

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

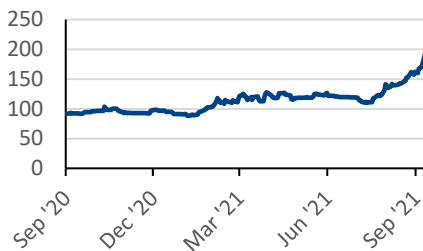
29 September 2021

BKS.L

196p

Market Cap: £109.9m

SHARE PRICE (p)



12m high/low

196p/89p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£1.9m (at 30/06/21)
Enterprise value	£108m
Index/market	AIM
Next news	AGM, October 2021
Shares in Issue (m)	56.1
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.

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BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Solid FY 21A results, a strong start to FY 22E

Cloud computing, connectivity and analytics provider for financial markets, Beeks Financial Cloud Group ("Beeks") has delivered solid FY 21A results in our view. Against a backdrop of COVID19 and ongoing investment in new products and the platform, the group has reported impressive growth in both revenue and profits. The accompanying trading update confirms a record start to the current financial year, including a number of sizeable contract wins. We increase FY 22E forecasts following the announcements, with revenue and adjusted EBITDA increasing by 15% and 13% respectively.

- Impressive growth, visibility remains high:** FY 21A revenue grew 24% YoY to £11.62m, with the core institutional business growing 21% YoY and a first full-year contribution from the Velocimetrics business. Underlying EBITDA also grew 24%, a strong performance in our view given the ongoing investment in the platform and product suite. With Annualised Committed Monthly Recurring Revenues ("ACMRR") as of August 2021 now representing 88% of our FY 22E revenue forecast, visibility remains high.
- Strong operational progress:** FY 21A was a year of significant operational investment for Beeks, and we believe the growth in revenue, profits and ACMRR delivered during the year demonstrate the benefits of this investment. FY 21A saw material investment in three areas: 1) In new products – particularly the Proximity Cloud and Analytics offerings 2) The hiring of additional sales, marketing and customer delivery personnel and 3) The extension of the Beeks footprint to Toronto, thereby extending the platform to all of the world's strategic financial hubs.
- Positive outlook, a strong start to FY 22E:** The results release confirms that sales execution will be the strategic priority for FY 22E and that the new business pipeline is at record levels. An accompanying update on current trading confirms that the group has recorded sales (>\$5m) of total contract value in Q1 22E. This is ahead of the Board's expectations and a strong performance in our view, in what is traditionally the group's quietest quarter for sales.
- Forecast revisions:** We make upward revisions to FY 22E forecasts following the announcement, with revenue and adjusted EBITDA increased by 15% and 13% respectively. We also introduce FY 23E forecasts.

FYE JUN (£M)	2019	2020	2021	2022E	2023E
Revenue	7.4	9.4	11.6	17.2	20.3
Adj EBITDA	2.5	3.3	4.1	5.6	6.7
Fully Adj PBT	1.3	1.4	1.6	2.3	2.9
Fully Adj EPS (p)	2.6	2.5	3.0	3.8	4.4
EV/Sales (x)	14.7	11.5	9.3	6.3	5.3
EV/EBITDA (x)	43.6	32.4	26.1	19.2	16.1
PER (x)	76.8	79.9	65.6	52.0	44.5

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

FY 21A Performance

Revenue and visibility

FY 21A revenue increased by £2.26m to £11.62m, an improvement of 24% YoY on FY 20A. FY 21A saw the first full-year contribution from the Velocimetrics business (VMX) which was acquired in April 2020. The business also saw (unquantified) organic growth in the existing business.

The Group was organised into three main business segments for revenue purposes during the period, institutional, private and analytics customers. Analytics was added as a segment during the year, reflecting the VMX acquisition. Institutional revenues, the group's largest business line, contributed the bulk of the increase (+£1.51m, +19.6% YoY). This reflects growth in the tier 1 customer base. The group now has nine at various stages of deployment. The retail business saw a 20% decline in revenue during the year, reflecting higher customer churn. Prior to the VMX acquisition, Beeks recorded minimal analytics revenues so growth rates in this business line are not meaningful. That said, the business contributed around 11% of FY 21A revenue, with maintenance and software licences sales generating the bulk of segmental revenue.

With the bulk of revenue being generated on an ongoing contract basis, recurring revenue remains high, at c93% of the total. With 23% YoY growth in ACMRR to £13.8m during the year, visibility remains high. The release also heralds that this metric had risen to £15.0m at 31 August 2021 (88% of our FY 22E revenue forecast) following the record start to the current financial year.

Operating expenses

Total operating expenses grew by £1.45m in the period to £7.48m. The aggregate cost base was impacted by further investment made into the platform, product development and sales and marketing. FY 21A saw the group open a new data centre in Toronto. The Beeks footprint now extends to all of the strategic financial hubs across the world, with the investment having been driven by customer demand. Increased investment in development of Proximity Cloud and Beeks Analytics was the key driver of a £1.9m increase in staff costs. Depreciation & amortisation rose by £1.38m to £3.24m, reflecting increased investment in fixed assets in advance of revenues being recognised from new contracts and also longer sales cycles from Tier-1 clients.

Profitability and dividend

Underlying EBITDA grew by 24% during the period to £4.14m (FY 20A £3.33m). FY 21A saw the tax charge swing to an inflow, primarily due to a reversal in temporary differences. Underlying EPS saw double-digit growth in the period (+25% YoY) at 3.14p (2.52p FY 20A).

The board has proposed the suspension of dividend payments, reflecting their view that shareholder's interests are better served by further investing in the business – particularly in proximity cloud.

Cash and financing

The group closed FY 21A with a net cash position of £1.9m, vs net debt of £0.75m FY 20A. At £4.0m, operational cash flow saw impressive growth during the year (£3.1m FY 20A). This was offset by increased capex (+£3.3m vs FY 20A) reflecting investment in new products and the platform. FY 21A saw a £3.1m inflow from financing activities, which included the £5m fundraise. The net result was a £1.9m improvement in the gross cash position.

Strong current trading

Alongside the FY 21A results release, the group has issued an update on current trading. For us, this release contains several key highlights:

- The group has recorded a number of significant contract wins during Q1 22E, including:
 - The first sale of the new Proximity Cloud offering. This is a \$1m multiyear deal for a product which was only launched in August 2021.
 - In July 2021, the group secured a \$1.1m multi-year analytics deal with a Tier 1 Bank for an Asian deployment.
 - In August 2021, the group signed its largest contract to date – a \$2.7m private cloud deployment with a European Bank, with a further global rollout in 2022.
- The group achieved record overall sales (>\$5m) in Q1 22E, in what is typically the group’s quietest sales quarter. This is ahead of Board expectations,
- ACMMR has increased to £15.0m, vs £13.8m at June 30 2021 and the group will recognise an additional £1.3m of revenue from non-recurring product related bookings during the year from signings made to date.

We believe this is a very strong performance. The group is recording material contract wins across the product set, across the globe. The timing is especially notable given that it was achieved during the summer months when activity levels in financial markets are typically lower than other parts of the year.




Proximity Cloud a key future growth driver

Given it has been launched for less than a month, the first sale of the Proximity Cloud product is clearly a welcome development. Going forward, we expect Proximity Cloud to be a key growth driver for the group.

The product is a highly- customisable, pre-configured low-latency, Internet-As-A-Service (“IAAS”) trading environment pre-built into a physical cabinet and delivered to customer’s in-house data centres in a stand-alone rack.

The following image summarises the product’s key functionality

Beeks Proximity Cloud

 <p>FLEXIBILITY</p> <p>Tailor-made configuration of networking components, dedicated hardware and storage to your specification</p>	 <p>PERFORMANCE</p> <p>Your own dedicated infrastructure gives you a performance advantage over public cloud</p>	 <p>SECURITY</p> <p>Sensitive data is saved and managed on dedicated, secure environments reducing compliance and regulatory risk</p>
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Source: Company materials

Proximity Cloud has been in development for several years. It comprises the whole range of functionality offered by Beeks Cloud, including resource management automation, full stack and trading analytics, packet capture, latency monitoring, high precision time services and support for Multicast and Unicast datasets.

We believe that Proximity Cloud is unique in the marketplace, to our knowledge being the only integrated hardware/software solution targeted designed directly for low-latency financial services applications.

As shown in the above graphic, the product offers an inherent security benefit vs public cloud deployments – it runs on the client’s own infrastructure and under the care of their own IT team. This is a key USP in our view, given the typically demanding security requirements of the target Tier 1 customer group.

The economics of a Proximity Cloud deployment are also different from a typical Beeks managed cloud sale. In advance of deployment, the group incurs an upfront hardware cost. However, with the client taking greater responsibility for ongoing operation and support, opex is reduced as Beeks is not incurring costs from renting racks and servers and paying for electricity.

Financials

Estimate changes

We make revisions to our FY 22E estimates following the announcement. These are summarised in the following table.

Beeks Financial Cloud – estimate revisions			
£m unless stated	FY 22E		
	Old	New	Change (%)
Revenue	14.98	17.19	14.7%
Adj EBITDA	4.98	5.61	12.7%
Fully adj PBT	2.22	2.35	5.7%
Fully adj EPS (p)	3.86	3.77	-2.4%

Source: Progressive Equity Research estimates

- We increase FY 22E revenue forecasts by 15% to £17.07m. This reflects revised growth assumptions in the Institutional and Analytics businesses. For now, our forecasts (conservatively) include minimal revenue contribution from Proximity Cloud
- Adjusted EBITDA is also increased, but at a slower rate than revenue. With the momentum demonstrated in FY 21A continuing into FY 22E, we have increased our expectations of investment in the product suite. Although strategically sensible, this comes at the expense of margin expansion.
- We have also increased our expectations for depreciation & amortisation charges, reflecting higher levels of investment in the platform and new products.
- We have updated the number of shares used in our EPS forecast. This is the main cause of the decline in EPS.
- The investment noted above is also reflected in our cash flow forecasts, where we have increased our capex expectations, particularly related to serving new Tier 1 clients. The result is an increase in our capex forecast to £6.86m, vs £4.0m previously. Whilst we forecast a net cash outflow for the year, we expect the group to retain a positive net cash position.

FY 23E forecasts introduced

We have also introduced FY 23E forecasts for the first time. These are detailed overleaf.

We continue to expect revenue from institutional clients to be the key growth driver, and forecast margin expansion to be driven by lower investment in new products and the platform than in FY 22E. We forecast capital expenditure levels to be flat vs FY 22E, and model the group to deliver positive cash flow for the year.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	7.35	9.36	11.62	17.19	20.28
Adj EBITDA	2.48	3.33	4.14	5.61	6.71
Adj EBIT	1.50	1.18	1.67	2.45	3.10
Reported PBT	1.04	0.68	1.26	2.08	2.64
Fully Adj PBT	1.32	1.43	1.61	2.35	2.90
NOPAT	1.89	1.29	1.84	2.70	3.41
Reported EPS (p)	2.10	1.13	3.07	3.19	4.04
Fully Adj EPS (p)	2.55	2.45	2.99	3.77	4.40
Dividend per share (p)	0.35	0.20	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	2.13	3.26	5.99	6.78	8.48
Free Cash flow	0.04	(0.67)	(1.07)	(0.61)	0.89
FCF per share (p)	0.07	(1.20)	(1.91)	(1.09)	1.59
Acquisitions	(1.11)	(0.75)	(1.02)	0.00	0.00
Capex	(1.66)	(3.54)	(6.75)	(6.86)	(6.86)
Shares issued	0.00	0.00	5.01	0.00	0.00
Net cash flow	(0.55)	(0.91)	2.42	(0.61)	0.89
Overdrafts / borrowings	(1.32)	(2.18)	(1.49)	(1.49)	(1.49)
Cash & equivalents	2.34	1.43	3.37	2.76	3.65
Net (Debt)/Cash	1.02	(0.75)	1.89	1.28	2.17
NAV AND RETURNS					
Net asset value	5.63	6.72	13.77	16.51	19.72
NAV/share (p)	10.05	11.98	24.56	29.45	35.18
Net Tangible Asset Value	2.44	6.76	10.39	13.66	16.35
NTAV/share (p)	4.35	12.05	18.54	24.37	29.17
Average equity	5.24	6.17	10.24	14.60	16.49
Post-tax ROE (%)	22.7%	21.3%	14.0%	11.0%	14.2%
METRICS					
Revenue growth		27.3%	24.1%	48.0%	18.0%
Adj EBITDA growth		34.3%	24.3%	35.6%	19.5%
Adj EBIT growth		(21.5%)	42.1%	46.9%	26.4%
Adj PBT growth		N/A	12.1%	45.9%	23.7%
Adj EPS growth		N/A	22.0%	26.1%	16.8%
Dividend growth		(42.9%)	(100.0%)	N/A	N/A
Adj EBIT margins	20.4%	12.6%	14.4%	14.3%	15.3%
VALUATION					
EV/Sales (x)	14.7	11.5	9.3	6.3	5.3
EV/EBITDA (x)	43.6	32.4	26.1	19.2	16.1
EV/NOPAT (x)	57.0	83.5	58.8	40.0	31.6
PER (x)	76.8	79.9	65.6	52.0	44.5
Dividend yield	0.2%	0.1%	N/A	N/A	N/A
FCF yield	0.0%	(0.6%)	(1.0%)	(0.6%)	0.8%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

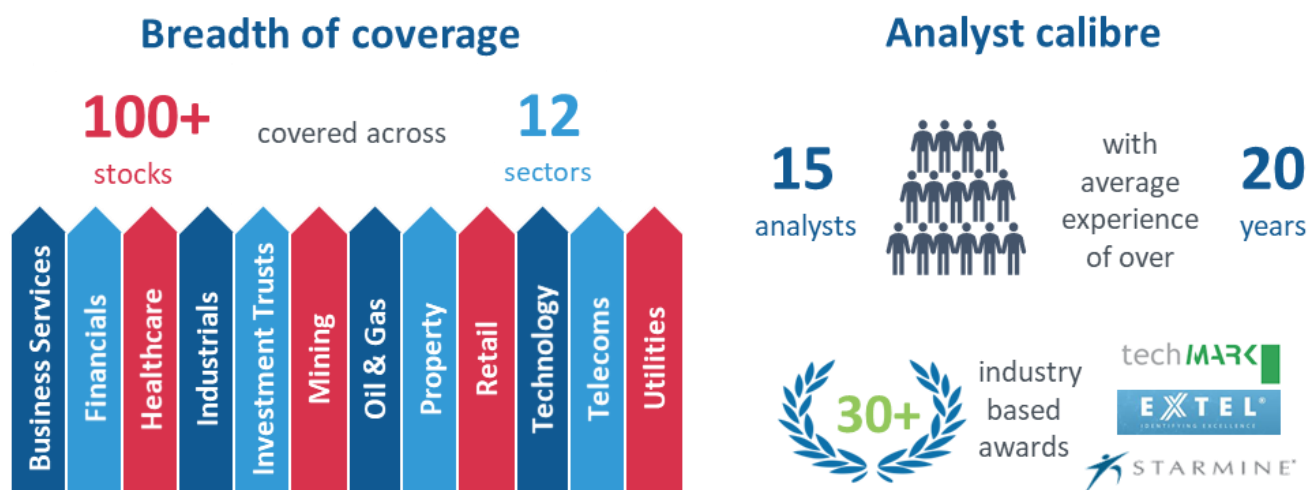
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