

IDOX

SOFTWARE & COMPUTER SERVICES

15 June 2021

IDOX.L

63p

Market Cap: £280.5m

SHARE PRICE (p)



12m high/low 74p/44p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£7.6m (at 30/04/21)
Enterprise value	£272.9m
Index/market	AIM
Next news	Q3 trading update
Shares in Issue (m)	445.3
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
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IDOX IS A RESEARCH CLIENT OF PROGRESSIVE

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Cloud-first approach is delivering results

Half year numbers lead to further upgrades

Idox had previously announced that its continuing operations (excluding the disposed Content businesses) produced H1 2021E revenue and adjusted EBITDA of £31.1m (up 4% on H1 2020) and £10.1m (up 17%) respectively in the six months to the end of April 2021. The interim results also show that Idox continued to deliver on its strategic aims and ended the period with a strong balance sheet following the disposals. To us, Idox looks very well placed to continue good organic growth and to seek complementary businesses to add to the Group. We think that the strong momentum evident in the first half should combine with the recent earnings-enhancing acquisition of Aligned Assets to produce a good full year performance. To that end, we take the opportunity to nudge up our revenue expectations and positively adjust margin expectations, resulting in 3% upgrades to our adjusted EBITDA estimates and 4-5% to adjusted PBT.

- On a continuing business basis, revenue increased by 4% and adjusted EBITDA by 17%. Together with disposals, this positions Idox well in both trading and balance sheet terms (net cash of £7.6m at the end of April 2021 compared to net debt of £14.3m a year earlier). Idox subsequently acquired Aligned Assets for an initial cash consideration of £7.5m.
- The Group is seeing high levels of customer engagement in its Public Sector business. Although the Oil and Gas-focused Engineering Information Management (EIM) business has been affected by the pandemic, it has continued to add new clients in that sector.
- Idox has reported EPS of 0.67p for H1 2021E compared to a loss of 0.25p for the corresponding period last year. The Group's current policy is to only declare a final dividend and therefore there is no interim dividend in respect of the first half of FY 2021E.
- Order intake continued to grow in the first half, with over £35m of total contract value secured (up 10%). Sales in local government were up 32% versus H1 2020. The Idox Cloud business saw revenues up 27%, with the growth in recurring revenue in that business up 49% on the same period last year.

In our view, Idox remains well positioned to execute further on its growth strategy. That includes seeking further, selective bolt-on acquisitions following the recent Aligned Assets acquisition. We look forward to further updates on organic and acquisitive growth as the financial year progresses.

FYE OCT (£M)	2019	2020	2021E	2022E	2023E
Revenue	65.5	68.0	65.7	67.2	70.9
Adj EBITDA	14.4	19.6	19.5	21.9	24.0
Fully Adj PBT	7.7	10.5	12.0	14.8	16.7
Fully Adj EPS (p)	1.3	1.8	2.2	2.7	3.0
EV/Sales (x)	4.2x	4.0x	4.2x	4.1x	3.8x
EV/EBITDA (x)	19.0x	13.9x	14.0x	12.4x	11.4x
PER (x)	49.0x	35.4x	29.0x	23.4x	20.8x

Source: Company Information and Progressive Equity Research estimates.

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Flying high

FY2020 was the first full reporting period following the significant action taken by the management team to deal with legacy issues within Idox and to position the business for growth. This involved working to execute its strategy within its Four Pillars framework and to move Idox through its 'Walk, Run, Fly' vision. Idox was then in the 'Run' phase of the pathway. There is an ongoing commitment from management that the Group will continue to invest in growth while focusing on digital transformation and Cloud provision.

The Four Pillars programme of Revenue Enhancement, Margin Enhancement, Organisational Simplification and Communication have been driven by a series of reforms in the business, with Idox now in a position to grow organically and to consider complementary bolt-on acquisitions.

During 2020, Idox exited its operations in Ireland and Malta, consolidated its UK businesses and completed a rebranding exercise. It fully integrated the 2019 Tascomi acquisition, rebranded as 'Idox Cloud'. The Group also improved its management information systems by establishing its first Group-wide Customer Relationship Management (CRM) system and fully integrated its operational processes, creating a single Idox Software unit.

During the first half of FY 2021E, management has continued to focus on strategic delivery and this included the disposal of the Group's Content businesses in line with its corporate simplification and honed the Group's focus on its pure software businesses. Idox has continued to see improved revenues as a result of making good progress with its sales and marketing initiatives. As part of the same changes, higher quality revenues, improved operational efficiencies and corporate simplification have added momentum to margin improvement. The announcement states that the Group is making continued progress on prospecting for acquisitions, 'with active conversations with further potential targets'. Essentially, Idox is now in the 'Fly' phase of its strategy.

Highlights of progress on the Four Pillars in H1 2021E

Revenue expansion

- Order intake continued to grow, with over £35m of total contract value secured (up 10%) with new business and new product sales.
- Sales in local government were up 32% versus H1 2020. The Idox Cloud business saw revenues up 27%, with the growth in recurring revenue up 49% on the same period last year.
- The Computer Aided Facility Management for properties business reflected the industry-wide impact of COVID-19. Interestingly, sales sourced from new customers were up over 90% on the same period last year, mitigating the effect of lower spend from existing customers.
- The Elections business reported a strong performance in the local elections with revenues down just 6% compared to a strong comparator period which contained higher revenues generated by the general elections.
- Health revenues were up 8% on H1 2020 with increased recurring revenue, excluding the impact of exiting 6PM Ireland and Malta in FY20 H1. The COVID-19 impact on sales orders eased towards the end of the half year.

- Major updates to the Group's Grant database solutions Grantfinder and ResearchConnect included 'a vastly improved new user interface and search capabilities'.
- In addition, Idox launched a new product to the Grants market: 'My Funding Central' aimed at organisations with an income of less than £1m.
- Sales order intake in EIM was up with new business sales including a 'significant' new FusionLive sale to Ebla Computer Consultancy.

Margin enhancement

- All software business units are now in a single Idox Software structure, much improving efficiency.
- Development teams have been successfully restructured while cost savings and efficiencies have been driven through data centre consolidation and greater sharing of skills and capabilities across the software and professional services teams.
- Disposals of lower margin businesses.

Simplification

- Better customer engagement has been achieved by action taken on the sales organisation. The internal sales desk has been extended to cover all software products and includes a dedicated function focused on customer retention and improving the renewal processes.
- The CRM supports the better customer engagement and gives pipeline visibility. The CRM now provides 'timely visibility of the actions needed to secure every new business or renewal opportunity'.
- Improved revenue and utilisation forecasting has resulted in a 5% improvement in utilisation averages compared to that seen in H1 2020.
- Idox aims to reduce the implementation timelines for Idox Cloud based solutions, to improve efficiency and returns for its customers.
- A significant simplification of company legal structures and accounting management system combined with the disposals leaves the Group with . As a result of these consolidation activities and the disposal of Idox Content, the Idox Group now has with a single UK trading entity and single UK accounting management system.

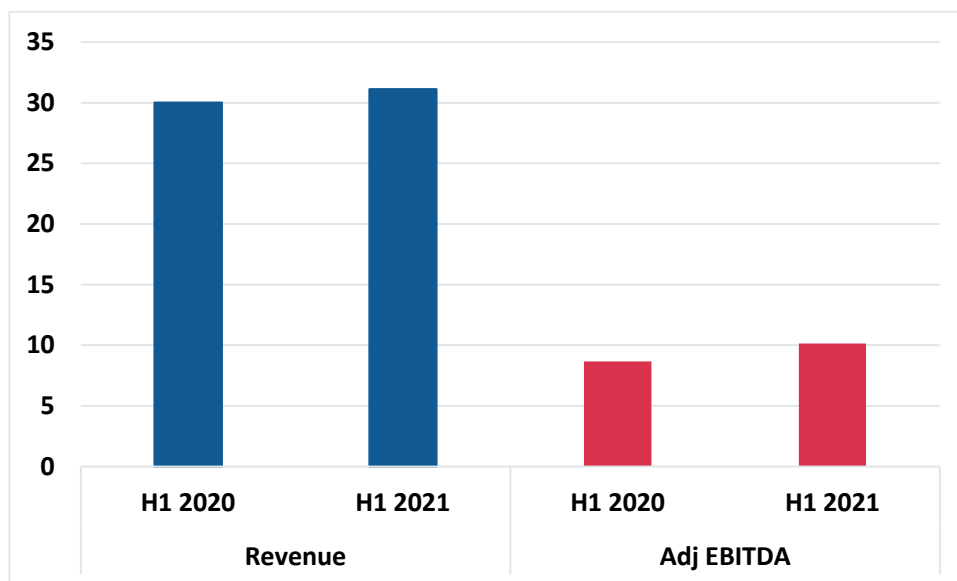
Communication

- 'Substantial improvement' in staff engagement has improved trust and engagement with Idox's teams – a significant point given the operating environment and lockdown during the period.
- Regular CEO broadcasts maintain high levels of engagement and provide the management team with staff questions on pertinent matters.
- A co-ordinated program of workplace wellbeing initiatives provided support, communications, and encouragement across the business.
- The Idox Voice initiative provides a platform to raise ideas or suggestions to help improve Idox culture and there are regular Q&A sessions via Microsoft Teams.

The Numbers

Following the disposals earlier this year, Idox Content is classified as discontinued operations and the retained UK Databases - previously included in Idox Content in H1 2020 - is included within Idox Software. Corporate costs have been adjusted to reflect the discontinued operations.

Group revenue and Adjusted EBITDA (£m) – Continuing businesses



Source: Company information

Revenue

Group revenue from continuing businesses – Idox Software - was £31.1m, up 4% on H1 2020. Adjusted EBITDA on the same basis increased by 17% to £10.1m. The focus on growing recurring revenues continued in an operating environment which was influenced by Covid-19. Nonetheless, recurring revenues grew well in the local government business (up 9%) but there was a small reduction in elections after a planned consolidation of products. Social care recurring revenues were unsurprisingly affected by COVID-19 with those from the health sector reflecting the planned exit from Malta and EIM seeing the effects of the pandemic and lower client corporate activity.

Continuing businesses' revenue split (£m)

	H1 2020		H1 2021	
Idox Software Revenues				
- Recurring (PSS)	14.4	80%	14.5	82%
- Recurring (EIM)	3.5	20%	3.1	18%
	17.8		17.6	
- Non-Recurring (PSS)	11.3	93%	12.5	92%
- Non-Recurring (EIM)	0.8	7%	1.0	8%
	12.2		13.5	
Total revenue	30.0		31.1	
- Recurring	59%		57%	
- Non-Recurring	41%		43%	

Source: Company information

Growth in non-recurring revenues remained strong, reflecting the improved client engagement that we comment on earlier. Around half the increase was from existing customers which tend to fluctuate from one period to the next.

Adjusted EBITDA

Adjusted EBITDA increased by 17% to £10.1m (H1 2020: £8.7m), with a margin of 33% compared to 29% in H1 2020. Again, this reflects the actions taken by management within the Four Pillars framework that we highlight above. Good growth in higher-margin areas of scale, notably Local Authority and Idox Cloud has resulted while lower-margin activities, notably elections, have been slower.

Profit / (Loss) Before Tax

The following table provides a reconciliation between adjusted EBITDA and statutory profit / (loss) before taxation for continuing operations. It is shown to three decimal places given the changing significance of some of the items in the table.

From Adjusted EBITDA to Statutory Profit (£m) – Continuing businesses

	H1 2020	H1 2021
Adjusted EBITDA	8.670	10.139
Depreciation & Amortisation	-4.999	-5.043
Restructuring costs	-1.302	-0.160
Acquisition costs	-0.125	-0.006
Financing costs	-0.317	-0.029
Share option costs	-0.394	-0.784
Net finance costs	-1.357	-0.462
Profit before taxation	0.176	3.655

Source: Company information

The significantly reduced restructuring costs for the half year reported predominantly reflect the Group's legal fees in relation to Dye and Durham's approach to acquire Idox earlier this year. Acquisition costs of £6,000 relate to the final settlements for the acquisition of Tascomi in August 2019. Share option costs of £0.8m (FY20 H1: £0.4m) relate to the Group's Long-term Incentive Plan. Net finance costs decreased to £0.5m (Hi 2020: £1.4m) as a result of a foreign exchange gain on the revaluation of the euro denominated bond and less interest payable on the banking facilities which have been largely repaid since they were fully drawn as at 30 April 2020 as part of Idox's initial COVID-19 defensive actions.

Cash flow and borrowings

Idox generally reports high levels of adjusted EBITDA to cash conversion due to the timing of its local authority renewals during March and April which also means that its financial year represents a cash high point. Free cashflow at 30 April 2021 was £13.7m (FY20 H1: £12.1m) reflecting improvements in profitability and working capital management. The Group ended the financial year with net cash of £7.6m compared to net debt of £14.3m a year earlier, boosted by disposal proceeds of £10.7m on top of strong cash generation. The Group's total signed debt facilities as at 30 April 2021 comprised a revolving credit facility of £35m and a £10m accordion facility with the RBS, Silicon Valley Bank and Santander.

Since the financial year end...

Idox has recently acquired Aligned Assets for an initial consideration of £7.5m in cash. Idox is paying up to £10.5m with the rest of the consideration subject to earn-out conditions over the next two years. The initial cash consideration was paid from existing resources which, as we note above, had been enhanced by the disposal proceeds. We previously upgraded our estimates to reflect this earnings enhancing acquisition.

Estimate changes

Although the H1 revenue and adjusted EBITDA numbers are in line with guidance, with a nod to the momentum in the business, we take the opportunity to nudge up our revenue expectations and adjust our margin assumptions. This adds 3% to our adjusted EBITDA estimates and 4-5% to adjusted PBT and EPS.

Estimate changes

£m unless stated	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	65.1	65.7	1%	66.6	67.2	1%	70.3	70.9	1%
Adj EBITDA	18.9	19.5	3%	21.3	21.9	3%	23.4	24.0	3%
Fully adj PBT	11.4	12.0	5%	14.2	14.8	4%	16.1	16.7	4%
Fully adj EPS (p)	2.1	2.2	5%	2.6	2.7	4%	2.9	3.0	4%
Net (Debt)/Cash	-2.7	-2.1		7.6	8.8		16.5	18.4	

Source: Company information

Financial Summary: Idox

Year end: October (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
Revenue	65.5	68.0	65.7	67.2	70.9
Adj EBITDA	14.4	19.6	19.5	21.9	24.0
Adj EBIT	9.4	12.7	13.0	15.9	17.6
Reported PBT	0.0	2.7	12.1	8.6	10.4
Fully Adj PBT	7.7	10.5	12.0	14.8	16.7
NOPAT	9.4	10.3	10.6	12.9	14.3
Reported EPS (p)	(0.3)	0.3	2.5	1.5	1.9
Fully Adj EPS (p)	1.3	1.8	2.2	2.7	3.0
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	20.8	23.5	24.1
Free Cash flow	4.3	11.5	10.6	12.7	12.7
FCF per share (p)	1.0	2.6	2.4	2.9	2.9
Acquisitions	(6.4)	(0.6)	(7.5)	(1.5)	(1.5)
Disposals	0.0	(0.3)	12.6	1.0	0.0
Shares issued	7.4	(0.1)	0.0	0.8	0.8
Net cash flow	5.4	10.3	14.0	11.0	9.5
Overdrafts / borrowings/bonds	(33.4)	(46.9)	(46.9)	(46.9)	(46.9)
Cash & equivalents	7.0	30.8	44.8	55.7	65.3
Net (Debt)/Cash	(26.4)	(16.1)	(2.1)	8.8	18.4
NAV AND RETURNS					
Net asset value	44.6	47.0	56.3	61.6	68.1
NAV/share (p)	10.0	10.6	12.7	13.8	15.3
Net Tangible Asset Value	1.2	1.2	1.5	1.1	0.6
NTAV/share (p)	0.3	0.3	0.3	0.2	0.1
Average equity	46.2	45.8	51.6	58.9	64.7
Post-tax ROE (%)	16.7%	22.9%	23.2%	25.2%	25.8%
METRICS					
Revenue growth	(1.4%)	3.9%	(3.5%)	2.4%	5.5%
Adj EBITDA growth	5.3%	36.4%	(0.6%)	12.6%	9.7%
Adj EBIT growth	6.9%	34.9%	2.7%	21.7%	10.9%
Adj PBT growth	3.2%	35.9%	14.2%	24.0%	12.3%
Adj EPS growth	(41.8%)	38.2%	22.2%	24.0%	12.3%
Dividend growth	N/A	N/A	33.3%	23.8%	21.2%
Adj EBIT margins	14.4%	18.7%	19.9%	23.6%	24.8%
VALUATION					
EV/Sales (x)	4.2	4.0	4.2	4.1	3.8
EV/EBITDA (x)	19.0	13.9	14.0	12.4	11.4
EV/NOPAT (x)	29.0	26.5	25.8	21.2	19.1
PER (x)	49.0	35.4	29.0	23.4	20.8
Dividend yield	N/A	0.5%	0.6%	0.8%	1.0%
FCF yield	1.6%	4.1%	3.8%	4.6%	4.6%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

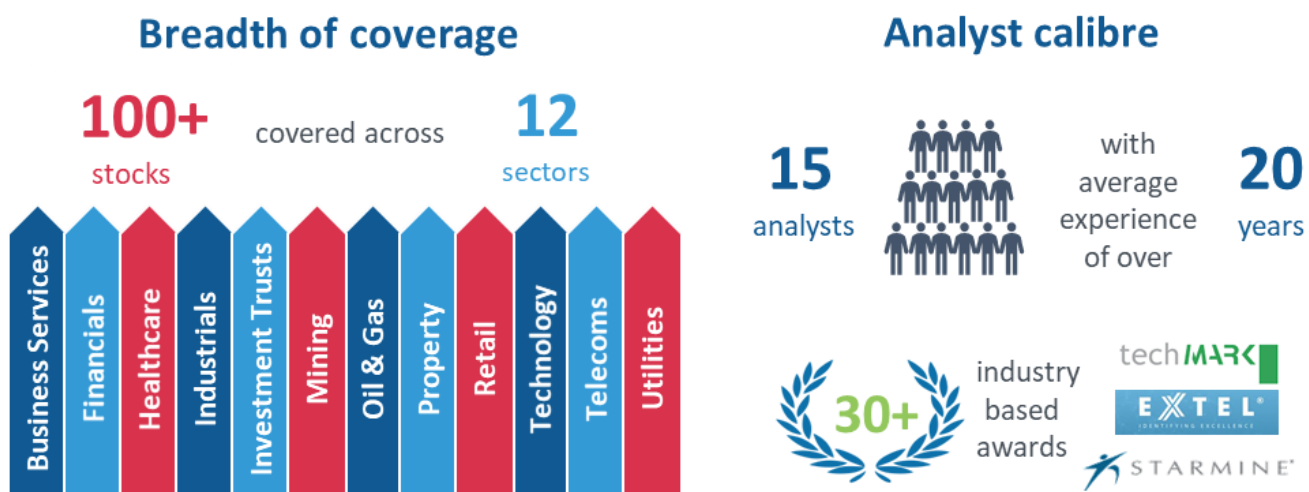
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