

IDOX

SOFTWARE & COMPUTER SERVICES

16 June 2022

IDOX.L

61p

Market Cap: £271.7m

SHARE PRICE (p)



12m high/low 77p/60p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(3.8)m (at 30/04/22)
Enterprise value	£275.5m
Index/market	AIM
Next news	Trading Update, Nov. '22
Shares in Issue (m)	445.4
Chairman	Chris Stone
Chief Executive	David Meaden
Chief Financial Officer	Anoop Kang

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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Moving forward

Idox's half-year results for the six months ended 30 April 2022, released yesterday, contained no major surprises given the contents of the trading update issued on 19 May. We are not changing our revenue or profit forecasts. Revenue was up 7% at £33.2m (H1 FY21: £31.1m) and adjusted EBITDA was up 8% at £11.0m (H1 FY21: £10.1m). The Public Sector business has provided the robust result we expected, with percentage revenue growth in the double digits, while the Engineering business has had some impact that can be attributed to wider economic concerns. Based on current trading, contracts, pipeline and prospects, management remains confident that the business will deliver on the solid growth in revenue and adjusted EBITDA that are suggested by our forecasts.

- Public Sector Software (PSS) (89% revs H1 FY22).** Public Sector revenue of £29.7m was 10% ahead of H1 FY21. The main driver of this increase was the acquisitions made in 2021, which generated revenues of £3.2m; ex these acquisitions we were not looking for strong organic growth. Recurring revenue grew by some £2.3m across the period, reflecting the acquisitions made, and with good performances across a number of areas. There were increases in non-recurring business across all segments, with a particularly strong performance in Elections. Overall a solid performance, and with the RNS noting certain deals that are now likely to fall to revenue in H2, there is justification for further optimism around the second-half result.
- Engineering Information Management (EIM) (11% revs H1 FY22).** The Engineering Software division saw a decline in revenue year on year of 14%. On the recurring side of the business, performance was hindered by challenging market conditions while non-recurring revenue declined year on year due to the slower rate of conversion of opportunities. The year-end order book for non-recurring business was the same as FY21, which gives a good degree of comfort on the outcome for the year as a whole.

The results show a solid overall outcome for the first half, but we are particularly encouraged by the performance of the acquisitions. We see no reason to be distracted by the current challenges facing EIM, given its relatively small scale and the prospects for a better H2. The core story of PSS delivering GDP+ growth, augmented by adroit acquisitions, remains very much intact and has growing appeal given the concerns across other end markets and, indeed, other stock market sectors.

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)	4.1x	4.4x	3.9x	3.7x	3.5x
EV/EBITDA (x)	14.1x	14.1x	12.1x	11.0x	10.4x
PER (x)	34.1x	25.7x	23.2x	21.7x	20.1x

Source: Company Information and Progressive Equity Research estimates.

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

Public Sector Software – reliable core driver

Public Sector revenues of £29.7m were 10% ahead of the prior year, as described above, and driven by acquisitions made in 2021. The recurring revenue segment saw good growth (£2.3m) on the back of these acquisitions, with underlying performance showing a number of stronger segments offset by modest weaknesses elsewhere. On the non-recurring side, there was strength across the board, with a particularly strong performance in Elections. Looking forward, the non-recurring order book is not as strong as last year because of the delivery of Elections contracts, although we would expect this to recover over time, and as new deals are booked.

The £1.3m improvement in adjusted EBITDA is ahead of the improvement in revenues, with adjusted EBITDA margins at 36% in the half, ahead of management's long-term group target of 35%, and up decently from 34.9% in H1 FY21.

As mentioned above, the performance for H1 was robust, despite the slippage of "certain contracts" into the second half. As long as these contracts are secured, this gives both management and investors cause to believe in a strong H2 with a degree of justification.

Management guidance is for ongoing organic mid-single-digit revenue growth for PSS. Needless to say, this growth is expected to be augmented by M&A and Idox's Buy and Build strategy, for which management states there is a healthy pipeline of attractive opportunities.

Engineering Information Management – battling current macro pressure

EIM saw a revenue decline of c.14%, as described above, largely driven by a decline in lower-value non-recurring revenue. On the recurring side of the business, the performance was hindered by challenging market conditions, with a modest (£0.1m) decline. Although the Energy market remains tough for Idox, it is seeing new engagement wins in other segments and verticals. Non-recurring revenue declined year on year (by some £0.4m) due to the slower rate of conversion of opportunities in the more-challenging environment currently facing the sector.

The year-end order book for non-recurring business was the same as FY21. This gives us comfort regarding the outcome of the year as a whole, despite the frustration of the first half. The EBITDA result for the division was down on last year, driven by an adverse mix effect as well as the impact of lower revenues. Nevertheless, management remains confident about the prospects for H2 and still guides to net overall growth in the mid-single digits as Idox continues its transition to SaaS.

We note that the division now represents only c.10% of group revenue, so we see no reason to be distracted by its H1 performance given both its modest scale and the cyclical (and volatile) nature of its revenues and profits. Although perhaps unlikely to drive material shareholder value, over time the EIM business has proven itself reliable across the cycle, and it may be that currently buoyant energy pricing leads to a relatively near-term improvement in sentiment. This could drive a strong recovery in performance and value of the business, given the high levels of operational gearing (and margins).

P&L forecasts unchanged; revisions to cash

We have not revised our revenue or profit forecasts following these results, noting as we did at the time of the trading update in May that £33m in the first half is broadly consistent with historical H1:H2 splits.

We have, however, revisited our cash forecasts. Previously we optimistically had EBITDA conversion (Operating cashflow/Adj EBITDA) at over 100%; we have reduced this figure to slightly below 100%. This has a c.£2m impact in FY22E, with a larger impact in later years. The group remains well-capitalised, and with adequate headroom to avoid impacting the size or number of acquisitions that it could make.

Revisions to Net cash forecasts

	FY22E New £m	FY22E Old £m	FY23E New £m	FY23E Old £m	FY24E New £m	FY24E Old £m
Net (debt)/cash	(0.8)	1.4	7.5	12.4	16.5	21.9

Source: Progressive Equity Research

Conclusion

Overall, H1 was a highly robust outcome despite the currently challenging environment, in both PSS and EIM. The group benefitted from its diversification across sectors and geographies, and with deals and order-book levels healthy, both segments are expected to deliver both positive momentum and growth in H2. We await further positive news over the second half, but for now take comfort in a strong H1 result.

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	21.6	22.8	24.3
Free Cash flow	11.5	(4.4)	10.8	11.4	12.9
FCF per share (p)	2.6	(1.0)	2.4	2.6	2.9
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)	7.4	8.2	9.0
Overdrafts / borrowings/bonds	(46.9)	(26.4)	(26.4)	(26.4)	(26.4)
Cash & equivalents	30.8	18.3	25.6	33.8	42.9
Net (Debt)/Cash	(16.1)	(8.1)	(0.8)	7.5	16.5
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)	4.1	4.4	3.9	3.7	3.5
EV/EBITDA (x)	14.1	14.1	12.1	11.0	10.4
EV/NOPAT (x)	26.8	26.7	21.7	20.5	19.1
PER (x)	34.1	25.7	23.2	21.7	20.1
Dividend yield	0.5%	0.7%	0.8%	1.0%	1.1%
FCF yield	4.3%	(1.6%)	4.0%	4.2%	4.8%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

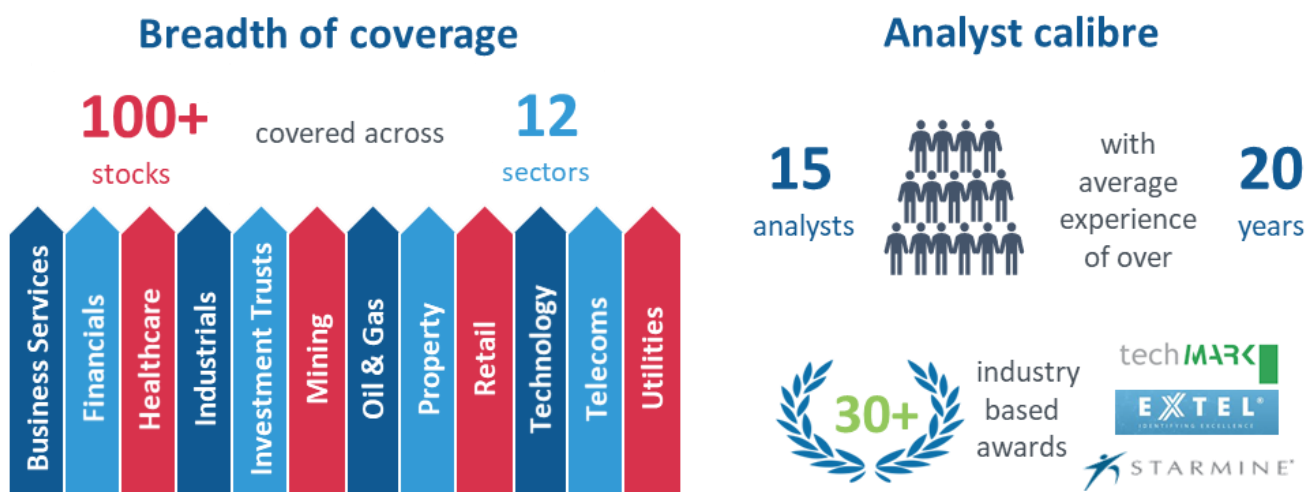
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