

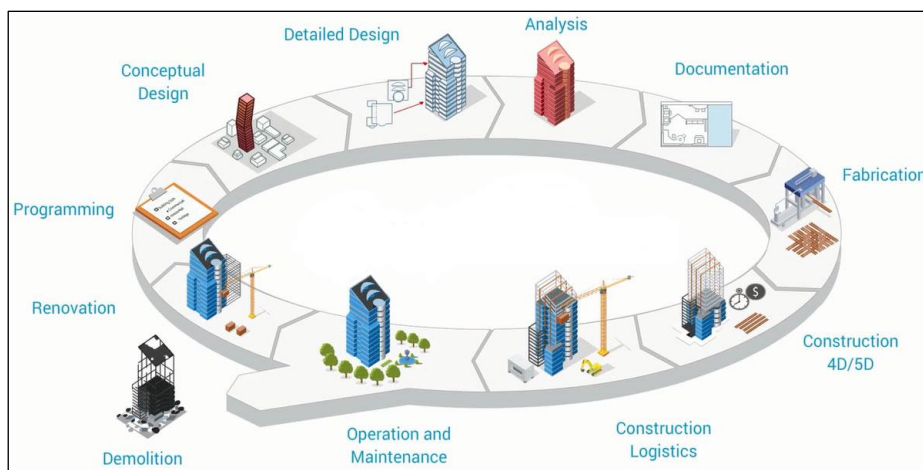
1st class software, customers & cashflows

24th September 2019

In the 1999 sci-fi hit 'The Matrix', the movie portrays a world when humans live in a computer generated universe. Two decades on, a similar virtual reality is being created across the infrastructure, construction & real estate industries – facilitated by innovative new *BuildTech* software.

Don't get me wrong, this is not the genesis of a dystopian new future. But instead a way to materially improve the whole property life-cycle (eg 75 years). Starting from design, project management and visualisation, right through to ongoing repairs and support (see below). In turn, saving clients (eg builders, operators and landlords) time, money and resource, alongside reducing their carbon footprints.

End-to-end BIM 'design, construct and operate' software



Source: Internet

Saving clients money & protecting the environment

This is where Elecosoft fits in. Its software was originally born out of cutting edge CAD & 3D modelling. Since then project scheduling (4D), cost (5D), facilities management (6D) and more recently sustainability (7D, eg energy efficiency) have all been added (see overleaf). Augmented too by the synergistic £5.1m acquisition of asset maintenance firm Shire in July 2018.

The next step is to embed more safety information into the product suite (eg 8D, covering say emergency evacuation plans), along with enhancing the AI, VR and AR functionality. The latter bolstered by the €3.45m purchase of Active Online GmbH in Nov'18, with a new 'climate & cost estimation tool' also being released in Sweden in H1'19.

Additionally this year, Shire released the latest edition of its flagship platform, and is scheduled to finish developing a new iOS mobile application by September. Meanwhile Active Online and ESIGN are already working closely together, and have secured several new clients, including ones in North America.

Company Data

EPIC	AIM: ELCO
Price	78p
52 week High/Low	86p/66p
Market cap	£64.0m
Est net cash (Dec'19)	£1.38m
ED valuation / share	100p
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, with 56% of 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: Pre close trading update Jan'20

Paul Hill (Analyst)*

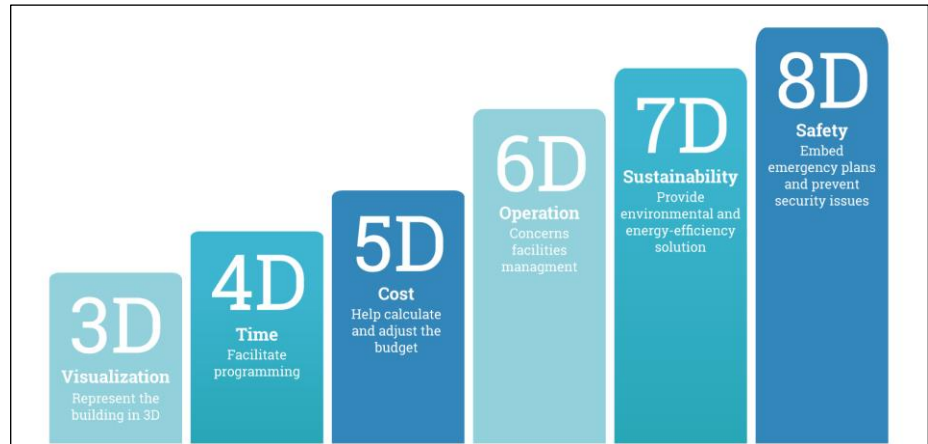
0207 065 2690

paul.hill@equitydevelopment.co.uk

*a shareholder in Elecosoft

Decade long run-way ahead in a multi \$bn market

Ongoing development of ELCO's product suite

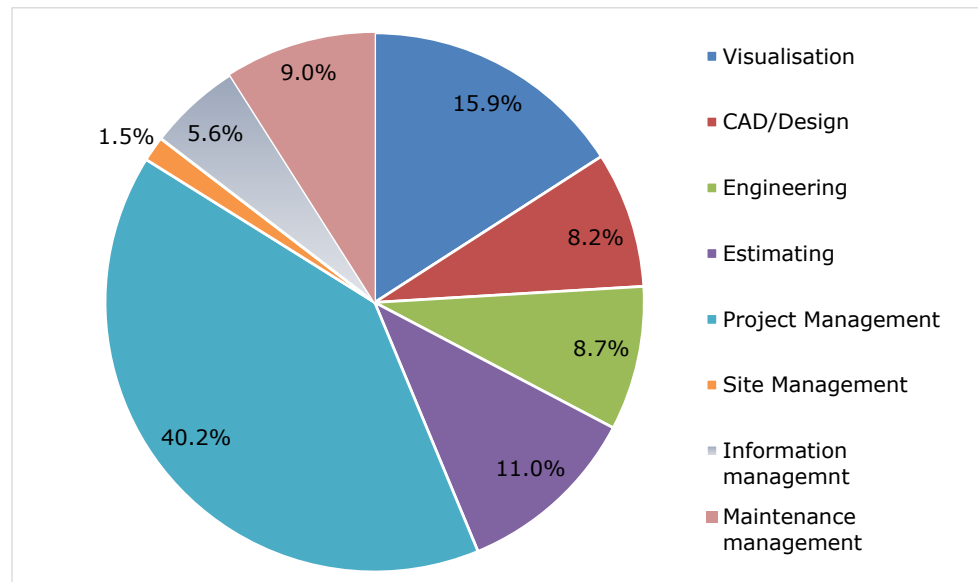


Source: Internet

Consequently, coupled with ICON's cutting-edge BIM solution and the group's other leading modules, **we reckon there are considerable opportunities to up/X-sell** (<20% of clients buy >1 module: see overleaf), **internationalise the portfolio** (eg US: see overleaf) **and move into adjacent verticals** (eg document management via ICON).

Indeed, Powerproject SaaS, Icon and Shire have all been successfully listed on 'G-Cloud 11', the Crown Commercial Service's digital marketplace. Meaning that the public sector can now fully benefit from the efficiencies that these systems deliver.

H1'19 sales (£12.7m) breakdown by product



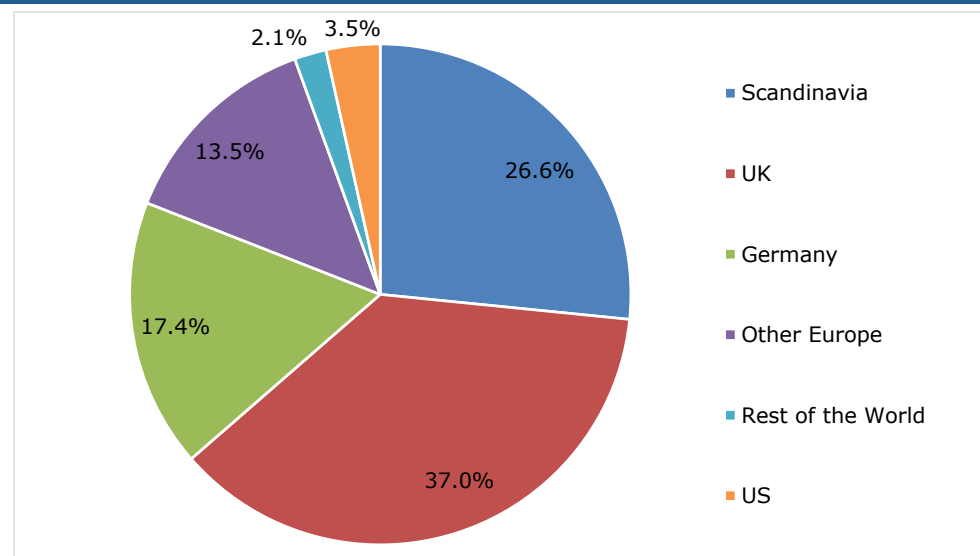
Source: Equity Development

Scalable business delivering 89% gross margins

Elsewhere, we believe there maybe scope to beef-up indirect sales – particularly via solution focused partners in overseas territories, since today 3rd party channels (mostly resellers) contribute only 5% of revenues.

The beauty being that - given the **favourable operating leverage** (89% GP margins) - a large portion of any incremental turnover should fall straight to the bottom line. Quickly feeding through into improved economies of scale, more funds available for R&D/S&M, faster top line growth and (ultimately) a much higher shareprice.

H1'19 sales (£12.7m) breakdown by geography



Source: Equity Development

H1 sales up 20% to £12.7m with 118% cash conversion

Ok, so much for the big picture stuff, what about the numbers? Well this morning **Elecosoft delivered a solid set of interims**, despite an increasingly **“less buoyant” backdrop**.

Adjusted EBIT climbed 20% to £2.14m on revenues up 20.4% to £12.7m (22% constant currency) - which (all things being equal) we calculate represented **around 2% organic growth** (vs 5% FY18). This was slightly lower than our previous FY19 expectations of 5%, reflecting the temporary dip in UK construction, Brexit kerfuffle, global trade wars (re manufacturing) and general weakness in Northern Europe. The -2% forex headwind was caused by the devaluation of the Swedish Krona vs £.

Resilient business despite macro uncertainty

Exec Chairman John Ketteley explaining: **“We have experienced some slowing of momentum in some of our markets,... but Elecosoft remains resilient. Much of our software is aimed at delivering ease of use and efficiencies to our customers, to enable them to reduce their own and their customers costs in difficult markets.”**

Total R&D spend equivalent to 12% turnover

Nonetheless, **cash conversion came in at an impressive 118%**, while EBIT margins remained flat at 16.8%, thanks to **continued tight cost control** (see below).

Solid LFL growth augmented by strong cash generation

Summary Financials (£'000s)	FY18	H1'19	Est H2'19	Est FY19	Est FY20
Software licenses	5,271	3,010	3,090	6,100	6,222
Recurring SaaS & support	12,595	7,157	7,243	14,400	15,466
Services	4,354	2,544	2,556	5,100	5,202
Sales	22,220	12,711	12,889	25,600	26,890
<i>Reported % growth rate</i>	11.1%	20.4%	10.5%	15.2%	5.0%
<i>Acquisition growth %</i>	8.0%	19.5%	6.7%	13.3%	0.0%
<i>Estimated forex headwind</i>	-2.0%	-2.0%	-1.0%	-1.5%	0.0%
<i>Estimated % LFL (constant currency)</i>	5.0%	2.1%	4.8%	3.5%	5.0%
Gross Profit	19,536	11,392	11,520	22,912	24,066
<i>% margin</i>	87.9%	89.6%	89.4%	89.5%	89.5%
Operating expenses (excl D&A)	-14,279	-8,446	-8,464	-16,910	-17,438
Adjusted EBITDA (post SBPs)	5,257	2,946	3,056	6,002	6,628
<i>% margin</i>	23.7%	23.2%	23.7%	23.4%	24.7%
Depreciation	-777	-450	-450	-900	-923
Amortisation of intangibles	-529	-358	-392	-750	-1,000
Adjusted EBIT (post SBPs)	3,951	2,138	2,214	4,352	4,706
<i>% margin</i>	17.8%	16.8%	17.2%	17.0%	17.5%
Net interest	-281	-179	-121	-300	-150
Adjusted PBT	3,670	1,959	2,093	4,052	4,556
Tax	-478	-301	-410	-711	-338
Adjusted earnings	3,192	1,658	1,683	3,341	4,218
Adjusted Cashflow	4,519	2,519	2,002	4,521	4,703
<i>Cash conversion</i>	114%	118%	90%	104%	100%
Adjusted EPS (pence)	3.8p	2.0p	2.0p	4.0p	4.5p
<i>EPS growth %</i>	33.3%	9.4%	-0.2%	4.3%	11.9%
Dividend (pence)	0.7p	0.3p	0.4p	0.7p	0.9p
Net cash / (debt) - Ex IFRS16	-1,814	-198	1,387	1,387	4,216

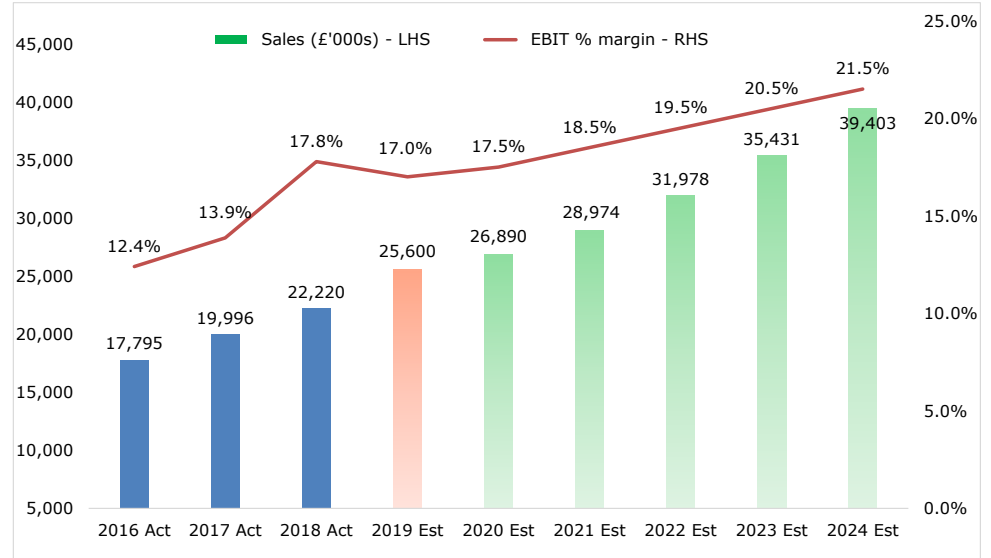
Source: Equity Development

The company didn't scrimp on product development either. Rather £891k of R&D (vs £873k LY) was expensed in the period, together with capitalising another £633k (vs £358k amortisation). In aggregate, representing 12.0% of turnover vs 12.8% FY18. Here an important new edition (V.15) of PowerProject was released in April - allowing users to manipulate 4D plans, whilst simultaneously being able run realistic real-time simulations. A major benefit when trying to manage often urgent, complex and yet competing priorities.

We've shaved our full year expectations...

So what does all this mean? Well weighing up the various moving parts, we've **prudently trimmed our FY19 turnover and adjusted EBIT forecasts to £25.6m** (from £26.4m before) and **£4.35m** (£4.52m) respectively. However, thereafter **we envisage the top line should expand 5% LFL in FY20, and return to double digit levels** from 2022 onwards, consistent with the *BuildTech* industry.

Stronger organic growth expected next year & beyond



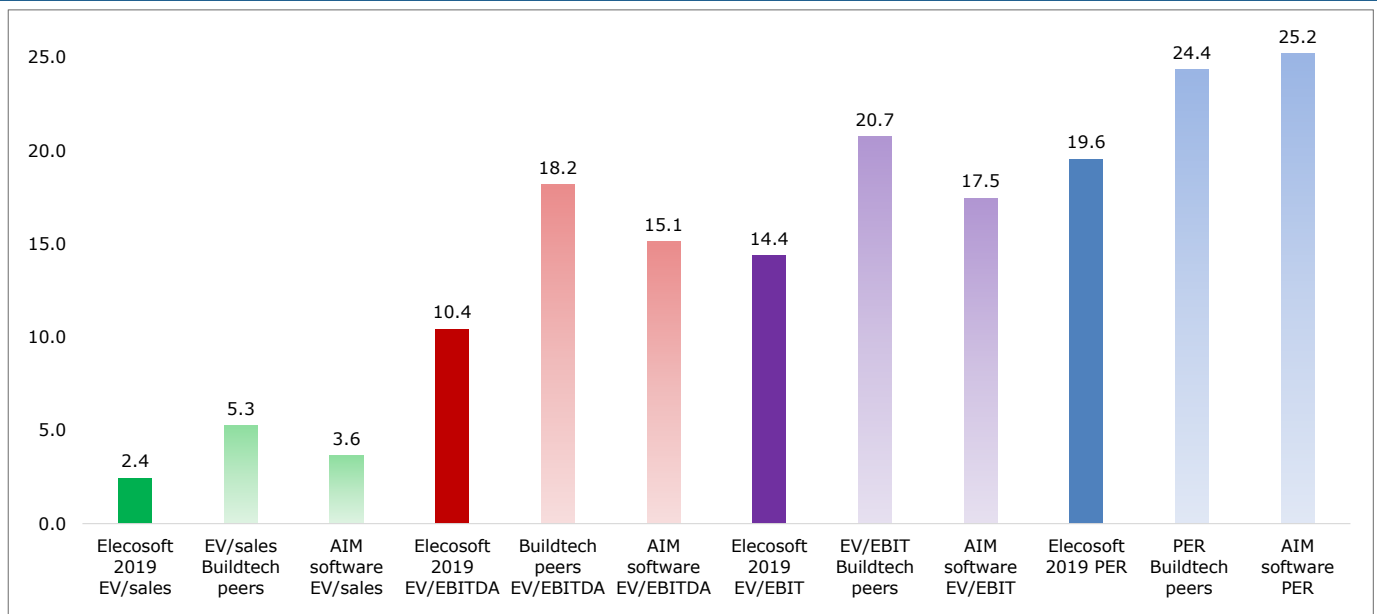
Source: Equity Development. SBPs = share based payments.

With regards to the balance sheet, **net debt fell £1.6m** during H1, **closing June 2019 at £198k** (vs £1.8m Dec'18) - and is set to end Dec'19 in positive territory with net funds of £1,387k, corresponding to a FY19 conversion rate of 104%

and trimmed the valuation to 100p/share

Likewise, **our valuation has been nudged down to 100p/share** (vs 115p before), equating to c. 3x FY20 EV/sales. Equally though, we believe the stock offers good value on just about every peer group metric (see below).

Valuation benchmarks vs BuildTech peers (see appendices for detailed breakdown)

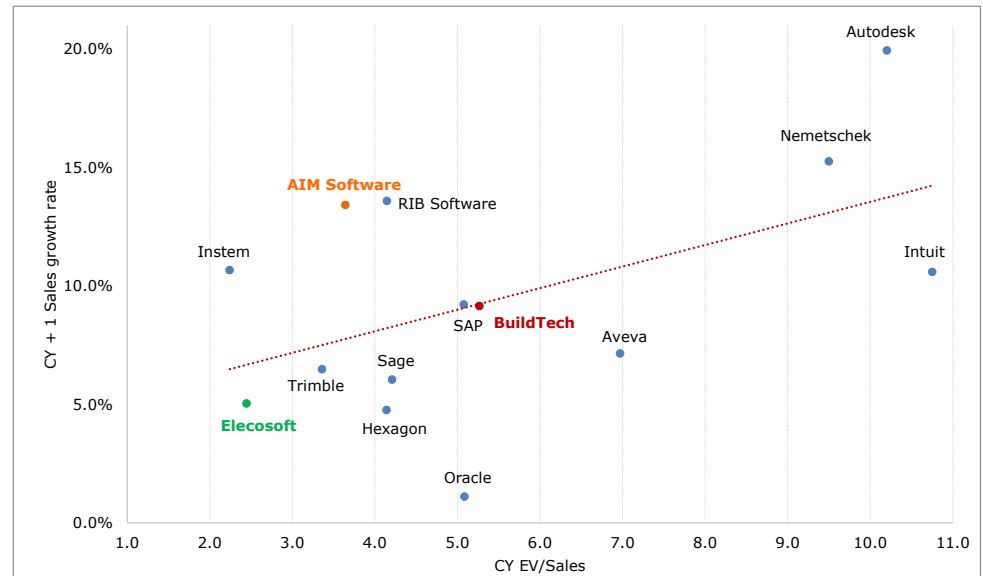


Source: Equity Development

Robust secular tailwinds underpin future prospects

In fact, if momentum can be reaccelerated – which we think will happen in due course - then there is no reason why the stock can't eventually command a rating of 5x EV/sales vs 2.4x today (see below); worth c. 158p/share. In addition for ESG investors (re last Friday's World Climate Day), Elecosoft offers clear environmental advantages to the wider community, compared to many other equities.

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



Source: Equity Development

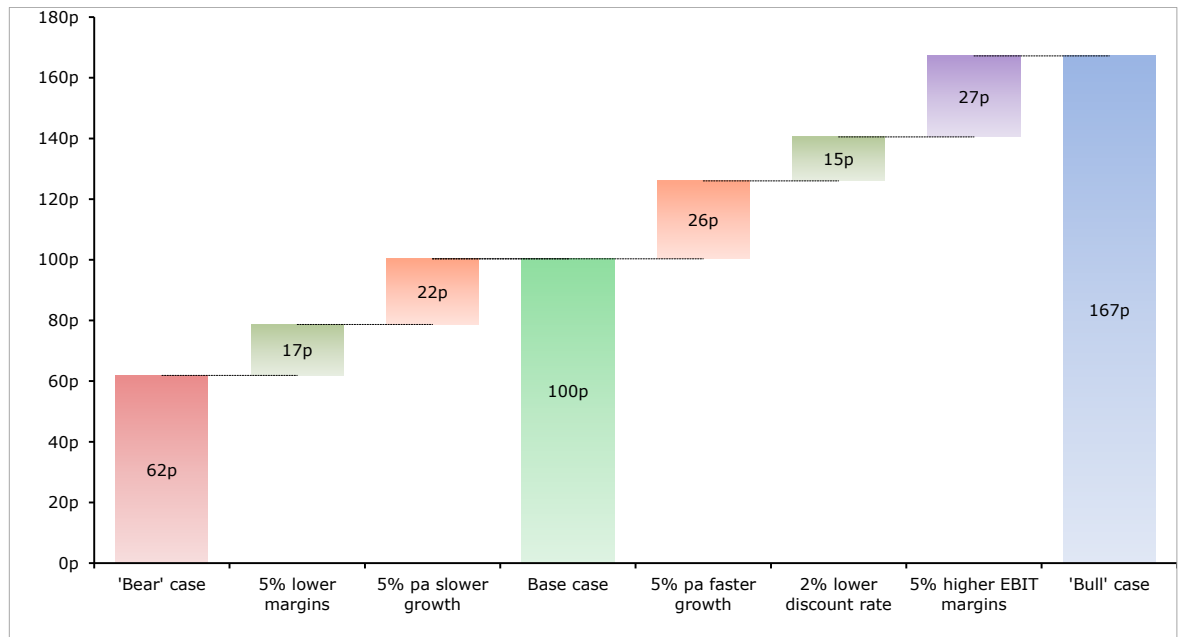
Several possible catalysts for upwards re-rating

But that's not all. At present levels, we suspect the group could even become a takeover target over the next few years, in light of the surge by overseas buyers to snap up quality UK assets (re sterling weakness). For instance, both Proactis and Statpro have recently received predatory interest. Moreover, there has been a slew of other AIM names that have been acquired so far this year – eg Telford Homes, Premier Technical Services, easyHotel, Sanderson, EU Supply, WYG, Tarsus, Manx Telecom, Laura Ashley & Tax Systems.

Favourable 'risk vs reward' profile

Finally from a risk perspective, there seems to be **minimal downside** to us, as indicated by our 'Bear' and 'Bull' case scenarios of 62p and 167p (see below). Plus the firm's two closest quoted competitors, Nemetschek & Autodesk, trade on multiples of >9.0x EV/turnover. Once again illustrating the potential upside for patient investors.

Sensitivity analysis (p/share)



Source: Equity Development.

Cautiously optimistic

Exec Chairman John Ketteley concluding: ***“Elecosoft has improved operating profit, and strengthened its financial position in the period, despite having to operate in markets that have been less buoyant than they have been for some time.*”**

*That said, the positive performance of Elecosoft in H1'19; the spread of the markets that we serve worldwide; the innovative and increasingly synergistic content of Elecosoft's software range; our highly regarded and profitable worldwide training and support facilities; and the strength of our financial position, are all factors which, in the absence of unforeseen circumstances, lead me to be **cautiously optimistic regarding the outlook for the remainder of the year**”.*

Summary financial projections

Elecosoft (Dec yearend)	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
			Restated						
Software licenses	4,955	5,135	5,271	6,100	6,222	6,346	6,473	6,603	6,735
Recurring SaaS & support Services	8,622	11,018	12,595	14,400	15,466	17,321	20,093	23,308	27,037
	4,218	3,843	4,354	5,100	5,202	5,306	5,412	5,520	5,631
Turnover	17,795	19,996	22,220	25,600	26,890	28,974	31,978	35,431	39,403
% growth	16.6%	12.4%	11.1%	15.2%	5.0%	7.8%	10.4%	10.8%	11.2%
Gross Profit	15,560	17,575	19,536	22,912	24,066	25,932	28,621	31,711	35,265
% margin	87.4%	87.9%	87.9%	89.5%	89.5%	89.5%	89.5%	89.5%	89.5%
Adj. EBITDA (post SBPs)	2,753	3,643	5,257	6,002	6,628	7,719	8,843	10,097	11,564
% Margin	15.5%	18.2%	23.7%	23.4%	24.7%	26.6%	27.7%	28.5%	29.3%
Adj. EBIT (post SBPs)	2,207	2,773	3,951	4,352	4,706	5,360	6,236	7,263	8,472
% Margin	12.4%	13.9%	17.8%	17.0%	17.5%	18.5%	19.5%	20.5%	21.5%
Adj. Profit before Tax	2,117	2,666	3,670	4,052	4,556	5,360	6,236	7,263	8,472
Adjusted EPS (p)	2.4	2.9	3.8	4.0	4.5	5.2	6.0	7.0	8.1
EPS growth rate	58.2%	20.2%	33.3%	4.3%	11.9%	17.1%	15.8%	15.9%	16.1%
Dividend (p)	0.40	0.60	0.68	0.75	0.89	1.04	1.21	1.40	1.63
Yield	0.5%	0.8%	0.9%	1.0%	1.1%	1.3%	1.6%	1.8%	2.1%
% recurring revenues	48.5%	55.1%	56.7%	56.3%	57.5%	59.8%	62.8%	65.8%	68.6%
Adjusted cash conversion	69.8%	102.2%	114.4%	103.9%	99.9%	102.6%	101.9%	103.4%	103.3%
Average headcount	190	201	228	232	237	244	255	267	280
Revenues (£ks) / employee	93.7	99.5	97.5	110.3	113.5	118.5	125.3	132.7	140.8
Valuation benchmarks									
P/E ratio	32.7	27.2	20.4	19.6	17.5	14.9	12.9	11.1	9.6
EV/Sales	3.5	3.1	2.8	2.4	2.3	2.2	2.0	1.8	1.6
EV/EBITDA	22.7	17.2	11.9	10.4	9.4	8.1	7.1	6.2	5.4
EV/EBITA	28.4	22.6	15.9	14.4	13.3	11.7	10.0	8.6	7.4
Adjusted tax rate	-16.1%	-17.9%	-19.4%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
EBITDA drop through rates	37.8%	40.4%	72.6%	22.0%	48.6%	52.3%	37.4%	36.3%	36.9%
ROCE	15.5%	21.3%	15.5%	15.4%	15.0%	15.4%	15.9%	16.5%	17.1%
Dividend cover	6.0	4.8	5.6	5.3	5.0	5.0	5.0	5.0	5.0
PEG ratio	0.56	1.35	0.61	4.49	1.47	0.87	0.82	0.70	0.60
Net cash/(debt) - ex IFRS16	-1,304	1,031	-1,814	1,387	4,216	7,711	11,871	16,827	22,594
Sharecount (Ks)	74,433	76,309	77,400	82,273	82,685	83,098	83,513	83,931	84,351
Shareprice (p)	78.0								

Source: Equity Development

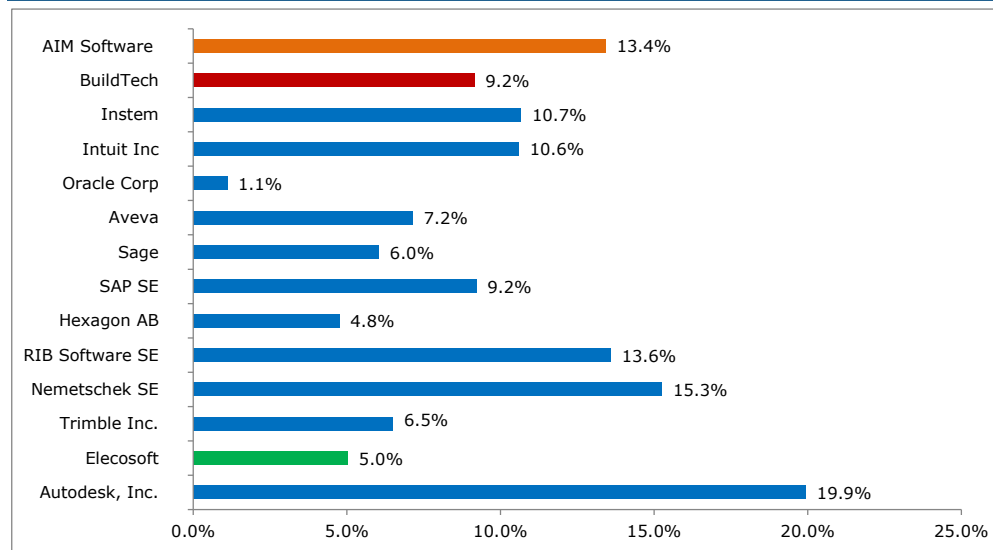
Key risks

- 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.

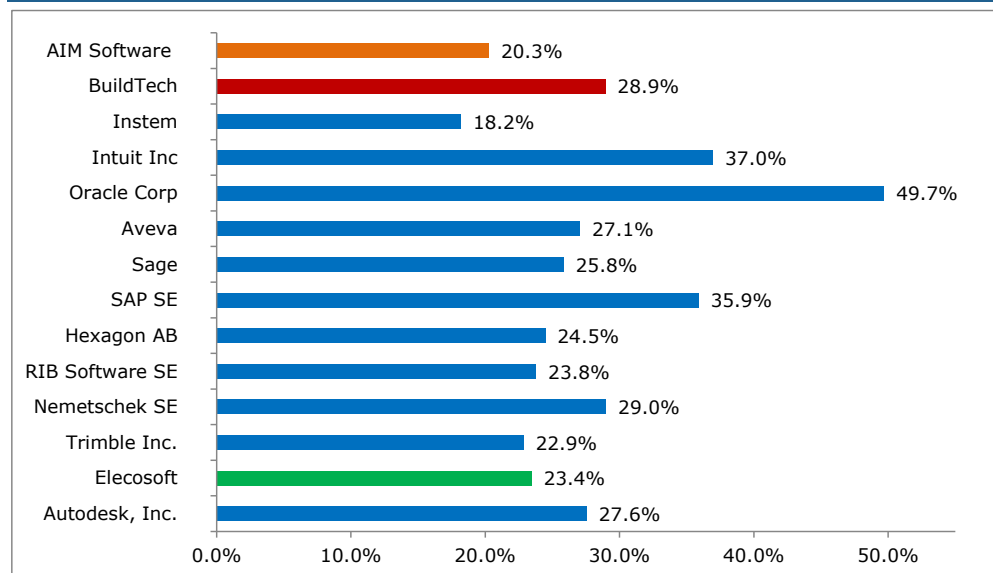
Appendices - BuildTech industry KPIs & multiples

CY +1 sales growth rate vs BuildTech peers



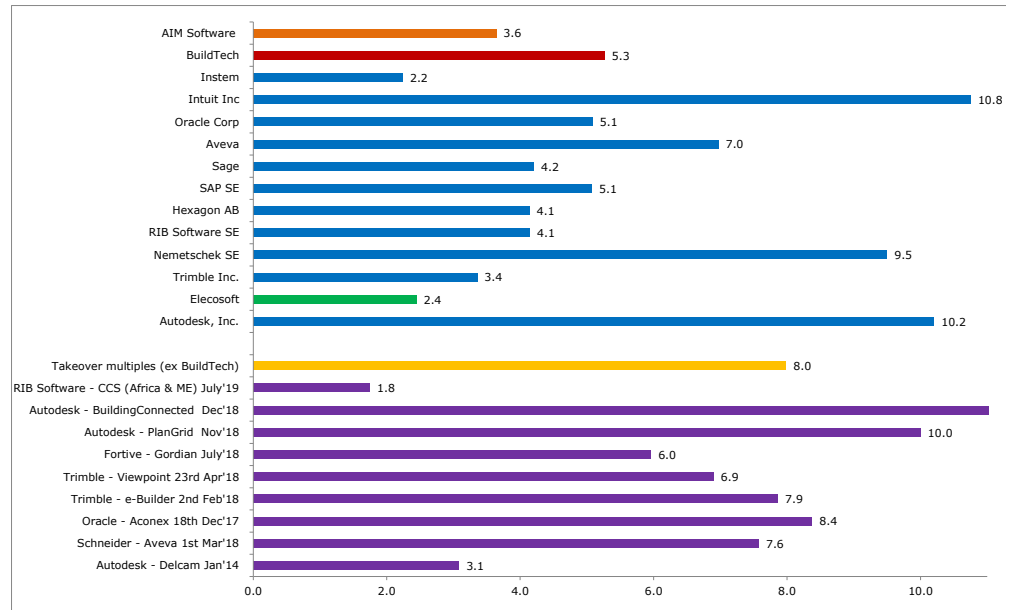
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EBITDA margins vs BuildTech peers



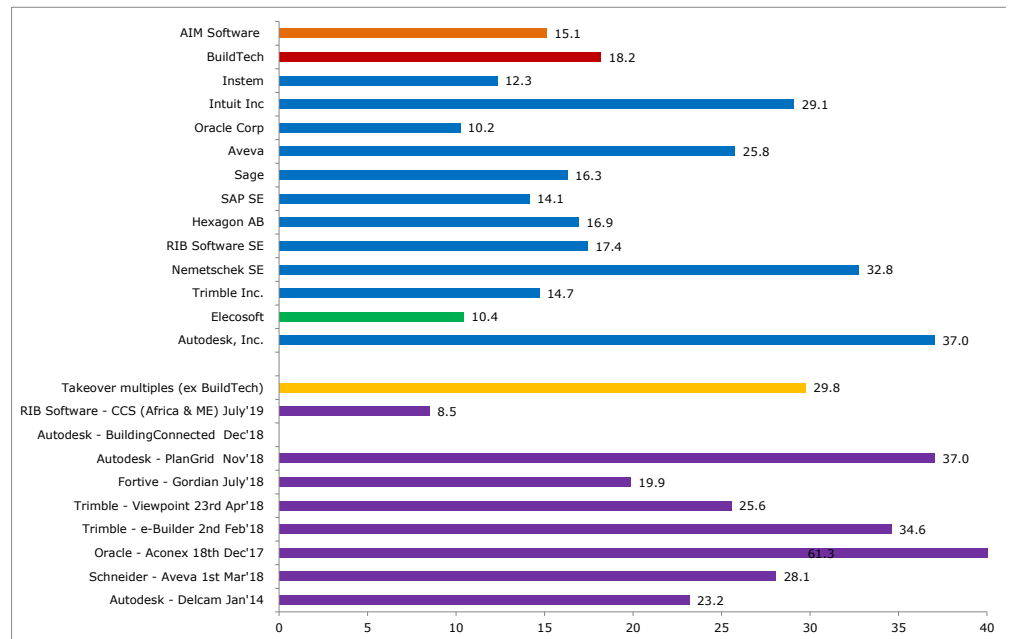
Source: Equity Development, arithmetic average for sector

CY EV/sales multiples vs BuildTech peers



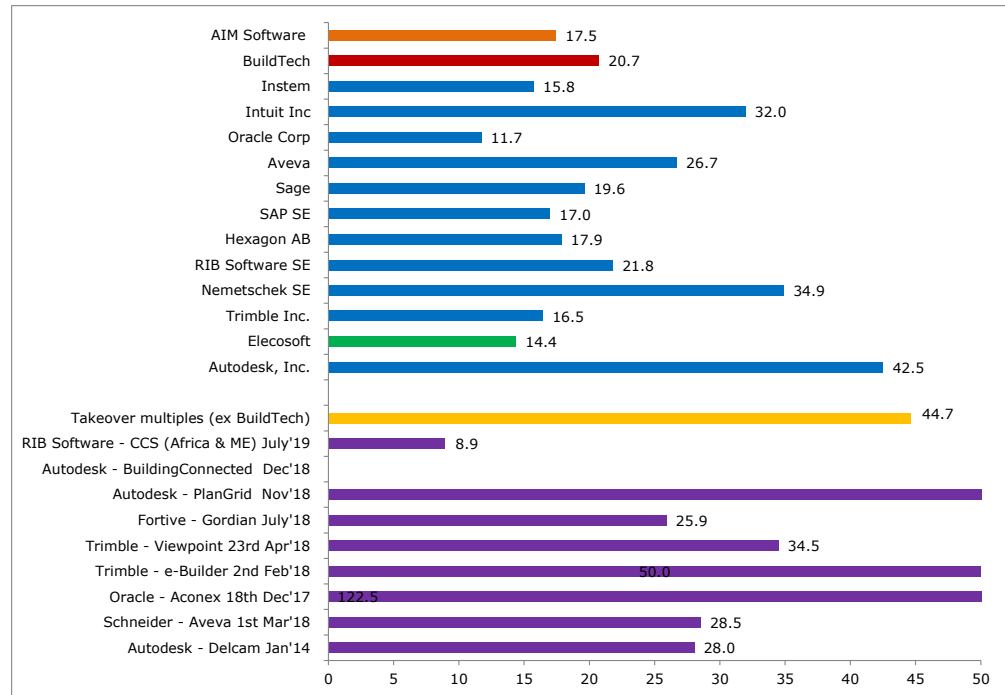
Source: Equity Development : CY = Current Year, arithmetic average for sector

CY EV/EBITDA multiples vs BuildTech peers



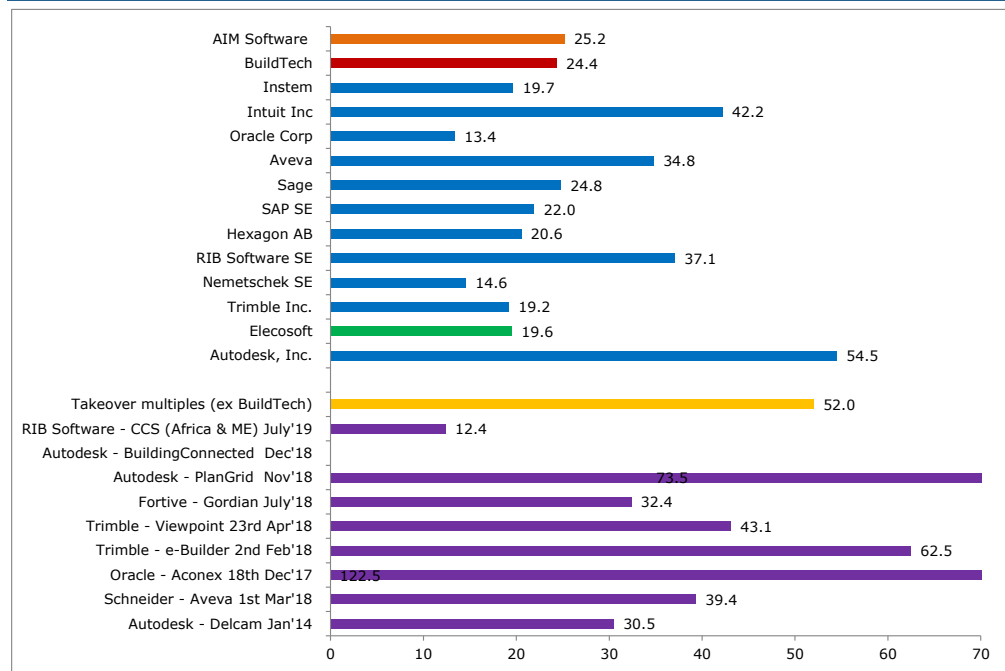
Source: Equity Development : CY = Current Year, arithmetic average for sector

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

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Elecosoft	78p	£64.0	£1.4	£62.6
Trimble Inc.	\$37.5	\$9,525	-\$1,500	\$11,025
Autodesk, Inc.	\$150.0	\$33,000	-\$253	\$33,253
Nemetschek SE	€ 46.0	\$5,313	\$22	\$5,291
RIB Software SE	€ 19.5	\$1,009	\$155	\$854
Hexagon AB	€ 40.2	\$14,579	-\$1,772	\$16,351
SAP SE	€ 108.0	\$129,060	-\$9,329	\$138,389
Sage	710p	£7,668	-£475	£8,143
Aveva	£37.50	£6,049	£200	£5,849
Oracle Corp	\$52.0	\$182,000	-\$19,700	\$201,700
Intuit Inc	\$285.0	\$75,240	\$2,300	\$72,940
Instem	370p	£60.3	£3.6	£56.7

Source: Equity Development



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any person who is not a relevant person under this section should not act or rely on this document or any of its contents. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent, as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Elecosoft plc. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Self-certification by investors can be completed free of charge at www.fisma.org

ED may in the future provide, or may have in the past provided, investment banking services to the Company. ED, its Directors or persons connected may have in the future, or have had in the past, a material investment in the Company. Paul Hill, the author of this note, is a shareholder in Elecosoft and was so prior to ED's appointment.

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690