

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

BKS.L

80p

Market Cap: £40.4m

SHARE PRICE (p)



12m high/low

145p/78p

Source: LSE Data

KEY INFORMATION

Enterprise value	£39.4m
Index/market	AIM
Next news	AGM, Oct-19
Gearing	N/A
Interest cover	N/A

BEEKS FINANCIAL CLOUD GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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2019 results demonstrate strategic delivery

Cloud computing and connectivity provider for financial markets Beeks Financial Cloud Group (“Beeks”) has reported FY 2019A results in line with our forecasts. Contract wins in the key institutional business demonstrate that the group is delivering against the stated strategic priority of customer growth and also show the benefits of the ongoing investment in the Beeks platform. Management commentary on the outlook is positive, and our FY 2020E earnings estimates are unchanged following the announcement. In this note we also introduce FY 2021E estimates for the first time.

- FY 2019A results in line:** FY 2019A Revenue of £7.4m (+32%) and underlying EBITDA of £2.5m (+27%) were in line with our forecasts. With 32% YoY growth in Annualised Committed Monthly Recurring Revenues (“ACMRR”) to £9.1m, revenue visibility remains high.
- Delivering on the strategic priority:** Beeks’ primary strategic objective is to grow the institutional customer base, particularly with Tier-1 clients. In our view the 2019A results demonstrate solid delivery against that priority. Contracts with three new Tier-1 clients were signed during the year; a global investment management organisation and a global bank were announced in July 2019 following on from the insurance sector client announced in December 2018. The institutional business (90% of turnover FY 2019A) saw material customer growth overall, with 28 new customers added during the year.
- Investing in the platform:** FY 2019A saw the Beeks platform expand into a second Equinix New York data centre, and also the first revenues from the two newest data centres, London Interxion and Singapore. Both are on track to reach monthly breakeven within the group’s target 12-month period. The Beeks footprint now extends to 11 data centres in key financial centres across the world, with over 200 pre-built connections to trading venues. We believe the benefits of this investment are already being felt – Beeks’ expansion into new territories and asset classes has been a key driver of the customer growth - and Tier-1 client wins - discussed above.
- Positive outlook statement:** Beeks has enjoyed “a good level of trading” in the first two months of FY 2020E, with continuing growth in both the mid-tier and larger institutional client bases. The market backdrop for Infrastructure as a Service (IaaS) remains favourable, with management expressing confidence that additional Tier-1 customers will be secured during the current financial year.

FYE JUN (£M)	2017	2018	2019	2020E	2021E
Revenue	4.0	5.6	7.4	10.7	13.5
Adj EBITDA	0.5	1.9	2.5	4.1	5.0
Fully Adj PBT	0.1	1.2	1.3	2.4	3.0
Fully Adj EPS (p)	(0.3)	2.3	2.6	4.4	5.5
EV/Sales (x)	9.9	7.1	5.4	3.7	2.9
EV/EBITDA (x)	72.6	20.3	15.9	9.6	7.8
PER (x)	N/A	35.0	30.8	18.2	14.5

Source: Company Information and Progressive Equity Research estimates

FY 2019A: A year of strategic delivery

Beeks' stated vision "is to provide a rapidly deployed, secure and scalable cloud environment for trading applications".

The group has five strategic objectives:

- Expand the Tier-1 customer base
- Grow the institutional customer base in automated trading and hybrid cloud
- Continued expansion into new geographies and product classes.
- Opportunistic M&A
- Leverage the self-service web portal

We believe FY 2019 saw solid delivery in all five areas, and highlight:

Tier 1 clients:

- The first three Tier-1 clients were signed during the year. These are typically stickier clients with better revenue visibility. However, procurement processes and sales cycles are usually longer.
- Each of the three wins were in a different sector, demonstrating the breadth of the Beeks product offering. The first was a client in the insurance sector, announced in December 2018. In July 2019, Beeks announced two further Tier-1 contract signings, one a global bank, the other a global investment management organisation.

Institutional customer base:

- The overall institutional client base grew by 28 in the year to 220, a 15% improvement on FY 2018A. Beeks has also seen success in attracting higher-value clients, with the FY 2019A average entry level new institutional customer contract increasing to £2,200 per month, almost 3x the FY 2018A level.

New geographies & product classes:

- FY 2019A saw the Beeks platform expand into a second Equinix New York data centre, and also the first revenues from the two newest data centres, London Interxion and Singapore. Both are on track to reach monthly breakeven within the group's target 12-month period.
- Having introduced products specifically targeted at the fixed income market in FY 2018, FY 2019 saw the group achieving good commercial traction in that segment. In the forex market, new entrants are creating an increasingly fragmented market place and increased demand for the group's IaaS solutions. Cryptocurrency markets are demanding increasingly sophisticated hosting and connectivity demands, which Beeks is increasingly well-positioned to meet.

Opportunistic M&A:

- In May 2019, Beeks announced the acquisition of the trading assets of CNS for a total consideration of up to \$1.4m. CNS specialises in hosting low latency algorithmic trading systems, virtual private networks and streaming media from data centres in London, New York and Los Angeles. The company provides services to approximately 1,000 retail clients across multiple geographies and the acquisition provided an additional £0.8m of ACMMR to Beeks.

Leverage the portal:

- 2019 saw a number of developments in the portal. Clients now have the ability to provision dedicated servers, manage infrastructure inventory and monitor Beeks' global server capacity.

FY 2019A Financial Performance

Revenue

FY 2019A revenue increased by £1.77m to £7.35m, an increase of 32% on FY 2018. Institutional sales (90% of turnover) contributed the bulk of the increase (£1.69m), with retail clients generating the remainder. Note that the Commercial Network Services (CNS) business, which is retail focussed, made a two-month contribution to financials and will make a full-year contribution from FY 2020E onwards.

Geographically, all three regions contributed to growth. The Rest of World region remains the largest unit, with YoY turnover growth of 26%. The UK saw turnover more than doubling to £1.53m. European revenue grew 18% during the period.

With the bulk of revenue being generated on an ongoing contract basis, recurring revenue remains high at c99% of the total. With 32% YoY growth in Annualised Committed Monthly Recurring Revenues ("ACMRR") to £9.1m, revenue visibility remains high.

Operating expenses

Total operating expenses grew by £1.48m in the period to £6.16m. The aggregate cost base was impacted by (anticipated) investment made into the new London Interxion and Singapore data centres but also ongoing investment in growth. Depreciation & amortisation rose by £0.4m to £1.08m. This reflecting increased investment in fixed assets in advance of revenues being recognised from new contracts and also longer sales cycles from Tier-1 clients.

Profitability and Dividend

As a result of the higher opex, underlying EBITDA grew by 27% during the period to £2.48m (2018A £1.95m). The group continues to recognise a tax credit, albeit small, at £20k. The effective rate being reduced by deductions for share options and an R&D tax credit. Adjusted EPS for the period rose 14% to 2.58p.

The board has proposed a final dividend of 0.35p (0.3p FY 2018A), an increase of 17% which we see as a reflection of management's confidence in the outlook for the business.

Cash

Beeks closed FY 2019A with a £1.02m net cash position and £2.39m in gross cash. Operating cash flows were strong – as evidenced by a near-quadrupling of operating cash flow £2.1m. This was offset by increased by increased capex (£0.2m higher during the year), £0.3m of dividend payments and £0.4m of lease repayments. The overall result was a net £0.5m cash outflow for the year.

Forecast revisions

Following the announcement, our FY 2020E earnings estimates are unchanged. However, due to changes in accounting policies, we have made alterations to a number of P&L line items.

- We have made a minor adjustment to revenues reflecting the adoption of IFRS 15, which delays revenue recognition of setup fees for larger clients.
- We are increasing our estimate of FY 2020E EBITDA solely due to the adoption of IFRS 16. That said, we expect this accounting change to be overall profit neutral – our FY 2020E adjusted EBIT and PBT forecasts of £2.50m and £2.35m respectively are unchanged from our previous estimates.
- Our EPS estimate is fractionally higher. This is due to a slight reduction in our forecast tax charge.

Our forecast changes are summarised in the following table.

PERL FY 2020E earnings forecast changes

£m unless stated	FY20E		
	Old	New	Change (%)
Revenue	10.78	10.68	-1%
Adj EBITDA	3.73	4.13	11%
Fully adj PBT	2.35	2.35	0%
Fully adj EPS (p)	4.34	4.36	0%

Source: Company data

We also introduce FY 2021E forecasts for the first time. These are detailed overleaf.

We forecast revenue growth of 26% FY 2021E, reflecting further growth in the customer base and increased average spend per customer. Although the headline growth figure would appear to be a slowdown from the 45% we forecast for 2020E, note the earlier year reflects the first full-year contribution from CNS. Our 2021E growth expectation is entirely organic.

Beeks reported an FY 2019A underlying EBITDA margin of 34%. For FY 2020E and FY 2021E, we expect profitability to benefit from improved usage of existing capacity, with the result being a slight uptick in margin.

We continue to expect the group's cash flow performance to benefit from improvements in profitability, and also tight working capital management. We expect FY 2020E and FY 2021E capex spend to be broadly comparable with the FY 2019A level, reflecting ongoing investment in the platform. We also forecast an increase in the cash tax charge.

With £2.4m of net tangible fixed assets and a £1.0m net cash position (both FY 2019A), we continue to believe the Beeks growth story is underpinned by a strong balance sheet.

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2017	2018	2019	2020E	2021E
PROFIT & LOSS					
Revenue	3.97	5.58	7.35	10.68	13.46
Adj EBITDA	0.54	1.95	2.48	4.13	5.03
Adj EBIT	0.14	1.36	1.58	2.50	3.17
Reported PBT	(0.76)	0.75	1.04	2.10	2.71
Fully Adj PBT	0.06	1.19	1.32	2.35	2.96
NOPAT	0.14	1.70	1.89	2.55	3.25
Reported EPS (p)	(2.27)	2.26	2.10	3.52	4.54
Fully Adj EPS (p)	(0.32)	2.27	2.58	4.36	5.48
Dividend per share (p)	0.00	0.30	0.52	0.60	0.69
CASH FLOW & BALANCE SHEET					
Operating cash flow	0.68	0.54	2.13	3.75	4.12
Free Cash flow	(0.32)	(1.16)	0.04	1.46	2.55
FCF per share (p)	(0.63)	(2.28)	0.08	2.86	5.00
Acquisitions	0.00	0.00	(1.11)	0.00	0.00
Capex	(0.85)	(1.46)	(1.66)	(1.64)	(1.72)
Shares issued	0.00	4.36	0.00	0.00	0.00
Net cash flow	(0.01)	2.86	(0.55)	0.76	2.55
Overdrafts / borrowings	(0.40)	(0.33)	(1.32)	(1.26)	(0.62)
Cash & equivalents	0.02	2.89	2.34	3.09	5.64
Net (Debt)/Cash	(0.38)	2.56	1.02	1.84	5.01
NAV AND RETURNS					
Net asset value	(0.38)	4.84	5.63	6.51	9.22
NAV/share (p)	(0.74)	9.52	11.07	12.79	18.12
Net Tangible Asset Value	1.30	2.14	2.44	2.46	2.33
NTAV/share (p)	2.56	4.20	4.80	4.83	4.58
Average equity	(0.19)	2.23	5.24	6.38	8.12
Post-tax ROE (%)	(29.3%)	53.3%	25.1%	36.9%	36.4%
METRICS					
Revenue growth		40.6%	31.7%	45.3%	26.0%
Adj EBITDA growth		258.4%	27.4%	66.4%	21.8%
Adj EBIT growth		852.4%	16.1%	58.4%	26.6%
Adj PBT growth		N/A	10.5%	78.9%	25.8%
Adj EPS growth		N/A	13.4%	69.1%	25.8%
Dividend growth		N/A	71.7%	16.0%	15.0%
Adj EBIT margins	3.6%	24.4%	21.5%	23.4%	23.6%
VALUATION					
EV/Sales (x)	9.9	7.1	5.4	3.7	2.9
EV/EBITDA (x)	72.6	20.3	15.9	9.6	7.8
EV/NOPAT (x)	275.7	23.2	20.8	15.5	12.1
PER (x)	N/A	35.0	30.8	18.2	14.5
Dividend yield	N/A	0.4%	0.6%	0.8%	0.9%
FCF yield	(0.8%)	(2.9%)	0.1%	3.6%	6.3%

Source: Company information and Progressive Equity Research estimates

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