

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

2 October 2023

BKS.L

90p

Market Cap: £59m

SHARE PRICE (p)



12m high/low

155p/89p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£4.4m (at 30/06/23)
Enterprise value	£54.6m
Index/market	AIM
Next news	AGM, October
Shares in issue (m)	65.6
Chairman	Mark Cubitt
CEO	Gordon McArthur
CFO	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

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FY23: Double-digit growth, record ACMRR

Beeks Financial Cloud Group, the cloud computing, connectivity and analytics provider for financial markets, has delivered FY23 results in line with the September trading update. Revenue (+22% YoY) and profit (underlying EBITDA +33% YoY) both grew strongly, which we view as a highly respectable performance given ongoing investment 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 FY24 earnings estimates unchanged following the announcement and introduce FY25 forecasts.

- Double-digit growth, visibility remains good.** FY23 revenue grew 22% YoY to £22.36m (FY22: £18.29m), with the core Public/Private Cloud business growing 37% YoY to £21.9m. Underlying EBITDA grew 33% to £8.42m (FY22: £6.31m), which we see as a particularly strong performance given the ongoing investment in the platform and new product development. With Annualised Committed Monthly Recurring Revenues (ACMRR) as of 30 June growing 23% during the period to a record £23.8m (82% of our FY24 revenue forecast), visibility remains good. Beeks closed FY23 with a net cash position of £4.41m (H1 23: £3.35m, FY22: £7.86m), with a positive net cashflow in H2 23. The group's financial position therefore remains robust.
- Strong operational progress.** Beeks recorded a number of significant clients wins during the year, including the ICE and JSE Exchange Cloud contracts and two multi-year Private Cloud contracts with global asset management firms, worth an aggregate \$2m over three years. Post period end, the group also secured Private Cloud contracts in July with a total contract value of over \$4m, including a significant win via a partner with one of the UK's largest banks.
- Positive outlook.** The Exchange Cloud pipeline continues to build, with advanced discussions taking place with major exchanges across the globe, and multiple contracts in the final stages of negotiations. Highlighting the volume of deals signed to date and the level of ACMRR, the release signals the Board's confidence in delivering its FY24 expectations.
- Forecasts unchanged.** We leave FY24E revenue and earnings estimates unchanged following the announcement and introduce FY25E estimates.

FYE JUN (£M)	2021	2022	2023	2024E	2025E
Revenue	11.6	18.3	22.4	29.1	33.5
Adj EBITDA	4.1	6.3	8.4	10.8	12.7
Fully Adj PBT	1.6	2.1	2.3	3.7	5.1
Fully Adj EPS (p)	3.0	4.5	4.0	4.9	6.7
EV/Sales (x)	4.7	3.0	2.4	1.9	1.6
EV/EBITDA (x)	13.2	8.7	6.5	5.0	4.3
PER (x)	30.1	20.0	22.7	18.4	13.5

Source: Company Information and Progressive Equity Research estimates.

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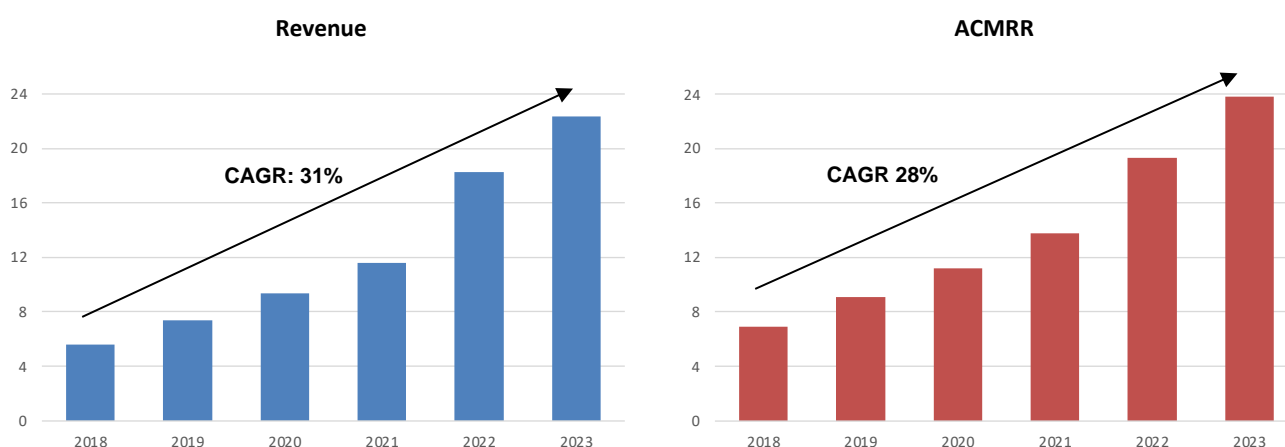
Please refer to important disclosures at the end of the document.

FY23 performance

Revenue growth and improved visibility

FY23 revenue increased by £4.07m to £22.36m, a 22% YoY improvement (FY22: £18.29m). The following chart summarises recent revenue and ACMRR performance, with further analysis below. As the images demonstrate, FY23 saw the continuation of two key trends: 1) strong revenue growth – revenues have risen four-fold over the past five years, and 2) improving revenue visibility – ACMRR has grown almost 3.5x over the same period.

Beeks – Revenue growth and ACMRR (£m)



Source: Company data

The group was organised into two main business segments for revenue purposes during the period: Public/Private Cloud and Proximity/Exchange Cloud. Public/Private Cloud, the group’s largest business line, contributed the bulk of the revenue increase (+£4.07m, +22% YoY). Proximity/Exchange Cloud generated revenue of £0.45m. Although this implies that revenue more than doubled in H2 23 versus H1 23, we note that the £2.2m of Proximity/Exchange Cloud revenues recorded during FY22 were one-off licence sales. This business line was only launched in H1 22, with the first major contract win, ICE Global Network, coming in September 2022, followed by the Johannesburg Stock Exchange in June 2023. Sales cycles are typically 12-18 months. The release signals the pipeline for Proximity/Exchange Cloud is at record levels, with multiple contracts in the final stages of negotiations.

With the bulk of revenue being generated on an ongoing contract basis, recurring revenue remains high, at c.91 % of the total (FY22: 76%). The improvement is due to the accounting treatment for Proximity Cloud sales, which record a greater proportion of revenue upfront.

With 23% YoY growth in ACMRR to a record £23.8m during the year (FY22: £19.3m), visibility remains good; this figure had increased further to £25.0m by the end of August following a strong start to FY24. We note that £25m represents 82% of our FY24E revenue forecast, providing confidence in our estimates.

Operating expenses

Total operating expenses grew by £3.01m in the period to £14.99m. The aggregate cost base was impacted by further investment made into the platform and software development. The Beeks footprint now extends to 31 data centre locations globally, including seven in London. In addition, FY23 saw the group make material investment in the software development and engineering functions, which were the key drivers of headcount expansion. Average headcount grew to 103 during the year (FY22: 89), resulting in a 23% YoY increase in net staff costs to £6.91m (FY22: £5.64m). In common with most software businesses, employees are Beeks' single largest cost.

Depreciation & amortisation charges rose by £1.53m to £6.27m, reflecting increased the investment made during FY23 into Proximity Cloud, Exchange Cloud and across the group's global asset base.

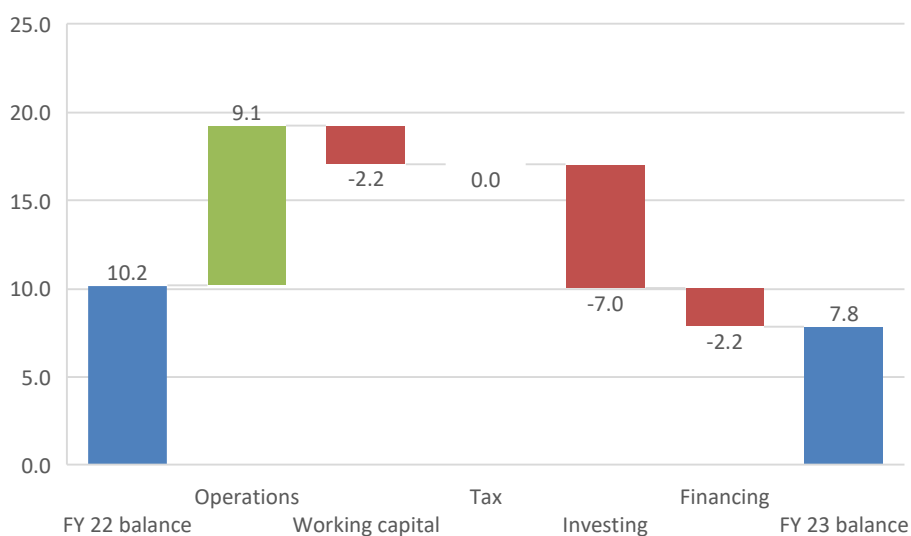
Improved profitability

Underlying EBITDA grew 33% during the year to £8.42m (FY22: £6.31m). FY23 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 declined in the period to 3.96p (FY22: 4.19p), primarily due to increased sharecount.

Cash flow & financial position

The group closed FY23 with a net cash position of £4.41m vs net cash of £7.86m at the close of FY22. At £6.91m, operational cash flow saw impressive growth during the year (FY22: £4.84m). Cash flow was further improved by reduced capex (-£5.0m vs FY22) reflecting the lower requirement for investment in Exchange and Proximity Cloud. FY23 saw a £2.2m cash outflow from financing activities (FY22: £14.45m inflow), primarily due to lease repayments and interest costs. The net result was a £2.33m decline in the gross cash position to £7.83m.

Beeks – Gross cash balance (£m) FY22-FY23



Source: Company data

Forecast commentary

FY24 revenue and profit estimates unchanged

Our FY24 revenue and profit estimates are unchanged following the announcement.

We have assumed an increase in working capital in the current financial year. Our new FY24E net cash estimate of £4.6m compares with £6.4m previously.

FY25 forecasts introduced

We have introduced FY25 forecasts. 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 FY24E, reflecting further investment in the platform and product set, and model the group to deliver a net cash inflow for the year.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2021	2022	2023	2024E	2025E
PROFIT & LOSS					
Revenue	11.62	18.29	22.36	29.12	33.48
Adj EBITDA	4.14	6.31	8.42	10.85	12.75
Adj EBIT	1.67	2.36	3.27	4.29	5.19
Reported PBT	1.26	0.07	(0.65)	3.41	4.76
Fully Adj PBT	1.61	2.06	2.32	3.75	5.09
NOPAT	1.84	2.50	3.59	5.15	6.23
Reported EPS (p)	3.07	1.42	(0.14)	4.75	7.27
Fully Adj EPS (p)	2.99	4.49	3.96	4.90	6.67
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.26	4.61	7.12	8.73	10.71
Free Cash flow	(3.80)	(7.76)	(0.14)	0.18	1.51
FCF per share (p)	(5.80)	(11.84)	(0.22)	0.28	2.31
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)	0.18	1.51
Overdrafts / borrowings	(1.49)	(2.30)	(3.42)	(3.42)	(3.42)
Cash & equivalents	3.37	10.16	7.83	8.01	9.52
Net (Debt)/Cash	1.89	7.86	4.41	4.59	6.10
NAV AND RETURNS					
Net asset value	13.77	30.76	32.79	37.70	46.46
NAV/share (p)	20.99	46.91	50.00	57.50	70.86
Net Tangible Asset Value	10.39	16.27	17.95	19.25	20.80
NTAV/share (p)	15.85	24.81	27.38	29.36	31.72
Average equity	10.24	22.26	31.77	34.51	38.64
Post-tax ROE (%)	15.7%	9.2%	7.3%	10.9%	13.2%
METRICS					
Revenue growth		57.5%	22.2%	30.2%	15.0%
Adj EBITDA growth		52.4%	33.4%	28.8%	17.5%
Adj EBIT growth		41.1%	38.6%	31.4%	20.9%
Adj PBT growth		N/A	13.0%	61.2%	35.9%
Adj EPS growth		N/A	(11.8%)	23.8%	35.9%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margin	14.4%	12.9%	14.6%	14.7%	15.5%
VALUATION					
EV/Sales (x)	4.7	3.0	2.4	1.9	1.6
EV/EBITDA (x)	13.2	8.7	6.5	5.0	4.3
EV/NOPAT (x)	29.7	21.9	15.2	10.6	8.8
PER (x)	30.1	20.0	22.7	18.4	13.5
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(6.4%)	(13.2%)	(0.2%)	0.3%	2.6%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

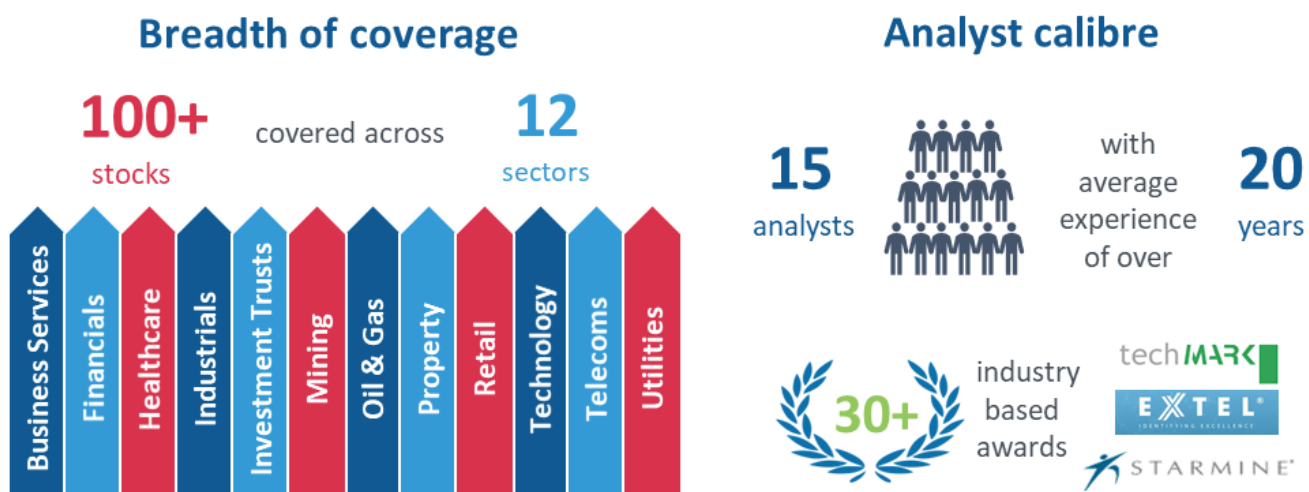
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