

## Exasol

Software

18 May 2021

### All systems go

FY20 was a year of groundwork for Exasol, with the IPO and a later fund raise injecting resources into a previously cash-strapped business. From H220, Exasol started to invest those funds into the business, boosting the sales and marketing function and strengthening the R&D team. Considering the minimum six-month sales cycle, FY20 reported revenue growth of 9% saw little benefit from this investment. FY21 should see an acceleration in growth as sales and marketing initiatives start to have an impact and new product launches later this year should provide further support in FY22.

### FY20: Raising funds for growth

Exasol raised gross proceeds of nearly €92m in FY20, giving it the means to accelerate its growth in the fast-moving data analytics market. In FY20, the company grew revenue 9% y-o-y and increased the proportion of recurring revenue to 81% versus 70% in FY19. Year-end annual recurring revenue (ARR) of €24.1m was 37% higher y-o-y. The adjusted EBITDA loss widened from €1.9m to €7.4m reflecting the company's investment in headcount, marketing and IT in H220. Year-end net cash stood at €69.4m.

### FY21: Accelerating sales and marketing activity, launching new products

Exasol is focused on accelerating the pace of new and upsell business and is hiring additional resources to support this. It is targeting ARR of at least €35m for FY21 (+45% y-o-y) and had reached €25.3m by the end of Q121. Exasol is planning to launch a cloud-native SaaS version of its technology later this year, which should increase its addressable market, and is planning an automated data warehouse solution based on technology from the recent yotilla acquisition.

### Valuation: ARR is the key driver

Post results, consensus forecasts were reduced, although net cash forecasts still show more than sufficient resources to fund company growth. Exasol has consistently traded above its €9.5 IPO listing price but is currently trading below the €19.5 level of the December fundraise. In our view, evidence of accelerating growth in ARR will be the key driver of share price performance. On an EV/sales basis, the company trades at a premium to the average for German software peers, although it is more in line with high-growth peers. Compared to US SaaS software peers, it is trading at a discount despite faster growth prospects.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	21.6	(13.9)	(1.33)	0.0	N/A	N/A
12/20	23.6	(34.3)	(1.67)	0.0	N/A	N/A
12/21e	35.0	(18.6)	(0.53)	0.0	N/A	N/A
12/22e	51.6	(20.7)	(0.59)	0.0	N/A	N/A

Source: Refinitiv

Price €18.85  
Market cap €461m

#### Share price graph



#### Share details

Code EXL  
Listing Deutsche Börse Scale  
Shares in issue 24.4m  
Net cash at 31 December 2020 €69.4m

#### Business description

Exasol is an analytics database software developer with more than 195 customers in 30 countries. Its headquarters are in Nuremberg, Germany, and it has offices in the UK and the US.

#### Bull

- Industry-leading product.
- High customer retention.
- Large and growing addressable market.

#### Bear

- Small compared to competitors.
- Loss-making.
- Share overhang.

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## Review of FY20 results

### Exhibit 1: FY20 results highlights

€m	FY19	FY20	y-o-y
Revenue	21.6	23.6	9%
Cost of materials	(2.4)	(3.2)	34%
Capitalised development costs	1.8	1.9	5%
Staff costs	(24.3)	(37.3)	53%
Other operating costs (net of other operating income)	(7.7)	(15.0)	95%
EBITDA	(11.0)	(29.9)	173%
D&A	(2.2)	(4.2)	89%
EBIT	(13.2)	(34.1)	159%
Net loss	(14.0)	(34.3)	146%
Net cash/(debt)	(1.6)	69.4	N/A

Source: Exasol

Exasol reported a 9% increase in revenue in FY20. On a reported basis, staff costs increased 53% y-o-y. Once one-off costs relating to share awards and stock appreciation rights (SARs) are excluded, underlying staff costs of €20.5m increased 25% y-o-y, reflecting the increase in headcount of 68 over H220. Other operating expenses increased 95% y-o-y; once one-off costs relating to the May 2020 IPO and December 2020 fundraise are excluded, underlying other operating costs increased 43% y-o-y, reflecting the increased investment in marketing and IT. Depreciation and amortisation in FY20 included €1.7m of catch-up amortisation that should have been charged in 2006-2016. The company raised gross proceeds of €48.5m from the IPO (5.1m shares at €9.50/share) and a further €43.3m in December (2.2m shares at €19.5/share), resulting in net cash of €69.4m at year-end.

Exhibit 2 shows the reconciliation between reported and adjusted EBITDA and net income.

### Exhibit 2: Adjusted results

€m	FY19	FY20
EBITDA	(11.0)	(29.9)
Provision for SARs and stock awards	7.9	16.8
Costs related to fund raises	1.2	5.7
<b>Adjusted EBITDA</b>	<b>(1.9)</b>	<b>(7.4)</b>
Net income	(14.0)	(34.3)
Adjustments	9.8	22.5
<b>Adjusted net income</b>	<b>(4.2)</b>	<b>(11.8)</b>

Source: Exasol

Exhibit 3 below shows key metrics for the company in terms of ARR, churn and net revenue retention. ARR at year-end increased 37% y-o-y, and compared to the €20.8m at the end of H120, increased 16% h-o-h. In FY20, recurring revenue totalled €19.0m, up 26% y-o-y and making up 80.5% of revenue (FY19 69.9%). The company now only sells its software on a subscription basis, but in FY20 it signed several one-off licences totalling €3.0m.

In terms of customer numbers, the company saw 7.4% churn (33 new customers, 13 departing customers). However, a number of terminating customers were smaller businesses affected by COVID-19, meaning the revenue impact was not as strong as evidenced by the MRR churn of 5.1%. Overall, net revenue retention of 113% was higher than the 109% achieved in FY19.

### Exhibit 3: Key performance metrics

	FY19	FY20	y-o-y
ARR (€m)	17.6	24.1	37%
Reported recurring revenue (€m)	15.1	19.0	26%
Churn - customer numbers	4.0%	7.4%	
Churn - monthly recurring revenue (MRR)	8.7%	5.1%	
Customers	175	195	11%
Net revenue retention (NRR)	109%	113%	

Source: Exasol

## Business update

The company is planning to launch a new cloud-native SaaS solution in H221; this is already in beta with several customers. It will first be made available on Amazon Web Services later this year and on Google Cloud Platform in FY22. The cloud-native solution will allow customers to separate the data storage and data compute elements, providing a more cost-effective solution for those customers that want to use Exasol's analytics technology on an ad-hoc basis or who want to analyse smaller amounts of data. Exasol will also be able to offer its Exacloud-managed services offering via the public cloud.

Exasol acquired a small business, yotilla, in H220. Using yotilla's technology, the company is developing a data warehouse automation solution. This is designed to allow business units within enterprises to create their own customised data warehouses on an ad-hoc, automated basis, without specialist knowledge.

## Outlook and change to estimates

Exasol expects to be able to grow ARR to at least €35m by the end of FY21 (+45% y-o-y) and to reach ARR of €100m during FY24. It also expects to grow headcount to at least 300 by year end, from the 223 at the end of FY20. Management noted that, with a sales cycle of at least six months, FY20 revenues saw very little impact from the investment made after the May IPO. The acceleration in sales and marketing activity should start to bear fruit in FY21.

### Q121 results on track

In Q121, Exasol reported revenue of €6.1m (+26.3% y-o-y) and ARR of €25.3m (+37.3% y-o-y, +5.0% q-o-q). Headcount increased by 46 to reach 269 at quarter-end.

### Consensus forecasts reduced

Consensus forecasts were downgraded after results (see Exhibit 4); revenue was reduced by 3.3% in FY21e, 4.8% in FY22e and 6.8% in FY23e and EBITDA and PBT forecasts were reduced accordingly. Per these estimates, the company has more than adequate cash reserves to fund its growth path.

Exhibit 4: Consensus forecasts			
€m	FY21e	FY22e	FY23e
Revenue	35.0	51.6	78.5
EBITDA	(16.5)	(17.9)	(10.9)
PBT	(18.6)	(20.7)	(14.1)
Adj EPS (€)	(0.53)	(0.59)	(0.40)
Net cash	55.5	41.0	29.5

Source: Refinitiv (as at 12 May)

## Valuation

We compare Exasol to two groups of peer companies: US SaaS software companies and German software companies (which are a mix of SaaS and traditional software models). We also show Exasol's closest peer, Snowflake, which listed on the NYSE in September 2020.

We note the US SaaS companies are much larger in size, both in terms of market cap and revenues. Of the 39 US SaaS companies included in the averages, nine were loss-making in the last reported year. Exasol is forecast to grow revenue faster than the group average and is trading at a discount on an EV/sales basis for both years.

Snowflake is trading at a significant premium to all peer companies in the table below, with forecast revenue growth well ahead of all peers.

The German software peers are all profitable at the EBIT level. Those with a market cap sub-€1bn are forecast to grow revenues at an average of 9% this year, compared to Exasol's 48% growth forecast, and are forecast to grow on average 13% next year, versus Exasol at 47%. On an EV/sales basis, Exasol is trading at a premium to the group average, but looking at the higher growth peers, the valuation looks more in line.

**Exhibit 5: Peer group valuation and financial metrics**

	Market cap	EV	Sales growth (%)		EBITDA margin (%)		EBIT margin (%)		EV/sales (x)	
	€m	€m	CY	NY	CY	NY	CY	NY	CY	NY
<b>Exasol AG</b>	<b>461</b>	<b>391</b>	<b>48.3</b>	<b>47.4</b>	<b>-47.1</b>	<b>-34.7</b>	<b>-54.0</b>	<b>-40.5</b>	<b>11.2</b>	<b>7.6</b>
Snowflake (US\$)	61392	57484	84.8	64.2	-20.1	-7.4	-20.4	-10.6	52.5	32.0
US SaaS software	9855*	9880*	25.3	21.8	13.9	16.2	8.0	11.1	14.0	11.3
<b><i>German software companies</i></b>										
SAP SE	138672	145168	-0.2	4.0	33.1	32.9	28.2	28.2	5.3	5.1
TeamViewer AG	6214	6664	18.7	28.3	49.0	49.9	37.0	39.2	12.3	9.6
Nemetschek SE	6538	6560	8.5	9.0	28.9	28.7	22.1	22.4	10.1	9.3
Software AG	2518	2229	-1.5	7.9	20.0	23.5	15.5	19.1	2.7	2.5
RIB Software SE	1406	1217	26.3	22.7	26.7	27.1	14.9	17.5	3.8	3.1
Atoss Software AG	1271	1243	14.8	15.5	31.7	30.8	27.5	26.7	12.6	10.9
Mensch und Maschine Software SE	1017	1026	4.5	10.8	17.7	18.4	14.0	14.9	4.0	3.6
PSI Software AG	481	456	6.8	7.8	14.3	14.7	9.2	9.8	2.0	1.8
init innovation in traffic systems SE	430	440	1.1	17.2	15.5	16.2	10.8	11.7	2.4	2.1
IVU Traffic Technologies AG	306	285	13.0	8.7	15.4	15.0	12.5	12.4	2.7	2.5
USU Software AG	278	272	7.9	12.5	12.2	13.6	7.6	9.6	2.3	2.1
GK Software SE	285	310	13.4	14.9	17.9	19.3	11.4	13.2	2.3	2.0
Serviceware SE	179	154	10.4	12.5	4.4	6.9	1.4	4.3	1.9	1.7
<b>Average</b>			<b>9.5</b>	<b>13.2</b>	<b>22.1</b>	<b>22.8</b>	<b>16.3</b>	<b>17.6</b>	<b>5.0</b>	<b>4.3</b>
<b>Median</b>			<b>8.5</b>	<b>12.5</b>	<b>17.9</b>	<b>19.3</b>	<b>14.0</b>	<b>14.9</b>	<b>2.7</b>	<b>2.5</b>
<b>Average market cap &lt;€1bn</b>			<b>9.1</b>	<b>8.8</b>	<b>12.3</b>	<b>13.3</b>	<b>14.3</b>	<b>8.8</b>	<b>10.2</b>	<b>2.3</b>
<b>Median market cap &lt;€1bn</b>			<b>9.2</b>	<b>9.2</b>	<b>12.5</b>	<b>14.9</b>	<b>14.9</b>	<b>10.0</b>	<b>10.7</b>	<b>2.3</b>

Source: Refinitiv. Note \*Median market cap and EV. Priced at 18 May.

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