Allenby Capital

Company Note

Update

01 August 2023

Corporate

Current price	**0.90p**
Sector	**TMT**
Code	**CLCO.L**
Listing	**AIM**

Share Performance

% Change	1m	3m	12m
— CLCO.L	-12.6	-18.4	-23.5

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**6.40**
Shares in issue (m)		**706.2**
52 weeks (p)	High	Low
	1.25	**0.78**
Financial year end		**30 September**

Source: Company Data, Allenby Capital

Key Shareholders

Mark (CEO) & Caroline Halpin	19.9%
Mark Ward	15.6%
MXC Capital	10.6%
Hargreaves Landsdown	5.4%
Andy Mills (NED)	4.6%

Source: Company Data, Allenby Capital

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CloudCoCo Group plc (CLCO.L)

Further evidence of significant progress made

A resilient H1 performance, announced June, for the provider of Managed IT services and VAR with growth at the top and bottom lines and further margin improvement despite the ongoing economic headwinds. CloudCoCo has successfully integrated the 2021 acquisitions and can now offer new and existing customers a broader range of products and services across its four pillars (Connect, Multi-Cloud, Cyber and Collaboration) and there are early signs of cross-selling success. There has been investment in sales and marketing and support, including several senior hires, 27 new customers were secured, and the company is looking to make additional acquisitions as it moves towards its long-term £100m revenue target. CloudCoCo has a substantial customer base, high levels of customer satisfaction (>97.5% in June), a broad product/service offering and a proven organic and acquisitive growth. We reintroduce forecasts and set a fair value of 2.10p/share, an 10x FY24 EV/Trading EBITDA.

- **Financial performance:** H1 revenue +11.0% to £12.9m, with 70% from recurring revenue. Managed IT Services increased 5.8% to £9.1m and Value Added Resale (VAR) +25.6% to £3.8m. The latter included e-commerce revenue from MoreCoCo, +78% to £1.6m, an increasingly important channel as more customers shift to online purchasing. Gross margin increased 80bps to 33.6% through better terms secured with suppliers as CLCO continues to rationalise its base. Good cost control and operational gearing resulted in trading EBITDA (pre-exceptional and plc costs, and share-based payments) +70% to £0.9m. Cash at bank flat at £1.3m. Net debt of £5.2m (H1 FY22: £3.5m).

- **Operational performance:** CLCO added 27 new logos (H1 FY22: 21) and reports a growing pipeline. New multi-year customers included Gepp Solicitors, Jensten Group and Marylebone Cricket Club. In addition, there is considerable scope to upsell/cross-sell services into the existing base - management estimates that currently customers typically take only two of its 12 key product areas. CLCO made investment in sales and marketing, and support, and a number of key hires (including Lee Thatcher to head up the Multi-Cloud division). It also expanded its partner network with the addition of Ingram Micro and Abstract Tech to support its new Multi-Cloud offering that enables it to target larger, more complex multi-cloud opportunities. Customer satisfaction levels improved, aided by the integration of customer support functions into a single team.

- **Outlook:** CLCO remains mindful of the economic headwinds facing many of its customers but is well placed to make continued steady strategic and commercial progress, ready to accelerate when conditions permit. Having successfully integrated several acquisitions, it will also look to supplement its organic growth.

Year End: 30 September					
(£'000)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
REVENUE	8,107	24,193	26,406	28,587	30,910
TRADING EBITDA*	745	1,594	1,819	1,987	2,452
ADJ. PBT	(895)	(1,157)	(1,284)	(896)	(381)
ADJ. EPS (p)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)
NET CASH/(DEBT)	(2,922)	(4,121)	(4,456)	(4,389)	(3,221)
EV/REVENUE (x)	1.1	0.4	0.4	0.4	0.3
EV/TRADING EBITDA (x)	12.5	6.6	5.9	5.4	3.9

Source: Company; Allenby Capital. Allenby Capital acts as Nomad & Broker to CloudCoCo Group plc (CLCO.L). * Excludes exceptional and plc costs, and share-based payments

Equity Research

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Investment summary

A resilient H1 performance for the provider of Managed IT services and Value Added Reseller with growth at the top and bottom lines and further margin improvement despite the ongoing economic headwinds. The company has successfully integrated the 2021 acquisitions and can now offer new and existing customers a broader range of products and services across its four pillars (Connect, Multi-Cloud, Cyber and Collaboration) and there are early signs of cross-selling success. There has been investment in sales and marketing, including several senior hires, and 27 new customers were secured in the first half and the company now has c. 1,000 customers spanning multiple sectors.

CloudCoCo continues to drive efficiency through operational gearing, granular cost control and better terms with suppliers. This should benefit H2 and beyond. The company is also looking to make further acquisitions to achieve its long-term revenue target of £100m, having successfully integrated the 2021 acquisitions. This strategy fits with the ongoing shift by organisations towards suppliers that can offer a breadth and depth of offering (beyond some niche applications). CloudCoCo maintains its focus on the quality/speed of its service ('attract, engage and delight') and customer satisfaction levels are sector leading, exceeding 97.5% in June.

Looking forward, management expects FY23 to be a year of solid progress with healthy commercial and operations delivery. Supply chain issues are generally receding and energy costs reducing but macroeconomic concerns are resulting in some extended decision cycles and an increased focus on return on investment. As macro conditions improve, CloudCoCo is well-positioned to accelerate organic growth given its product/service offering and M&A provides further growth opportunities in a fragmented market where many suppliers are becoming subscale. We reintroduce forecasts and set a fair value of 2.10p/share, an 10x FY24 EV/Trading EBITDA.

H1 highlights:

- Solid revenue growth (+11% to £12.9m); 70% from recurring
- Trading EBITDA +70% to £0.9m
- 27 new 'logo' customers added and growing sales pipeline
- Evidence of successful cross-selling in the base
- Launch of Multi-Cloud offering – hires and partnerships
- Further cost savings and increased efficiency through supplier rationalisation
- Increased customer satisfaction levels (>97.5%) in June

Financial performance

Exhibit 1: Summary financials

Summary interims	H1 FY22	H1 FY23	% change
Revenue			
Managed IT Services	8,582	9,077	*+5.8%*
Value Added Resale (VAR)	3,062	3,846	*+25.6%*
Total revenue	**11,644**	**12,923**	***+11.0%***
Gross profit	3,822	4,343	*+13.6%*
Gross margin	*32.8%*	*33.6%*	*+0.8ppts*
Administrative expenses	-5,015	-5,130	*+2.3%*
EBIT	**-1,193**	**-787**	***-34.0%***
Add back:			
Depreciation of IFRS16 data centre right of use assets	-229	-400	*+74.7%*
Amortisation of intangibles	-654	-643	*-1.7%*
Plc costs	-345	-397	*+15.1%*
Depreciation of tangible assets & other right of use assets	-45	-86	*+91.1%*
Exceptional items	-280	-99	*-64.6%*
Share based payments	-171	-63	*-63.2%*
Trading EBITDA*	**531**	**901**	***+69.7%***
Adj. profit before tax	**-736**	**-665**	***-9.6%***
Profit before tax (reported)	-1532	-1224	*-20.1%*
Cash	**1,312**	**1,275**	***-2.8%***
Net cash (debt)	**-4,012**	**-5,152**	***+28.4%***

Source: Company; Allenby Capital. * excludes exceptional and plc costs, and share-based payments

H1 FY23 revenue increased 11% to £12.9m, including 70% from recurring contracts (H1 FY22: 70%). On a divisional basis, **Managed IT Services** grew 5.8% to £9.1m and **VAR** by 25.6% to £3.8m. Within the latter, e-commerce revenue on the new MoreCoCo B2B and B2C website, launched in FY22, increased 77.8% to £1.6m.

Total Contract Value £6.4m

Total Contract Value (TCV), that measures the total revenue that CloudCoCo expects to generate from new customer contracts signed in the period over the contractual term, was £6.4m. This was down 34% against the record in H1 FY22 (£9.7m) but up 7% on H2 FY22 (£6.0m).

27 new logo customers

CloudCoCo has been looking to bolster its sales functions and reorganised teams across the four pillars of its strategy (Connect, Multi-Cloud, Cyber and Collaboration). CloudCoCo is targeting larger, multi-year agreements that increase revenue visibility. Such recurring revenue contracts secured in H1 included Tquila Automation Limited and Amedeo Services (UK) Ltd. Overall, 27 new logo customers were secured, compared with 39 in the whole of FY22, and included Gepp Solicitors, Jensten Group and Marylebone Cricket Club. There was also evidence of initial success in cross-selling across the customers of the acquired businesses, particularly for the provision of Managed IT Services.

The company reports that while a handful of customers responded to the increased cost of power and the ongoing economic headwinds by scaling back business, this was more than offset by the number of new customer wins, facilitated by CLCO's increased breadth of offering.

Margin improvements

Gross profit increased 13.6% to £4.3m, and gross margin increased to 34% (H1 FY22: 33%). Headcount has been reduced to 100 (H1 FY22: 125) following the TUPE transfer of 27 dedicated helpdesk staff to a customer at the end of its outsource contract in May 2023. CloudCoCo has maintained its focus on removing unwanted costs and increasing efficiencies. Following the acquisition, integration and turnaround of the Group's Connect business, formerly IDE Connect, it undertook a review of customer profitability at a granular level. This resulted in the company exiting a number of low-margin contracts. It has also successfully reduced the number of suppliers leading to significant annualised savings (£0.3m) and this, plus other cost control, resulted in operating costs increasingly only 2% to £5.1m, equivalent to 40% of revenue (H1 FY22: 43%).

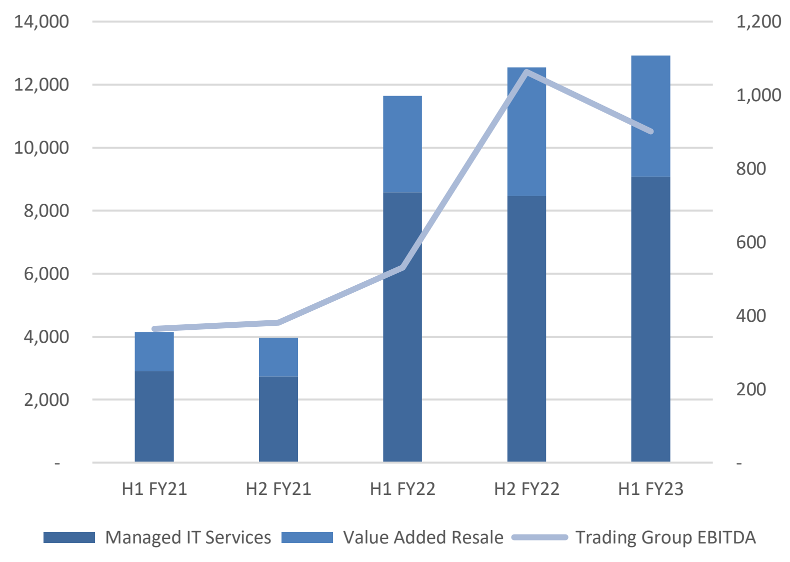
Finally, it has made progress with respect to the onerous contract inherited with the Connect acquisition, strengthening its relationship with the supplier involved. At the same time, CLCO continues to invest in the business and made key hires across multi-cloud, cybersecurity, sales, new business and technical support.

Trading EBITDA (before plc costs, exceptional items and share-based payments) increased 70% to £0.9m (H1 FY22: £0.5m). Reported operating loss reduced £0.4m to £0.8m and LBT was £1.2m (H1 FY22: £1.5m).

Cash inflow from operations of £0.3m (H1 FY22: £0.1m) was equivalent to 33% of Trading EBITDA (H1 FY22: 30%) with capex of £0.1m and lease repayments of £0.4m, reducing the liabilities inherited with the acquisitions made in 2021. As a result, cash reduced £0.2m during H1 to £1.3m (H1 FY22: £1.3m; FY22: £1.5m).

Net debt was £5.2m (H1 FY22: £3.5m; FY21: £2.9m) and management is assessing options for refinancing its existing debt, the loan notes held by MXC Capital (currently £4.9m) that mature in October 2024.

Exhibit 2: Revenue and Trading EBITDA progression (£000s)



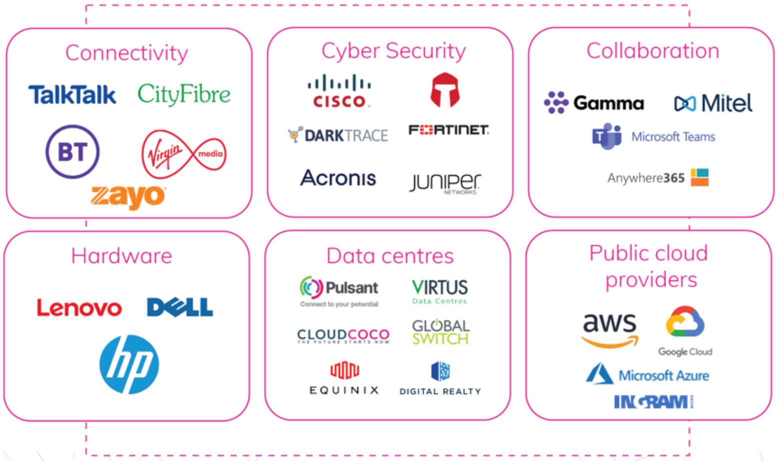
Source: Company; Allenby Capital

Operational highlights

Multi-Cloud

CloudCoCo increased its Multi-Cloud capability in FY23 and has launched a dedicated multi-cloud division. This enables the company to target larger, more complex IT projects and reflects an ongoing technology trend as organisations look to multi-cloud (the use of multiple cloud deployments of the same kind from different vendors) for numerous operational advantages - greater efficiency, customisation, continuity, and risk management. CloudCoCo has historically focused on Microsoft as a Microsoft Gold Partner but has recently evolved to become cloud agnostic and can capitalise on its core network that connects to more than 35 UK data centres.

Exhibit 3: Key partners



Source: Company

Lee Thatcher appointment

As part of this multi-cloud expansion, it announced the appointment of Lee Thatcher to head up the division in April. He has more than 20 years of tech experience, the last in senior cloud positions, most recently at Tieva (formerly Optm and the pure technology group).

Partnerships with AbstractTech and Ingram Micro

In April, it also announced partnerships with AbstractTech, a Leeds-based large-scale digital innovation specialist, that provides access to 150 technical specialists and has strengthened its relationship with Ingram Micro UK, the world's largest B2B wholesale provider of technology product and supply chain management services, for the supply of Microsoft Azure and other cloud services.

CloudCoCo will broaden its existing cloud business with Ingram Micro Cloud Marketplace to offer enhanced cloud solutions by introducing AWS, Alibaba and Google GCP to its existing Microsoft Azure portfolio. CloudCoCo will be able to access Ingram's hundreds of cloud providers through a single portal.

MoreCoCo

E-commerce web site launch

In FY22, CloudCoCo launched the e-commerce web site, MoreCoCo, following the acquisition of MoreComputers in August 2021. This is an increasingly important channel as more customers shift to online purchasing and CLCO has implemented initiatives to bring more visitors to the site (both B2B and consumer) and increase conversion rates. The site provides access to all the major IT vendors with real-time stock availability, dedicated account management, pre-authorised buyers and monthly spending limits.

In April, CLCO announced a partnership with a leader in the purchase, restoration and sale of refurbished IT hardware that will support the further growth of this business line with the addition of a >15,000 products with three-year warranties. The partnership reflects the desire of organisations and consumers to cut costs but also reduce their carbon footprints.

Customer satisfaction levels >97.5%

Customer support

Since its inception, CloudCoCo has operated a mindset to 'attract, engage and delight' its customers. The necessary corrective actions have been undertaken at the acquisitions made to date, the 'Get Well' programme. Customer satisfaction levels were further enhanced in H1 FY23 with the unification of its technical support operations as well as the additional of new talent. As a result, customer satisfaction levels were reported to be >97.5% in June. It is also exploring the use of artificial intelligence in its operations to aid customer support teams as well as customers that interact via the website.

Exhibit 3: Sample customers

Source: Company

The acquisitions made to date have been integrated and all group companies are now using a shared ERP (enterprise resource planning) system incorporating ticket management, customer relationship management (CRM), monitoring, and billing. This is facilitating cross-division collaboration and cross-selling.

Project IGNITE

Sales and marketing investment

CloudCoCo reorganised its sales and marketing arms in H2 F22 and has undertaken initiatives such as Project IGNITE, a multi-channel marketing project focused on lead generation, comprising the implementation of additional sales systems and introduction of new talent in its different teams. In July 2022, CLCO launched its Sales Academy to generate internally additional sales staff. This has contributed to new business and there are plans to expand the academy further in FY24. The activity of the telemarketing teams has also increased substantially in H1.

The company has identified cross-selling opportunities in the customer bases of acquired businesses, particularly the provision of Managed IT Services to customers that have traditionally purchased data centre services and connectivity. On average, CloudCoCo's customers take two of its twelve key product areas (Multi-Cloud, Data Centre, Cyber, Connectivity, VAR, Lifecycle, Collaboration, Professional Services, Support, Telecoms Maintenance, Telecoms and Mobiles). As such, there is considerable scope for upselling.

Outlook

Outlook positive

The outlook for the company remains reasonably positive despite the ongoing economic headwinds faced by its customers. CloudCoCo has a substantial customer base (>1,000); a broader product/service offering; substantially expanded sales, support and technical teams; early signs of success in cross-selling; and several strategic initiatives, such as Project IGNITE that includes the Sales Academy.

Management expects to deliver a year of solid progress characterised by healthy commercial and operational delivery. As trading conditions improve, the recent actions taken should mean the company is well-positioned to accelerate organic growth.

Given the successful integration and optimisation of the four acquisitions to date, the company also has a proven methodology and it will continue to appraise potential acquisitions. We also believe that larger product/service suppliers, such as CloudCoCo, that can offer their customers a high quality service will gain market share and that there will be multiple acquisition opportunities in a fragmented market.

Fair value of 2.10p/share

We reintroduce forecasts and set a fair value of 2.10p/share, equivalent to 0.7x FY24 EV/Revenue and 10.0x EV/Trading EBITDA.

Exhibit 3: Summary income statement

Year End September (£000s)	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E
Revenue	**8,107**	**24,193**	**26,406**	**28,587**	**30,910**
YoY Growth	*1.7%*	*198.4%*	*9.1%*	*8.3%*	*8.1%*
Cost of sales	(4,891)	(16,246)	(17,927)	(19,582)	(21,328)
Gross profit	3,216	7,947	8,479	9,005	9,582
Gross margin	*39.7%*	*32.8%*	*32.1%*	*31.5%*	*31.0%*
Other income	67	-	-	-	-
Administrative expenses	(4,794)	(9,784)	(9,931)	(9,931)	(9,980)
Total operating expenses	**(4,727)**	**(9,784)**	**(9,931)**	**(9,931)**	**(9,980)**
YoY growth	*-19%*	*107%*	*1%*	*0%*	*1%*
Operating (loss)/Profit before Exceptional Items	**(361)**	**(386)**	**(398)**	**4**	**519**
Exceptional items	(441)	(562)	(150)	(82)	(61)
Operating (Loss)/Profit	**(1,511)**	**(1,837)**	**(1,452)**	**(926)**	**(398)**
Amortisation	(1,009)	(1,286)	(1,300)	(1,100)	(1,100)
Depreciation	(97)	(164)	(150)	(100)	(50)
Trading EBITDA	**745**	**1,594**	**1,819**	**1,987**	**2,452**
Trading EBITDA margin	*9%*	*7%*	*7%*	*7%*	*8%*
Plc costs	(492)	(770)	(839)	(848)	(856)
Net interest	(534)	(771)	(886)	(900)	(900)
Adj. profit before tax	**(895)**	**(1,157)**	**(1,284)**	**(896)**	**(381)**
PBT margin	*NEG*	*NEG*	*NEG*	*NEG*	*NEG*
Profit before tax (reported)	(2,045)	(2,608)	(2,338)	(1,826)	(1,298)
Tax	(83)	321	320	300	300
Profit after tax from continuing operations (adj.)	(978)	(836)	(964)	(596)	(81)
PAT margin	*NEG*	*NEG*	*NEG*	*NEG*	*NEG*
Profit after tax from continuing operations (reported)	(2,128)	(2,287)	(2,018)	(1,526)	(998)
PAT margin	*NEG*	*NEG*	*NEG*	*NEG*	*NEG*
Loss for the year	(2,128)	(2,287)	(2,018)	(1,526)	(998)
Shares in issue (basic)	510,760	706,216	706,216	706,216	706,216
Earnings per share (basic) (p)	(0.42)	(0.32)	(0.29)	(0.22)	(0.14)
Earnings per share (diluted) (p)	(0.42)	(0.32)	(0.29)	(0.22)	(0.14)
Adj. earnings per share (p)	(0.19)	(0.12)	(0.14)	(0.08)	(0.01)
EV/Revenue (x)	*1.1*	*0.4*	*0.4*	*0.4*	*0.3*
EV/Trading EBITDA (x)	*12.5*	*6.6*	*5.9*	*5.4*	*3.9*

Source: Company; Allenby Capital

Exhibit 4: Summary balance sheet

Year End September (£000s)	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E
Non-current assets					
Intangible assets	10,393	12,580	11,280	10,180	9,080
Property, plant and equipment	52	128	98	48	48
Total non-current assets	**10,542**	**13,522**	**11,378**	**10,228**	**9,128**
Current assets					0
Inventories	86	165	120	120	120
Trade and other receivables	2,721	4,766	4,886	5,131	5,392
Cash and cash equivalents	1,183	1,516	1,017	1,074	1,322
Total current assets	**4,222**	**7,005**	**6,623**	**6,925**	**7,434**
TOTAL ASSETS	**14,764**	**20,527**	**18,001**	**17,153**	**16,562**
Current liabilities					
Trade and other payables	(2,872)	(6,890)	(7,152)	(7,755)	(8,386)
Contract liabilities	(177)	(1,891)	(1,500)	(900)	(500)
Borrowings	(172)	(69)	(70)	(50)	(50)
Finance leases	(86)	(733)	(100)	(100)	(100)
Total current liabilities	**(3,307)**	**(9,731)**	**(8,947)**	**(8,915)**	**(9,136)**
Net current liabilities	**915**	**(2,726)**	**(2,324)**	**(1,990)**	**(1,702)**
Non-current liabilities					
Borrowings*	(3,991)	(4,723)	(5,300)	(6,100)	(5,100)
Finance leases	(11)	(112)	(170)	(100)	(100)
Deferred tax liability	(1,188)	(1,426)	(1,200)	(900)	(600)
Total non-current liabilities	**(6,282)**	**(7,789)**	**(7,804)**	**(8,207)**	**(6,857)**
TOTAL LIABILITIES	**(9,589)**	**(17,520)**	**(16,751)**	**(17,122)**	**(15,993)**
NET ASSETS	**5,175**	**3,007**	**1,250**	**31**	**569**

Source: Company; Allenby Capital. * assumes MXC Loan Notes are refinanced

Exhibit 5: Summary cashflow

Year End September (£000s)	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E
Loss before taxation	**(2,045)**	**(2,608)**	**(2,338)**	**(1,826)**	**(1,298)**
Adjustments for:					
Amortisation	1,009	1,286	1,300	1,100	1,100
Depreciation	97	164	150	100	50
Costs relating to acquisitions	202	58	-	-	-
Share-based payment charge/(credit)	217	119	65	-	-
Operating profit before movements in working capital	**185**	**167**	**754**	**1,057**	**1,535**
(Increase)/decrease in inventories	(24)	(79)	45	-	-
Decrease / (increase) in trade and other receivables	(408)	(1,064)	(120)	(245)	(261)
Increase / (decrease) in trade and other payables	(57)	2,014	(473)	(495)	234
Cash flow from operations before acquisition costs	**(304)**	**1,038**	**206**	**317**	**1,508**
Costs relating to acquisition of CloudCoCo Ltd	(202)	(58)	-	-	-
Net cash flow from operations	**(506)**	**980**	**206**	**317**	**1,508**
Cash flows from investing					
Acquisition of property, plant and equipment	(31)	(115)	(120)	(50)	(50)
Acquisition of CloudCoCo net of cash	-	-	-	-	-
Acquisition of Systems Assurance net of cash	(563)	-	-	-	-
Interest received	1	-	-	-	-
Net cash flow from investing activities	**(593)**	**202**	**(145)**	**(50)**	**(50)**
Cash flow from financing activities					
Proceeds of placing (net)	1,939	-	-	-	-
Receipt/(repayment) of loans	(100)	-	-	-	(1,000)
Receipt/repayment of COVID-19 Bounce Back Loan	-	(18)	(20)	(20)	(20)
Payment of lease liabilities	(120)	(813)	(500)	(150)	(150)
Interest paid	(25)	(18)	(40)	(40)	(40)
Net cash flow from financing activities	**1,694**	**(849)**	**(560)**	**(210)**	**(1,210)**
Net increase / (decrease) in cash and cash equivalents	**595**	**333**	**(499)**	**57**	**248**
Cash and cash equivalents at beginning of period	**588**	**1,183**	**1,516**	**1,017**	**1,074**
Cash and cash equivalents at end of period	**1,183**	**1,516**	**1,017**	**1,074**	**1,322**
Net cash	**(2,980)**	**(4,121)**	**(4,456)**	**(4,389)**	**(4,221)**

Source: Company; Allenby Capital.

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