

The perfect GARP stock

GARP investing is all about buying quality secular growth companies at reasonable prices. Hence investors should be able to own them for long periods, and (hopefully) enjoy years of healthy returns thanks to strong EPS and multiple expansion. Enter *BuildTech* software developer Elecosoft, who said this morning that **trading is "in line expectations"** - with **H1 revenues jumping 22% in constant currency terms** (20% reported) to **£12.7m** (ED est), **EBIT margins similar to H1'18** (ie 16.6%) and **net debt closing June at a modest £0.6m** (or 0.1x EBITDA) vs £2.1m in Dec'18.

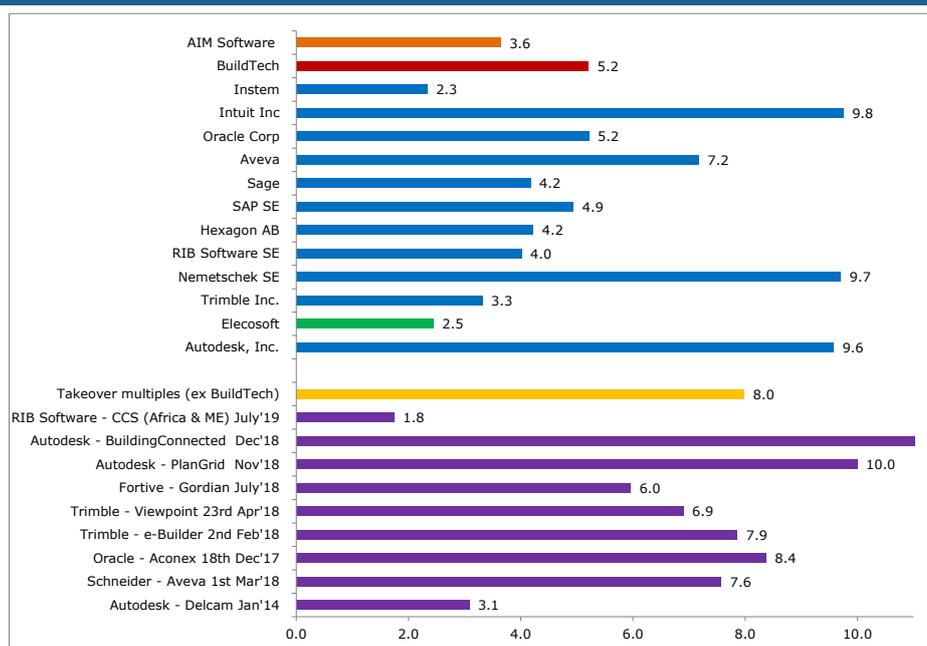
H1'19 turnover climbs 20% with strong cashflows

This **encouraging top line growth is higher than our FY19 forecasts of +18.8% YoY** (based on 5% LFL CC), and more so given we'd assumed an H2 bias due to tough comparatives and Q2'19 product launches. In fact, in April there was an important new version (#15) of PowerProject released, which we suspect may have even caused a few customers to defer orders. In fact all things being equal, we estimate that **H1'19 turnover climbed approx 7% LFL** in constant currency.

In line with full year expectations

Going forward, **we reiterate our FY19 EBIT forecast of £4.5m** (margin 17.1%) **on turnover of £26.4m**, and likewise **hold the valuation at 115p/share**. Nonetheless, if this momentum is maintained, then there is scope for upgrades as the year progresses. Indeed we see no reason why the stock can't ultimately command a sector rating of 5.2x EV/sales vs 2.5x today (see below); equivalent to c.165p/share.

Current Year EV/sales multiples vs BuildTech peers



Source: Equity Development : CY = Current Year, arithmetic average for sector

7th August 2019

Company Data

EPIC	AIM: ELCO
Price	79p
52 week High/Low	88p/65p
Market cap	£64.8m
Est net cash (Dec'19)	£0.15m
ED valuation / share	115p
Share count	82.1m
Avg. daily volume	40,000

Share Price, p



Source: Share Cast

Description

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

Visibility is robust, enjoying **57% of 2018 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. **63% of the business is generated from outside the UK**, and there are c. 228 staff.

Next news: Interims in late Sept'19

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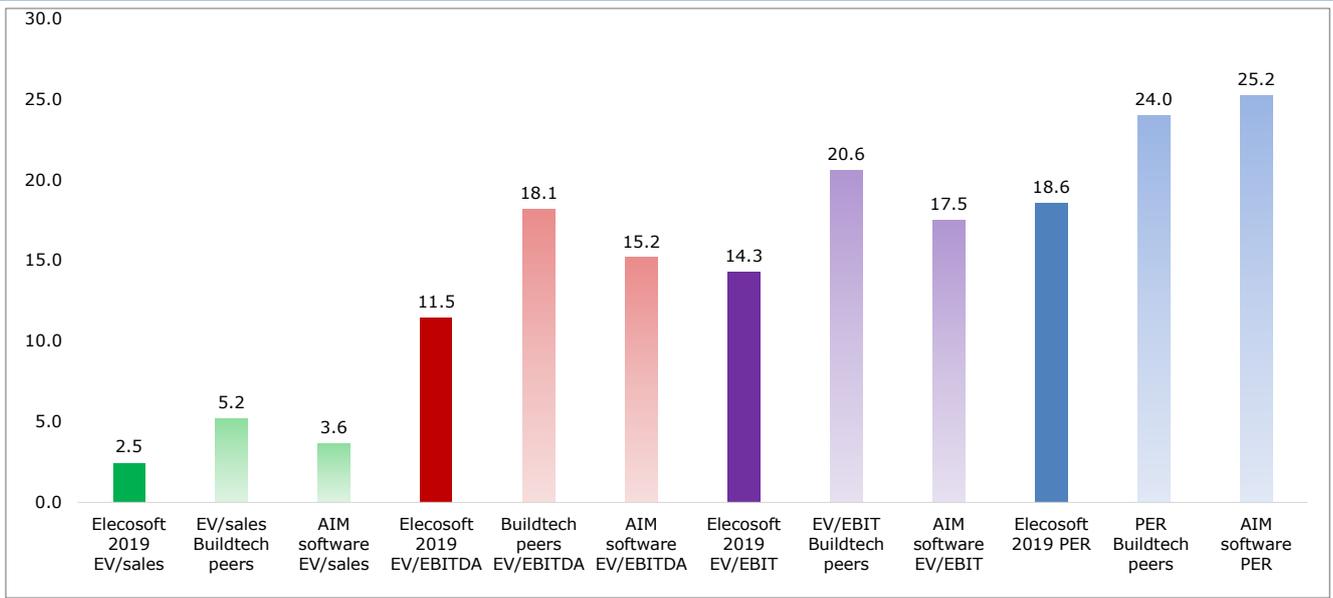
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Substantial upside potential for patient investors

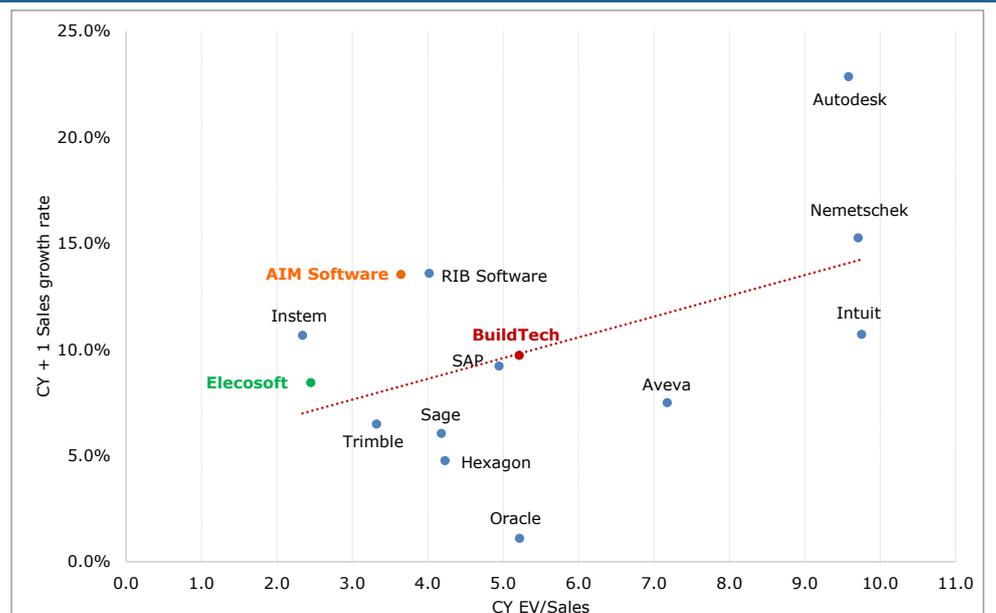
Finally it is worth mentioning that the firm’s two closest quoted competitors, Nemetschek & Autodesk, trade on multiples of >9.5x EV/turnover. Once again illustrating the potential upside for long term investors. Exec Chairman John Ketteley adding “**Elecosoft continued to perform well in H1’19; and will continue to concentrate on increasing sales, improving further our significant recurring income [57% of 2018 revenues], and generating positive cash flow in H2**”.

Current year valuation benchmarks vs BuildTech peers & AIM software stocks



Source: Equity Development. See appendices for detailed breakdowns

Current year EV/sales multiples vs CY+1 revenue growth



Source: Equity Development

Summary financial projections

Elecosoft (Dec yearend)	2014 Act £'000s	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
Software licenses	4,008	4,536	4,955	5,135	5,271	5,400	5,400	5,400	5,400	5,400	5,400
Recurring SaaS & support	7,351	7,278	8,622	11,018	12,595	15,900	18,126	21,026	24,390	28,293	32,820
Services	3,813	3,446	4,218	3,843	4,354	5,100	5,100	5,100	5,100	5,100	5,100
Turnover	15,172	15,260	17,795	19,996	22,220	26,400	28,626	31,526	34,890	38,793	43,320
% growth	-7.0%	0.6%	16.6%	12.4%	11.1%	18.8%	8.4%	10.1%	10.7%	11.2%	11.7%
Gross Profit	13,314	13,572	15,560	17,575	19,536	23,232	25,191	27,743	30,704	34,138	38,121
% margin	87.8%	88.9%	87.4%	87.9%	87.9%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%
Adj. EBITDA (post SBPs)	1,465	1,795	2,753	3,643	4,695	5,649	6,588	7,823	9,273	10,776	12,555
% Margin	9.7%	11.8%	15.5%	18.2%	21.1%	21.4%	23.0%	24.8%	26.6%	27.8%	29.0%
Adj. EBIT (post SBPs)	1,266	1,506	2,207	2,773	3,903	4,521	5,189	6,108	7,196	8,486	10,018
% Margin	8.3%	9.9%	12.4%	13.9%	17.6%	17.1%	18.1%	19.4%	20.6%	21.9%	23.1%
Adj. Profit before Tax	1,046	1,386	2,117	2,666	3,711	4,321	5,139	6,108	7,196	8,486	10,018
Adjusted EPS (p)	1.3	1.5	2.4	2.9	3.9	4.3	5.0	6.0	7.0	8.2	9.6
EPS growth rate		20.1%	58.2%	20.2%	35.2%	9.8%	18.3%	18.3%	17.2%	17.3%	17.5%
Dividend (p)	0.0	0.0	0.40	0.60	0.68	0.85	1.01	1.19	1.40	1.64	1.92
Yield			0.5%	0.8%	0.9%	1.1%	1.3%	1.5%	1.8%	2.1%	2.4%
% recurring revenues	48.5%	47.7%	48.5%	55.1%	56.7%	60.2%	63.3%	66.7%	69.9%	72.9%	75.8%
Adjusted cash conversion			69.8%	102.2%	101.4%	90.6%	97.2%	100.6%	102.1%	103.3%	103.2%
Valuation benchmarks											
P/E ratio	62.9	52.4	33.1	27.6	20.4	18.6	15.7	13.3	11.3	9.6	8.2
EV/Sales	4.3	4.2	3.6	3.2	2.9	2.5	2.3	2.1	1.9	1.7	1.5
EV/EBITDA	44.2	36.0	23.5	17.8	13.8	11.5	9.8	8.3	7.0	6.0	5.2
EV / EBITA	51.1	43.0	29.3	23.3	16.6	14.3	12.5	10.6	9.0	7.6	6.5
Adjusted tax rate	-20.0%	-19.5%	-16.1%	-17.9%	-19.2%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
EBITDA drop through rates			37.8%	40.4%	47.3%	22.8%	42.2%	42.6%	43.1%	38.5%	39.3%
ROCE		14.6%	15.5%	21.3%	15.1%	15.7%	16.1%	16.8%	17.5%	18.1%	18.7%
Dividend cover			6.0	4.8	5.7	5.0	5.0	5.0	5.0	5.0	5.0
PEG ratio		2.61	0.57	1.37	0.58	1.90	0.86	0.73	0.66	0.56	0.47
Net cash/(debt)	-2,035	-803	-1,304	1,031	-2,109	147	3,212	7,089	11,901	17,682	24,490
Sharecount (Ks)	66,611	73,971	74,433	76,309	77,400	82,273	82,685	83,098	83,513	83,931	84,351
Shareprice (p)	79.0										

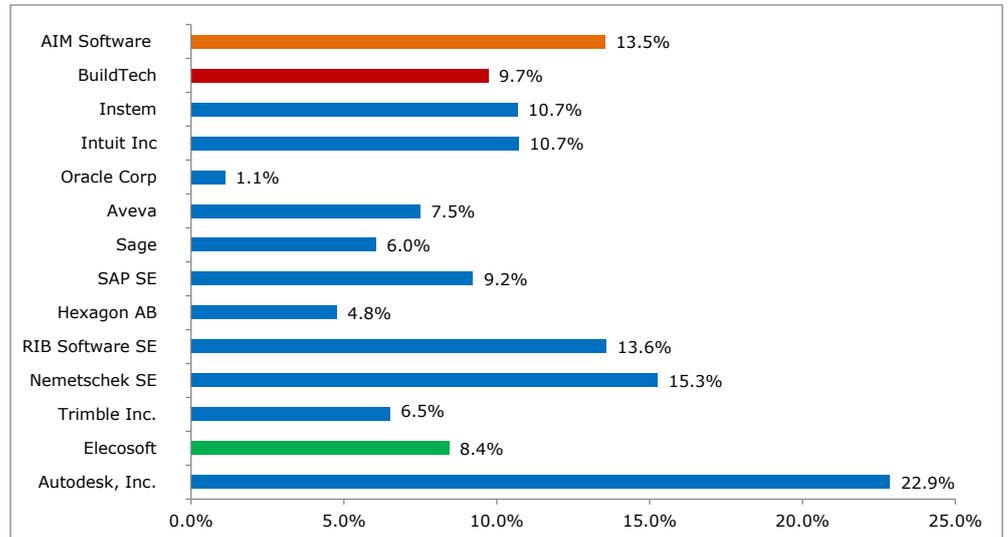
Source: Equity Development

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 revenues, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts (57% H1'18).
- Foreign exchange. However, this is primarily a translation risk with 63% of Elecosoft'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, Elecosoft 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.

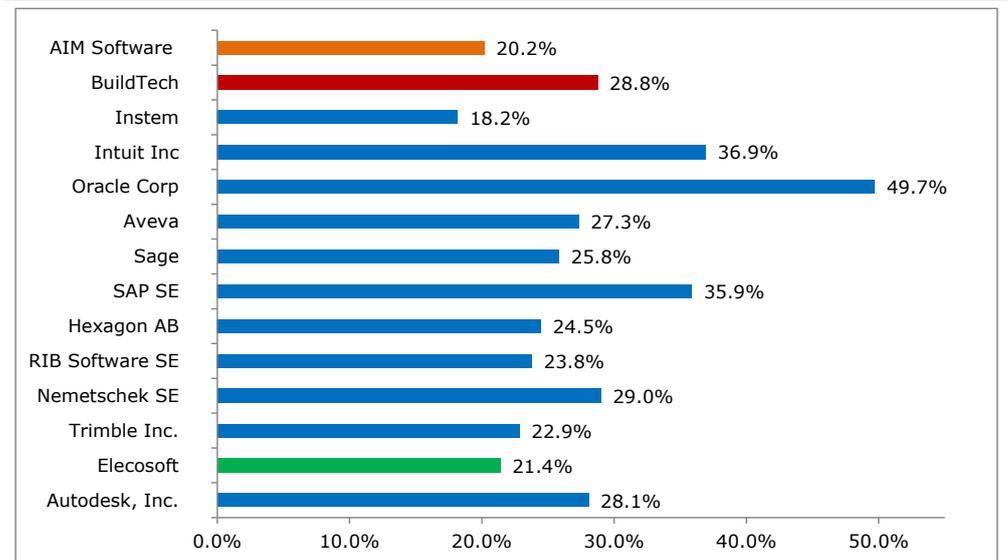
Appendices - BuildTech industry KPIs & multiples

CY +1 sales growth rate vs BuildTech peers



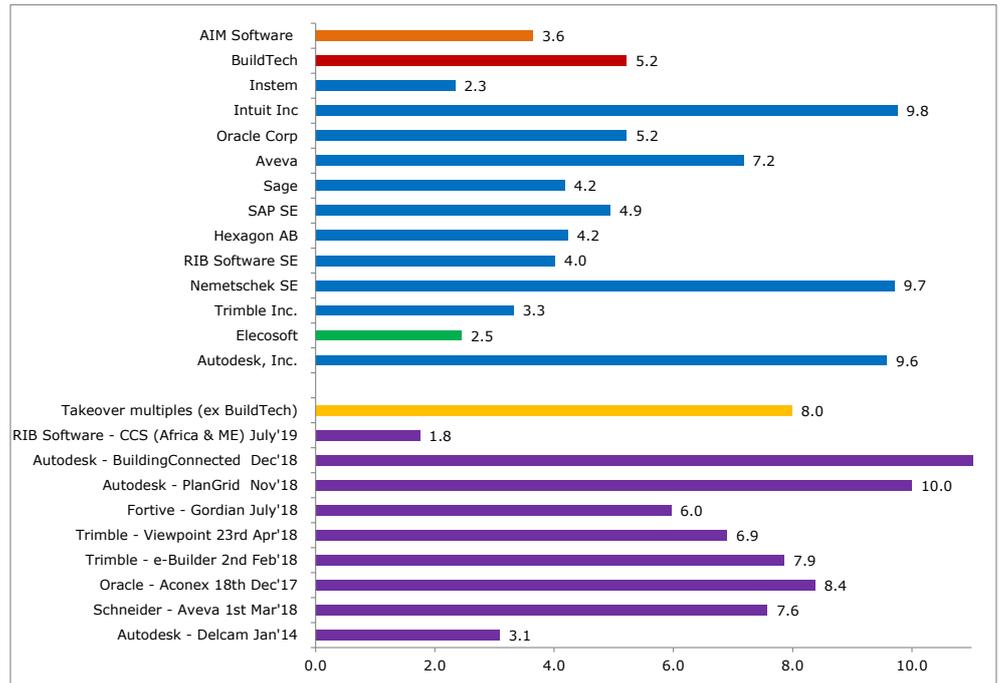
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EBITDA margins vs BuildTech peers



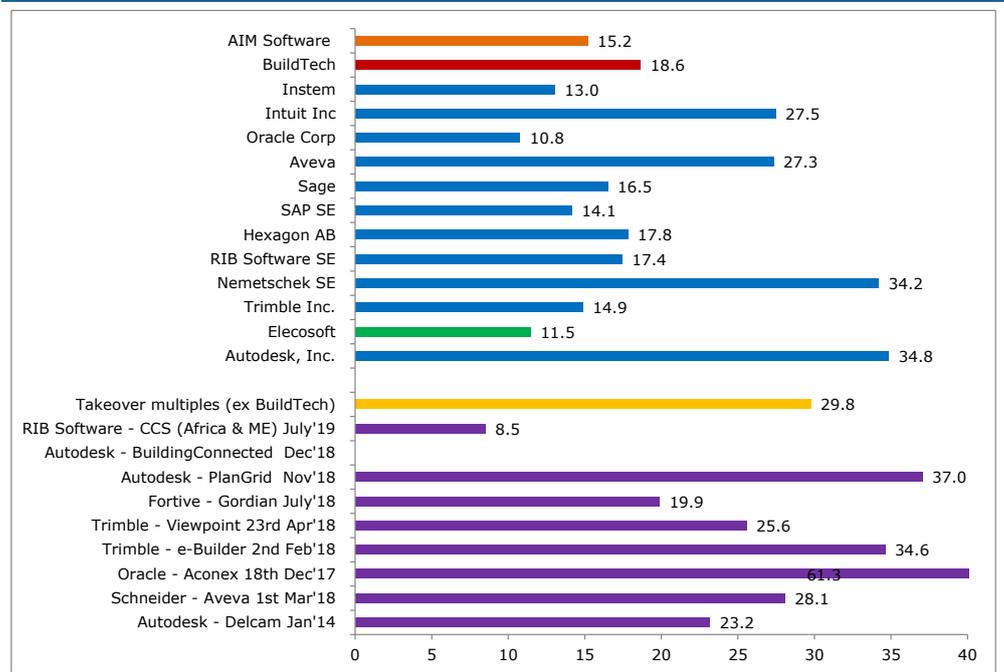
Source: Equity Development, arithmetic average for sector

CY EV/sales multiples vs BuildTech peers



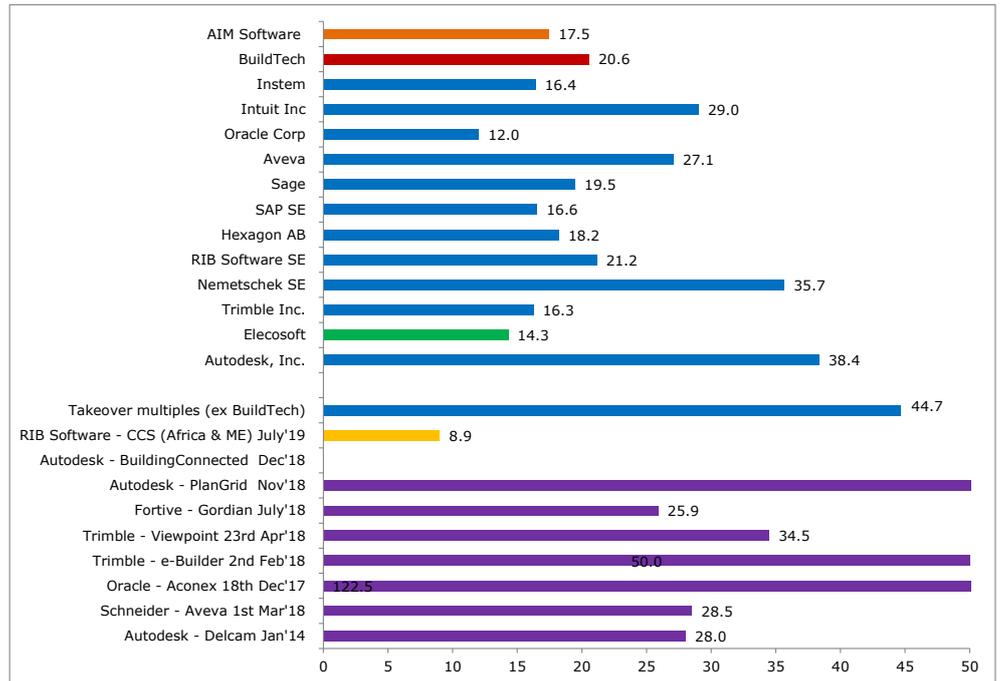
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EV/EBITDA multiples vs BuildTech peers



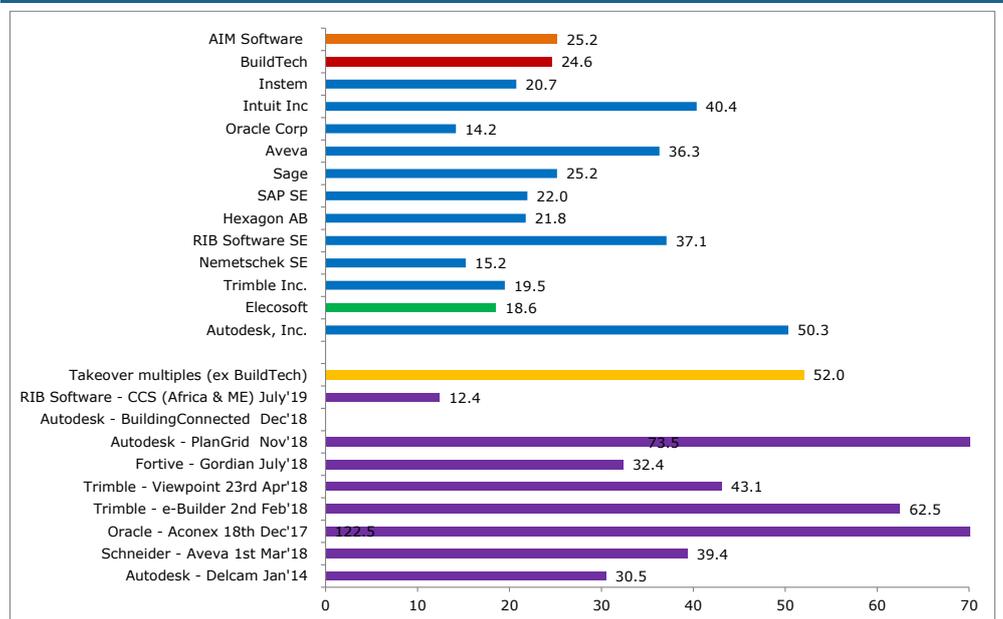
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EV/EBIT multiples vs BuildTech peers



Source: Equity Development : CY = Current Year, arithmetic average for sector

CY PER multiples vs BuildTech peers



Source: Equity Development : CY = Current Year, arithmetic average for sector



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