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CloudCall Group PLC

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CloudCall: Have the virtues of its high-growth and high recurring revenue model been overlooked by the market?

CloudCall Group PLC (AIM:CALL, OTCQX:CLLLF, FRA:WTM1) chief executive Simon Cleaver might be forgiven for suggesting his business has been overlooked and under-appreciated by its UK investor audience.

For here's a software-as-a-service business with a 94% recurring and repeat revenue base that's slated to grow by at an annualised rate of around 25%.

Yet, at just two-times sales, CloudCall is on a valuation that would look bargain-bin on the tech-savvy US market.

American investors like SaaS, not because they prefer paying significantly over the odds, but because they understand the mechanics of these businesses.

They know they are high gross margin (75%-plus) with extremely sticky, almost annuity-level, customer bases.

Premium paid in the US

And that's why they pay the premium: long-term visibility over a sustained and ultimately significantly profitable income stream.

The question Stateside is, 'how big can you grow before you run out runway'? In the case of Salesforce, Workday and Adobe pretty darn big? The follow-up is, 'how much do you need to get there?'

Here in the UK, the conversation with investors, and I've been privy personally to this short-sightedness, tends to be along the lines of, 'when are you going to break even? Oh, and please don't come back to us for any more cash until you do'.

Anyway, rant over, let's move on.

Price: 57.49

Market Cap: £27.61 m

1 Year Share Price Graph

Share Information

Code:		CALL
Listing:		AIM
52 week	**High**	**Low**
	117	**55**
Sector:		**Software & services**
Website:		**www.cloudcall.com**

Company Synopsis:

CloudCall Group PLC creates innovative technology that makes business communications easier, quicker and more powerful. Through providing advanced software that integrates with CRMs, the company's users can manage their communications in the same space as their data, providing insight that has the power to transform the way they work.

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CloudCall specialises in integrating communications systems (telephony and messaging) with customer relationship management systems such as (but certainly not limited to) the aforementioned Salesforce.

This allows companies to log and analyse incoming and outgoing comms routed through their CRM.

As CloudCall CEO Cleaver puts it, the CRM "is the single source of truth" for most organisations.

What does that mean? Well, it can provide transparency on how business development and customer support operates. And, interpreted properly, a good CRM can help firms become much more efficient in way they transact business.

But here's the thing. As anyone who has bought such a system will tell you, once in, it is almost impossible to remove so integrated does it become with the commercial and financial ecosystems it feeds from and into.

These products are sticky as hell, which is why Salesforce, Adobe, Workday et al are the titans of tech they are today.

Rather than pay lip service to the CRM, as most large communications groups tend to, CloudCall leans in. It puts the CRM in the centre and makes sure its solutions integrate seamlessly with whichever system the customer has installed - be that a hotel CRM or one for the recruitment sector, a specialism of CloudCall's.

Growing strongly

It now has around 1,600 customers and at the halfway mark of the year, CloudCall had generated £6.4mln of revenues, giving an annual run rate of £13.4mln, which represents growth of around 20%.

The eye-catching number is of course the 94% recurring and repeat business CloudCall generates.

March's £6mln fundraiser topped the group's coffers up to £8.4mln at the halfway stage of 2021 with a further £1mln due in from R&D tax credits and £2mln more available via an existing debt facility.

In its update, the company reported its addressable market would double as it expanded the number of CRMs it can integrate with. This, added with a strong recovery of the recruitment market, should underpin growth expectations.

After a bumpy 2020, the group expects to return to the sort of rapid expansion it saw before the pandemic with recurring revenues rising by around 25% annually. It has also pledged to break even at the EBITDA level in mid-2023.

It's fair to say the share price has taken a bit of a beating since the start of the year. Whether this is investor myopia of the kind mentioned earlier or missteps by the company is hard to tell.

Valuation anomaly?

What it appears to have done is left a valuation anomaly.

Canaccord Genuity (TSX:CF, LSE:CF) put it quite bluntly. It reckons at just 1.8-times sales and with increasing visibility over an accelerating growth trajectory, the shares are too cheap. It calculates the stock is worth 115p, or roughly double the current price.

Canaccord is the broker to CloudCall, so the cynics will probably respond thus: 'Well they would say that wouldn't they?'

Here's a quote from an uninterested party, SureSwift Capital, an American company that helps sell software-as-a-service companies.

"For smaller, bootstrapped SaaS businesses (that are profitable and growing), valuation multiples tend to range between three and five times [sales]," it says.

Do the words 'overlooked' and 'under-appreciated' ring a bell?

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