

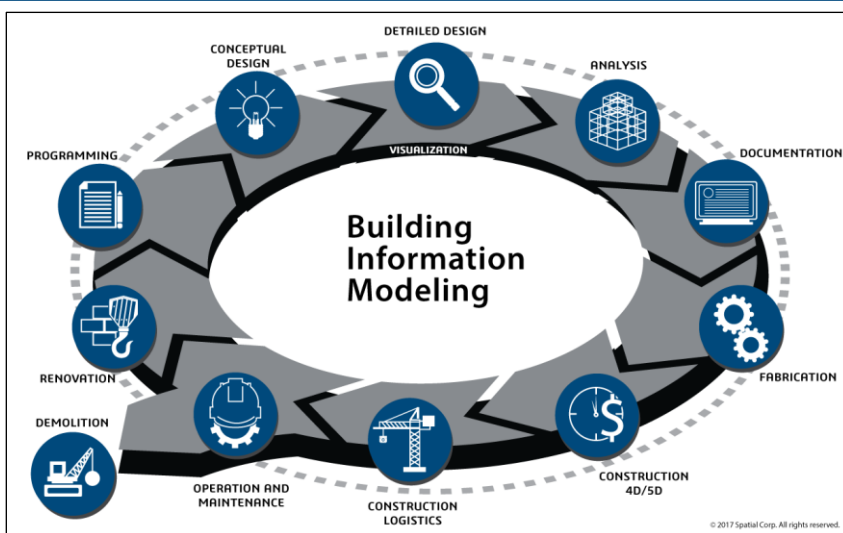
One of most compelling stocks on AIM

24th September 2020

Covid has accelerated the digitisation of all things physical. No more so than in the €10 trillion global construction industry, which some experts reckon has 5 years of catching up to do. A non-insignificant task (eg Crossrail & HS2) that could take decades to play out, but equally realise 100s of £bns of cost, time & productivity savings annually.

The €8bn *BuildTech* sector (10%+ CAGR – see below) is at the heart of this transformation. Providing the glue & ‘digital twins’ that bind all the inter-connected ‘property lifecycle’ parts together – eg CAD/CAM (design), project mgt, visualisation, AI, asset maintenance (operate) and BIM (Building Info Modelling).

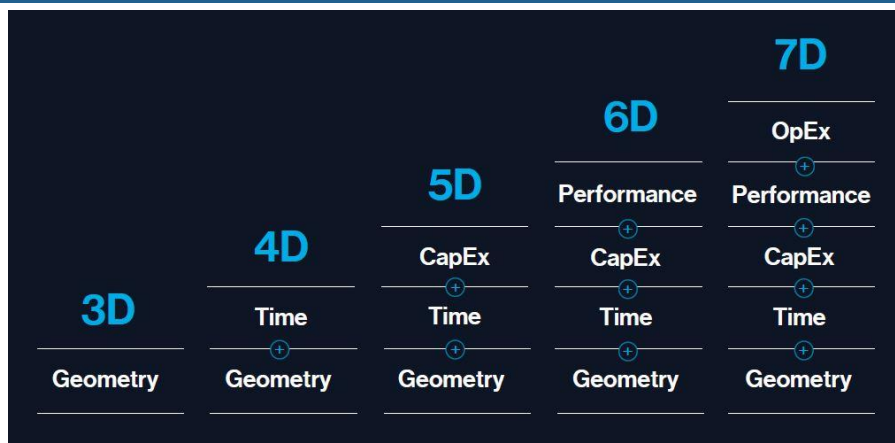
End-to-end BIM ‘design, construct and operate’ software



Source: Internet

This is where *BuildTech* expert Eleco fits in. Today reporting **resilient H1’20 sales of £12.2m** (-3.9%, -3% CC), alongside **improved operating margins** (19.4% vs 16.8% LY), adjusted EBIT (+10.6% £2.37m) & EPS (+8% 2.2p) thanks to tight cost control.

Multi-dimensions to Building Information Modelling



Source: Internet

Company Data

EPIC	AIM: ELCO
Price	79p
52 week High/Low	92p/47p
Market cap	£65m
Net cash June 2020	£4.4m
ED valuation / share	Withdrawn
Share count	82.3m
Avg. daily volume	55,000

Share Price, p



Source: Share Cast

Description

Eleco 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 & Building Information Modelling (BIM). BIM acts as the glue connecting all the various parts.

Visibility is robust, with **57% of H1’20 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. 248 staff.

Next news: Jan’21 trading update

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*a shareholder in Eleco

Outstanding H1 cash generation

This was achieved amidst extremely challenging conditions and underpinned by **56.9% recurring revenues** (maintenance, support & SaaS) vs 53.2% LY. Helping to offset an **estimated 5-10% drag (ED) on LFL growth due to the pandemic** that cancelled many face-to-face client training courses, and pushed a handful of perpetual license / service contracts to the right.

Elsewhere **net cash closed June at a healthy £4.4m** (£1.1m Dec'19), worth 5.3p/share, reflecting working capital discipline (re debtor days at pre CV19 levels) and deferred VAT payments (£396k).

Impressively the company didn't scrimp on product development either. Rather **total R&D investment** (incl £760k capitalised vs £491k amortised) **climbed +6.5% to £1.62m** (vs £1.52m LY), representing 13.3% of turnover. A new AI based visualisation tool was released which has already been purchased by flagship accounts, such as flooring expert Karndean and US paint manufacturer Benjamin Moore.

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

Looking ahead, customers are gradually returning to on-site work, with **trading** [we suspect] **in July-August continuing to recover** in line with newsflow from the broader house-building & infrastructure verticals. However **no interim dividend is being declared** because of the ongoing uncertainty.

Summary financials

Summary Financials (£'000s)	H1'19	H2'19	2019	Act H1'20
Software licenses	3,018	2,859	5,877	2,721
Recurring SaaS & support	6,763	6,794	13,557	6,953
Services	2,930	3,034	5,964	2,541
Sales	12,711	12,687	25,398	12,215
<i>Reported % growth rate</i>	20.4%	8.8%	14.3%	-3.9%
<i>Acquisition growth %</i>	19.5%	6.5%	13.1%	0.0%
<i>Estimated forex</i>	-2.0%	-2.0%	-2.0%	-0.9%
<i>Estimated % LFL (constant currency)</i>	2.1%	4.2%	3.2%	-3.0%
<i>% recurring revenues</i>	53.2%	53.6%	53.4%	56.9%
Gross Profit	11,392	11,359	22,751	10,917
<i>% margin</i>	89.6%	89.5%	89.6%	89.4%
Operating expenses (excl D&A)	-8,446	-8,003	-16,449	-7,634
Adjusted EBITDA (post SBPs)	2,946	3,356	6,302	3,283
<i>% margin</i>	23.2%	26.5%	24.8%	26.9%
Depreciation	-450	-452	-902	-426
Amortisation of intangibles	-358	-497	-855	-491
Adjusted EBIT (post SBPs)	2,138	2,407	4,545	2,366
<i>% margin</i>	16.8%	19.0%	17.9%	19.4%
Net interest	-179	-160	-339	-141
Adjusted PBT	1,959	2,247	4,206	2,225
<i>PBT margin</i>	15.4%	17.7%	16.6%	18.2%
Tax	-338	-546	-884	-470
Adjusted earnings	1,621	1,701	3,322	1,755
<i>Margin</i>	12.8%	13.4%	13.1%	14.4%
Adjusted Cashflow	2,519	2,946	5,465	4,154
<i>Cash conversion</i>	118%	122%	120%	176%
Adjusted EPS (pence)	2.00p	2.10p	4.10p	2.16p
<i>EPS growth %</i>	9.4%	5.1%	7.1%	8.0%
Dividend (pence)	0.30p	0.00p	0.30p	0.00p
Net cash / (debt) - Ex IFRS16	-198	1,101	1,101	4,435

Source: Equity Development

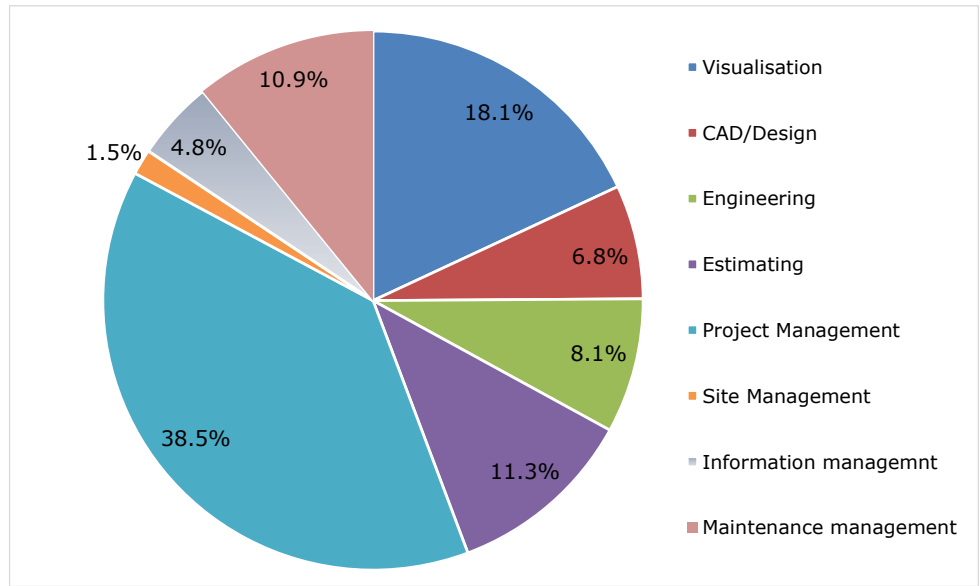
Similarly, **we are not yet in a position to reinstate forecasts**, but would guess **H2'20 might be a 'rough' mirror image of the first**. Albeit with a slightly higher cost base & working capital giveback, as furlough schemes (£133k credit in H1) unwind (all employees now back) and more money is spent on sales & marketing.

In the medium term though, we think **sector growth rates of 10% CAGR are achievable**, aided by new product launches, up/x-selling, internationalisation, expanding channel partnerships (5% H1'20 sales) and robust demand for *BuildTech* solutions worldwide. Plus on the expense side, some of the recent productivity gains should endure long after the coronavirus.

So, why are we excited about the future?

Well peer across the Covid valley, and to us **Eleco possesses all the hallmarks of a high margin, cash generative software business**, which serves a host of **blue-chip clients** across a range of overseas territories with **best-in-class technology**. Especially important today as governments try to reboot their economies by upgrading essential infrastructure & housing.

H1'20 sales (£12.2m) breakdown by product

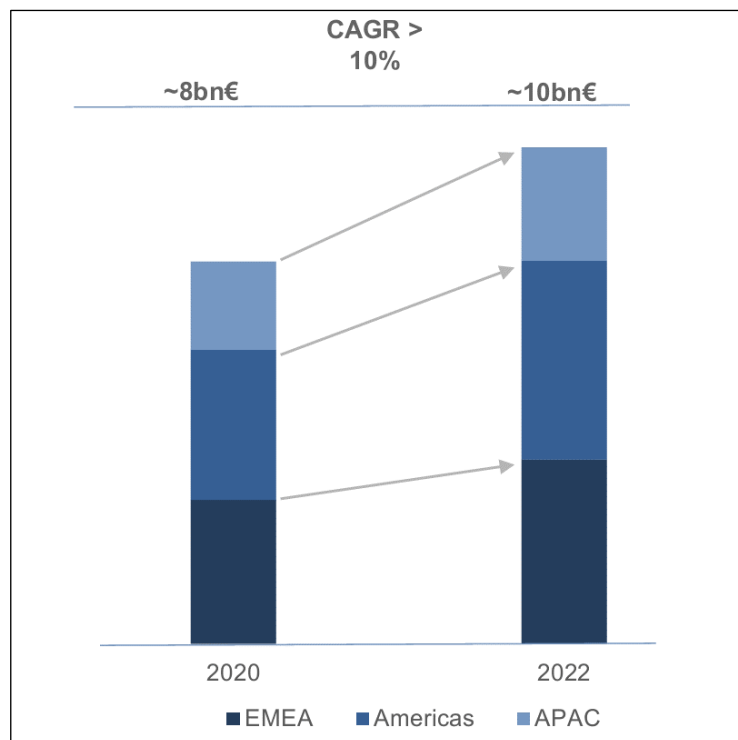


Source: Equity Development

Adding organic growth drives significant upside

That said, Eleco is not the finished article. The **last piece in the jigsaw is delivering sustainable organic growth**. The group successfully achieved this up to 2018, but was impacted by Brexit uncertainty in 2019 and Covid this year.

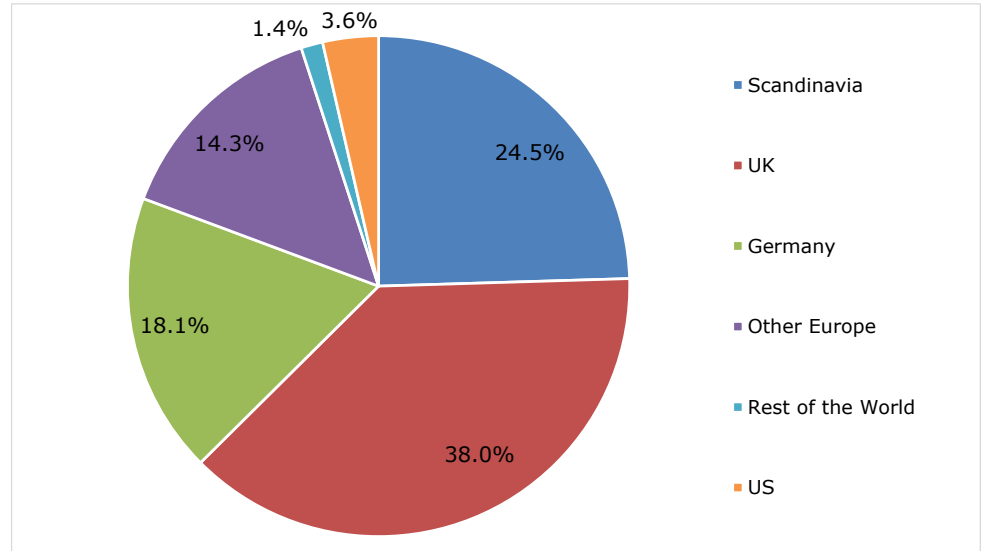
Global BuildTech software market



Source: Nemetschek

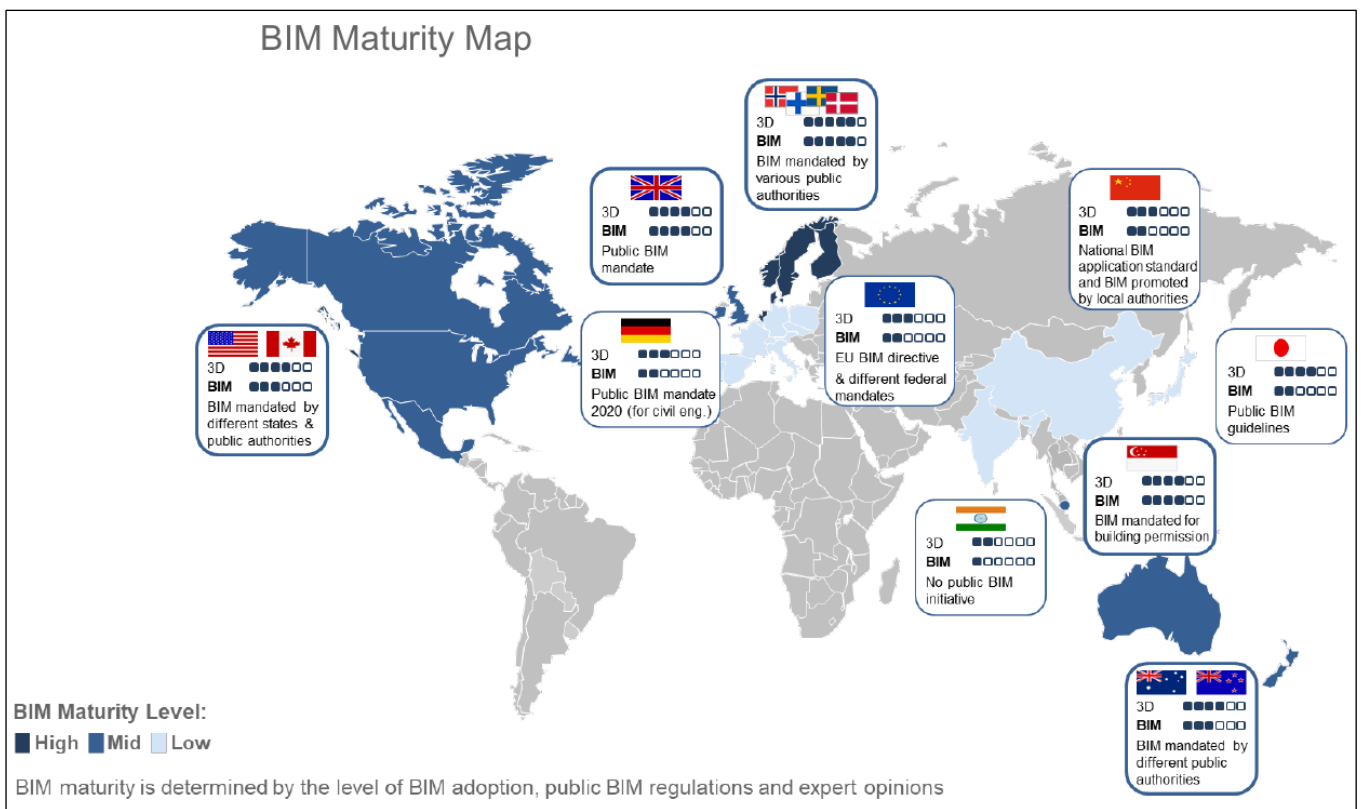
Going forward though, the runway is no less diminished with the €8bn *BuildTech* sector expanding at 10%+ pa, with industry penetration rates still relatively low, particularly in emerging markets (grey).

H1'20 sales (£12.2m) breakdown by geography



Source: Equity Development

Buildtech penetration rates remain low, especially within EM & of 6D BIM technology



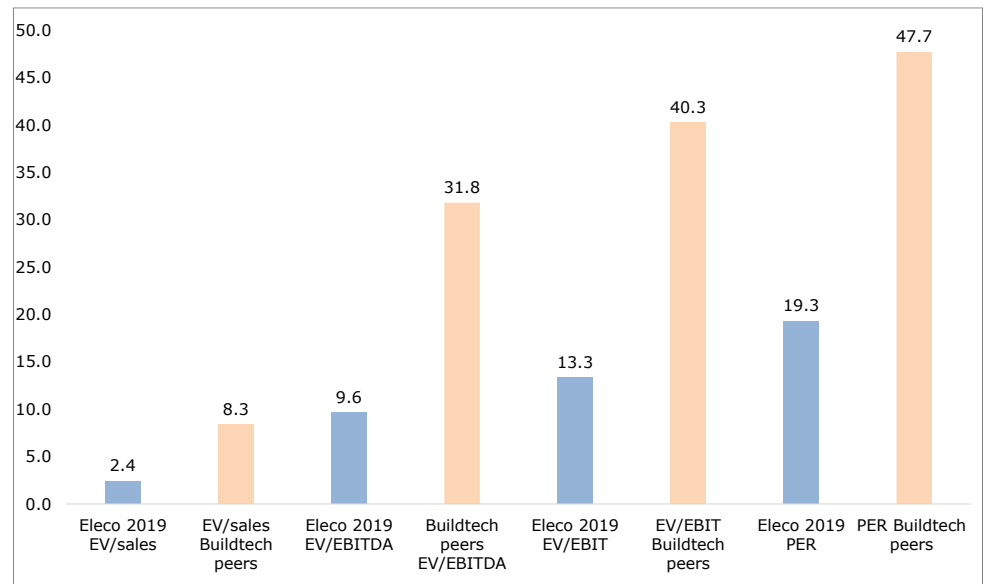
Source: Nemetschek

Scalable business delivering 89% gross margins

The beauty being that - given the **favourable operating leverage** - a large portion of any incremental turnover should fall straight to the bottom line. Quickly feeding through into greater economies of scale, more funds available for R&D/S&M and faster LFL growth.

In fact, if momentum can be re-accelerated, then there is no reason why ELCO can't eventually command a 5x EV/revs multiple vs 2.4x (at 79p - see below), equivalent to around 155p/share.

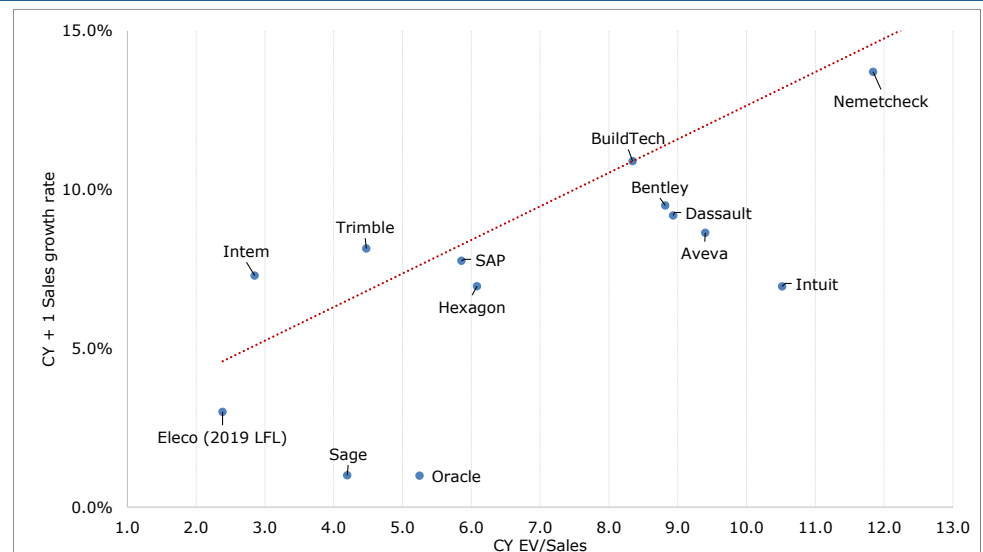
Valuation benchmarks vs BuildTech peers (see appendices)



Source: Equity Development

For ESG investors too, Eleco's solutions offers clear environmental advantages to the wider community, compared to many other public listed organisations.

Current year (CY) EV/sales multiples vs CY+1 growth rates



Source: Equity Development. Eleco 2019 LFL growth rates

Decision to pass on the leadership baton

Finally in terms of the Board, **Exec Chairman Mr Ketteley** (aged 81) **after 23 years at the helm, has graciously chosen it is the right time to stand down**, with Deputy Chair Serena Lang taking on the non-exec Chair role, and COO Jonathan Hunter stepping up as Interim CEO.

Jonathan Hunter, Eleco Interim CEO & COO



Source: Company

Serena Lang concluding: *"The challenges for H1'20 were significant and I am pleased to report that **Eleco performed creditably during these times.**"*

*The Board believes that **there is a greater need now than ever before for our customer base to adopt technology that brings innovation and efficiency.***

*Our **excellent suite of products, loyal customer base and the strength of our Executive team and employees gives me the confidence that we will be able to continue to ride the wave of the storm and focus on the major opportunities ahead."***

Smooth & normal succession planning

Mr Ketteley adding: *"When I was invited to join Eleco in 1997 to help rescue the Company, the share price was just 7p and the business almost bankrupt. I am proud to leave Eleco in a very different position as a **genuine market-leader in the provision of software and related support services to the construction industry.** I am humbled by the confidence shareholders have shown in me throughout my tenure and I thank them for it.*

***Having worked with Serena and Jonathan for many years, I have full confidence they will skilfully navigate Eleco towards an ever-brighter future** as Chairman and CEO respectively. I wish them every success and good fortune in their new roles."*

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 63% 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.

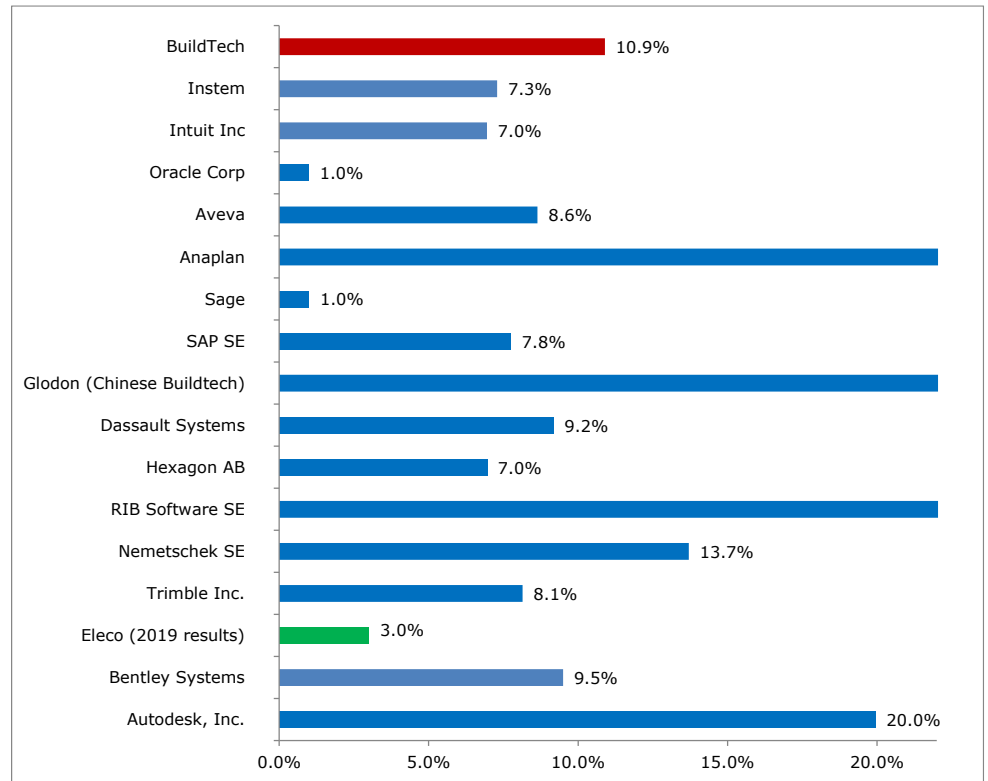
Summary financials

Eleco plc (Dec yearend)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s
			Restated	
Software licenses	4,955	5,135	5,540	5,877
Recurring SaaS & support	8,622	11,018	12,326	13,557
Services	4,218	3,843	4,354	5,964
Turnover	17,795	19,996	22,220	25,398
<i>% growth</i>	16.6%	12.4%	11.1%	14.3%
Gross Profit	15,560	17,575	19,536	22,751
<i>% margin</i>	87.4%	87.9%	87.9%	89.6%
Adj. EBITDA (post SBPs)	2,753	3,643	5,257	6,302
<i>% Margin</i>	15.5%	18.2%	23.7%	24.8%
Adj. EBIT (post SBPs)	2,207	2,773	3,951	4,545
<i>% Margin</i>	12.4%	13.9%	17.8%	17.9%
Adj. Profit before Tax	2,117	2,666	3,670	4,206
Adjusted EPS (p)	2.39p	2.87p	3.82p	4.10p
<i>EPS growth rate</i>	58.2%	20.2%	33.3%	7.1%
Dividend (p)	0.40p	0.60p	0.68p	0.30p
<i>Yield</i>	0.5%	0.8%	0.9%	0.4%
<i>% recurring revenues</i>	48.5%	55.1%	55.5%	53.4%
<i>Adjusted cash conversion</i>	69.8%	102.2%	114.4%	120.2%
Average headcount	190	201	228	251
Revenues (£ks) / employee	93.7	99.5	97.5	101.2
<u>Valuation benchmarks</u>				
<i>P/E ratio</i>	33.1	27.6	20.7	19.3
<i>EV/Sales</i>	3.3	3.0	2.7	2.3
<i>EV/EBITDA</i>	21.5	16.3	11.3	9.4
<i>EV/EBITA</i>	26.8	21.4	15.0	13.0
<i>Adjusted tax rate</i>	-16.1%	-17.9%	-19.4%	-19.0%
<i>EBITDA drop through rates</i>	37.8%	40.4%	72.6%	32.9%
<i>ROCE</i>	15.5%	21.3%	15.5%	16.4%
<i>Dividend cover</i>	6.0	4.8	5.6	13.7
<i>PEG ratio</i>	0.57	1.37	0.62	2.70
Net cash/(debt) - ex IFRS16	-1,304	1,031	-1,814	1,101
Sharecount (Ks)	74,433	76,309	77,400	81,100
Shareprice (p)	79p			

Source: Equity Development, Company data

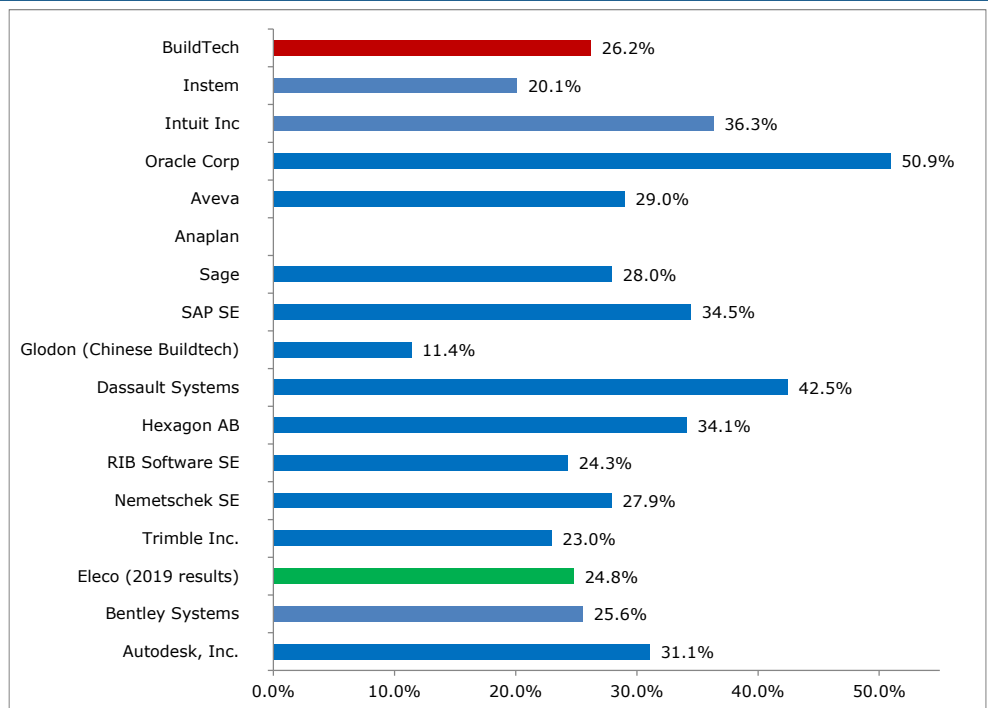
Appendices - BuildTech industry KPIs & multiples

Current Year (CY) +1 sales growth rate vs BuildTech peers



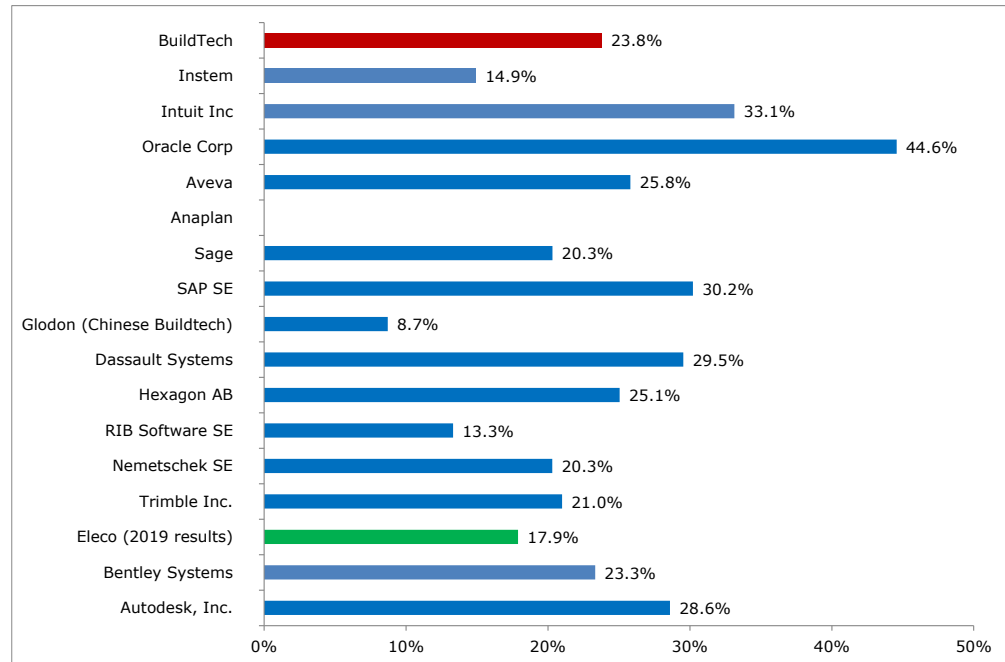
Source: Equity Development: CY = 2020, arithmetic average for sector.

CY EBITDA margins vs BuildTech peers



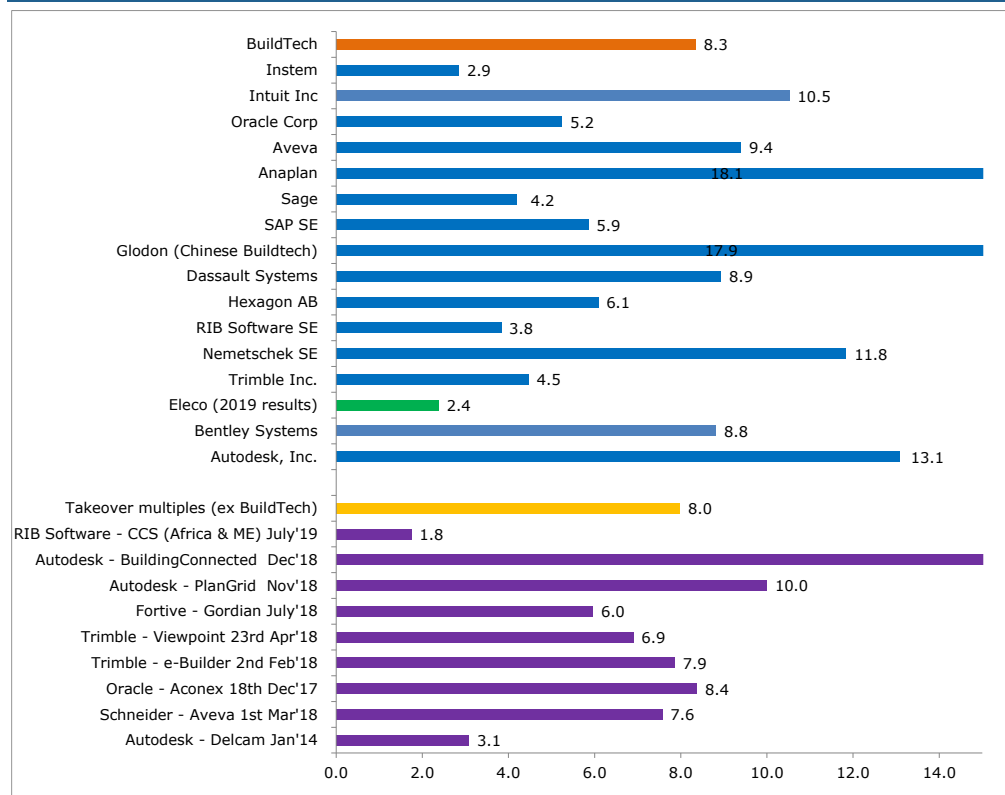
Source: Equity Development, arithmetic average for sector.

CY EBIT margins vs BuildTech peers



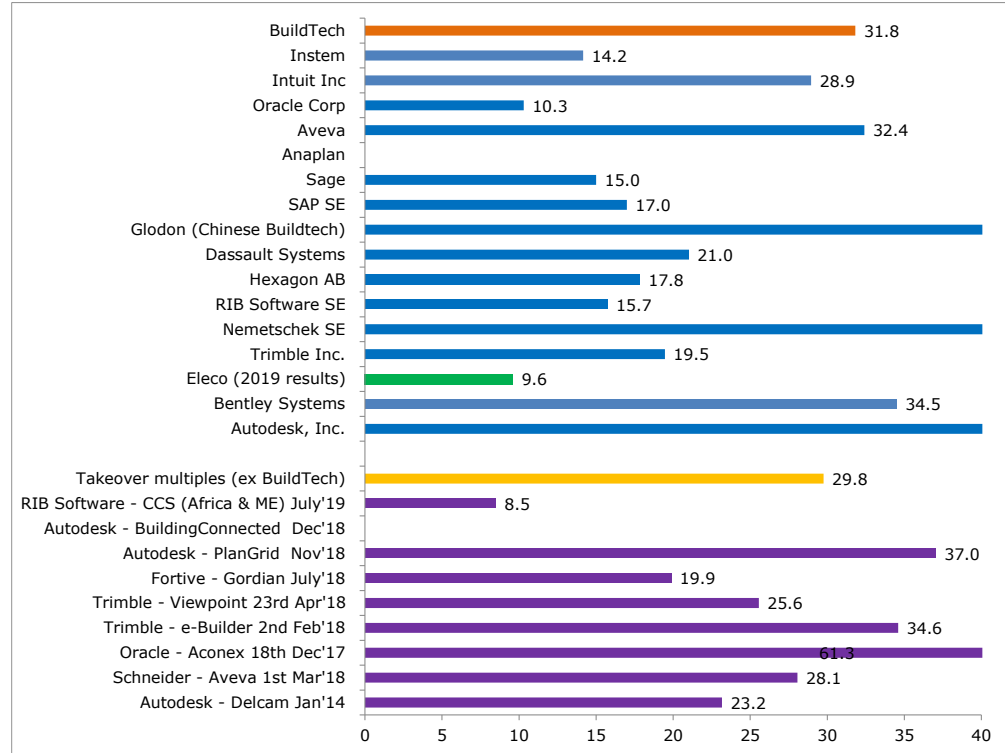
Source: Equity Development, arithmetic average for sector.

CY EV/sales multiples vs BuildTech peers



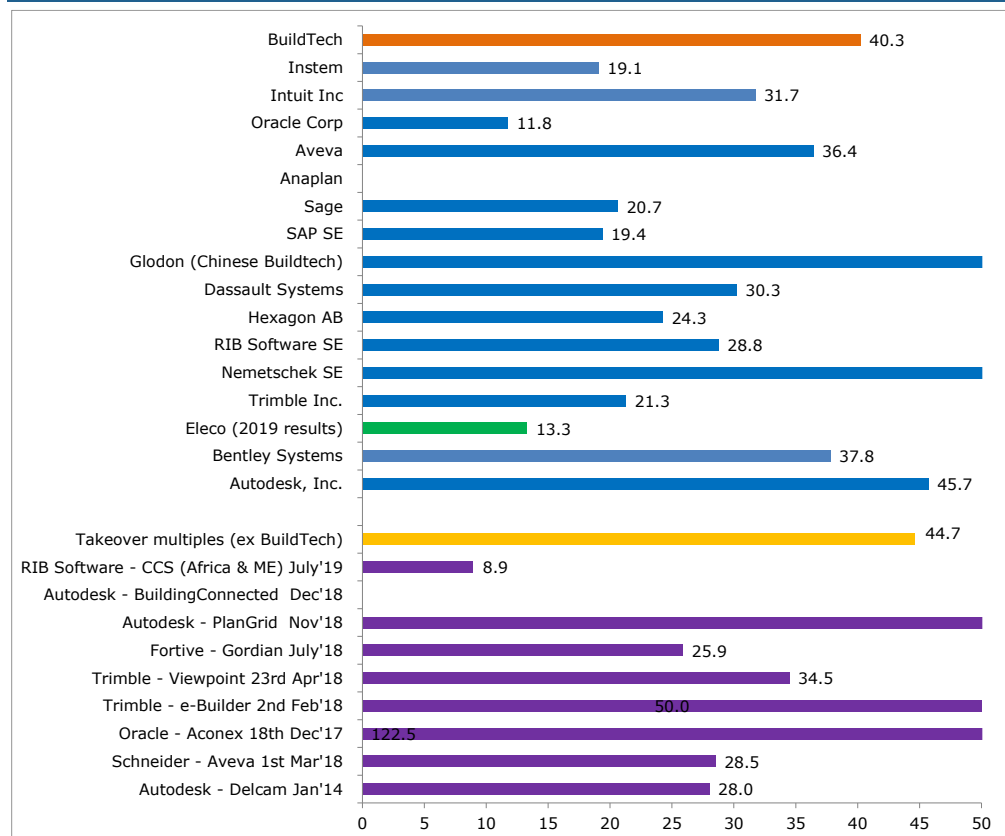
Source: Equity Development: CY = Current Year, arithmetic average for sector.

CY EV/EBITDA multiples vs BuildTech peers



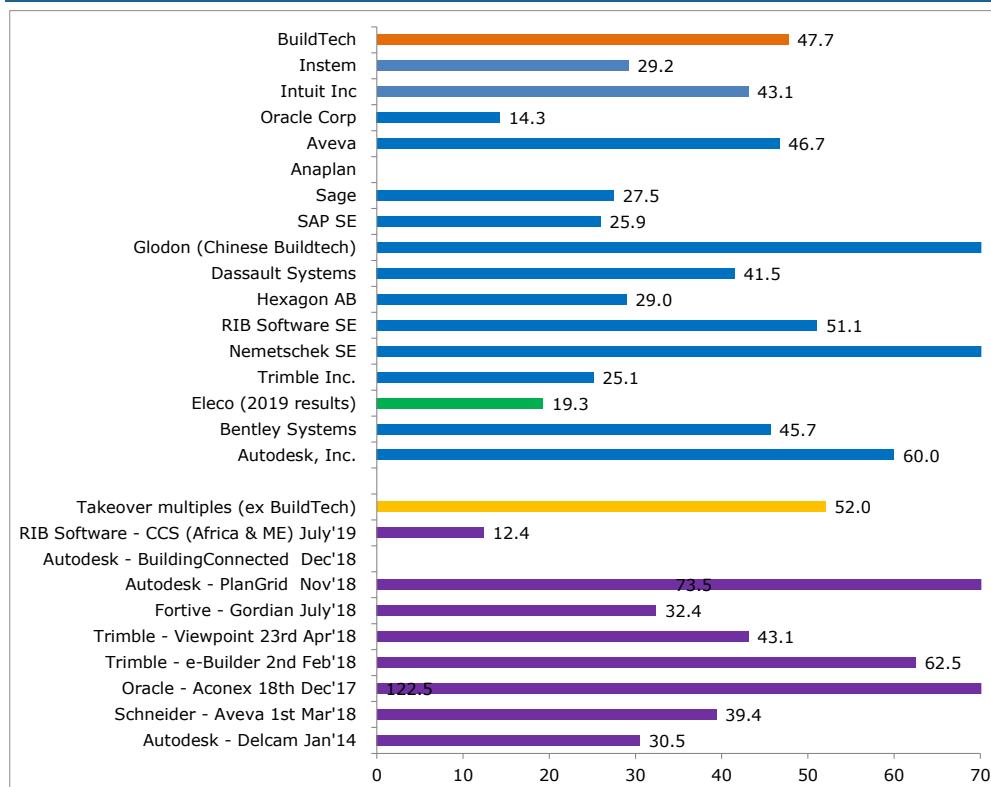
Source: Equity Development: CY = Current Year, arithmetic average for sector.

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.

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Eleco (2019 results)	79p	£65.0	£4.4	£60.6
Trimble Inc.	\$48.0	\$12,000	-\$1,508	\$13,508
Autodesk, Inc.	\$225.0	\$49,275	\$377	\$48,898
Bentley Systems	\$22.0	\$6,512	-\$597	\$7,109
Nemetschek SE	€ 61.0	€ 7,046	€ 48	€ 6,998
RIB Software SE	€ 24.0	€ 1,186	€ 178	€ 1,008
Hexagon AB	€ 58.9	€ 21,549	-€ 1,277	€ 22,826
Dassault Systems	€ 157.0	€ 38,936	-€ 1,811	€ 40,747
Glodon (Chinese Buildtech)	\$10.07	\$12,049	\$592	\$11,457
SAP SE	€ 132.0	€ 155,760	-€ 9,832	€ 165,592
Sage	715p	£7,736	-£215	£7,951
Aveva	£48.10	£7,792	£177	£7,615
Oracle Corp	\$59.0	\$172,575	-\$33,535	\$206,110
Intuit Inc	\$310.0	\$81,220	\$3,438	\$77,782
Intsem	505p	£103.5	£21.4	£82.1

Source: Equity Development



Investor Access

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