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Final Results

28th March 2023

RNS Number : 3860U

Eleco PLC

28 March 2023

RNS

28th March 2023

Eleco Plc

("Eleco", "Group" or the "Company")

ANNUAL RESULTS

Audited Annual Results for the Year Ended 31 December 2022

The Board of Eleco Plc (AIM: ELCO), the AIM-listed construction and building software specialist, is pleased to announce its results for the year ended 31 December 2022.

Financial Highlights



- Annualised Recurring Revenue (ARR)* up 14% to £18.2m (2021: £16.0m)
- Total Recurring Revenue (TRR)** up 10% to £16.9m (2021: £15.4m), representing 64% of total revenue (2021: 56% of total revenue)
- Revenues of £26.6m (£27.0m in constant currency terms) in line with market expectations and similar to the prior year (2021: £27.3m). Flat revenues were a consequence of our SaaS transition as we move away from upfront perpetual licences
- Profit measures were slightly ahead of market expectations with EBITDA*** of £5.2m and Profit Before Taxation of £2.9m, given the impact of the SaaS transition (2021: £7.2m and £3.9m respectively)
- Basic Earnings Per Share of 2.9 pence per share (2021: 3.3 pence per share)
- Gross margins remain high at 88.4% (2021: 89.9%) and cash generation remains strong with year-end cash of £12.5m (2021: net cash of £10.0m)
- Total dividends for the year (paid and proposed) of 1.28 pence per share (2021: 0.60 pence per share), consisting of:
 - o Proposed special dividend in relation to the cash proceeds received from the 2023 disposal of non-core Arcon Architectural CAD business of 0.58 pence per share (2021: Nil)
 - o Proposed final dividend of 0.50 pence per share (2021: 0.40 pence per share)
 - o Interim dividend paid of 0.20 pence per share (2021: 0.20 pence per share)

* ARR is defined as normalised annualised recurring revenues and includes revenues from subscription licences, contract values of annual support and maintenance, and SaaS contracts. Normalisation is calculated as recurring revenue in the final month of the year multiplied by twelve.

** TRR is defined as the recurring revenues from subscription licences, contract values of annual support and maintenance, and SaaS contracts.

*** EBITDA is defined as Earnings before Interest, Tax, Depreciation, and Amortisation and Impairment of Intangible Assets



Operational Highlights

- Successfully commenced phase two of the Group's Software as a Service (SaaS) transition strategy, to offer subscription licences to existing customers, thereby supporting customer success initiatives and enhancing our recurring revenue profile further.
- Among several new product enhancements, the anticipated release of the new Permit to Work module for Eleco's scalable maintenance and facilities software, was in H2 2022. This will be a key component in assisting customers with managing safety and compliance procedures.
- A focus on ESG initiatives by establishing an ESG committee, setting targets and measuring performance as well as offsetting our measured carbon emissions.
- Placed in the Top 50 ConTech Partner list whose criteria include innovation, adoption and customer satisfaction.
- Certified as a Great Place to Work® and implemented wellbeing and personal development programmes for employees.
- Winner of Project Management Software of the Year at the UK Construction Computing Awards for the ninth successive year.
- Continued to consider appropriate acquisitions as part of our ongoing growth strategy whilst the disposal of non-core German Arcon architectural business enhances the management's focus on its core growth areas.

Jonathan Hunter, Eleco's CEO, said:

"I am delighted with the Group's performance and progress in delivering its growth strategy against a backdrop of difficult economic conditions for the wider market. I am pleased to be reporting financial results in line with market expectations. Eleco is now better positioned within its markets and we continue to make meaningful progress towards our strategic goals.

As we successfully transition into a SaaS business, and as previously announced in 2021, we anticipate that H1 2023 revenues will be lower, but expect revenues will accelerate in H2 of 2023 enabling the Group to return to revenue growth in 2023. Post transition we will have a substantially higher ARR and greater visibility of revenue.

I wish to thank all shareholders for their continued support on our business transformation into a world-class, higher customer-lifetime-value recurring revenue group.



Our customer-centric growth strategy, loyal customer base, strong pipeline of opportunities and our world-class technology will open further exciting prospects for growth in our core markets and therefore we look to the year ahead with confidence. “

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About Eleco plc

Eleco plc is a London Stock Exchange AIM-listed (AIM: ELCO) specialist international provider of software and related services to the Architectural, Engineering, Construction and Owner/Operator (AECO) industries and interior furnishing industries from centres of excellence in the UK, Sweden, Germany, Netherlands and the US.



The Company's market-leading ElecoSoft software solutions are developed by teams in the United Kingdom, Sweden and Germany, and its solutions cover project management, estimating, timber engineering, CAD and visualisation, asset and facility management and cloud-based digital marketing solutions. For further information please visit www.eleco.com (<http://www.elecoSoft.com/>).

Chairman's Statement

I am delighted to report that 2022 has been another year of solid progress for Eleco. Despite significant macro-economic and geo-political upheaval, high inflation and a tight labour market, the business has delivered a robust performance and made considerable headway towards meeting its strategic goals.

Thanks to management's execution of our strategy the Company's transformation has been successfully implemented and we are now extremely well-positioned to accelerate our growth organically as well as having a solid platform from which to successfully undertake strategic acquisitions.

We are also uniquely placed to benefit from industry trends. The construction and built environment industries are seeking digitalisation; better productivity of labour and materials costs; reduced carbon footprint; minimised waste; more flexible modular solutions; and 4D Building Information Modelling solutions (4DBIM) to add time and scheduling elements to their models. Eleco offers all these solutions and so we are seeing an increasing number of significant opportunities within our markets.

In line with our customer-centric approach, Eleco has continued to invest in product development, having launched new versions of our core building lifecycle products during the year. Our offerings are increasingly focused on improving processes for our clients by introducing new, more efficient workflows while digitalising the least efficient of their manual processes.

Strategic Success



Eleco is now a customer-centric rather than product-centric business with all developments based on our clients' needs. Across the Group we have been focused on both delivering best of breed products to core customer segments while also transitioning our business to SaaS and maintaining high customer retention rates. To that end, we have introduced an R&D matrix structure built around customer segments, enabling us to produce innovative solutions that are of the highest value to our customer base.

Our transition to a SaaS-based, recurring revenue business is progressing to plan. We grew Annualised Recurring Revenues (ARR) by 14 per cent to £18.2m at 31 December 2022 from £16.0m at 31 December 2021. Total Recurring Revenue (TRR) increased 10 per cent to £16.9m (2021: £15.4m), such that recurring revenues now account for 64 per cent of total revenues, up from 56 per cent in 2021.

Our strategic move to a SaaS licensing model inevitably meant a temporary decline in revenue, something we highlighted at the outset of this process. Nonetheless, revenue for 2022 (£26.6m, or £27.0m on a constant currency basis) is only marginally down on 2021 (£27.3m). We are satisfied with the trajectory of our SaaS transition which we expect to result in significant revenue growth and improved shareholder returns over the years to come. Our move to SaaS licensing will benefit us and our customers and will result in higher customer lifetime value (CLV). We expect revenues will increase from the end of Q2 of this year, which marks the midway point of our transition, and that revenue will continue to increase for 2023 as a whole.

As well as our strategic realignment to a customer-centric business, we have continued to grow our customer base, achieving new customer growth in the UK, growth in the USA and strong demand in Sweden. Existing customers continue to expand their software usage and we are seeing more demand for hosted solutions.

In line with our previously announced strategy to focus on our core customer segments and businesses, we sold our German ARCON architectural CAD business, following the year end, for a total consideration of €600,000. This further streamlines our business toward a common customer base and product type and will be beneficial to all our stakeholders. It will enable our team to be more focused, provide improved service levels to our customers, and ultimately generate greater value for shareholders.

Unfortunately, geo-political factors and inflationary pressures have impacted the timing for our customers of their operational programmes. This has resulted in a slowdown in demand for services and sales of new licences across Eleco's portfolio, especially in Germany where the economy has ↑

been hit more severely by the repercussions of the war in Ukraine. However, the Group is successfully absorbing these pressures thanks to effective cost control and our strong cash balance, with profits remaining in line with expectations.

Overall, we have continued to increase our customer numbers and monthly recurring revenue, making progress in our goal to become a much larger, world-class, customer-centric organisation.

Awards

Powerproject won the Project Management Software of the Year Award at 2022's Construction Computing Awards for the ninth year in a row, reflecting the high regard in which our software is held by the industry.

In March 2022, we also won the Megabyte Quoted25 Award for best performing software company in the industrials peer group, highlighting the strength of our overall financial performance.

We were also placed in the Top 50 ConTech Partners list whose criteria include innovation, adoption and customer satisfaction.

Environmental, Social and Governance (ESG)

We formed an ESG Committee early in the year, chaired by Non-Executive Director, Mark Castle, with a mandate to focus on the key elements of Environmental, Social and Governance and identify the core areas of Eleco's Sustainability Plan. During the past year, the ESG Committee set Key Performance Indicators ('KPI') in line with Eleco's Sustainability Plan, which we used to measure our performance against in 2022, and looked at our Net Zero Strategy.

Environmentally, we made the move to more renewable energy sources across the whole business and while only a short-term solution, we offset our 2021 carbon emissions during the year. We will continue to focus on our impact on the environment and driving our Net Zero plan. We are also reviewing how we can positively contribute to global environmental challenges by helping our customer base reduce their carbon footprint and improve sustainability through the use of our solutions.



Within our social strategy we recognise the importance of working together with our colleagues, customers and suppliers to promote fairness, equality and inclusion. People are at the heart of Eleco. Attraction and retention of talent and the wellness of our people were key themes throughout 2022 in what was a tight labour market.

We maintained investment in our people throughout the year, introducing numerous initiatives including an Employee Assistance Programme, Employee Hub and encouraging colleagues to volunteer for charitable causes. In addition, two-thirds of our employees received a cost-of-living allowance, and we provided pay awards across the whole Group. As the result of many of our commitments to our colleagues, we were delighted to receive Great Place to Work® certification in the UK, Sweden and Germany.

We were delighted to welcome Neil Pritchard, who was appointed to the Board as Chief Financial Officer in October 2022, further strengthening our leadership and corporate governance. The Group Leadership Team was also bolstered by the appointment of Luben Kirov as Chief Technology Officer earlier in the year.

Dividend

Thanks to our strong cash position, we are able to both retain earnings for corporate development initiatives and maintain a progressive dividend policy. Cash generation was very strong during the year, with an increase in free cash flow ahead of market expectations, resulting in a 25 per cent increase in cash to £12.5m (including cash held within the held for sale business at the year-end) at 31 December 2022 (31 December 2021: £10.1m). The Board has therefore decided to recommend a final cash dividend of 0.50 pence per share (2021: 0.40 pence per share). This is in addition to an interim cash dividend of 0.20 pence per share (2021: 0.20 pence per share). Furthermore, we will propose a special dividend of 0.58 pence per share to reward our shareholders' loyalty as we go through the SaaS transition, representing the cash proceeds from the disposal of the non-core ARCON business. The total dividends for the year will therefore be 1.28 pence per share (2021: 0.60 pence per share).

The full year and special dividend will follow approval by shareholders at the AGM. The record date is the close of business on 19 May 2023 and the ex-dividend date will be 18 May 2023.

Outlook



Eleco is building a single customer platform, the Elecoverse, that will enable our customers to access and utilise all our solutions. It will also provide customer success tools, training options through the Elecoversity, as well as provide us with analytics that will help us to further enhance our offerings to our customers. We are enhancing our solutions to further our competitive advantage in our areas of focus. We will continue moving ahead in our transition to SaaS which will increase organic recurring revenues and profits. Sales enablement programmes are being implemented to further enhance future organic growth.

The construction and built environment markets are currently affected by a multitude of macro-economic headwinds. Eleco's software plays a crucial role in helping companies mitigate the impact of these issues, driving productivity, and enabling them to better plan their resources. The industry is experiencing a move toward digitalisation, as well as more efficient and sustainable building methodologies and techniques. Eleco's solutions are widely recognised for improving decision making and planning throughout the building lifecycle and we currently have an excellent opportunity to leverage our market position, strengthen our platform and drive organic growth.

Over the coming year we will also build on the progress we have made in achieving Great Place to Work® status, providing an ever-improving work environment that helps us motivate and retain our great people while attracting new talent in a competitive labour market.

The Company has a number of strategic acquisition prospects that could further enhance its positioning and continues to actively review the market for technology opportunities and threats.

Eleco has delivered a positive performance throughout 2022 despite the macro-economic background, delivering growth in subscription revenues in line with our core strategic goal. I would like to thank our talented team for their superb efforts in achieving this outcome and our loyal and valued customers for their support. We are confident of continued robust progress through 2023 and in meeting market expectations for the year ahead.

Serena Lang

Chairman

27 March 2023



CEO's Report

I am delighted with the Group's performance and progress with delivering its growth strategy against a backdrop of difficult economic conditions for the wider market. I am pleased to be reporting financial results in line with market expectations. Eleco is now better positioned within its markets and we continue to make meaningful progress towards our strategic goals.


Eleco solves the challenges of the built environment by supporting the digital transformation of companies who construct and maintain buildings and structures. Our vision is to create certainty for the built environment by being the trusted technology partner to all stakeholders, which is especially important in the current economic climate.

Eleco's core customers are in the UK, Germany, Sweden, the Netherlands and the USA. However, its solutions reach all areas of the globe including the rest of Europe, Australia and New Zealand.

The built environment is an exciting sector for technology companies due to rising demands to meet environmental targets and population growth, which are driving companies in an industry that is recognised as a slow adopter of technology to think differently about data, process, and collaboration. A company with the pedigree of Eleco however, with its technical talent and experience, is more than capable of meeting the growing demands of the industry.

Our Markets

Following a previous year in which construction projects were significantly disrupted due to the global pandemic, the trend continued into the beginning of FY22 with related material price increases and the energy and cost-of-living crisis which followed the Russian invasion of Ukraine. The uncertainty caused disruptions in projects, particularly in Germany.

During the pandemic, many businesses rapidly increased their technology investments in order to operate remotely and assist employees to work from home. We found that many of the old and perhaps inefficient processes had been digitalised but not modernised to work in a digital environment and this led to a decline in some areas of construction workflows. This is where Eleco's many years of industry experience proved vital in supporting our customers to transform their processes and become truly modernised. Furthermore, new technology entrants have found it challenging to break into the built environment as our customers have become more tech-savvy,  again underpinning Eleco's strategic move to focus on customer centricity and customer success.

Review of Operations

The Board has been greatly encouraged by the pace of our transition to SaaS during the year. Many such transitions suffer more severe revenue reductions, however, it was the objective of Eleco colleagues to work hard to deliver equivalent year-on-year revenues.

The strong uptake of subscription licensing has resulted in significant growth in Annualised Recurring Revenues (ARR) of 14 per cent, from £16.0m at 31 December 2021 to £18.2m at 31 December 2022. This level of growth has not been seen in prior years and signifies positive progress. We are on track to see the total reported revenues further increase by the end of 2023.

As stated when we first embarked upon this transformational journey, we expected a reduction in revenues during the first 18 months of the process as customers moved from perpetual licences to subscription payments, with total revenues increasing after that time. The midpoint of our journey to SaaS will occur in H1 2023, and we are confident of delivering solid revenue growth in the second half of the current financial year.

Following the strategic focus for Eleco to become a SaaS company, we will have greater predictability of our revenues, more sustainable growth, lower costs and improved scalability. Our customers are also benefiting from a reduction in upfront costs, while having flexible, scalable products that can run anywhere on any device with simple maintenance and automatic upgrades. Ultimately, our move to SaaS will make Eleco a stronger and more resilient business while increasing Customer Lifetime Value.

In keeping with our strategic focus on prioritising our core customers, growth areas and increasing recurring revenue we disposed of our non-profitable German ARCON architectural CAD business in February 2023 for a total consideration of €600,000. This further streamlines the Group toward a common customer base and product type which benefits our employees and customers.

We also reorganised the management teams in our German Building Lifecycle and Veeuze companies, which we expect to drive long-term growth in the region.



Our ambition is to be identified as the preferred international technology partner in the built environment. We are therefore proud to be recognised in the Top 50 ConTech Partners list. Launched by Build in Digital, the list shows the ConTech firms that have become an integral part of their clients' supply chain, helping them operate on time, on budget, and with a minimal carbon footprint.

2022 was the ninth consecutive year in which we received the Project Management Software of the Year Award at the UK Construction Computing Awards, and in March 2022, we also won the Megabyte Quoted25 Award for best performing software company in the industrials peer group, highlighting the strength of our overall financial performance.

Our US channel partner programme was enhanced which resulted in the introduction and first order of Powerproject Vision, our cloud collaboration solution, to Saunders Construction, an ENR Top 400 general contractor. This has sparked an interest in Powerproject Vision among other customers in the US.

Central to us upholding innovation, adoption and customer satisfaction is the attraction and retention of the highest quality talent. During the year, we introduced numerous measures to ensure this could still be achieved in a highly competitive labour market. Our employee value proposition was improved throughout the year by the introduction of various employee initiatives, well-being support and benefits. As a result, in June 2022 we were awarded Great Place to Work® status in the UK and Sweden following a survey of Eleco colleagues, who worked tirelessly to deliver FY22's strong results while still making excellent progress our strategy. I am pleased to say we have retained that Great Place to Work® certification in 2023, and added Germany to the fold.

Strategy

The Group's leadership team continued its commitment to driving the vision and strategy whilst creating an environment to deliver stakeholder value and growth. These comprise three strategic pillars: Go-to-Market, Innovation and Technology, and Mergers and Acquisitions, underpinned by our Growth Platform.

Go-to-Market

Investment in cloud migration in 2022 has formed the basis for new future applications as well as the provision of cost-effective, secure and collaborative solutions for Eleco's current customers. Our revived sales enablement programme will support existing colleagues to perform at their best and also allow Eleco to accelerate the onboarding of new colleagues and scaling of its sales capabilities⁵.

Solving the challenges of the built environment requires collaboration and partnerships. Therefore as a focus for 2023, Eleco will be the leading partner of the C-Tech Startup Village at the UK Digital Construction Week in May. This will connect the Company with over 100 early-stage technology businesses in our sector.

Further service partners and resellers play a key role in providing Eleco scale in delivery to international markets. Earlier this year, in conjunction with our US value added resellers, we hosted our first US user conference since the pandemic and not only was the turnout excellent, but also the response was extremely favourable, with Lorne Duncan from Petroglyph commenting that, "It was the best user conference I have been to in the last decade and probably the best I have ever attended."

Innovation and Technology

Our growth strategy called for a reorganisation of our Research & Development function into an aligned group of colleagues reporting to our Chief Technology Officer. This change in H2 2022 has stimulated creativity and innovation as the team now meet as one, developing efficiencies by eliminating duplication and supporting specialism and career pathways within the Group.

Innovation is an area in which Eleco colleagues feel confident, as we are both proud and fortunate to work with the most forward-thinking engineers and planners in the industry to solve the challenges they face. Our solutions have an active educational audience of over 12,000 students and with the culture we promote, customers can easily speak with Eleco colleagues to discuss their challenges.

In 2023, our customers can expect to see more SaaS modules which promote better collaboration; for example, Asta Connect is our new last planner solution designed to bring teams together on site. We also plan to launch the first iteration of the Elecoverse, providing greater access to the Eleco 'universe' and scalability of services for our customers. We will continue to enhance our existing portfolio to improve customer experience and appeal to a diverse audience within our core customer base.

Mergers & Acquisitions

The Group's M&A strategy is driven by its ambitious technology roadmap, and customer needs whilst further supplements our organic growth.



There are three types of potential acquisition we are pursuing:

- Type A – Revenue & Profit enhancing in complementary markets. An established company with robust financial credentials and loyal customer base.
- Type B – Proven Technology that advances our roadmap. An established technology and capability-led businesses that would enable Eleco to accelerate its roadmap through acquiring developed IP and technical talent.
- Type C – Next-Generation Technologies; innovative solutions that add value to our existing customers.

Growth platform

Developing and strengthening Eleco's operational platform has been a strategic focus since the launch of the strategy in 2021, and will continue to play an important role in the future success of Eleco. Core elements to enable growth are our people, culture, ESG credentials and resilient financial platform.

People & Talent

Eleco is a people business, and the calibre and talent of our people, along with their enthusiasm to solve the challenges of the built environment, continue to be key in delivering our strategy.

During the period the Leadership Team was strengthened with the recruitment of Neil Pritchard who was appointed as Chief Financial Officer, and to the Board, in October 2022. Neil has significant experience of AIM-listed technology companies, having been CFO of Corero Network Security plc and CML Microsystems plc and having worked for a number of internationally-quoted companies prior to this. Neil's background and skills are already proving invaluable as we focus on continued and sustainable organic and inorganic growth.

Luben Kirov joined as Chief Technology Officer, in February of 2022. With over 15 years of professional experience across Natural Resource Management, Enterprise Services, Software Development, Data Science and Consulting, Luben brings with him comprehensive and diverse experience in the fields of technology and business.

David Hernandez joined as Head of US Operations, based in Texas, in July and is an experienced sales leader, having spent almost a decade in sales leadership and channel management in the construction industry as well as having led his own residential and commercial contracting company. ↑

Dirk Dombert started as Regional Managing Director, Northern Europe in November, and has 25 years of sales and management experience with software solutions and services in ecommerce and CAD/CAM technologies.

Culture & Values

Fostering a strong company culture aligned to Eleco's purpose and vision is critical to the delivery of our strategy. Accordingly we focused on strengthening our cultural values by introducing our own behavioural framework into employee objectives and our recruitment process in the period.

This focus on cultural values has brought about increased levels of trust and openness and has created an environment in which colleagues feel confident to contribute, collaborate, be innovative and ultimately perform to the best of their ability. Furthermore, these improved ways of working have served to support the leadership team in implementing transformational changes more swiftly.

Systems

Reliable and secure systems form a key element in enabling our growth ambitions. During the period we strengthened our cyber security posture by implementing a cyber vulnerability scanning system to regularly test our public-facing services. Furthermore we updated our cyber security procedures and policies in advance of applying for ISO 27001 in the UK in 2023.

ESG Credentials

Excellent environmental, social and governance credentials have significant importance in supporting our growth. In the period, we established an ESG Committee and developed a scorecard to commence the measurement of the initiatives we continue to implement. Some initiatives included offsetting carbon emissions, progression towards electrified vehicles and making facility improvements in our offices to reduce our impact on the environment.

Further supporting good governance, we reinvigorated our group wide policy framework which is being introduced through our internal training platform. Every employee was also trained and tested throughout the year on the detection of cyber threats and attacks. Our clients can therefore have confidence that we adhere to the National Cyber Security Centre (NCSC) guidelines for cyber security for construction businesses, one of the many industries that we serve.



I am proud of the social responsibility measures adopted by Eleco and for its recognition as a Great Place to Work®. During the year, we introduced several initiatives including an Employee Assistance Programme, Employee Hub, volunteering days for colleagues and support with additional external training to build upon their existing skills and abilities. In Q4 2022, and with the approaching colder weather, we recognised the impact on colleagues of the rising cost of living and, as a result, the Board made a one-off support payment to two-thirds of our employees.

Resilient Financial Platform

Annualised Recurring Revenues (ARR) at 31 December 2022 increased by 14 per cent to approximately £18.2m (£16.0m at 31 December 2021). Total Recurring Revenues (TRR), a key metric for the Group, increased to £16.9m, or 64 per cent of total revenue in 2022, representing a 10 per cent uplift on the comparable period (£15.4m in 2021 or 56 per cent of total revenues).

As a result of the transition away from upfront perpetual licences, revenues for the year ended 31 December 2022 were marginally lower than in the prior year at £26.6m (£27.0m in constant currency terms) (2021: £27.3m). This, together with profit before tax for the period of £2.9m (2021: £3.9m), was in line and ahead of market expectations. We expect total revenues to grow in the second half of the coming year as we pass the halfway mark of our SaaS transition. Service revenue was in line with the previous year at £6.0m (2021: £6.0m).

Due to the SaaS transition, Building Lifecycle total revenue decreased by 2 per cent while CAD and Visualisation revenue also decreased by 7 per cent. Deferred income increased to £7.8m (2021: £7.1m).

Revenues by customer location were positive in the USA and Rest of World, though other areas were lower due to the SaaS transition and Germany showed a decline due to the prevailing economic conditions, but also reflected the reduced business by our ARCON business that was disposed of after the year end.

We invested approximately 12 per cent of revenues in product development across our portfolio during 2022 which was similar to prior year.

Cash generation remains strong, with an increase in free cash flow ahead of market expectations resulting in a significant increase in cash of 25 per cent to £12.5m as at 31 December 2022, up from £10.1m as at 31 December 2021.

The Company's robust, debt-free cash status enables us to have a progressive dividend policy while allowing for the retention of surplus cash to continue to invest in corporate development initiatives and the future growth of the Group. An enhanced final dividend and a payment of a special dividend (relating to the disposal of the ARCON business) rewards our shareholders for their support on our transformative journey.

Outlook

I am delighted with the meaningful progress that Eleco has made towards its strategic goals this year. As such, I would like to extend my thanks to the talented colleagues in the Group for their valued contribution, trust and dedication.

Eleco's customers increasingly embrace digitalisation as a critical means to solve the challenges they are facing in their business. We expect the rising demand for designing, constructing and operating buildings with improved green credentials to be a key driver for Eleco as our products support the reduction of waste, drive efficiency and provide critical data to make better decisions. Improving Eleco's go-to-market abilities will drive customer success, our ability to scale and strengthen our reputation as a trusted technology partner in the built environment.

We remain focused on growth, both organic and through acquisition, and continue to seek acquisitions which will increase the size of our customer base, complement our technology stack, widen our geographic reach and further develop our SaaS platform.

As we successfully transform Eleco into a high value SaaS recurring revenue business, and as previously announced in 2021, we anticipate that H1 2023 revenues will be lower, but expect revenues will accelerate in H2 of 2023 enabling us to return to revenue growth in 2023. I wish to thank all shareholders for their continued support during a period of transformation into a world-class, high value recurring revenue group.

Our customer-centric growth strategy, loyal customer base, strong pipeline of opportunities and world-class technology will open further exciting prospects for growth in our core markets and therefore we look to the year ahead with confidence.

Jonathan Hunter



Chief Executive Officer

27 March 2023

Consolidated Income Statement

For the year ended 31 December 2022

| Continuing operations | | 2022 | 2021 |
|------------------------------|--|----------------|---------|
| | | £'000 | £'000 |
| Revenue | | 26,566 | 27,344 |
| Cost of sales | | (3,087) | (2,754) |
| Gross profit | | 23,479 | 24,590 |

Amortisation and impairment of intangible assets

(1,596) (2,361)

Former Directors' payments

—

(69)

Share-based payments

(201) (81)

Other administrative expenses

(18,699)

(17,980)

Administrative expenses

(20,496)

(20,491)

| | | | |
|---|--|--------------|---------|
| Operating profit | | 2,983 | 4,099 |
| Net finance costs | | (39) | (173) |
| Profit before tax | | 2,944 | 3,926 |
| Taxation | | (549) | (1,195) |
| Profit for the financial period | | 2,395 | 2,731 |
| <i>Attributable to:</i> | | | |
| Equity holders of the parent | | 2,395 | 2,731 |
| Earnings per share – (pence per share) | | | |
| Basic earnings per share | | 2.9p | 3.3p |
| Diluted earnings per share | | 2.9p | 3.3p |

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

| | | |
|-------------------------------------|--------------|-------|
| | 2022 | 2021 |
| | £'000 | £'000 |
| Profit for the year | 2,395 | 2,731 |
| Other comprehensive expense: | | ↑ |

| | | |
|---|--------------|-------|
| Items that will be reclassified subsequently to profit or loss: | | |
| Translation differences on foreign operations | (107) | (258) |
| Other comprehensive (expense net of taxation) | (107) | (258) |
| Total comprehensive income for the year | 2,288 | 2,473 |
| <i>Attributable to:</i> | | |
| Equity holders of the parent | 2,288 | 2,473 |

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

| | Share capital | Share premium | Merger reserve | Translation reserve | Other reserve | Retained earnings | |
|--|------------------|------------------|-------------------|------------------------|------------------|----------------------|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| At 1 January 2021 | 825 | 2,182 | 1,002 | (8) | (2) | 17,525 | 2 |
| Dividends | – | – | – | – | – | (493) | |
| Share-based payments | – | – | – | – | 81 | – | |
| Elimination of exercised share- based payments | – | – | – | – | (83) | 83 | |

↑

| | | | | | | | |
|--|-----|-------|-------|-------|-----|--------|---|
| Issue of share capital | 7 | 253 | – | – | – | – | |
| Transactions with owners | 7 | 253 | – | – | (2) | (410) | |
| Profit for the year | – | – | – | – | – | 2,731 | |
| Other comprehensive (expense)/income: | | | | | | | |
| Exchange differences on translation of net investments in foreign operations | – | – | – | (270) | – | 12 | |
| Other | – | (29) | – | (1) | (1) | 32 | |
| Total comprehensive (expense)/income for the year | – | (29) | – | (271) | (1) | 2,775 | |
| At 31 December 2021 | 832 | 2,406 | 1,002 | (279) | (5) | 19,890 | 2 |
| Dividends | – | – | – | – | – | (493) | |
| Share-based payments | – | – | – | – | 201 | – | |
| | | | | | | | |
| Transactions with owners | | | – | – | 201 | (493) | ↑ |

| | | | | | | | |
|--|------------|--------------|--------------|--------------|------------|---------------|----------|
| Profit for the year | – | – | – | – | – | 2,395 | |
| Other comprehensive expense: | | | | | | | |
| Exchange differences on translation of net investments in foreign operations | – | – | – | (107) | – | | – |
| | | | | | | | |
| Total comprehensive income for the year | – | – | – | (107) | – | 2,395 | |
| At 31 December 2022 | 832 | 2,406 | 1,002 | (386) | 196 | 21,792 | 2 |

Consolidated Balance Sheet

At 31 December 2022

| | | 2022 £'000 | 2021 £'000 |
|---------------------------|--|-----------------------------|---------------|
| Non-current assets | | | |
| Goodwill | | 15,337 | 15,593 |
| Other intangible assets | | 6,591 | 6,554 ↑ |

| | | | |
|--|--|----------------|---------|
| Property, plant and equipment | | 745 | 717 |
| Right-of-Use assets | | 1,479 | 1,728 |
| Deferred tax assets | | 51 | 65 |
| Total non-current assets | | 24,203 | 24,657 |
| Current assets | | | |
| Inventories | | 44 | 16 |
| Trade and other receivables | | 4,057 | 4,277 |
| Current tax assets | | 356 | 216 |
| Assets of the disposal group held for sale | | 794 | – |
| Cash and cash equivalents | | 12,137 | 10,055 |
| Total current assets | | 17,388 | 14,564 |
| Total assets | | 41,591 | 39,221 |
| Current liabilities | | | |
| Borrowings | | – | (45) |
| Lease liabilities | | (467) | (471) |
| Trade and other payables | | (1,523) | (1,793) |

↑

| | | | |
|---|--|-----------------|-----------------|
| Provisions | | – | (10) |
| Liabilities of the disposal group held for sale | | | – |
| Accruals and deferred income | | (428) | (9,689) |
| | | (10,305) | |
| Total current liabilities | | (12,723) | (12,008) |
| Non-current liabilities | | | |
| Borrowings | | – | (56) |
| Lease liabilities | | (1,215) | (1,464) |
| Deferred tax liabilities | | (1,785) | (1,806) |
| Non-current provisions | | (26) | (41) |
| Total non-current liabilities | | (3,026) | (3,367) |
| Total liabilities | | (15,749) | (15,375) |
| Net assets | | 25,842 | 23,846 |
| Equity | | | |
| Share capital | | 832 | 832 |
| Share premium | | 2,406 | 2,406 |
| Merger reserve | | 1,002 | 1,002 |
| Translation reserve | | (386) | (279) |

↑

| | | | |
|--|--|---------------|--------|
| Other reserve | | 196 | (5) |
| Retained earnings | | 21,792 | 19,890 |
| Equity attributable to shareholders of the parent | | 25,842 | 23,846 |

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

| | | 2022 £'000 | 2021 £'000 |
|--|--|-----------------------------|---------------|
| Cash flows from operating activities | | | |
| Profit before taxation for the year | | 2,944 | 3,926 |
| Net finance costs | | 39 | 173 |
| Depreciation charge | | 621 | 722 |
| Amortisation and impairment charge | | 1,596 | 2,361 |
| Profit on sale of property, plant and equipment | | (24) | (7) |
| Share-based payments expense | | 201 | 81 |
| Decrease in provisions | | (25) | (115) |
| Cash generated from operations before working capital movements | | 5,352 | 7,141 |

↑

| | | | |
|--|--|----------------|---------|
| Decrease/(increase) in trade and other receivables | | 193 | (366) |
| (Increase)/decrease in inventories and work in progress | | (27) | 7 |
| Increase in trade and other payables and accruals and deferred income | | 755 | 942 |
| Cash generated from operations | | 6,273 | 7,724 |
| Interest paid | | (27) | (124) |
| Net taxation paid | | (719) | (903) |
| Net cash inflow from operating activities | | 5,527 | 6,697 |
| Investing activities | | | |
| Additions of intangible assets | | (1,631) | (1,727) |
| Purchase of property, plant and equipment | | (158) | (279) |
| Proceeds from sale of property, plant, equipment and intangible assets | | 53 | 60 |
| Net cash outflow from investing activities | | (1,736) | (1,946) |
| Financing activities | | | |
| Repayment of bank loans | | (102) | (4,447) |
| Repayments of principal of lease liabilities | | (556) | (650) |
| Equity dividends paid | | (493) | (493) |
| Issue of share capital | | – | 260 |
| Net cash outflow from financing activities | | (1,151) | (5,330) |

| | | | |
|---|--|---------------|--------|
| Net increase/(decrease) in cash and cash equivalents | | 2,640 | (579) |
| Cash and cash equivalents at 1 January | | 10,055 | 10,668 |
| Effects of changes in foreign exchange rates | | (157) | (34) |
| Cash and cash equivalents at 31 December | | 12,538 | 10,055 |
| Cash and cash equivalents comprise: | | | |
| Cash and short-term deposits | | 12,137 | 10,055 |
| Cash held for sale | | 401 | – |
| | | 12,538 | 10,055 |

Extract from Notes to the Consolidated Financial Statements

| | | |
|--|---------------|--------|
| 1. Revenue | | |
| Revenue from continuing operations disclosed in the income statement is analysed as follows: | | |
| | 2022 | 2021 |
| | £'000 | £'000 |
| Licence sales | 3,606 | 5,913 |
| Recurring maintenance, support and subscription revenue | 16,927 | 15,424 |
| Services income | 6,033 | 6,007 |

↑

| | | |
|----------------------|---------------|---------------|
| Total revenue | 26,566 | 27,344 |
|----------------------|---------------|---------------|

| | | | |
|--|--|--|--|
| Revenue is recognised for each category as follows: | | | |
| <ul style="list-style-type: none"> Licence sales – recognised at the point of transfer (delivery) of the licence to a customer. | | | |

- Recurring revenue: SaaS, maintenance, support and subscriptions – as these services are provided over the term of the contract, revenue is recognised over the life of the contract.

- Services – recognised on delivery of the service.

Revenue recorded in the year includes £7.1m (2021: £6.4m) of income that had been deferred in the balance sheet in the previous year because the associated performance obligations were not fully satisfied. Payments are received from certain customers on maintenance or subscription contracts either three months or one year in advance, which leads to the recognition of deferred income in advance of satisfaction of the performance obligation over time.

Geographical, Product and Sales Channel Information

Revenue by geographical area represents continuing operations revenue from external customers based upon the geographical location of the customer.

Revenue by geographical destination is as follows:

| | 2022 | 2021 |
|-------------|---------------|--------------------|
| | £'000 | £'000 |
| UK | 10,263 | 10,446 |
| Scandinavia | 6,388 | 6,550 |
| Germany | 4,449 | 4,911 |
| USA | 1,101 | 1,030 [↑] |

| | | |
|----------------|---------------|--------|
| Rest of Europe | 3,808 | 3,916 |
| Rest of World | 557 | 491 |
| | 26,566 | 27,344 |

| | | |
|--|---------------|--------|
| Revenue by product group represents continuing operations revenue from external customers. | | |
| Revenue by product group is as follows: | | |
| | 2022 | 2021 |
| | £'000 | £'000 |
| <i>Software for:</i> | | |
| Building Lifecycle | 17,248 | 17,650 |
| CAD and Visualisation | 7,432 | 7,997 |
| Other – third party software | 1,886 | 1,697 |
| | 26,566 | 27,344 |

The Group utilises resellers to access certain markets. Revenue by sales channel represents continuing operations revenue from external customers.

| | |
|---|---|
| Revenue by sales channel is as follows: | ↑ |
|---|---|

| | 2022 £'000 | 2021 £'000 |
|----------|-----------------------------|---------------|
| Direct | 25,317 | 26,068 |
| Reseller | 1,249 | 1,276 |
| | 26,566 | 27,344 |

2. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision makers have been identified as the Executive Directors. The Group revenue is derived entirely from the sale of software licences, software maintenance and support and related services.

During the year, the Executive Directors, reviewed the three revenue streams, having previously reviewed these as one. As the costs and profits are not monitored or recorded in the same way, the information is presented as one segment and as such the information is presented in line with management information.

| | 2022 Software £'000 | 2021 Software £'000 |
|---------|--|---------------------------|
| Revenue | 26,566 | 27,344 ↑ |

| | | |
|--|----------------|------------|
| Adjusted EBITDA | 5,200 | 7,251 |
| Amortisation and impairment of purchased intangible assets | (1,097) | (1,786) |
| Depreciation | (621) | (722) |
| Adjusted operating profit | 3,482 | 4,743 |
| Amortisation of acquired intangible assets | (499) | (575) |
| Former Directors' payments | – | (69) |
| Operating profit | 2,983 | 4,099 |
| Net finance cost | (39) | (173) |
| Segment profit before taxation | 2,944 | 3,926 |
| Taxation | (549) | (1,195) |
| Segment profit after taxation | 2,395 | 2,731 |
| Operating profit | 2,983 | 4,099 |
| Amortisation and impairment of intangible assets | 1,596 | 2,361 |
| Depreciation charge | 621 | 722 |
| EBITDA | 5,200 | 7,182 |
| Former Directors' payments | – | 69 |
| Share-based payments | 201 | 81 |
| Adjusted EBITDA | 5,401 | 7,332 ↑ |

Former Directors' payments are upfront costs borne by the Group and are adjusted to reflect their services provided.

Development project costs are expensed as incurred unless they meet the accounting policy requirements for capitalisation.

| | 2022 | 2021 |
|-------------------------------------|-----------------|-----------------|
| | Software | Software |
| | £'000 | £'000 |
| Group assets and liabilities | | |
| Segment assets | 41,591 | 39,221 |
| Total Group assets | 41,591 | 39,221 |
| Segment liabilities | 15,749 | 15,375 |
| Total Group liabilities | 15,749 | 15,375 |

Non-current assets excluding deferred tax by geographical area represent the carrying amount of assets based in the geographical area in which the assets are located. These include assets that were held at the year-end as Held For Sale Assets.

Non-current assets by geographical location are as follows:

| | 2022 | 2021 |
|----------------|---------------|--------|
| | £'000 | £'000 |
| UK | 14,680 | 14,780 |
| Scandinavia | 6,769 | 6,759 |
| Germany | 2,706 | 3,072 |
| USA | 2 | 2 |
| Rest of Europe | 44 | 44 |
| Rest of World | 2 | – |
| | 24,203 | 24,657 |

Information about major customers

Revenues arising from sales to the Group's largest customer were below the reporting threshold of 10 per cent of Group revenue (2021: below 10 per cent reporting threshold).

3. Operating profit

The continuing operations operating profit for the period is stated after charging/(crediting) the following items:

| | 2022 | 2021 |
|---|--------------|----------|
| | £'000 | £'000 |
| Software product development expense | 1,526 | 1,660 |
| Depreciation of property, plant and equipment | 147 | 213 ↑ |

| | | |
|---|--------------|-------|
| Depreciation of right-of-use assets | 474 | 509 |
| Amortisation of acquired intangible assets | 499 | 575 |
| Amortisation of other intangible assets | 1,097 | 1,150 |
| Impairment of other intangible assets | – | 636 |
| Share-based payments | 201 | 81 |
| Employer furlough scheme repayments | – | 135 |
| Profit on disposal of property, plant and equipment | (24) | (7) |
| Foreign exchange (gains)/losses | (206) | 127 |
| <i>Fees payable to the Company's auditor for:</i> | | |
| The audit of the parent company and consolidated financial statements | 134 | 83 |
| <i>Fees payable to the Company's auditor and its associates for other services:</i> | | |
| The audit of the Company's subsidiaries | 119 | 104 |
| Other services | 9 | 8 |
| Former Directors' payments | – | 69 |

4. Employee information

The average number of employees during the period, including Directors, in continuing operations was made up as follows:



| | 2022 Number | 2021 Number |
|---|------------------------|----------------|
| Sales & marketing | 58 | 57 |
| Client services | 86 | 76 |
| Software development | 70 | 69 |
| Management and administration | 41 | 43 |
| | 255 | 245 |
| Staff costs during the period, including Directors, in continuing operations amounted to: | | |
| | 2022 £'000 | 2021 £'000 |
| Wages and salaries | 12,446 | 11,145 |
| Social security | 2,268 | 1,985 |
| Pension costs | 654 | 648 |
| Share-based payments | 201 | 81 |
| | 15,569 | 13,859 |
| Less: Development staff costs capitalised | (1,550) | (1,578) |
| | 14,019 | 12,281 |



| | | |
|--|--------------|--------------------|
| 5. Taxation | | |
| Taxation on profit on ordinary activities | | |
| The tax charge in the income statement from continuing operations is as follows: | | |
| | 2022 | 2021 |
| | £'000 | £'000 |
| <i>Current tax:</i> | | |
| UK corporation tax on profits of the year | 359 | 433 |
| Tax adjustments in respect of previous years | (104) | – |
| | 255 | 433 |
| Foreign tax | 276 | 329 |
| Total current tax | 531 | 762 |
| <i>Deferred tax:</i> | | |
| Origination and reversal of temporary differences | 9 | 8 |
| Change in tax rates | – | 370 |
| Tax adjustments in respect of previous years | 9 | 55 |
| Total deferred tax | 18 | 433 |
| Tax charge in the consolidated income statement | 549 | 1,195 [↑] |

Income tax for the UK has been calculated at the weighted average rate of UK corporation tax of 19 per cent (2021: 19 per cent) on the estimated assessable profit for the period. Taxation for foreign companies is calculated at the rates prevailing in the relevant jurisdictions.

A change to the main UK corporation tax rate was substantively enacted for IFRS purposes. The Finance Bill 2021, substantively enacted the rate from 1 April 2023 to 25 per cent, rather than the previously enacted reduction to 19 per cent. These rates have been applied to determine deferred tax assets and liabilities at the Balance Sheet date.

6. Basic and diluted earnings per share

| 2022 | | | 2021 | | | | |
|----------------------------|------------------------------|------------------|---------|--|------------------------------|------------------|---------|
| | Net profit | Weighted average | | | Net profit | Weighted average | |
| | attributable to shareholders | number of shares | EPS | | attributable to shareholders | number of shares | EPS |
| Ordinary Shares | £'000 | (millions) | (pence) | | £'000 | (millions) | (pence) |
| Basic earnings per share | 2,395 | 82.2 | 2.9 | | 2,731 | 82.0 | 3.3 |
| Diluted earnings per share | 2,395 | 83.0 | 2.9 | | 2,731 | 82.9 | 3.3 |



| | | | | | | | |
|-----------------------------------|-------|------|-----|--|-------|------|-----|
| Adjusted basic earnings per share | 2,799 | 82.2 | 3.4 | | 3,253 | 82.0 | 4.0 |
|-----------------------------------|-------|------|-----|--|-------|------|-----|

In determining the diluted earnings per share the dilutive impact of share options on weighted average number of shares was included.

7. Dividends

Dividends paid in the year were 0.60 pence per ordinary share (2021: 0.60 pence per ordinary share). Cash dividends of £493,000 (2021: £493,000) were paid during the year:

| | 2022 | 2021 | | | |
|--|-----------|-----------|--|-------|-------|
| | pence per | pence per | | 2022 | 2021 |
| Ordinary Shares | share | share | | £'000 | £'000 |
| Declared and paid during the year | | | | | |
| Interim – current year | 0.20 | 0.20 | | 164 | 164 |
| Final – previous year | 0.40 | 0.40 | | 329 | 329 |
| | 0.60 | 0.60 | | 493 | 493 |

The Directors have recommended a final dividend of 0.50 pence (2021: 0.40 pence). The dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. In addition, a special dividend of 0.58 pence per share, representing the proceeds from the disposal of the non-core ARCON business, will be proposed at the AGM as a further resolution (2021: nil special dividend).

8. Post-balance sheet events



On 17 February 2023, the Group sold its wholly owned subsidiary Eleco Software GmbH, the German ARCON architectural CAD business, to FirstInVision GesmbH, an Austrian architectural software business, for a total consideration of €600,000. This is the business that was held for sale at the 31 December 2022 year end.

The transaction supports the Group's strategy to focus on its core customer segments and businesses.

The €600,000 consideration is to be satisfied in cash, with €550,000 immediately payable on completion, and €25,000 in two deferred instalments (without performance conditions attached) over the next two years.

9. Notes:

1. Eleco plc ("the Company") and its subsidiaries (together "the Group") are primarily involved in software sales and development. Eleco plc, a Public Limited Company incorporated and domiciled in England, is the Group's ultimate parent Company. The address of Eleco plc's registered office is Dawson House, 5 Jewry Street, London EC3N 2EX, United Kingdom and the principal place of business is Dawson House, 5 Jewry Street, London EC3N 2EX.

2. Whilst the financial information included in this preliminary results' announcement has been prepared in accordance with the recognition and measurement requirements of UK-adopted International Accounting Standards this announcement does not itself contain sufficient information to comply with UK-adopted International Accounting Standards and does not constitute statutory accounts for the purposes of section 434 of the Companies Act 2006.

The principal accounting policies used in preparing this preliminary results announcement are those that the Company has adopted for its statutory accounts for the year ended 31 December 2022 and are unchanged from those previously disclosed in the Group's Annual Report and Accounts for the year ended 31 December 2021.

Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in due course. The Company's auditors RSM UK LLP, have reported on the 2022 accounts; their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006. The 2021 audit report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006.

Full financial statements for the year ended 31 December 2022 will be posted and made available to shareholders in due course.



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