

IDOX

SOFTWARE & COMPUTER SERVICES

25 January 2024

IDOX.L

66p

Market Cap: £301.3m

SHARE PRICE (p)



12m high/low 71p/60p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(14.7)m (at 31/10/23)
Enterprise value	£316m
Index/market	AIM
Next news	AGM, March
Shares in issue (m)	456.5
Chairman	Chris Stone
CEO	David Meaden
CFO	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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FY23 delivered – preparing for the next phase

Idox's results for the year to 31 October are in line with the November trading update. Revenue grew 11% to £73.3m (FY22: £66.2m), with the principal driver being growth in the LP&PP division. Adjusted EBITDA improved 9% to £24.5m with a margin of 33%, vs £22.5m and 34% for FY22, respectively. With free cashflow generation of £9.1m (FY22: £7.2m), net debt at the year-end was £14.7m (FY22: £6.7m). The outlook statement is confident, but we have revised our forecasts to reflect increased spending on technology development alongside the sales and marketing required to capture the significant potential within the Geospatial business.

- Land, Property and Public Protection continues to drive growth.** LPPP saw the strongest revenue growth, 24%, helped by the Geospatial businesses. Increasing adoption of cloud services was once again a factor, with Idox Cloud's sales order intake up 25% and revenue up 26%. Emapsite, the geospatial data management offering, only contributed for 10 weeks of the financial year but this period incorporated important new contracts, including one with CityFibre, its largest customer.
- Communities – predictable ups and downs.** In the Communities division, the strong performance in Social Care solutions and services, where revenues were up 15%, contrasted with the 26% decline in Elections revenues. But we expect that Elections will improve in H2 FY24.
- Assets – new division finding itself.** There was only limited FY23 on FY22 revenue growth, but Assets saw good progress with new customers and products in both EIM and asset tracking, and new Facilities Management products are expected to be a driver in FY24 and beyond.
- Costs / investments impact forecasts.** The confident outlook and healthy order book give us confidence in the group's revenue prospects. However, we have revisited our forecasts to reflect the expectation of increased spending on product development and sales within LPPP, and more specifically the Geospatial area. We also introduce FY26E estimates.
- Look forward to five more years of growth.** Over the last five years, management has delivered a dramatically transformed group. The balance sheet is strong, with considerable acquisition firepower. Order books are healthy and there are exciting growth opportunities in geospatial data markets. Idox has delivered well through its Walk, Run and Fly phases, and we look forward to the next phase in its evolution.

FYE OCT (£M)	2022	2023	2024E	2025E	2026E
Revenue	66.2	73.3	89.4	93.4	98.1
Adj EBITDA	22.5	24.5	26.1	27.4	30.0
Fully Adj PBT	13.5	15.8	15.8	17.1	19.7
Fully Adj EPS (p)	2.4	2.6	2.6	2.7	3.1
EV/Sales (x)	4.8x	4.3x	3.5x	3.4x	3.2x
EV/EBITDA (x)	14.0x	12.9x	12.1x	11.5x	10.5x
PER (x)	27.1x	25.2x	25.8x	24.1x	21.0x

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.

Looking to the next phase of the resilient growth story

Results for the year ended 31 October 2023 are in line with the figures given at the trading statement in November. Group revenue grew 11% at £73.3m (FY22: £66.2m), the principal driver being growth in the LP&PP division. In line with FY22, recurring revenue made up 60% of group revenue (FY22: 61%)

The full-year order intake of £82m was an increase of 10% on FY22, giving us significant confidence of further good performance in FY24.

Adjusted EBITDA saw an improvement of 9% at £24.5m, a margin of 33% (FY22: £22.5m and 34%, respectively). Adjusted diluted EPS saw a similar increase to the other main metrics, improving 7% to 2.6p (FY22: 2.4p) although the temporarily increased effective tax rate saw statutory diluted EPS decrease by 1% to 1.23p.

With free cashflow generation of £9.1m (FY22: £7.2m), net debt at the year-end was £14.7m (FY22: £6.7m), after payment of the initial consideration for Emapsite of £14.8m.

The outlook statement is confident, but we have revised our forecasts principally to reflect increased spending on technology development, as well as sales and marketing within the Geospatial business.

Divisional performance FY23 vs FY22

Y/E October	FY22	FY23	Change
Revenue (£m)			
LPPP	35.1	43.4	23.8%
Assets	14.8	14.8	0.1%
Communities	16.3	15.0	-7.7%
Adjusted EBITDA (£m)			
LPPP	13.2	13.9	4.9%
Assets	4.5	4.2	-5.6%
Communities	4.8	6.4	32.0%
Margin (%)			
LPPP	37.7%	32.0%	
Assets	30.0%	28.3%	
Communities	29.6%	42.4%	

Source: Idox

Land, Property & Public Protection (LPPP) – 59% revenue FY23

As expected, LPPP saw the strongest growth, 24% in revenue terms, helped by the acquisitions of Aligned Assets (FY21), thinkWhere(FY21), exeGesIS (FY21), LandHawk (FY22) and Emapsite (Aug 23). Increasing adoption of cloud services by the public sector was once again a key factor in LPPP's growth, with Idox Cloud seeing sales order intake up 25% and revenue up 26%, and recurring revenue up over 30% vs FY22. Notable progress was also made with specific products, including Address Management, which saw order intake up over 29% helped by further progress in the utilities sector.

Emapsite, the geospatial data management and provision offering acquired in August for £15.6m (see our [note](#)), only contributed for 10 weeks of the financial year, but this period included important new contracts with CityFibre, its largest customer, as well as Scottish Power Renewables, Realyse and Wales & West Utilities.

Following Idox's operational update presentation to analysts and investors in December 2023, it is clear that there is a considerable opportunity in bringing together the various data and skillsets that Idox has access to. Emapsite has clients across the utilities, finance, telecom, construction, energy and public sectors, most of whom have potential demands for more sophisticated offerings from Emapsite and also for the value added by Landhawk, ThinkWhere and other LPPP businesses.

Communities – 21% revenue FY23

In the Communities division, the strong performance in Social Care solutions and services, where revenues were up 15%, contrasted with the 26% decline in Elections revenues. The divisional reorganisation in 2022 has given us greater insight into the cyclical nature of the Elections business, so the 30% increase in renewal and resign order intake is, like the revenue reduction, not a surprise. The positive commentary regarding working with the Department for Levelling Up Housing and Communities gives us further confidence in the through-the-cycle growth prospects in this area.

The impressive 42% adjusted EBITDA margins in Communities are to an extent a feature of product mix, and lower Elections. The growth expected in H2 from Elections (likely being an election year in the UK) should reverse this margin effect in FY24 as these additional revenues include a significant amount of third-party sales and therefore attract lower margins.

Assets – 20% revenue FY23

Although not the primary driver of the divisional reorganisation, the creation of the Assets divisions has brought together products and teams with common business and technology issues. Management sees significant potential for gains from sharing technologies and cross-selling. Although the FY23 on FY22 revenue growth is not going to excite, Assets saw good progress with new customers and products in both EIM and asset tracking, and new Computer Aided Facilities Management products are expected to be a growth driver in FY24 and beyond.

Taxation

The headline tax rate was 28.6% on a reported basis. This is significantly ahead of the blended statutory rate for the period of 22.5%. The difference is due to international tax losses not being offsetable and expenses not deductible for tax purposes. With less acquisition and other non-deductible activities, we expect that the ongoing tax rate will be more in line with the UK standard rate of 25%, although the international tax losses will still be a slight drag on this.

Dividend

Idox's robust performance and cash-generative model supports a further increase in the dividend, with the board proposing a dividend of 0.6p for the year, 20% above FY23.

Strong balance sheet and acquisition firepower

The balance sheet and cash generation remain a key feature of the Idox story.

Net debt at the year-end was £14.7m (FY22: £6.7m) after payment of the initial consideration for Emapsite of £14.8m. The £14.7m net debt is a combination of £14.8m in cash holdings, £18.3m of bank borrowings and the £11.2m Maltese Bond, which is due in June 2025.

Net debt is a fraction of adjusted EBITDA, and as of October 2023 the group has new financing in place with a £75m RCF and £45m accordion facility, an increase in the overall facilities of £75m. We take this as a positive indication of the management's intent.

While we do not expect any imminent major acquisitions, we remain mindful of the considerable opportunities in geospatial. That said, we would not also rule out management making an astute accretive acquisition to complement the existing businesses in Communities or Assets.

Revisions to forecasts

The confident tone of the outlook statement and the healthy order book give us confidence in prospects for the top line. However, we have revisited our forecasts following today's release to reflect the expectation of increased spending on technology product development as well as associated sales and marketing within LPPP, and more specifically the Geospatial area. We also introduce forecasts for FY26E.

We expect the strongest growth from Geospatial, which we believe can achieve low double figures organic growth, and perhaps more as the investment in new products is reflected in revenue traction in both public and private sectors. Ongoing growth in the more established operations should remain around the mid-single figures % per annum.

Because much of the work in Geospatial involves spending on growth of new products, a significant element of this will be expensed rather than capitalised, impacting margins.

As the products gain traction in FY25 and FY26, we would expect to see some shifting of development spend from income statement operating expense to being capitalised. However, we do not expect that this will be the main driver to the margin improvement, with a trend towards management's internal adjusted EBITDA target of 35%.

Strong cash generation should remain a feature of the business, although the increased spending and increase to the tax charge (was 22%, now 26%) has an inevitable effect on our short-term cash forecasts. The strong underlying cash generation shows through in the new FY26E figure of £7.1m net cash.

Forecast revisions

Y/E October	FY24E		Change %	FY25E		Change %	FY26E
	New £m	Old £m		New £m	Old £m		New £m
Revenue	89.4	89.4	0.0%	93.4	93.4	0.0%	98.1
Revenue growth (%)	22.0%	20.8%		4.5%	4.5%		5.0%
Adj EBITDA	26.1	27.7	-5.7%	27.4	28.6	-4.1%	30.0
Adj EBITDA margin (%)	29.2%	31.0%		29.4%	30.6%		30.6%
Adj PBT	15.8	17.8	-11.1%	17.1	18.8	-8.9%	19.7
Adj EPS (p)	2.6	3.0	0.0%	2.7	3.1	-11.5%	3.1
Net (debt)/cash	(11.6)	(9.4)	23.2%	(2.9)	(0.5)	484.1%	7.1

Source: Progressive Equity Research estimates

Walk, Run, Fly... what next?

The economic backdrop is difficult but through a combination of resilient demand and intelligent identification of organic and acquisitive growth opportunities, Idox has shown good financial, operational and strategic progress.

Over the last five years, the management team has delivered a dramatically improved group when compared to the business they inherited. The balance sheet is strong, with considerable acquisition firepower. Order books appear to be in rude health, and there are exciting growth opportunities in geospatial data markets. Management has taken the business through the Walk, Run and Fly stages and we look forward to seeing the next phase in Idox's evolution.

Financial Summary: Idox

Year end: October (£m unless shown)

	2022	2023	2024E	2025E	2026E
PROFIT & LOSS					
Revenue	66.2	73.3	89.4	93.4	98.1
Adj EBITDA	22.5	24.5	26.1	27.4	30.0
Adj EBIT	15.6	17.1	18.2	19.5	22.1
Reported PBT	6.6	7.8	8.7	10.0	12.6
Fully Adj PBT	13.5	15.8	15.8	17.1	19.7
NOPAT	11.0	11.9	11.8	12.7	14.6
Reported EPS (p)	1.3	1.2	1.4	1.6	2.0
Fully Adj EPS (p)	2.4	2.6	2.6	2.7	3.1
Dividend per share (p)	0.5	0.6	0.7	0.8	0.9
CASH FLOW & BALANCE SHEET					
Operating cash flow	15.6	15.6	18.6	18.6	23.9
Free Cash flow	5.8	(3.9)	9.1	14.9	16.7
FCF per share (p)	1.3	(0.9)	2.0	3.3	3.7
Acquisitions	(2.2)	(14.1)	(0.9)	0.0	0.0
Disposals	(0.1)	0.0	0.0	0.0	0.0
Shares issued	(0.1)	(0.2)	0.0	0.0	0.0
Net cash flow	(4.8)	0.8	3.1	8.7	10.0
Overdrafts / borrowings/bonds	(20.5)	(29.5)	(29.5)	(29.5)	(29.5)
Cash & equivalents	13.9	14.8	17.9	26.6	36.6
Net (Debt)/Cash	(6.7)	(14.7)	(11.6)	(2.9)	7.1
NAV AND RETURNS					
Net asset value	67.4	73.3	79.7	86.6	94.9
NAV/share (p)	14.9	16.1	17.5	18.9	20.7
Net Tangible Asset Value	(25.0)	(35.5)	(25.9)	(16.2)	(5.0)
NTAV/share (p)	(5.5)	(7.8)	(5.7)	(3.5)	(1.1)
Average equity	64.1	70.3	76.5	83.2	90.8
Post-tax ROE (%)	8.5%	7.9%	8.4%	8.8%	10.2%
METRICS					
Revenue growth	N/A	10.7%	22.0%	4.5%	5.0%
Adj EBITDA growth		8.6%	6.9%	4.9%	9.4%
Adj EBIT growth		9.8%	6.5%	7.1%	13.2%
Adj PBT growth		16.4%	0.4%	8.2%	15.1%
Adj EPS growth		7.4%	(2.4%)	7.4%	14.6%
Dividend growth	N/A	20.0%	16.7%	14.3%	13.8%
Adj EBIT margins	23.6%	23.4%	20.4%	20.9%	22.5%
VALUATION					
EV/Sales (x)	4.8	4.3	3.5	3.4	3.2
EV/EBITDA (x)	14.0	12.9	12.1	11.5	10.5
EV/NOPAT (x)	28.7	26.5	26.8	24.9	21.6
PER (x)	27.1	25.2	25.8	24.1	21.0
Dividend yield	0.8%	0.9%	1.1%	1.2%	1.4%
FCF yield	2.0%	(1.3%)	3.0%	4.9%	5.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

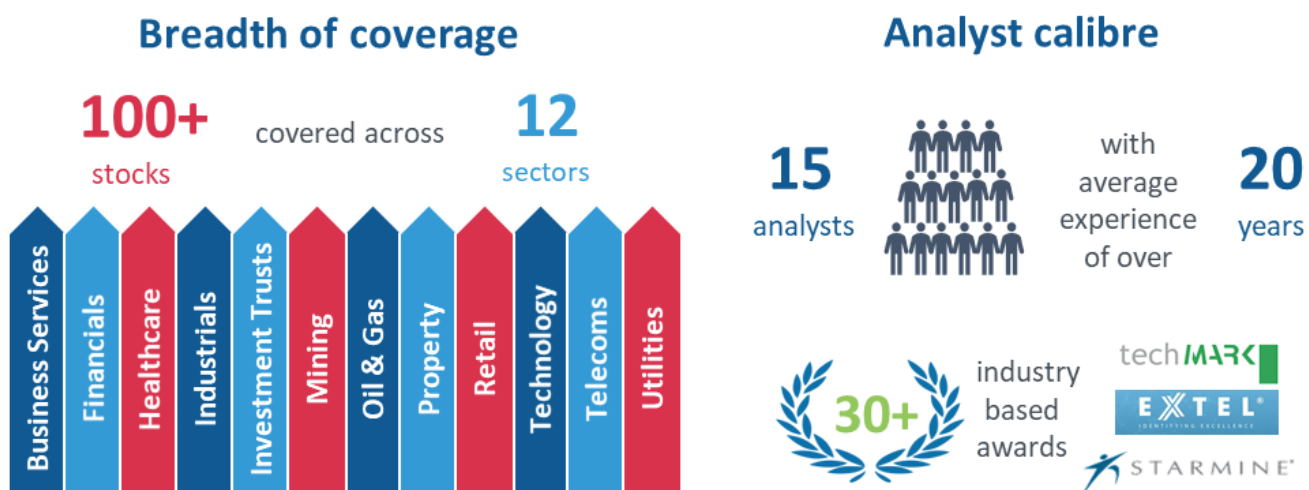
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