.4%	16.5%	15.5%	15.1%	11.7%	13.5%
<b>Adjusted Cashflow</b>	<b>2,519</b>	<b>2,946</b>	<b>5,465</b>	<b>4,154</b>	<b>2,610</b>	<b>6,764</b>	<b>3,264</b>	<b>759</b>	<b>4,023</b>
<i>Cash conversion</i>	118%	122%	120%	176%	97%	133%	120%	37%	84%
<b>Adjusted EPS (pence)</b>	<b>2.00p</b>	<b>2.10p</b>	<b>4.10p</b>	<b>2.16p</b>	<b>2.64p</b>	<b>4.80p</b>	<b>2.57p</b>	<b>1.85p</b>	<b>4.43p</b>
<i>EPS growth %</i>	9.4%	5.1%	7.1%	8.0%	25.9%	17.2%	19.2%	-29.9%	-7.8%
Dividend (pence)	0.30p	0.00p	0.30p	0.00p	0.40p	0.40p	0.20p	0.40p	0.60p
<b>Net cash / (debt) - Ex IFRS16 leases</b>	<b>-198</b>	<b>1,101</b>	<b>1,101</b>	<b>4,435</b>	<b>6,154</b>	<b>6,154</b>	<b>8,470</b>	<b>10,000</b>	<b>10,000</b>

Source: Equity Development

### Company Data

EPIC	AIM: ELCO
Price (last close)	92p
52 week High/Low	147p/90p
Market cap	£77m
Net cash Dec'21	£10m
ED valuation / share	154p/share
Share count	83.2m

### 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. 260 staff.

Next news: Prelims in late March 2022

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Elsewhere **OCF came in at a healthy £5.5m** (representing a 6.1% cash yield) - pushing **Dec'21 net cash up £3.9m to £10m** (or 12p/share) vs £6.1m LY.

Sure, **adjusted PBT fell marginally to an est £4.6m** vs £4.8m LY but this simply reflects **greater investment** (all self-funded) **in growth** (eg product development, international expansion & people), **as the group transitions towards a recurring revenue model** vs 56% today

## Raising our valuation to 154p/share

Going forward, we expect this trend to continue with headline growth flat this year (+1.1%), but re-accelerating thereafter. This means that despite the better than expected 2021 out-turn, **we've prudently held our 2022 adjusted PBT target of £2.9m on turnover at £27.6m.**

Likewise **profitability & cashflow should pick up from 2023 onwards**, returning to pre-pandemic levels of >20% and 100%+ respectively by 2026. By then, ARR should also represent c.75% of the group, delivering consistent double-digit top & bottom line progression.

In fact, **this could literally transform the share price.** With bolstered customer life-time values (CLVs) and the adoption of software upgrades (re retiring older versions) and an enhanced competitive position for Eleco, we should see stream-lined operations and lifting retention rates (90%+).

Hence we have **nudged up our valuation to 154p/share** (vs 150p B4). Highlighting too that at 92p, **Eleco trades on modest 2022 EV/sales & EV/EBITDA multiples of 2.4x and 12.1x** respectively, equivalent to a wide discount to *BuildTech* peers (see appendix).

But that's not all. The firm could further become a major winner in the post-Covid world given:

- PowerProject is 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).
- Similarly many flooring & soft-furnishing retailers are turning to its AI enabled visualisation tools to act as their virtual 'shop window'.
- Manufacturers (eg Wren Kitchens) are implementing [Shire's smart facilities management software](#) to quickly resolve maintenance issues, improve plant availability & lift ROCEs.
- The potential of many untapped overseas markets such as the US, where we understand encouraging progress is already being made through channel partners.
- The new 'client focused' (vs product orientated B4) organisational structure is bedding down well, especially relating to the X-fertilisation of pipeline leads, solution sales (eg VINCI's deployment of Powerproject Vision), team-work, R&D and career development.

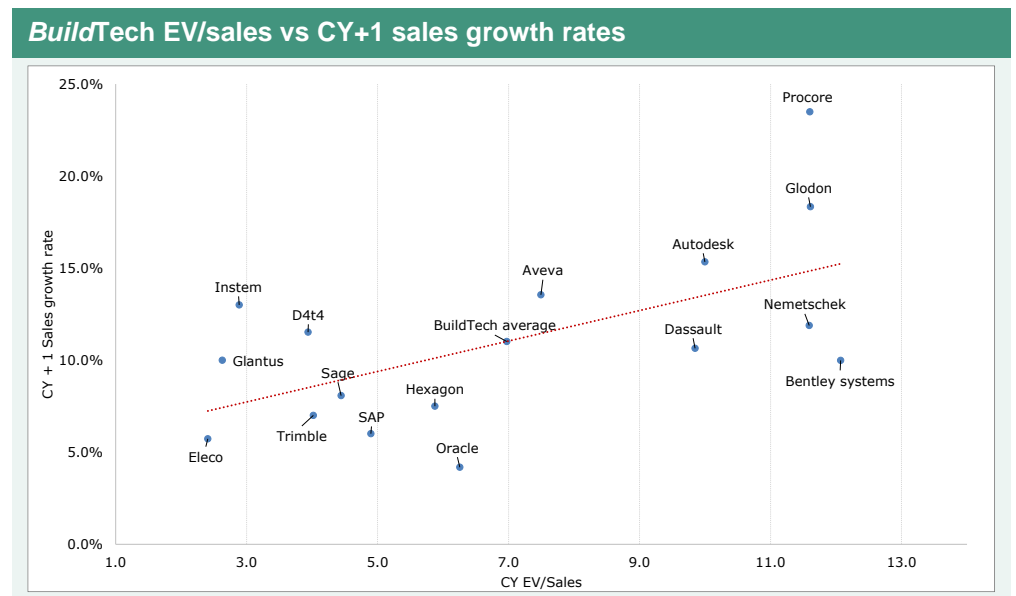
## Confident of driving future growth

CEO Jonathan Hunter adding: "**2021 has been a transformative year which has seen Eleco make excellent progress with its refreshed strategy. Highlights include winning Project Management Software of the Year at the UK Construction Computing Awards, record sales growth for our ShireSystem product, which is now the Group's 2nd largest product by revenue, and customer success stories including an Irish-based international building materials manufacturer expanding the use of ShireSystem software throughout 6 of its factories located in Europe.**

We continued to strengthen our growth platform with the successful merger of our UK building lifecycle businesses and the merger of our German visualisation operations, providing greater business development opportunities. In Q4'21, we also delivered SaaS/Subscription offerings across all our building lifecycle products, with a particular focus on new customers.

**We are therefore delighted to report that we expect to exceed market expectations for 2021 and that our gross profits and EBITDA levels continue to be strong. Our debt-free status leaves Eleco well positioned for 2022 and we believe that our strong growth in 2021 endorses our decision to focus the business on its core competencies while targeting growth in recurring revenue."**

Finally on the back of today's positive update, we look forward in hearing more news about Q1'22 trading & FY23 guidance at the prelims in late March.



Source: Equity Development.

## Key risks

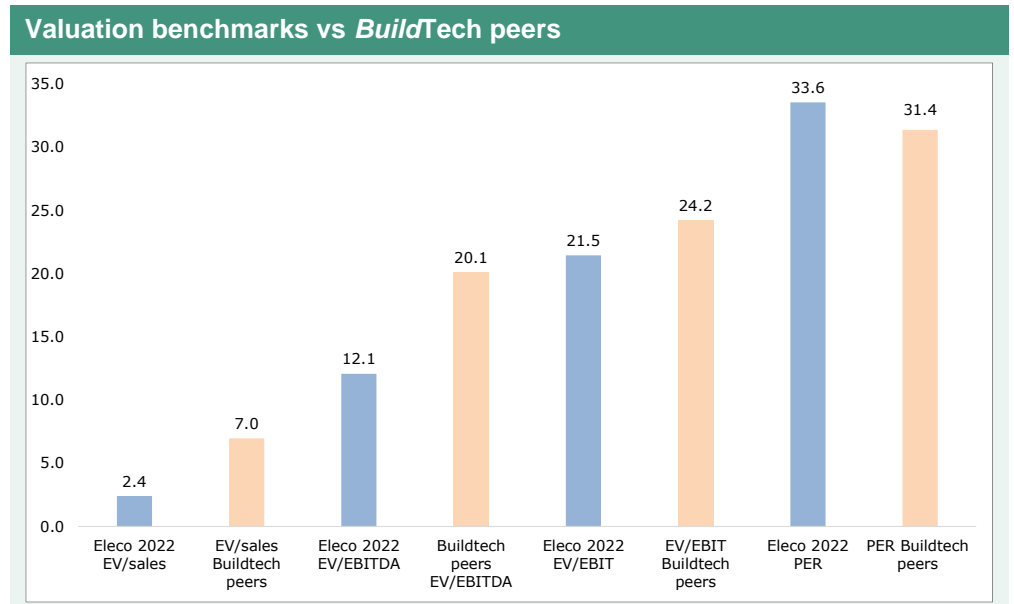
- Substantial slowdown in global GDP which could impact the worldwide property, construction and infrastructure markets.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Larger license deals can lead to lumpy orderflow, but this is being equally 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)**

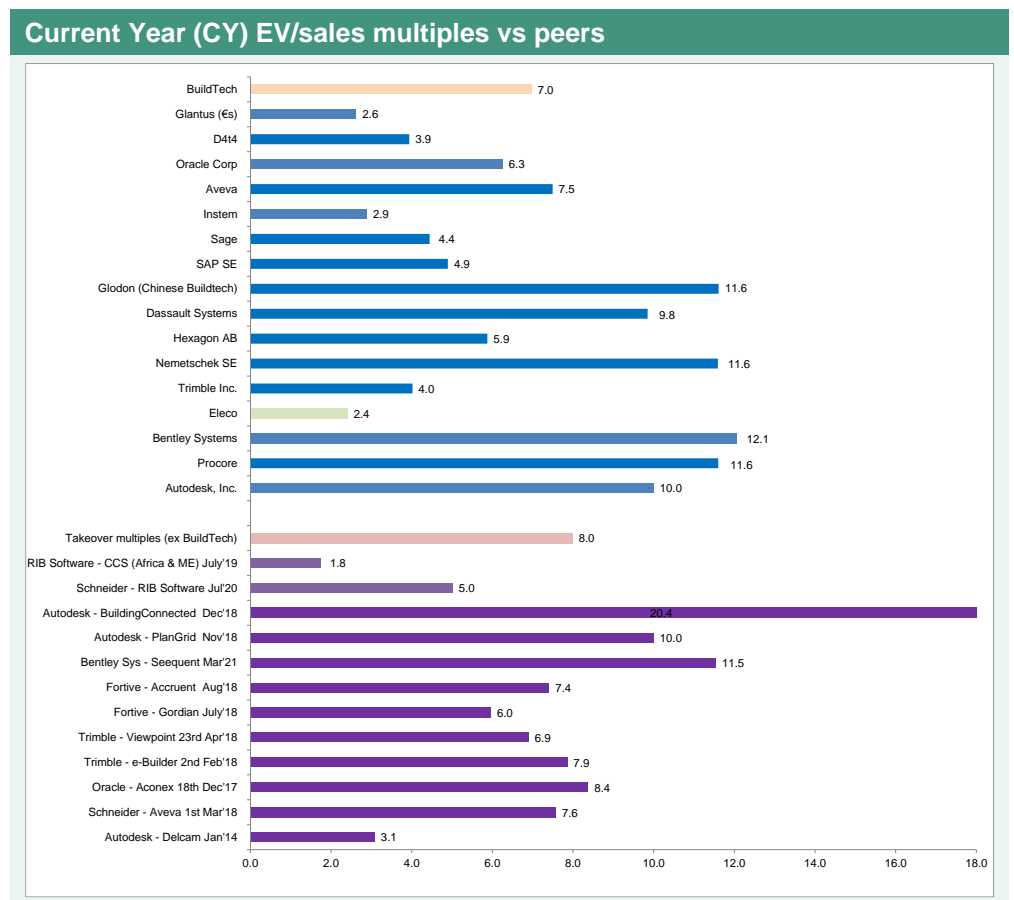
Eleco plc (Dec yearend)	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
Software licenses	5,877	5,442	5,914	5,382	4,844	4,359	3,923	3,531
ARR (recurring SaaS & support)	13,557	14,186	15,386	16,771	18,783	21,601	25,057	29,316
Services (eg training)	5,964	5,604	6,000	5,460	5,569	5,681	5,794	5,910
<b>Turnover</b>	<b>25,398</b>	<b>25,232</b>	<b>27,300</b>	<b>27,612</b>	<b>29,196</b>	<b>31,641</b>	<b>34,774</b>	<b>38,758</b>
% growth	14.3%	-0.7%	8.2%	1.1%	5.7%	8.4%	9.9%	11.5%
<b>Gross Profit</b>	<b>22,751</b>	<b>22,703</b>	<b>24,564</b>	<b>24,845</b>	<b>26,270</b>	<b>28,469</b>	<b>31,289</b>	<b>34,873</b>
% margin	89.6%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
<b>Adj. EBITDA (post SBPs)</b>	<b>6,302</b>	<b>7,003</b>	<b>7,200</b>	<b>5,506</b>	<b>5,808</b>	<b>7,042</b>	<b>8,730</b>	<b>10,828</b>
% Margin	24.8%	27.8%	26.4%	19.9%	19.9%	22.3%	25.1%	27.9%
<b>Adj. EBIT (post SBPs)</b>	<b>4,545</b>	<b>5,069</b>	<b>4,800</b>	<b>3,100</b>	<b>3,424</b>	<b>4,501</b>	<b>5,991</b>	<b>7,839</b>
% Margin	17.9%	20.1%	17.6%	11.2%	11.7%	14.2%	17.2%	20.2%
<b>Adj. Profit before Tax</b>	<b>4,206</b>	<b>4,807</b>	<b>4,600</b>	<b>2,900</b>	<b>3,274</b>	<b>4,401</b>	<b>5,941</b>	<b>7,839</b>
<b>Adjusted EPS (p)</b>	<b>4.10p</b>	<b>4.80p</b>	<b>4.43p</b>	<b>2.74p</b>	<b>3.00p</b>	<b>4.02p</b>	<b>5.39p</b>	<b>7.08p</b>
EPS growth rate	7.1%	17.2%	-7.8%	-38.1%	9.5%	33.8%	34.3%	31.3%
<b>Dividend (p)</b>	<b>0.30p</b>	<b>0.40p</b>	<b>0.60p</b>	<b>0.66p</b>	<b>0.73p</b>	<b>0.80p</b>	<b>0.88p</b>	<b>0.97p</b>
Yield	0.3%	0.4%	0.7%	0.7%	0.8%	0.9%	1.0%	1.1%
ARR (% recurring revenues)	53.4%	56.2%	56.4%	60.7%	64.3%	68.3%	72.1%	75.6%
Adjusted cash conversion	120.2%	133.4%	83.8%	76.7%	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	104.7	100.8	104.0	110.0	117.6	126.7
<b><u>Valuation benchmarks</u></b>								
P/E ratio	22.5	19.2	20.8	33.6	30.7	22.9	17.1	13.0
EV/Sales	2.6	2.6	2.4	2.4	2.3	2.1	1.9	1.7
EV/EBITDA	10.6	9.5	9.2	12.1	11.4	9.4	7.6	6.1
EV/EBITA	14.6	13.1	13.9	21.5	19.4	14.8	11.1	8.5
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%		9.5%	-542.2%	19.1%	50.5%	53.8%	52.7%
ROCE	16.4%	16.2%	13.8%	8.5%	8.9%	10.9%	13.3%	15.5%
Dividend cover	13.7		7.4	4.2	4.1	5.0	6.1	7.3
PEG ratio	3.14	1.12	-2.67	-0.88	3.23	0.68	0.50	0.42
<b>Net cash/(debt) - excl IFRS16 leases</b>	<b>1,101</b>	<b>6,154</b>	<b>10,000</b>	<b>11,016</b>	<b>13,113</b>	<b>16,028</b>	<b>19,982</b>	<b>25,455</b>
Sharecount (Ks)	81,100	81,400	83,155	83,570	83,988	84,408	84,830	85,254
<b>Shareprice (p)</b>	<b>92p</b>							

Source: Equity Development

## Appendices

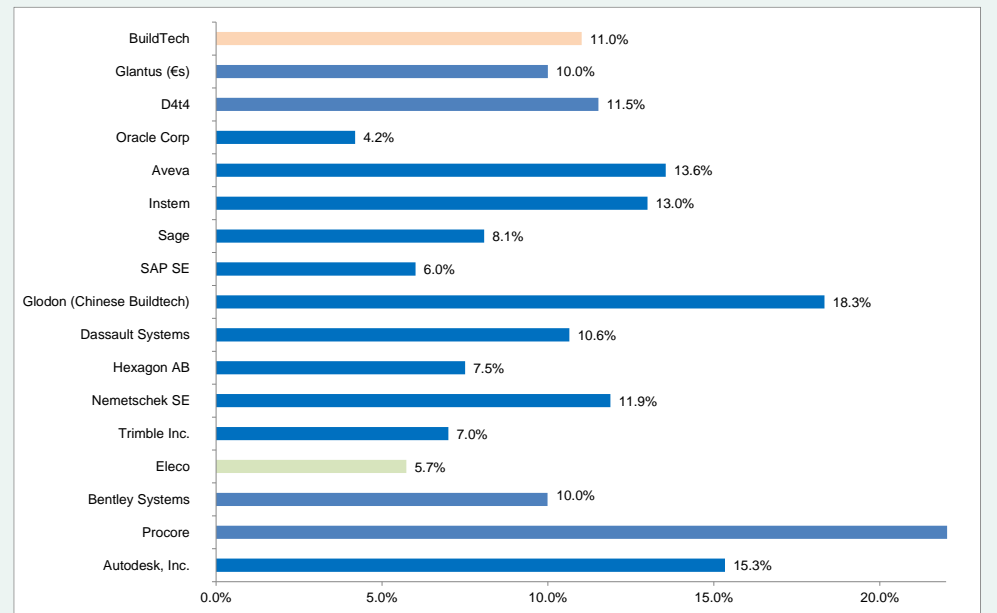


Source: Equity Development



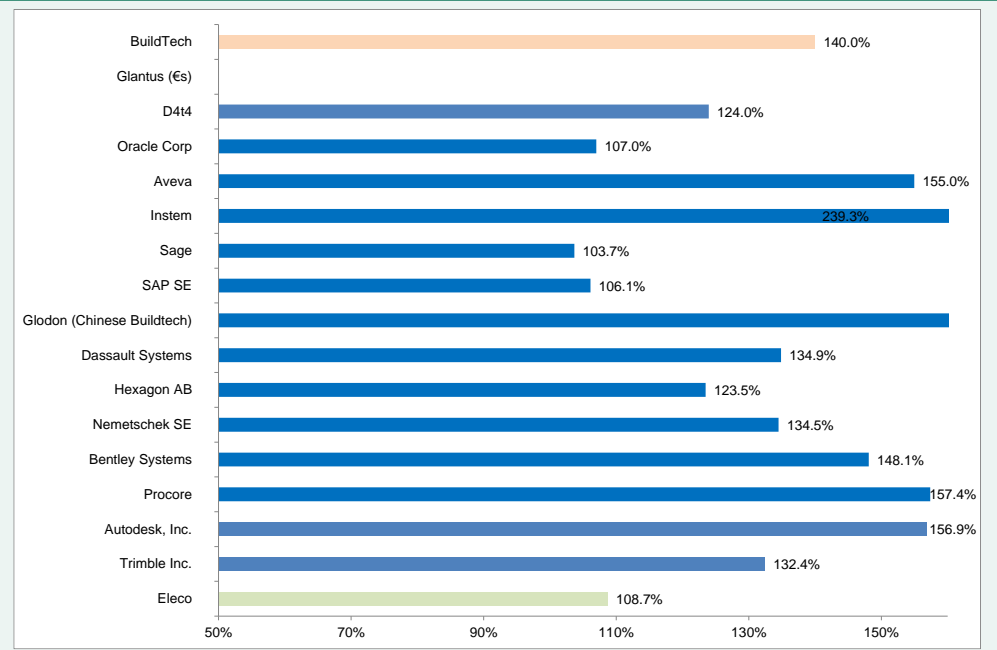
Source: Equity Development

### CY+1 sales growth



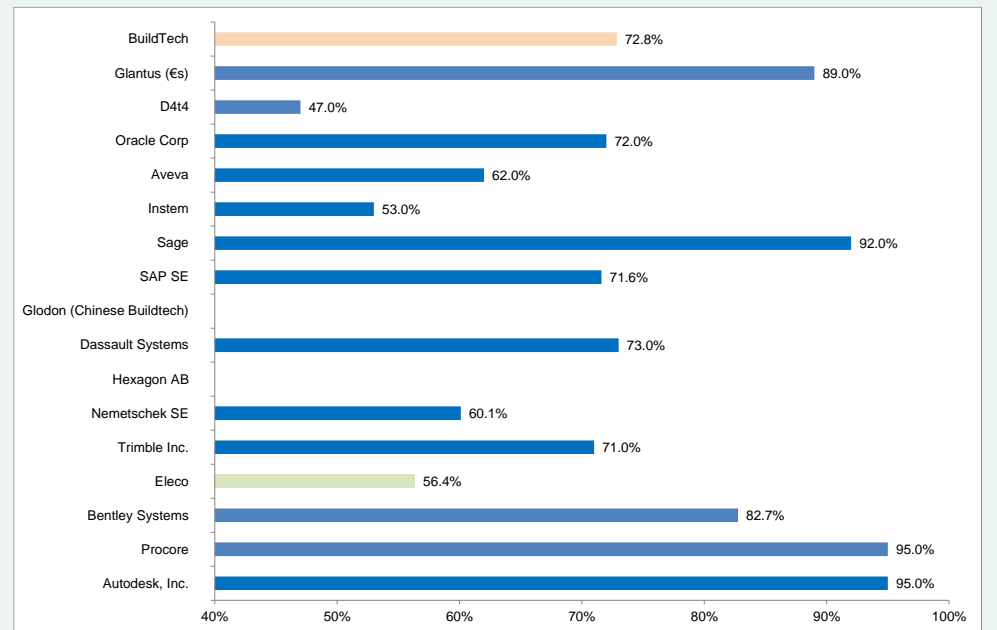
Source: Equity Development

### CY sales as % of PreCovid



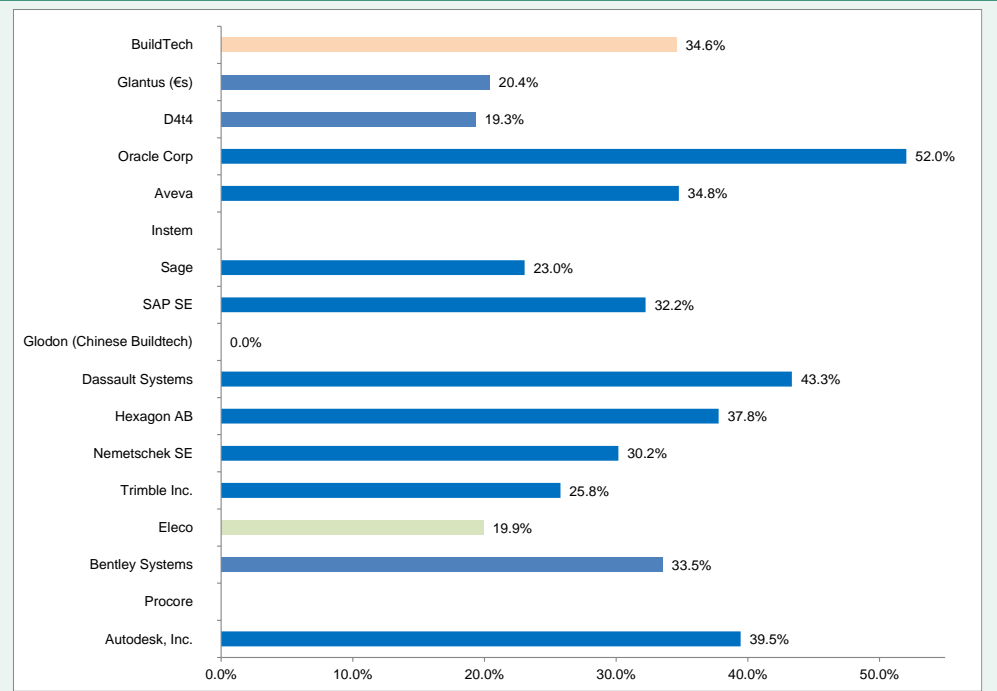
Source: Equity Development

### BuildTech sector % recurring revenues



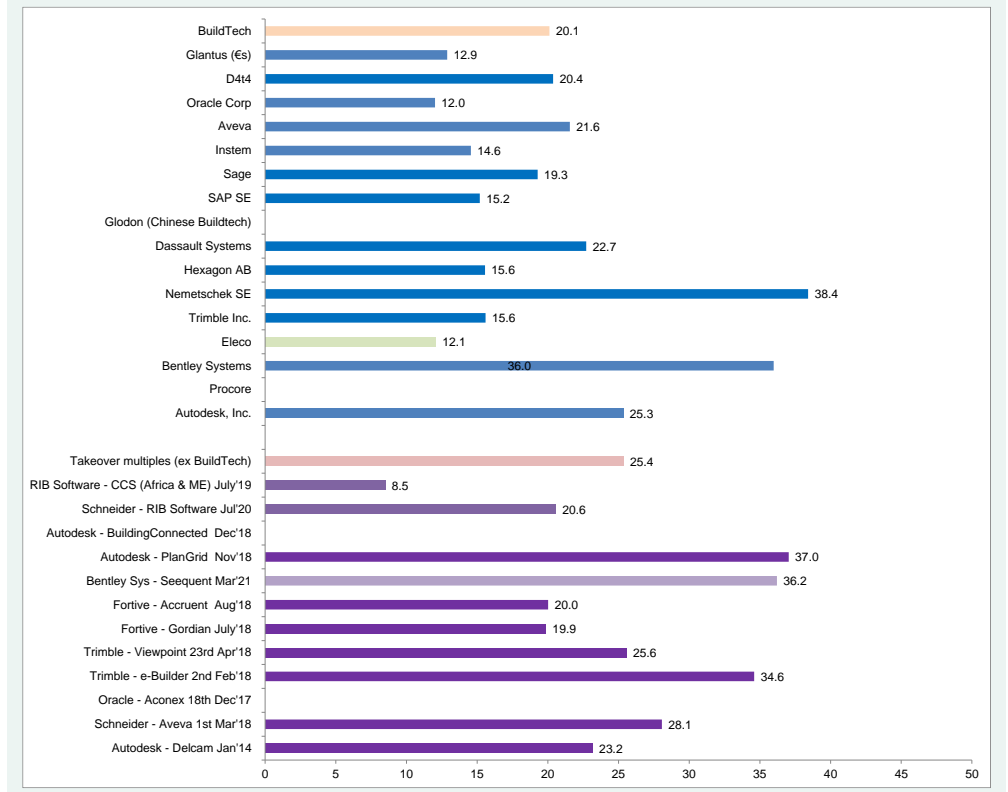
Source: Equity Development

### CY EBITDA margins



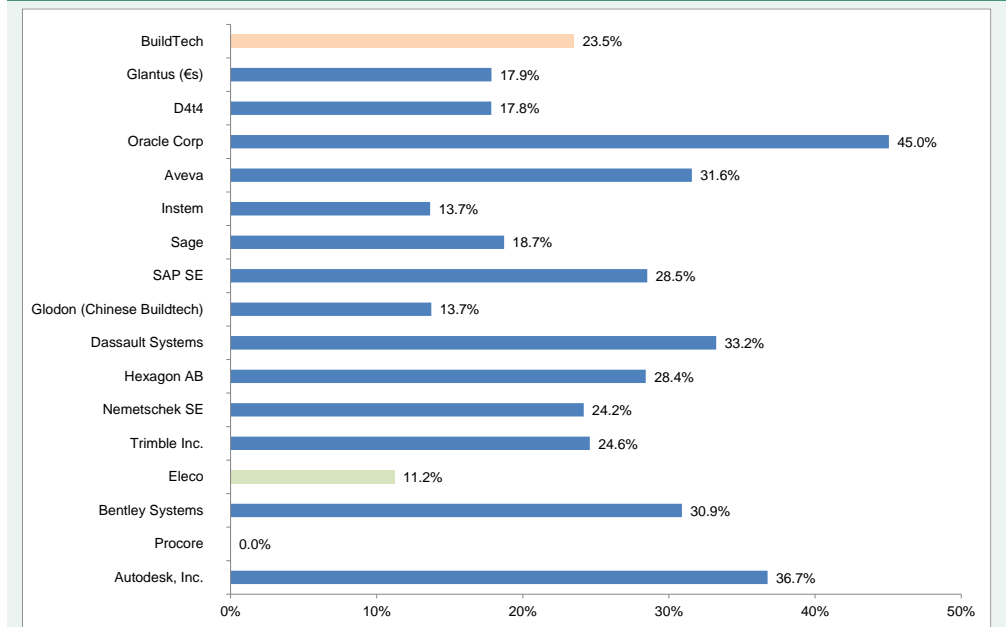
Source: Equity Development

### CY EV/EBITDA multiples vs peers



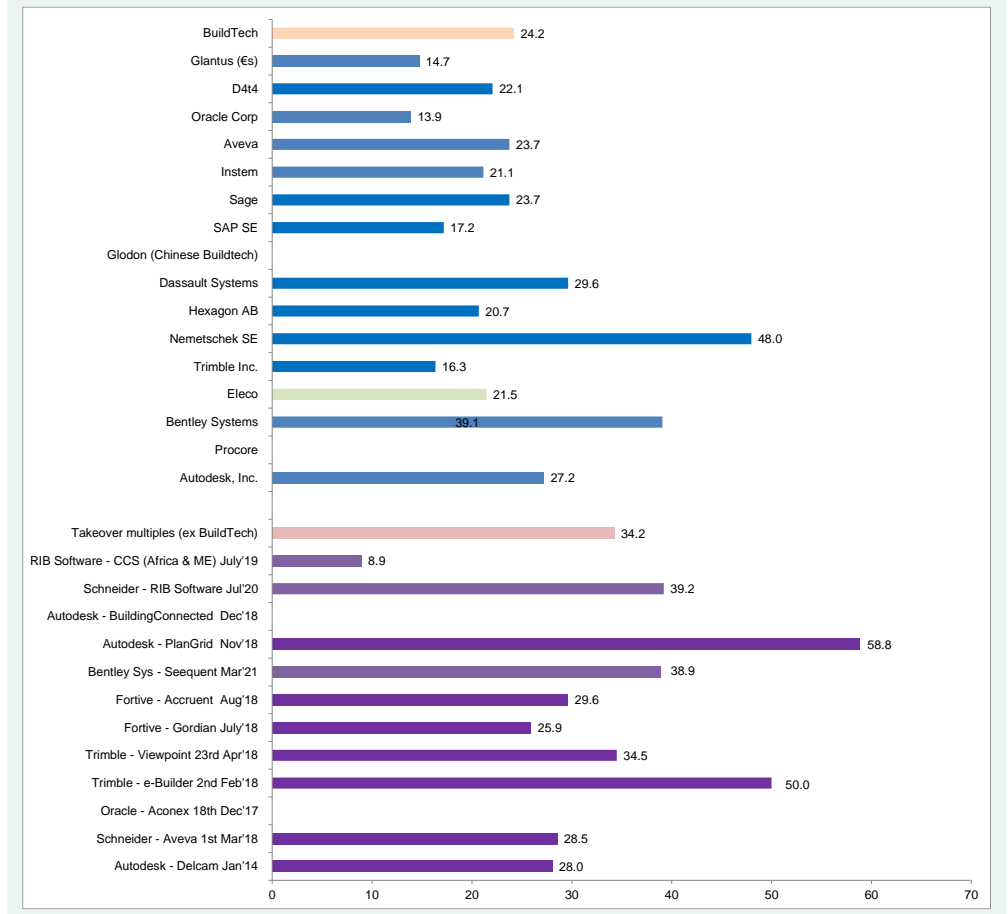
Source: Equity Development

### CY EBIT margins



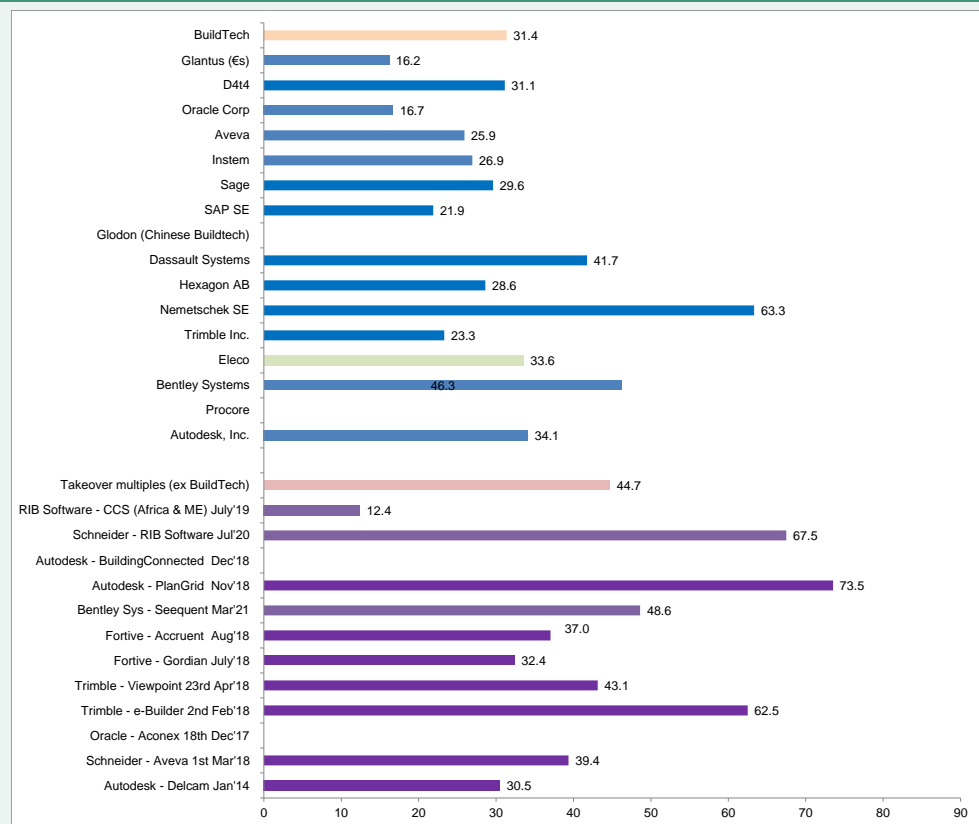
Source: Equity Development



**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	92p	£76.5	£10.0	£66.5
Trimble Inc.	\$69.0	\$17,250	-\$121	\$17,371
Autodesk, Inc.	\$233.0	\$51,027	-\$340	\$51,367
Procore	\$57.0	\$7,307	\$0	\$7,307
Bentley Systems	\$37.0	\$12,136	-\$1,032	\$13,168
Nemetschek SE	€ 76.0	€ 8,778	€ 96	€ 8,682
Hexagon AB	€ 11.4	€ 28,114	-€ 237	€ 28,351
Dassault Systems	€ 43.0	€ 52,288	-€ 1,076	€ 53,364
Glodon (Chinese Buildtech)	\$9.9	\$11,767	\$838	\$10,928
SAP SE	€ 117.0	€ 138,060	-€ 5,084	€ 143,144
Sage	770p	£8,016	-£507	£8,523
Aveva	£28.50	£8,579	-£325	£8,904
Oracle Corp	\$80.0	\$210,320	-\$54,047	\$264,367
D4t4	305p	£123	£17	£106
Glantus (€s)	€ 102.0	€ 45.1	-€ 6.4	€ 51.5

Source: Equity Development



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