

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

21 March 2022

BKS.L

146p

Market Cap: £81.8m

SHARE PRICE (p)



12m high/low 201p/110p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(3.7)m (at 31/12/21)
Enterprise value	£85.5m
Index/market	AIM
Next news	Trading update, July 22
Shares in Issue (m)	56.1
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.

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BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

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Delivering on the Land and Expand strategy

Beeks has reported impressive H1 22A results, in our view. Revenue (+46% YoY) and profits (underlying EBITDA +41% YoY) both saw strong growth – 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 half and commentary on the outlook is positive. We increase FY22E and FY23E revenue and EBITDA forecasts following the announcement.

- H1 22A results – impressive growth, visibility remains high.** H1 revenue grew 46% YoY to £7.72m, with the core Institutional business growing 47% YoY. Underlying EBITDA grew by 41% YoY, reflecting increased investment in the platform and product development. With Annualised Committed Monthly Recurring Revenue (ACMRR) now at £17.7m – 94% of our FY22E revenue forecast – visibility remains high.
- Delivering the ‘Land and Expand’ strategy.** The ‘Land’ element focuses on growing the core Tier 1 customer base. The roster has now reached 11, having more than doubled over the past two years. Beeks has also reported success on the ‘Expand’ component. Several contracts have grown since being signed, with the \$1m initial value of one particular deal increasing to \$5.9m in February 2022.
- Strong operational progress.** H1 22A saw the launch of, and initial revenues from, the Proximity Cloud suite, and further development of the Exchange Cloud offering expected to launch in H2. Headcount increased to 87 (+16 in the half), focused largely on expanding the product development team. The footprint was extended to Zurich and Geneva via the IPC partnership, with Amsterdam, Washington DC and Mexico to follow in H2.
- Positive outlook commentary.** Noting the record Q3 22E trading performance and a “substantial” sales pipeline in the Private Cloud and Proximity Cloud suites, the release heralds that: “The prospects for Beeks have never been more promising.” The board is confident in achieving FY22E results in line with (increased) market expectations.
- Forecast revisions.** We revise estimates following the announcement. FY22E and FY23E revenue improves by 3.8% and 7%, respectively, with adjusted EBITDA 3.6% and 6.8% higher. Increased expectations of D&A charges drive a £0.3m reduction in FY22E adjusted PBT, however our £3.2m FY23E forecast is unchanged.

FYE JUN (£M)	2019	2020	2021	2022E	2023E
Revenue	7.4	9.4	11.6	18.9	24.5
Adj EBITDA	2.5	3.3	4.1	5.8	7.8
Fully Adj PBT	1.3	1.4	1.6	2.1	3.2
Fully Adj EPS (p)	2.6	2.5	3.0	3.4	4.8
EV/Sales (x)	11.6	9.1	7.4	4.5	3.5
EV/EBITDA (x)	34.5	25.7	20.7	14.6	11.0
PER (x)	57.2	59.5	48.8	43.5	30.5

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

H1 22A Performance

Revenue and visibility

H1 22A revenue increased by £2.43m to £7.72m, a 46% YoY improvement. The group was organised into three main business segments for revenue purposes during the period: Institutional, Retail (private) and Analytics customers. Institutional revenues, the group's largest business line (84% of total revenue in H1 22A), contributed the bulk of the increase (+£2.08m, +47% YoY). This reflects growth in the Tier 1 customer base and average client spend as management continues to successfully execute the Land and Expand strategy. The group now has 11 Tier 1 customers at various stages of deployment. The Retail business saw a 24% decline in revenue during the half, reflecting ongoing customer churn. Analytics revenues were stable during the period, with the business contributing around 11% of H1 22A revenue and maintenance, and Professional service sales generating the bulk of segmental revenue.

With the bulk of revenue being generated on an ongoing contract basis, recurring revenue remains high, at 89% of the total. With 32% YoY growth in ACMRR to £15.8m during the year, visibility remains high. The release also signals that this metric had risen to £17.7m at 28 February 2022 (94% of our FY22E revenue forecast) following the strong start to the current financial year.

Operating expenses

Total operating expenses grew by £1.72m in the period to £5.29m. The aggregate cost base was impacted by further investment made into the platform, operations and product development. This was evidenced by the headcount reaching 87, vs 71 at 30 June 2021. As previously flagged, H1 22A also saw expansion of the asset base across the group's expanded data centre footprint, with increased investment in the Proximity Cloud suite, which recorded initial revenue during the half, and the Exchange Cloud suite, which is scheduled to launch in H2 22E. Depreciation & amortisation rose by £0.83m to £2.21m, reflecting the increased investment in fixed assets.

Profitability

Underlying EBITDA grew by 41% during the period to £2.43m (H1 21A: £1.72m). However, the increased D&A expenses drove an 18% YoY decline in underlying PBT to £0.45m. Clearly, the decline in PBT vs the growth in revenue and EBITDA will disappoint some. However, it is a feature of the business that certain costs – in this case D&A – are recognised in advance of revenues being recorded and profits generated.

H1 22A saw the tax charge remain positive, with the group benefitting from HMRC's 'Super deduction' announced in the 2021 budget and also R&D tax credits. Underlying EPS saw a slight decline in the period at 0.90p (H1 21A: 0.94p).

Cash and financing

Closing gross debt was £4.8m, vs H1 21A at £1.2m, with the increase largely reflecting an additional drawdown of the RCF with Barclays as well as a new mortgage on Head Office.

The group closed H1 22A with a net debt position of £3.7m, vs net cash of £1.9m in FY 21A.

At £2.23m, operational cash flow saw impressive growth during the period (H1 21A: £1.48m). This was offset by increased capex (+£4.27m vs H1 21A) reflecting investment in new products and the platform. Working capital movements swung to a negative £1.09m, reflecting longer sales cycles. FY21A saw a £2.86m inflow from financing activities.

The net result was a £2.26m cash outflow during the period.

Q3 22E: A record trading performance

The release heralds that Q3 22 was a record trading performance for the group. We note the following highlights:

- In February 2022, the group signed a \$2.2m contract over four years with one of world's largest Foreign Exchange brokers.
- Also in February 2022, a \$2m initial contract over five years with a North American bank was secured via a partner.
- A \$1m initial value of one particular contract increased to \$5.9m in February 2022.
- Q3 has seen the group log a record \$8.3m to date in Total Contracted Value. The Proximity Cloud suite has been the stand-out performer, securing over \$5.2m of new contracts since launch.
- ACMMR increased to £17.7m at the end of February 2022, versus £15.8m at 31 December 2021.

We believe this is a very strong performance. The group continues to record material contract wins with a broadening range of clients, across the globe. Positive commentary on Proximity Cloud is a highlight of the announcement. Having only launched in August 2021, Proximity Cloud has enjoyed a strong start, and we continue to believe that the suite will be a key growth driver for the group.

Exchange Cloud to launch in H2 22E

To recap, Proximity Cloud is the group's highly customisable, pre-configured, low-latency, Internet-As-A-Service (IAAS) trading environment pre-built into a physical cabinet and delivered to customers' in-house data centres in a stand-alone rack. The suite offers an inherent security benefit vs public cloud deployments – it runs on the client's own infrastructure and operates under the care of their own IT team. This is a key USP, in our view, given the typically demanding security requirements of the target Tier 1 customer group.

Beeks has continued to invest in the suite: the next iteration includes additional functionality to its in-built analytics using Grafana-based front-end and enhanced alerting functionality.

Beeks has also developed an extension to Proximity Cloud suite, called Exchange Cloud. Management identified a need from global financial exchanges for a secure, multi-client cloud environment. Via the Beeks Exchange Cloud suite, exchanges can offer end-user cloud compute to their own customers, as well as maintain space for their own internal use if required.

The H1 22A results release confirms that Beeks is in final negotiations with a number of world-leading global exchanges to deploy Exchange Cloud, with one at the Proof-of-Concept (POC) stage.

Estimate changes

Having increased our forecasts in early February 2022, we make further upwards adjustments to estimates following the H1 22A results announcement. These are summarised in the following table.

Beeks Financial Cloud – estimate revisions						
£m unless stated	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	18.2	18.9	3.8%	22.9	24.5	7.0%
Adj EBITDA	5.6	5.8	3.6%	7.3	7.8	6.8%
Fully adj PBT	2.3	2.1	-8.7%	3.2	3.2	0.0%
Fully adj EPS (p)	3.8	3.4	-10.5%	4.8	4.8	0.0%

Source: Progressive Equity Research estimates

- We increase FY22E revenue forecasts by 3.8% to £18.9m and FY23E revenues by 7.0% to £23.7m. Our revised estimates include contributions from the contract extension and Proximity Cloud contracts announced in February 2022.
- Adjusted EBITDA is also increased, at a broadly comparable rate to revenue in both years. Alongside the increase in revenue, we have increased our expectations of investment in the product suite and the platform. Although strategically sensible, this limits the potential for margin expansion in the very near term.
- We have also increased our expectations for depreciation & amortisation charges, reflecting higher levels of investment in the platform and new products. The impact is more notable in FY22E, where our adjusted PBT reduced by 8.7%. Our FY23E adjusted PBT forecast is unchanged.
- Our revised cash flow estimates also reflect increased expectations of ongoing investment. FCF is lower in both years, largely reflecting revised estimates of working capital levels. Following the H1 results, we have also assumed an increase in gross debt. The net result is that we now forecast the group's financial position being c.£6m lower than our previous estimates in both years.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	7.35	9.36	11.62	18.86	24.47
Adj EBITDA	2.48	3.33	4.14	5.85	7.76
Adj EBIT	1.50	1.18	1.67	2.54	3.54
Reported PBT	1.04	0.68	1.26	1.28	2.82
Fully Adj PBT	1.32	1.43	1.61	2.09	3.16
NOPAT	1.89	1.29	1.84	2.72	3.89
Reported EPS (p)	2.10	1.13	3.07	1.92	4.32
Fully Adj EPS (p)	2.55	2.45	2.99	3.36	4.79
Dividend per share (p)	0.35	0.20	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	2.13	3.26	5.99	5.20	7.51
Free Cash flow	0.04	(0.67)	(1.07)	(1.95)	(0.29)
FCF per share (p)	0.07	(1.20)	(1.91)	(3.49)	(0.52)
Acquisitions	(1.11)	(0.75)	(1.02)	0.00	0.00
Capex	(1.66)	(3.54)	(6.75)	(6.86)	(6.86)
Shares issued	0.00	0.00	5.01	0.00	0.00
Net cash flow	(0.55)	(0.91)	2.42	(1.95)	(0.29)
Overdrafts / borrowings	(1.32)	(2.18)	(1.49)	(7.00)	(7.00)
Cash & equivalents	2.34	1.43	3.37	1.42	1.12
Net (Debt)/Cash	1.02	(0.75)	1.89	(5.58)	(5.88)
NAV AND RETURNS					
Net asset value	5.63	6.72	13.77	13.81	18.07
NAV/share (p)	10.05	11.98	24.56	24.63	32.23
Net Tangible Asset Value	2.44	6.76	10.39	13.61	15.80
NTAV/share (p)	4.35	12.05	18.54	24.29	28.20
Average equity	5.24	6.17	10.24	14.82	17.56
Post-tax ROE (%)	22.7%	21.3%	14.0%	10.9%	11.9%
METRICS					
Revenue growth		27.3%	24.1%	62.4%	29.8%
Adj EBITDA growth		34.3%	24.3%	41.3%	32.6%
Adj EBIT growth		(21.5%)	42.1%	52.0%	39.3%
Adj PBT growth		N/A	12.1%	29.9%	51.1%
Adj EPS growth		N/A	22.0%	12.3%	42.7%
Dividend growth		(42.9%)	(100.0%)	N/A	N/A
Adj EBIT margins	20.4%	12.6%	14.4%	13.5%	14.5%
VALUATION					
EV/Sales (x)	11.6	9.1	7.4	4.5	3.5
EV/EBITDA (x)	34.5	25.7	20.7	14.6	11.0
EV/NOPAT (x)	45.2	66.1	46.6	31.5	22.0
PER (x)	57.2	59.5	48.8	43.5	30.5
Dividend yield	0.2%	0.1%	N/A	N/A	N/A
FCF yield	0.1%	(0.8%)	(1.3%)	(2.4%)	(0.4%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

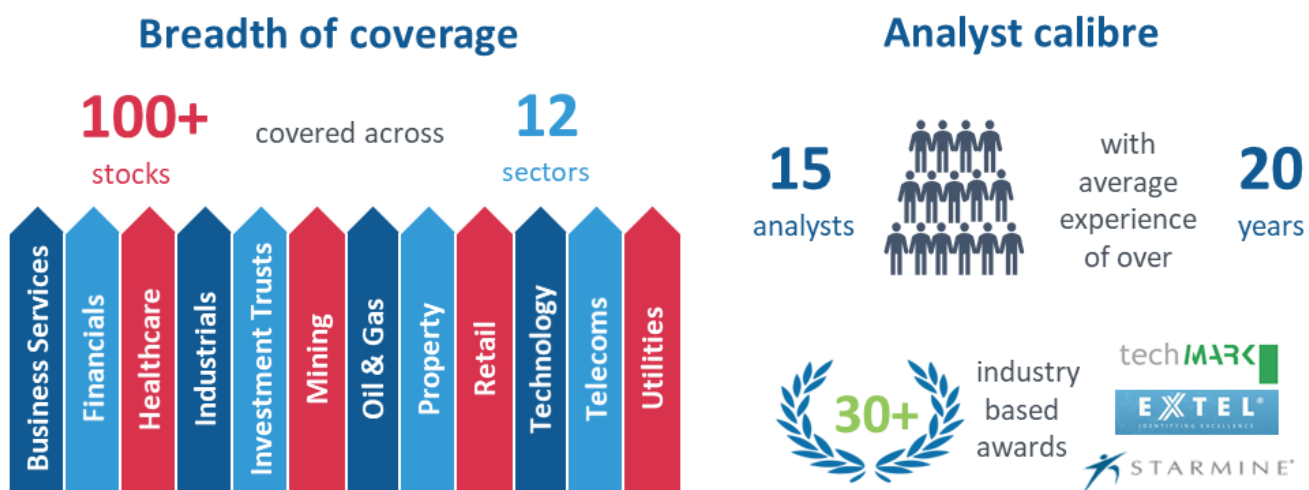
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