

# Esker

## Order intake drives upgrades

Q221 revenue update

Software & comp services

Esker's Q2 revenue update confirmed that trading accelerated over the quarter, with revenue 28% higher against a weak comparative, but also 8% higher sequentially. Order intake has been strong so far this year, providing the basis for continued growth, and management has raised revenue guidance for FY21. We have upgraded our FY21 EPS forecast by 3.6%.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	104.2	13.6	1.79	0.33	149.0	0.1
12/20	112.3	14.5	1.95	0.50	136.8	0.2
12/21e	131.6	18.3	2.40	0.55	111.0	0.2
12/22e	154.5	25.5	3.29	0.60	81.0	0.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Strong growth in Q2, both y-o-y and q-o-q

Esker reported Q221 revenue of €33.4m, up 28% y-o-y (32% constant currency (cc)) and 8% q-o-q. H121 revenue was 19% higher y-o-y (22% cc). As a reminder, Q220 was Esker's weakest quarter last year as transaction-based revenue was hit by the pandemic. Cloud solutions grew 37% y-o-y in Q221 compared to 16% growth in Q121, making up 93% of group revenue. Implementation services increased 13% y-o-y, reflecting bookings received earlier this year. The annual recurring revenue (ARR) of contracts signed in Q2 was €3.3m, +92% y-o-y and flat q-o-q. The lifetime value of the subscription element of these bookings was €10.6m.

## Guidance raised again

The strength of SaaS revenue and bookings in Q2 has prompted management to raise revenue growth guidance for FY21 from 16% to 17%; if €/€ rates remain at current levels, this equates to revenue of c €131m. Operating margin guidance is unchanged at 12–15%. We have revised our forecasts to reflect the stronger revenue guidance partially offset by higher sales commission, resulting in a normalised EPS upgrade of 3.6% in FY21. Net cash of €33.6m at the end of H121 provides the resources for investment in organic and inorganic growth.

## Valuation: Reflects growth in recurring revenues

The stock trades at a premium to document processing automation software and French software peers but at a discount to US SaaS peers. Esker has re-rated over the past year (the stock is up 97% over the past 12 months), with its P/E multiple moving more towards the US SaaS software peer group. We believe this is due to the value placed on businesses with high levels of recurring revenue, providing visibility through a period of economic uncertainty. Esker has the added advantage of a strong balance sheet to fund growth. Successful execution of Esker's partner strategy could be a trigger for earnings and share price upside.

16 July 2021

**Price** €266.5

**Market cap** €1,534m

\$1.19/€

Net cash (€m) at end H121 33.6

Shares in issue 5.8m

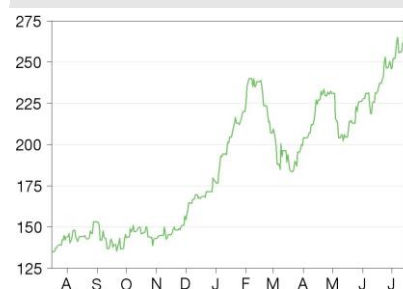
Free float 78%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange OTCQX

### Share price performance



% 1m 3m 12m

Abs 15.4 18.7 97.4

Rel (local) 18.1 14.7 56.2

52-week high/low €270.00 €135.00

### Business description

Esker provides end-to-end SaaS-based document automation solutions supporting order-to-cash and procure-to-pay processes. In FY20, the business generated 56% of revenues from Europe, 38% from the US and the remainder from Asia and Australia.

### Next events

H121 results 14 September 2021

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## Changes to forecasts

We have updated our forecasts to reflect Q221 revenues. The company noted that legacy revenues (€2.3m in Q221) benefited from an unexpected licence sale in the US, resulting in legacy revenue constant currency growth of 21% y-o-y when we would have expected a decline. In June, the company announced that it would pay a dividend of €0.50 for FY20, ahead of our €0.33 forecast. As has been the case for several years, Esker pays an additional 10% to shareholders who have held the stock for more than two years. We have raised our dividend forecasts for FY21 and FY22.

### Exhibit 1: Changes to estimates

€m	FY21e old	FY21e new	change	y-o-y	FY22e old	FY22e new	change	y-o-y
Revenues	128.6	131.6	2.3%	17.2%	151.8	154.5	1.7%	17.4%
EBITDA	25.8	26.5	2.5%	20.7%	34.2	34.2	0.0%	29.1%
EBITDA margin	20.1%	20.1%	0.0%	0.6%	22.5%	22.1%	(0.4%)	2.0%
Normalised EBIT	17.0	17.6	3.8%	25.4%	24.7	24.7	0.0%	40.3%
Normalised EBIT margin	13.2%	13.4%	0.2%	0.9%	16.3%	16.0%	(0.3%)	2.6%
Reported EBIT	16.5	17.2	3.9%	26.2%	24.3	24.3	0.0%	41.3%
Reported EBIT margin	12.9%	13.1%	0.2%	0.9%	16.0%	15.7%	(0.3%)	2.7%
Normalised PBT	17.7	18.3	3.6%	26.6%	25.5	25.5	0.0%	39.4%
Normalised net income	13.8	14.3	3.6%	24.0%	19.9	19.9	0.0%	39.4%
Reported net income	13.4	13.9	3.7%	20.6%	19.6	19.6	0.0%	40.3%
Normalised dil. EPS (€)	2.32	2.40	3.6%	23.3%	3.29	3.29	0.0%	37.0%
Reported basic EPS (€)	2.34	2.43	3.7%	18.8%	3.35	3.35	0.0%	37.9%
Reported diluted EPS (€)	2.26	2.35	3.7%	19.9%	3.23	3.24	0.0%	38.0%
Net cash	37.2	36.5	(1.9%)	21.0%	48.9	47.3	(3.2%)	29.5%
DPS (€)	0.40	0.55	37.5%	10.0%	0.45	0.60	33.3%	9.1%

Source: <Insert Source or Notes>

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	€'000s	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
<b>PROFIT &amp; LOSS</b>								
Revenue		65,990	76,064	86,871	104,188	112,274	131,614	154,498
EBITDA		14,871	16,399	18,279	20,054	21,927	26,477	34,179
Operating Profit (before amort and except)		9,934	10,547	11,955	12,843	14,037	17,602	24,704
Amortisation of acquired intangibles		(200)	(300)	(344)	(425)	(425)	(425)	(425)
Exceptionals and other income		(474)	(456)	(88)	(62)	0	0	0
Other income		0	0	0	0	0	0	0
Operating Profit		9,260	9,791	11,523	12,356	13,612	17,177	24,279
Net Interest		(108)	(110)	(57)	268	(67)	100	100
Profit Before Tax (norm)		9,949	10,669	12,215	13,634	14,462	18,302	25,504
Profit Before Tax (FRS 3)		9,275	9,913	11,783	13,147	14,528	17,877	25,079
Tax		(2,950)	(3,148)	(2,940)	(3,402)	(2,966)	(3,933)	(5,517)
Profit After Tax (norm)		6,785	7,281	9,168	10,106	11,509	14,275	19,893
Profit After Tax (FRS 3)		6,325	6,765	8,843	9,745	11,562	13,944	19,562
Ave. Number of Shares Outstanding (m)		5.3	5.3	5.4	5.4	5.7	5.7	5.8
EPS - normalised (c)		128	138	170	186	203	248	340
EPS - normalised fully diluted (c)		122	132	165	179	195	240	329
EPS - (GAAP) (c)		120	128	164	180	204	243	335
Dividend per share (c)		30	32	41	33	50	55	60
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		22.5	21.6	21.0	19.2	19.5	20.1	22.1
Operating Margin (before GW and except) (%)		15.1	13.9	13.8	12.3	12.5	13.4	16.0
<b>BALANCE SHEET</b>								
Fixed Assets		28,324	37,912	39,635	47,201	48,987	51,587	54,587
Intangible Assets		22,381	26,673	28,096	29,323	30,787	33,287	35,787
Tangible Assets		5,158	7,115	7,050	10,434	10,036	9,536	9,336
Other		785	4,124	4,489	7,444	8,164	8,764	9,464
Current Assets		42,024	42,823	49,016	52,022	72,918	69,327	85,343
Stocks		101	176	147	185	257	257	257
Debtors		19,523	21,253	25,551	30,015	31,440	36,780	43,175
Cash		21,338	20,632	22,794	21,357	40,421	31,491	41,111
Other		1,062	762	524	465	800	800	800
Current Liabilities		(28,299)	(26,206)	(30,072)	(34,300)	(50,150)	(41,983)	(45,928)
Creditors		(28,299)	(26,206)	(30,072)	(34,300)	(38,650)	(41,983)	(45,928)
Short term borrowings		0	0	0	0	(11,500)	0	0
Long Term Liabilities		(7,657)	(14,909)	(10,810)	(8,276)	(6,342)	(3,842)	(2,698)
Long term borrowings		(7,657)	(13,716)	(9,318)	(6,516)	(3,644)	(1,144)	0
Other long term liabilities		0	(1,193)	(1,492)	(1,760)	(2,698)	(2,698)	(2,698)
Net Assets		34,392	39,620	47,769	56,647	65,413	75,089	91,305
<b>CASH FLOW</b>								
Operating Cash Flow		15,944	17,311	18,366	20,290	24,389	24,470	31,728
Net Interest		(127)	(75)	63	352	(30)	100	100
Tax		(1,456)	(2,053)	(2,795)	(3,329)	(884)	(3,933)	(5,517)
Capex		(7,021)	(9,304)	(7,789)	(10,995)	(10,223)	(11,300)	(12,200)
Acquisitions/disposals		(935)	(7,551)	(225)	(486)	(492)	0	0
Financing		467	(345)	785	1,449	48	0	0
Dividends		(1,550)	(1,633)	(1,756)	(2,237)	(1,896)	(2,990)	(3,346)
Net Cash Flow		5,322	(3,650)	6,649	5,044	10,912	6,347	10,765
Opening net debt/(cash)		(8,978)	(13,681)	(10,016)	(16,576)	(21,018)	(30,177)	(36,524)
HP finance leases initiated		(645)	0	0	0	0	0	0
Other		26	(15)	(90)	(602)	(1,753)	0	0
Closing net debt/(cash)		(13,681)	(10,016)	(16,576)	(21,018)	(30,177)	(36,524)	(47,288)

Source: Esker, Edison Investment Research

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