IDOX

SOFTWARE & COMPUTER SERVICES

8 June 2023

IDOX.L

66.4p

Market Cap: £301.2m

SHARE PRICE (p)

12m high/low	71p/57p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£1.1m *(at 30/04/23)*
Enterprise value	£300.1m
Index/market	AIM
Next news	Trading update, October
Shares in Issue (m)	453.5
Chairman	Chris Stone
Chief Executive	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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Long-term value generation becomes clearer

Idox has today reported a strong set of half-year results for the six months ended 30 April 2023. Revenue grew by 8% to £35.8m from £33.2m in H1 FY22 and adjusted EBITDA of £12.1m was 10% above H1 FY22's figure. Recurring revenues grew broadly in line with the headline revenue figure, while the adjusted EBITDA margin was slightly ahead at 34% (H1 FY22: 33%). The half saw Idox move from net debt (FY22: £-6.7m) to net cash (H1 FY23: £1.1m). Order intake grew, with the overall figure of £52m being a 23% increase on H1 FY22. Against a backdrop of a building orderbook, and having delivered to expectations in the first half, management expects FY23 results to be in line with previous expectations.

- **LPPP primary driver to growth.** Land, Property & Public Protection performed well, with further good progress in Cloud and Local Authorities and with the recent acquisitions showing strong traction. Assets delivered an encouraging level of revenue growth, while the decline in Communities revenue, given its exposure to elections, was not unexpected.
- **Cash generation – move to net cash.** H1 FY23 saw Idox move from net debt of £6.7m at year-end FY22 to net cash of £1.1m as at 30 April. As a percentage of adjusted EBITDA, the cash generation from operating activities was a very healthy 148%, up from 122% for H1 FY22.
- **Acquisition pipeline strong.** The statement confirms that the M&A pipeline is strong and good progress is being made on a number of opportunities. Given the described scale of some of its potentially addressable markets, most notably for LPPP, accretive transactions are likely to be warmly received by investors.
- **Positive outlook in line with expectations.** The outlook statement is positive and the group has good visibility on what remains of FY23 and across into FY24. Management expects FY23 be in line with its previous expectations. We are not adjusting our forecasts.
- **Long-term value-generation story.** These results show the resilience of Idox's businesses against a backdrop of wider economic concerns. Furthermore, the new structure has provided improved insight into the longer-term opportunities. Following these results, investors can have increased confidence in the delivery of significant long term shareholder value via management's objective of mid-single-digit organic growth over the medium term, with additional growth from bolt-on M&A.

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)	4.8x	4.5x	4.1x	3.9x	3.7x
EV/EBITDA (x)	15.4x	13.3x	12.2x	11.5x	11.1x
PER (x)	29.2x	27.3x	25.0x	23.2x	22.1x

Source: Company Information and Progressive Equity Research estimates.

Strong results provide clarity

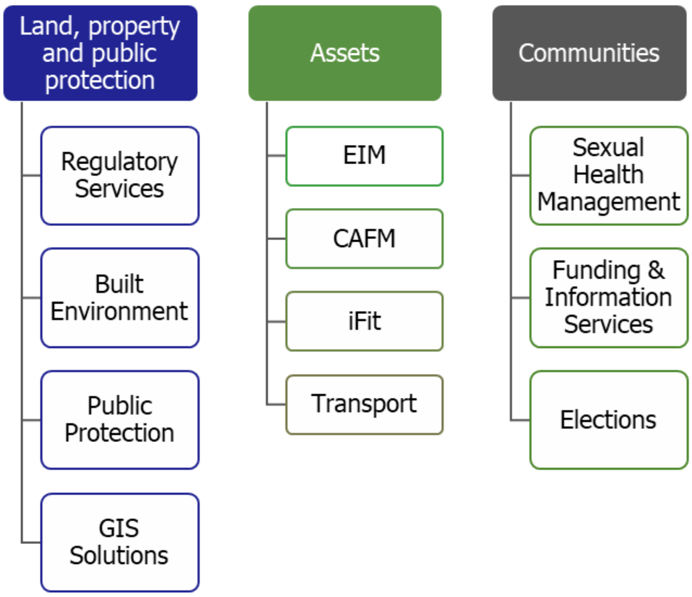
Idox has reported a strong set of half year results for the six months ended 30 April 2023. Revenue grew by 8% to £35.8m from £33.2m in H1 FY22 and adjusted EBITDA of £12.1m was 10% above H1 FY22's figure of £11.0m. Recurring revenues grew broadly in line with the headline revenue figure, while the adjusted EBITDA margin was slightly ahead at 34% (H1 FY22: 33%). The half saw Idox move from net debt of £6.7m at end-FY22 to net cash of £1.1m as at 30 April, representing something of a milestone in management's transformation of the group. Order intake grew, with the overall figure of £52m being a 23% increase in H1 FY22. Against a backdrop of the impressive H1 performance and building orderbook, having delivered to expectations in the first half, management expects the full year to be in line with its previous expectations.

Land, Property & Public Protection performed well, with further good progress in Idox Cloud and Local Authorities and with the recent acquisitions showing strong traction. The Assets division delivered an encouraging level of revenue growth, while the decline in Communities revenue was not unexpected given the lack of elections in the UK or Malta.

New divisional structure

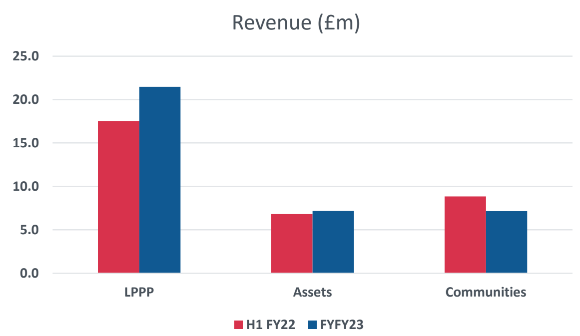
These results are the first that Idox has reported based on its new divisional structure. Put in place in November 2022, this realignment was designed to set Idox's businesses more in tune with the customers they serve and the nature of the solutions they require. Management commentary thus far suggests that benefits are already being seen, with improvements to customer service and more effective sales. On the evidence of these results, we believe that the new structure makes it easier to understand the nature and performance of the operations.

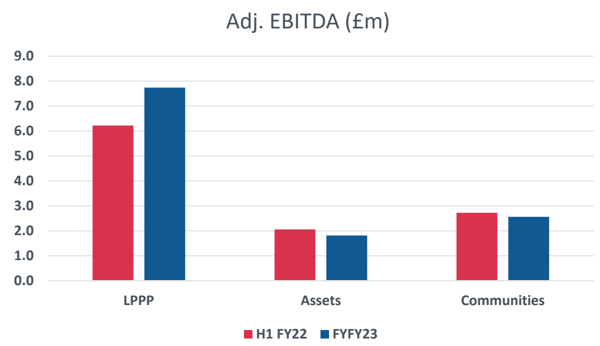
Divisional structure



Source: Idox

Divisional split – Revenue and adjusted EBITDA





Source: Idox

Land, Property & Public Protection (LPPP)

LPPP revenues were up 22% H1 on H1 at £21.5m, with growth across all business units. There was particular strength in non-recurring revenues, which rose 41% H1 on H1 to £9.8m, once again with growth across all business units. Recurring revenues of £11.7m showed a 10% improvement.

Idox Cloud revenues increased H1 on H1 by 40% and, looking forward, growth will continue to be strong as order intake was up nearly 30% on the same period last year.

Once again Idox made strong progress with Local Authorities. Sales order intake from the Local Authority clients rose 50% H1 on H1. In addition to the move to Cloud, this was driven by a number of factors, including new services and contract extensions – some of which run for six to seven years.

Significantly, Exegesis (see our note) and Aligned Assets (see our note), the two recent acquisitions in the exciting geographic information system mapping space, both performed well. Exegesis saw H1-on-H1 growth in revenues of 19% with Aligned Assets achieving order intake 31% ahead on the same basis.

The adjusted EBITDA margin edged up from 35.4% to 36% helped by both mix and pricing, yielding £7.7m, up 24%.

The new structure allows better visibility into the quality of the LPPP business and, given management's recent comments about the opportunities this market offers beyond the public sector and the enthusiastic tone of today's release regarding acquisitions, we look forward to finding out more from the results presentations and call.

Assets

At £7.2m, the overall revenue performance of the Assets division represents encouraging 5% growth on H1 FY22. The 15% growth in EIM (Engineering Information Management) was the primary driver to this, as both Transport and iFit saw lower-than-anticipated performance with declining revenues. CAFM (Computer Aided Facilities Management) saw revenues up by 6%.

As with LPPP, non-recurring revenues showed stronger growth, improving by 19% at £2.4m. Recurring revenues were flat overall.

The lower revenues at Transport and iFit fed through into lower margins and a weaker overall adjusted EBITDA performance.

Communities

In contrast to LPPP and Assets, Communities saw an improvement in recurring revenues (£4.7m, up 7%), but a decline in non-recurring revenues (£2.5m, down 45%). Set against H1 22, when there were major election events in both the UK and Malta, the decline in revenues is not unexpected. The revised divisional structure makes the cyclical nature of this business more evident, although we note that elections in the markets that Idox serves are recurring in their nature.

However, Idox has been preparing for future work with the Department for Levelling Up, Housing and Communities (DLUHC) and Central Government, and the statement suggests that, with the launch of Idox Elections Cloud Services and a likely UK general election, FY24 should be a busy year.

Although divisional revenues declined 19%, the adjusted EBITDA result was little changed at £2.6m.

Cashflow

As a significant milestone on Idox's transformation journey, H1 FY23 saw the group move from net debt (£-6.7m as at end-FY22) to net cash (£1.1m as at 30 April 23).

As a percentage of adjusted EBITDA, the cash generation from operating activities was a very healthy 148%, up from 122% for H1 FY22. However, the nature of the business and the customer base leads to the group normally having a negative working capital cycle. The first half usually sees strong billings and cash generation, and this would appear to have particularly been the case this year with the increased level of re-signs and renewals. We expect the full-year net cash figure to be slightly lower than current levels and forecast good annual cash generation going forward.

M&A – not necessary but could be very nice to have

The statement moves rapidly on from consideration of the cash position to how Idox is positioned to make further acquisitions and its financial firepower. Idox has additional bank facilities in place of £35m and a £10m accordion. Although the £11m listed Maltese bond falls due for repayment in 2025, we would expect a similar level of overall additional debt finance to be available following that.

The statement confirms that the M&A pipeline is strong and good progress is being made on a number of opportunities. M&A is not a prerequisite of growth for Idox but with the scale of its potentially addressable markets, most notably for LPPP, accretive transactions are likely to be warmly received by investors.

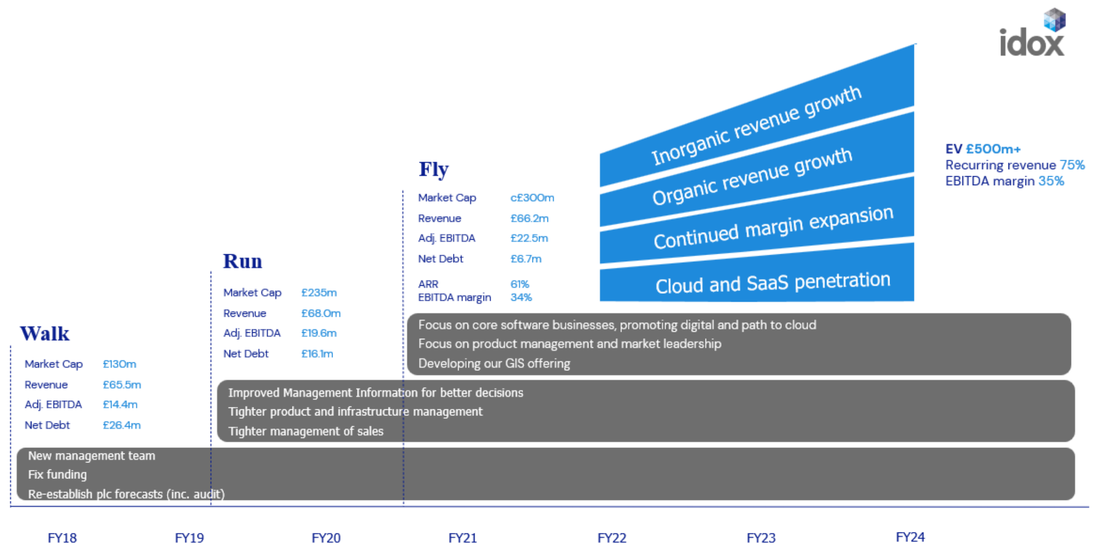
Outlook positive and confident

The outlook statement is positive and the group has good visibility on what remains of FY23 and across into FY24. Management expects FY23 results to be in line with its previous expectations, and we are not adjusting our forecasts.

Conclusion

Idox has come a long way with the current management and these results suggest that the team can take it much further still, delivering long-term shareholder value growth through strong execution, increasing recurring revenues and building the business.

Now flying – developing and growing core software businesses



Source: Idox

Although there may be wider economic concerns, these results demonstrate the resilience of Idox's businesses. Furthermore, the new structure has provided improved insight into the longer-term opportunities that the businesses offer. Following these results, we believe that investors can have increased confidence in the management's objective of mid-single-digit organic growth over the medium term, with additional growth from bolt-on M&A.

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)	4.8	4.5	4.1	3.9	3.7
EV/EBITDA (x)	15.4	13.3	12.2	11.5	11.1
EV/NOPAT (x)	29.3	27.2	24.5	22.7	21.5
PER (x)	29.2	27.3	25.0	23.2	22.1
Dividend yield	0.6%	0.8%	0.9%	1.1%	1.2%
FCF yield	3.8%	2.0%	3.4%	4.1%	4.3%

Source: Company information and Progressive Equity Research estimates

8 June 2023

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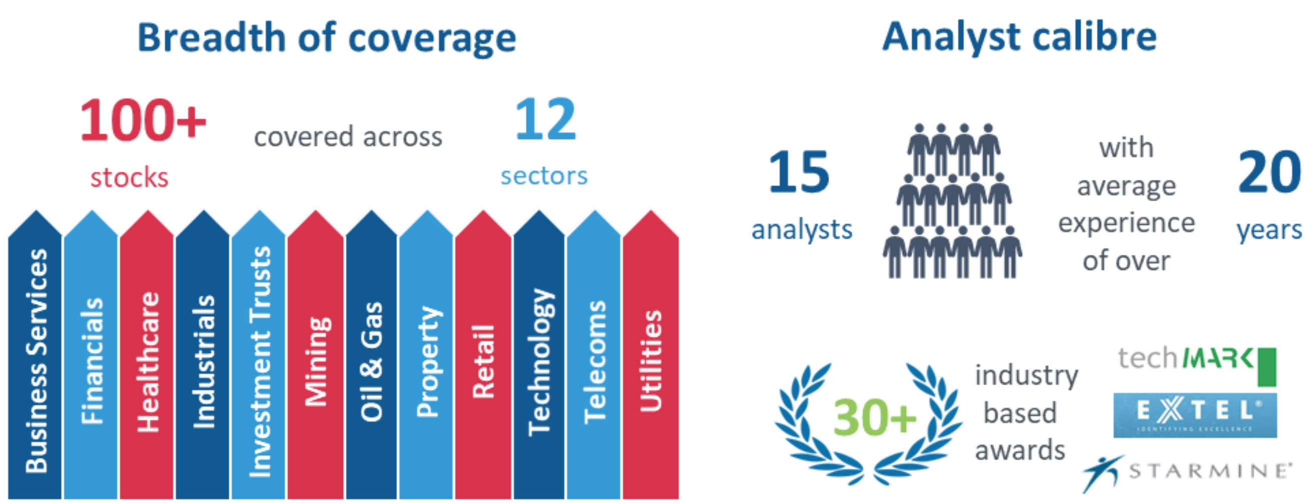

To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
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