

IDOX

SOFTWARE & COMPUTER SERVICES

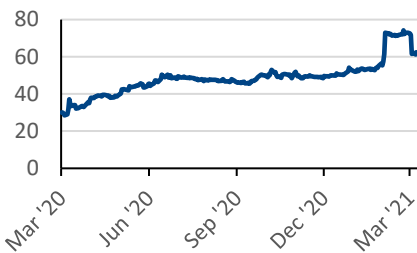
26 March 2021

IDOX.L

62p

Market Cap: £275.1m

SHARE PRICE (p)



12m high/low 74p/29p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(18.0)m (at 31/01/21)
Enterprise value	£293.1m
Index/market	AIM
Next news	Trading update, May 2021
Shares in Issue (m)	443.8
Chairman	Chris Stone
Chief Executive	David Meaden
Finance Director	Rob Grubb

COMPANY DESCRIPTION

Idox is a software business selling to UK Public Sector and global Engineering clients

www.idoxplc.com

IDOX IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevens@progressive-research.com



Ian Poulter

+44 (0) 20 7781 5307

ipoulter@progressive-research.com



www.progressive-research.com

Growth in underlying Q1 revenue and earnings Proceeds from recent disposals add optionality

Idox has issued a trading update which states that the Group has performed well during the first quarter (to the end of January 2021) of its current financial year. It cites a 'robust' financial performance with growth in underlying revenues and earnings. Since it announced its FY 2020 results in February, Idox has made two disposals and seen a possible offer for the Group by Dye & Durham withdrawn. Those two recent disposals were the remaining parts of the Idox Content division leaving Idox as a software business selling to public-sector and engineering customers. The profits from the disposals have strengthened the Group's balance sheet and provide the opportunity for investment elsewhere to augment growth in the Group's core Idox Software activities. In that respect, the Group continues to look for selected bolt-on acquisitions. With management's clear focus on its core business, the Group appears well positioned for the coming periods to us.

- Following this in-line trading update, we reintroduce our estimates which were temporarily withdrawn during the period of the possible offer and which now reflect the effects of the two disposals – with no changes to assumptions for continuing businesses. The disposal proceeds should produce a net cash position by the end of April 2021. Accordingly, our net debt estimate of £6.9m for FY 2021E becomes net cash of £4.3m, working through to net cash of £21.5m at the end of FY 2023E (previously £12.5m).
- The first full year effect of the two disposals will be seen in FY 2022E. Our revenue estimate reduces by 17% with adjusted EBITDA and adjusted EPS estimates down by 14%. For FY 2023E, the respective reductions are 17% and 16%. Current year estimates reflect the part-year impact with estimates down 10-12% (see table on the following page).
- The update notes 'further operational progress' within its four pillars framework, during Q1. That programme of Revenue Enhancement, Margin Enhancement, Organisational Simplification and Communication has been driven by a series of reforms in the business. After the second of the two disposals, management noted that it had completed its intended reshaping of Idox, with the Group able to consider carefully selected bolt-on acquisitions.
- Specifically on that last point, the update highlights that Idox has established an in-house function focused on acquisitions and has made 'good progress' with the development of a pipeline of bolt-on opportunities within the Group's current markets.

FYE OCT (€M)	2019	2020	2021E	2022E	2023E
Revenue	65.5	68.0	64.0	63.8	67.4
Adj EBITDA	14.4	19.6	18.4	19.8	21.7
Fully Adj PBT	7.7	10.5	10.9	12.7	14.3
Fully Adj EPS (p)	1.3	1.8	2.0	2.3	2.6
EV/Sales (x)	4.5x	4.3x	4.6x	4.6x	4.4x
EV/EBITDA (x)	20.4x	15.0x	16.0x	14.8x	13.5x
PER (x)	48.2x	34.9x	31.4x	27.0x	23.9x

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.

Recent disposals

Compliance Operations

Idox first announced the disposal of the Compliance Operations business to Sponge Group Limited for £9.0m cash on completion. The Compliance Operations business was part of Idox's Content Division, based in Germany and Belgium and employs 48 people. The Compliance Operations reported revenues of £5.3m, adjusted EBITDA of £1.2m and PBT of £0.3m in Idox's financial year ended 31 October 2020. The disposal is anticipated to generate a profit on sale of £5.4m in FY 2021E.

Grants Consultancy

The subsequent disposal of Idox's Netherlands based Grants Consultancy and databases business (the remaining part of Idox's Content division) to a private equity buyer is expected to complete by 6 April 2021, with a total consideration of up to €8.14m. There is an initial €4.25m of cash, payable on completion plus an earn-out of up to €1.0m of cash payable in respect of the FY21 financial performance. In addition, there is a 6% non-amortising loan note of €1.39m and a further earn-out of up to €1.50m of cash, both contingent upon return thresholds being met and payable on any subsequent acquisition of the business. The business reported revenues of £5.5m, an adjusted EBITDA contribution of £1.1m and PBT of £0.2m in Idox's financial year ended 31 October 2020. The disposal is expected to generate a profit on sale of £0.9m, again in the Group's current financial year.

Estimate changes

The estimate changes highlighted below reflect our views on the effects of the two disposals – we have made no changes to our assumptions for continuing businesses. Given the proceeds from the disposals, we now expect the Group to be in a net cash position at the end of the current financial year, at £4.3m, with increases in that number for the two subsequent years (absent any further M&A activity).

Estimate changes

£m unless stated	FY21E			FY22E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	71.5	64.0	-11%	76.5	63.8	-17%	81.3	67.4	-17%
Adj EBITDA	20.5	18.4	-10%	23.0	19.8	-14%	25.8	21.7	-16%
Fully adj PBT	12.3	10.9	-12%	14.7	12.7	-14%	17.0	14.3	-16%
Fully adj EPS (p)	2.2	2.0	-12%	2.7	2.3	-14%	3.1	2.6	-16%
Net (Debt)/Cash	-6.9	4.3		2.4	13.7		12.5	21.5	

Source: Progressive Equity Research

Financial Summary: Idox

Year end: October (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
Revenue	65.5	68.0	64.0	63.8	67.4
Adj EBITDA	14.4	19.6	18.4	19.8	21.7
Adj EBIT	9.4	12.7	12.0	13.8	15.3
Reported PBT	0.0	2.7	11.0	6.4	8.0
Fully Adj PBT	7.7	10.5	10.9	12.7	14.3
NOPAT	9.4	10.3	9.7	11.2	12.4
Reported EPS (p)	(0.3)	0.3	2.3	1.1	1.4
Fully Adj EPS (p)	1.3	1.8	2.0	2.3	2.6
Dividend per share (p)	0.0	0.3	0.4	0.5	0.6
CASH FLOW & BALANCE SHEET					
Operating cash flow	12.3	22.0	19.7	21.3	21.7
Free Cash flow	4.3	11.5	9.5	10.4	10.2
FCF per share (p)	1.0	2.6	2.2	2.4	2.3
Acquisitions	(6.4)	(0.6)	0.0	0.0	0.0
Disposals	0.0	(0.3)	12.7	1.0	0.0
Shares issued	7.4	(0.1)	0.0	0.0	0.0
Net cash flow	5.4	10.3	20.3	9.4	7.8
Overdrafts / borrowings/bonds	(33.4)	(46.9)	(46.9)	(46.9)	(46.9)
Cash & equivalents	7.0	30.8	51.2	60.6	68.4
Net (Debt)/Cash	(26.4)	(16.1)	4.3	13.7	21.5
NAV AND RETURNS					
Net asset value	44.6	47.0	55.2	55.8	59.4
NAV/share (p)	10.0	10.6	12.4	12.5	13.4
Net Tangible Asset Value	1.2	1.2	1.1	0.8	0.3
NTAV/share (p)	0.3	0.3	0.3	0.2	0.1
Average equity	46.2	45.8	51.1	56.7	60.0
Post-tax ROE (%)	22.7%	23.7%	24.8%	25.2%	0.0%
METRICS					
Revenue growth	(1.4%)	3.9%	(5.9%)	(0.2%)	5.5%
Adj EBITDA growth	5.3%	36.4%	(6.3%)	7.6%	9.7%
Adj EBIT growth	6.9%	34.9%	(5.8%)	15.1%	11.1%
Adj PBT growth	3.2%	35.9%	3.6%	16.6%	12.9%
Adj EPS growth	(41.8%)	38.2%	10.9%	16.6%	12.9%
Dividend growth	N/A	N/A	33.3%	23.8%	21.2%
Adj EBIT margins	14.4%	18.7%	18.7%	21.6%	22.7%
VALUATION					
EV/Sales (x)	4.5	4.3	4.6	4.6	4.4
EV/EBITDA (x)	20.4	15.0	16.0	14.8	13.5
EV/NOPAT (x)	31.1	28.5	30.2	26.3	23.7
PER (x)	48.2	34.9	31.4	27.0	23.9
Dividend yield	N/A	0.5%	0.6%	0.8%	1.0%
FCF yield	1.6%	4.2%	3.5%	3.8%	3.7%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

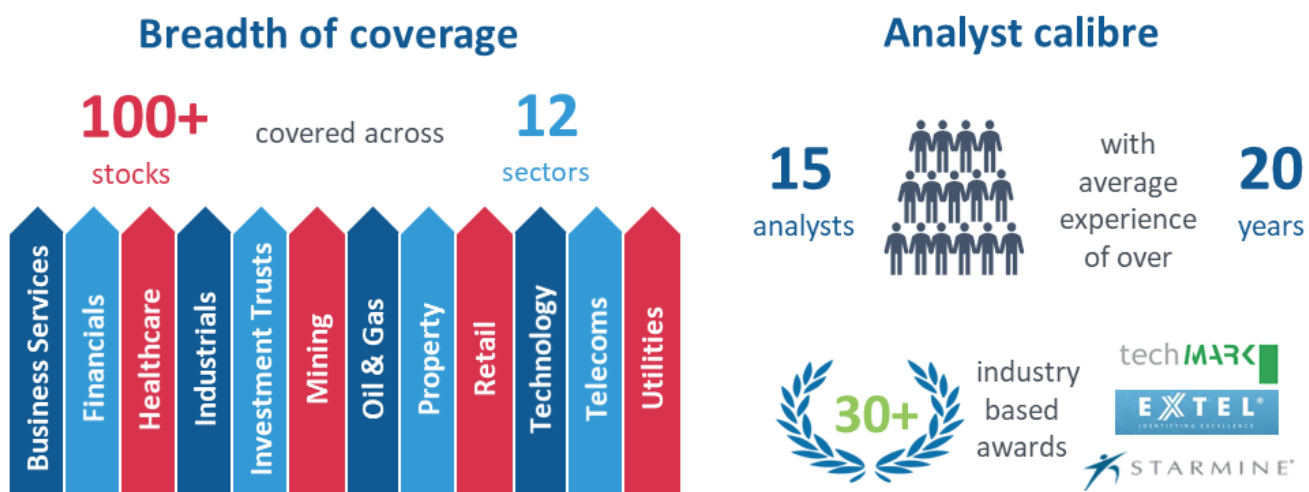
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To arrange a meeting with the management team, or for further information about Progressive, please contact:

Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com