

## Beneficiary of the new digitalised world

11th May 2020

COVID-19 has proved to be a watershed for many reasons. Not least because of the untold human & economic damage, but also how it will transform daily life forever.

In fact the construction industry, which traditionally has been slow to embrace new technology, is now accelerating its adoption of 'everything digital'. A trend that will drive sales at *BuildTech* software developer Elecosoft for years ahead.

### 120% cash conversion

Today the **Board reported in line results**. Delivering 2019 revenues up 14% (Est 3% LFL, see below) to £25.4m (£22.2m LY), despite adverse forex (ED -2%, weaker SEK vs £) & other macro headwinds (Brexit, General Election & subdued Eurozone). Growth was split evenly across the UK +15% (£9.4m) & abroad +14% (£16.0m), with sales/head nudging up 3.8% to £101.2k (£97.5k).

Elsewhere, **89.5% gross profit margins** and **positive operating leverage** (32.9% EBITDA drop through rates) allowed R&D (£3.1m vs £2.8m LY) to be increased (12.2% turnover), of which £1.2m was capitalised (£1.0m). Likewise adjusted EBIT climbed 15.0% to £4.5m (17.9% margin vs 17.8%), EPS +7.1% higher to 4.10p (3.82p) and **net funds ended Dec'19 at £1.1m** vs -£1.8m LY, reflecting **120% cash conversion** (114%).

#### Company Data

| EPIC                 | AIM: ELCO |
|----------------------|-----------|
| Price (last close)   | 74p       |
| 52 week High/Low     | 87p/45p   |
| Market cap           | £60.8m    |
| Net cash Dec'19      | £1.1m     |
| ED valuation / share | Withdrawn |
| Share count          | 82.24m    |
| Avg. daily volume    | 55,000    |

#### 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 revenues recurring and high customer retention rates.** Landmark implementations include: The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome. **63%** (or £16m 2019) **of the business is generated from outside the UK**, and there are c. 251 staff.

Next news: AGM July 2020

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\*a shareholder in Elecosoft

### Est 3% LFL top line growth alongside strong cash generation

| Summary Financials (£'000s)                | FY18          | H1'19         | Act H2'19     | Act FY19      |
|--|---------------|---------------|---------------|---------------|
| Software licenses                          | 5,540         | 3,010         | 3,036         | 6,046         |
| Recurring SaaS & support                   | 12,326        | 7,157         | 7,278         | 14,435        |
| Services                                   | 4,354         | 2,544         | 2,373         | 4,917         |
| <b>Sales</b>                               | <b>22,220</b> | <b>12,711</b> | <b>12,687</b> | <b>25,398</b> |
| <i>Reported % growth rate</i>              | <i>11.1%</i>  | <i>20.4%</i>  | <i>8.8%</i>   | <i>14.3%</i>  |
| <i>Acquisition growth %</i>                | <i>8.0%</i>   | <i>19.5%</i>  | <i>6.5%</i>   | <i>13.1%</i>  |
| <i>Estimated forex headwind</i>            | <i>-2.0%</i>  | <i>-2.0%</i>  | <i>-2.0%</i>  | <i>-2.0%</i>  |
| <i>Estimated % LFL (constant currency)</i> | <i>5.0%</i>   | <i>2.1%</i>   | <i>4.2%</i>   | <i>3.2%</i>   |
| <b>Gross Profit</b>                        | <b>19,536</b> | <b>11,392</b> | <b>11,359</b> | <b>22,751</b> |
| <i>% margin</i>                            | <i>87.9%</i>  | <i>89.6%</i>  | <i>89.5%</i>  | <i>89.6%</i>  |
| Operating expenses (excl D&A)              | -14,279       | -8,446        | -8,003        | -16,449       |
| <b>Adjusted EBITDA (post SBPs)</b>         | <b>5,257</b>  | <b>2,946</b>  | <b>3,356</b>  | <b>6,302</b>  |
| <i>% margin</i>                            | <i>23.7%</i>  | <i>23.2%</i>  | <i>26.5%</i>  | <i>24.8%</i>  |
| Depreciation                               | -777          | -450          | -452          | -902          |
| Amortisation of intangibles                | -529          | -358          | -497          | -855          |
| <b>Adjusted EBIT (post SBPs)</b>           | <b>3,951</b>  | <b>2,138</b>  | <b>2,407</b>  | <b>4,545</b>  |
| <i>% margin</i>                            | <i>17.8%</i>  | <i>16.8%</i>  | <i>19.0%</i>  | <i>17.9%</i>  |
| Net interest                               | -281          | -179          | -160          | -339          |
| <b>Adjusted PBT</b>                        | <b>3,670</b>  | <b>1,959</b>  | <b>2,247</b>  | <b>4,206</b>  |
| Tax  | -478          | -301          | -410          | -711          |
| <b>Adjusted earnings</b>                   | <b>3,192</b>  | <b>1,658</b>  | <b>1,837</b>  | <b>3,495</b>  |
| <b>Adjusted Cashflow</b>                   | <b>4,519</b>  | <b>2,519</b>  | <b>2,946</b>  | <b>5,465</b>  |
| <i>Cash conversion</i>                     | <i>114%</i>   | <i>118%</i>   | <i>122%</i>   | <i>120%</i>   |
| <b>Adjusted EPS (pence)</b>                | <b>3.82p</b>  | <b>2.00p</b>  | <b>2.10p</b>  | <b>4.10p</b>  |
| <i>EPS growth %</i>                        | <i>33.3%</i>  | <i>9.4%</i>   | <i>5.1%</i>   | <i>7.1%</i>   |
| Dividend (pence)                           | 0.68p         | 0.30p         | 0.00p         | 0.30p         |
| <b>Net cash / (debt) - Ex IFRS16</b>       | <b>-1,814</b> | <b>-198</b>   | <b>1,101</b>  | <b>1,101</b>  |

Source: Equity Development. LFL sales comparatives assume all acqs were owned on 1<sup>st</sup> Jan'18.

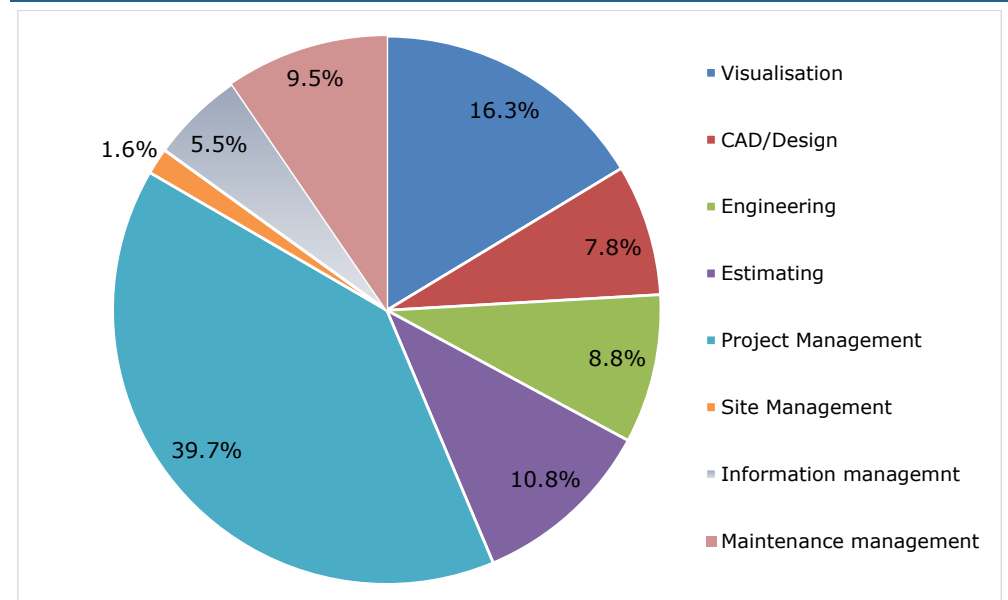
## Hosted software supports social distancing

Importantly too in Jan'20, the business launched its **first Artificial Intelligence** tool at the 2020 Domotex Show in Hanover, which was "very well received", and has already been purchased by floor covering specialist [Karndean](#). Whereas separately [US paint manufacturer Benjamin Moore](#) (a Berkshire Hathaway subsidiary) have taken the AR (augmented reality) functionality.

Equally the group's hosted/SaaS products have successfully facilitated remote working for several clients, even after the coronavirus forced the closure of offices and building sites. Another theme that is likely to accelerate going forward due to new social distancing measures.

Plus most of the other modules also enable customers to sell more, improve quality, cut costs, save time and/or reduce their 'carbon footprints'. All vital features in a tougher environment.

### 2019 sales split by product



Source: Equity Development

## Construction industry is getting back to work

So what about the near term? **Elecosoft continued to perform "well" in Q1'20**, with results only marginally impacted towards the end of March.

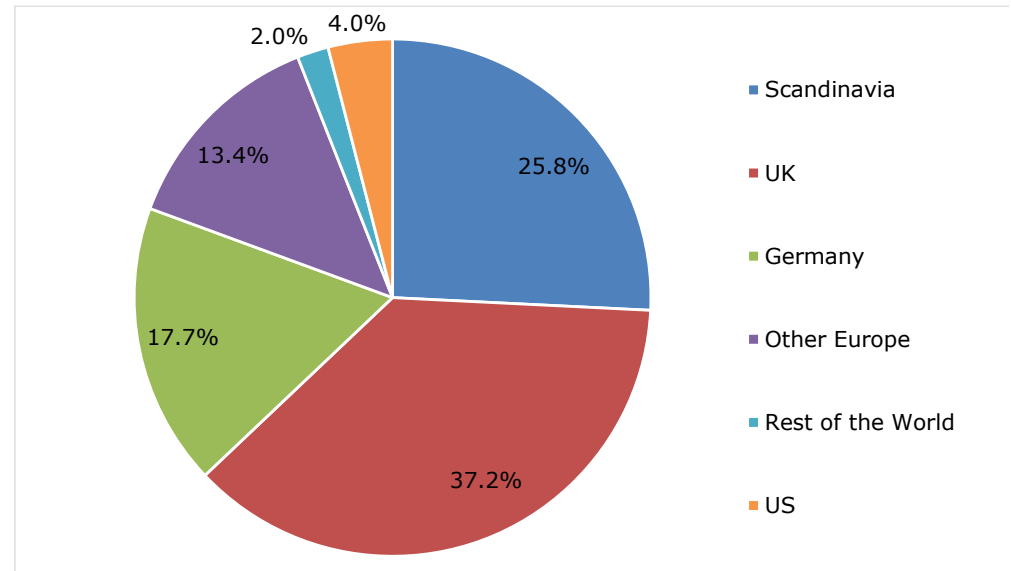
Since then, there has been a "**degree of disruption**", particularly with regards to face-to-face services (19% sales). However we believe this will lessen over the next couple of quarters, setting up for a powerful rebound in 2021. Besides most of the affected areas (eg training/consultancy) have subsequently migrated to 100% online delivery. In turn, stimulating demand and reducing costs.

What's more, there are early signs anyway of a return to work across the construction sector, with many housebuilders – for instance Mace, Taylor Wimpey, Vistry & Persimmon - planning phased reopenings this month under new government [guidelines](#).

## 63% of turnover derived from overseas

Thereafter we think, combined with a balanced geographical footprint (see below), LFL top line growth will improve, and provide a **supportive backdrop for perhaps significant share price appreciation** over a 2-3 year view.

### Expanding both globally and in the UK (% 2019 sales)

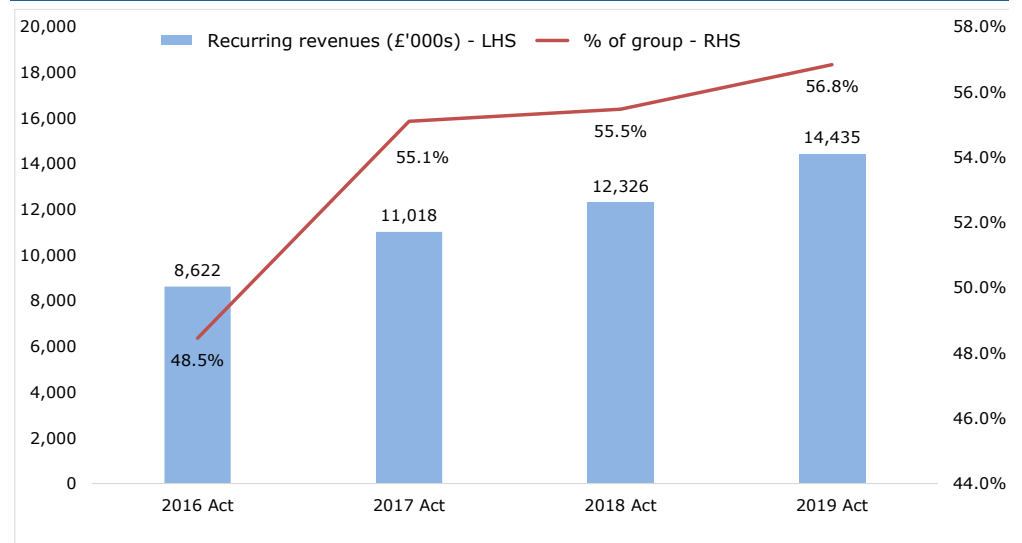


Source: Equity Development

## 57% recurring revenues, providing robust visibility

In the meantime, given the **comfortable cash position, high retention rates & recurring revenues** (56.8%), Elecosoft should provide a welcome port for risk tolerant investors to anchor, whilst the worst of the COVID-19 storm subsides.

### Recurring revenues improve visibility and earnings quality

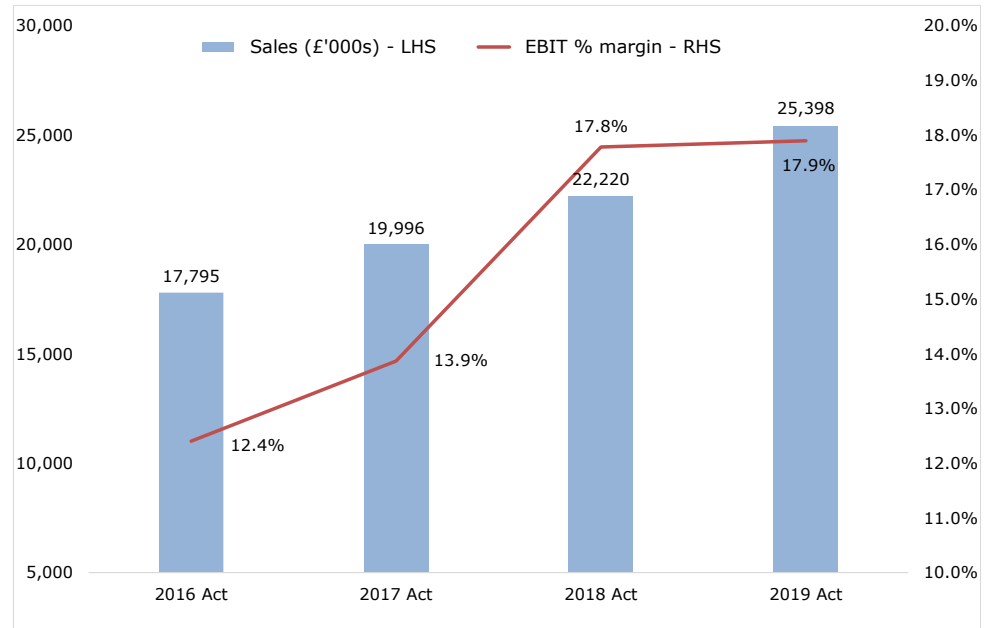


Source: Equity Development

## Well placed to withstand today’s challenges

Moreover, the group has been through this type of short, sharp economic shock before - and **emerged the other side in far better shape**. We reckon this will happen again, even if near term orderflow is pushed to the right, due to deferred IT investment, industry-wide lockdowns, business interruption and the postponement of new building projects.

### Consistent profitable growth over the past 4 years



Source: Equity Development. SBPs = share based payments.

## Temporary suspension of dividend

Indeed consistent with many others, Elecosoft has already cut discretionary spend and is conserving cash, albeit mindful not to harm long term capability.

On top the Board has sensibly decided to **suspend the dividend**, and removed forward guidance. Similarly we have **withdrawn our 2020 forecasts** until there’s greater clarity.

## Shares attractively priced

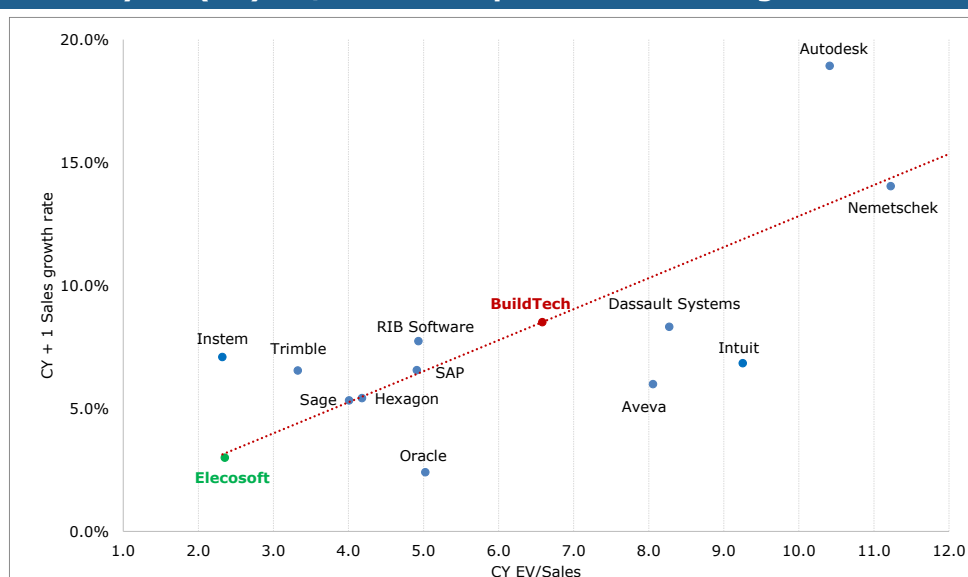
In terms of valuation, **the stock at 74p is attractively priced** - trading on 2.4x 2019 EV/sales (see below) compared to typical industry multiples (pre COVID-19) of 4.0x – 7.0x. With the two closest rivals, Nemetschek & Autodesk, presently priced at >10x EV/turnover.

### Range of sector valuation benchmarks pre COVID-19 crisis

|                          | Elecosoft 2019<br>Trailing | Typical BuildTech multiples pre COVID-19 crisis |       |
|--------------------------|----------------------------|---|-------|
|                          |                            | Low   | High  |
| EV/Sales                 | 2.4                        | 4.0   | 7.0   |
| EV/EBITDA                | 9.5                        | 16.0  | 23.3  |
| EV/EBIT                  | 13.1                       | 20.0  | 27.3  |
| PER                      | 18.1                       | 25.0  | 34.2  |
| EBITDA margin            | 24.8%                      | 25.0%   | 30.0% |
| Adjusted cash conversion | 120%                       | 80%   | 110%  |

Source: Equity Development

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



Source: Equity Development. 2019 figures used for Elecosoft.

Mr Kettleley concluding "**Elecosoft delivered a year of continuing growth, cash generation and product innovation in 2019, despite the uncertain trading conditions experienced.**

[Additionally], **we eliminated our net bank debt of £1.8m as at Dec'18 and generated a net cash position as at Dec'19 of £1.1m.** As a consequence, Elecosoft is better placed to meet the challenge of Coronavirus that we all face at the beginning of 2020.

**Elecosoft's strong trading performance and start to 2020, would normally have warranted the payment of an increased dividend. However, having regard to the uncertainties created by [COVID-19], the Board has decided to not recommend a final [payment this time].**

## 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 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.

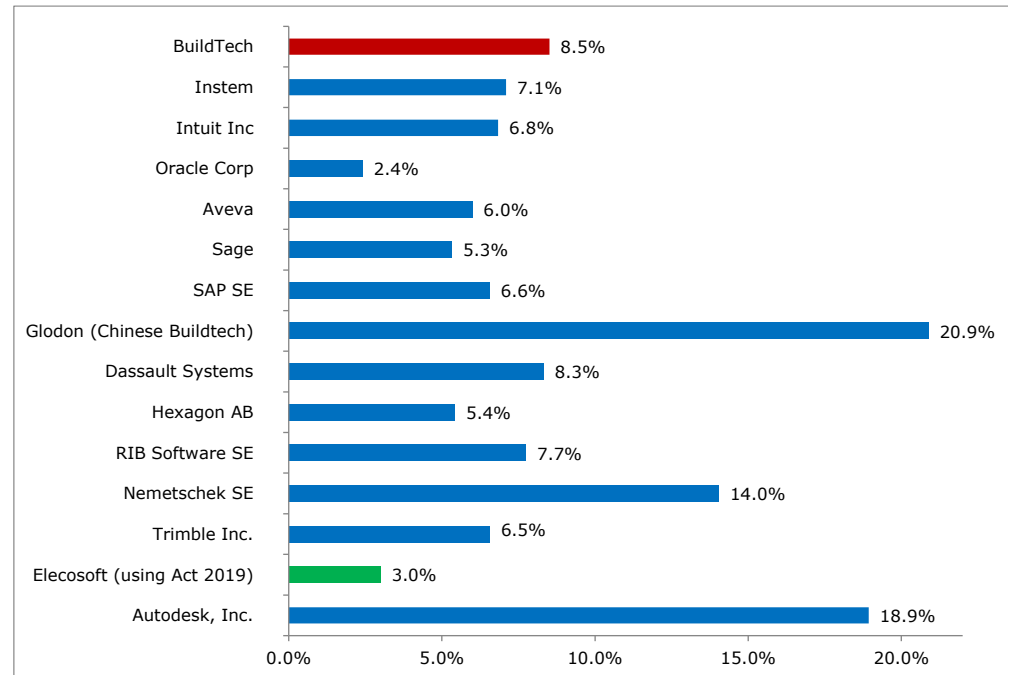
### Summary financial projections

| Elecosoft<br>(Dec yearend)         | 2016 Act<br>£'000s | 2017 Act<br>£'000s | 2018 Act<br>£'000s | 2019 Act<br>£'000s |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    |                    |                    | Restated           |                    |
| Software licenses                  | 4,955              | 5,135              | 5,540              | 6,046              |
| Recurring SaaS & support           | 8,622              | 11,018             | 12,326             | 14,435             |
| Services                           | 4,218              | 3,843              | 4,354              | 4,917              |
| <b>Turnover</b>                    | <b>17,795</b>      | <b>19,996</b>      | <b>22,220</b>      | <b>25,398</b>      |
| <i>% growth</i>                    | 16.6%              | 12.4%              | 11.1%              | 14.3%              |
| <b>Gross Profit</b>                | <b>15,560</b>      | <b>17,575</b>      | <b>19,536</b>      | <b>22,751</b>      |
| <i>% margin</i>                    | 87.4%              | 87.9%              | 87.9%              | 89.6%              |
| <b>Adj. EBITDA (post SBPs)</b>     | <b>2,753</b>       | <b>3,643</b>       | <b>5,257</b>       | <b>6,302</b>       |
| <i>% Margin</i>                    | 15.5%              | 18.2%              | 23.7%              | 24.8%              |
| <b>Adj. EBIT (post SBPs)</b>       | <b>2,207</b>       | <b>2,773</b>       | <b>3,951</b>       | <b>4,545</b>       |
| <i>% Margin</i>                    | 12.4%              | 13.9%              | 17.8%              | 17.9%              |
| <b>Adj. Profit before Tax</b>      | <b>2,117</b>       | <b>2,666</b>       | <b>3,670</b>       | <b>4,206</b>       |
| <b>Adjusted EPS (p)</b>            | <b>2.39p</b>       | <b>2.87p</b>       | <b>3.82p</b>       | <b>4.10p</b>       |
| <i>EPS growth rate</i>             | 58.2%              | 20.2%              | 33.3%              | 7.1%               |
| <b>Dividend (p)</b>                | <b>0.40p</b>       | <b>0.60p</b>       | <b>0.68p</b>       | <b>0.30p</b>       |
| <i>Yield</i>                       | 0.5%               | 0.8%               | 0.9%               | 0.4%               |
| <i>% recurring revenues</i>        | 48.5%              | 55.1%              | 55.5%              | 56.8%              |
| <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              |
| <b>Valuation benchmarks</b>        |                    |                    |                    |                    |
| <i>P/E ratio</i>                   | 31.0               | 25.8               | 19.4               | 18.1               |
| <i>EV/Sales</i>                    | 3.4                | 3.0                | 2.7                | 2.4                |
| <i>EV/EBITDA</i>                   | 21.7               | 16.4               | 11.4               | 9.5                |
| <i>EV/EBITA</i>                    | 27.1               | 21.5               | 15.1               | 13.1               |
| <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>                   | 0.53               | 1.28               | 0.58               | 2.53               |
| <b>Net cash/(debt) - ex IFRS16</b> | <b>-1,304</b>      | <b>1,031</b>       | <b>-1,814</b>      | <b>1,101</b>       |
| Sharecount (Ks)                    | 74,433             | 76,309             | 77,400             | 81,100             |
| <b>Shareprice (p)</b>              | <b>74p</b>         |                    |                    |                    |

Source: Equity Development

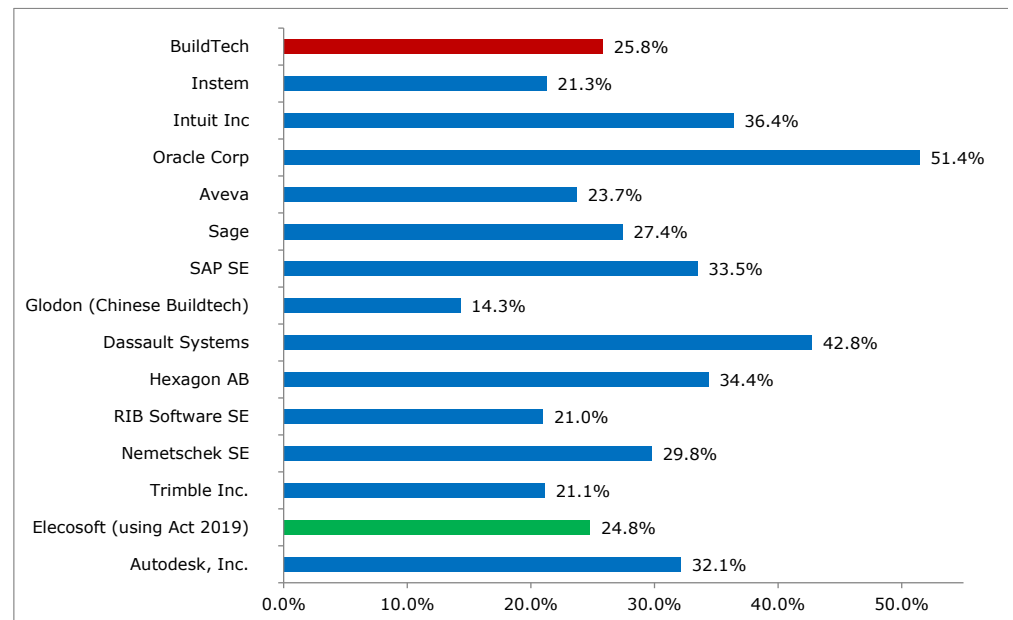
## Appendices - BuildTech industry KPIs & multiples

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



Source: Equity Development: CY = 2020, arithmetic average for sector. 2019 figures used for Elecosoft.

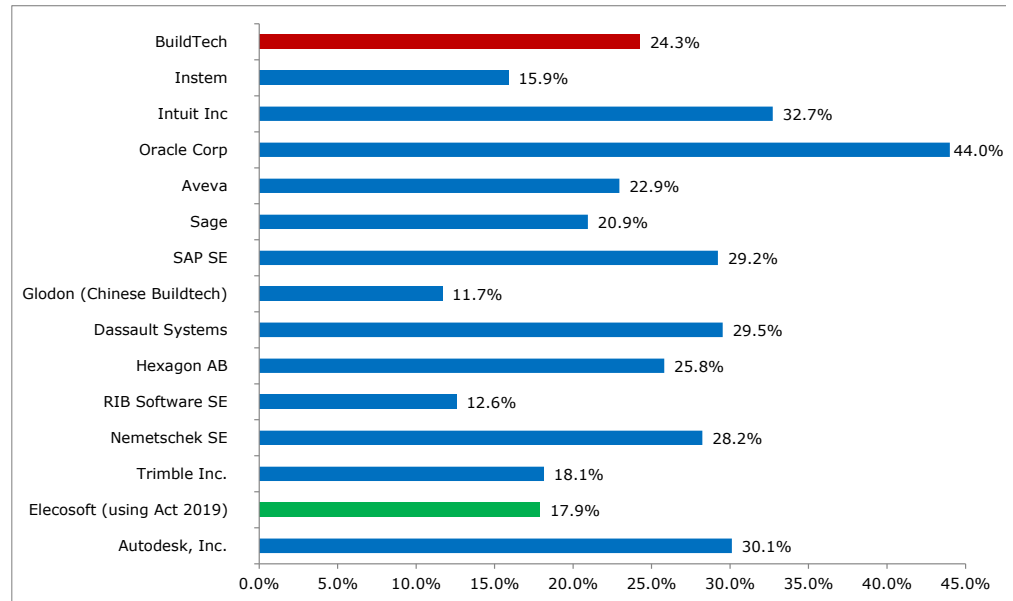
### CY EBITDA margins vs BuildTech peers



Source: Equity Development, arithmetic average for sector. 2019 figures used for Elecosoft.

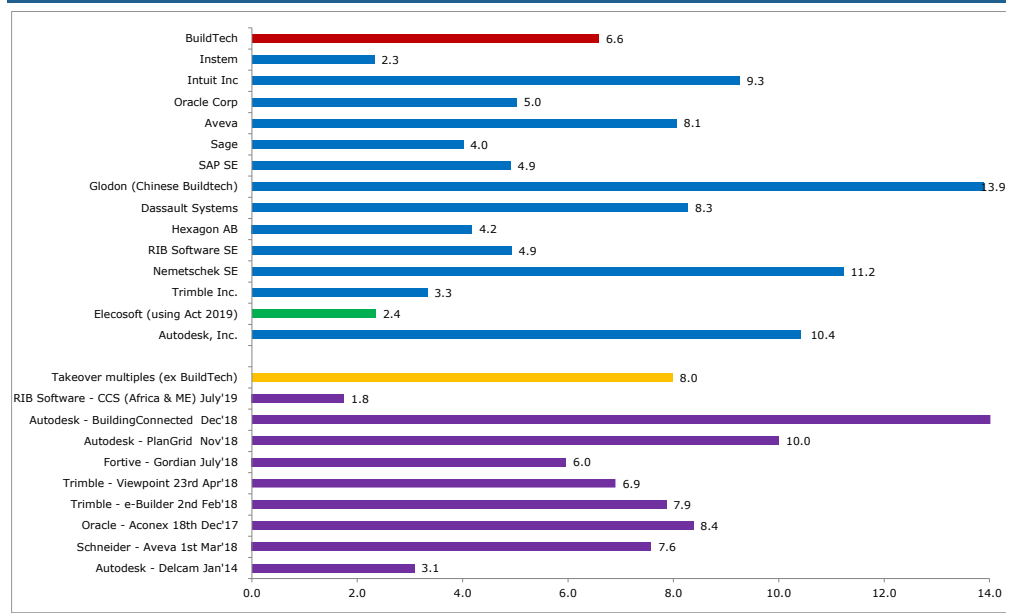


**CY EBIT margins vs BuildTech peers**



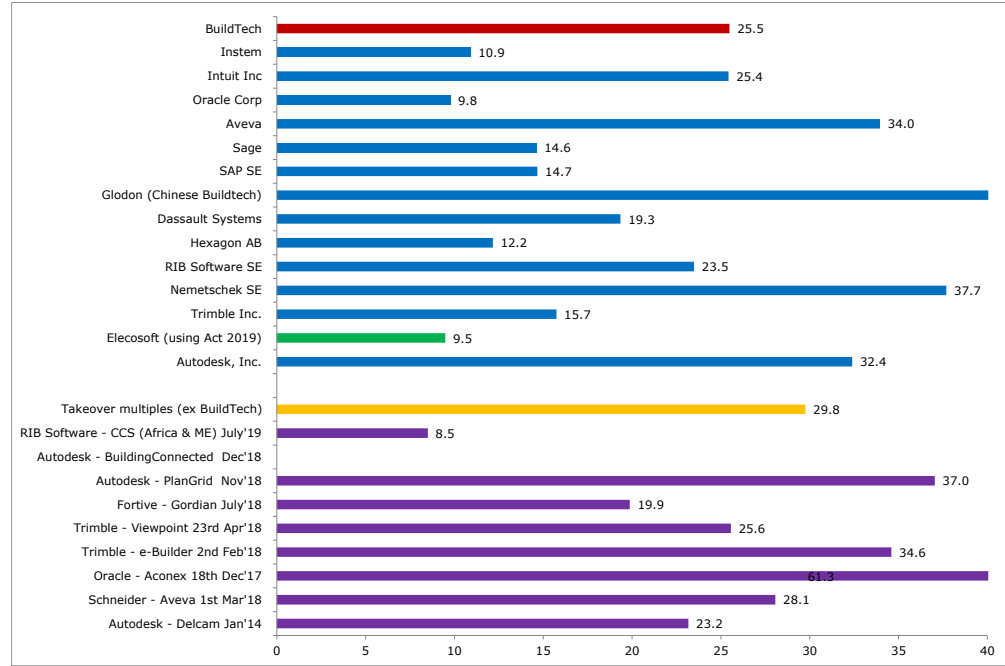
Source: Equity Development, arithmetic average for sector. 2019 figures used for Elecosoft.

**CY EV/sales multiples vs BuildTech peers**



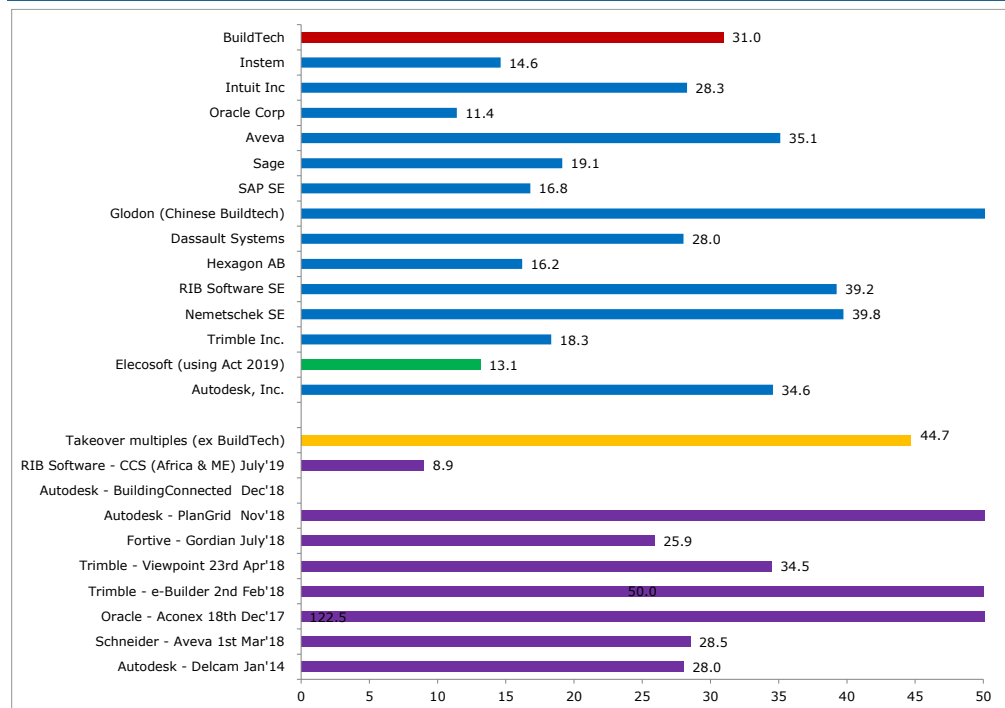
Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

**CY EV/EBITDA multiples vs BuildTech peers**



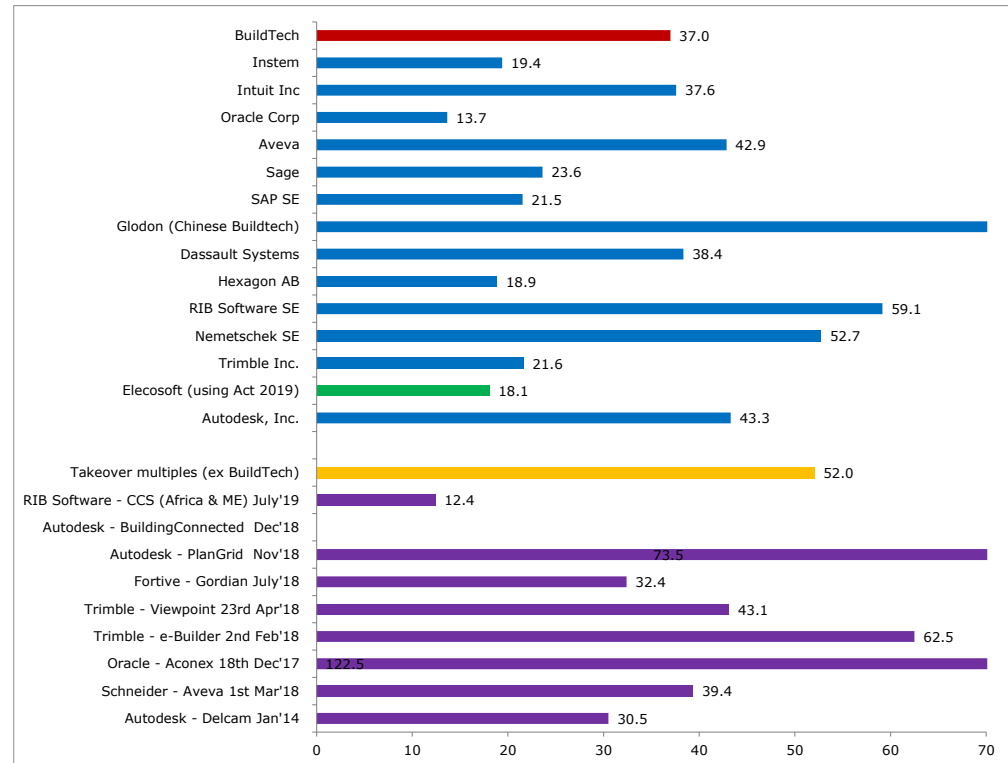
Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

**CY EV/EBIT multiples vs BuildTech peers**



Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

### CY PER multiples vs *BuildTech* peers



Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

### Market capitalisation of peers

|                            | Shareprice | Mrk Cap (Millions) | CY net cash / (debt) Millions | Enterprise Value (Millions) |
|----------------------------|------------|--------------------|-------------------------------|-----------------------------|
| Elecosoft (using Act 2019) | 74p        | £60.9              | £1.1                          | £59.8                       |
| Trimble Inc.               | \$37.0     | \$9,250            | -\$1,160                      | \$10,410                    |
| Autodesk, Inc.             | \$184.0    | \$40,664           | -\$241                        | \$40,905                    |
| Nemetschek SE              | € 63.5     | € 7,334            | € 60                          | € 7,274                     |
| RIB Software SE            | € 29.0     | € 1,433            | € 0                           | € 1,433                     |
| Hexagon AB                 | € 43.4     | € 15,893           | -€ 1,277                      | € 17,170                    |
| Dassault Systems           | € 140.0    | € 34,720           | -€ 2,655                      | € 37,375                    |
| Glodon (Chinese Buildtech) | \$7.39     | \$8,864            | \$162                         | \$8,701                     |
| SAP SE                     | € 107.0    | € 127,330          | -€ 10,586                     | € 137,916                   |
| Sage                       | 640p       | £6,976             | -£394                         | £7,370                      |
| Aveva                      | £39.00     | £6,291             | £110                          | £6,181                      |
| Oracle Corp                | \$53.0     | \$172,250          | -\$27,818                     | \$200,068                   |
| Intuit Inc                 | \$265.0    | \$69,165           | \$2,305                       | \$66,860                    |
| Intstem                    | 450p       | £74.7              | £6.0                          | £68.7                       |

Source: Equity Development



## Investor Access

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