**BEEKS FINANCIAL CLOUD GROUP**

SOFTWARE AND COMPUTER SERVICES

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| **BKS.L** |
| 173p |
| Market Cap: £113.7m |

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| SHARE PRICE (p) | |
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| 12m high/low | 173p/89p |
| *Source: LSE Data (priced as at prior close)* | |

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| Key DATA | |
| Net (debt)/cash | £5.4m *(at* *30/06/23)* |
| Enterprise value | £108.2m |
| Index/market | AIM |
| Next news | FY Trading Update Sept |
| Shares in issue (m) | 65.9 |
| Chairman | Mark Cubitt |
| CEO | Gordon McArthur |
| CFO | Fraser McDonald |

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| company DESCRIPTION |
| Beeks provides low-latency Infrastructure-as-a-Service (IaaS) for automated trading of financial products. |
| **[www.beeksgroup.com](http:\\\\www.beeksgroup.com)** |

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| FYE JUN (£M) | 2021 | 2022 | 2023 | 2024E | 2025E |
| Revenue | 11.6 | 18.3 | 22.4 | 29.1 | 38.5 |
| Adj EBITDA | 4.1 | 6.3 | 8.4 | 10.9 | 14.5 |
| Fully Adj PBT | 1.6 | 2.1 | 2.3 | 3.7 | 5.6 |
| Fully Adj EPS (p) | 3.0 | 4.5 | 4.0 | 4.9 | 7.4 |
| EV/Sales (x) | 9.3 | 5.9 | 4.8 | 3.7 | 2.8 |
| EV/EBITDA (x) | 26.1 | 17.2 | 12.9 | 10.0 | 7.5 |
| PER (x) | 57.7 | 38.4 | 43.6 | 35.2 | 23.4 |
| *Source: Company Information and Progressive Equity Research estimates.* | | | | | |

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| BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE |

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| Analysts |  |
| **George O'Connor** |
| +44 (0) 20 7710 7694 |
| goconnor@progressive-research.com | |
| **Gareth Evans** |  |
| +44 (0) 20 7781 5301 |
| gevans@progressive-research.com | |

PERLPARA

# H1 sparkles as Beeks secures secular growth

**Beeks interim results sparkle with: (i) 25% Y/Y growth in Annualised Committed Monthly Recurring Revenue, (ii) PBT +121% Y/Y, and (iii) operating cash flow +27% Y/Y, marking a decisive turn in cash generation. The strength of the business is reflected in 87% recurring revenue, 93% Y/Y, the low (0.5%) attrition rate, 0.8% Y/Y, and improving operational leverage (underlying EBITDA 35.6% margin, +110bps Y/Y). The print is ‘*significantly ahead of prior expectations*’ and Exchange Cloud is a ‘*transformational opportunity’* (via IaaS sales to xchanges, which in turn sell to clients). In our view, the risk to estimates is on the upside. The shares have enjoyed a strong run since the 6 February Trading Update, with TSR +71.7% YTD (vs sector +2.7%), yet the valuation remains undemanding (EV/EBITDA c.10x vs sector 16.5x). Read on to learn about this structural growth compounder.**

* **Strong KPIs with H1 revenue +25%.** Annualised Committed Monthly Recurring Revenue (ACMRR) up 25% to £26.60m, underlying EBITDA +28% to £4.61m, implying 35.6% margin (+110bps Y/Y), underlying PBT +113% Y/Y to £1.38m, PBT +121% to £0.16m and underlying diluted EPS +42% at 1.77p. Net cash was £5.44m, £3.35m Y/Y, with improving cash conversion.
* **Improving sales momentum.** There is significant customer momentum with: (i) More Tier 1 customer logos won and conditionally a third global Exchange post period end; (ii) significant expansion with existing customers, including a Proximity Cloud contract which more than 2x value to US$3.6m post period-end. (iii) A £5m Proximity Cloud contract win at “*one of the world’s largest banking groups*”.
* **Impact on estimates**. CEO Gordon McArthur reiterates FY24 guidance, so we make no change to estimates. Our view remains that our FY25E estimates are conservative as sales execution is a function of existing pipeline conversion, not chasing new customers.
* **Investment case – secular growth.** Beeks IaaS is optimised for low-latency private cloud compute, connectivity and analytics. Customers use Beeks to connect to Exchanges, trading venues and public cloud for hybrid cloud. By productising its vision (Build. Connect. Analyse), Beeks now offers an end-to-end service where Exchanges are clients (three on the roster). TAM is a portion of the global US$192bn IaaS market, with 21k banks and hundreds of global exchanges all migrating on-prem infrastructure to the cloud as they reconcile cloud’s cost and agility advantages with improved security with regulatory and data sovereignty concerns being addressed.

Reviewing the H1 print

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| **Beeks Financial – Reconciliation Reported H1 PBT to Underlying EBITDA (£m)** | |
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| *Source: Company data, Progressive Equity Research* | |

Operational momentum – it’s go-go and continues into H2

The period saw a significant expansion with existing customers, including a Proximity Cloud contract with a 2x contract value to US$3.6m. In addition, post period-end, Beeks won a £5m Proximity Cloud contract with preferred cloud computing and connectivity vendor status for ‘one of the world’s largest banking groups’.

Go-to-market progress – ecosystem widened & expansion deals

**Sales ecosystem.** Collaboration with BlueVoyant (announced January) enhances security protection for Beeks’ Managed Extended Detection and Response offering and marks a further investment into the Beeks Security Operations Centre (SOC).

**‘Land’ (new customers)**. Here Beeks focuses on growing the Tier 1 customer base, selling to organisations of varying sizes, ranging from Proof of Concepts to large scale, phase 2 roll-outs – with expansion opportunities across the majority. There were significant new customers secured in H1 notably with a conditional contract with one of the largest exchanges globally, marking the third international exchange to sign up to Exchange Cloud. Post period-end Beeks inked a £5m Proximity Cloud contract with ‘one of the world’s largest banking groups’, with initial revenue from H1 FY25, underpinning later year forecasts.

**Expand (existing customers).** Expansion of the initial US$1.3m Proximity Cloud contract with a Tier 1 investment manager was signed in November, with a US$3.6m five-year contract. The first location was delivered in December 2023, with the second in February 2024.

De-coding CEO Gordon McArthur commentary:

**Confidence in the outlook in an early-stage market:** *“The strong growth we continue to demonstrate year on year, and our confident outlook for this and next year underline the size of the opportunity we are addressing*.”

“*Financial markets are still only at the start of the journey to the cloud. With our proven offering and growing tier 1 customer base, which includes some of the largest financial organisations in the world, increasing profit margins and cash generation, we have never been better placed to seize the opportunity.”*

**H2 is all about pipeline conversion:** *“Our H2 focus remains the conversion of our significant pipeline*.”

Revenue drivers – Exchange Cloud expands TAM

Exchange Cloud is now up to three announced customers. Recap: Exchange Cloud is a multi-home, fully configured and pre-installed physical trading environment that is fully optimised for global exchanges. This is a transformational opportunity as it enables Beeks to target and win the biggest financial organisations as customers. They in turn sell through to their end users, creating greater operational leverage for Beeks.

The financial markets are increasingly adopting cloud solutions. Beeks has a growing reputation and blue-chip customer base, with a substantial TAM being part of a US$192bn market (Source: Statistica).

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| **Beeks Financial – H1 KPIs (£m)** | |
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| *Source: Company data, Progressive Equity Research* | |

H1 tech stack improvements

Capitalised development costs, £1.33m, with development in the following areas:

* + Build-out of the **functionality** of Exchange and Proximity Cloud for tier 1 bank customers and large exchanges, such as multi-factor authentication support, further network automation and single sign-on.
  + Deepened the **multi-tenant experience**. Allows exchanges to subdivide an Exchange Cloud rack between multiple individual clients and have further improved the usability of the self-service infrastructure portal.
  + Completed engineering and customer migration work on the **virtualisation platform.** This improves performance and reduces operating costs for the current client base.
  + **Analytics** product improvements included: client documentation, marketing, further development of the high capacity, open architecture.

The H1 points of debate

Gross profit

H1 gross profit was +15% Y/Y at £4.99m, but the margin slipped to 39% (41% Y/Y). The margin is a result of increased infrastructure capacity and increased hosting costs. Guidance is for gross margins to improve in H2 as Beeks delivers on its sales pipeline with a lower cost of investment and fixed direct costs as Beeks has already added capacity across its global datacentre estate.

Operating costs

H1 reported PBT of £0.16m this reversed the £0.76m loss from H1/FY23. The jump in profitability was due to a combination of revenue growth plus administrative expenses, which dipped to £4.7m, £4.9m Y/Y, a flat headcount (105 FTEs vs 103), staff costs £3.53m, £3.59m Y/Y, and Capitalised development costs of £1.33m, down from £1.43m Y/Y.

Effective tax rate (ETR)

Beeks guides that ETR should normalise to nearer 20% for FY24. As in previous years, Beeks gains from the impact of R&D tax credits and there was a receipt of £0.1m relating to a prior period received. Y/Y

Cleaning the balance sheet

In September 2023, the mortgage on the Head Office property became due and Beeks fully repaid the loan (£1.57m), repaid term loan facilities (£0.25m), and took a reduced rate asset finance loan (£0.23m). As a consequence, period-end debt is £1.73m, £3.34m Y/Y.

Stock cover for H2 deal flow

Current stock of £1.88m is comprised of £1.41m owned plus £0.47m asset financed. As supply chain lead times reduce, the existing stock means lower H2 FY24 investment, and a kicker to working capital. The exception is that some Proximity and Exchange Cloud deployments may require bespoke infrastructure and thereby draw in fresh investment.

Proximity/Exchange Cloud

Continued sales momentum reduces recurring revenue proportions given different revenue recognition policies because Promixity/Exchange has an appliance component that differs from the Public and Private Cloud, a pure subscription revenue. The reason for this is that Beeks replaces a shared infrastructure with a client-owned environment. The division was only launched in H1 22, and inked its first major contract, ICE Global Network, in September 2022, with the Johannesburg Stock Exchange following in June 2023.

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| **Beeks Financial – Cash conversion highlights (£’000)** | |
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| *Source: Company data, Progressive Equity Research* | |

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| **Financial Summary:** **Beeks Financial Cloud Group** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Year end: June (£m unless shown)** |  |  |  |  |  | |  |  |  |  |  |  | | **PROFIT & LOSS** | **2021** | **2022** | **2023** | **2024E** | **2025E** | | Revenue | 11.62 | 18.29 | 22.36 | 29.12 | 38.52 | | Adj EBITDA | 4.14 | 6.31 | 8.42 | 10.85 | 14.51 | | Adj EBIT | 1.67 | 2.36 | 3.27 | 4.17 | 5.90 | | Reported PBT | 1.26 | 0.07 | (0.65) | 1.12 | 3.00 | | Fully Adj PBT | 1.61 | 2.06 | 2.32 | 3.75 | 5.62 | | NOPAT | 1.84 | 2.50 | 3.59 | 5.01 | 7.08 | | Reported EPS (p) | 3.07 | 1.42 | (0.14) | 4.75 | 4.58 | | Fully Adj EPS (p) | 2.99 | 4.49 | 3.96 | 4.90 | 7.36 | | Dividend per share (p) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |  |  |  |  |  |  | | **CASH FLOW & BALANCE SHEET** | **2021** | **2022** | **2023** | **2024E** | **2025E** | | Operating cash flow | 3.26 | 4.61 | 7.12 | 8.94 | 11.96 | | Free Cash flow | (3.80) | (7.76) | (0.14) | 0.52 | 2.58 | | FCF per share (p) | (5.77) | (11.78) | (0.21) | 0.79 | 3.92 | | Acquisitions | (1.02) | 0.00 | 0.00 | 0.00 | 0.00 | | Capex | (6.75) | (12.09) | (7.05) | (8.00) | (9.10) | | Shares issued | 5.01 | 14.76 | 0.00 | 0.00 | 0.00 | | Net cash flow | (0.31) | 6.79 | (2.33) | 0.52 | 2.58 | | Overdrafts / borrowings | (1.49) | (2.30) | (3.42) | (3.42) | (3.42) | | Cash & equivalents | 3.37 | 10.16 | 7.83 | 8.35 | 10.93 | | Net (Debt)/Cash | 1.89 | 7.86 | 4.41 | 4.93 | 7.51 | |  |  |  |  |  |  | | **NAV AND RETURNS** | **2021** | **2022** | **2023** | **2024E** | **2025E** | | Net asset value | 13.77 | 30.76 | 32.79 | 35.41 | 42.41 | | NAV/share (p) | 20.89 | 46.67 | 49.75 | 53.73 | 64.34 | | Net Tangible Asset Value | 10.39 | 16.27 | 17.95 | 19.12 | 19.61 | | NTAV/share (p) | 15.76 | 24.69 | 27.24 | 29.01 | 29.75 | | Average equity | 10.24 | 22.26 | 31.77 | 33.37 | 35.46 | | Post-tax ROE (%) | 15.7% | 9.2% | 7.3% | 11.2% | 15.9% | |  |  |  |  |  |  | | **METRICS** | **2021** | **2022** | **2023** | **2024E** | **2025E** | | Revenue growth |  | 57.5% | 22.2% | 30.2% | 32.3% | | Adj EBITDA growth |  | 52.4% | 33.4% | 28.9% | 33.7% | | Adj EBIT growth |  | 41.1% | 38.6% | 27.6% | 41.4% | | Adj PBT growth |  | N/A | 13.0% | 61.3% | 50.0% | | Adj EPS growth |  | N/A | (11.8%) | 23.9% | 50.0% | | Dividend growth |  | N/A | N/A | N/A | N/A | | Adj EBIT margin | 14.4% | 12.9% | 14.6% | 14.3% | 15.3% | |  |  |  |  |  |  | | **VALUATION** | **2021** | **2022** | **2023** | **2024E** | **2025E** | | EV/Sales (x) | 9.3 | 5.9 | 4.8 | 3.7 | 2.8 | | EV/EBITDA (x) | 26.1 | 17.2 | 12.9 | 10.0 | 7.5 | | EV/NOPAT (x) | 58.9 | 43.4 | 30.1 | 21.6 | 15.3 | | PER (x) | 57.7 | 38.4 | 43.6 | 35.2 | 23.4 | | Dividend yield | N/A | N/A | N/A | N/A | N/A | | FCF yield | (3.3%) | (6.8%) | (0.1%) | 0.5% | 2.3% | |
| *Source: Company information and Progressive Equity Research estimates* |

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