

Profits jump 25% April YTD

If you are working from home, earning the same salary as last year, and not commuting, holidaying abroad or eating out, then you've probably saved a great deal of disposable income since the COVID-19 lockdowns began in March.

The same is true for corporates, especially those who haven't been materially impacted by the pandemic, or incurred significant extra costs (eg social distancing, cleaning, PPE).

Take *BuildTech* software developer Elecosoft, who said today that although revenues declined 3% April YTD (2% constant currency: ED Est split -14% month vs +2% Q1'20). **PBT had jumped an impressive 25% YoY** – as tradeshow were postponed and less money was spent on travel, hotels, marketing & other discretionary items.

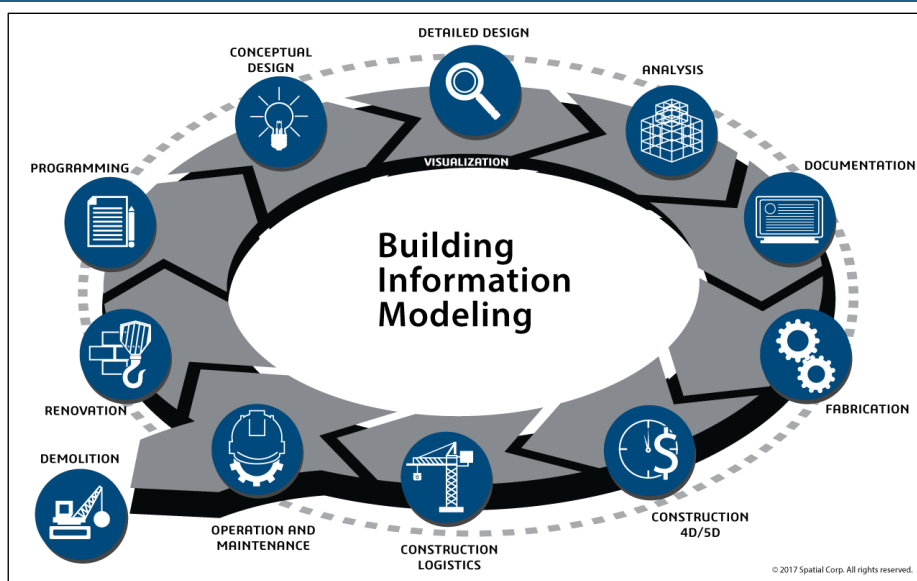
Altogether lifting YTD EBIT margins to circa 20% (ED Est) vs 16.8% H1'19, and closing April with **net cash of £3.1m** vs £1.1m in Dec'19.

LFL recurring revenues climb 6% April YTD

Better still, even once a universal vaccine is available, we suspect some of these productivity improvements will remain. Elsewhere, customers are accelerating their adoption of cloud & SaaS applications. Which in turn, helped to drive ELCO's **recurring revenues** (re maintenance, support, SaaS) **6% higher April YTD**, representing approx. 59% of the group (vs 56.8% FY19).

Looking ahead, given the more stable macro environment, we hope to reintroduce our forecasts and valuation - either in September at the interims, or perhaps at the H1 trading update in late July.

BIM market predicted to expand 15% CAGR 2019-2026



Source: Internet, Valuates Research

4th June 2020

Company Data

EPIC	AIM: ELCO
Price (last close)	77p
52 week High/Low	87p/47p
Market cap	£63.3m
Net cash April 2020	£3.1m
ED valuation / share	Withdrawn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: H1 trading update July 2020

Paul Hill (Analyst)*
0207 065 2690
paul.hill@equitydevelopment.co.uk

*a shareholder in Elecosoft

Shares appear good value

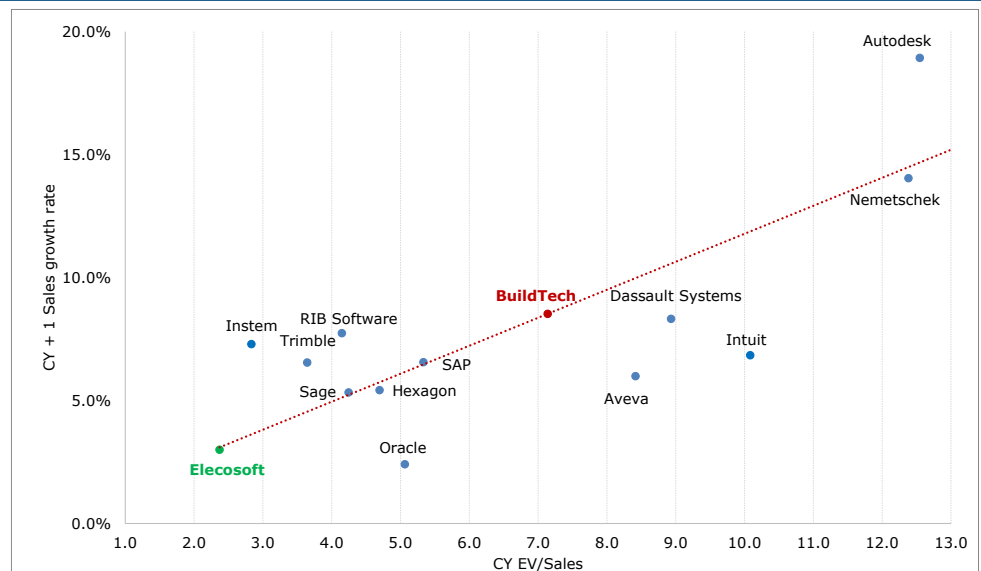
In terms of valuation, **the stock at 77p is attractively priced** - trading on 2.4x 2019 EV/sales (see below) compared to typical industry multiples (pre COVID-19) of 4.0x – 7.0x. With the two closest rivals, Nemetschek & Autodesk, presently priced at >10x EV/turnover.

Range of sector valuation benchmarks pre COVID-19 crisis

	Elecosoft 2019 Trailing	Typical BuildTech multiples pre COVID-19 crisis	
		Low	High
EV/Sales	2.4	4.0	7.0
EV/EBITDA	9.6	16.0	23.3
EV/EBIT	13.3	20.0	27.3
PER	18.8	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 Kettleby commenting: **“The thorough planning, initiative and rapid response of our employees in dealing with the Coronavirus disruption meant that within less than two weeks all our business units had begun home working and had switched to the online delivery of training, consultancy and support services to our customers. The initiatives taken by all my colleagues in every business unit of the Elecosoft Group made a vital contribution to our dealing successfully with the unprecedented disruption to our operations threatened by the Covid-19 outbreak and we thank them all.”**

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.

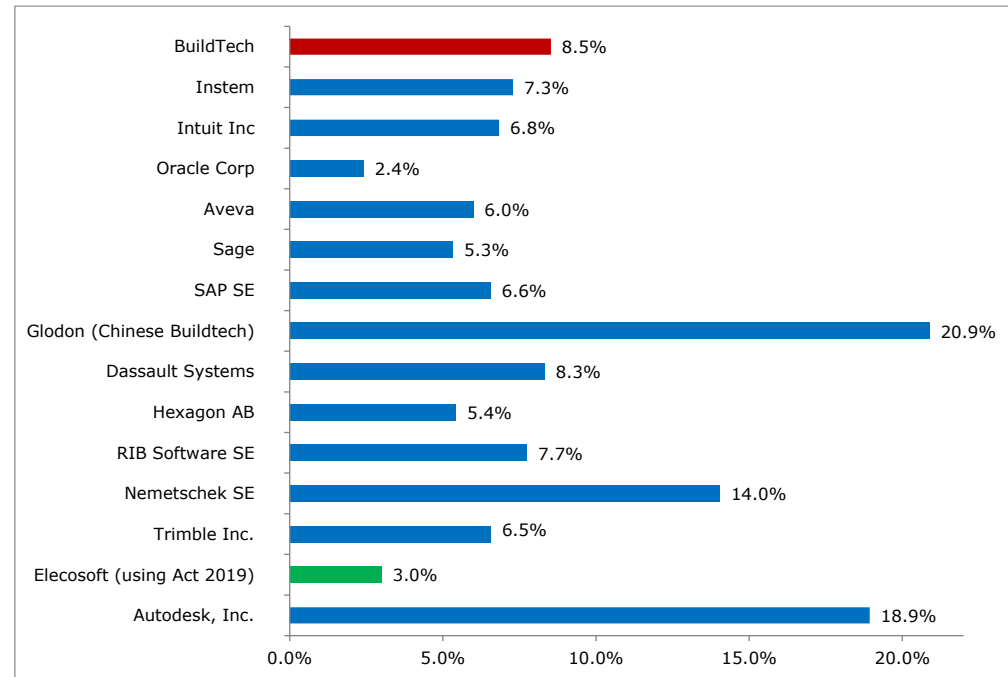
Summary financials

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
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%	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
<u>Valuation benchmarks</u>				
<i>P/E ratio</i>	32.3	26.9	20.1	18.8
<i>EV/Sales</i>	3.4	3.0	2.7	2.4
<i>EV/EBITDA</i>	21.9	16.6	11.5	9.6
<i>EV/EBITA</i>	27.3	21.8	15.3	13.3
<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>	0.55	1.33	0.60	2.63
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)	77p			

Source: Equity Development

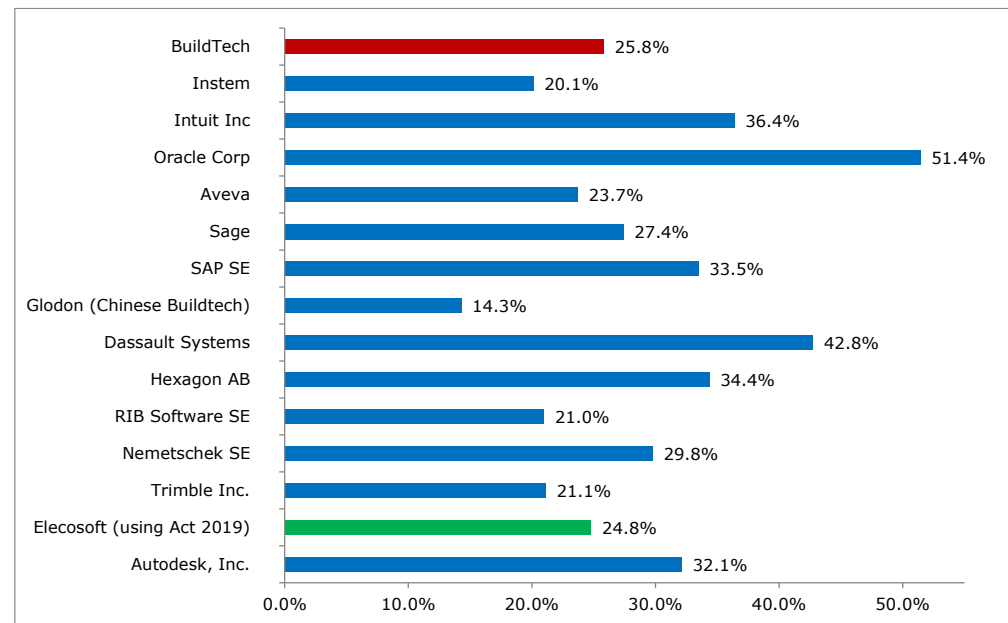
Appendices - BuildTech industry KPIs & multiples

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



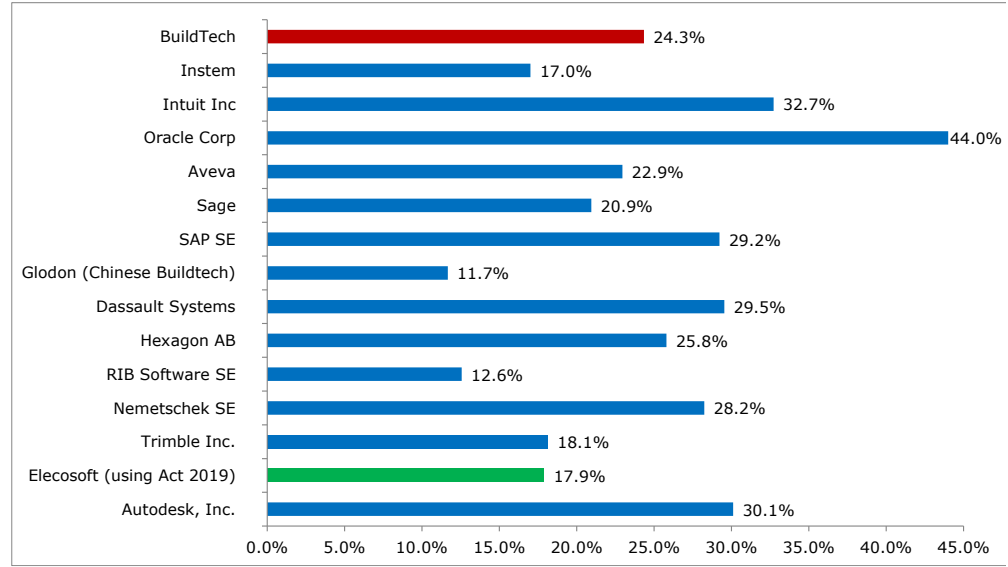
Source: Equity Development: CY = 2020, arithmetic average for sector. 2019 figures used for Elecosoft.

CY EBITDA margins vs BuildTech peers



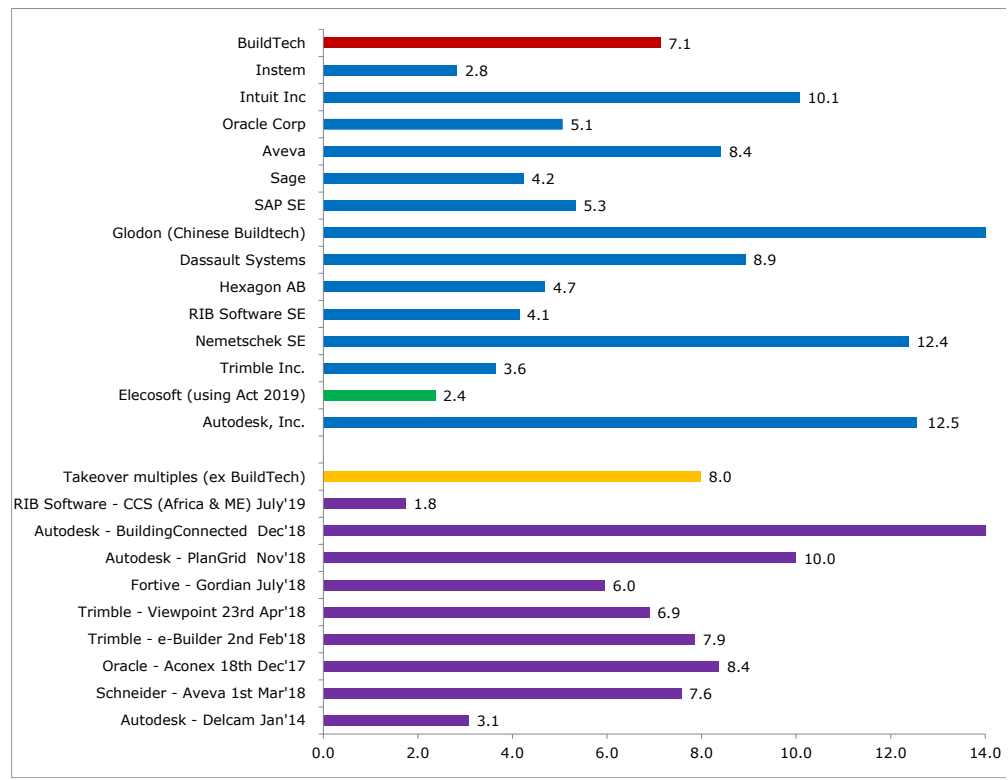
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CY EBIT margins vs BuildTech peers



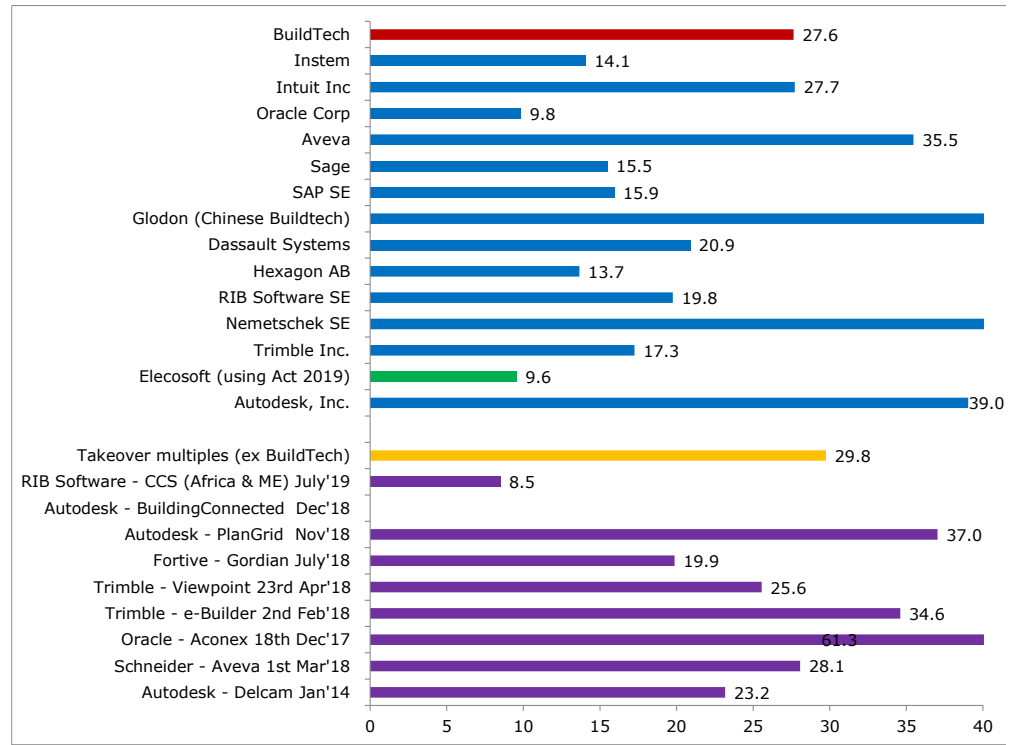
Source: Equity Development, arithmetic average for sector. 2019 figures used for Elecosoft.

CY EV/sales multiples vs BuildTech peers



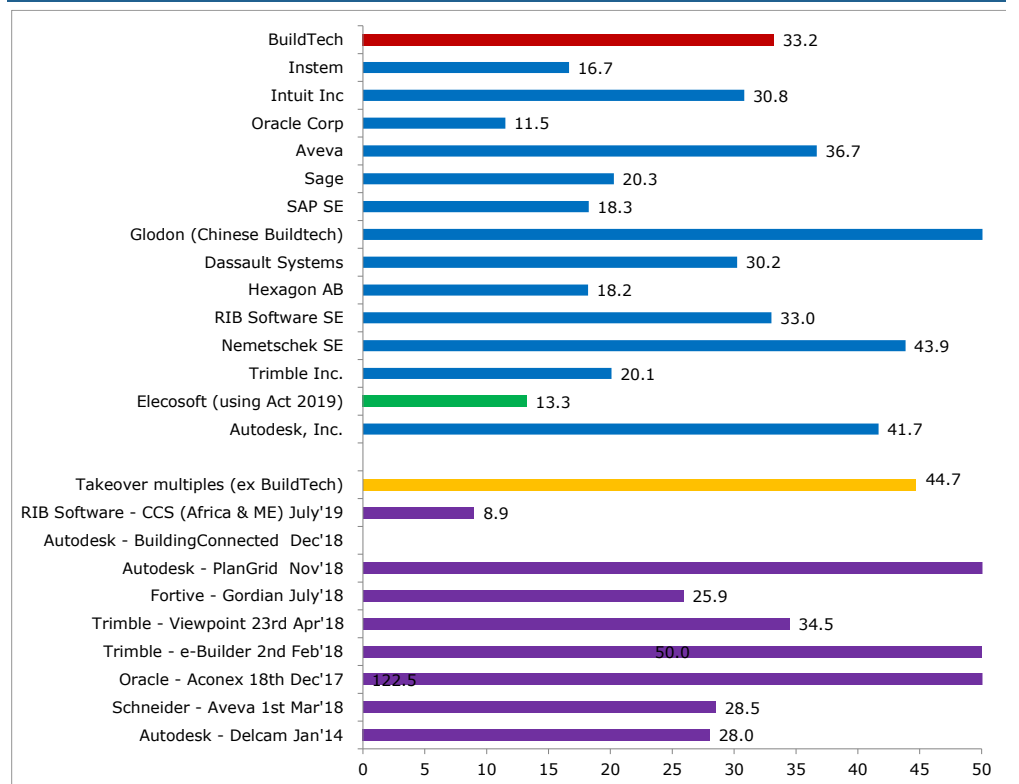
Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

CY EV/EBITDA multiples vs BuildTech peers



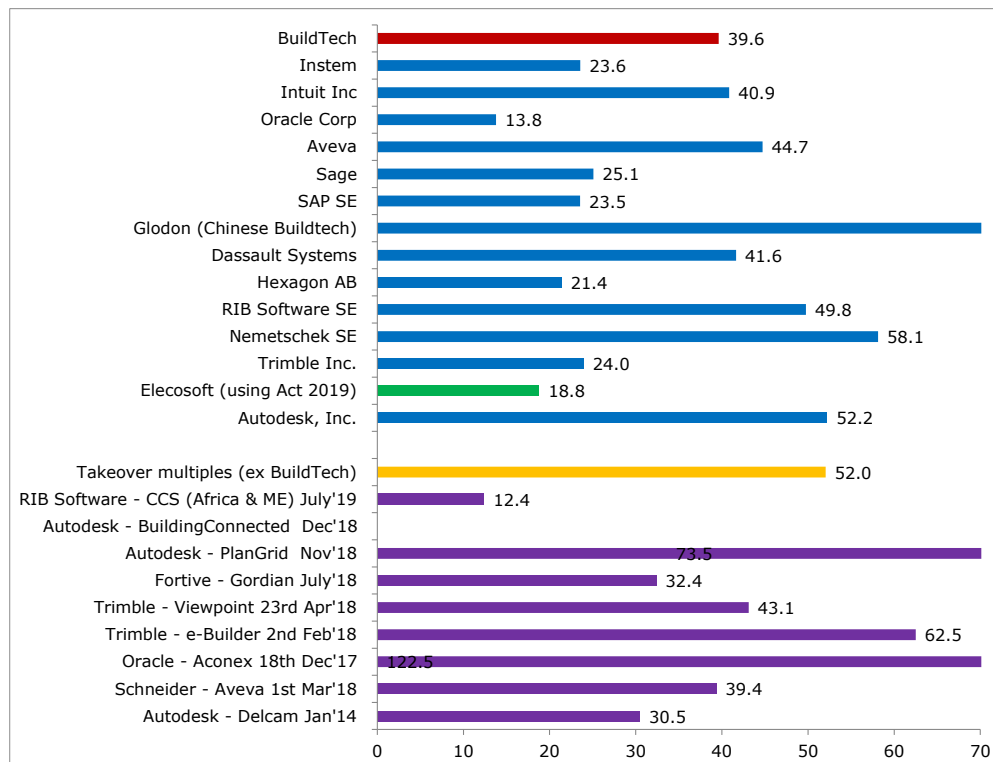
Source: Equity Development: CY = Current Year, arithmetic average for sector. 2019 figures used for Elecosoft.

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)	77p	£63.3	£3.1	£60.2
Trimble Inc.	\$41.0	\$10,250	-\$1,160	\$11,410
Autodesk, Inc.	\$222.0	\$49,062	-\$241	\$49,303
Nemetschek SE	€ 70.0	€ 8,085	€ 60	€ 8,025
RIB Software SE	€ 24.4	€ 1,205	€ 0	€ 1,205
Hexagon AB	€ 49.2	€ 18,014	-€ 1,277	€ 19,291
Dassault Systems	€ 152.0	€ 37,696	-€ 2,655	€ 40,351
Glodon (Chinese Buildtech)	\$8.10	\$9,716	\$162	\$9,554
SAP SE	€ 117.0	€ 139,230	-€ 10,586	€ 149,816
Sage	680p	£7,412	-£394	£7,806
Aveva	£40.70	£6,565	£110	£6,455
Oracle Corp	\$53.5	\$173,875	-\$27,818	\$201,693
Intuit Inc	\$288.0	\$75,168	\$2,305	\$72,863
Instem	535p	£88.8	£7.2	£81.6

Source: Equity Development



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@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