

IDOX

SOFTWARE & COMPUTER SERVICES

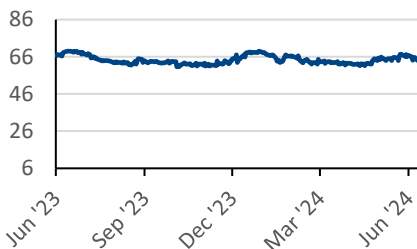
11 June 2024

IDOX.L

64p

Market Cap: £294m

SHARE PRICE (p)



12m high/low

69p/61p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(6.6)m (at 30/04/24)
Enterprise value	£300.6m
Index/market	AIM
Next news	Trading update, October
Shares in issue (m)	459.4
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.

www.idoxplc.com

IDOX IS A RESEARCH CLIENT OF PROGRESSIVE

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Strong H1 results, with no surprises

Idox has reported a strong set of half-year results for the six months ended 30 April 2024. After AGM and period-end updates, the results contain no surprises. Group revenue increased by 21%, helped by the inclusion of Emapsite across all of the period. Adjusted EBITDA increased by 8%, with the acquisition of Emapsite having had an anticipated downward impact on adjusted EBITDA margins. The increased effective tax rate and borrowing costs knocked the clear pre-tax improvements, with adjusted diluted EPS of 1.26p vs 1.33p (H1 FY23). Cash generation was strong and it is clear that with net debt of £6.6m as at 30 April, £120m of debt finance facilities and a healthy M&A pipeline, we could be looking at a year of significant change for Idox and its geospatial business.

- **Land, Property and Public Protection – growth.** LPPP's 35% H1 on H1 growth was helped by the inclusion of Emapsite for the full period. But it is clear that this division, and geospatial in particular, is the primary growth and value driver for Idox, generating 67% of revenue and 70% of adjusted EBITDA in the half.
- **Communities and Assets – growing over cycle.** These businesses continue to deliver attractive margins and good underlying cash generation. Their top-line path remains somewhat uneven, but Idox's management looks to be making them better businesses.
- **No changes to expectations – or forecasts.** The positive outlook statement confirms that management expects to report full-year results in line with expectations. Our forecasts are unchanged.
- **Geospatial acquisitions to drive growth to another level.** The high level of recurring income, the overall resilience of the business, the robust balance sheet and the availability of £120m of facilities leave Idox very well placed to drive growth through organic and acquisitive growth. Management is clear in its desire to drive growth through acquisitions within geospatial. It is evidently a growth area and, importantly, Idox's skills, experience and relationships within LPPP should allow it to identify and exploit market opportunities.
- **Experienced pilots.** Management has turned Idox around in recent years and it is now established on its flight path. If management can execute on the growth and acquisition phase as well as it has on the restructuring and realignment phases, then investors can look forward to a rare combination of resilience, predictability, technology and growth.

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)	4.5x	4.1x	3.4x	3.2x	3.1x
EV/EBITDA (x)	13.4x	12.3x	11.5x	11.0x	10.0x
PER (x)	26.3x	24.5x	25.1x	23.3x	20.4x

Source: Company Information and Progressive Equity Research estimates.

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

Strong growth in H1 – more growth ahead

Idox has reported a strong set of half-year results for the six months ended 30 April 2024. After AGM and period-end updates, the results contain no surprises, but do provide greater insight into the performance and growth prospects of its divisions.

Revenue increased by 21% to £43.1m (H1 FY23: £35.8m) helped by the inclusion of Emapsite, acquired in August 2023, for the full period. Recurring revenue accounted for 63% of total revenue, up from 59% in H1 FY23.

Adjusted EBITDA increased by 8% to £13.1m (H1 FY23: £12.2m). The decrease in adjusted EBITDA margin to 30% from 34% was as anticipated following the Emapsite acquisition.

Cash generation was strong, with cash generated from operations before tax of £19.5m representing a 149% conversion rate on adjusted EBITDA. We note, however, that H1 is typically far stronger than H2 in terms of cash generation.

It is clear that with net debt of £6.6m at 30 April, £120m of debt finance facilities and a 'healthy' M&A pipeline, we could be looking at a year of significant change for Idox, and its geospatial business in particular.

The increased effective tax rate and borrowing costs knocked the post-tax improvement, with adjusted diluted EPS of 1.26p vs 1.33p in H1 FY23.

Net finance costs of £1.1m was ahead of the prior year (£0.8m) because of the higher borrowing costs on Idox's new facility.

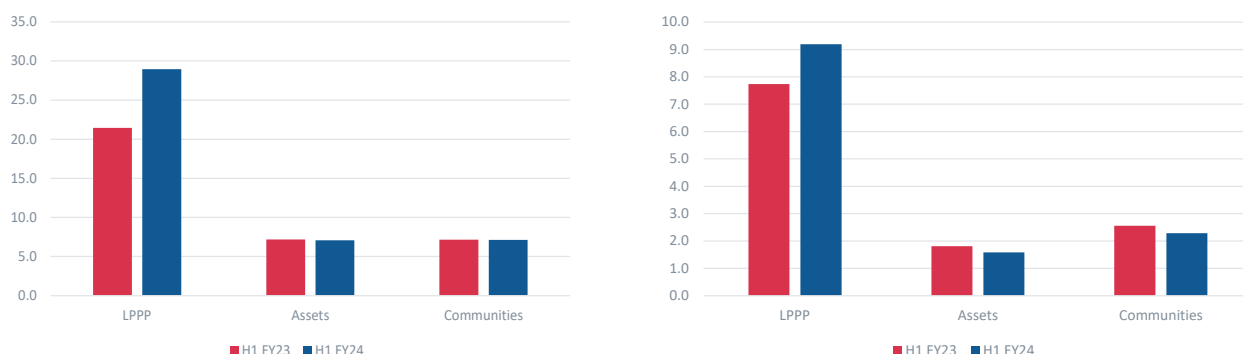
The increase in the effective tax rate to 28% from 18% in H1 FY23 was mainly due to the increase in the UK corporation tax rate to 25% from 19%. Normally the effective tax rate is slightly higher than the UK standard rate due to overseas losses and non-deductible expenses (as in FY24), but in FY23 it was slightly lower due to tax relief on share options.

Management reports that results for the full year are expected to be in line with expectations. We are not adjusting our forecasts.

Divisional performance

Both Assets and Communities were little changed in revenue terms H1 on H1, but both saw revenue declines H1 on H2. LPP showed growth on both a H1 on H1 and H1 on H2 basis. The acquisitions and the success in LPPP should not, however, overshadow the progress and value in the other divisions and the growth potential that they have.

Divisional split – Revenue (left) and adjusted EBITDA (right) (£m)



Source: Idox

Land, Property & Public Protection (LPPP)

Revenues once again grew in LPPP, helped by new services and contract extensions. A growing feature of the market, and one that Idox is keen to work with, is longer-term agreements. In H1, North Northampton Council, Stroud District Council and City of York Council extended their agreements with Idox to more than five years.

The shift towards hosting services continues, with Scottish Borders Council being a notable win. On Idox Cloud, recurring revenue increased by over 20% in H1 FY24 over the prior period with several councils moving to this way of working.

Exegesis, the spatial data management business, saw some reduction in its revenue, following the delivery of several major projects in FY23. Extensions from existing customers and new customer wins mean that the order book remains healthy.

Address management grew with wins beyond its original customer base – notably with emergency services customers.

The acquisition of Emapsite, which saw revenue growth of 13%, is evidently something management is proud to have achieved. The business is now integrated into the group structure. We note that H1 also saw strong revenue growth for thinkWhere, helped by delivery of some large projects.

Geospatial is clearly the focus of the group’s organic and acquisition-driven growth efforts and we look forward to more detail in the results presentations.

Adjusted EBITDA for LPPP of 31.8% was in line with the FY23 full-year result of 32.0%

Assets

Engineering Information Management (EIM) revenues decreased slightly during the half year, but saw improving orders in the second quarter, boding well for H2.

In the iFit asset tracking business, there was a near 10% improvement in revenues, with the statement pointing to encouraging traction across health and other markets.

Facilities management software revenues declined by 12% in H1, but with the latest product release having been well received and new wins, management appears confident of an improvement in H2.

Adjusted EBITDA for Assets of 22.3% was below the FY23 full-year result of 28.3%, primarily due to the weaker performance of the CAFM facilities management software.

Communities

Idox's sexual health solution, Lilie, saw 12% revenue growth, with management citing the ongoing relationships with both Virgin Care Services and Solution4Health as having been key.

The GrantFinder and Research Connect database subscriptions services saw revenues increase by a similar proportion.

H1 was a quiet time for elections in the UK and Malta. The fact that revenues were down on the prior year but order intake was up is not a surprise. Social Care revenues were also down slightly.

Adjusted EBITDA for Communities of 32.1% marked a move back to 'normal' levels after the impact of high-margin non-recurring revenues in FY23.

Structural changes showing benefits

The recent changes to the operational structure, sharing more resources across engineering and IT departments, are delivering benefits. Alongside this, Idox has continued to build its capabilities and capacity in India, with the target of more than 30% of staff being located there.

The focus has not only been inward facing, with growth in the sales and revenue assurance teams said to be delivering benefits in both customer satisfaction and cash flow.

Outlook positive – looking at an active H2

The outlook statement is positive. The high level of recurring business and the group's deep understanding of, and relationships with, its customers provide a sound basis for both organic and acquisition-driven growth.

Management reports that results for the full year are expected to be in line with expectations. We maintain our forecasts.

The recent investments in geospatial have clearly taken Idox into an interesting set of growth applications and markets. There is clear value not just in owning geospatial data but also in understanding it and how people use it. These are markets that are showing growth significantly ahead of those we might normally associate with the public sector, and it is easy to see how wider understanding and application could drive growth into the medium term and beyond.

The outlook statement points to a very healthy M&A pipeline. If management can execute on the growth and acquisition phase as well as they have on the restructuring and realignment phases, then investors can enjoy the prospect of a rare combination of resilience, predictability, technology and growth.

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)	4.5	4.1	3.4	3.2	3.1
EV/EBITDA (x)	13.4	12.3	11.5	11.0	10.0
EV/NOPAT (x)	27.3	25.2	25.5	23.7	20.6
PER (x)	26.3	24.5	25.1	23.3	20.4
Dividend yield	0.8%	0.9%	1.1%	1.3%	1.4%
FCF yield	2.0%	(1.4%)	3.1%	5.1%	5.7%

Source: Company information and Progressive Equity Research estimates

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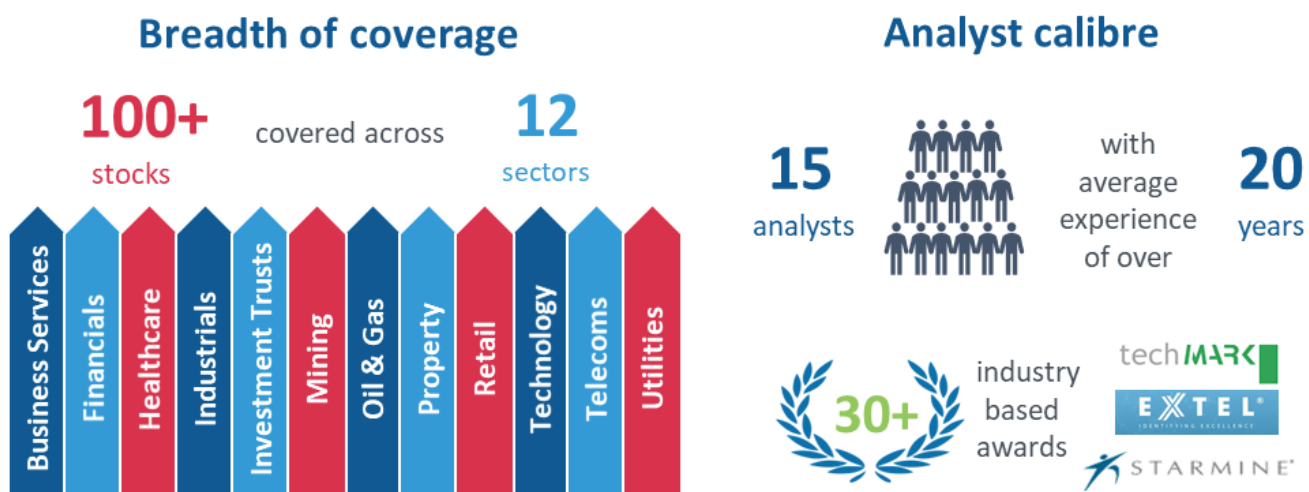
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