

BEEKS FINANCIAL CLOUD GROUP

SOFTWARE AND COMPUTER SERVICES

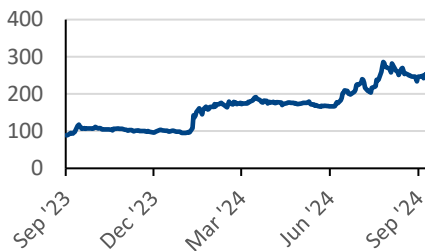
7 October 2024

BKS.L

254p

Market Cap: £167.4m

SHARE PRICE (p)



12m high/low

286p/94p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£6.6m (at 30/06/24)
Enterprise value	£160.8m
Index/market	AIM
Next news	Interims, Mar 2025
Shares in issue (m)	65.9
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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Head in the cloud, prospects in the stars

Finals sparkle, with an 'in-line'/beat set of results (adj. EPS 6.4p vs our 5.1p estimate). Looking ahead, FY25 estimates are covered by recurring revenue, a strong pipeline and a new FY that is off to a flying start. To wit, ACMRR already ticked by £0.5m to £28.5m to 31 August – 74% of our FY25 revenue estimate. CEO Gordon McArthur telegraphs further progress: 'Demand for our product is stronger than ever, fuelling a regular flow of new contract wins and extensions that offer long-term, recurring revenues.' The offer has matured with service extensions, new sites, new 'C' suite hires and strides in go-to-market as Beeks gains from secular tailwinds (cloud adoption, compliance, data sovereignty, cybersecurity, sustainability, analytics, payment modernisation, AI in risk management etc) – all enabling Beeks to carve out a moat as market leader in cloud infrastructure for financial markets and payments. Shares have performed well, +157% YTD vs sector +4.7%, but TSR only reflects the operational momentum. The FY1 valuation (EV/Sales 4.0x vs cohort 4.2x) does little to reflect the proven execution on global TAM. We believe that Beeks offers long-term secular growth.

- **Financial precis.** FY24 revenue +27% Y/Y to £28.5m, ACMRR +18% to £28.0m (with a further £0.5m added by the end of August), adj. EBITDA +27% Y/Y to £10.7m, adj. FD EPS 6.36p (3.96p a year ago). Net cash £6.6m.
- **Operational nuggets.** (i) Post-period multi-year Exchange Cloud contract with 'one of the largest exchange groups globally' received regulatory approval. (ii) Further 'significant extensions' at JSE. (iii) 'Significant' Proximity Cloud wins include a £5m contract at 'one of the world's largest banking Groups' and a five-year US\$3.6m contract with a 'Tier 1 investment manager'. (iv) Private Cloud contracts, US\$4m, inked in July.
- **Impact on estimates.** Beeks is confident of achieving FY25 results 'in line with expectations'. Consequently, we make negligible course correction changes to estimates. We forecast FY26E for the first time, expecting a year of growth and margin expansion.
- **Investment case.** Beeks is established, profitable and growing, with a global opportunity, robust moat, improving unit economics and (more) experienced management team. The IaaS is optimised for low-latency private cloud compute, connectivity and real-time analytics. Continued growth is predicated on customers migrating on-prem to cloud as they reconcile cloud's cost, agility and security advantages, as any residual performance, regulatory and data sovereignty concerns are addressed.

FYE JUN (£M)	2022	2023	2024	2025E	2026E
Revenue	18.3	22.4	28.5	38.5	44.5
Adj EBITDA	6.3	8.4	10.7	14.5	16.7
Fully Adj PBT	2.1	2.33	3.9	5.8	6.7
Fully Adj EPS (p)	4.5	4.0	6.4	7.3	8.4
EV/Sales (x)	8.8	7.2	5.6	4.2	3.6
EV/EBITDA (x)	25.5	19.1	15.0	11.1	9.6
PER (x)	56.6	64.1	39.9	35.0	30.3

Source: Company Information and Progressive Equity Research estimates.

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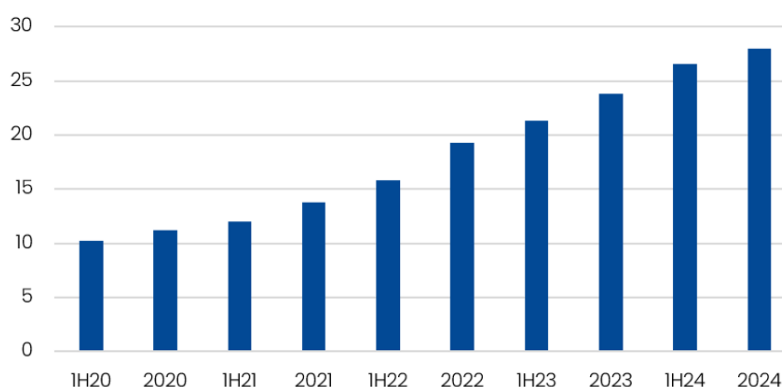
Please refer to important disclosures at the end of the document.

Financial results in more detail

Segmental view: Tier 1 customers are 58% of revenue

Proximity and Exchange Cloud revenues grew by £3.0m and Private Cloud grew by £3.1m. Tier 1 customers are 58% of revenue, up from 45% last year. Annualised Committed Monthly Recurring Revenue (ACMRR) was +18% Y/Y to £28.0m, and since the balance sheet date (30 June) has picked up further, increasing to £28.5m at 31 August.

Beeks – ACMRR over time (£m)



Source: Company data

Recurring revenue: 84.3% of group revenue

Revenue recognition for Proximity and Exchange Cloud (ie a significant proportion is recognised upfront) means fluctuations in the percentage of recurring revenue, which depends on the sales mix. Due to the strength in Exchange and Proximity Cloud sales, recurring revenue is 84% of total (91% last year). This reflects the strength of the Tier 1 Exchange and Proximity Cloud, and a positive extension of the revenue base.

Beeks – Recurring revenue (£'000)

Year to 30 June	2021	2022	2023	2024
Recurring revenue streams				
IaaS	9,781	13,057	19,162	22,723
Maintenance	685	518	537	388
Proximity Cloud	-	57	454	378
Exchange Cloud	-	-	-	53
Pro Services	187	234	273	463
Recurring revenue	10,653	13,866	20,426	24,005
Point in time revenue				
Proximity Cloud	-	2,222	-	1,626
Exchange Cloud	-	-	-	1,417
Hardware	337	1,601	529	826
Licences	556	520	1,267	456
Other software	-	-	-	57
Setup fees	69	80	135	100
Point in time revenue	962	4,423	1,931	4,482
Group Revenue	11,615	18,289	22,357	28,487
Revenue growth		57.5%	22.2%	27.4% ▲
Recurring revenue growth		30.2%	47.3%	17.5% ▲
Recurring rev/Group rev (%)	91.7%	75.8%	91.4%	84.3% ▲
One-off revenue growth		359.8%	-56.3%	132.1% ▲

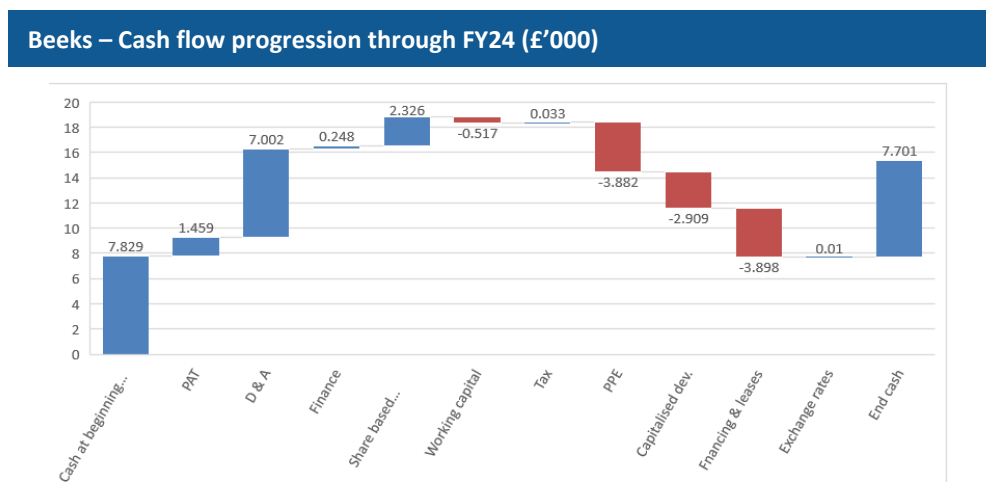
Source: Company data, Progressive Equity Research

Operational leverage: illustrated by the staff count

Despite the strong revenue growth, headcount was only up a fraction to 105 (30 June 2024) from 103 (30 June 2023), with staff costs £7.2m, up from £6.9m. We note positively that Beeks made a number of senior hires including a new Head of Software Development, Head of Site Reliability Engineering and Head of APAC sales. We believe this improves the ability to execute.

Cash flow: Strong conversion/strong FCF

A mix of a recovering operating cash, lower PPE at £3.6m (£4.1m last year), coupled with £1.5m stock supply (we see this as reflective of the prior global supply chain issues, and these have since eased, so that stock level may not be required), leads to improving working capital in FY25E. FY24 net cash was £6.6m, up from £4.4m a year ago, after accounting for £1.1m borrowings.



Source: Company data, Progressive Equity Research

The offer: expanded through FY24

FY24 marked continuous development in the customer offer, as follows:

- **Compute on Demand:** High-performance virtual and dedicated servers, delivering ultra-low latency compute power in key financial hubs. The infrastructure supports real-time trading, with the flexibility to scale up or down based on market demand.
- **Private Cloud:** Proximity Cloud and Exchange Cloud provides secure, pre-configured environments for capital markets. These enable operational resilience, enhanced security and reduced latency, giving financial institutions control and agility.
- **Low-Latency Connectivity:** Includes WAN, private networks, and cross-connects for reliable, ultra-low latency connections for HFT and time-sensitive operations.
- **Beeks Analytics:** Real-time performance monitoring and analytics empowers clients with full control over their trading infrastructure. Capturing and analysing network traffic means clients can optimise performance, decision-making and efficiency.

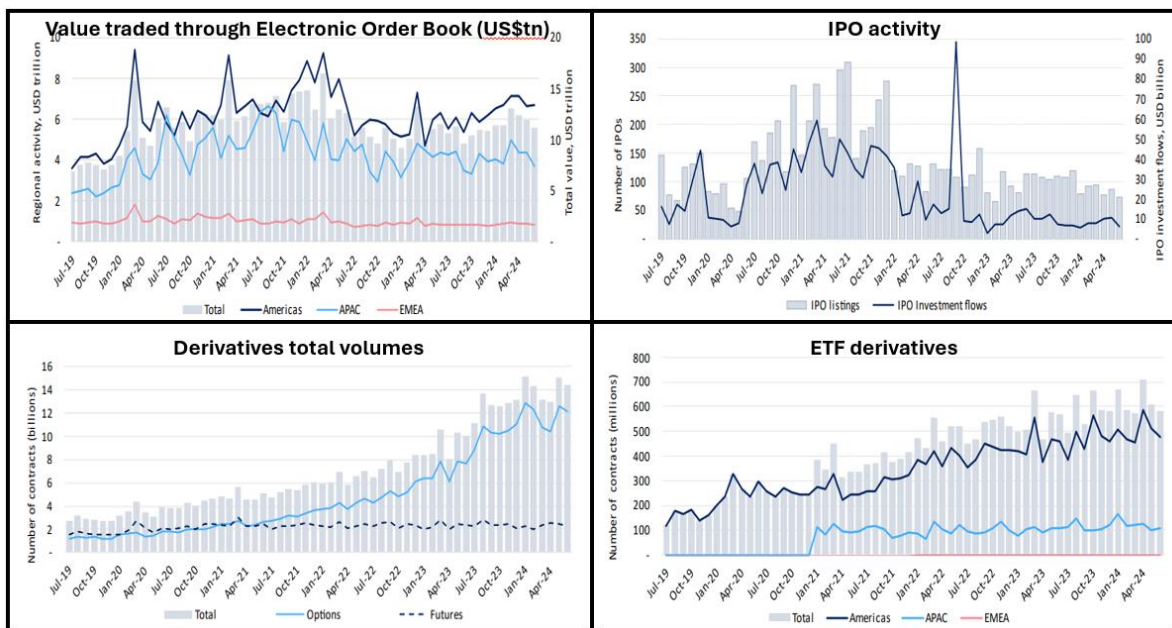
Points to ponder

Global markets begin a slow recovery: TAM is growing on several axis

Industry research suggests that the global financial cloud market was valued at US\$46,910m in 2023, and is expected to grow to US\$289,130m by 2030, a 29.7% CAGR. ‘Financial cloud’ refers to financial institutions making use of cloud computing and service advantages, its data value, customers, processes, and through technical means, such as data centres, client into ‘the cloud’. There are four broad application segments, banks, securities companies, insurance companies, and others, of which 81% are banks, 10% insurance companies, 9% securities companies, with the 2% balance being others.

The industry data points to growth in the broader cloud adoption market, but there are fewer listed companies and fewer IPOs, which may suggest a market in the doldrums, impacting TAM for Beeks. However, the latest data (13 August 2024) from the World Federation of Exchanges (a global industry group for exchanges and central clearing counterparties) concludes that in H1 24 trading value increased 11.7% Y/Y, and volumes rose 9.6% Y/Y. The WFE concludes that global markets were highly liquid despite the backdrop of economic and geopolitical uncertainties. These general signs of recovery in transactions volumes bode well for Beeks. Below our dashboard picks out some of the relevant data points.

WFE – Traded volumes and values begin to recover

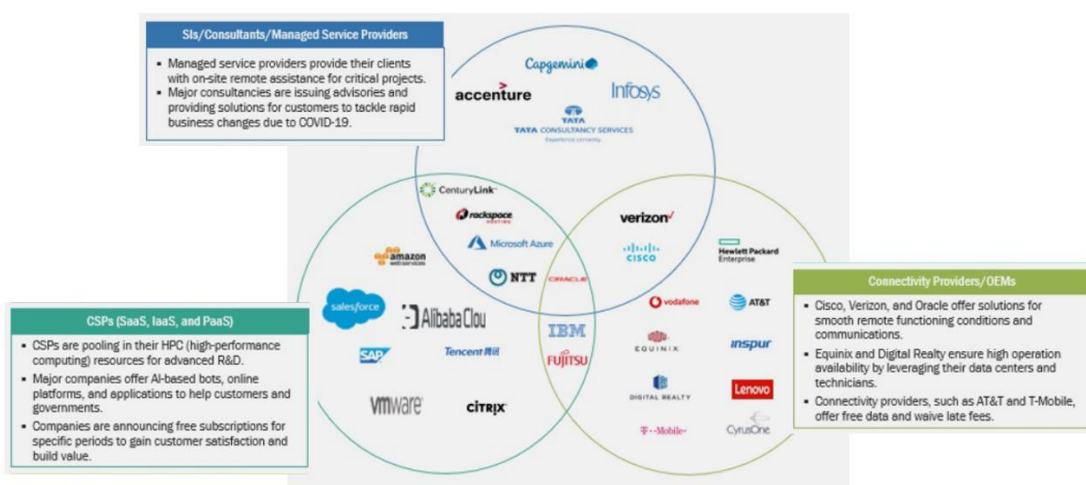


Source: WFE, Progressive Equity Research

The competitive backdrop: smaller than it appears

There is seemingly no shortage of alternative providers in the financial cloud market (as below). However, the issue is that trading requires a low latency environment that requires proximity to the Exchange internal systems, which means that the server infrastructure needs to be located at the relevant exchange. This dwindles the competitor list and removes the swath of hyper-scalers and co-lo vendors. To be sure, it narrows TAM to a SOM (serviceable obtainable market) perspective but still represents a significant global opportunity, and one where Beeks is only at the beginning of a multi-year journey.

The competitive landscape – quieter than it might appear



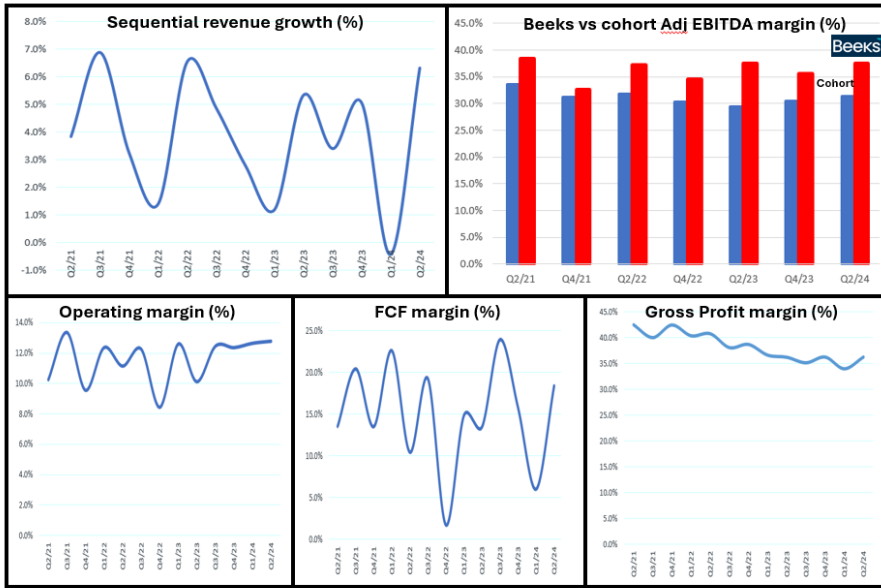
Source: Various, Progressive Equity Research

Latest updates from our IaaS cohort dashboard

Companies in our IaaS sector returned to sequential revenue growth in Q2. The cohort is notable for two reasons:

- (i) The cohort posts some of the best adj. EBITDA margins across our Tech coverage universe. This is currently 31.3%, a discount to Beeks’ 37.5%.
- (ii) The cohort, despite having large capex requirement, still grew FCF margins through Q2. The FCF margin is currently an impressive 18.4%.

IaaS cohort dashboard



Includes: Alibaba, Azure, Amazon, Beeks, Digital Realty, Equinix, Google Cloud, IBM, Oracle, Rackspace, Redcentric

Source: Company data, Progressive Equity Research

Forecasts

Summary changes

Beeks posted in line/beat results for 2024. Following the FY24 results we have made some 'course correction' changes to our FY25 estimates. The increase in the share count led to the changed EPS. We have generated FY26 estimates for the first time. The table outlines the summary changes:

How Beeks beat 2024 estimates and forecast revisions (£m)

Year to 30 June	Revised estimates				Prior estimates	
	2023	2024	2025E	2026E	2024E	2025E
Revenue	22.4	28.5	38.5	44.5	28.4	38.5
Adj EBITDA	8.4	10.7	14.5	16.7	10.7	14.5
Statutory PBT	(0.7)	1.5	3.1	4.0	1.3	3.1
Adj PBT	2.3	3.9	5.8	6.7	3.9	5.8
Adj. Diluted EPS (p)	4.0	6.4	7.3	8.4	5.1	7.4

Source: Company data, Progressive Equity Research

Revenue

Central to our forecast assumptions are the continuous growth in the Exchange and Proximity cloud offers, in addition to factoring in the continued 'drawdown' of ACMRR. These two core drivers may appear somewhat at odds with each other: ACMRR represents visible contracted revenue, Exchange Cloud brings greater one-off revenue. The trade-off is justifiable when set against a global opportunity driven by secular tailwinds.

Beeks – Recurring & Point in time revenue (£m)

Year to 30 June	2023	2024	2025E	2026E
Recurring revenue streams				
IaaS	19,162	22,723	27,616	29,967
Maintenance	537	388	420	470
Proximity Cloud	454	378	359	341
Exchange Cloud	-	53	106	138
Pro Services	273	463	556	656
Recurring revenue	20,426	24,005	29,057	31,571
Point in time revenue				
Proximity Cloud	-	1,626	2,276	2,846
Exchange Cloud	-	1,417	4,251	6,377
Hardware	529	826	2,338	3,188
Licences	1,267	456	410	308
Other software	-	57	57	57
Setup fees	135	100	110	121
Point in time revenue	1,931	4,482	9,443	12,896
Group Revenue	22,357	28,487	38,500	44,468
Revenue growth	22.2%	27.4%	35.1%	15.5%
Recurring revenue growth	47.3%	17.5%	21.0%	8.7%
Recurring rev/Group rev (%)	91.4%	84.3%	75.5%	71.0%
One-off revenue growth	-56.3%	132.1%	110.7%	36.6%

Source: Company data, Progressive Equity Research

ETR

We leave our ETR (Effective Tax Rate) assumptions unchanged. Beeks beat our adj. FD EPS estimate in FY24, reporting Adj EPS 6.3p vs our 5.1p estimate. Central to the mechanics is the adjusted tax, which is dependent on issues around share sales from the shareholders, which are unforecastable. By leaving our assumptions unchanged, we acknowledge that we are 'setting the scene' for a further adj. EPS 'beat' in FY25E. We will monitor our assumptions through the coming year.

Valuation in the global context

We have already highlighted that Beeks has one of the best KPI track records in our IaaS cohort. Here we show where the IaaS cohort sits relative to the global peers in our Tech universe Valuation Heatmap (see below). The IaaS cohort has some ‘reds’, ‘greens’ and ambers, suggesting a mixed valuation perspective.

Beeks within our IaaS cohort, and within the Tech Valuation Universe

IaaS cohort							Tech Universe						
Company name	Vs 52wk high	PEG	P/E (x)	Div. yield (%)	Sales (x)	EBITDA (x)	Cohort	Vs 52wk high	PEG	P/E (x)	Div. yield (%)	Sales (x)	EBITDA (x)
Alibaba Group Holding Limited	-1.8%	na	11.5	1.8%	0.3	1.6	UK Small (<€300m)	-30.5%	1.4	13.5	2.0%	2.5	9.4
Beeks Trading Corporation Ltd.	-12.4%	-	34.0	-	6.8	41.0	UK Mid (£300 - £1500m)	-22.8%	2.5	18.2	3.0%	3.5	18.0
Digital Realty Trust, Inc.	-5.0%	na	113.0	3.1%	9.8	22.4	UK Large (>£1500m)	-19.7%	2.6	20.5	2.1%	2.8	17.6
Equinix, Inc. (REIT)	-4.2%	7.6	68.0	1.9%	10.4	27.5	UK Software	-28.5%	3.7	18.6	1.2%	3.2	16.8
iomart Group plc	-43.4%	1.6	9.0	5.3%	0.8	3.5	UK IT Services	-22.3%	1.3	17.2	2.8%	2.2	10.6
Rackspace Technology, Inc.	-20.1%	0.2	-23.1	-	0.2	2.5	UK Income	-20.8%	2.3	18.2	2.3%	3.0	13.9
Redcentric plc	-19.0%	-	15.0	2.7%	1.3	14.2	UK Growth	-32.2%	2.5	16.8	0.7%	2.8	17.3
IaaS	-17.0%	3.1	32.5	3.0%	4.2	16.1	UK Long list	-24.3%	2.2	17.4	2.3%	2.9	15.0
							US long list	-7.8%	2.1	29.2	1.6%	10.2	23.4
							Accounting/Financial	-13.5%	2.8	32.9	1.1%	8.5	26.1
							AI	-19.4%	2.3	44.8	0.9%	11.2	33.5
							AI RAG	-13.0%	48.1	16.9	2.4%	3.9	13.6
							Enterprise Apps	-11.4%	2.4	30.0	1.4%	8.4	25.7
							Consumer	-21.0%	7.4	23.9	1.7%	3.3	15.2
							Content tools	-21.2%	-0.4	5.9	2.8%	1.6	8.2
							Cyber	-17.3%	4.8	33.6	na	8.5	24.5
							Data Analytics	-30.2%	4.3	15.0	na	14.3	30.7
							Fintech	-34.5%	3.8	17.3	1.9%	2.9	12.3
							Games	-23.2%	13.2	10.0	1.5%	2.6	11.4
							Hardware/Semi	-22.7%	2.0	24.3	2.4%	6.9	15.5
							Health-tech	-22.9%	1.0	17.4	1.2%	1.4	24.9
							IaaS	-17.0%	3.1	32.5	3.0%	4.2	16.1
							IT Infrastructure Services	-16.9%	2.4	17.1	3.2%	1.6	13.1
							Internet Services/Adtech	-17.6%	0.3	20.9	2.3%	3.0	10.2
							IoT/Smart	-27.4%	1.1	13.4	2.2%	10.2	11.1
							Magnificent 7	-7.6%	12.7	35.4	0.4%	11.5	31.9
							IT &M Services	-17.6%	1.8	19.6	2.5%	2.2	13.4
							Recruitment	-21.4%	1.8	14.1	4.2%	0.4	10.2
							Retail-tech	-22.5%	0.5	2.4	na	1.1	17.3
							Travel-tech	-23.5%	0.5	3.6	1.5%	2.9	17.7
							US SaaS	-21.4%	1.7	46.2	0.6%	11.0	22.8
							Global average	-19.8%	5.1	21.8	2.0%	5.6	18.5

Source: Company data, Yahoo Finance, Progressive Equity Research

And that superb TSR...

Beeks enjoys a superb TSR 2024YTD vs Tech sector*

Company	2020	2021	2022	2023	YTD2024
Beeks Financial	-17.9	90.2	-24.0	-22.7	156.6
Sector average	9.23	3.22	-20.43	-5.31	4.74

Source: Company data, Yahoo Finance, Progressive Equity Research. *N=83

Financial Summary: Beeks Financial Cloud Group

Year end: June (£m unless shown)

	2022	2023	2024	2025E	2026E
PROFIT & LOSS					
Revenue	18.29	22.36	28.49	38.50	44.47
Adj EBITDA	6.31	8.42	10.73	14.51	16.72
Adj EBIT	2.36	3.27	3.79	6.08	7.06
Reported PBT	0.07	(0.65)	1.46	3.12	4.02
Fully Adj PBT	2.06	2.3333	3.90	5.76	6.66
NOPAT	2.50	3.59	5.53	7.30	8.47
Reported EPS (p)	1.42	(0.13)	3.11	3.78	4.48
Fully Adj EPS (p)	4.49	3.96	6.36	7.26	8.39
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	4.61	7.12	9.83	12.21	14.47
Free Cash flow	(7.76)	(0.14)	3.27	3.17	5.29
FCF per share (p)	(11.78)	(0.20)	4.97	4.81	8.03
Acquisitions	0.00	0.00	0.00	0.00	0.00
Capex	(12.09)	(7.15)	(6.79)	(8.10)	(7.70)
Shares issued	14.76	0.00	0.00	0.00	0.00
Net cash flow	6.79	(2.33)	(0.76)	0.83	2.84
Overdrafts / borrowings	(2.30)	(3.42)	(1.12)	(1.12)	(1.12)
Cash & equivalents	10.16	7.84	7.70	8.53	11.37
Net (Debt)/Cash	7.86	4.41	6.58	7.41	10.25
NAV AND RETURNS					
Net asset value	30.76	32.79	37.50	42.90	49.70
NAV/share (p)	46.67	49.76	56.89	65.09	75.40
Net Tangible Asset Value	16.27	17.95	20.03	18.70	16.70
NTAV/share (p)	24.69	27.24	30.39	28.37	25.34
Average equity	22.26	31.77	35.14	40.20	46.30
Post-tax ROE (%)	9.2%	7.3%	11.1%	14.3%	14.4%
METRICS					
Revenue growth	N/A	22.2%	27.4%	35.1%	15.5%
Adj EBITDA growth	N/A	33.4%	27.4%	35.3%	15.2%
Adj EBIT growth	N/A	38.6%	16.1%	60.3%	16.1%
Adj PBT growth	N/A	13.3%	67.4%	47.8%	15.5%
Adj EPS growth	N/A	(11.8%)	60.6%	14.2%	15.5%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margin	12.9%	14.6%	13.3%	15.8%	15.9%
VALUATION					
EV/Sales (x)	8.8	7.2	5.6	4.2	3.6
EV/EBITDA (x)	25.5	19.1	15.0	11.1	9.6
EV/NOPAT (x)	64.4	44.7	29.1	22.0	19.0
PER (x)	56.6	64.1	39.9	35.0	30.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(4.6%)	(0.1%)	2.0%	1.9%	3.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

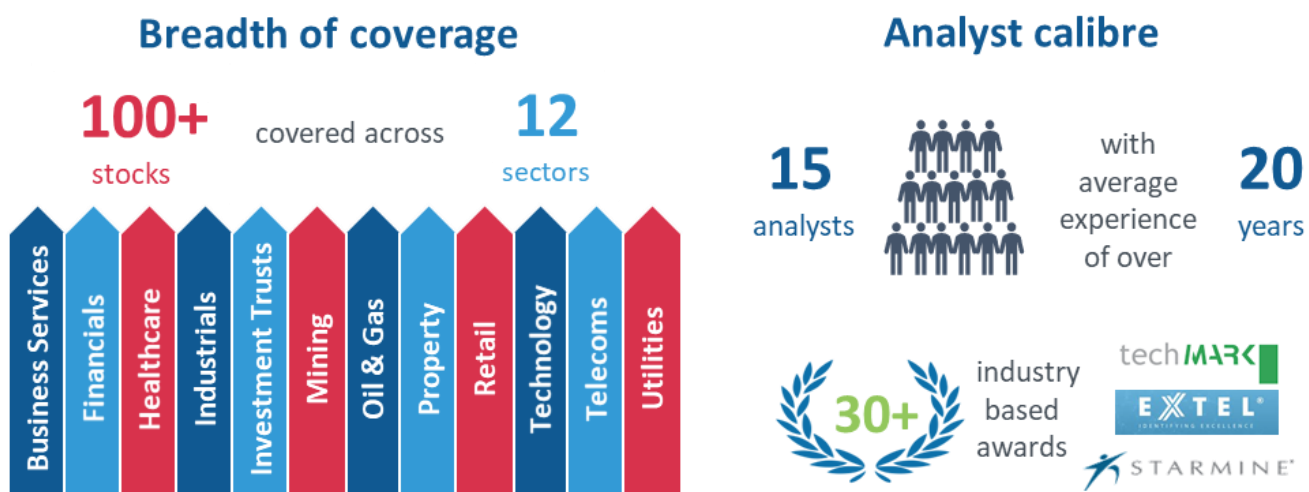
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