

## You can't keep a good business down

With the Nasdaq hitting all-time highs, finding quality, undervalued & resilient enterprise software stocks is nigh-on impossible. Especially those that are benefiting from secular growth trends, throwing off cash and expanding profits.

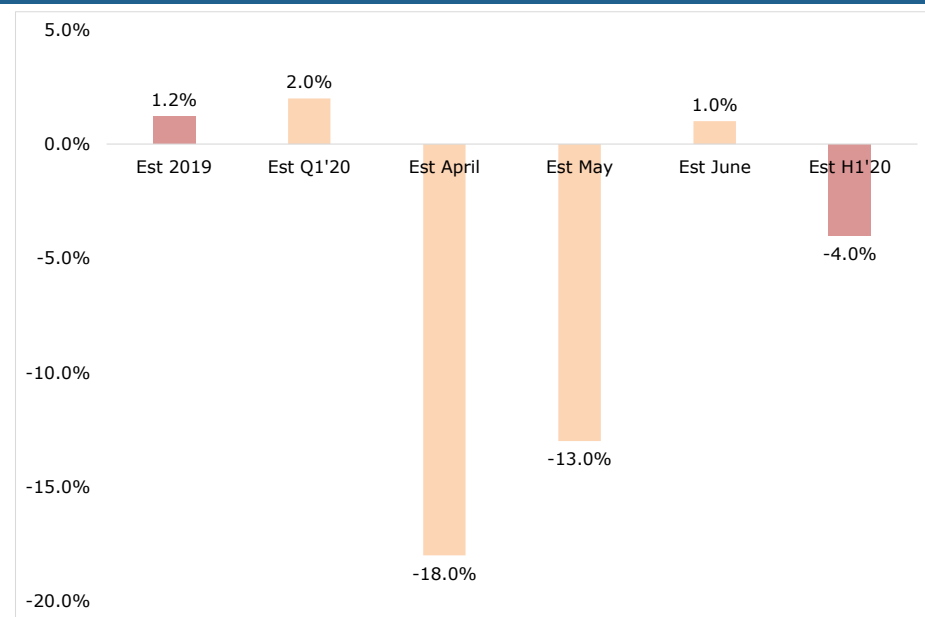
*BuildTech* SaaS developer Elecosoft (now rebranded Eleco) fits the bill. Saying today that although H1'20 turnover dipped slightly to £12.2m (-4% vs £12.7m LY, -3% constant currency) due largely to COVID-19, **adjusted PBT climbed 14% to £2.23m** (£1.96m LY, or +23% reported £1.93m vs £1.57m LY). Boosted by **favourable operating leverage**, lower costs and **higher EBIT margins** (Est ED 19.4% vs 16.8% LY) - as tradeshows were postponed and less was spent on travel & other discretionary items.

## Momentum building with outstanding cashflow

Moreover **net funds closed June at a robust £4.4m** (worth 5.3p/share) vs £1.1m Dec'19 - up £3.3m in just 6 months (Est. 139% cash conversion) - thanks to **tight working capital management** (re debtor days at pre CV19 levels) augmented by deferred tax payments. Providing **plenty of liquidity** to weather even the most extreme of possible 2<sup>nd</sup> infection waves, and optionality (re M&A) if potential acquisitions ever become available at attractive prices.

What's more **the outlook is improving**, with our stab-in-the-dark 'guesstimate' being that **June saw positive LFL sales** (see below), assisted by the **ongoing digitisation of the construction industry**, launch of a **new AI visualisation tool** (eg Karndeian) and **North America expansion** (eg US paint manufacturer Benjamin Moore). Not bad considering most of ELCO's clients remain under social distancing restrictions. Plus, many of the firm's **productivity gains should endure** long after the pandemic.

### Estimated positive LFL sales growth in June (reported)



Source: Equity Development

14th July 2020

### Company Data

EPIC	AIM: ELCO
Price (last close)	78p
52 week High/Low	87p/47p
Market cap	£64.2m
Net cash June 2020	£4.4m
ED valuation / share	Withdrawn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 an estimated **62% of H1'20 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:** Interims late September 2020

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## H1'20 recurring revenues approx 62% of group

Elsewhere, **customers are ramping up their adoption of cloud services** (re work-from-home & online training). Which in turn helped to drive ELCO's **recurring revenues** (re maintenance, support & SaaS) **6% higher** (ED est), representing approx. 62% of the group (vs 56.3% H1'19). In fact, we think **global shelter-at-home policies may have accelerated the digitization of certain industries** (eg BuildTech) by perhaps as much as 2-3 years.

Don't get me wrong, **conditions haven't yet returned to pre-crisis levels**, and a handful of perpetual license / service contracts were not surprisingly impacted. However this should be viewed as a minor-bump, and we believe **H2 will be stronger than H1**, underpinned by greater visibility & continued fiscal/monetary stimulus (eg Boris infrastructure Boom).

### Estimated H1'20 results

Summary Financials (£'000s)	2018	H1'19	H2'19	2019	Est H1'20
Software licenses	5,540	3,010	3,036	6,046	2,559
Recurring SaaS & support	12,326	7,157	7,278	14,435	7,586
Services	4,354	2,544	2,373	4,917	2,061
<b>Sales</b>	<b>22,220</b>	<b>12,711</b>	<b>12,687</b>	<b>25,398</b>	<b>12,206</b>
Reported % growth rate	11.1%	20.4%	8.8%	14.3%	-4.0%
Acquisition growth %	8.0%	19.5%	6.5%	13.1%	0.0%
Estimated forex	-2.0%	-2.0%	-2.0%	-2.0%	-1.0%
Estimated % LFL (constant currency)	5.0%	2.1%	4.2%	3.2%	-3.0%
% recurring revenues	55.5%	56.3%	57.4%	56.8%	62.2%
<b>Gross Profit</b>	<b>19,536</b>	<b>11,392</b>	<b>11,359</b>	<b>22,751</b>	<b>10,924</b>
% margin	87.9%	89.6%	89.5%	89.6%	89.5%
Operating expenses (excl D&A)	-14,279	-8,446	-8,003	-16,449	-7,601
<b>Adjusted EBITDA (post SBPs)</b>	<b>5,257</b>	<b>2,946</b>	<b>3,356</b>	<b>6,302</b>	<b>3,323</b>
% margin	23.7%	23.2%	26.5%	24.8%	27.2%
Depreciation	-777	-450	-452	-902	-450
Amortisation of intangibles	-529	-358	-497	-855	-500
<b>Adjusted EBIT (post SBPs)</b>	<b>3,951</b>	<b>2,138</b>	<b>2,407</b>	<b>4,545</b>	<b>2,373</b>
% margin	17.8%	16.8%	19.0%	17.9%	19.4%
Net interest	-281	-179	-160	-339	-140
<b>Adjusted PBT</b>	<b>3,670</b>	<b>1,959</b>	<b>2,247</b>	<b>4,206</b>	<b>2,233</b>
PBT margin	16.5%	15.4%	17.7%	16.6%	18.3%
Tax	-711	-338	-546	-884	-424
<b>Adjusted earnings</b>	<b>2,959</b>	<b>1,621</b>	<b>1,701</b>	<b>3,322</b>	<b>1,809</b>
Margin	13.3%	12.8%	13.4%	13.1%	14.8%
<b>Adjusted Cashflow</b>	<b>4,519</b>	<b>2,519</b>	<b>2,946</b>	<b>5,465</b>	<b>3,300</b>
Cash conversion	114%	118%	122%	120%	139%
<b>Adjusted EPS (pence)</b>	<b>3.82p</b>	<b>2.00p</b>	<b>2.10p</b>	<b>4.10p</b>	<b>2.20p</b>
EPS growth %	33.3%	9.4%	5.1%	7.1%	10.0%
Dividend (pence)	0.68p	0.30p	0.00p	0.30p	0.00p
<b>Net cash / (debt) - Ex IFRS16</b>	<b>-1,814</b>	<b>-198</b>	<b>1,101</b>	<b>1,101</b>	<b>4,400</b>

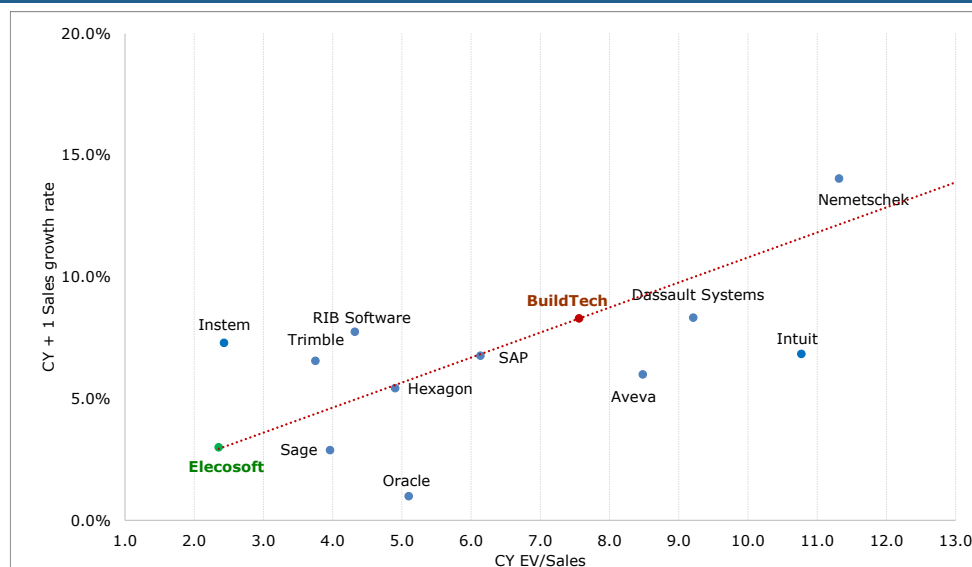
Source: Equity Development

## Shares look undervalued

In terms of valuation, **the stock at 78p 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.

Looking ahead, given the more stable macro environment, **we hope to reintroduce our forecasts and valuation** at the interims in late September.

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



Source: Equity Development (uses 2019 actuals for Elecosoft)

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

	Elecosoft 2019 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	19.0	25.0	34.2
EBITDA margin	24.8%	25.0%	30.0%
Adjusted cash conversion	120%	80%	110%

Source: Equity Development. 2019 figures used for Elecosoft.

### Resilient 1<sup>st</sup> half with adjusted PBT up 14%

Executive Chairman John Ketteley commenting: "**Elecosoft continued to perform well in the first half of 2020; and we will concentrate on increasing sales, improving our recurring income, and generating positive cash flow in the second half.**"

## 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.

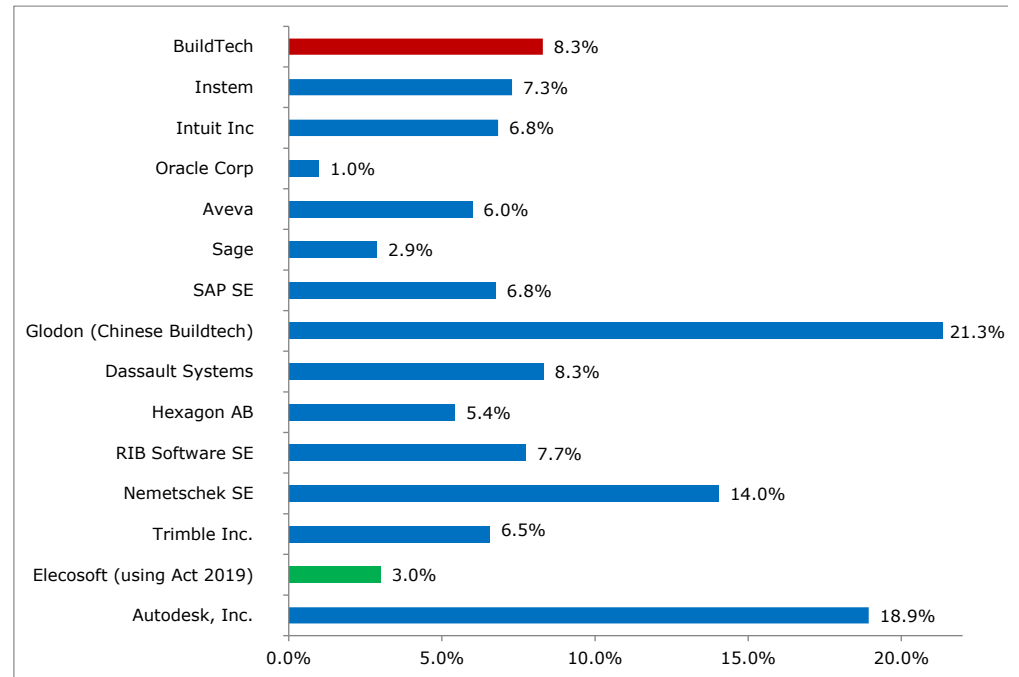
## Summary financials

Elecosoft (Dec yearend)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'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>	32.7	27.2	20.4	19.0
<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	21.6	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>	0.56	1.35	0.61	2.66
<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>78p</b>			

Source: Equity Development

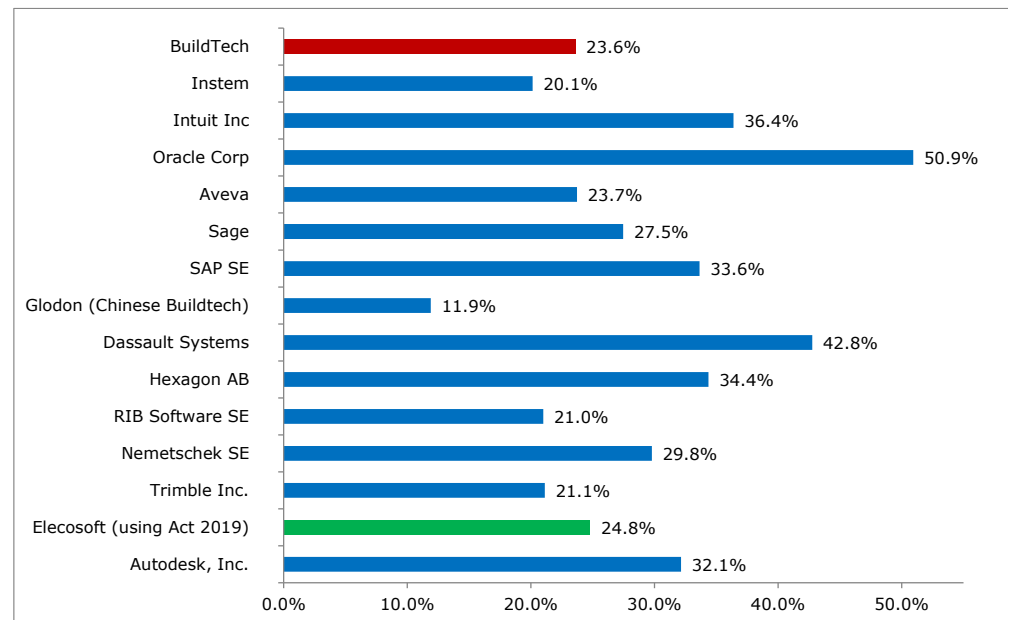
## Appendices - BuildTech industry KPIs & multiples

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



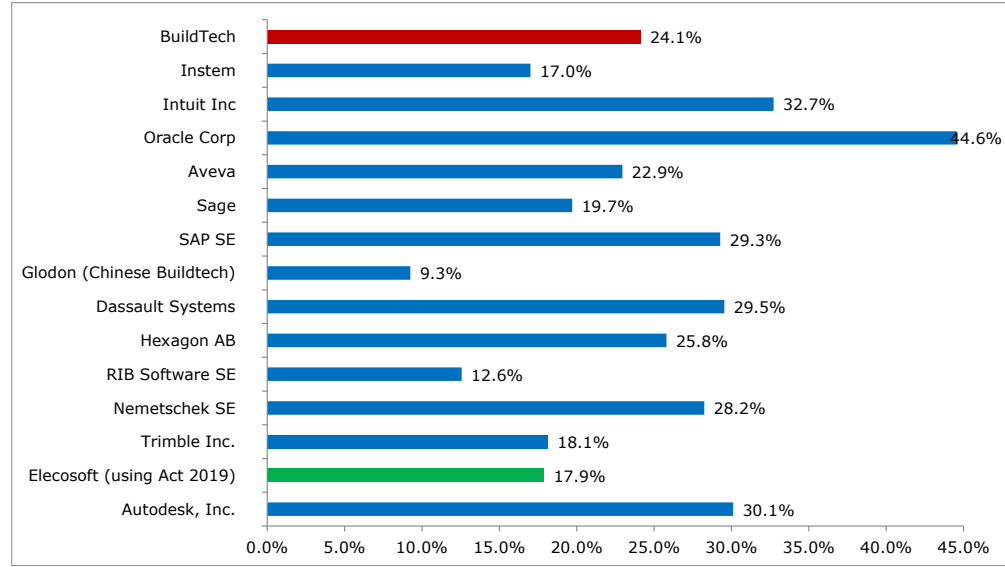
Source: Equity Development: CY = 2020, arithmetic average for sector. 2019 figures used for Elecosoft.

### CY EBITDA margins vs BuildTech peers



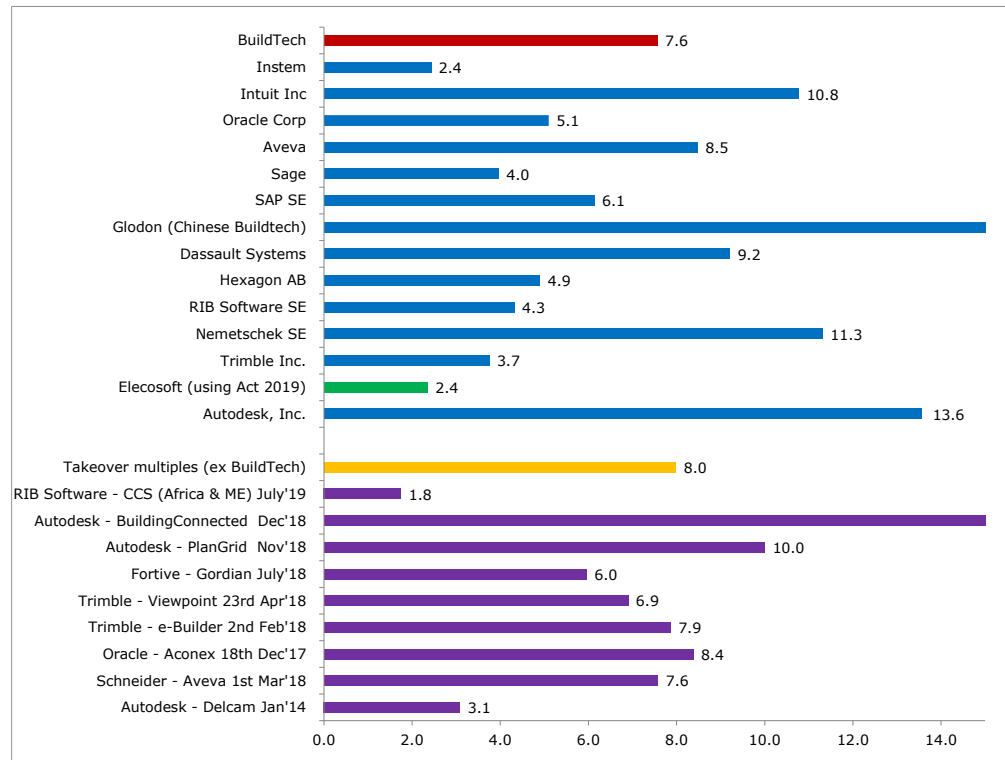
Source: Equity Development, arithmetic average for sector. 2019 figures used for Elecosoft.

**CY EBIT margins vs BuildTech peers**



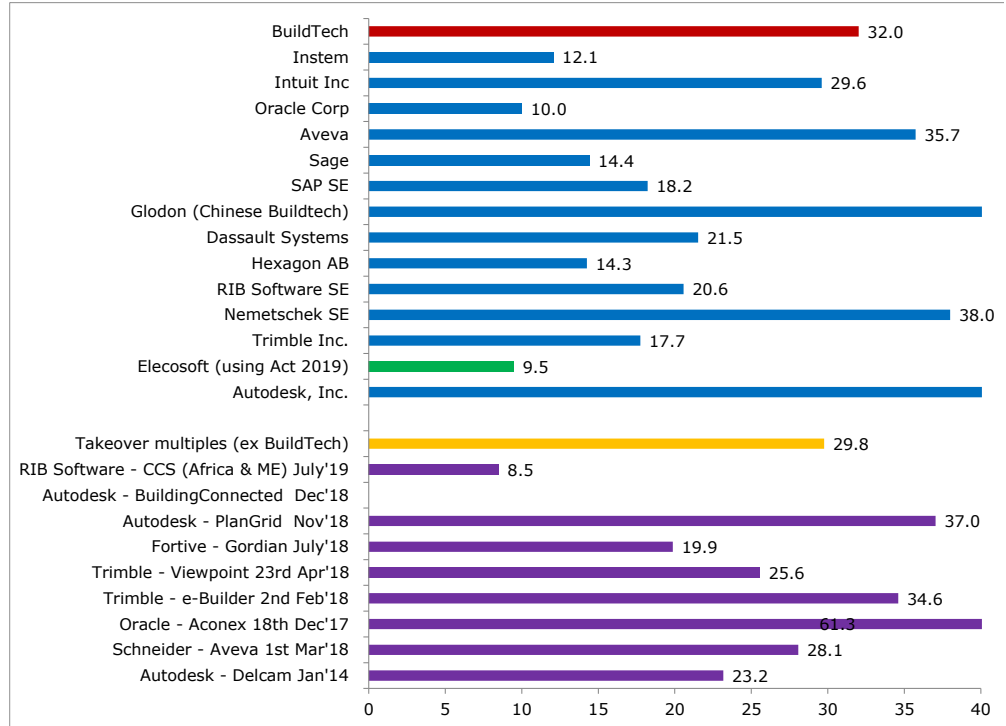
Source: Equity Development, arithmetic average for sector. 2019 figures used for Elecosoft.

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



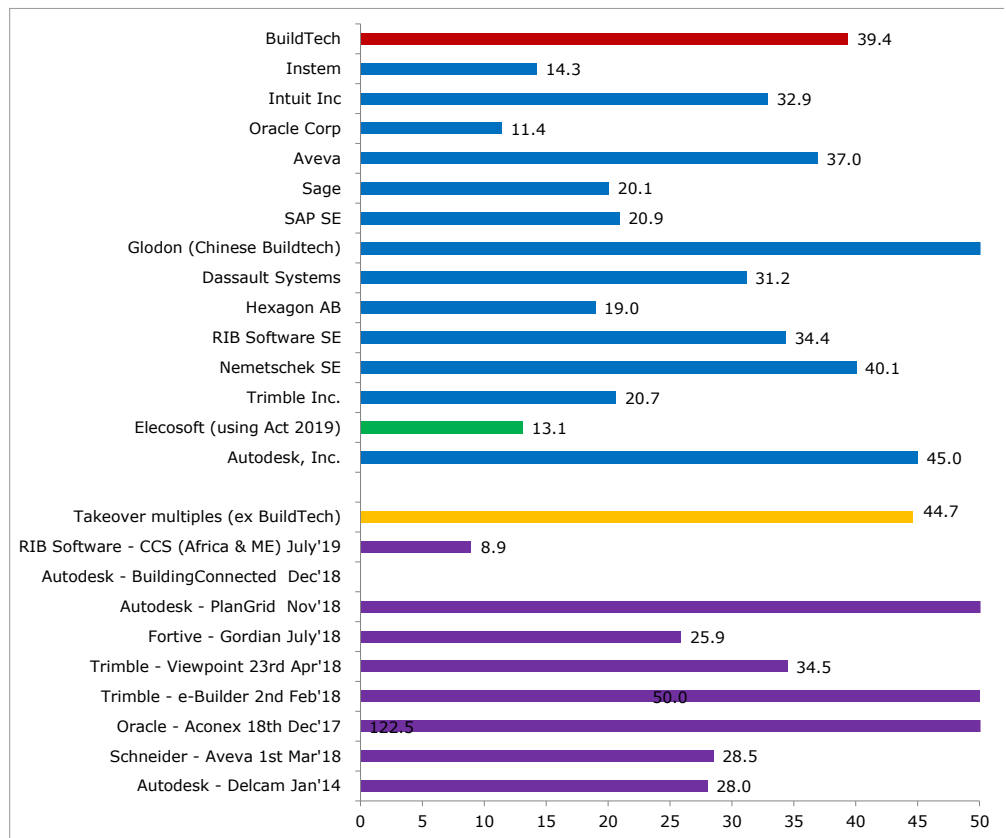
Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

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



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

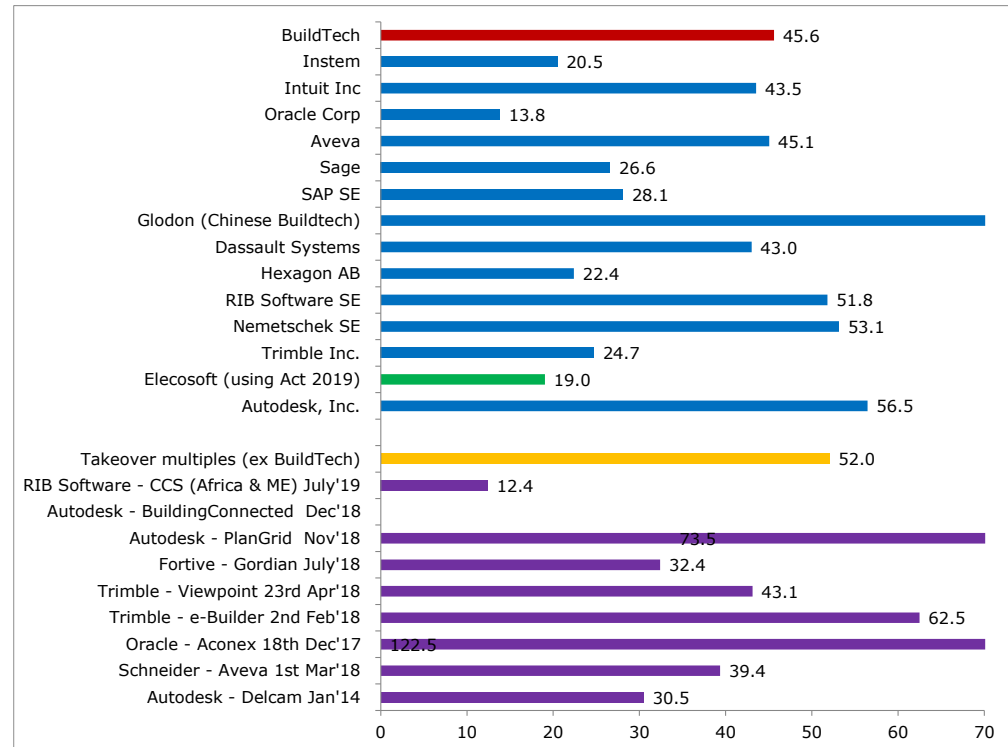
**CY EV/EBIT multiples vs BuildTech peers**



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)	78p	£64.2	£4.4	£59.8
Trimble Inc.	\$42.3	\$10,575	-\$1,160	\$11,735
Autodesk, Inc.	\$240.0	\$53,040	-\$241	\$53,281
Nemetschek SE	€ 64.0	€ 7,392	€ 60	€ 7,332
RIB Software SE	€ 25.4	€ 1,255	€ 0	€ 1,255
Hexagon AB	€ 51.5	€ 18,856	-€ 1,277	€ 20,133
Dassault Systems	€ 157.0	€ 38,936	-€ 2,655	€ 41,591
Glodon (Chinese Buildtech)	\$10.65	\$12,741	\$571	\$12,171
SAP SE	€ 136.0	€ 160,480	-€ 9,917	€ 170,397
Sage	665p	£7,182	-£238	£7,420
Aveva	£41.00	£6,613	£110	£6,503
Oracle Corp	\$57.0	\$166,725	-\$33,535	\$200,260
Intuit Inc	\$307.0	\$80,127	\$2,305	\$77,822
Instem	465p	£77.2	£7.2	£70.0

Source: Equity Development



## Investor Access

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