

# BEEKS FINANCIAL CLOUD GROUP

## SOFTWARE AND COMPUTER SERVICES

15 April 2020

BKS.L

90.5p

Market Cap: £46m

### SHARE PRICE (p)



12m high/low 125p/70p

Source: LSE Data

### KEY DATA

Net (Debt)/Cash	£1.0m
Enterprise value	£45m
Index/market	AIM
Next news	Trading Update, Jul-20
Shares in Issue (m)	50.9
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](http://www.beeksfinancialcloud.com)

BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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## Strategic acquisition and COVID-19 update

Beeks Financial Cloud ("Beeks") has announced the acquisition of Velocimetrics Limited ("Velocimetrics"), a software developer providing network monitoring and trade analytics software to financial services clients. The deal brings new products to the group and with a client base of largely tier-1 financial services institutions, should provide strong cross-selling opportunities. Beeks has also announced that COVID-19 has so far had only a minimal impact on the group but signals that new customer implementations may be delayed. We revise forecasts following the announcement, with acknowledgement of the uncertainty over the longer-term impact on the business of COVID-19 outweighing the contribution of the acquisition.

- Deal Details:** Velocimetrics reported turnover of £1.16m and LBITDA of £0.18m for the year ending 30 June 2019. The base consideration for the acquisition is £1.3m - £0.75m paid in cash, £0.3m paid in new ordinary shares and £0.25m payable within four months of completion subject to no warranty claims having been made. With earnout considerations potentially payable for business performance in FY 20E and FY 21E, the total consideration is capped at £4.55m.
- A strategic acquisition:** In our view Velocimetrics is a strategic acquisition for Beeks. The deal adds real-time business transaction tracking and alerts to the Beeks product suite, and with Velocimetrics' strong market position with tier-1 financial institutions, brings new cross-selling opportunities. The new offerings also provide further strategic differentiation vs generic cloud hosting and infrastructure providers – and will add additional functionality to the groups' customer portal.
- Defensive against COVID-19, minimal impact so far:** Increased volatility from COVID-19 is creating a favourable trading environment for a large proportion of Beeks customers. And whilst the release signals longer lead times on certain infrastructure supply, overall the business has seen only a minimal impact so far from COVID-19. We believe Beeks has certain defensive qualities against this backdrop: Revenue visibility remains high (95% ACMRR<sup>†</sup>), the group has £1m of gross cash and also sufficient spare capacity in existing data centres to meet increased customer demand.
- Forecast revisions:** We revise forecasts following the announcement, reflecting the acquisition and taking a prudent view on the potential impact of COVID-19 on the business. FY 20E and 21E EBITDA fall by 16% and 12% respectively.

FYE JUN (£M)	2017	2018	2019	2020E	2021E
Revenue	4.0	5.6	7.4	9.3	12.5
Adj EBITDA	0.5	1.9	2.5	3.1	4.0
Fully Adj PBT	0.1	1.2	1.3	1.1	1.8
Fully Adj EPS (p)	(0.3)	2.3	2.6	1.9	3.1
EV/Sales (x)	11.3	8.1	6.1	4.8	3.6
EV/EBITDA (x)	82.9	23.1	18.2	14.4	11.2
PER (x)	N/A	39.8	35.1	48.9	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.

## Forecast revisions

Following the announcement, we make revisions to forecasts. These are summarised in the following table.

BEEKS Financial Cloud – Forecast revisions						
£m unless stated	FY 20E			FY 21E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	9.60	9.33	-2.8%	12.05	12.49	3.7%
Adj EBITDA	3.74	3.13	-16.3%	4.56	4.02	-11.8%
Fully adj PBT	1.57	1.05	-33.0%	2.04	1.77	-12.9%
Fully adj EPS (p)	2.76	1.85	-32.9%	3.59	3.09	-13.9%

Source: Progressive Equity Research estimates

- Our new forecasts assume Velocimetrics is consolidated for approximately 2 ½ months of FY 20E, with FY 21 the first full- year of consolidation.
- We continue to publish estimates for FY 20E and FY 21E for Beeks and note management commentary that the business has seen limited impact from COVID-19. However, with the pandemic ongoing and the final outcome uncertain, we are taking this opportunity to revisit expectations of the performance of the existing business.
- Compared with our previously published estimates, our overall revenue expectations are reduced by c3% in FY 20E but increased by c4% in FY 21E. We have included the respective contributions from Velocimetrics in both years. For the existing businesses, the changes reflect the combination of 1) revised assumptions on the timing/phasing of revenue from certain institutional contracts, notably the two Tier1 clients which were acquired at the very end of H1 20A and 2) reduced expectations of growth in the institutional business (84% turnover H1 20A).
- The reduction to turnover flows through to EBITDA, with our FY 20E and FY 21E estimates reduced by c16% in FY 20E and c12% in FY 21E.

Today's announcement confirms Beeks had a gross cash position of approximately £1m at the close of play on April 14. We expect that costs arising from the Velocimetrics acquisition will consume the majority of the group's £1.5m credit facility with RBS and now expect a closing FY 20E net debt position of £1.2m and £0.7m FY 21E.

**Financial Summary: Beeks Financial Cloud Group**

Year end: June (£m unless shown)

	2017	2018	2019	2020E	2021E
<b>PROFIT &amp; LOSS</b>					
Revenue	3.97	5.58	7.35	9.33	12.49
Adj EBITDA	0.54	1.95	2.48	3.13	4.02
Adj EBIT	0.14	1.36	1.58	1.21	1.93
Reported PBT	(0.76)	0.75	1.04	0.80	1.53
Fully Adj PBT	0.06	1.19	1.32	1.05	1.78
NOPAT	0.14	1.70	1.89	1.23	2.01
Reported EPS (p)	(2.27)	2.26	2.10	1.27	2.40
Fully Adj EPS (p)	(0.32)	2.27	2.58	1.85	3.09
Dividend per share (p)	0.00	0.30	0.35	0.40	0.46
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	0.68	0.54	2.13	1.77	2.30
Free Cash flow	(0.32)	(1.16)	0.04	(0.83)	0.13
FCF per share (p)	(0.63)	(2.28)	0.08	(1.63)	0.25
Acquisitions	0.00	0.00	(1.11)	(0.75)	(0.25)
Capex	(0.85)	(1.46)	(1.66)	(2.20)	(2.60)
Shares issued	0.00	4.36	0.00	0.00	0.00
Net cash flow	(0.01)	2.86	(0.55)	(0.78)	(0.12)
Overdrafts / borrowings	(0.40)	(0.33)	(1.32)	(2.76)	(2.12)
Cash & equivalents	0.02	2.89	2.34	1.56	1.43
Net (Debt)/Cash	(0.38)	2.56	1.02	(1.20)	(0.69)
<b>NAV AND RETURNS</b>					
Net asset value	(0.38)	4.84	5.63	4.71	6.20
NAV/share (p)	(0.74)	9.52	11.07	9.27	12.19
Net Tangible Asset Value	1.30	2.14	2.44	2.72	3.22
NTAV/share (p)	2.56	4.20	4.80	5.35	6.34
Average equity	(0.19)	2.23	5.24	5.86	6.60
Post-tax ROE (%)	(29.3%)	53.3%	25.1%	17.9%	26.9%
<b>METRICS</b>					
Revenue growth		40.6%	31.7%	26.9%	33.9%
Adj EBITDA growth		258.4%	27.4%	26.2%	28.6%
Adj EBIT growth		852.4%	16.1%	(23.4%)	59.1%
Adj PBT growth		N/A	10.5%	(20.2%)	69.0%
Adj EPS growth		N/A	13.4%	(28.1%)	66.8%
Dividend growth		N/A	16.7%	14.3%	15.0%
Adj EBIT margins	3.6%	24.4%	21.5%	13.0%	15.4%
<b>VALUATION</b>					
EV/Sales (x)	11.3	8.1	6.1	4.8	3.6
EV/EBITDA (x)	82.9	23.1	18.2	14.4	11.2
EV/NOPAT (x)	314.8	26.5	23.8	36.7	22.4
PER (x)	N/A	39.8	35.1	48.9	29.3
Dividend yield	N/A	0.3%	0.4%	0.4%	0.5%
FCF yield	(0.7%)	(2.5%)	0.1%	(1.8%)	0.3%

Source: Company information and Progressive Equity Research estimates

\* ACMRR is Annualised Committed Monthly Recurring Revenue.

**Disclaimers and Disclosures**

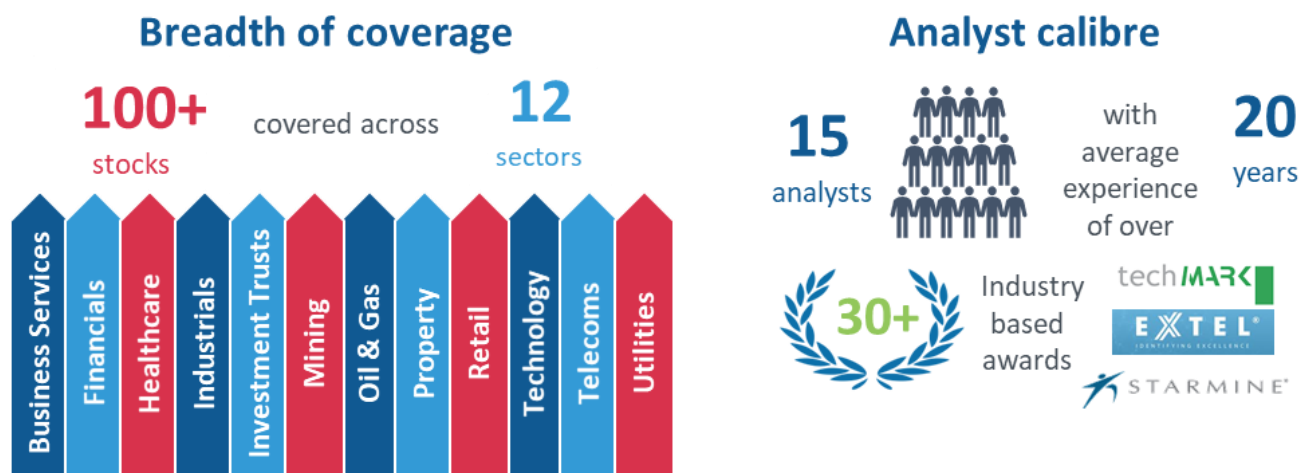
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