

Esker

H1 revenue update

Proving resilient despite COVID-19 pressures

Software & comp services

Esker's Q2 revenue update confirmed that transaction-based SaaS revenues were hit by lower levels of customer activity in April and May but from June have started to rebound. The company continued to win new business, launch new functionality and expand its channel partnerships during H1. With the FY20 outlook maintained, we leave our revenue and EPS forecasts unchanged. The strong balance sheet, continued positive new business momentum and high level of recurring revenues make this an attractive stock to be invested in during the pandemic.

| Year end | Revenue (€m) | PBT* (€m) | Diluted EPS* (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|-----------|------------------|---------|---------|-----------|
| 12/18 | 86.9 | 12.2 | 1.64 | 0.41 | 82.8 | 0.3 |
| 12/19 | 104.2 | 13.6 | 1.76 | 0.33 | 77.2 | 0.2 |
| 12/20e | 114.8 | 14.7 | 1.73 | 0.35 | 78.4 | 0.3 |
| 12/21e | 132.9 | 17.9 | 2.07 | 0.40 | 65.5 | 0.3 |

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

Q2 weaker as expected but June up on April/May

Esker reported Q220 revenues of €26.1m, flat year-on-year, with H120 revenues up 8% (or 7% constant currency (cc)). Q220 SaaS-based revenues (92% of the total) grew 3% (2% cc), while licence-based and legacy products declined 26% y-o-y. The company noted that the usage-based revenue component of its SaaS contracts (45% of total revenues) saw a 24% y-o-y decline in April and May, with harder hit areas (France, Spain, Italy, UK, Asia) down 30% and less affected areas (Australia, the US, Germany) down 12–16%. In June, these revenues have rebounded, with overall SaaS revenues up 12%. The company has not reduced working hours or furloughed any staff and ended Q2 with net cash of €22.9m. Gross cash of €38.3m includes a government-guaranteed €11.5m loan.

FY20 outlook maintained

Although transaction-related revenues declined during Q2, SaaS-related consulting revenues were 11% higher year-on-year and Esker continued to sign new contracts (the value of contracts signed in H1 was up 3% y-o-y to €12.1m). Management continues to expect organic revenue growth of c 10% for FY20 and profitability in line with FY19. We note that Esker had a busy H1 expanding its partnership channel and launching new product features. We maintain our underlying forecasts although we revise our model for the recently announced FY19 dividend (€0.33 per share) and reduce our dividend forecasts.

Valuation: Resilience attracts a premium

The stock has rebounded 66% from the low of €82 in mid-March, ahead of the 33% growth in the Euronext Growth index over the same period and is currently trading at an all-time high. While the stock 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.

20 July 2020

Price **€135.8**

Market cap **€774m**

\$1.14/€

Net cash (€m) at end H120 22.9

Shares in issue 5.7m

Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 14.9 37.2 59.6

Rel (local) 13.3 21.6 75.6

52-week high/low €135.80 €76.70

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

H120 results 10 September

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Changes to estimates

As Esker has maintained its outlook for FY20, we make no changes to underlying forecasts. On 19 June, the company announced a dividend for FY19 of €0.33 per share and a 10% bonus for those shareholders who have held the shares for at least two years (ie €0.363 per share). We have revised our model to reflect the cash payment for this. We have also reduced our dividend forecasts for FY20 and FY21.

| Exhibit 1: Changes to estimates | | | | | | | | |
|---------------------------------|-----------|-----------|---------|--------|-----------|-----------|---------|-------|
| €m | FY20e old | FY20e new | change | y-o-y | FY21e old | FY21e new | change | y-o-y |
| Revenues | 114.8 | 114.8 | 0.0% | 10.2% | 132.9 | 132.9 | (0.0%) | 15.8% |
| EBITDA | 22.0 | 22.0 | 0.0% | 9.8% | 25.9 | 25.9 | (0.0%) | 17.7% |
| EBITDA margin | 19.1% | 19.2% | 0.0% | (0.1%) | 19.5% | 19.5% | (0.0%) | 0.3% |
| Normalised EBIT | 14.0 | 14.0 | 0.0% | 9.9% | 17.2 | 17.2 | (0.0%) | 22.8% |
| Normalised EBIT margin | 12.2% | 12.2% | 0.0% | (0.0%) | 13.0% | 12.9% | (0.0%) | 0.7% |
| Reported EBIT | 13.7 | 13.7 | 0.0% | 10.7% | 16.9 | 16.9 | (0.0%) | 23.3% |
| Reported EBIT margin | 11.9% | 11.9% | 0.0% | 0.1% | 12.7% | 12.7% | (0.0%) | 0.8% |
| Normalised PBT | 14.7 | 14.7 | 0.0% | 8.6% | 17.9 | 17.9 | (0.0%) | 21.7% |
| Normalised net income | 10.2 | 10.2 | 0.0% | 1.1% | 12.4 | 12.4 | (0.0%) | 21.7% |
| Normalised diluted EPS (€) | 1.73 | 1.73 | 0.0% | (1.5%) | 2.07 | 2.07 | (0.0%) | 19.6% |
| Reported basic EPS (€) | 1.75 | 1.75 | 0.0% | (2.6%) | 2.10 | 2.10 | (0.0%) | 20.1% |
| Reported diluted EPS (€) | 1.69 | 1.69 | 0.0% | (1.6%) | 2.03 | 2.03 | (0.0%) | 20.1% |
| Net cash | 26.1 | 26.8 | 2.7% | 27.5% | 31.9 | 33.5 | 5.0% | 24.8% |
| DPS (€) | 0.50 | 0.35 | (30.0%) | 6.1% | 0.55 | 0.40 | (27.3%) | 14.3% |

Source: Edison Investment Research

Exhibit 2: Financial summary

| | €'000s | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e |
|---|--------|-------------|-------------|-------------|-------------|-------------|-------------|
| Year end 31 December | | French GAAP | French GAAP | French GAAP | French GAAP | French GAAP | French GAAP |
| PROFIT & LOSS | | | | | | | |
| Revenue | | 65,990 | 76,064 | 86,871 | 104,174 | 114,765 | 132,936 |
| EBITDA | | 14,871 | 16,399 | 18,237 | 20,011 | 21,980 | 25,871 |
| Operating Profit (before amort and except) | | 9,934 | 10,547 | 11,913 | 12,762 | 14,024 | 17,215 |
| Amortisation of acquired intangibles | | (200) | (300) | (344) | (344) | (344) | (344) |
| Exceptionals and other income | | (474) | (456) | (88) | (62) | 0 | 0 |
| Other income | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Profit | | 9,260 | 9,791 | 11,481 | 12,356 | 13,680 | 16,871 |
| Net Interest | | (108) | (110) | (57) | 268 | 100 | 100 |
| Profit Before Tax (norm) | | 9,949 | 10,669 | 12,173 | 13,553 | 14,724 | 17,915 |
| Profit Before Tax (FRS 3) | | 9,275 | 9,913 | 11,741 | 13,147 | 14,380 | 17,571 |
| Tax | | (2,950) | (3,148) | (2,940) | (3,402) | (4,458) | (5,447) |
| Profit After Tax (norm) | | 6,785 | 7,281 | 9,125 | 10,046 | 10,159 | 12,361 |
| Profit After Tax (FRS 3) | | 6,325 | 6,765 | 8,801 | 9,745 | 9,922 | 12,124 |
| Ave. Number of Shares Outstanding (m) | | 5.3 | 5.3 | 5.4 | 5.5 | 5.7 | 5.8 |
| EPS - normalised (c) | | 128 | 138 | 169 | 182 | 179 | 215 |
| EPS - normalised fully diluted (c) | | 122 | 132 | 164 | 176 | 173 | 207 |
| EPS - (GAAP) (c) | | 120 | 128 | 164 | 180 | 175 | 210 |
| Dividend per share (c) | | 30 | 32 | 41 | 33 | 35 | 40 |
| Gross margin (%) | | N/A | N/A | N/A | N/A | N/A | N/A |
| EBITDA Margin (%) | | 22.5 | 21.6 | 21.0 | 19.2 | 19.2 | 19.5 |
| Operating Margin (before GW and except) (%) | | 15.1 | 13.9 | 13.7 | 12.3 | 12.2 | 12.9 |
| BALANCE SHEET | | | | | | | |
| Fixed Assets | | 28,324 | 37,912 | 39,635 | 47,201 | 48,601 | 49,501 |
| Intangible Assets | | 22,381 | 26,673 | 28,096 | 29,323 | 30,823 | 32,023 |
| Tangible Assets | | 5,158 | 7,115 | 7,050 | 10,434 | 10,334 | 10,034 |
| Other | | 785 | 4,124 | 4,489 | 7,444 | 7,444 | 7,444 |
| Current Assets | | 42,024 | 42,823 | 49,016 | 52,022 | 63,567 | 72,797 |
| Stocks | | 101 | 176 | 147 | 185 | 185 | 185 |
| Debtors | | 19,523 | 21,253 | 25,551 | 30,015 | 32,071 | 37,149 |
| Cash | | 21,338 | 20,632 | 22,794 | 21,357 | 30,846 | 34,998 |
| Other | | 1,062 | 762 | 524 | 465 | 465 | 465 |
| Current Liabilities | | (28,299) | (26,206) | (30,072) | (34,300) | (36,169) | (39,375) |
| Creditors | | (28,299) | (26,206) | (30,072) | (34,300) | (36,169) | (39,375) |
| Short term borrowings | | 0 | 0 | 0 | 0 | 0 | 0 |
| Long Term Liabilities | | (7,657) | (14,909) | (10,810) | (8,276) | (5,776) | (3,276) |
| Long term borrowings | | (7,657) | (13,716) | (9,318) | (6,516) | (4,016) | (1,516) |
| Other long term liabilities | | 0 | (1,193) | (1,492) | (1,760) | (1,760) | (1,760) |
| Net Assets | | 34,392 | 39,620 | 47,769 | 56,647 | 70,223 | 79,647 |
| CASH FLOW | | | | | | | |
| Operating Cash Flow | | 15,944 | 17,311 | 18,324 | 20,290 | 21,792 | 23,999 |
| Net Interest | | (127) | (75) | 63 | 352 | 100 | 100 |
| Tax | | (1,456) | (2,053) | (2,795) | (3,329) | (4,458) | (5,447) |
| Capex | | (7,021) | (9,304) | (7,789) | (10,958) | (9,700) | (9,900) |
| Acquisitions/disposals | | (935) | (7,551) | (225) | (523) | 0 | 0 |
| Financing | | 467 | (345) | 785 | 1,449 | 0 | 0 |
| Dividends | | (1,550) | (1,633) | (1,756) | (2,237) | (1,946) | (2,099) |
| Net Cash Flow | | 5,322 | (3,650) | 6,607 | 5,044 | 5,789 | 6,653 |
| Opening net debt/(cash) | | (8,978) | (13,681) | (10,016) | (16,576) | (21,041) | (26,830) |
| HP finance leases initiated | | (645) | 0 | 0 | 0 | 0 | 0 |
| Other | | 26 | (15) | (48) | (579) | 0 | 0 |
| Closing net debt/(cash) | | (13,681) | (10,016) | (16,576) | (21,041) | (26,830) | (33,482) |

Source: Esker accounts, Edison Investment Research

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