

Promising start to the year

Building technology businesses is a bit like designing Formula 1 racing cars. Deciding which parts to create in-house, which to 'buy & build', and then importantly fitting them all together to accelerate top line growth and generate synergies.

Well, after the Shire Systems and Active Online acquisitions last year, we believe Elecosoft, a specialist developer of *BuildTech* software, is on track to achieve all three. Indeed, in this morning's trading update the company said it had made an "**encouraging**" start to 2019, with **Q1 revenues up 20%** (22% constant currency).

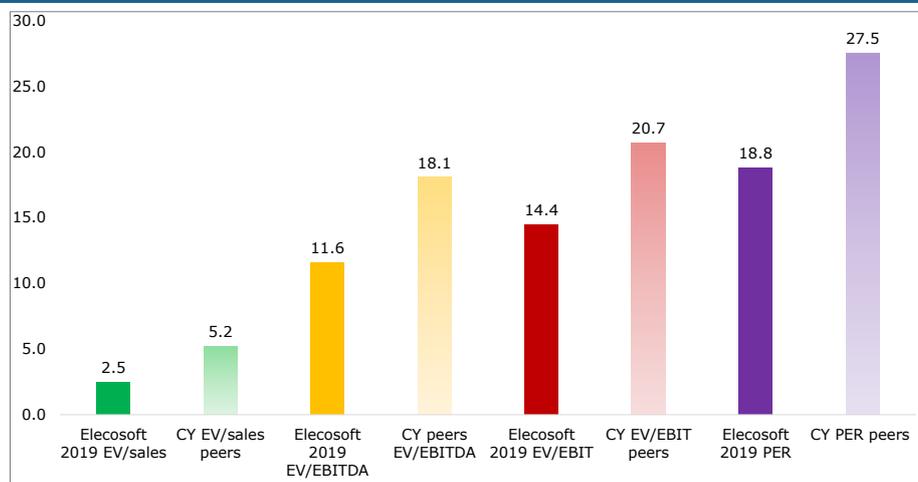
Q1'19 turnover climbs 20% with strong cashflows

This is higher than our FY19 estimates of **+18.8% YoY** (LFL 5%), and more so given we'd expected a H2 bias - reflecting tougher H1'18 comparisons (7% LFL vs 3% H2), the time required for sales initiatives to take root, and Q2 product launches. In fact, in April there was an important new version (#15) of the group's flagship PowerProject released, which may have caused a few customers to defer purchases.

Therefore, considering these mini headwinds **we are actually more than pleased with progress** - and estimate that in constant currencies **Q1'19 turnover might have actually been over 5% LFL**, vs our base case of 3%. In turn, pushing Q1 PBT above LY, and "**in line with FY expectations**" - which allied to strong cash generation (+£1.2m), meant **March net debt fell to £0.9m from £2.1m in December**.

Nonetheless, given the ongoing macro uncertainties, **we have decided to conservatively hold our forecasts and 115p/share valuation**, but suspect there may be scope for upgrades in due course. Equally, if the business can achieve double digit LFLs in the years ahead, then we think there should be no reason why the stock can't command a sector rating of 5.2x EV/sales vs 2.5x today (see below); equivalent to >160p/share.

2019 valuation benchmarks vs BuildTech peers



Source: Equity Development – closing prices as at 8th May 2019

9th May 2019

Company Data

EPIC	AIM: ELCO
Price	80p
52 week High/Low	93p/65p
Market cap	£65.5m
Est net cash (Dec'19)	£0.15m
ED valuation / share	115p
Share count	81.8m
Avg. daily volume	25,000

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 with 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. **94% of 2018 turnover was sold directly**, with the rest generated via channel partners. **63% of the business is generated from outside the UK**, and there are 228 staff.

Next news: Pre close trading update June

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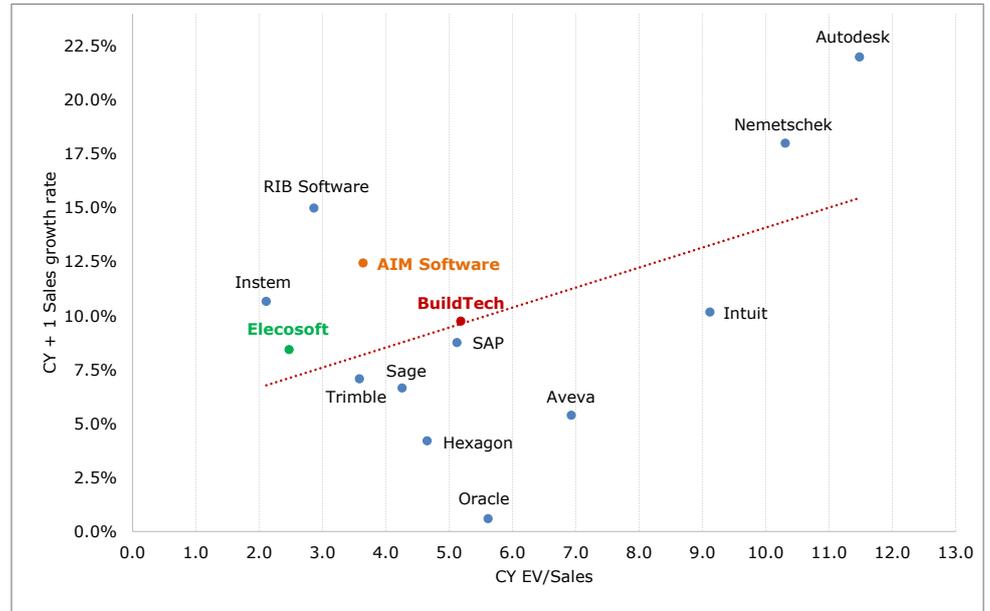
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*a shareholder in Elecosoft

Material upside potential

Interestingly too, recent takeovers in this space have been concluded at between 6x–8x EV/revenues (see appendices), whilst the company’s two closest quoted rivals, Nemetschek & Autodesk, trade on multiples of 10.3x and 11.5x respectively.

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



Source: Equity Development – closing prices as at 8th May 2019

Mr Kettleley commenting “**Elecosoft continues to perform well reflecting both the international spread and strength of our core construction and visualisation software businesses.** We have been encouraged by the trading performance of our recent acquisitions in the UK and Germany and the opportunities for realising synergies which we anticipated when acquiring these businesses.”

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 Services	7,351	7,278	8,622	11,018	12,595	15,900	18,126	21,026	24,390	28,293	32,820
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	1.93
Yield			0.5%	0.8%	0.9%	1.1%	1.3%	1.5%	1.7%	2.0%	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	63.7	53.0	33.5	27.9	20.6	18.8	15.9	13.4	11.5	9.8	8.3
EV/Sales	4.3	4.3	3.7	3.3	2.9	2.5	2.3	2.1	1.9	1.7	1.5
EV/EBITDA	44.6	36.4	23.7	17.9	13.9	11.6	9.9	8.3	7.0	6.1	5.2
EV / EBITA	51.6	43.4	29.6	23.6	16.7	14.4	12.6	10.7	9.1	7.7	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		2.64	0.58	1.38	0.59	1.91	0.87	0.73	0.67	0.56	0.48
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	82,229	82,640	83,053	83,468	83,885	84,305
Shareprice (p)	80.0										

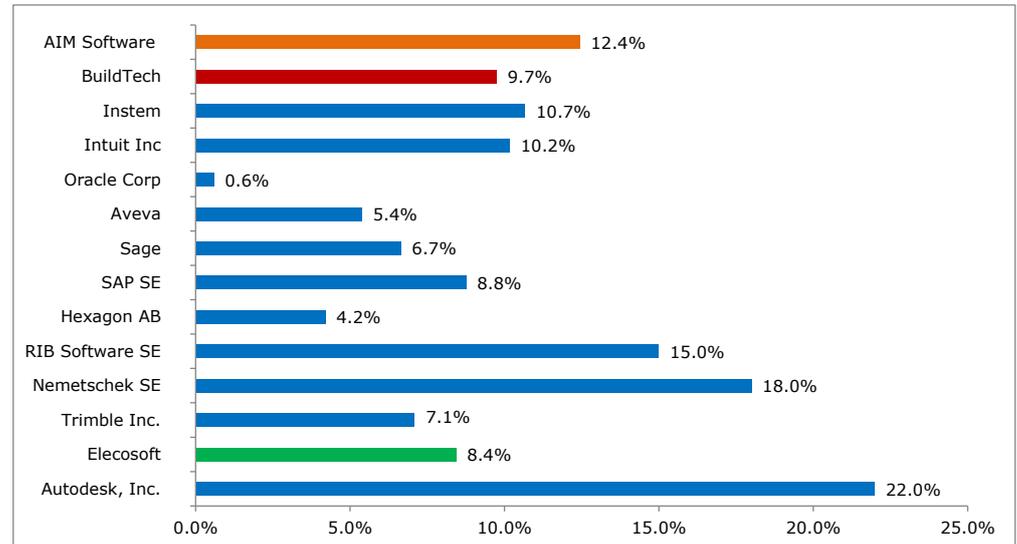
Source: Company historic data, Equity Development estimates

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.

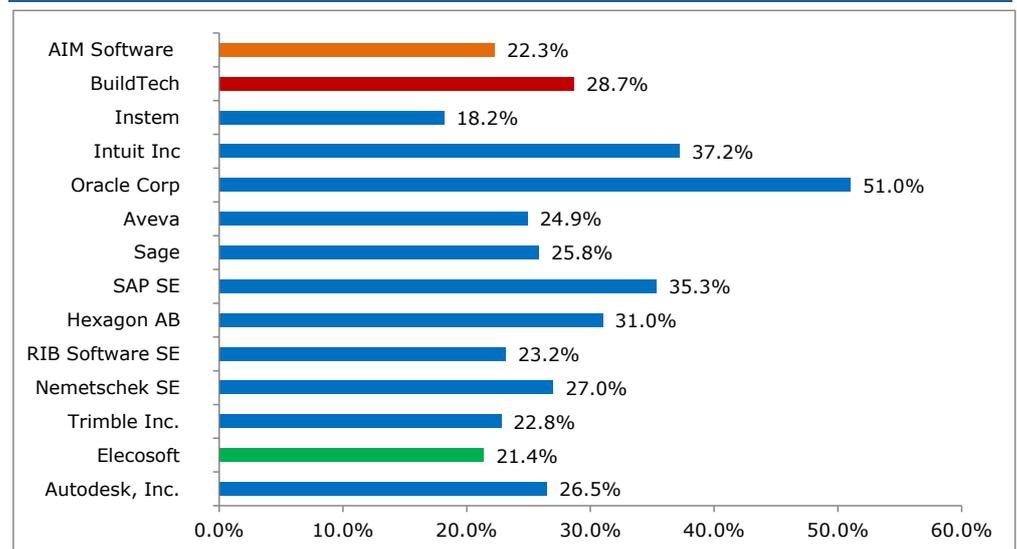
Appendices - BuildTech industry KPIs & multiples

CY +1 sales growth rate vs BuildTech peers



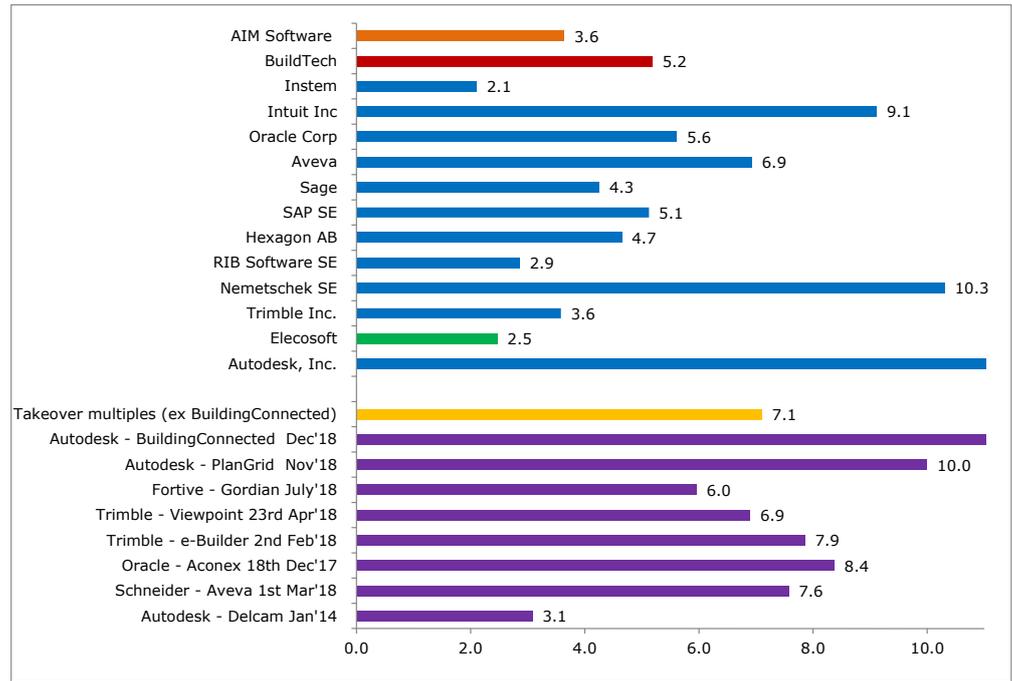
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EBITDA margins vs BuildTech peers



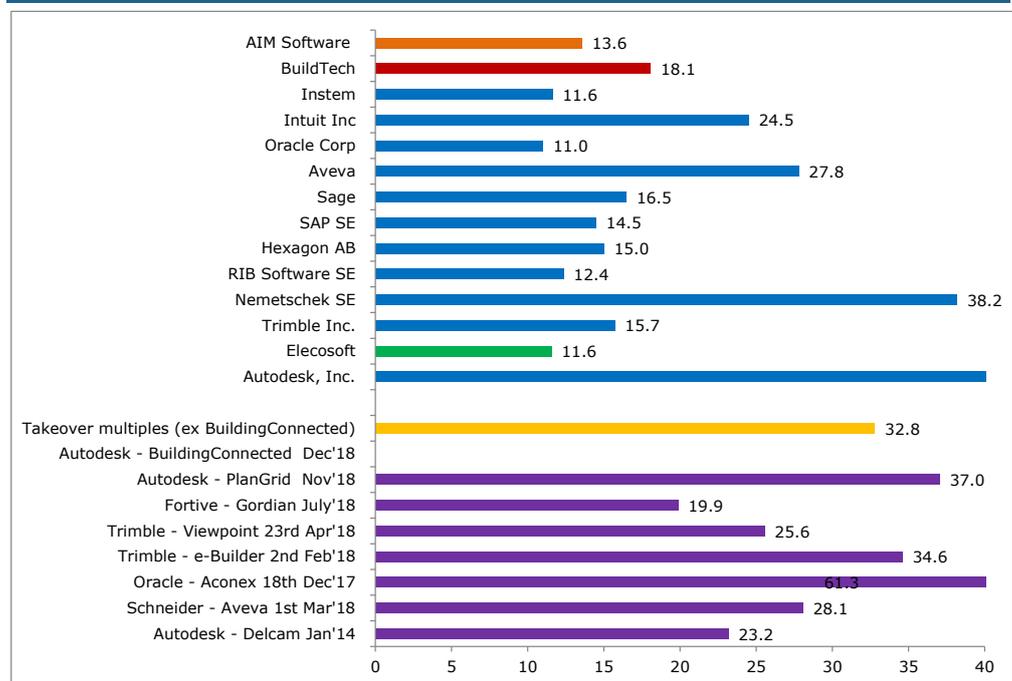
Source: Equity Development, arithmetic average for sector

CY EV/sales multiples vs BuildTech peers



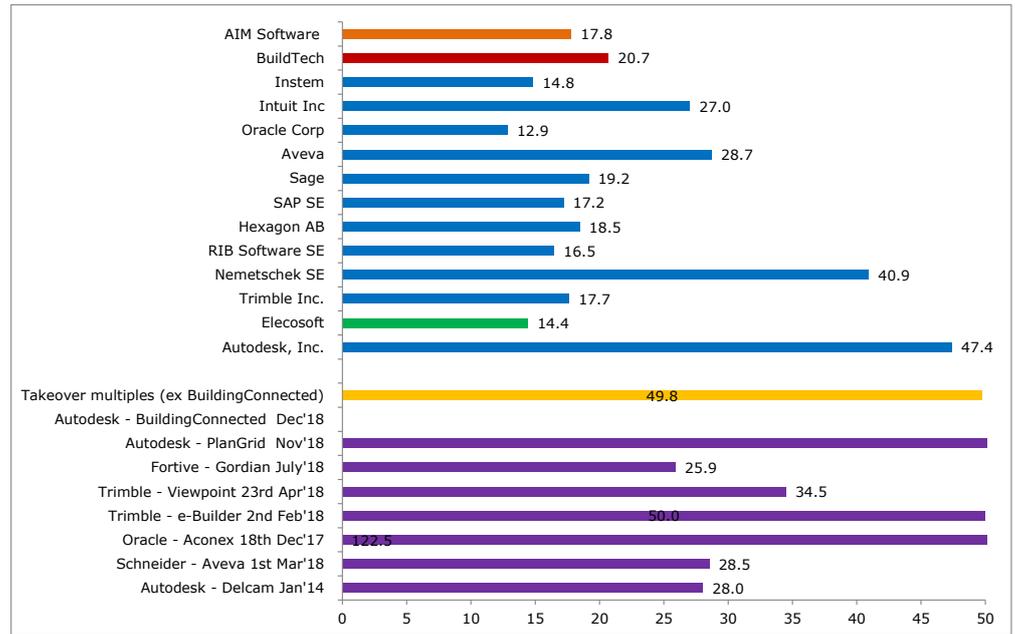
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EV/EBITDA multiples vs BuildTech peers



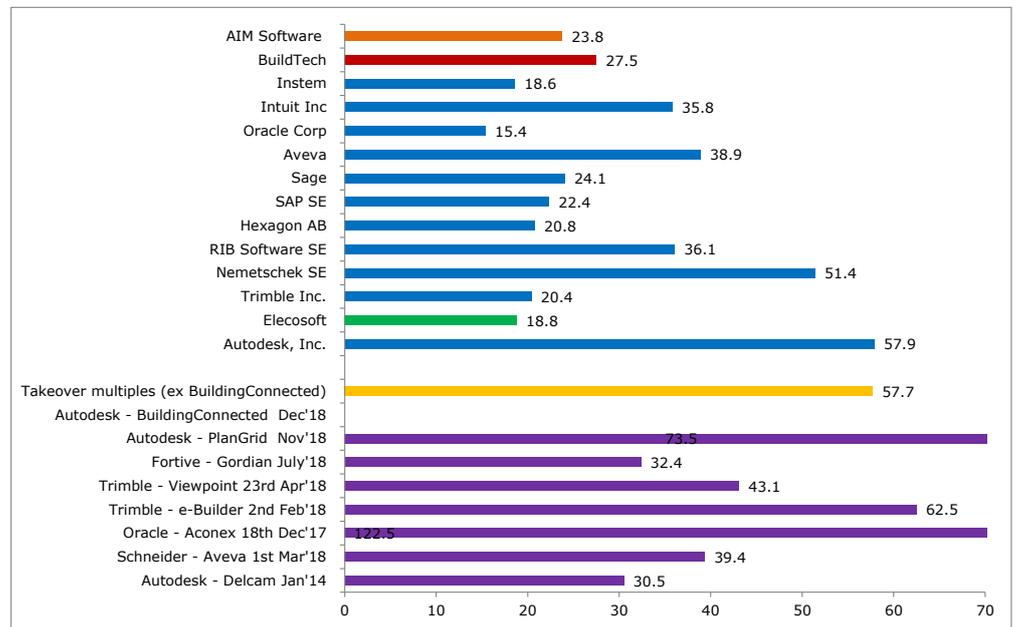
Source: Equity Development : CY = Current Year, arithmetic average for sector

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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