

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

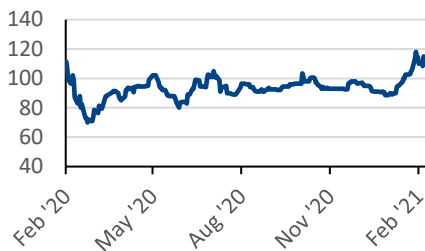
8 March 2021

BKS.L

113p

Market Cap: £58.4m

SHARE PRICE (p)



12m high/low 118p/70p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(2.1)m (at 31/12/20)
Enterprise value	£60.5m
Index/market	AIM
Next news	Trading Update, July 21
Shares in Issue (m)	51.7
Chairman	Mark Cubitt
Chief Executive	Gordon McArthur
Finance Director	Fraser McDonald

COMPANY DESCRIPTION

Beeks provides low-latency Infrastructure-as-a-Service (IaaS) for automated trading of financial products.

www.beeksfinancialcloud.com

BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Solid trading, investing in growth

Beeks Financial Cloud Group's ("Beeks") H1 21A results in our view demonstrate a solid trading performance against a COVID-impacted backdrop. Revenue in the core institutional business grew strongly during the period (+31% YoY), with underlying EBITDA also exhibiting double-digit growth. Operational highlights include the launch of the Beeks Analytics service and continued progress with the network automation project, as part of the Beeks Private Cloud. We adjust FY 21E estimates only to reflect increased Depreciation & Amortisation costs and introduce FY22 forecasts for the first time.

- H1 21A results - impressive growth, visibility remains high:** H1 revenue grew 24% YoY to £5.29m, with the core institutional business growing 31% YoY. Underlying EBITDA grew 11%, reflecting increased staff costs, further investment across the datacentre footprint, and increased investment across the four key products - FX SaaS, V10 of Velocimetrics, Private cloud and the ongoing network automation project. With Annualised Committed Monthly Recurring Revenues ("ACMRR") now representing 100% of our FY 21E revenue forecast, visibility remains high.
- Positive operational progress:** Beeks continues to deliver on the 'land and expand' strategy, with the Tier 1 client roster now numbering nine. H1 21A also saw the launch of Beeks Analytics, a cloud-based SaaS analytics offering, and continued progress with the network automation project as part of the Private Cloud, which is due to be launched later in 2021. The seven new datacentres opened during FY 20A had all reached operating cost breakeven by end-December 2020.
- Positive outlook commentary:** The release reveals that current trading is positive and Beeks entered H2 21E with a solid pipeline of opportunities. The business is seeing increased demand during the third quarter of FY 21E, with strong levels of new business sales in recent months. The release also reveals that management continues to assess strategic acquisitions.
- Dividend maintained:** The interim dividend is maintained at 0.2p/share. We view this as a further sign of management's confidence in the outlook.
- FY 21E forecasts revised, FY 22E estimates introduced:** Our amended FY 21E estimates reflect revised assumptions on depreciation and amortisation given increased investment in the business. The result is a 6% reduction in FY 21E adjusted PBT and EPS. We also introduce FY 22E estimates for the first time.

FYE JUN (£M)	2018	2019	2020	2021E	2022E
Revenue	5.6	7.4	9.4	12.0	15.0
Adj EBITDA	1.9	2.5	3.3	3.8	5.0
Fully Adj PBT	1.2	1.3	1.4	1.6	2.2
Fully Adj EPS (p)	2.3	2.6	2.5	2.7	3.9
EV/Sales (x)	10.8	8.2	6.5	5.0	4.0
EV/EBITDA (x)	31.1	24.4	18.2	15.8	12.1
PER (x)	49.7	44.3	46.1	41.6	29.3

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

H1 21A Financial performance

Revenue and visibility

H1 21A revenue increased by £1.0m to £5.3m, a 24% YoY increase. Institutional revenues (89% of turnover H1 21A) remain the key growth driver, reporting a 31% YoY improvement. With the business having faced some delays in customer implementations due to COVID-19 during the period, we believe this is a solid performance. Growth was not entirely organic. Velocimetrics was acquired in April 2020, so was consolidated for the full six months of H1 21A, but made no contribution in the comparable period.

Geographically, all four regions contributed positively. The Rest of World region remains the largest unit (37% of turnover H1 21A), with YoY turnover growth of 8%. The UK (30% of turnover H1 21A) saw 49% YoY revenue growth. US revenues (19% of turnover H1 21) grew 14% YoY and European revenue grew 14% during the period.

With the bulk of Beeks' revenue being generated on an ongoing contract basis, revenue visibility remains high, at c90% of the H1 21A total revenue (95% H1 20A). Furthermore, ACMRR grew by 18% YoY during H1 21A, to £12m, representing more than double H1 21A turnover. ACMRR saw further growth post-period end, reaching £12.8m as at 28-Feb-21.

Operating expenses

Total operating expenses grew by £0.8m in the period to £3.5m. The aggregate cost base was impacted by further (anticipated) investment made into the datacentre footprint, staff costs and increased investment across the four key products - FX SaaS, V10 of Velocimetrics, Private Cloud and the ongoing network automation project. Depreciation & amortisation rose by £0.5m to £1.4m, reflecting increased investment in fixed assets, and driving our forecast changes as shown below.

Profitability and dividend

Underlying EBITDA grew by 11% YoY to £1.7m (H1 20A £1.6m), with a 3pp decline in margin. Although margin contraction is rarely welcomed, we believe the benefits of the investment discussed above are already being felt – as evidenced by the expansion of two Tier 1 contract announcements released alongside the results.

The group reported a £0.06m tax charge during the period, versus £0.07m in the comparable period. Underlying Basic EPS for the period fell 6.9% to 0.94p, which was largely a function of increased forex losses.

The board has proposed a stable interim dividend of 0.2p. We see this as further indication of management's confidence in Beek's future prospects.

Cash & financing

Beeks closed H1 21A with a £2.05m net debt position. The period saw a £0.2m improvement in operating cash flow to £1.5m. This was offset by increased capex (£0.6m higher YoY) and £1m of acquisition-related payments. The result was a net £0.7m cash outflow for the half.

The group moved its loan facilities from RBS to Barclays during the period. The benefits of this move were 1) securing access to better terms and 2) gaining access to a Revolving Credit Facility up to an additional £2.3m. £1m of the facility was drawn down prior to the period end.

Tier 1 contract expansion

Alongside the H1 21A results, Beeks has also announced the expansion of certain Tier 1 customer deployments. In our view there are four highlights in the announcement:

- The Group now has nine Tier 1 customers at various stages of commercial rollout, with a number of Tier 1 client proof of concept deployments also secured.
- Two Tier 1 customers have now committed to the expansion of their use of the Beeks private cloud infrastructure
- Beeks has now completed the successful full deployment of the first stage of an annualised \$1m global Private Cloud solution for an (unnamed) global financial markets technology provider. The contract reached 90% of its anticipated revenue run-rate by February 2021, and the customer has committed to extending the private cloud solution to further geographies, with the contract expected to reach \$2.1m of annualised revenue, with a significant proportion of this expected to be delivered by the end of this financial year. Management expects significant further expansion of the contract over the next 12 to 24 months,
- One of the Company's other Tier 1 customers, an open banking provider, has also expanded its contract, initially worth £1.1 million over three years, to 135% of the original commitment, again with further expansion opportunities ahead.

The results release also highlights a deepening of the IPC relationship, with the launch of a managed infrastructure offering We believe these developments will provide a growing recurring revenue base for future years and generate further expansion opportunities. The announcement also demonstrates Beeks' ability to meet the growing demand for secure private cloud infrastructure from large financial services organisations.

Financials

Estimate changes

We make revisions to FY 21E estimates following the announcement. These are summarised in the following table.

Beeks Financial Cloud – estimate revisions			
£m unless stated	FY 21E		
	Old	New	Change (%)
Revenue	12.03	12.03	0.0%
Adj EBITDA	3.83	3.83	0.0%
Fully adj PBT	1.65	1.56	-5.6%
Fully adj EPS (p)	2.88	2.72	-5.6%

Source: Progressive Equity Research estimates

- Our FY 21E revenue and EBITDA forecasts are unchanged. The business delivered 44% of our FY 21E target in the first half, in line with the historic average. The business is typically second-half weighted. The results release signals that H2 21E will see Beeks recognise a greater proportion of the revenue from Tier 1 customer engagements. We believe that increasing demand from institutional clients and new product launches (particularly Beeks Analytics that was launched during H1 21A and the Network Automation Project, scheduled for launch later on in 2021) give further confidence in the achievability of our forecasts.
- We have increased our estimates of FY 21E depreciation and amortisation charges. This reflects greater investment in the business (see the following bullet point). The result is a c£100k reduction in FY 22E adjusted PBT. The increase in D&A flows through to earnings, with adjusted EPS also 6% lower.
- Our revised FY 21E cash flow forecasts reflect an increase in anticipated investment in datacentre infrastructure, particularly to serving new Tier 1 clients. The result is an increase in our capex forecast to £4m, vs £2.6m previously. We have also included the results of the Velocimetrics earnout in our estimates. The net result is our revised forecast of the closing net debt position is £2.8m, versus £0.7m previously.

FY 22E forecasts introduced

We have also introduced FY 22E forecasts for the first time. These are detailed overleaf.

We continue to expect revenue from institutional clients to be the key growth driver, but anticipate lower investment in new products than in FY 21E to benefit profitability. We forecast capital expenditure levels to be flat vs FY 21E. However, with improved profitability, tight working capital management and no further earnout consideration payable, we forecast the group to report cash flow breakeven for the year.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2018	2019	2020	2021E	2022E
PROFIT & LOSS					
Revenue	5.58	7.35	9.36	12.03	14.98
Adj EBITDA	1.95	2.48	3.33	3.83	4.98
Adj EBIT	1.36	1.58	1.41	1.60	2.22
Reported PBT	0.75	1.04	0.68	1.31	1.97
Fully Adj PBT	1.19	1.32	1.43	1.56	2.22
NOPAT	1.70	1.89	1.45	1.65	2.33
Reported EPS (p)	2.26	2.10	1.13	2.07	3.10
Fully Adj EPS (p)	2.27	2.55	2.45	2.72	3.86
Dividend per share (p)	0.30	0.35	0.35	0.40	0.46
CASH FLOW & BALANCE SHEET					
Operating cash flow	0.54	2.13	3.26	2.37	3.52
Free Cash flow	(1.16)	0.04	(0.67)	(1.02)	0.00
FCF per share (p)	(2.24)	0.08	(1.30)	(1.98)	0.01
Acquisitions	0.00	(1.11)	(0.75)	(1.00)	0.00
Capex	(1.46)	(1.66)	(3.54)	(4.00)	(4.00)
Shares issued	4.36	0.00	0.00	0.00	0.00
Net cash flow	2.86	(0.55)	(0.91)	(2.02)	0.00
Overdrafts / borrowings	(0.33)	(1.32)	(2.18)	(2.77)	(2.77)
Cash & equivalents	2.89	2.34	1.43	0.00	0.00
Net (Debt)/Cash	2.56	1.02	(0.75)	(2.77)	(2.77)
NAV AND RETURNS					
Net asset value	4.84	5.63	6.72	(2.22)	0.24
NAV/share (p)	9.37	10.89	12.99	(4.29)	0.46
Net Tangible Asset Value	2.14	2.44	6.76	4.49	5.73
NTAV/share (p)	4.13	4.72	13.06	8.69	11.08
Average equity	2.23	5.24	6.17	7.19	8.38
Post-tax ROE (%)	53.3%	25.1%	23.2%	21.7%	26.5%
METRICS					
Revenue growth		31.7%	27.3%	28.6%	24.5%
Adj EBITDA growth		27.4%	34.3%	15.0%	30.1%
Adj EBIT growth		16.1%	(10.7%)	13.1%	38.9%
Adj PBT growth		N/A	9.0%	8.9%	42.1%
Adj EPS growth		N/A	(3.9%)	10.9%	42.1%
Dividend growth		16.7%	0.0%	15.0%	15.0%
Adj EBIT margins	24.4%	21.5%	15.1%	13.3%	14.8%
VALUATION					
EV/Sales (x)	10.8	8.2	6.5	5.0	4.0
EV/EBITDA (x)	31.1	24.4	18.2	15.8	12.1
EV/NOPAT (x)	35.6	31.9	41.8	36.6	25.9
PER (x)	49.7	44.3	46.1	41.6	29.3
Dividend yield	0.3%	0.3%	0.3%	0.4%	0.4%
FCF yield	(2.0%)	0.1%	(1.2%)	(1.8%)	0.0%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

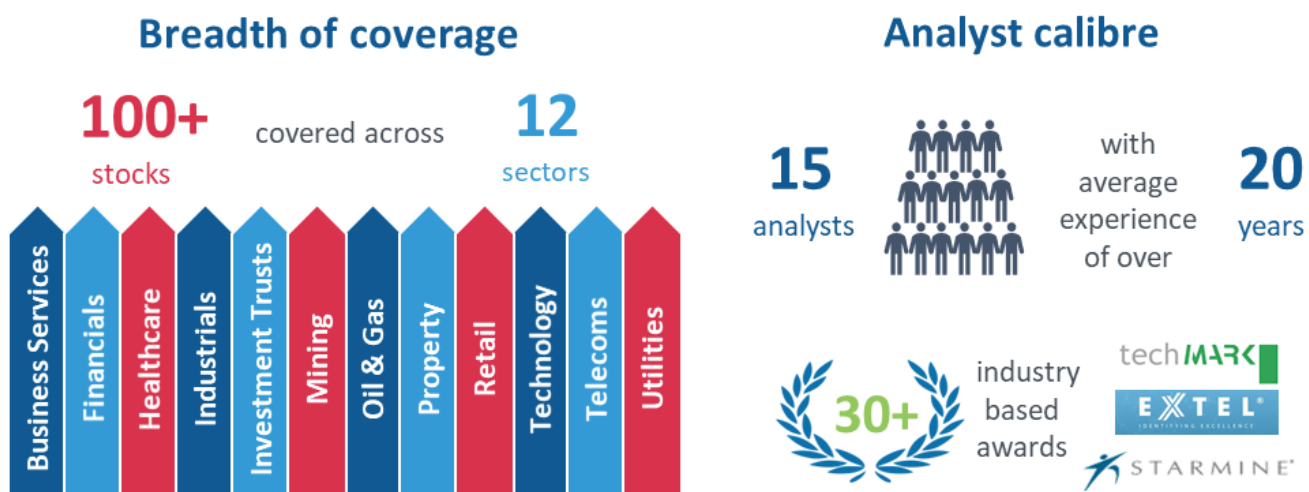
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