

Disrupting the \$10 trillion construction sector

25th January 2019

In light of the fears over Brexit, US/China trade tensions and slowing Eurozone growth, it's not surprising that even the highest quality stocks have been 'thrown out with the bathwater' during the recent correction. However for risk-tolerant investors, volatility creates opportunity, particularly for those top notch businesses enjoying wide 'economic moats', long term tailwinds and priced at attractive levels.

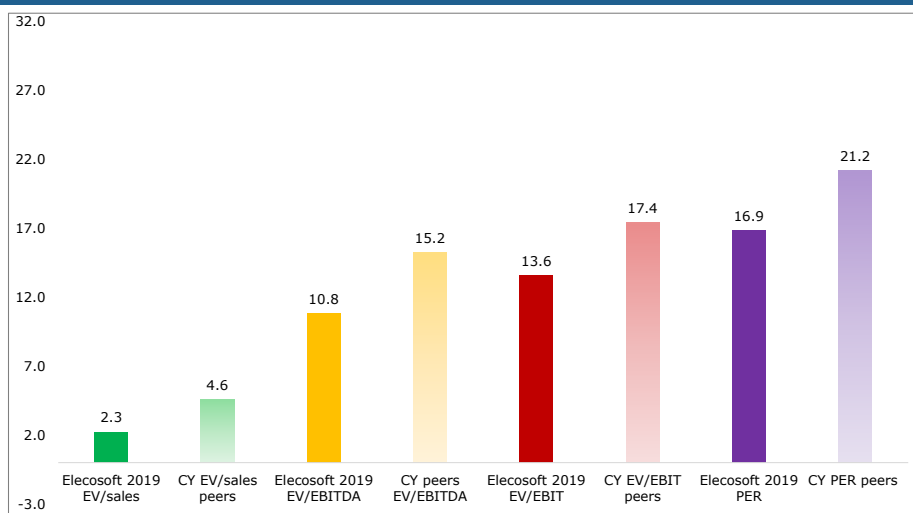
Take Elecosoft, whose **award winning software is 'disrupting' the \$10 trillion global construction market**. This morning in a positive RNS the firm said that - despite macro uncertainties & adverse forex moves (re weaker SEK vs £) - **its 2018 results are set "to be significantly higher than 2017, and comfortably in line with expectations"**.

These **record numbers** being **driven by new customer wins**, alongside a service-centric approach, delivering **high renewal rates** and **excellent end-user training/support**. Moreover, we estimate that **recurring revenues** (incl SaaS) now account for >55% of the group - providing **solid visibility for 2019 & beyond**.

No change to our forecasts or 115p/share valuation

Looking ahead, we retain our forecasts (adj 2018 PBT of £3.5m on £22.3m sales) & 115p/share valuation - whilst also being encouraged to hear that the **Shire Systems (Jul'18) and Active Online (Nov'18) acquisitions are bedding down nicely and hitting targets**. Plus at 72p, the stock (down c.15% over past 4 months) appears cheap vs *BuildTech* peers across all major benchmarks (see below).

Elecosoft 2019 multiples vs peers



Source: Equity Development - closing prices as at 24th January 2019

Executive Chairman, John Ketteley commenting "2018 has been another significant year for Elecosoft with the acquisitions of Shire Systems and Active Online, which complement our existing growing businesses. [They] represent significant milestones for Elecosoft, as a leading developer of co-ordinated BIM led software systems for use in each stage of a building's life cycle, and also as a developer of internet visualisation tools for the interior fit out industry."

Please refer to the important disclosures shown on the back page and note that this information is **Non-independent** and categorised as **Marketing Material**

Company Data

EPIC	AIM: ELCO
Price (last close)	72p
52 week Hi/Lo	91p/44p
Market cap	£59m
ED valuation / share	115p
Share count	81.8m
Avg. daily volume	25,000

Share Price, p



Source: Web Financial

Description

Elecosoft plc is a BuildTech pioneer, developing on-premise and Cloud/SaaS software 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 oil providing data/info to the various interconnecting modules.

Visibility is robust with 55% of H1'18 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 H1'18 turnover was sold directly**, with the rest generated via channel partners. Approx **2/3rds of the business is derived from outside the UK**, and there are ~245 staff.

Next news: Prelims in late March 2019

Paul Hill (Analyst)*

0207 065 2690

paul.hill@equitydevelopment.co.uk

*a shareholder in Elecosoft

Summary financial projections

Elecosoft (Dec yearend)	2014 Act £'000s	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Est £'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	5,300	5,671	6,068	6,493	6,947	7,434	7,954
Recurring SaaS & support	7,351	7,278	8,622	11,018	12,000	13,236	14,957	16,901	19,098	21,581	24,386
Services	3,813	3,446	4,218	3,843	3,750	3,863	3,978	4,098	4,221	4,347	4,478
Shire & active online					1,250	4,400	4,972	5,618	6,349	7,174	8,107
Turnover	15,172	15,260	17,795	19,996	22,300	27,170	29,975	33,110	36,615	40,536	44,925
% growth	-7.0%	0.6%	16.6%	12.4%	11.5%	21.8%	10.3%	10.5%	10.6%	10.7%	10.8%
Gross Profit	13,314	13,572	15,560	17,575	19,624	23,909	26,378	29,137	32,221	35,672	39,534
% margin	87.8%	88.9%	87.4%	87.9%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%
Adj. EBITDA (post SBPs)	1,465	1,795	2,753	3,643	4,735	5,645	6,685	7,966	9,532	11,040	12,777
% Margin	9.7%	11.8%	15.5%	18.2%	21.2%	20.8%	22.3%	24.1%	26.0%	27.2%	28.4%
Adj. EBIT (post SBPs)	1,266	1,506	2,207	2,773	3,659	4,499	5,264	6,228	7,345	8,638	10,135
% Margin	8.3%	9.9%	12.4%	13.9%	16.4%	16.6%	17.6%	18.8%	20.1%	21.3%	22.6%
Adj. Profit before Tax	1,046	1,386	2,117	2,666	3,459	4,299	5,214	6,228	7,345	8,638	10,135
Adjusted EPS (p)	1.3	1.5	2.4	2.9	3.6	4.3	5.1	6.0	7.0	8.1	9.5
EPS growth rate		20.1%	58.2%	20.2%	26.6%	17.6%	18.6%	18.3%	16.8%	16.4%	16.2%
Dividend (p)	0.0	0.0	0.4	0.6	0.8	1.1	1.3	1.5	1.7	2.0	2.4
Yield			0.6%	0.8%	1.2%	1.5%	1.8%	2.1%	2.4%	2.8%	3.3%
% recurring revenues				55.1%	56.9%	57.6%	59.0%	60.4%	61.7%	63.0%	64.2%
Adjusted cash conversion				102.2%	94.8%	87.4%	93.2%	96.9%	99.8%	101.3%	101.3%
Valuation benchmarks											
P/E ratio	57.3	47.7	30.2	25.1	19.8	16.9	14.2	12.0	10.3	8.8	7.6
EV/Sales	4.0	4.0	3.4	3.1	2.7	2.3	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	41.8	34.1	22.2	16.8	12.9	10.8	9.2	7.7	6.4	5.5	4.8
EV / EBITA	48.3	40.6	27.7	22.1	16.7	13.6	11.6	9.8	8.3	7.1	6.0
Adjusted tax rate	-20.0%	-19.5%	-16.1%	-17.9%	-17.5%	-18.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
EBITDA drop through rates			37.8%	40.4%	47.4%	18.7%	37.1%	40.9%	44.7%	38.5%	39.6%
Dividend cover			6.0	4.8	4.3	4.0	4.0	4.0	4.0	4.0	4.0
PEG ratio		2.37	0.52	1.24	0.75	0.96	0.76	0.66	0.61	0.54	0.47
Net cash/(debt)	-2,035	-803	-1,304	1,031	-2,300	-345	2,343	5,814	10,264	15,624	21,916
Sharecount (Ks)	66,611	73,971	74,433	76,309	78,644	82,638	83,464	84,299	85,142	85,993	86,853
Shareprice (p)	72.0										

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, albeit this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts (55% H1'18).
- Foreign exchange. However, this is primarily a translation risk with ~66% of Elecosoft's turnover being generated outside the UK.
- Regulatory and tax changes.
- Competition may intensify due to new/existing players. Albeit this goes with the territory in the smallcap arena.
- Being relatively small, Elecosoft could get squeezed by larger rivals, partners and customers.
- Generic risks of retention/recruitment of key staff, etc.
- Potential (yet small) impact from implementing the new "IFRS15 sales recognition" accounting standard from 1st Jan'18.
- As with many small cap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Felix Grant-Rennick

Direct: 0207 065 2693

Tel: 0207 065 2690

felix@equitydevelopment.co.uk

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www.equitydevelopment.co.uk

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