

# IDOX

## SOFTWARE & COMPUTER SERVICES

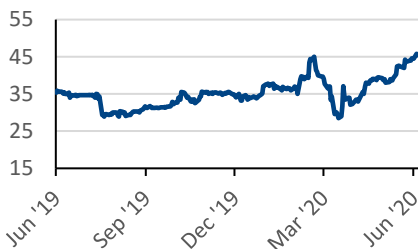
13 June 2020

### IDOX.L

45.5p

Market Cap: £202.1m

#### SHARE PRICE (p)



12m high/low 46p/29p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£(14.3)m (at 30/04/20)
Enterprise value	£216.4m
Index/market	AIM
Next news	Final results
Shares in Issue (m)	444.6
Chairman	Chris Stone
Chief Executive	David Meaden
Finance Director	Rob Grubb

#### COMPANY DESCRIPTION

Idox sells technology to UK Public Sector and global Engineering clients, and grant/compliance related Content

[www.idoxplc.com](http://www.idoxplc.com)

IDOX IS A RESEARCH CLIENT OF PROGRESSIVE

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## Rejuvenation is bearing fruit

Idox has reported strong financial and operational progress in its H1 FY20 (the six months to April, only latterly affected by COVID-19) with headline numbers in line with its recent trading update and notable cost control and margin improvement. H1 20 reflects a good performance by a business that has been revitalised, with a 'cloud-first' approach, by the current management team. The Group also introduced new marketing strategies which are more closely aligned with product management. Idox continues to trade in line with market expectations and cash collection has been better than expected while the Group continues to win new business and deliver services. Management states that Idox remains in line with its existing forecasts and we note the resilience shown by the business in the current environment. We leave estimates unchanged.

- The half year saw the continued integration of acquisitions, the disposal of non-core businesses and further consolidation and improvement within its operations. The interims are presented on a continuing business basis with H1 19 comparators restated accordingly.
- On a continuing business basis, Idox reported revenue of £35.1m for H1 20 (H1 19: £31.0m), an increase of 13% (10% of which was organic). Adjusted EBITDA of £9.6m compares to £4.1m in H1 19. At 27%, the Adjusted EBITDA margin more than doubled from the 13.4% reported in H1 19. Idox ended the half year with net debt of £14.3m, an improvement from £26.4m over the six month period. Idox has drawn its full banking facility to ensure maximum financial flexibility.
- Revenue and Adj EBITDA are more than halfway to meeting our full year expectations and Idox would normally see a 45/55 split of revenue and EBITDA between the two halves. While acknowledging this fact, and the good showing in the first half, we leave our estimates unchanged at present given the uncertainty created by COVID-19.
- An exceptionally strong performance in Idox's Public Sector business was offset by a lower revenue result from its EIM and Content businesses. Management expects the Public Sector business to continue to grow – albeit less quickly than the rate in H1 – and anticipates good performances from the two other divisions.

We see in these results a reminder of the progress which the management team is driving through Idox's products and operating entities. The fruitful outcome can be seen in the make-up of the results as we describe in this note.

FYE OCT (£M)	2018	2019	2020E	2021E	2022E
Revenue	66.4	65.5	67.2	71.5	76.5
Adj EBITDA	13.6	14.4	19.1	20.5	23.0
Fully Adj PBT	7.5	7.7	12.5	13.8	16.3
Fully Adj EPS (p)	2.2	1.3	2.2	2.5	2.9
EV/Sales (x)	3.3x	3.3x	3.2x	3.0x	2.8x
EV/EBITDA (x)	15.9x	15.1x	11.3x	10.6x	9.4x
PER (x)	20.6x	35.3x	20.2x	18.3x	15.6x

Source: Company Information and Progressive Equity Research estimates

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## H1 20 results

### In brief

Idox has made further progress in consolidating its operational activities and improving account management during the six months to the end of April 2020. It continues to target market leadership in its chosen niches within public-sector verticals with a focus on achieving a high margin and strong cash generation. Management is looking to increase the Group's presence in its existing, and adjacent, markets.

An exceptionally strong performance in Idox's Public Sector business was offset by a lower revenue result from its EIM and Content businesses. Unsurprisingly, the EIM business reflects the recent pressure on the oil and gas sector but it retains high levels of existing recurring revenue in this area. Management expects the Public Sector business to continue to grow – albeit less quickly than the rate in H1. It also expects good performances from the two other divisions. The outlook statement is positive but commentary reflects the uncertainty surrounding the ongoing impact of COVID-19 pandemic with management taking a measured approach to investment and cash management (see below).

During the half year, Idox completed the integration of 6PM, healthcare software business based in Malta. It continued integrating the Tascomi local authority business (acquired in July 2019), including working towards offer a cloud solution to more of Idox's existing customers through Tascomi's proven Software-as-a-Service ("SaaS") technology platform

### Outlook and COVID-19 comment

The commentary in the results announcement expresses confidence in the current outlook for the Group despite the impact of COVID-19 on the wider operating environment. Idox remains committed to building on the achievements of the new management team over the last two years. It has invested in the Group's customer-oriented technology, systems and operating methods and Idox commits to continued, selective, investment to support its customers. Its current strategy 'remains unchanged' and management notes that the Group continues to progress as planned. The cloud-first approach across each of its business areas is reiterated as a strategic necessity while its base in property and asset-based solutions, in tandem with the expansion of its SaaS offering, are expected to underpin its future strategy and growth. With further improvement in its financial position, Idox remains open to complementary acquisitions to augment its organic growth plans.

## Strategy and its effect on the numbers

Management has continued to drive its '4 Pillars' programme of Revenue Enhancement, Margin Enhancement, Organisational Simplification and Communication through a series of reforms in the business. Idox now has a platform for growth and enjoys the management and financial capacity across the business to grow organically. The performance in the first half of the current financial year has built on the initial transformation of the Group. Crucially, as a result of the new focus, Idox is no longer chasing low-margin and low-value revenue. That had some impact on the sales performance in FY 2019 but is starting to have what should be a long-lasting and positive effect on margin. We look, in brief, at some of the highlights which show the degree of change which Idox is implementing:

### Revenue

The Group has established controls to better manage the financial and operational implications for each piece of business that Idox engages in. This ensures that the focus is on good quality revenue which improves the amount of recurring revenue in the business while delivering lasting value to customers.

- Sales orders for Local Government software up 132%
- Significant new wins complemented with a number of significant extensions to existing customer contracts
- Orders involving recurring revenues increased by 185%
- Increases in sales generally from the existing customer base reflecting expansion of functionality and capabilities in Idox's solutions
- Order intake in the Elections business improved by 89%
- Sales orders in for Health software products were up over 106% on a like for like basis with new wins in every part of the portfolio, and contracted recurring revenues orders increased over 200% on the same period in FY19
- CAFM recorded its largest ever contract with a 5-year customer commitment
- The EIM division focused on profitable deals with the consequent reduced orders producing a 'much-improved' margin
- Orders for the compliance division were down slightly year on year due to the effect of COVID-19 on certain European businesses

### Margin

There is a definite focus on cost management, professional services productivity and delivery of value with a view to sustaining and improving margins while gaining market share.

- Improvements in margin across all operations following more structured engagements with customers
- A more focused product portfolio
- PSS division margins improved strongly against a rebased H1 19
- Entered FY20 with a much higher operational margin which is more in line with the long-term opportunity

- Content division margins improved slightly in line with ongoing focus on increasing value with incremental improvements
- EIM division margins continued to improve following operational consolidation and alignment with the PSS division
- Transition to a SaaS-based product portfolio continues with margins expected to be constant in the near term and increasing as market penetration increases and previous investment bears fruit

## Organisational simplification

When the current management team came into Idox, there was a need for a simplified business model to allow more efficient operating practices to drive more productive interactions with customers. This has resulted in closer integration of acquisitions, alongside an integration of support operations. There has been a reduction in the number of supporting technologies and platforms and the Group has disposed of non-core businesses.

- A single CRM solution implemented across the entire Group
- Consolidation of all Customer Support across the Group onto a single platform, leading to an improved customer experience
- Realigned Elections sales organisation to operate within the Local Authority team portfolio, to provide customers access to the wider Idox portfolio of products.
- Group activities streamlined, removing unnecessary complexity
- Exited all operations in Malta and the Republic of Ireland which were sub-scale
- Currently consolidating UK operations to a single entity

## Communication

An area which was seen as crucial was the need to re-engage with staff and to substantially improve internal communications. Idox has worked to provide staff with a significant level of information and constantly reviews its success in improving staff engagement.

- Completed the Group's first ever business-wide roadshow directly presenting to two-thirds of all employees
- Regular CEO broadcasts
- Newsletters, training, well-being seminars
- Regular engagement surveys

On a related point, we note that the new management team has now been through two reporting cycles in the past two months, to report figures which have been audited by Deloitte (in respect of the FY 19 numbers). Having dealt with the underlying problems inherited from the previous management, the numbers now present a 'clean' base from which to view any progress in the Group's ongoing performance.

## The numbers

### Revenue

#### Revenue by type (£m)

	Restated H1 2019		H1 2020	
<b>Public Sector Software</b>				
- Recurring	11.3	59%	12.8	53%
- Non-recurring	7.7	41%	11.3	47%
	<u>19.0</u>		<u>24.1</u>	
<b>Engineering Information Management</b>				
- Recurring	3.5	76%	3.5	81%
- Non-recurring	1.1	24%	0.8	19%
	<u>4.6</u>		<u>4.3</u>	
<b>Content</b>				
- Recurring	2.1	28%	2.4	36%
- Non-recurring	5.3	72%	4.3	64%
	<u>7.4</u>		<u>6.7</u>	
<b>Total</b>				
- Recurring	16.9	55%	18.7	53%
- Non-recurring	14.1	45%	16.4	47%
	<u>31.0</u>		<u>35.1</u>	

Source: Company information

Revenues of £24.1m from the Public Sector Software (PSS) division in H1 20 were 27% higher than the £19.0m reported in the comparator period. Of the increase, £1.1m was attributable to the acquisition of Tascomi while a more 'normal' level of reported revenue in H1 20 compared to the H1 19 number accentuated the level of organic growth. The reported H1 19 number had been unusually depressed by the effects of revenue policy adjustments in that period.

Engineering Information Management (EIM) revenues fell 6.5% to £4.3m versus £4.6m in H1 19. This reflected a combination of the ongoing transition of the product-set to the cloud-based FusionLive platform and an increased focus on profitable revenue.

The Content division is led and managed from the Netherlands, providing a range of consulting and content-platform offerings into markets surrounding the location of and application for various grants, and around compliance processes and training (from its teams in Germany and Central Europe). Revenues from the Content business decreased by 9.5% to £6.7m in H1 20 (H1 19: £7.4m). This partly reflected the opposite experience of PSS with gains from revenue recognition policy revisions in H1 19 not being repeated in H1 20, and also an increased focus on profitable revenue as noted above.

Idox's four pillars approach prioritises recurring revenues where it is appropriate for Idox and its customers, and these accounted for 53% of total revenues in the first half compared to 54% in H1 19. This modest reduction was driven by the PSS division, where a strong level of sales of non-recurring revenues in the short term outperformed the steadily-growing level of recurring revenue. We would expect the transition to cloud-based solutions and a growing proportion of SaaS contracts to result in a higher proportion of recurring revenues over time.

## Profitability

### Adjusted EBITDA by division (£m)

	Restated	
	H1 2019	H1 2020
Public Sector Software	2.9	8.2
Engineering Information Management	0.5	0.7
Content	0.7	0.7
<b>Total adjusted EBITDA</b>	<b>4.1</b>	<b>9.6</b>
Adjusted EBITDA margin	13%	27%

*Source: Company information*

The strong (+133%) increase in Group Adjusted EBITDA to £9.6m in the first half from £4.1m in H1 19 is almost entirely attributable to the PSS division where slightly reduced operating costs of £15.9m brought out the benefit of higher revenues. Otherwise, EIM business Adjusted EBITDA increased on lower revenues – again reflecting a focus on higher margin revenues, control of the cost base and the transition to SaaS. The Content division recorded flat Adjusted EBITDA, again on lower revenue, given similar focus on quality and following improved governance and controls introduced in FY19. Given the above result, the Adjusted EBITDA margin of 27.5% in H1 20 was up significantly from 13.4% in H1 19. We expect the ongoing focus on quality revenues and cost control to continue to improve margins.

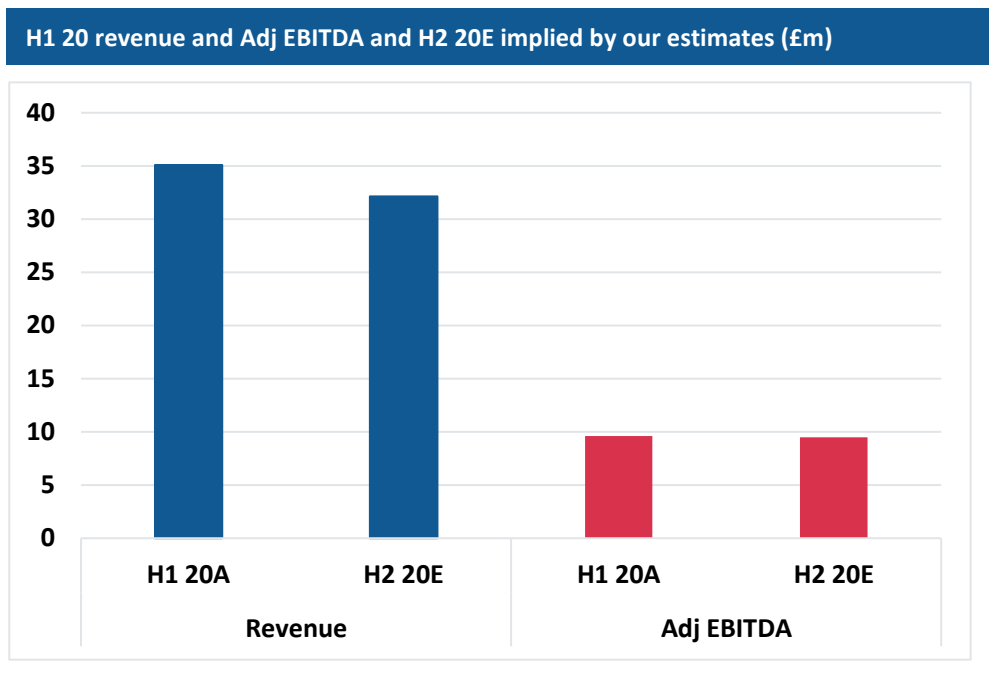
Statutory PBT in H1 20 of £0.3m for continuing activities was an improvement on the loss of £2.6m in H1 19. The increase in EBITDA of £5.5m was offset by higher Depreciation & Amortisation and interest charges. In addition, there was a provision in respect of Idox's London property, the loss on disposal from exiting the Ireland and Malta operations, and the cost of the December 2019 refinancing.

## Cash

Cashflows from operating activities of £15.9m reflected the improvement in adjusted EBITDA of £5.5m and lower exceptional cash outflows in the period. Net debt was £14.3m, down from £26.4m at the end of October 2019. Management expects cash generation to continue to improve as recurring revenues and earnings improve. The Group's gross cash position at the end of the half year was £32.3m following the full drawdown of its £35m borrowing facility given the flexibility that affords in the current COVID-19 impacted operating environment.

## Estimates unchanged

The reported numbers are on a continuing business basis with H1 19 restated following disposals of businesses during last year. The half year just reported ended on 30 April 2020 and was consequently only impacted by the COVID-19 pandemic towards the very end of the period in question. Under more normal circumstances, Idox would expect to see a seasonal split between H1 and H2 of around 45/55 for both revenue and Adjusted EBITDA. Clearly, there is a greater degree of uncertainty surrounding the second half performance.



*Source: Company information and Progressive Research estimates*

That said, the Group has reported a good first half with revenue and Adj EBITDA more than halfway to meeting our full year expectations. While acknowledging the good showing in the first half, sensible cost control and the general resilience inherent in its public sector focus, we leave our estimates unchanged at present given the uncertainty created by COVID-19.

**Financial Summary: Idox**

Year end: October (£m unless shown)

	2018	2019	2020E	2021E	2022E
<b>PROFIT &amp; LOSS</b>					
Revenue	66.4	65.5	67.2	71.5	76.5
Adj EBITDA	13.6	14.4	19.1	20.5	23.0
Adj EBIT	12.5	13.5	18.1	19.3	21.7
Reported PBT	(30.2)	0.0	6.5	7.9	9.9
Fully Adj PBT	7.5	7.7	12.5	13.8	16.3
NOPAT	8.8	9.4	11.2	12.0	13.8
Reported EPS (p)	(8.8)	(0.4)	1.1	1.4	1.8
Fully Adj EPS (p)	2.2	1.3	2.2	2.5	2.9
Dividend per share (p)	0.0	0.0	0.3	0.4	0.5
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	9.9	12.3	19.1	21.8	24.2
Free Cash flow	4.1	4.3	10.0	12.2	14.1
FCF per share (p)	1.0	1.0	2.3	2.7	3.2
Acquisitions	(0.2)	(6.4)	(0.6)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	(0.1)	7.4	0.0	0.0	0.0
Net cash flow	1.2	5.4	9.4	10.1	12.1
Overdrafts / borrowings	(37.3)	(33.4)	(33.4)	(33.4)	(33.4)
Cash & equivalents	5.5	7.0	16.4	26.6	38.6
Net (Debt)/Cash	(31.8)	(26.4)	(17.0)	(6.8)	5.2
<b>NAV AND RETURNS</b>					
Net asset value	47.9	44.6	47.9	52.0	57.3
NAV/share (p)	11.5	10.0	10.8	11.7	12.9
Net Tangible Asset Value	1.2	1.2	1.2	1.0	0.6
NTAV/share (p)	0.3	0.3	0.3	0.2	0.1
Average equity	23.9	46.2	46.3	50.1	55.1
Post-tax ROE (%)	32.2%	27.1%	29.9%	32.4%	0.0%
<b>METRICS</b>					
Revenue growth		(1.4%)	2.7%	6.3%	7.0%
Adj EBITDA growth		5.3%	32.9%	7.4%	12.3%
Adj EBIT growth		7.9%	33.7%	6.9%	12.1%
Adj PBT growth		3.2%	62.3%	10.4%	17.5%
Adj EPS growth		(41.8%)	74.6%	10.4%	17.5%
Dividend growth		N/A	N/A	30.8%	26.2%
Adj EBIT margins		20.6%	26.9%	27.0%	28.3%
<b>VALUATION</b>					
EV/Sales (x)	3.3	3.3	3.2	3.0	2.8
EV/EBITDA (x)	15.9	15.1	11.3	10.6	9.4
EV/NOPAT (x)	24.5	23.0	19.3	18.0	15.7
PER (x)	20.6	35.3	20.2	18.3	15.6
Dividend yield	N/A	N/A	0.7%	0.9%	1.2%
FCF yield	2.2%	2.2%	5.0%	6.0%	7.0%

Source: Company information and Progressive Equity Research estimates



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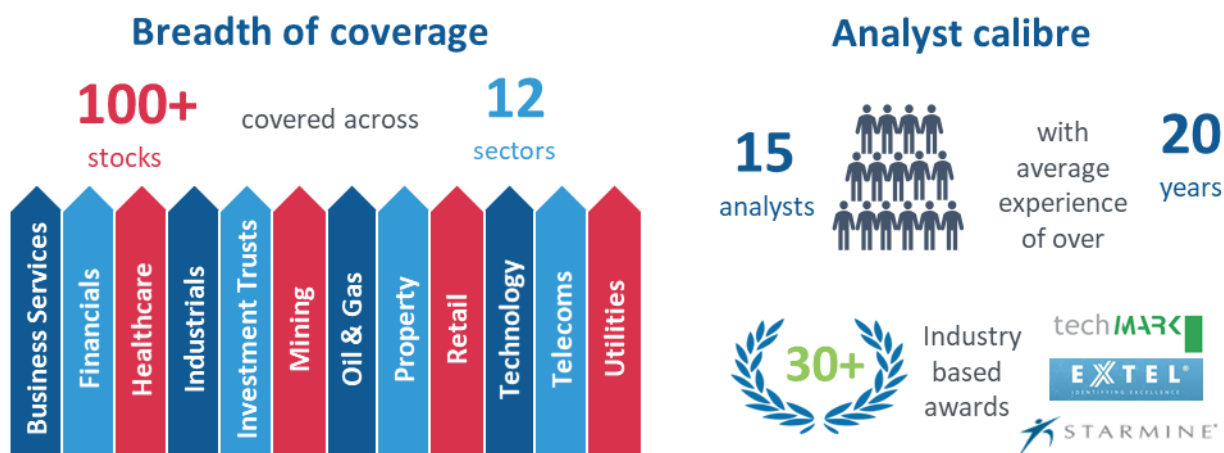
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