IDOX

SOFTWARE & COMPUTER SERVICES

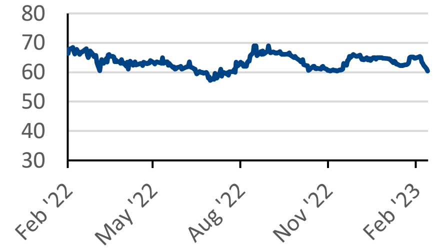
16 February 2023

IDOX.L

62.6p

Market Cap: £282.4m

SHARE PRICE (p)



12m high/low	69p/57p

Source: LSE Data (priced as at prior close)

KEY DATA	
Net (Debt)/Cash	£(6.7)m *(at 31/10/22)*
Enterprise value	£289.1m
Index/market	AIM
Next news	AGM, March '23
Shares in Issue (m)	451.0
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.

www.idoxplc.com

IDOX IS A RESEARCH CLIENT OF PROGRESSIVE

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Flying start to FY23

Idox's results for the year ended 31 October 2022, released on Thursday 26 January, showed a strong performance in line with guidance given in the November trading update. Revenue of £66.2m was an increase of 6% on FY21, driven by strong growth in the public sector business; within this, recurring revenues grew by 12% to £40.5m. Adjusted EBITDA of £22.5m, up by 15% from £19.5m in FY21, was at an improved 34% margin (FY21: 31%) driven by operational improvements, acquisitions and mix. Year-end net debt of £6.7m was reduced slightly (FY21: £8.1m), impacted by Covid VAT deferrals, tax payment timings and acquisition payments. Following this strong FY22 performance and guidance that the start of FY23 has been encouraging, we leave our FY23 and FY24 forecasts intact and introduce estimates for FY25, retaining our forecast of double-digit organic growth for the year ahead – growth that could well be augmented by further acquisitions.

- **In line with revised expectations and forecasts.** The results are in line with the revised guidance given in the year-end trading update in November 2022. We adjusted our forecasts based on this guidance at the time of the update (see *Trading update shows strategy driving results*, 16 November 2022).

- **Even better than top-line suggests.** A 6% year-on-year revenue increase is impressive given the challenging backdrop, but this does not fully reflect the level of progress. Full-year order intake was up 19% to £74m and with a net gain of 23 customers over the year. This underpins our double-digit organic revenue growth forecasts for FY23. The Public Sector Software division (PSS) saw strong growth in revenues and profits, while Engineering Information Management (EIM) delivered a stable performance in a challenging environment. The Adjusted EBITDA margin of 34% is a healthy increase on 31% in FY21 and testament not only to the strong leading positions that Idox has in its end markets but also to the ongoing work that management does to drive efficient operations.

- **Time to soar in FY23.** Idox should be able to continue to grow strongly by winning more clients and by providing more software products, hosting options and professional services. The robust balance sheet and cash generation, and the £35m revolving credit and £10m accordion facilities (in place until June 2024), provide management with the capability to target 'selective and accretive' acquisitions. In our view, Idox's true potential may not be reflected in the current market valuation.

FYE OCT (£M)	2021	2022	2023E	2024E	2025E
Revenue	62.2	66.2	74.0	77.7	80.3
Adj EBITDA	19.5	22.5	24.7	26.1	27.0
Fully Adj PBT	12.5	13.5	15.8	17.2	18.1
Fully Adj EPS (p)	2.3	2.4	2.7	2.9	3.0
EV/Sales (x)	4.6x	4.4x	3.9x	3.7x	3.6x
EV/EBITDA (x)	14.8x	12.8x	11.7x	11.1x	10.7x
PER (x)	27.5x	25.7x	23.6x	21.9x	20.8x

Source: Company Information and Progressive Equity Research estimates.

Revenue growth, profits and balance sheet all impress

The 6% year-on-year revenue increase is strong given the general trading backdrop, but we believe this does not fully reflect the level of progress. Across the group there were what management describe as 'good' wins, full-year order intake was up by 19% to £74m and there was a net gain of 23 customers over the year. These factors underpin our double-digit organic revenue growth forecasts for FY23.

The Adjusted EBITDA margin of 34% is a healthy increase on 31% in FY21 and testament not only to the strong leading positions that Idox has in its end markets, but also to the ongoing work that management does to drive efficient operations.

The year-end net debt £6.7m is a reduction of £1.4m across the year. This is not as strong as we would normally expect or had forecast prior to the November trading update (see our note), but it was impacted by the end of the Covid VAT deferrals, a higher-than-usual number of tax payments on account (five in the period rather than four), payments for acquisitions and increased investment in development spend. Our year-end net cash forecasts for FY23 and FY24 – £0.2m and £8.5m, respectively – reflect a return to a more normal level of cash generation for Idox.

Our new FY25 estimates reflect 3.4% revenue growth over FY24E, with an Adjusted EBITDA margin of 33.6%, consistent with our forecast margins in FY23E and FY24E. The revenue uplift is relatively conservative compared to the strong growth expected in FY23E, but hopefully allows scope for upgrades and outperformance over time. Clearly there also remains the potential for acquisitions during FY23, which could add to growth in FY24 and beyond.

Public sector strong, engineering stable

The Public Sector Software division (PSS) saw strong growth in revenues and profits, while Engineering Information Management (EIM) delivered a stable performance in a challenging environment.

Divisional performance, FY22 vs FY21 (£m)

Year ended 31 October	FY22	FY21	Change
Revenue(£m)			
Public Sector Software (PSS)	58.3	54.1	+8%
Engineering Information Management (EIM)	7.9	8.1	-2%
Group - continuing operations	66.2	62.2	+6%
Adjusted EBITDA (£m)			
Public Sector Software (PSS)	21.0	18.0	+17%
Engineering Information Management (EIM)	1.5	1.6	-1%
Group - continuing operations	22.5	19.5	+15%
Adjusted EBITDA margin			
Public Sector Software (PSS)	36%	33%	
Engineering Information Management (EIM)	19%	19%	
Group - continuing operations	34%	31%	

Source: Idox

The EIM division may not be showing the strong performance of its PSS sibling, but it does not give us cause for concern. The division continues to make progress as a business across industries and geographies, with 15 new customers joining in FY22.

Acquisitions play a key role in delivering premium growth

Idox only made one acquisition in FY22, LandHawk, having made three in the prior year. As we discussed in our October note, LandHawk should augment geographic information systems (GIS) capabilities, fitting in with Idox's core local authority and property business. We anticipate that the FY21 acquisitions, thinkWhere, Aligned Assets and exegesis, will have a key role in helping deliver the 12% forecast revenue growth.

Cloud transition ongoing

The transition to the cloud continues apace across the group and its products, with the annual recurring revenues up 16% in FY22. There were 15 new Idox Cloud customers in the year, with a number of existing customers making the move to the Idox Cloud Solution and others moving to Idox's private cloud services.

Management remains firmly in control of operations

In the face of well-documented industry staffing and costs challenges, Idox has made further investment in its operations in Pune, India. The operation there has doubled in scale, helping to broaden and deepen Idox's capabilities as well as improving efficiency.

Investment has also been made in the automation of the management and delivery of professional services, additional CRM tools and technology to improve product management and engineering.

Financials remain relatively clear

Within the more detailed financial information, notable items included restructuring costs, net finance costs and investment in R&D. FY22 saw restructuring costs of £0.5m (FY21: £0.1m gain) associated with the board's work to simplify the group structure. The rise in net finance costs to £2.1m (FY21: £0.4m) was because of a £1.0m adverse currency movement on the group's Euro denominated bond and £0.7m effect of an accounting adjustment on loan balances.

The increase in the capitalised development spend from £4.6m to £6.6m was due mainly to the full-year impact of the ongoing investment made within the three FY21 acquisitions. The amortisation charge for capitalised development spend was £4.8m (FY21: £4.2m).

Dividend growth

Although it is a growth tech company, Idox is still in a position for management to propose a 0.5p dividend, up from 0.4p for FY21. While the dividend in itself is not a reason to invest in Idox, it is a useful reminder of the underlying robust cash generation of the group.

Public sector digitisation a secular and robust driver for all forms of growth

Although there is cost pressure on public sector clients, management states that the drive to improve their efficiency using technology continues. Idox's role in enabling and improving the land and property ecosystem is well understood, and the growing demand for greater and better data is a key part of Idox's acquisition strategy, as evidenced by the thinkWhere, LandHawk, Aligned Assets and exegesis acquisitions.

The Chief Executive's review in the results statement was clear, suggesting that Idox will be able to continue to grow not just by winning more clients but also by adding software products, hosting options and professional services. In the analyst call, he reinforced this message, referring to the potential to double Idox's total addressable market within land and property by addressing more of the ecosystem.

From the detail given in the analyst presentation, the M&A team is clearly active, with over 40 conversations having taken place with potential targets last year. However, although there is a good flow of prospective transactions, vendors in the private markets have not yet realigned their price aspirations to reflect the lowered expectations and valuations now seen in the public markets. We expect this to change in due course, hopefully allowing Idox to continue its earnings-enhancing acquisition process.

The robust balance sheet and cash generation, and the £35m revolving credit and £10m accordion facilities (in place until June 2024), provide management with the capability to make selective and accretive acquisitions.

Conclusion

Following this strong FY22 performance and guidance that the start of FY23 has been encouraging and trading is in line with expectations, we maintain our FY23 and FY24 forecasts, retaining our forecast of double-digit organic revenue growth for the year ahead.

FY23 should provide further evidence that Idox is in the 'fly' stage of management's strategic plan. With the benefits of the acquisition strategy showing through and possible opportunities for further acquisitions to augment growth, we believe that the current market valuation might not fully reflect what FY23 has in store.

Financial Summary: Idox

Year end: October (£m unless shown)

PROFIT & LOSS	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Revenue	62.2	66.2	74.0	77.7	80.3
Adj EBITDA	19.5	22.5	24.7	26.1	27.0
Adj EBIT	12.9	15.6	16.9	18.3	19.2
Reported PBT	7.3	6.6	9.4	10.8	11.5
Fully Adj PBT	12.5	13.5	15.8	17.2	18.1
NOPAT	10.3	11.0	12.2	13.2	13.9
Reported EPS (p)	1.4	1.3	1.6	1.8	2.0
Fully Adj EPS (p)	2.3	2.4	2.7	2.9	3.0
Dividend per share (p)	0.4	0.5	0.6	0.7	0.8
CASH FLOW & BALANCE SHEET	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Operating cash flow	16.6	15.6	20.6	20.8	22.1
Free Cash flow	11.0	5.8	10.3	12.2	13.1
FCF per share (p)	2.5	1.3	2.3	2.7	2.9
Acquisitions	(10.5)	(2.2)	(2.3)	0.0	0.0
Disposals	10.7	(0.1)	0.0	0.0	0.0
Shares issued	0.1	(0.1)	0.8	0.8	0.8
Net cash flow	(12.1)	(4.8)	6.8	8.4	9.1
Overdrafts / borrowings/bonds	(26.4)	(20.5)	(20.5)	(20.5)	(20.5)
Cash & equivalents	18.3	13.9	20.7	29.1	38.1
Net (Debt)/Cash	(8.1)	(6.7)	0.2	8.5	17.6
NAV AND RETURNS	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Net asset value	60.8	67.4	75.9	85.2	94.7
NAV/share (p)	13.6	14.9	16.7	18.7	20.7
Net Tangible Asset Value	(31.2)	(25.0)	(13.8)	(2.1)	9.4
NTAV/share (p)	(7.0)	(5.5)	(3.0)	(0.5)	2.1
Average equity	53.9	64.1	71.7	80.6	90.0
Post-tax ROE (%)	22.0%	8.5%	10.0%	10.4%	9.9%
METRICS	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Revenue growth	N/A	6.4%	11.8%	5.0%	3.4%
Adj EBITDA growth		15.3%	9.7%	5.6%	3.5%
Adj EBIT growth		21.1%	8.3%	8.2%	5.0%
Adj PBT growth		8.3%	16.9%	8.7%	5.3%
Adj EPS growth		7.2%	8.9%	7.8%	5.0%
Dividend growth	N/A	25.0%	20.0%	16.7%	14.3%
Adj EBIT margins	20.7%	23.6%	22.8%	23.5%	23.9%
VALUATION	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EV/Sales (x)	4.6	4.4	3.9	3.7	3.6
EV/EBITDA (x)	14.8	12.8	11.7	11.1	10.7
EV/NOPAT (x)	28.2	26.2	23.6	21.8	20.7
PER (x)	27.5	25.7	23.6	21.9	20.8
Dividend yield	0.6%	0.8%	1.0%	1.1%	1.3%
FCF yield	4.0%	2.1%	3.6%	4.3%	4.6%

Source: Company information and Progressive Equity Research estimates

16 February 2023

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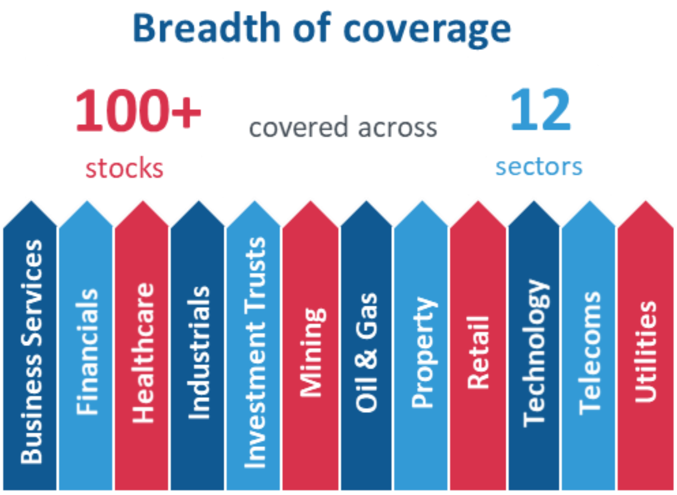

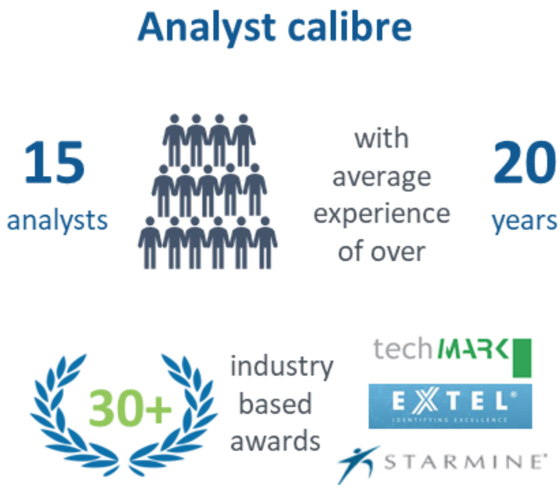

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