

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

27 February 2023

BKS.L

143p

Market Cap: £93.2m

SHARE PRICE (p)



12m high/low

208p/126p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£3.4m (at 31/12/22)
Enterprise value	£89.9m
Index/market	AIM
Next news	Trading update, July
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

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Operational progress continues in H1 23

Beeks Financial Cloud Group, the cloud computing, connectivity and analytics provider for financial markets, has delivered impressive H1 23 results, in our view. Revenue growth (+35% YoY) and margin expansion (underlying EBITDA +48% YoY) were highlights of the release, with financial performance benefitting from recent investment in the platform and product set. The group made strong operational progress during the half, and commentary on the outlook is positive. Overall, we believe the announcement will maintain confidence in the Beeks growth story.

- H1 23 results – impressive growth, visibility remains high.** H1 revenue for the six months to 31 December 2022 grew 35% YoY to £10.40m, with the core Public/Private Cloud business generating the bulk of the uplift. Underlying EBITDA grew by 48% YoY, reflecting tight cost control. With Annualised Committed Monthly Recurring Revenue (ACMRR) now at £21.3m – 87% of our FY23E revenue forecast – visibility remains high.
- Strong operational progress.** H1 23 saw ongoing investment in the product set, with the group continuing to increase the functionality of the Exchange and Proximity Cloud solutions. The release confirms that the group now has a fully funded product roadmap that extends for the ‘next couple of years’. Headcount increased to 106 during the period (+17), with the focus on expanding the software development team to support the deployment and evolution of the Exchange Cloud suite. Investment in the Beeks footprint was targeted at existing locations, with an additional data centre opened in Toronto and material expansion in London. In total, the group now has a global network of 27 data centres in 15 locations.
- Positive outlook commentary.** The release signals a ‘record’ pipeline of Exchange Cloud opportunities and a ‘building’ pipeline of Proximity and Private Cloud offerings. With the expanded product set and enhanced platform, the Board is confident both in delivering a FY23 outcome in line with current market expectations and in the group’s future prospects.
- Estimates maintained for now.** We leave estimates unchanged following the announcement. However, successful conclusion of the contract negotiations for the two Exchange Cloud deployments that have been described may give us the opportunity to revisit our forecasts. We would expect that, if the pipeline continues to convert well, and the cash profile of new deals can be managed, cash flows within the business could improve in coming quarters.

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)	9.6	7.7	4.9	3.7	3.1
EV/EBITDA (x)	27.0	21.7	14.2	10.8	8.3
PER (x)	58.1	47.7	34.0	33.8	29.1

Source: Company Information and Progressive Equity Research estimates.

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

H1 23 financial performance

Revenue growth, visibility remains high

Revenue increased to £10.40m in H1 23 from £7.72m in H1 22, a 35% YoY improvement. Public/Private Cloud, the group's largest business line, contributed the bulk of the revenue increase. Proximity/Exchange Cloud generated revenue of £0.20m. Although a modest figure in absolute terms, we note this business line was only launched in H1 22, and sales cycles are typically 12-18 months. Management believes that this business represents a transformational opportunity for the group, with two material Exchange Cloud deals in final negotiations.

Although the release does not provide a hard data point on the number of Tier 1 customers, it reveals that the actual number increased during the period, as did the average contract size. Tier 1 clients now contribute around half of revenues, a 20 percentage-point improvement on H1 22.

With the bulk of sales being made on an ongoing contract basis, revenue visibility remains high. ACMRR closed the period at £21.3m, representing 87% of our FY23E revenue forecast.

Operating expenses grew slower than revenue

Total operating expenses grew by £3.07m in the period to £11.15m. We believe the slower growth in expenses versus turnover is a highly creditable performance given the ongoing investment in the product suite and platform highlighted previously. Financial performance is benefitting from recurring Proximity Cloud sales made during H2 22.

Although excluded from the underlying profit metrics, the share-based payments charge grew to £1.16m (H1 22: £0.41m). This reflects a one-off increase in the level of share option awards in FY22.

Total depreciation & amortisation rose by £0.83m to £3.05m, reflecting the increased investment in fixed assets.

Profitability improved, margin expansion

Underlying EBITDA grew by 48% during the year to £3.59m (H1 22: £2.43m), a 3pp improvement in margin. However, the increase in D&A expenses had a slight impact on growth in underlying PBT, which was 44% higher YoY at £0.65m.

The tax charge remained positive (+£0.28m) in H1 23, with the group continuing to benefit from HMRC's 'Super-deduction' announced in the 2021 budget, and also from R&D tax credits. Underlying basic EPS improved strongly in the period to 1.35p (H1 22: 0.90p).

Strong operating cash performance, offset by ongoing investment

The group closed H1 23 with a net cash position of £3.35m versus net cash of £7.86m for FY22 and H1 22 net debt at £3.73m.

At £3.68m, operating cash flow saw impressive growth during the period (H1 22: £2.52m). Capex also fell during the period (£1.5m lower vs H1 22) but is still a significant investment of some £3.38m. Working capital movements were a negative £2.67m, primarily reflecting increased investment in equipment for resale. H1 22 saw a £0.22m inflow from financing activities, and the overall movement was a £3.46m cash outflow during the half.

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)	10.26	21.04	47.03	53.62	63.94
Net Tangible Asset Value	6.76	10.39	16.27	17.91	19.17
NTAV/share (p)	10.32	15.88	24.87	27.38	29.30
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)	9.6	7.7	4.9	3.7	3.1
EV/EBITDA (x)	27.0	21.7	14.2	10.8	8.3
EV/NOPAT (x)	69.5	48.9	36.0	22.8	17.4
PER (x)	58.1	47.7	34.0	33.8	29.1
Dividend yield	0.1%	N/A	N/A	N/A	N/A
FCF yield	(0.7%)	(4.1%)	(8.2%)	(0.9%)	(0.8%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

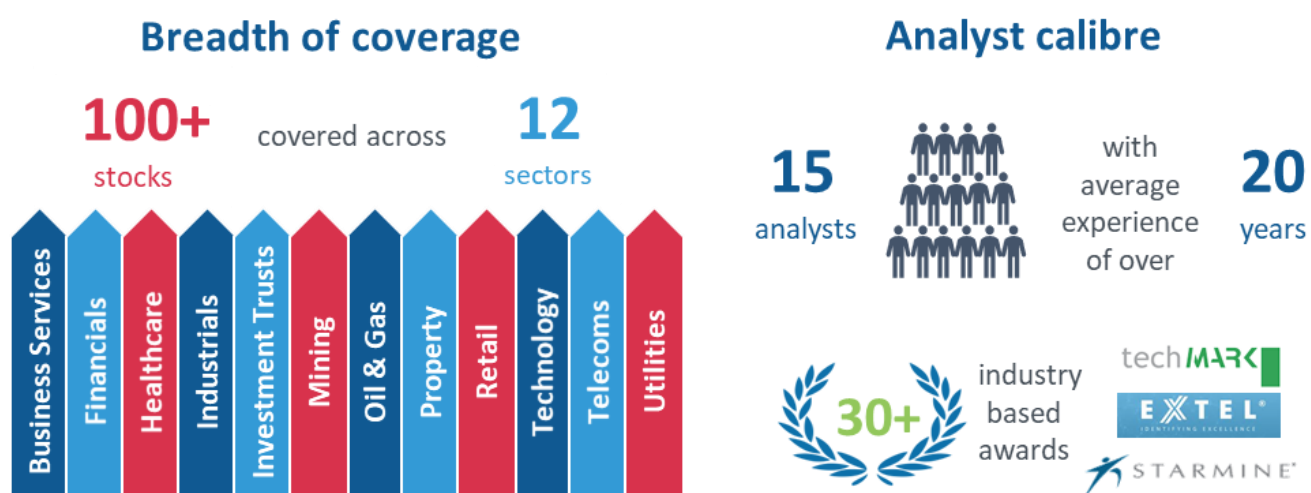
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