

Esker

FY19 results

Moderating growth expectations for FY20

Esker reported FY19 revenue growth of 20%; higher than expected investment in headcount limited the increase in normalised EBIT to 7% y-o-y. High recurring revenues (80%) and strong order intake in FY19 (+47%) provide good visibility for FY20 and beyond. During the COVID-19 crisis, the business is providing services remotely, and while Q1 transaction volumes have not been materially affected we expect this to change in Q2. Reflecting weaker SaaS volumes and delays in signing new business in Q2, we have reduced our FY20 revenue and EPS forecasts.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	86.9	12.2	1.64	0.41	56.1	0.4
12/19	104.2	13.6	1.76	0.45	52.3	0.5
12/20e	114.8	14.7	1.73	0.50	53.1	0.5
12/21e	132.9	17.9	2.07	0.55	44.4	0.6

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

FY19: Another year of growth and investment

As previously reported, Esker saw 20% revenue growth in FY19 (18% in constant currency), with 21% constant currency growth in SaaS-related revenues and 80% recurring revenues. Higher than expected investment in headcount to support customers and channel partners and drive new business resulted in normalised operating profit and EPS below our forecast. The value of committed contracts increased 47% y-o-y – these contracts will contribute to revenues over the next three years. Net cash at year-end increased 27% y-o-y to €21m.

Reflecting potential COVID-19 impact in FY20

The majority of the business is working remotely with no disruption to service. Volumes processed by the platform had not been affected by COVID-19 restrictions as at the reporting date, but we expect there could be some weakness over the coming quarter or two. Esker may see some delay in winning new business and consulting work over the next two quarters but continues to expect double-digit revenue growth in FY20. We have revised our forecasts to reflect slower revenue growth in FY20, although we still expect growth of 10%. We have cut FY20 revenue by 4.5% and EPS by 21.4%. We forecast revenue growth of 15.8% and EPS growth of 19.7% in FY21.

Valuation: Recurring revenues limit downside

The stock is down 19% from its peak in February. While it continues to trade at a premium to document automation software and French software peers on EV/sales and P/E multiples, it is trading more in line with US SaaS software companies, which likewise have high recurring revenues, high growth and web-based delivery.

Software & comp services

31 March 2020

Price €92.0

Market cap €516m

\$1.10/£

Net cash (€m) at end FY19 21.0

Shares in issue 5.6m

Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(10.7)	0.0	34.9
Rel (local)	10.0	37.5	66.5
52-week high/low		€114.0	€68.5

Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. In FY19, the business generated 57% of revenues from Europe, 38% from the US and the remainder from Asia and Australia.

Next events

Q1 revenue update 14 April 2020

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Review of FY19 results

Exhibit 1: FY19 results highlights					
€m	FY18	FY19e	FY19	diff	y-o-y
Revenues	86.9	104.2	104.2	0.0%	19.9%
EBITDA	18.2	22.2	20.0	(9.7%)	9.7%
EBITDA margin	21.0%	21.3%	19.2%	(2.1%)	(1.8%)
Normalised EBIT	11.9	14.9	12.8	(14.6%)	7.1%
Normalised EBIT margin	13.7%	14.3%	12.3%	(2.1%)	(1.5%)
Reported EBIT	11.5	14.7	12.4	(16.2%)	7.6%
Reported EBIT margin	13.2%	14.2%	11.9%	(2.3%)	(1.4%)
Normalised PBT	12.2	15.6	13.6	(13.4%)	11.3%
Normalised net income	9.1	10.8	10.0	(7.0%)	10.1%
Normalised diluted EPS (€)	1.64	1.89	1.76	(6.7%)	7.3%
Reported basic EPS (€)	1.64	1.92	1.80	(6.3%)	9.8%
Reported diluted EPS (€)	1.59	1.86	1.72	(7.6%)	8.2%
Net cash	16.6	21.4	21.0	(1.5%)	26.9%
DPS (€)	0.41	0.45	0.45	0.0%	9.8%

Source: Esker accounts, Edison Investment Research

Esker reported a revenue update for FY19 in January, at which point we had upgraded our forecasts to reflect stronger than expected revenue growth. Revenues grew 20% on a reported basis and 18% on a constant currency basis. Recurring revenues made up 80% of the total. SaaS revenues and related consulting activities totalled €94m, +21% y-o-y and making up 90% of revenues compared to 87% in FY18. On a constant currency basis, SaaS revenues grew 23% whereas consulting revenues only grew 11%. New hires were still being trained up to undertake implementation services and other consultants were involved in training channel partners.

The company hired at a faster rate than we had forecast, with 681 heads at year-end compared to our forecast for headcount of 663. Average headcount for the year of 642 was 3.2% ahead of our forecast. Staff costs before capitalisation of development costs totalled €60.0m compared to our €58.8m forecast and other operating costs were €1.0m higher than forecast. The company noted that it saw a couple of one-off expenses (€0.25m increase in the pension reserve due to a lower cost of capital and €0.4m increase in bad debt provisions for accounts in France and Italy) although we have not treated these as exceptional. The combination of higher operating costs resulted in EBITDA and EBIT below our forecasts. Esker achieved a normalised EBIT margin of 12.3% and a reported EBIT margin of 11.9%.

The company reported a €0.5m contribution from the joint venture with Quadient (previously called Neopost), 65% higher year-on-year. The company incurred tax at a rate of 26% on reported PBT, lower than our forecast 31% rate. Overall, this resulted in normalised diluted EPS 6.7% below our forecast, and 7.3% higher than a year ago.

Net cash at year-end increased to €21.0m – this includes cash of €6.2m invested for more than one year that is reported within fixed assets.

Order intake provides revenue visibility

The committed value of contracts signed totalled €27.2m in FY19, 47% higher than in FY18. The committed value includes only the fixed monthly subscription fee; on top of this Esker will earn variable transaction fees depending on the volume of documents processed. Typically, the full value of a three-year contract will be double that of the committed value. Esker charges acquisition costs (mainly sales and marketing) to the income statement when the contract is signed/renewed rather than recognising them over the life of the contract.

By geography, bookings in the Americas grew by 75%, Asia-Pacific by 59%, Europe by 47% and France by 13%.

Investing in customer and channel partner support

Overall headcount increased 18% y-o-y. In FY19, the company expanded its customer experience team, investing an additional €1m by increasing the size of the team by 28%. This team is focused on the existing customer base to ensure effective retention and upselling. Other significant increases in headcount were seen for consulting (+23%) and sales and marketing (+20%). As the company is keen to attract channel partners, particularly to undertake implementation of contracts, part of the increase in consulting headcount was to train and support channel partners. The most promising partners currently are KPMG Netherlands, Cegid in France and Fuji Xerox in Asia-Pacific. In fact, the company recently announced that in addition to reselling accounts payable solutions, Fuji Xerox was extending its partnership to reselling accounts receivable solutions.

Outlook and changes to forecasts

Managing through the COVID-19 crisis

From a supply perspective, Esker has enacted its business continuity plans, with the majority of its staff working from home. In the case of staff required to run its mail facilities, it is undertaking all necessary safety precautions.

From a demand perspective, the company has not seen any reduction in volumes processed through its platform. This may seem counterintuitive considering the general disruptions to the global supply chain. However, the company noted that it has a number of customers in the food manufacturing and pharmaceutical industries, and those customers are seeing an increase in business and hence invoices that need processing. It is also worth noting that because Esker's software is cloud-based, end customer staff are able to use the software while working from home.

However, as the number of countries instituting lockdowns grows by the day, it is likely that volumes will be negatively affected for Q2 at least. The company noted that it may prove difficult to sign up new business over the next quarter or two, as customers focus on their own issues and as face-to-face meetings will not be possible while restrictions are in place. This would reduce consulting revenues for those projects and new SaaS revenues a quarter or two after signing up, depending on the length of the implementation process.

Company guidance still positive

Despite coronavirus, the company expects double-digit revenue growth and to grow profit in FY20 (in January it had said it expected to grow revenues to at least €120m in FY20, equating to growth of at least 15%). It is targeting operating profitability of 13–15%. With 80% recurring revenue and a €21m net cash balance, we believe the company is well-positioned to manage its way through COVID-19 related disruption.

Forecast changes

We have revised our forecasts to reflect higher headcount at the start of the year, lower new business in Q2 and Q3 and lower SaaS volumes in Q2. We note that we are not forecasting reported operating margins at the level the company is aiming for. Our forecasts assume that the company continues hiring through the course of FY20, albeit it a slower pace than in FY19 (FY20e headcount +10%, FY19: +18%). If it decides in the current environment to slow the pace of hiring, this should have a positive effect on operating profitability for FY20 and FY21, although this could have a longer-term impact on revenue growth.

Exhibit 2: Changes to forecasts

€m	FY20e old	FY20e new	change	y-o-y	FY21e new	y-o-y
Revenues	120.1	114.8	(4.5%)	10.2%	132.9	15.8%
EBITDA	26.0	22.0	(15.5%)	9.8%	25.9	17.8%
EBITDA margin	21.6%	19.1%	(2.5%)	(0.1%)	19.5%	0.3%
Normalised EBIT	18.0	14.0	(22.3%)	9.8%	17.2	22.9%
Normalised EBIT margin	15.0%	12.2%	(2.8%)	(0.0%)	13.0%	0.7%
Reported EBIT	17.7	13.7	(22.7%)	10.7%	16.9	23.4%
Reported EBIT margin	14.7%	11.9%	(2.8%)	0.1%	12.7%	0.8%
Normalised PBT	18.7	14.7	(21.5%)	8.6%	17.9	21.8%
Normalised net income	12.9	10.2	(21.5%)	1.1%	12.4	21.8%
Normalised diluted EPS (€)	2.20	1.73	(21.4%)	(1.5%)	2.07	19.7%
Reported basic EPS (€)	2.24	1.75	(21.8%)	(2.7%)	2.10	20.2%
Reported diluted EPS (€)	2.16	1.69	(21.8%)	(1.6%)	2.03	20.2%
Net cash	27.8	26.1	(6.1%)	24.1%	31.9	22.0%
DPS (€)	0.50	0.50	0.0%	11.1%	0.55	10.0%

Source: Edison Investment Research

Valuation

Exhibit 3 below shows Esker's comparative valuation vs its main peers.

Exhibit 3: Peer group valuation metrics

Company	Share price	Market Cap m	Rev growth		EBIT margin		EBITDA margin		EV/Sales		P/E	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Esker	€ 92.0	€ 516	10.2%	15.8%	12.2%	13.0%	19.1%	19.5%	4.3	3.7	53.1	44.4
Software companies with DPA software offerings												
Basware	€ 18.60	€ 265	6.1%	10.3%	0.3%	5.5%	10.4%	14.3%	2.0	1.8	-27.1	-137.5
Bottomline	\$35.05	€ 1,542	6.5%	9.9%	17.0%	17.9%	22.4%	23.2%	3.4	3.1	26.2	22.5
Coupa	\$146.47	€ 9,495	25.3%	25.6%	5.0%	7.8%	8.3%	13.2%	19.4	15.5	440.9	243.6
ITESoft	€ 2.26	€ 14	0.0%	0.0%	2.5%	4.7%	8.1%	10.2%	0.6	0.6	45.2	7.1
OpenText	\$45.95	€ 12,442	9.7%	9.3%	33.9%	35.1%	36.7%	38.3%	3.7	3.4	11.5	10.0
Proactis	£0.17	€ 16	-6.7%	8.3%	6.9%	7.5%	24.0%	23.4%	1.2	1.1	8.3	6.1
Tungsten Corp	£0.26	€ 32	2.9%	4.6%	-5.4%	1.0%	7.3%	13.1%	1.0	1.0	-15.1	85.8
Average*			6.3%	9.7%	8.6%	11.4%	16.7%	19.4%	4.5	3.8	22.8	11.4
Median			6.1%	9.3%	5.0%	7.5%	10.4%	14.3%	2.0	1.8	11.5	10.0
French small-cap software companies												
Axway Software	€ 15.00	€ 309	2.1%	3.5%	8.9%	12.6%	10.9%	14.4%	1.2	1.1	17.2	11.8
Claranova	€ 4.59	€ 179	63.6%	17.7%	5.9%	7.4%	6.4%	8.0%	0.4	0.3	18.1	9.9
ESI Group	€ 28.50	€ 168	47.1%	5.1%	6.4%	7.7%	11.0%	12.0%	1.5	1.4	29.3	20.7
Lectra	€ 13.96	€ 444	-5.0%	9.5%	10.1%	13.5%	15.2%	18.2%	1.3	1.2	14.8	14.3
Linedata Service	€ 19.70	€ 129	-1.0%	4.2%	16.0%	16.1%	25.6%	24.7%	1.2	1.2	7.7	6.5
Sidetrade	€ 56.20	€ 79	6.6%	17.1%	5.1%	1.3%	8.2%	4.7%	2.9	2.5		
Average			18.9%	9.5%	8.7%	9.8%	12.9%	13.7%	1.4	1.3	17.4	12.6
Median			4.4%	7.3%	7.7%	10.1%	10.9%	13.2%	1.3	1.2	17.2	11.8
US SaaS software companies												
Average			23.9%	21.5%	6.0%	8.8%	11.9%	14.5%	10.3	8.2	116.5	81.5
Median			23.8%	22.2%	6.6%	8.5%	12.9%	13.3%	8.3	7.1	51.1	45.8

Source: Edison Investment Research, Refinitiv (30 March). Note: *Average P/E excludes Basware, Coupa and Tungsten.

Exhibit 4: Financial summary

	€'000s	2014	2015	2016	2017	2018	2019	2020e	2021e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
PROFIT & LOSS									
Revenue		46,061	58,457	65,990	76,064	86,871	104,174	114,759	132,944
EBITDA		8,979	13,405	14,871	16,399	18,237	20,011	21,974	25,878
Operating Profit (before amort and except)		5,700	9,257	9,934	10,547	11,913	12,762	14,018	17,222
Amortisation of acquired intangibles		0	(302)	(200)	(300)	(344)	(344)	(344)	(344)
Exceptionals and other income		53	(245)	(474)	(456)	(88)	(62)	0	0
Other income		0	0	0	0	0	0	0	0
Operating Profit		5,753	8,710	9,260	9,791	11,481	12,356	13,674	16,878
Net Interest		220	(6)	(108)	(110)	(57)	268	100	100
Profit Before Tax (norm)		5,920	9,312	9,949	10,669	12,173	13,553	14,718	17,922
Profit Before Tax (FRS 3)		5,973	8,765	9,275	9,913	11,741	13,147	14,374	17,578
Tax		(1,323)	(2,292)	(2,950)	(3,148)	(2,940)	(3,402)	(4,456)	(5,449)
Profit After Tax (norm)		4,609	6,877	6,785	7,281	9,125	10,046	10,156	12,366
Profit After Tax (FRS 3)		4,650	6,473	6,325	6,765	8,801	9,745	9,918	12,129
Average number of shares outstanding (m)		4.8	5.0	5.3	5.3	5.4	5.5	5.7	5.8
EPS - normalised (c)		97	138	128	138	169	182	179	215
EPS - normalised fully diluted (c)		90	131	122	132	164	176	173	207
EPS - (GAAP) (c)		97	130	120	128	164	180	175	210
Dividend per share (c)		24	30	30	32	41	45	50	55
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		19.5	22.9	22.5	21.6	21.0	19.2	19.1	19.5
Operating Margin (before GW and except) (%)		12.4	15.8	15.1	13.9	13.7	12.3	12.2	13.0
BALANCE SHEET									
Fixed Assets		12,552	25,184	28,324	37,912	39,635	47,201	48,601	49,501
Intangible Assets		7,709	19,603	22,381	26,673	28,096	29,323	30,823	32,023
Tangible Assets		4,470	4,985	5,158	7,115	7,050	10,434	10,334	10,034
Other		373	596	785	4,124	4,489	7,444	7,444	7,444
Current Assets		33,894	36,110	42,024	42,823	49,016	52,022	62,855	71,193
Stocks		93	161	101	176	147	185	185	185
Debtors		15,110	18,073	19,523	21,253	25,551	30,015	32,070	37,151
Cash		17,559	16,295	21,338	20,632	22,794	21,357	30,135	33,392
Other		1,132	1,581	1,062	762	524	465	465	465
Current Liabilities		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(34,300)	(36,168)	(39,376)
Creditors		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(34,300)	(36,168)	(39,376)
Short term borrowings		0	0	0	0	0	0	0	0
Long Term Liabilities		(5,113)	(7,317)	(7,657)	(14,909)	(10,810)	(8,276)	(5,776)	(3,276)
Long term borrowings		(5,113)	(7,317)	(7,657)	(13,716)	(9,318)	(6,516)	(4,016)	(1,516)
Other long term liabilities		0	0	0	(1,193)	(1,492)	(1,760)	(1,760)	(1,760)
Net Assets		21,506	29,188	34,392	39,620	47,769	56,647	69,512	78,042
CASH FLOW									
Operating Cash Flow		9,245	14,418	15,944	17,311	18,324	20,290	21,787	24,005
Net Interest		310	(27)	(127)	(75)	63	352	100	100
Tax		(1,075)	(1,165)	(1,456)	(2,053)	(2,795)	(3,329)	(4,456)	(5,449)
Capex		(4,028)	(3,909)	(7,021)	(9,304)	(7,789)	(10,958)	(9,700)	(9,900)
Acquisitions/disposals		22	(11,700)	(935)	(7,551)	(225)	(523)	0	0
Financing		(694)	1,324	467	(345)	785	1,449	0	0
Dividends		(877)	(1,208)	(1,550)	(1,633)	(1,756)	(2,237)	(2,653)	(2,999)
Net Cash Flow		2,903	(2,267)	5,322	(3,650)	6,607	5,044	5,078	5,757
Opening net debt/(cash)		(11,961)	(12,446)	(8,978)	(13,681)	(10,016)	(16,576)	(21,041)	(26,119)
HP finance leases initiated		(2,293)	(1,090)	(645)	0	0	0	0	0
Other		(125)	(111)	26	(15)	(48)	(579)	(0)	0
Closing net debt/(cash)		(12,446)	(8,978)	(13,681)	(10,016)	(16,576)	(21,041)	(26,119)	(31,876)

Source: Esker accounts, Edison Investment Research

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