

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

10 October 2022

BKS.L

155p

Market Cap: £101.1m

SHARE PRICE (p)



12m high/low

208p/128p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£7.9m (at 30/06/22)
Enterprise value	£93.2m
Index/market	AIM
Next news	AGM, October 2022
Shares in Issue (m)	65.4
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.beeksgroup.com

BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Blaine Tatum

+44 (0) 20 7781 5309

btatum@progressive-research.com



Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



www.progressive-research.com

Impressive FY22 results

Beeks Financial Cloud Group, the cloud computing, connectivity and analytics provider for financial markets, has delivered impressive FY22 results. Revenue (+57% YoY) and profit (underlying EBITDA +52% YoY) both grew strongly, which we view as a highly creditable performance given the material investment currently being made in the platform and new product development. The group made strong operational progress during the year and commentary on the outlook is positive. We leave underlying FY23E revenue and earnings estimates unchanged following the announcement and introduce FY24E forecasts.

- Impressive growth, visibility remains good.** FY22 revenue grew 57% YoY to £18.29m, with the core Public/Private Cloud business growing 38% YoY and a first contribution from Proximity Cloud. Underlying EBITDA grew 52% to £6.31m, which we see as a particularly strong performance given the ongoing investment in the platform and product suite. With Annualised Committed Monthly Recurring Revenues (ACMRR) as of June 2022 growing 40% during the period to £19.3m, visibility remains high. Beeks closed FY22 with a net cash position of £7.86m (FY21: net cash of £1.89m), so the group's financial position remains robust.
- Strong operational progress.** In addition to successfully completing a £15.0m fundraise, FY22 saw the launch of the Proximity Cloud suite, for which a number of contracts were secured during the year. The new Exchange Cloud service was launched in June 2022, with the first major contract win (ICE Global Network) announced post-period. Headcount increased to 89 (+16 in the year), focused largely on expanding the product development team. The footprint saw further expansion, with additional operations launched in Switzerland and Amsterdam.
- Positive outlook commentary.** The release notes that Beeks has entered FY23 in a strong position, with the potential for considerable additional growth given the size of the pipeline for Exchange Cloud. The Board is confident of achieving FY23 results in line with market expectations.
- Underlying estimates unchanged.** We leave underlying FY23E earnings estimates unchanged following the announcement. However, we adjust our forecasts for the recent fundraise, with the associated increase in the share count impacting our per-share calculations. We also introduce FY24E forecasts in this note.

FYE JUN (£M)	2020	2021	2022	2023E	2024E
Revenue	9.4	11.6	18.3	24.5	29.1
Adj EBITDA	3.3	4.1	6.3	8.4	10.8
Fully Adj PBT	1.4	1.6	2.1	3.2	3.7
Fully Adj EPS (p)	2.5	3.0	4.2	4.2	4.9
EV/Sales (x)	10.0	8.0	5.1	3.8	3.2
EV/EBITDA (x)	28.0	22.5	14.8	11.1	8.6
PER (x)	63.0	51.7	36.8	36.6	31.5

Source: Company Information and Progressive Equity Research estimates.

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

FY22 performance

Impressive revenue growth and improved visibility

FY22 revenue increased by £6.67m to £18.29m, a 57% YoY improvement.

The group was organised into two main business segments for revenue purposes during the period: Public/Private Cloud and Proximity Cloud. Public/Private Cloud, the group's largest business line, contributed the bulk of the revenue increase (+£4.45m, +38% YoY). In less than a year post-launch, Proximity Cloud generated revenue of £2.28m, 12% of the total.

Note that revenue from the recently launched Exchange Cloud solution is not expected to come on-stream until FY23E. The first major contract win for Exchange Cloud (ICE Global Network) was announced post-period (September 2022), and the results announcement confirms that the group is in active talks with a number of exchanges across the globe.

With the bulk of revenue being generated on an ongoing contract basis, recurring revenue remains high, at c.76% of the total. However, this is a somewhat lower level than the 93% recorded in FY21. The decline is due to the accounting treatment for Proximity Cloud sales, which record a greater proportion of revenue upfront. With 40% YoY growth in ACMRR to £19.3m during the year, visibility remains high. Alongside the FY22 results release, the group has separately announced the securing of two three-year contracts via a partner with aggregate Total Contract Value (TCV) of \$2m. These contract wins further underpin our FY23E estimates and suggest that the current ACMRR may be higher than the £19.3m level disclosed for the end of June 2022.

Operating expenses growing

Total operating expenses grew by £4.50m in the period to £11.98m. The aggregate cost base was impacted by further investment made into the platform and software development. The Beeks footprint now extends to 14 data-centre locations globally. In addition, FY22 saw the group make material investment in the Proximity Cloud and Exchange Cloud (including analytics) solutions, which was the key driver of the expanded headcount. This grew to 89 during the year (FY21: 73), resulting in a 16% increase in net staff costs.

Depreciation & amortisation charges rose by £1.68m to £4.71m, reflecting increased investment in fixed assets in advance of revenues being recognised from new contracts and longer sales cycles from Tier-1 clients and Exchange Cloud contracts.

Profitability maintained

Underlying EBITDA grew by 52% during the year to £6.31m (FY21: £4.14m). FY22 saw the tax charge remain at an inflow, as the group continues to benefit from the UK Super-deduction on plant and machinery assets, deferred tax on share options not previously recognised and prior-year adjustments for R&D tax claims. Underlying diluted EPS once again saw double-digit growth in the period, up 43% YoY at 4.19p (FY21: 2.99p).

Cash and financing improving

The group closed FY22 with a net cash position of £7.86m vs net cash of £1.89m at the close of FY21. Note that this reflects the April 2022 fundraise. At £6.70m, operational cash flow saw impressive growth during the year (FY21: £4.04m). This was offset by increased capex (+£5.4m vs FY21) reflecting investment in new products and the platform. Capex during the year also included c.£3m for the new head office. FY22 saw a £14.3m inflow from financing activities, which included the £15.0m (gross) fundraise. The net result was a £6.79m improvement in the gross cash position.

Forecast commentary

FY23E forecasts

We revise our FY23E estimates following the announcement. These are summarised in the following table.

Beeks Financial Cloud – estimate revisions			
£m unless stated	Old	FY23E	
		New	Change (%)
Revenue	24.5	24.5	0.0%
Adj EBITDA	7.8	8.4	7.7%
Fully adj PBT	3.2	3.2	0.0%
Fully adj EPS (p)	4.8	4.2	-12.5%
Net (debt)/cash	(5.88)	7.05	N/A

Source: Progressive Equity Research estimates

- Our revenue and adjusted PBT expectations are unchanged from those previously published.
- Our adjusted EBITDA forecast is c8% higher than previously at £8.4m. This reflects revised margin assumptions on recent contract signings. In offset, we have assumed increased depreciation and amortisation charges, leaving adjusted PBT unchanged.
- Our per share and net cash forecasts are also altered from the incorporation of the recent fundraise into our estimates. This increased the group's share count alongside the cash position. We have also revised our expectations of working capital usage.

FY24E forecasts introduced

We have also introduced FY24E forecasts for the first time. These are detailed overleaf.

We continue to expect revenue from the Public/Private Cloud business to be the key growth driver. We forecast capital expenditure levels to be higher than FY23E, reflecting further investment in the platform and product set and model the group to deliver a modest net cash outflow for the year.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2020	2021	2022	2023E	2024E
PROFIT & LOSS					
Revenue	9.36	11.62	18.29	24.47	29.12
Adj EBITDA	3.33	4.14	6.31	8.36	10.85
Adj EBIT	1.18	1.67	2.36	3.59	4.29
Reported PBT	0.68	1.26	0.07	2.89	3.41
Fully Adj PBT	1.43	1.61	2.06	3.23	3.75
NOPAT	1.29	1.84	2.50	3.95	5.15
Reported EPS (p)	1.13	3.07	1.43	3.99	4.75
Fully Adj EPS (p)	2.45	2.99	4.19	4.22	4.90
Dividend per share (p)	0.20	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.26	3.26	4.70	6.99	8.00
Free Cash flow	(0.67)	(3.80)	(7.68)	(0.81)	(0.76)
FCF per share (p)	(1.03)	(5.81)	(11.73)	(1.24)	(1.16)
Acquisitions	(0.75)	(1.02)	0.00	0.00	0.00
Capex	(3.54)	(6.75)	(12.09)	(6.86)	(7.96)
Shares issued	0.00	5.01	14.76	0.00	0.00
Net cash flow	(0.91)	(0.31)	6.79	(0.81)	(0.76)
Overdrafts / borrowings	(2.18)	(1.49)	(2.30)	(2.30)	(2.30)
Cash & equivalents	1.43	3.37	10.16	9.35	8.59
Net (Debt)/Cash	(0.75)	1.89	7.86	7.05	6.29
NAV AND RETURNS					
Net asset value	6.72	13.77	30.77	35.08	41.83
NAV/share (p)	10.27	21.05	47.04	53.63	63.96
Net Tangible Asset Value	6.76	10.39	16.27	17.91	19.17
NTAV/share (p)	10.33	15.89	24.88	27.39	29.31
Average equity	6.17	10.24	22.26	32.32	35.25
Post-tax ROE (%)	23.2%	15.7%	9.2%	10.0%	10.6%
METRICS					
Revenue growth		24.1%	57.5%	33.8%	19.0%
Adj EBITDA growth		24.3%	52.4%	32.5%	29.8%
Adj EBIT growth		42.1%	41.1%	52.3%	19.6%
Adj PBT growth		N/A	27.9%	56.8%	16.1%
Adj EPS growth		N/A	40.2%	0.6%	16.1%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margin	12.6%	14.4%	12.9%	14.7%	14.7%
VALUATION					
EV/Sales (x)	10.0	8.0	5.1	3.8	3.2
EV/EBITDA (x)	28.0	22.5	14.8	11.1	8.6
EV/NOPAT (x)	72.1	50.7	37.3	23.6	18.1
PER (x)	63.0	51.7	36.8	36.6	31.5
Dividend yield	0.1%	N/A	N/A	N/A	N/A
FCF yield	(0.7%)	(3.8%)	(7.6%)	(0.8%)	(0.8%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

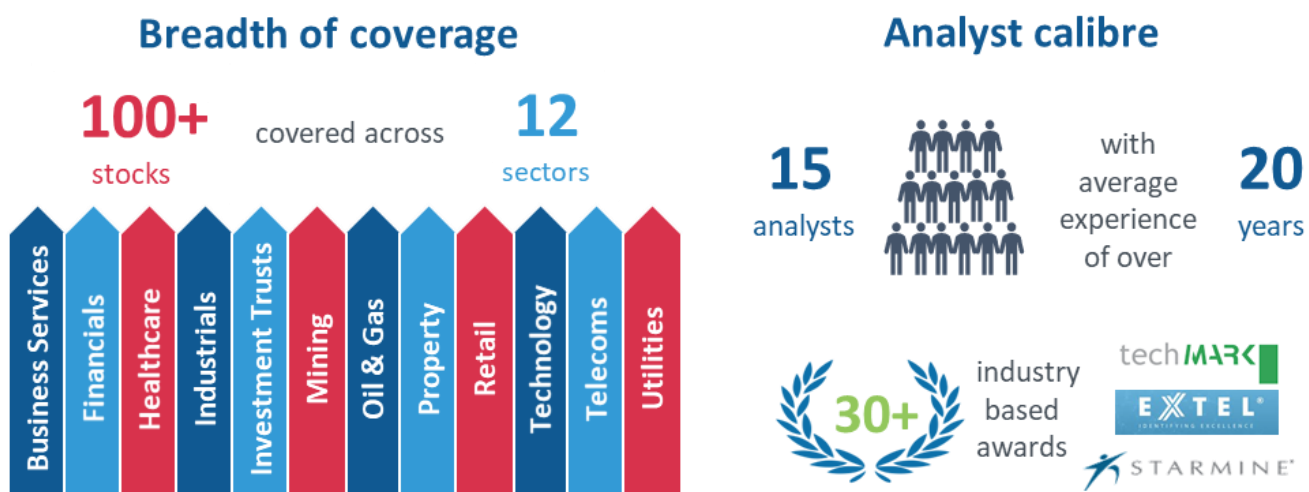
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To arrange a meeting with the management team, or for further information about Progressive, please contact:

Keith Hodgskiss
+44 (0) 20 7781 5300
khodgskiss@progressive-research.com