

IDOX

SOFTWARE & COMPUTER SERVICES

27 January 2022

IDOX.L

67p

Market Cap: £298.4m

SHARE PRICE (p)



12m high/low 77p/52p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(8.1)m (at 31/10/21)
Enterprise value	£306.5m
Index/market	AIM
Next news	AGM, March 2022
Shares in Issue (m)	445.4
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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Progress on all fronts

Idox's results for the year to 31 October 2021 were released this morning. The company has delivered three things during the year: material progress on all financial metrics, a major refocus through both acquisitions and disposals, and a number of clear steps forward in terms of organisational structure and maturity. We make no material changes to FY22 or FY23 estimates, and introduce estimates for FY24.

- Reported figures.** The business has delivered revenue of £66.1m and adjusted EBITDA of £19.8m against our estimates of £65.9m and £19.6m, respectively. Note that these figures include the Content business unit, sold during the year – the 2021 figures shown below are adjusted to exclude these discontinued items, to aid comparison with future years. These results were detailed in the November trading update, and come as no surprise. Net debt was also in line with expectations at £8.1m at the period end.
- Reshaping through acquisitions and disposals.** Idox has achieved a major 'reshaping' through the disposal of the Content businesses, and three acquisitions relating to mapping, GIS and environmental data. The net effect has been to focus the group more clearly on its target markets, with a modern product suite and a consistent approach.
- Organisational development.** In addition to strong operational performance and logical M&A, the group has evolved its operating model. ESG processes are being implemented, reporting methodologies improved, and ongoing investments made in developing talent and nurturing the people within the business.
- Our estimates.** We make no material changes to our FY22 or FY23 estimates, other than a modest alteration to cash flow and tax rate assumptions as detailed below. We take this opportunity to introduce FY24 estimates that demonstrate the ongoing growth potential within the business, as well as leaving some scope for the continued investment programmes, as described above.

This was a strong set of results from Idox, with the team delivering well despite the distractions of both Covid and the takeover approach during the year. We await further detail on client wins, additional M&A and other strategic progress as the year unfolds.

FYE OCT (£M)	2020	2021	2022E	2023E	2024E
Revenue	68.0	62.2	70.2	74.0	77.7
Adj EBITDA	19.6	19.5	22.8	25.0	26.5
Fully Adj PBT	10.5	12.4	14.6	16.5	17.8
Fully Adj EPS (p)	1.8	2.4	2.6	2.8	3.0
EV/Sales (x)	4.5x	4.9x	4.4x	4.1x	3.9x
EV/EBITDA (x)	15.7x	15.7x	13.4x	12.3x	11.6x
PER (x)	37.5x	28.2x	25.5x	23.8x	22.1x

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.

Operational highlights

The group has delivered a strong year, as described overleaf, and we choose to highlight a couple of standout elements:

Public Sector Software (PSS) – a strong year

The PSS unit had a strong year, with 12% revenue growth taking sales to some £54.1m. The level of recurring revenue was modestly higher, and the group benefited from acquisitions during the period to the tune of £1.8m.

The core Idox Cloud product saw wins in a number of government customers, as shown in the image below, as well as a number of cloud conversions being undertaken.

PSS project or client wins during FY21

New wins/projects



GOVERNMENT OF BERMUDA

Cloud conversion



Source: Company information

Health & Social Care, Elections and CAFM also delivered well, with a range of client wins, product evolution and project delivery across the group.

Engineering Information Management (EIM) – a better second half

Given the global reach of this unit, and the engineering-heavy customer base, it was naturally a challenge to grow revenues during the Covid-related lockdowns and project delays. Revenue drifted by some 9% across the year, but strong cost management and operational discipline limited the EBITDA impact to a similar (9%) reduction – so the business was able to offset the expected operational gearing that would normally have been expected to drive a more-dramatic EBITDA reduction. EIM's performance also improved across the year, with the 11% reduction for H1 moderating to a lower (6.6%) reduction in H2 as the unit won 11 new customers and projects, including work around the Doha International Airport expansion and with engineering groups Rosetti Marino and Audubon.

Reshaping through disposals and acquisitions

Many management teams look to accelerate organic growth through acquisition, but not many are also prepared to dispose of non-core segments of an existing business, especially when those non-core elements are performing reasonably. Idox, to the credit of the management team, managed to both sell and buy a number of businesses during FY21 – despite the Covid constraints – and has arguably achieved a material reshaping of the business in this way.

The disposals were “Content” elements of the business: the grants consultancy asset in the Netherlands and a compliance business also based in Continental Europe. These always sat slightly uneasily, fitting neither the local authority/public sector heartland of Idox, nor the emerging document management unit, with its more-global outreach and focus on engineering customers. These disposals continued the exit of peripheral businesses, with the Healthcare assets in Malta and Ireland having been previously sold. The disposals effected during FY21 took place relatively early in the year, and the disposed elements contributed revenue and adjusted EBITDA of just £3.9 and £0.3m, respectively, to the FY21 results.

The acquisitions were comprehensively ‘closer’ to the core of Idox: three businesses, adding niche skills highly relevant to government client requirements around mapping and address information, and environmental data. The diagram below neatly summarises the scale and focus of the three acquired businesses.

Acquisitions during FY21



Solutions for managing, sharing and viewing address data

Annualised contribution
Revenue £3.0m
EBITDA £1.4m

£7.5m upfront
£3.0m earn-out



GIS systems providing unique access to a wealth of open datasets

Annualised contribution
Revenue £1.0m
EBITDA £0.5m

Nil consideration



Solutions for assets of ecological, environmental and historical importance

Annualised contribution
Revenue £3.0m
EBITDA £1.4m

£5.3m upfront
£1.7m deferred

Source: Company information

ESG and other operational improvements

A material part of the plan being executed by the management team relates to operational excellence across the group, with a genuine focus on developing the people within the business, improving the way core processes operate, and ensuring that the business as a whole operates in an ethical and well-managed way. These have been achieved through delivery against 'Four Pillars' – Revenue Expansion, Gross Margin Improvement, Simplicity and Communication. A number of highlights relevant to these areas were mentioned in the results announcement:

- Technology – a major CRM installation continues to evolve, formalising and improving the process of winning and price/quote configuration. Investment has also been made in the group's ERP platform, allowing both automation and real-time measurement of certain processes.
- ESG – a steering committee was formed, with a focus on understanding and improving the way that the group is managed, as well as ensuring that the relevant metrics are effectively communicated to both internal and external stakeholders. A formal ESG plan is due to be published during FY22.
- People – the group has continued to push for better internal communication, and is investing heavily in people development, both through a formal self-development programme and a leadership development course. Both these initiatives are set to continue into 2022, and we note the group's strong use of social media and various communications platforms to both promote and ensure staff wellbeing, and to convey to investors and customers how seriously the business views these areas.

Summary

The FY21 year was a strong one for Idox. Despite the Covid pressures, both PSS and EIM delivered well; the former moving forward materially and the latter mitigating pressures evident across the market, and both showing clear improvement across the course of the year. The business was further reshaped through disposals and subsequent acquisitions, and Idox continues to invest in its processes and its people.

We make no material changes to our FY22 or FY23 revenue or operating profit estimates, but make a small (c.£1m) adjustment to net debt relating to depreciation and operating cash conversion, and an increase in the FY23 tax rate from 19% to 23%. We introduce FY24 estimates that anticipate growth of some 5% in revenues and 6% at the adjusted EBITDA level. These forecasts may prove to be conservative if momentum continues to recover within EIM, and/or additional customer and project wins are achieved on the PSS side.

We look forward to the remainder of FY22 for the group, anticipating further news in all three areas of organic expansion and wins, acquisitions to drive growth and operational improvement with particular focus on ESG areas as these are detailed over time.

Financial Summary: Idox

Year end: October (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	68.0	62.2	70.2	74.0	77.7
Adj EBITDA	19.6	19.5	22.8	25.0	26.5
Adj EBIT	12.7	12.7	15.6	17.4	18.7
Reported PBT	2.7	7.3	9.1	10.9	11.7
Fully Adj PBT	10.5	12.4	14.6	16.5	17.8
NOPAT	10.3	10.3	12.7	13.4	14.4
Reported EPS (p)	0.1	1.3	1.6	1.9	2.1
Fully Adj EPS (p)	1.8	2.4	2.6	2.8	3.0
Dividend per share (p)	0.3	0.4	0.5	0.6	0.7
CASH FLOW & BALANCE SHEET					
Operating cash flow	22.0	10.0	23.8	25.6	24.8
Free Cash flow	11.5	(4.4)	12.9	14.2	13.4
FCF per share (p)	2.6	(1.0)	2.9	3.2	3.0
Acquisitions	(0.6)	(10.5)	(3.2)	(1.5)	(1.5)
Disposals	(0.3)	10.7	1.0	0.0	0.0
Shares issued	(0.1)	0.1	0.8	0.8	0.8
Net cash flow	10.3	(11.3)	9.5	11.0	9.5
Overdrafts / borrowings/bonds	(46.9)	(26.4)	(26.4)	(26.4)	(26.4)
Cash & equivalents	30.8	18.3	27.8	38.8	48.3
Net (Debt)/Cash	(16.1)	(8.1)	1.4	12.4	21.9
NAV AND RETURNS					
Net asset value	47.0	60.8	74.1	80.6	86.6
NAV/share (p)	10.6	13.6	16.6	18.0	19.4
Net Tangible Asset Value	(34.7)	(31.2)	(9.3)	(2.0)	5.2
NTAV/share (p)	(7.8)	(7.0)	(2.1)	(0.5)	1.2
Average equity	45.8	53.9	63.7	70.0	76.4
Post-tax ROE (%)	23.0%	22.9%	22.9%	23.6%	23.3%
METRICS					
Revenue growth	N/A	(8.6%)	12.9%	5.4%	5.0%
Adj EBITDA growth		(0.3%)	16.8%	9.6%	6.0%
Adj EBIT growth		0.2%	22.9%	11.3%	7.5%
Adj PBT growth		17.4%	18.3%	12.8%	7.9%
Adj EPS growth		32.9%	10.4%	7.2%	7.9%
Dividend growth	N/A	33.3%	23.8%	21.2%	16.7%
Adj EBIT margins	18.7%	20.5%	22.3%	23.5%	24.1%
VALUATION					
EV/Sales (x)	4.5	4.9	4.4	4.1	3.9
EV/EBITDA (x)	15.7	15.7	13.4	12.3	11.6
EV/NOPAT (x)	29.8	29.7	24.2	22.9	21.3
PER (x)	37.5	28.2	25.5	23.8	22.1
Dividend yield	0.4%	0.6%	0.7%	0.9%	1.0%
FCF yield	3.9%	(1.5%)	4.4%	4.8%	4.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

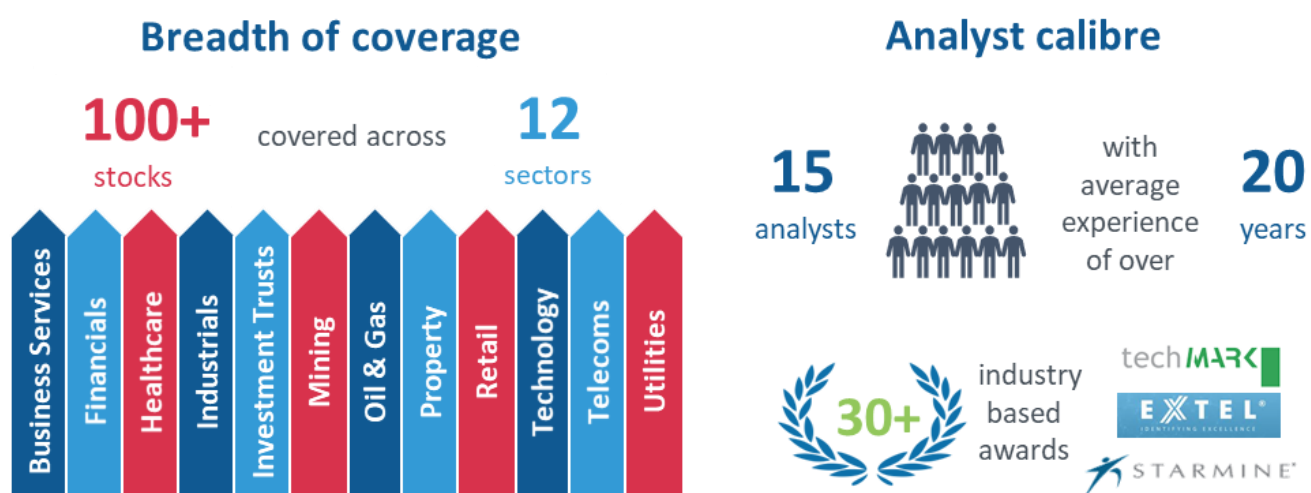
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