

'Enormous potential' as BuildTech blossoms

29th March 2021

Clarity of thought and simplicity of message are two vital components of any strategy. This morning, together with releasing 'in line' 2020 results, BuildTech software developer Eleco revealed its new 'client led' (vs product before) growth plan. Explaining how over the next 3-5 years, it aims to not only accelerate LFL revenues towards market norms (c.10% pa), but also deliver healthy profit margins and cash conversion. Not unambitious targets considering its transition to an ARR model from 56% today (53% 2019), alongside the challenges posed by rivals Autodesk, Nemetschek & Bentley Systems.

The trick is to predict where the 'puck is heading', whilst continuously innovating, adapting & refining its 'go-to-market' proposition. Here centred around 'delighting the customer', internationalisation, offering best-in-class technology, beefing up direct/indirect sales and hiring additional talent (eg CPO, CTO, HR, M&A, etc). Augmented by 'value accretive' M&A to further bolster its 'cradle-to-grave' product suite supporting the entire property life-cycle (say 75 years).

The good news is that due to the pandemic, the construction industry is now more receptive than ever to digitisation. Governments (eg US) too are set to spend \$trillions worldwide to upgrade dilapidated infrastructure. Plus Eleco begins this journey from a position of strength, having amassed a portfolio of >40 applications, serving 1,000s of corporates.

Feb'21 YTD sales up 4% LFL vs 'pre-Covid' levels

Moreover, there are several 'hot spots' where the business' software is perfectly suited. Namely data centres, smart factories, online warehouses and connected 'Home &/or Build-to-Rent' – often taking on the key project 'control room' role. In fact if successful, we think there is every chance that Eleco could actually surpass its own stretching goals in due course.

Meaning that for investors the upside potential is significant, since little of this appears to be factored into the shares (see below), which trade on 2.9x 2021 EV/revs and 10.5x EV/EBITDA vs 9x & 26x for peers.

Company Data

EPIC	AIM: ELCO
Price	102p
52 week High/Low	107p/47p
Market cap	£84.2m
Net cash as at Dec'20	£6.2m
ED valuation / share	130p/share
Share count	82.6m

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.

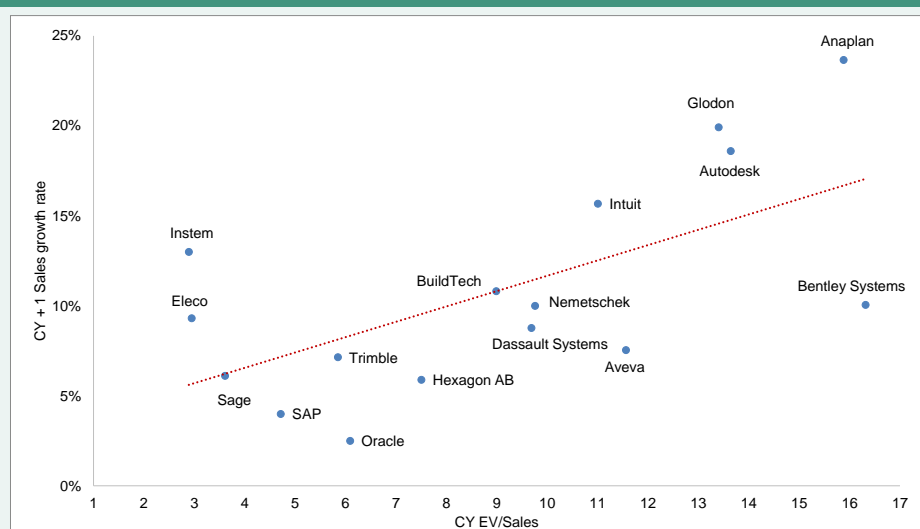
Next news: AGM trading update in May

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BuildTech EV/sales vs CY+1 sales growth rates

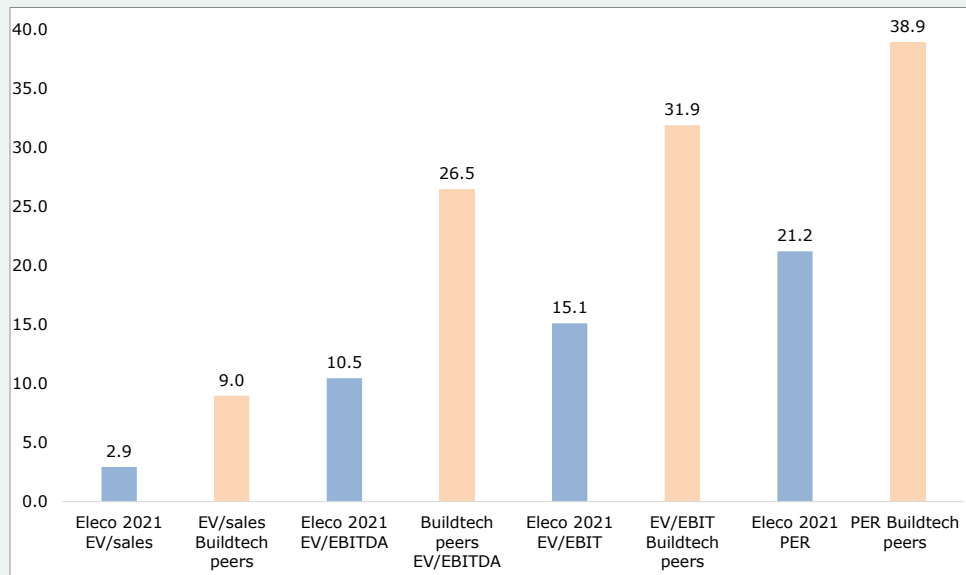


Source: Equity Development. Estimated organic for Instern

Indeed due to the powerful secular tailwinds, positive start to 2021 (Feb'YTD sales growth up +4% LFL) & today's strategic refresh, we've upgraded our valuation to 130p/share (vs 115p B4).

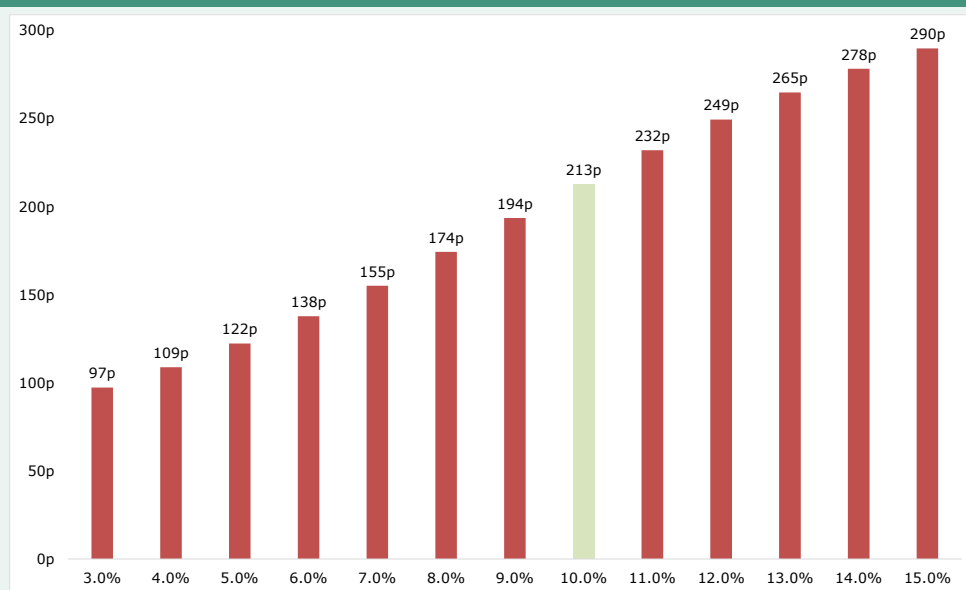
Recognising that if things go to plan, then the stock would justify a 5x EV/sales multiple, or (hypothetically) >200p by late 2023 (see below).

Valuation benchmarks vs *BuildTech* peers (see appendices)



Source: Equity Development

Possible Eleco shareprice by late 2023 at a range of LFL growth rates



Source: Equity Development hypothetical price estimates

So what about the numbers?

Well in spite of the tough conditions caused by the pandemic and 1% forex headwind (re weaker SEK vs £), 2020 revenues came in flat at £25.2m (-1% vs £25.4m LY). With **H2 turnover climbing >6% sequentially vs H1** (+2% LFL) to £13.0m, and **adjusted FY PBT up 14%** to £4.8m (£4.2m LY) - reflecting favourable operating leverage, high retention rates & tight cost control.

Similarly, underlying EBIT, EPS and free cash flow all rose impressively to £5.1m (+12% vs £4.5m), 4.8p (+17%, 4.1p) and £5.5m (+36%, £4.1m). In turn driving Dec'20 **net cash £5.1m higher to £6.2m** –

equivalent to 7.5p/share (£1.1m LY, £4.4m June) thanks to robust working capital and deferred VAT payments.

Elsewhere as an indication of the Board's confidence, a **0.4p final dividend has been proposed** (cash or script), coupled with the intended refund of that portion of the government's furlough support, which can be repaid (ie £98k of the £150k) in H1'21.

Downside resilience amid Coronavirus hurricane

Summary Financials (£'000s)	H1'19	H2'19	2019	Act H1'20	Act H2'20	Act FY20
Software licenses	3,018	2,859	5,877	2,721	2,721	5,442
ARR (recurring SaaS & support)	6,763	6,794	13,557	6,953	7,233	14,186
Services (eg training)	2,930	3,034	5,964	2,541	3,063	5,604
Sales	12,711	12,687	25,398	12,215	13,017	25,232
<i>Reported % growth rate</i>	20.4%	8.8%	14.3%	-3.9%	2.6%	-0.7%
<i>Acquisition growth %</i>	19.5%	6.5%	13.1%	0.0%	0.0%	0.0%
<i>Estimated forex</i>	-2.0%	-2.0%	-2.0%	-0.9%	-0.9%	-0.9%
<i>Estimated % LFL (constant currency)</i>	2.1%	4.2%	3.2%	-3.0%	3.5%	0.2%
<i>% recurring revenues</i>	53.2%	53.6%	53.4%	56.9%	55.6%	56.2%
Gross Profit	11,392	11,359	22,751	10,917	11,786	22,703
<i>% margin</i>	89.6%	89.5%	89.6%	89.4%	90.5%	90.0%
Operating expenses (excl D&A)	-8,446	-8,003	-16,449	-7,634	-8,066	-15,700
Adjusted EBITDA (post SBPs)	2,946	3,356	6,302	3,283	3,720	7,003
<i>% margin</i>	23.2%	26.5%	24.8%	26.9%	28.6%	27.8%
Depreciation	-450	-452	-902	-426	-450	-866
Amortisation of intangibles	-358	-497	-855	-491	-577	-1,068
Adjusted EBIT (post SBPs)	2,138	2,407	4,545	2,366	2,693	5,069
<i>% margin</i>	16.8%	19.0%	17.9%	19.4%	20.7%	20.1%
Net interest	-179	-160	-339	-141	-109	-262
Adjusted PBT	1,959	2,247	4,206	2,225	2,584	4,807
<i>PBT margin</i>	15.4%	17.7%	16.6%	18.2%	19.9%	19.1%
Tax	-338	-546	-884	-470	-430	-900
Adjusted earnings	1,621	1,701	3,322	1,755	2,154	3,907
<i>Margin</i>	12.8%	13.4%	13.1%	14.4%	16.5%	15.5%
Adjusted Cashflow	2,519	2,946	5,465	4,154	2,610	6,764
<i>Cash conversion</i>	118%	122%	120%	176%	97%	133%
Adjusted EPS (pence)	2.00p	2.10p	4.10p	2.16p	2.64p	4.80p
<i>EPS growth %</i>	9.4%	5.1%	7.1%	8.0%	25.9%	17.2%
Dividend (pence)	0.30p	0.00p	0.30p	0.00p	0.40p	0.40p
Net cash / (debt) - Ex IFRS16 leases	-198	1,101	1,101	4,435	6,154	6,154

Source: Equity Development

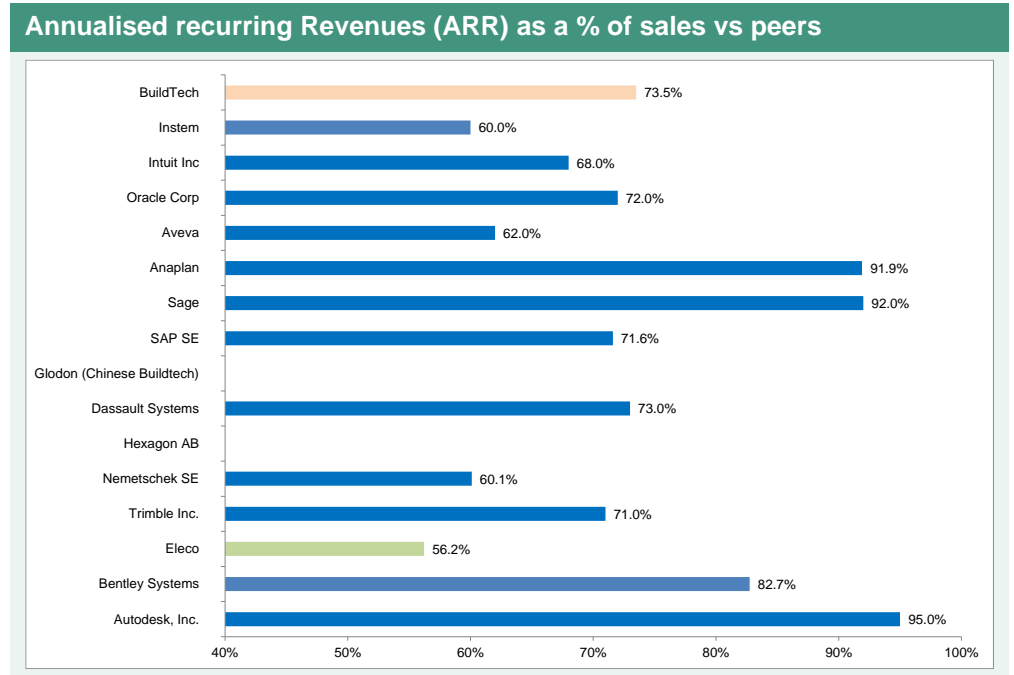
56% recurring revenues (or ARR) with more to come

But that's not all. Much of the **growth was generated from important cloud based solutions, subscriptions &/or pure SaaS (+5%)** due to new client wins & up/x-selling. Lifting 2020 **recurring revenues (or ARR) to 56% of the group** vs 53% LY (see below).

The company didn't scrimp either on product development (12.7% of sales vs 12.2% LY). Rather **a slew of system upgrades were released** (£1,602k capitalised R&D vs £1,068k amortised). Not least for PowerProject, Staircon, Shire & an AI based visualisation tool, which has already been purchased by flagship accounts such as flooring expert Karndean and paint manufacturer Benjamin Moore.

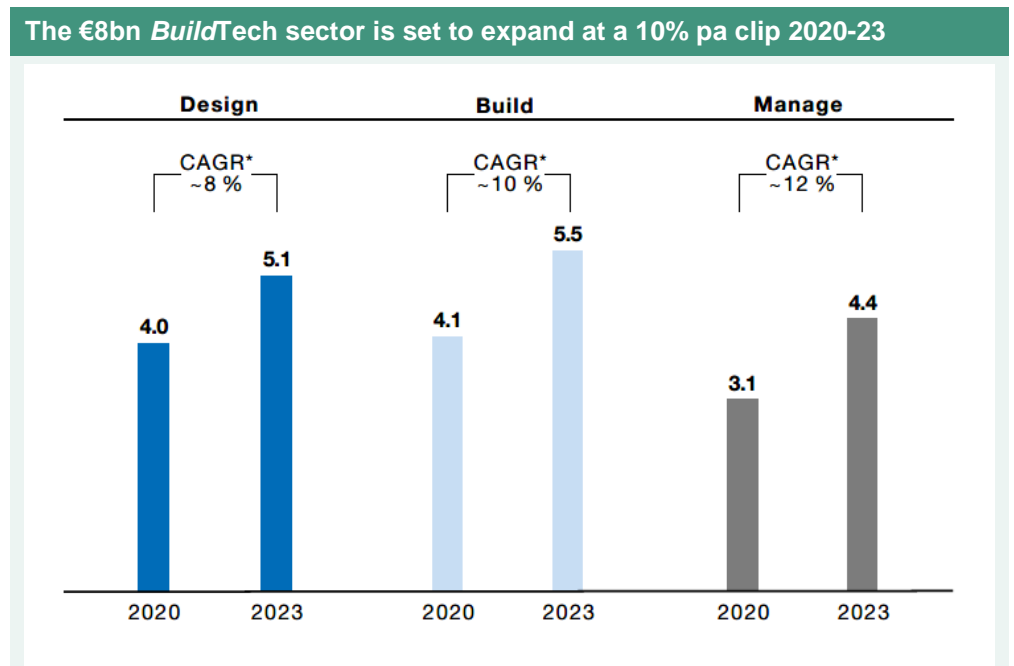
Huge infrastructure spend heading down the *BuildTech* track

In fact in the US, the Board has chosen to create a beachhead in Texas using its own sales resource, but instead leverage channel partners to serve the other 49 states. Here the American Civil Society of Engineers recently said the country needs to spend \$2.8tn over the next decade to update its roads & railways.



Source: Equity Development

Equally, we suspect similar infrastructure bills will soon be initiated in the UK and other Western European nations to kickstart jobs and the economy.

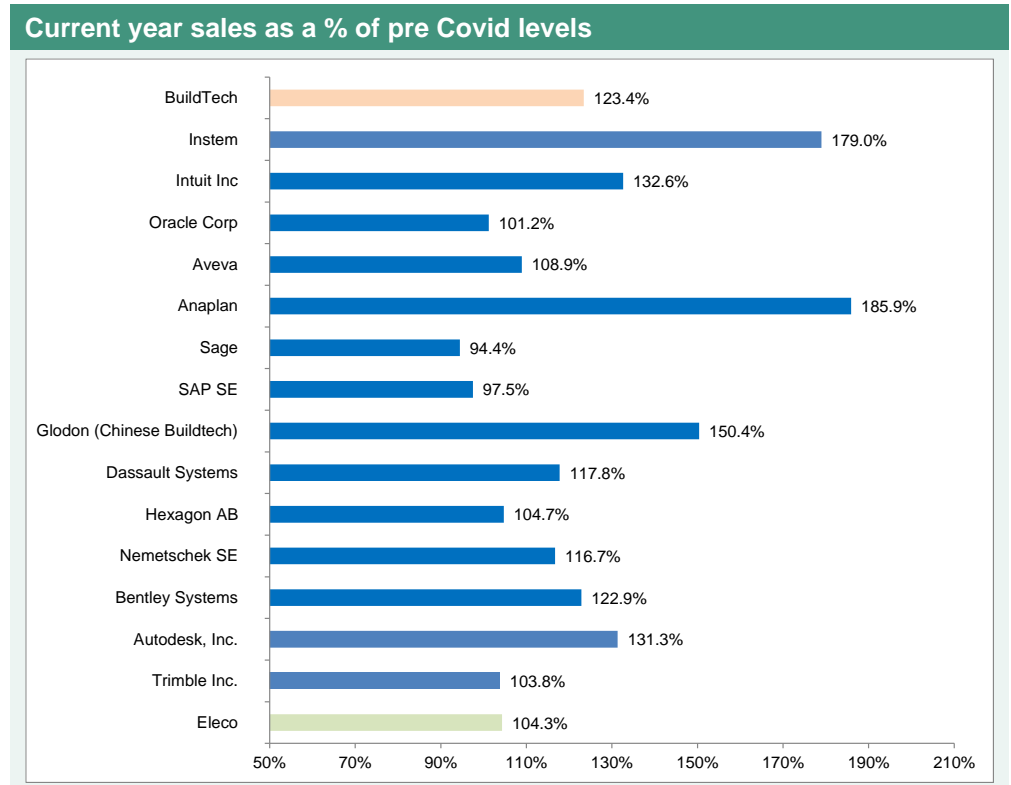


Source: Nemetschek

Scalable business delivering 90% gross margins

So putting all this together, we are forecasting 2021 turnover & adjusted EBIT of £26.5m (+5%) & £5.2m respectively (19.5% margin vs 20.1% 2020), assuming faster top line expansion on the back of greater investment. Ultimately increasing to £35.0m and £7.5m (21.6%) by 2024.

What's more – in light of the **favourable operating leverage** - a large portion of any incremental sales should fall straight to the bottom line. Generating economies of scale, more funds available for R&D/S&M and quicker LFL growth. For ESG investors too, Eleco's solutions offers clear environmental advantages to the wider community, compared to many other public listed organisations.



Source: Equity Development

Management and divisional changes

In terms of the Board, Finance Director Ben Moralee has stepped down with immediate effect, and will be replaced by [Robert Tearle](#), who brings with him a wealth of financial, SaaS & Fintech expertise.

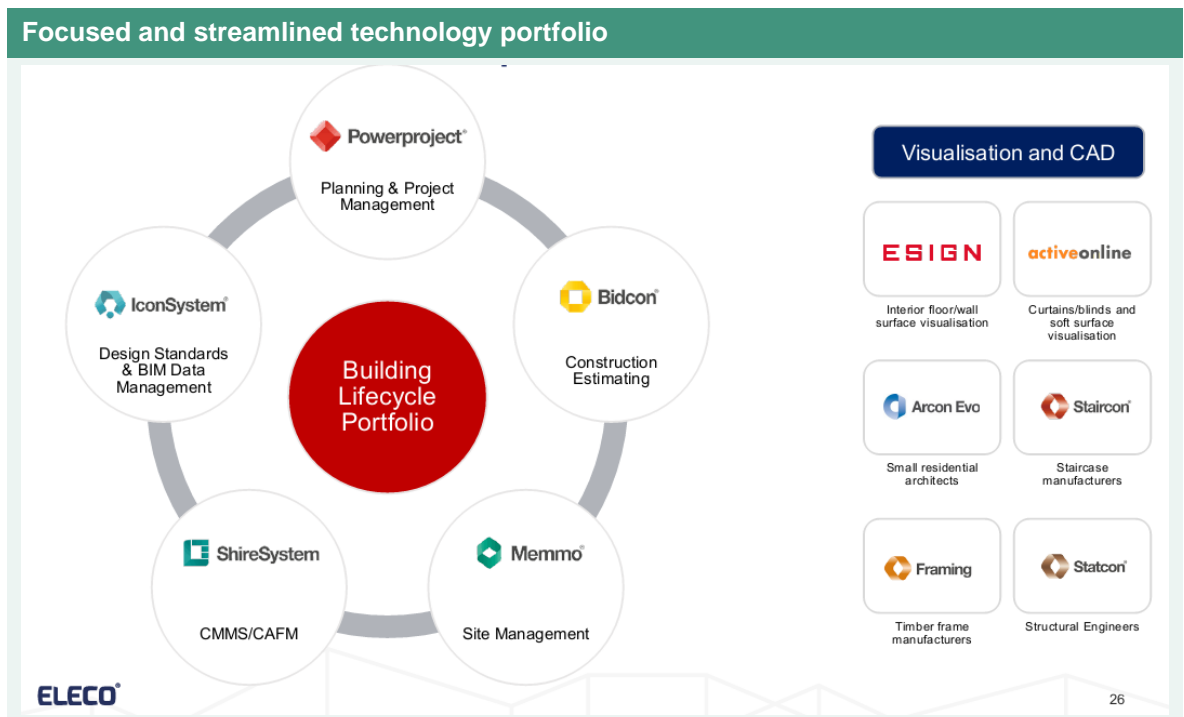
Similarly [Paul Boughton](#) (Chair of Quartix Technologies) has been appointed as the independent non-Exec, and possesses considerable M&A, overseas and technology experience. Crucial as the group transitions from a perpetual to a SaaS/recurring revenue model.

Lastly in terms of structure and P&L responsibility, the Board has decided to split the organisation into 2 divisions mirroring their different target markets. Firstly 'Building Lifecycle' (c. 75% turnover), comprising PowerProject, Estimating, Site Mgt, Maintenance and Property/Asset (ie Shire) solutions. And secondly 'CAD and Visualisation' (25% - Design, ActiveOnline & ESign with a £450m TAM) – with each being run as separate standalone entities (see below).

Exec Chairman Serena Lang concluding: "***The start to trading this year has been strong, with turnover for the 2 months to February up 4% vs the same pre-Covid19 period in 2020. [Here our] markets are experiencing an accelerated adoption of technology due to the pandemic, rising material costs and increased regulation.***

We are confident that our business will begin to bear the fruit of its new refined vision and strategy over the next 12 months and beyond.

We look forward to updating the market in respect to our execution milestones, including progress with R&D, international expansion and extending our management team."



Source: Company

Key risks

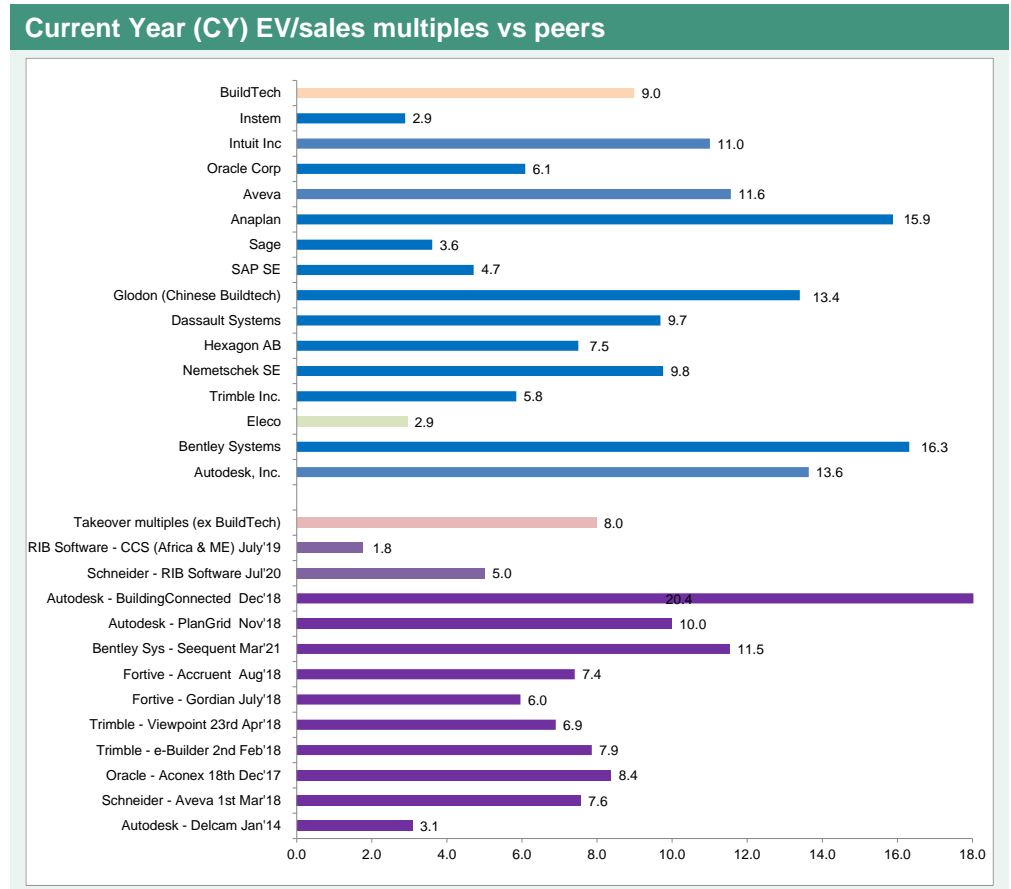
- Coronavirus induced problems at some of its largest customers, which either lead to late payments and/or doubtful debts.
- Substantial slowdown in global GDP which could impact the worldwide property, construction and infrastructure markets.
- Anticipated growth/profitability may take longer than envisaged, 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)

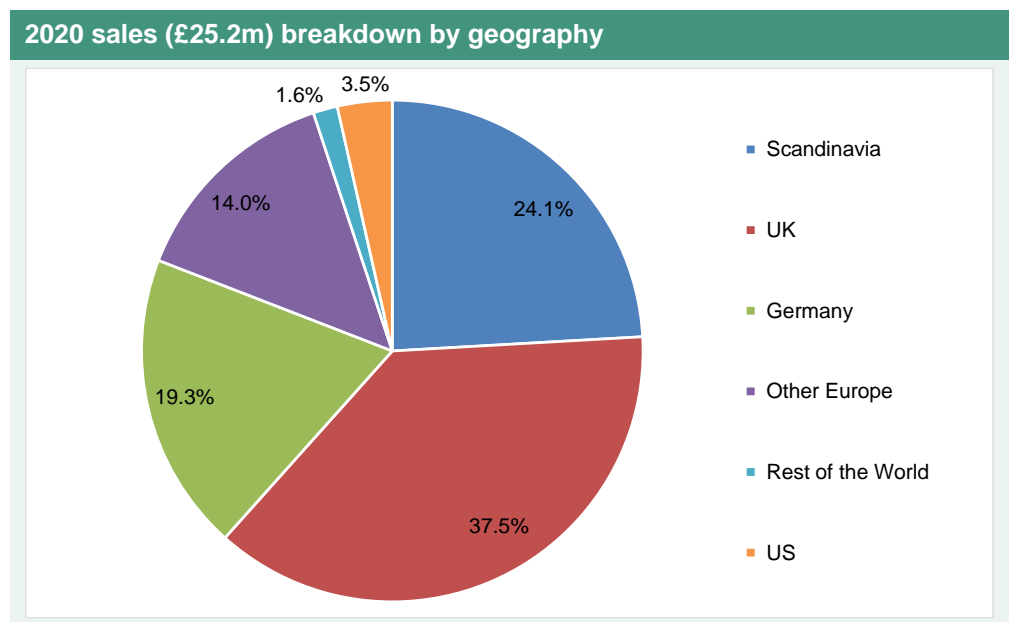
Eleco plc (Dec yearend)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
			Restated						
Software licenses	4,955	5,135	5,540	5,877	5,442	5,551	5,662	5,775	5,891
ARR (recurring SaaS & support)	8,622	11,018	12,326	13,557	14,186	14,895	17,130	19,699	22,654
Services (eg training)	4,218	3,843	4,354	5,964	5,604	6,052	6,173	6,297	6,423
Turnover	17,795	19,996	22,220	25,398	25,232	26,498	28,965	31,771	34,967
% growth	16.6%	12.4%	11.1%	14.3%	-0.7%	5.0%	9.3%	9.7%	10.1%
Gross Profit	15,560	17,575	19,536	22,751	22,703	23,843	26,062	28,587	31,462
% margin	87.4%	87.9%	87.9%	89.6%	90.0%	90.0%	90.0%	90.0%	90.0%
Adj. EBITDA (post SBPs)	2,753	3,643	5,257	6,302	7,003	7,452	8,403	9,422	10,670
% Margin	15.5%	18.2%	23.7%	24.8%	27.8%	28.1%	29.0%	29.7%	30.5%
Adj. EBIT (post SBPs)	2,207	2,773	3,951	4,545	5,069	5,164	5,674	6,542	7,549
% Margin	12.4%	13.9%	17.8%	17.9%	20.1%	19.5%	19.6%	20.6%	21.6%
Adj. Profit before Tax	2,117	2,666	3,670	4,206	4,807	4,952	5,512	6,430	7,487
Adjusted EPS (p)	2.39p	2.87p	3.82p	4.10p	4.80p	4.80p	5.29p	5.98p	6.93p
EPS growth rate	58.2%	20.2%	33.3%	7.1%	17.2%	0.1%	10.1%	13.2%	15.9%
Dividend (p)	0.40p	0.60p	0.68p	0.30p	0.40p	0.70p	0.77p	0.87p	1.01p
Yield	0.4%	0.6%	0.7%	0.3%	0.4%	0.7%	0.8%	0.9%	1.0%
ARR (% recurring revenues)	48.5%	55.1%	55.5%	53.4%	56.2%	56.2%	59.1%	62.0%	64.8%
Adjusted cash conversion	69.8%	102.2%	114.4%	120.2%	133.4%	84.8%	98.1%	103.2%	103.1%
Average headcount	190	201	228	251	246	253	265	276	287
Revenues (£ks) / employee	93.7	99.5	97.5	101.2	102.6	104.6	109.4	115.3	121.7
Valuation benchmarks									
P/E ratio	42.7	35.6	26.7	24.9	21.3	21.2	19.3	17.0	14.7
EV/Sales	4.4	3.9	3.5	3.1	3.1	2.9	2.7	2.5	2.2
EV/EBITDA	28.4	21.4	14.8	12.4	11.1	10.5	9.3	8.3	7.3
EV/EBITA	35.4	28.2	19.8	17.2	15.4	15.1	13.8	11.9	10.3
Adjusted tax rate	-16.1%	-17.9%	-19.4%	-19.0%	-18.7%	-19.5%	-20.0%	-22.0%	-22.0%
EBITDA drop through rates	37.8%	40.4%	72.6%	32.9%		35.5%	38.6%	36.3%	39.1%
ROCE	15.5%	21.3%	15.5%	16.4%	16.2%	14.8%	14.6%	15.1%	15.6%
Dividend cover	6.0	4.8	5.6	13.7		6.9	6.9	6.9	6.9
PEG ratio	0.74	1.76	0.80	3.48	1.24	211.60	1.92	1.30	0.93
Net cash/(debt) - excluding IFRS16 leases	-1,304	1,031	-1,814	1,101	6,154	8,655	12,312	16,808	22,031
Sharecount (Ks)	74,433	76,309	77,400	81,100	81,400	82,977	83,392	83,809	84,228
Shareprice (p)	102p								

Source: Equity Development

Appendices

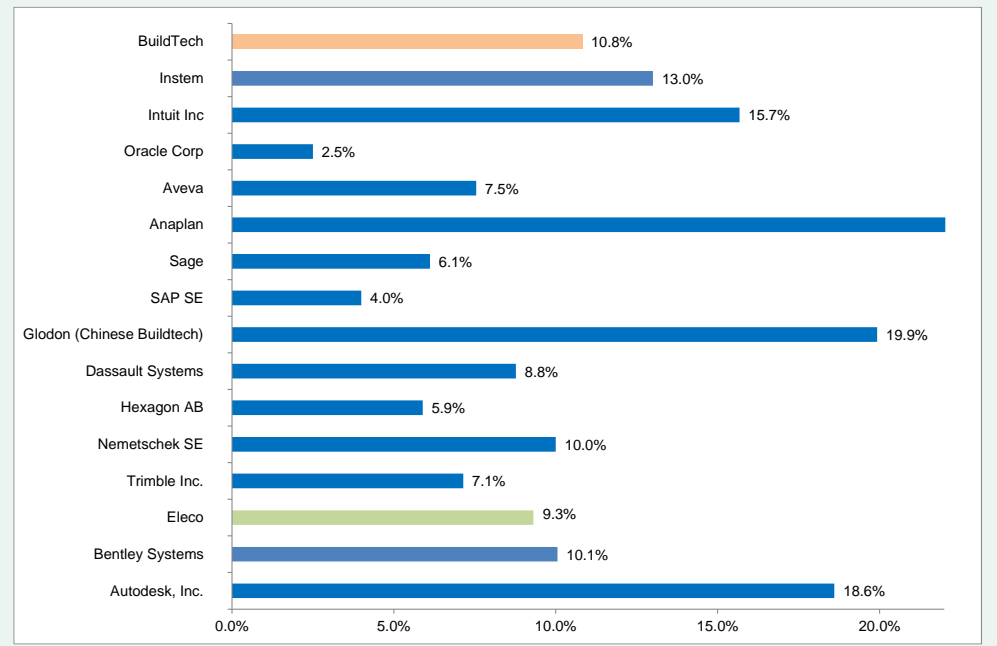


Source: Equity Development



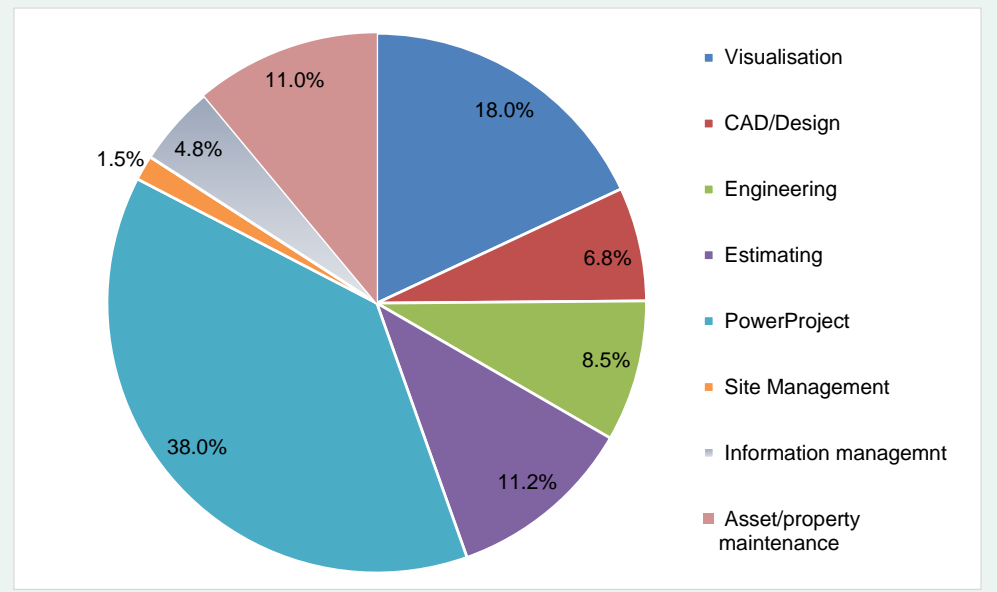
Source: Equity Development

Current Year +1 % sales growth vs peers



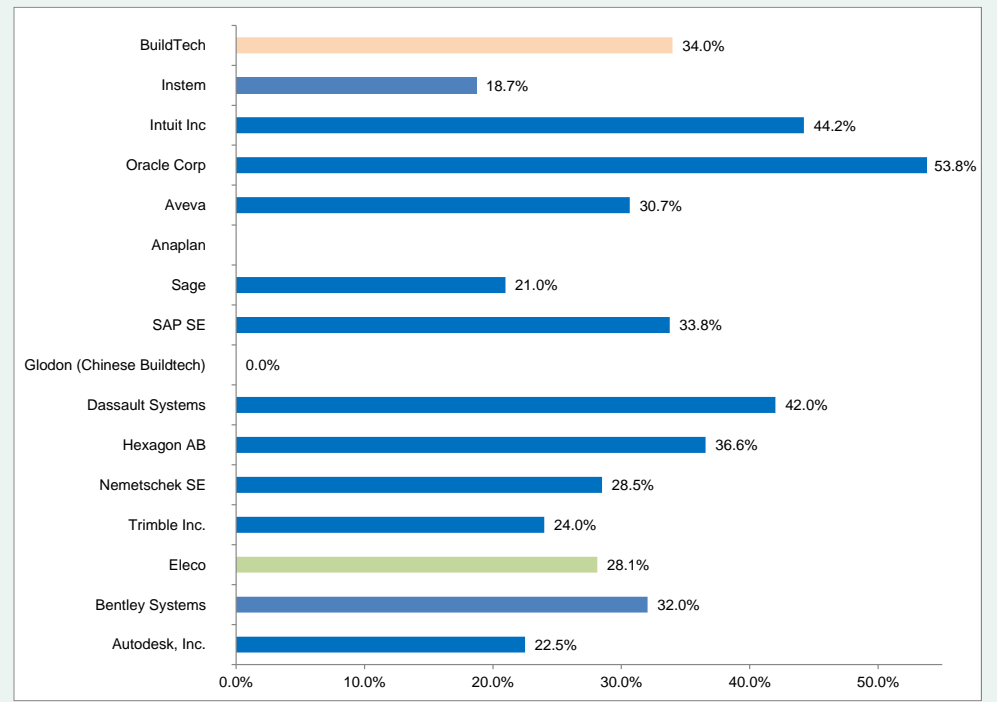
Source: Equity Development

2020 sales (£25.2m) breakdown by product



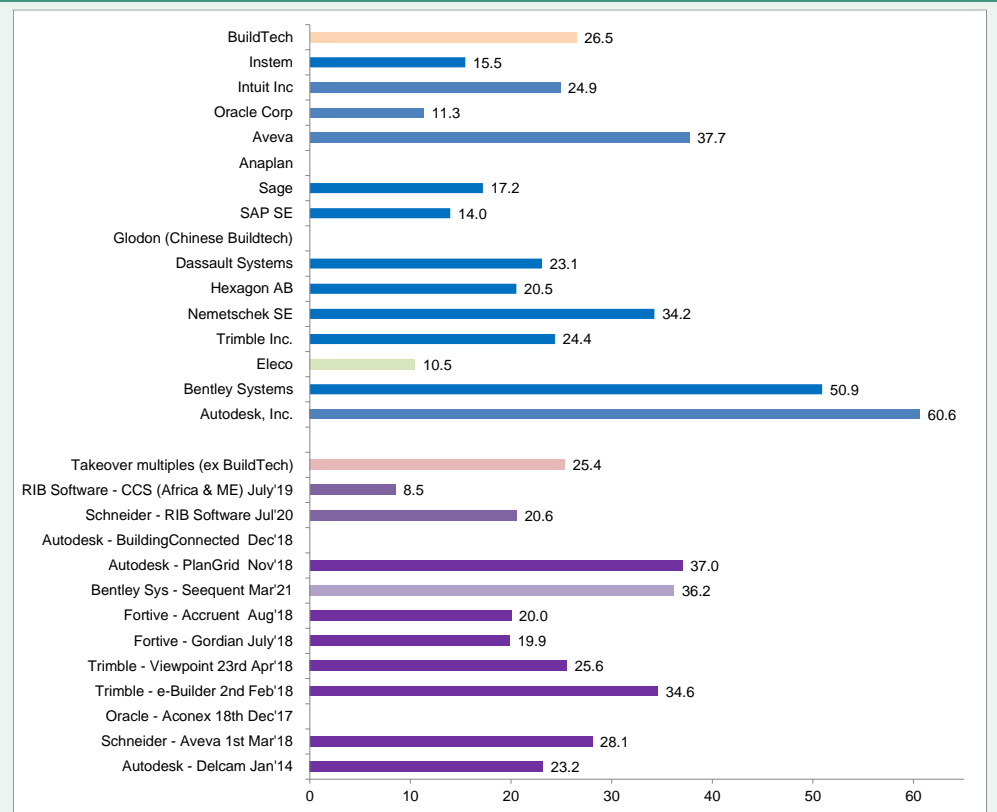
Source: Equity Development

CY EBITDA margins



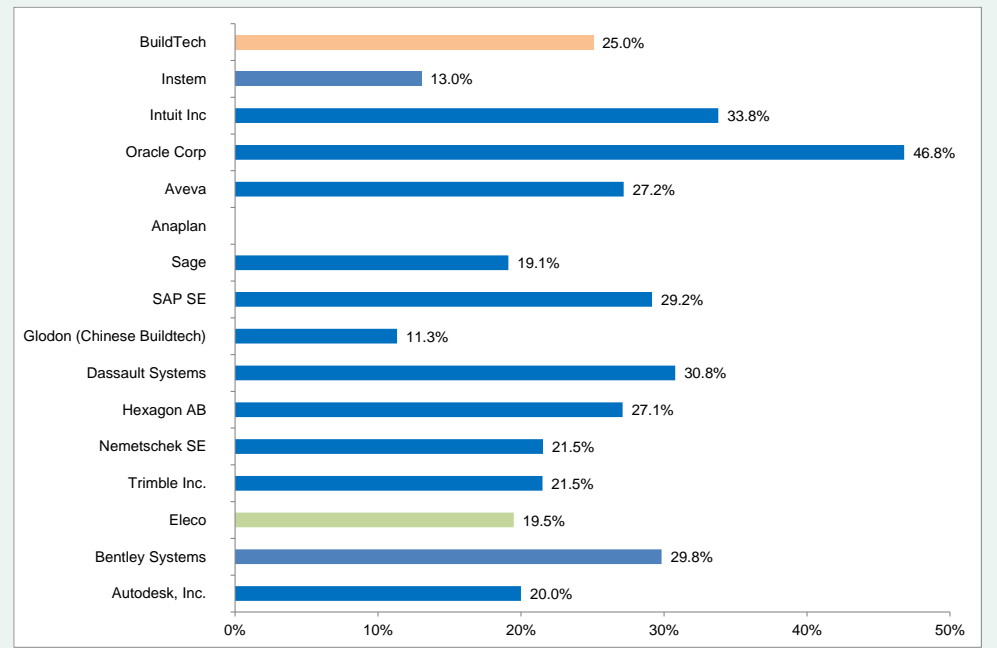
Source: Equity Development

CY EV/EBITDA multiples vs peers



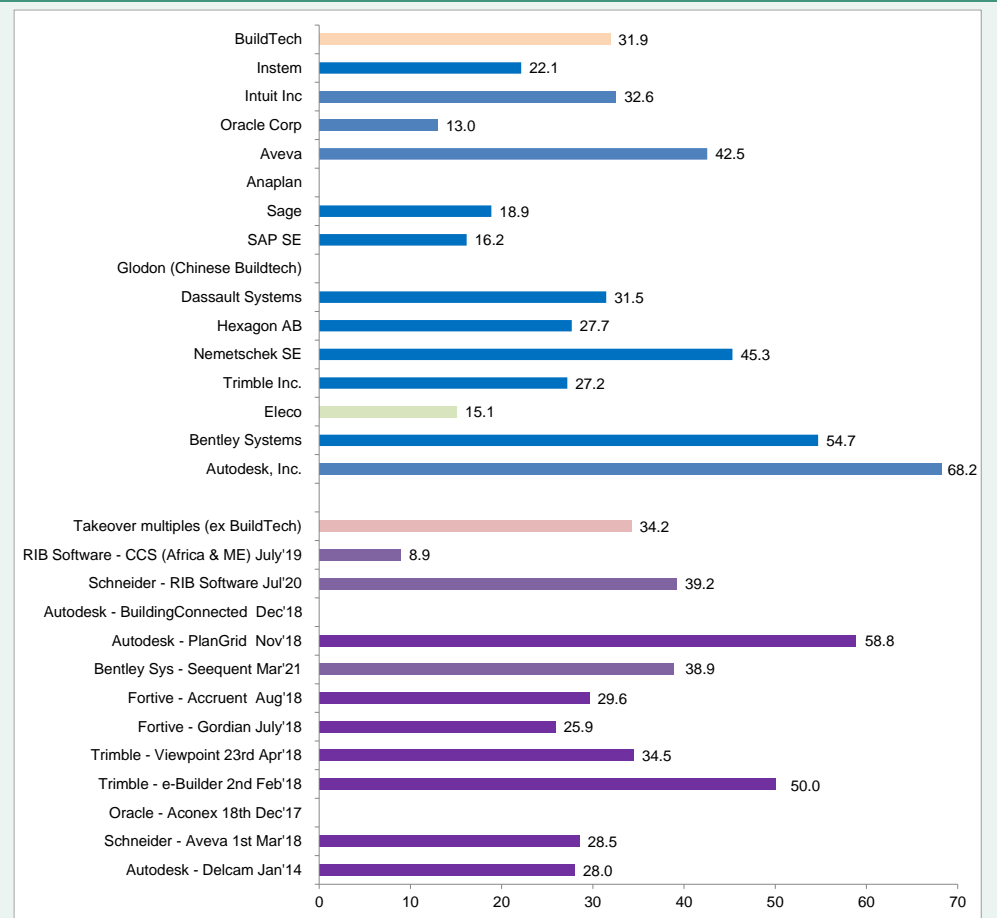
Source: Equity Development

CY EBIT margins



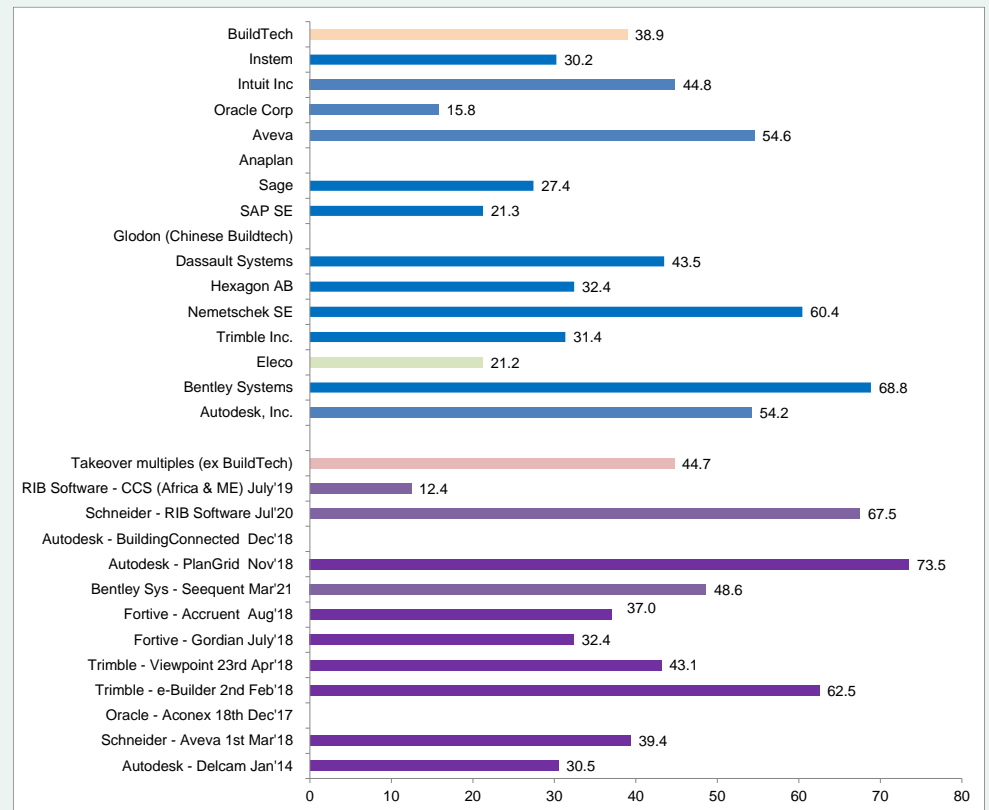
Source: Equity Development

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	102p	£84.2	£6.2	£78.1
Trimble Inc.	\$74.0	\$18,500	-\$1,310	\$19,810
Autodesk, Inc.	\$269.0	\$58,911	\$255	\$58,656
Bentley Systems	\$44.5	\$14,596	-\$171	\$14,767
Nemetschek SE	€ 55.0	€ 6,353	€ 9	€ 6,344
Hexagon AB	€ 77.2	€ 28,328	-€ 2,376	€ 30,704
Dassault Systems	€ 180.0	€ 44,640	-€ 1,216	€ 45,856
Glodon (Chinese Buildtech)	\$9.69	\$11,594	\$614	\$10,979
SAP SE	€ 102.0	€ 119,340	-€ 7,300	€ 126,640
Sage	605p	£6,782	£185	£6,597
Aveva	£34.05	£9,789	£133	£9,656
Oracle Corp	\$70.0	\$206,500	-\$37,000	\$243,500
Intuit Inc	\$375.0	\$101,250	\$2,240	\$99,010
Instem	635p	£137.8	£4.9	£132.9

Source: Equity Development

Eleco's comprehensive suite of BuildTech software solutions

Our software solutions are designed to service the full lifecycle of the built environment from concept, design and planning; to construction, facilities and estate management; and refurbishment, maintenance and asset management

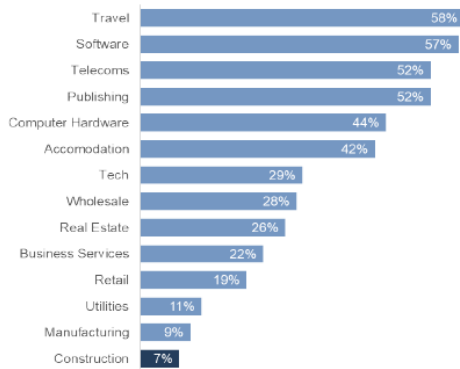


	Design/ Planning	On-site construction	Fit-out	Completion	Renovate/ Renew
CAD/ Design	Architects		Interior Designers		
Estimating	Estimators		2 nd Fix Contractors	Maintenance/Facilities Managers Contractors	
Project Management	Planners	Project Managers			
Visualisation	Designers	Designers	Floor/ Surface Manufacturers		
Engineering	Structural Engineers		Staircase Manufacturers		
Site Management		Site Managers			
Information Management	Architects	Project Managers	Sub-Contractors	Property Managers	
Maintenance Management		Site Managers, Property Managers and Maintenance Managers			

Source: Company

Buildtech market statistics

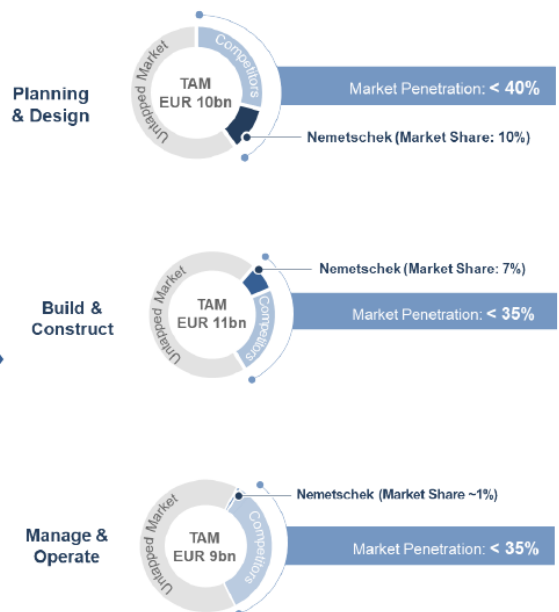
Digital Index – by Industry Cluster



Most Influencing BIM Countries



Current addressable market is expected to grow by ~10% p.a.



Source: Nemetschek



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