EDISON

Esker

H121 results

Returning to pre-COVID-19 growth path

Software & comp services

Esker's H121 results confirm growth has accelerated after a period of COVID-19-induced weaker demand in FY20. Revenue growth of 19% y-o-y compares to 8% growth in H120 and FY20. Despite increasing headcount by 12% y-o-y, Esker reported operating profit growth of 47% and an operating margin at the higher end of the company's 13–15% target range. While FY21 guidance is unchanged, our earnings forecasts for FY21/22 have been revised to reflect the pace of cost increases and wage inflation.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	104.2	13.6	1.79	0.33	162.7	0.1
12/20	112.3	14.5	1.99	0.50	146.4	0.2
12/21e	131.6	19.1	2.51	0.55	116.1	0.2
12/22e	153.6	24.5	3.17	0.60	91.8	0.2

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

Growth accelerating to pre-COVID-19 levels

Esker reported a strong set of results for H121, with revenue growth of 19% and operating profit growth of 47%, resulting in a 2.7pp increase in the operating margin to 14.2%. Software-as-a-service (SaaS) revenues (77% of total) grew 26% on a constant currency (cc) basis and appear back on track to grow at management's targeted 20%+ rate. Good cash generation has allowed Esker to repay €11.5m in government-backed loans taken out at the height of the pandemic and it had net cash (including long-term investments) of €33.6m at the end of H121.

Bookings intake supports FY21 outlook

Order intake of €21.3m was 76% higher year-on-year, and bookings annual recurring revenue (ARR) of €6.5m was 64% higher year-on-year. Management expects to achieve cc revenue growth of at least 17% in FY21, so revenue of at least €130m. We have slightly reduced our FY22 revenue forecast and have revised our cost and joint venture (JV) contribution forecasts for both years, increasing FY21 normalised diluted EPS by 4.4% in FY21 and reducing FY22 by 3.7%. The COVID-19 pandemic has accelerated digitisation across a broad range of industries and Esker is a key enabler of this trend. The company continues to invest in product development, direct sales and the development of its partner channel to drive double-digit revenue growth on a multi-year basis.

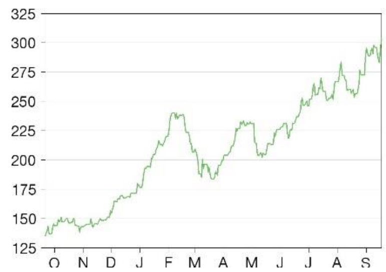
Valuation: Reflects growth in recurring revenues

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 two years (the stock is up 109% over the last year and 259% over two years), with its P/E multiple moving much closer to 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, and the potential for multi-year profitable double-digit growth. Esker has the added advantage of a strong balance sheet to fund growth.

20 September 2021

Price	**€291.0**
Market cap	**€1,677m**
	$1.18:€1
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	17.2	29.7	120.6
Rel (local)	21.0	31.2	70.8
52-week high/low		€283.5	€135.2

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

Q321 revenue update	12 October

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Edison profile page

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Investment summary

Company description: Document automation specialist

Esker is a document process automation (DPA) software developer, specialising in digitising business processes. Its software is used to automate the purchase-to-pay and order-to-cash cycles through a SaaS delivery model. Esker's revenues are well spread geographically, with 56% from Europe, 38% from North America and the remainder from Australia and Asia. In recent years, the company has made small bolt-on acquisitions and we believe it would consider further acquisitions if they added technology expertise or geographic presence at a reasonable price. The company generates organic growth from a combination of winning new customers globally and deepening existing relationships. To accelerate the pace at which it can sign up and on-board customers, it is developing a network of partners to undertake implementation work and resell Esker software.

Financials: Growth accelerating

Esker expects to achieve cc revenue growth of at least 17% for FY21 with profitability at a similar rate to H121. Its target operating margin range of 13–15% is unchanged as the company continues to reinvest profits to drive growth on a long-term basis. Our forecast changes mainly reflect the phasing of costs, with non-staff costs increasing more slowly this year while staff costs are rising at a faster pace than we had forecast, through a combination of wage inflation and accelerated hiring. Net cash remains strong (€33.6m at the end of H121), providing the ability to make targeted acquisitions as opportunities arise.

Valuation: Reflects SaaS business model

The stock is up 65% year-to-date and on a P/E basis continues to trade at a premium to both a group of listed global DPA software companies and to French-listed small-cap software companies, in our view justified by revenue growth and operating margins at the upper end of both groups. Compared to US SaaS companies, which have a similar business model to Esker, the stock trades at a discount to average EV/sales and P/E multiples. However, over the last two years the stock has rerated and the discount to peers has substantially narrowed. We note that on average US peers are growing faster than Esker, although they are generating lower operating margins. The typical growth path for US SaaS companies involves investing heavily in sales and marketing to gain market share as fast as possible, with little focus on achieving profitability in the short term. Esker's model sits somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high growth operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins. Esker has the added advantage of a strong balance sheet that does not require additional funding to support growth.

Sensitivities: Currency, on-demand transition, competition

Our forecasts and the Esker share price are sensitive to the following factors. **Currency:** Esker is exposed to the US$/€ exchange rate as 38% of revenue is generated in North America while only 25% of staff are based there. **Competition:** Esker competes with well-established, well-funded software companies and will need to maintain its technology to continue this. **Success of channel partner strategy:** revenue growth and headcount needs will depend on the rate at which partners are able to resell and/or implement Esker software. **Rate of decline of on-premise licensing and legacy business:** these businesses are very profitable maintenance revenue generators. The rate at which these businesses decline will affect growth and profitability.

Company description: Automating business processes

Esker is a DPA software developer, specialising in moving business processes from paper based to digital. The company's SaaS delivery model generates high levels of recurring revenue and has proven robust during the COVID-19 pandemic.

Background

Esker was founded in 1985 by Jean-Michel Bérard, the current CEO. Management was originally focused on software consulting and developed its first host access product in 1989. The company listed on the Nouveau Marché in 1997. From 1998 to 2000 the company made a series of acquisitions in the US host access and fax server markets. Esker launched the DeliveryWare platform in 2000, Mail on Demand in 2003, Esker on Demand (an automated on-demand mail and fax service) in 2004 and FlyDoc in 2006. The current SaaS products for accounts payable and accounts receivable were launched in 2009. The company's listing was transferred from Euronext C to Euronext Alternext in 2010 (since renamed Euronext Growth). The company made bolt-on acquisitions: TermSync and CalvaEDI in 2015 and e-integration in 2017. The company has operations in 13 countries and its revenues are well spread geographically, with 56% from Europe, 38% from North America and the remainder from Australia and Asia.

Growth strategy: Broaden functionality, add partners

Esker's DPA SaaS software supports order-to-cash and purchase-to-pay business processes. The company is working to broaden the functionality of its product suite and ultimately join up the processes to create a business collaboration network. It is also exploring the opportunities that such a network could open up in the supply chain finance market. As well as increasing headcount to support organic growth, management would consider acquiring complementary businesses. Excluding acquisitions, growth in recent years has come from a combination of adding new customers and existing customers adding new processes and/or pushing higher volumes through Esker's platform. To accelerate growth, Esker is building a network of partners to undertake implementation work and resell its software.

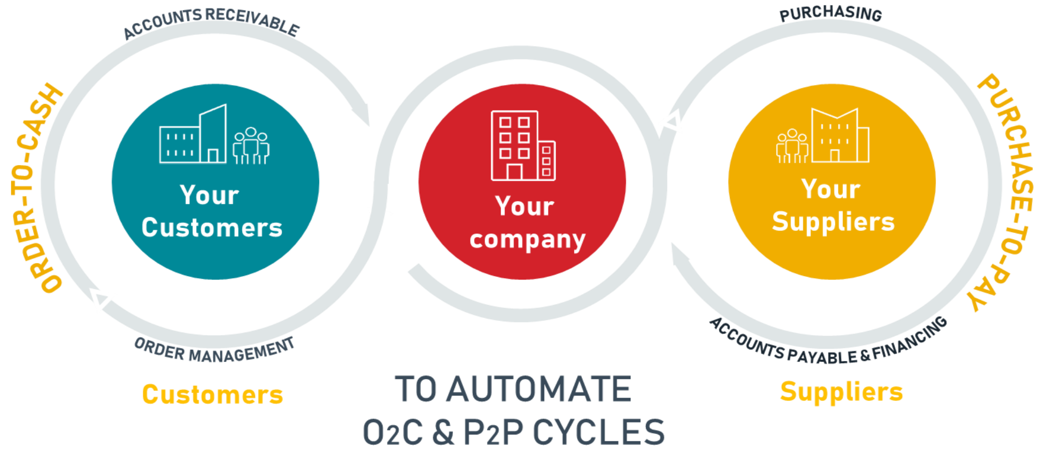
Well established management team headed by founder

As described above, Esker's CEO, Jean-Michel Bérard, founded the company in 1985. Emmanuel Olivier joined the company in 1999, was originally the CFO and became COO in 2003. He previously worked at Ernst & Young in France and the US for seven years. The CEO's brother, Jean-Jacques Bérard, is the EVP of R&D, having joined Esker in 1995. Other members of the management board include Eric Bussy (VP marketing and product management), Steve Smith (COO, Americas), Eric Thomas (VP business development), Anne Grand-Clément (global director of professional services and technical support) and Claire Valencony (senior director, global strategic alliances).

Back-office automation software

Esker has developed a unified cloud platform to automate order-to-cash and procure-to-pay cash cycles. Its DPA software operates in five areas: procurement, accounts payable, accounts receivable, sales order processing and document delivery. These can be combined to fulfil the cash cycles as per Exhibit 1: order-to-cash to fulfil customer orders and collect payment; and procure-to-pay to source, order and pay for goods and services.

Exhibit 1: Esker's positioning



Source: Esker

Features of the software include:

- multi-tenant cloud platform;
- single solution with common interface to access all functionality;
- mobile capabilities;
- enterprise resource planning (ERP) integrations;
- artificial intelligence (AI) functionality; and
- ongoing development via agile methodology.

Automating invoice and order delivery and receipt

Esker's DPA software operates in the following way. For **receipt** of documents (eg sales orders, supplier invoices), the software converts paper documentation into digital format and populates standard templates with the data from the digital document. The software can also extract data from other sources such as emails, email attachments and faxes. Esker has used machine learning for many years to train the software: if there is any doubt over the accuracy of the data, the user compares the original document to the digitised version and corrects it as necessary helping the software to learn. The standardised data can then be fed into the customer's ERP system and processed and viewed by the relevant people throughout the organisation before being archived automatically. For **sending** documents, the software generates orders or invoices in the format required and if paper documents or fax services are required, Esker's document delivery service can be used. The software provides a dashboard showing relevant key performance indicators and data analytics to support performance monitoring.

The software has certified integrations with the main ERP vendors, including SAP (including S/4HANA), Cegid, Oracle's E-Business Suite and JD Edwards EnterpriseOne, Microsoft Dynamics NAV, Sage, Infor and NetSuite. Esker partners with Cegid to provide its supplier invoice processing software for Cegid's XRP Flex solution.

Esker's mobile solution, **Esker Anywhere**, can be used for procurement, accounts payable and sales order processing.

The business helps buyers and suppliers to **collaborate** by providing a portal for each process that they can both access, with features such as invoice status and chat. More recently, using AI it has developed a shared database of document recognition models for orders and invoices in pdf format. The longer-term goal is to connect these portals together to create a networking platform that would allow customers and suppliers to interact securely and could be used for direct exchange of purchase orders and invoices, payment of invoices, early payment discounting, dispute resolution and data clarification.

Enhancing cash and credit management processes for accounts receivable

The software offers self-service online payment options such as credit cards, ACH, SEPA and direct debit, or can be integrated with the customer's preferred payment processor. The company has integrated its order-to-cash software with Stripe Connect to offer the convenience of a single payment provider globally. The software also manages cash allocation automatically, using AI-driven recognition technology to intelligently capture data for three-way matching and accurate reconciliation.

Esker offers a credit management solution that allows companies to automate new customer on-boarding and secure their credit approval process. The solution includes customisable credit application templates, workflow rules and a customisable dashboard to monitor application status and tasks. Periodic credit reviews can be automated and a customer repository includes all customer-related documents, credit and business information to make informed decisions. Esker has partnered with Dun & Bradstreet globally, CreditRiskMonitor in North America and Ellisphere in Europe to provide access to external credit data.

Document delivery the final step in the process

Document delivery services enable customers to send business documents via cloud fax or mail centres directly from their desktop or enterprise applications. Esker services on-demand document delivery through its fax servers located in France, the US and Australia and mail production centres located in France, Belgium, the UK, the US, Australia, Spain and Singapore.

Demand drivers: Efficiency, cash management, regulation

The software improves productivity by accelerating the cash conversion cycle, reducing errors, enabling faster processing, improving process visibility and improving customer service. It has the added benefit of reducing paper and paper-related costs.

The software also meets government legislation around e-invoicing. In Europe, the EU has mandated that paper and digital invoices should be treated equally and lays out ways that documents can be authenticated. EU member states have been subject to the 2014/55/EU directive since April 2019: this specifies that businesses selling to government entities must use e-invoicing based on specified interoperability standards. This should increase demand for e-invoicing solutions. In Latin America, e-invoicing is government mandated to ensure tax compliance and collection.

SaaS-based software driving growth

The table below details Esker's product range for DPA, all of which are SaaS based. Esker on Demand is the main product; this multi-tenant solution was originally developed by Esker in 2004, ahead of many other software companies' entries into the SaaS market. It started to gain traction from 2009 as customers were attracted by the lack of upfront investment and the usage-based payment mechanism. Esker has more than 6,000 SaaS customers and 600,000 SaaS users. The software is hosted out of six data centres: two leased by Esker (in France and the US) and four Microsoft Azure facilities (Australia, Canada, the Netherlands and Singapore).

Exhibit 2: DPA product range

Product	Details
Esker on Demand	On demand DPA platform for outsourcing and automating the enterprise process linked to the circulation of documents (invoicing, reminders, sales administration). Supports accounts payable, accounts receivable, procurement and sales orders.
CalvaEDI	Designed for transport decision makers, manufacturers, freight forwarders, logistic services and haulers to automatically exchange shipping orders in real time in the electronic data interchange format.
Esker EDI Services	Enables industrial companies to exchange different business documents (orders, order confirmations, delivery slips, payment notices, inventory reports, consignment notes, etc) in EDI format with their partners.
TermSync	Cloud-based service for managing the accounts receivable collection process for customer invoices issued by Esker on Demand or a third-party solution.
FlyDoc	Online fax and mail delivery service; targeted at SMEs and individuals. Only in France and the US.

Source: Esker

Product development

We understand that the company's main priorities for product development include:

- **Employing AI to increase automation.** Esker has used **machine learning** for many years to improve the accuracy of its software in automating invoice processing. It also incorporates **robotic process automation** into its software in selected areas, for example to automate invoice submission to a customer's accounts payable portal or to retrieve sales orders from portals and input them into a customer's ERP system. It is applying **deep learning,**[1] which requires access to a very high volume of documents, to a number of use cases. For example, it is using deep learning to classify and route documents received in an email inbox ('triage'). The software needs to be able not only to figure out which department a document is intended for, but also to reject documents that are spam. The goal is to achieve accuracy on a par with a human; this then frees up the software user to focus their attention on exceptions rather than routine email sorting. Other AI-based enhancements to the platform include auto-splitting of batch invoices, semantic recognition of purchase orders and anomaly detection. The company is developing new enhancements in the area of fraud detection, semantic recognition of other documents and non-optical character recognition of documents.
- **Extending the functionality of the P2P solution**: Esker is increasingly adding functionality to its purchase-to-pay offering, through a combination of in-house development and technology partnerships, and is focusing its efforts on the functionality demanded by customers. One area of demand is catalogue management: Esker already offers 'punch out' functionality, which allows purchasing customers to access online suppliers such as Dell and Amazon Business from within the Esker e-procurement application and place orders with those suppliers. The company continues to add features in this area. Last year, Esker added supplier management functionality. A self-service portal allows suppliers to provide all required account information and documentation and keep it up to date. The software verifies the accuracy of supplier information and uses third-party data to monitor supplier risk. Contract management functionality is also being developed so invoices and purchase orders can be linked to the related contract.
- **Supply chain finance:** as an interesting add-on to its existing software business, Esker has evaluated the supply chain financing market to assess the best way to participate. Several invoice networks are active in this space, for example Taulia and Tungsten, offering invoice factoring, reverse factoring and/or dynamic discounting. Rather than offering finance itself (not a core skill of the company), Esker has entered the market via a partnership in Singapore. If this proves popular, Esker would look to extend this type of offering in other countries.

[1] See p35–37 Enterprise adoption of AI, August 2021

Partnering to access niche technology

As well as in-house product development and acquisitions of companies with relevant technology, Esker partners with other companies to provide access to technology that augments its products. For its procure-to-pay suite, it recently announced a partnership with Sis ID, a French fintech company specialised in combatting bank transfer fraud. Sis ID's technology can be directly integrated into the new supplier registration process. Customers contract directly with Sis ID and provide their credentials to Esker to connect the two solutions and enable automatic verification of a company's identity and bank details on Sis ID's platform.

In 2019, Esker made a 40% investment in the initial seed finance round for a US start-up called B/2BNOW, which has since changed its name to Highview. Highview provides EDI solutions for SAP S/4HANA Cloud ERP systems. Steve Smith, COO of Esker US, joined the board of Highview.

Sales strategy: Mainly direct, adding channel partners

Esker has a direct sales presence in Europe (France, Germany, Italy, Spain and the UK), the US and Asia-Pacific (Australia, Hong Kong, Malaysia and Singapore). Esker has sales representatives in Miami (to target South America, in particular Argentina, Brazil and Colombia), Brussels (to target European-headquartered US companies) and Montreal.

Land and expand strategy

The salesforce tends to target those responsible for business processes; in most cases this will be the finance department, although sometimes it is customer services. Esker also works with the customer's IT department, but this is mainly to work on integrating the software rather than to sell to. As the implementation process takes time and can be disruptive, most customers tend to select Esker for one process initially. Esker may then benefit from growth within that process, for example, more departments, more geographies. Some customers go on to use Esker for additional processes. The company has a customer experience team to strengthen the relationship with customers and to minimise churn.

Signing up channel partners

The main gating factor for Esker's growth is the availability of consultants. To accelerate the pace at which it can sign up and on-board new customers, Esker is developing a network of channel partners. These partners offer a mix of consulting and implementation services, pure reselling and technology integration. Exhibit 3 shows partners signed up over the last two to three years.

Exhibit 3: Profile of recent partnership agreements

Partner	Product	Implementation partner	Reseller	Geography covered	Detail
Fuji Xerox	AP, AR	x	x	APAC	
KPMG Netherlands	P2P, O2C	x	x	Netherlands	
KPMG France	P2P, O2C	x	x	France	
Hexaware	P2P, O2C	x	x	Global	Direct to customers and via business process automation centres
DataBank	P2P, O2C	x	x	N. America	Direct to customers and via business process automation centres
Birlasoft	P2P, O2C	x	x	Global	
Marlabs	P2P, O2C	x	x	US	
Imaweb	AR		x	Europe	Integrated with Imawab's auto dealership management systems
Sword	AP	x	x	France	
Cegid	AP		x	France, French-speaking Africa	Via the Cegid XRP Flex Marketplace
SAP	AP, OM		x	Global	Via the SAP Store

Source: Esker Key: AP, accounts payable; AR, accounts receivable; OM, order management; P2P, procure-to-pay; O2C, order-to-cash.

Management noted that in H121, 8% of bookings were generated by partners and it is targeting 30% in three years. This assumes both direct and partner sales grow over this period, rather than partner sales replacing direct sales. Management also noted this is a long-term strategy, as the time it takes for each partner to become productive can be lengthy, once training of the partner, creation of an execution plan and the 12–18-month sales cycle is taken into account.

Joint venture with Quadient targets SMEs

Esker sold its software on a white-label basis through Quadient (previously called Neopost) in France for several years and in 2015 entered into a JV with Quadient to expand the scope of this agreement. The JV (owned 70% Quadient, 30% Esker) is focused on selling Esker's software, marketed as Neotouch, to SMEs in France, the US and the UK (Esker's direct salesforce tends not to target the SME market) and to date has c 3,500 end customers. Neotouch is a hybrid mail solution, converting internet mail into physical form for transfer to postal services. In FY20, Esker reported a €0.5m contribution from the JV and the JV generated 10.5% of group sales.

Competitive positioning: Esker competes by process

Esker competes against a different group of companies for each business process and by geography. As well as specialist DPA software companies, the company also sees competition from business process outsourcers such as Accenture and Xerox.

Most of the companies that Esker competes with operate in either the order-to-cash or purchase-to-pay markets. Esker has the advantage that its software can be used across all processes, reducing the number of software suppliers a company deals with and simplifying the implementation process. More than 6,000 companies globally use Esker software, including BMW, Bristol-Myers Squibb, Chubb, GE Healthcare, Heineken, Microsoft, Murata, Samsung and Siemens Healthineers. Esker has more than a decade's experience in SaaS delivery and has achieved various SaaS certifications such as SSAE18, ISAE3402 and ISO27001, providing a level of confidence regarding business continuity and data security.

Accounts payable is the most competitive area; when Esker wins business it tends to be for customers that have decided to move from manual to automated processing, rather than winning business from an existing supplier (although this occasionally happens). **Accounts receivable** has historically been Esker's strongest area; the customer owns the process so the document format is set in-house and therefore data recognition is more straightforward. Due to European legislation around electronic signatures, demand for automated accounts receivable processing is growing, as companies move from paper to digital invoices. The most complex market from a technical perspective is **sales order processing**. This is because end-customers send orders to Esker's customers in many different non-standard formats such as faxes, emails or within email attachments. This market has the fewest suppliers and Esker has a very high win rate. The newest area for Esker is **purchasing** (launched in 2014), which contributes less than 1% of revenues. This is a sub-set of the procurement software market, which is dominated by cloud provider Coupa. Esker's purchasing solution covers the procurement process from purchase requisition to invoice payment authorisation, but over time we expect the company to extend the functionality of the solution to encompass the earlier part of the procurement process. Esker typically sells this solution to existing accounts payable customers to support the full purchase-to-payment cycle. Exhibit 4 shows the most common competitors for each process. Competition tends to be country specific; for example, Billtrust for accounts receivable in the US, ITESOFT for accounts payable in France. Global competitors include Basware, Kofax, OpenText and SAP.

Document delivery has a different group of mail-focused competitors, including j2 Global, Docapost, and Maileva (both subsidiaries of Le Groupe La Poste) and OpenText.

Exhibit 4: Competitive environment – DPA software suppliers

Company	Accounts receivable	Sales order processing	Accounts payable	Purchasing
Esker	**x**	**x**	**x**	**x**
Basware	x		x	x
bill.com	x			
Billtrust	x			
Cforia	x			
Conexiom		x		
Corcentric				x
Coupa				x
HighRadius	x			
ITESOFT			x	
iValua				x
Kofax*			x	
OmPrompt		x		
OpenText	x	x	x	
Proactis				x
SAP (Ariba)				x
Sidetrade	x			
Tradeshift			x	x
Tungsten	x			
Yooz			x	

Source: Esker, Edison Investment Research. Note: *Includes ReadSoft.

Increasing recognition by market researchers

Esker's technology is receiving growing recognition by market research analysts, which should raise its visibility with potential customers. Examples include:

- **IDC:** in the Marketscape 2021 report, assessed to be a leader in worldwide SaaS and cloud-enabled accounts receivable automation applications for mid-market vendors and a major player in worldwide SaaS and cloud-enabled accounts payable automation applications for enterprise vendors.
- **Gartner:** niche player in the 2020 P2P solutions Magic Quadrant 2020. Included in the 2021 Market Guide for integrated invoice-to-cash applications.
- **Ardent Partners:** market leader in the 2021 ePayables Technology Advisor report.

Legacy Products (7% of FY20 revenues)

Esker's Legacy Products division includes fax servers, host access products and DeliveryWare (on-premise DPA software). While the legacy business continues to be supported, the company is not actively seeking new business or developing new products.

- **Fax servers** were developed to send the fax directly via a word processing programme, or to receive a fax and send it directly to the recipient's inbox. Esker Fax works on Microsoft operating systems and is compatible with electronic messaging systems including IBM Lotus Notes, Microsoft Exchange and SMTP. VSI-Fax is designed for UNIX and Linux operating systems.
- **Host access** supplies terminal emulator software that enables users to access mainframes from PCs. Tun PLUS supports access to SCO Linux, Linux, IBM AIX, HP-UX, IBM 390 and IBM AS/400 servers, and SmarTerm supports access to Digital (Vax Open VMS), Data General and IBM servers. Esker mainly generates maintenance revenues from this business, although occasionally it wins new business as the number of host access suppliers reduces.

- **DeliveryWare** is Esker's oldest DPA product. Sales of DeliveryWare were discontinued in 2019; we would expect related maintenance revenues to slowly decline. DeliveryWare-related revenues made up 5% of group revenue in FY20.

ESG strategy progressing well

Esker has had an active approach to ESG for some time. By automating business and document processes, Esker's software helps companies to significantly reduce their use of paper, water and energy. At the same time, it is working to reduce its impact on these resources internally. The company is signed up to the UN's Global Compact and is concentrating its efforts on meeting the following UN sustainable development goals (SDGs):

Exhibit 5: UN SDGs targeted by Esker

No.	Goal	No.	Goal
3	Good health & well-being	9	Industry, innovation and infrastructure
4	Quality education	12	Responsible consumption and production
5	Gender equality	13	Climate action
8	Decent work & economic growth	16	Peace, justice and strong institutions

Source: Esker

In early 2001, the company received ISO 14001 certification for its environmental management system by Lloyds' Register Quality Assurance.

Esker was awarded an Ecovadis Gold Medal for its corporate social responsibility performance, placing it in the top 4% of the companies assessed by Ecovadis. The company is aiming for a platinum medal, which is restricted to the top 1% of companies.

Sensitivities

Our forecasts and the Esker share price will be sensitive to the following factors:

- **Currency:** while Esker has some natural hedging, the R&D and central function teams are based in France, resulting in exposure to the US dollar-euro exchange rate. If the US dollar weakens against the euro from the current level, it would have a negative effect on revenues and profitability.
- **Competition:** Esker competes with well-established, well-funded software companies and will need to maintain its technology to compete.
- **Success of channel partner strategy:** the rate at which the company is able to sign up channel partners, the pace at which those partners are able to resell Esker solutions and the ability of partners to successfully implement Esker solutions for clients will influence revenue growth and headcount requirements.
- **Rate of decline of legacy businesses:** the host access and fax server businesses and DeliveryWare are very profitable maintenance-revenue generators. The rate at which these businesses decline will have an impact on profitability, although as these businesses make up a decreasing proportion of revenues (6% in H121 compared to 8% in H120), the effect is reducing.

Financials

Revenues: Targeting 20% growth in SaaS

On a quarterly basis, Esker reports revenue by business line. This recently changed to account for the fact that it no longer actively sells licences for its DPA software. Esker reports three business lines: SaaS (subscription and transaction-based revenue), implementation services and legacy products. Maintenance revenue relating to previously sold DPA licences is now included in legacy products, along with revenue from the fax server and host access products. On a half-yearly basis, Esker also reports by type of revenue: SaaS, maintenance fees, licence sales, hardware and consulting. Exhibit 6 shows historic performance and our forecasts on both bases.

Exhibit 6: Revenues by business line and by type

€m	FY18	FY19	Growth	FY20	Growth	FY21e	Growth	FY22e	Growth
SaaS-related DPA revenues	75.8	93.7	23.7%	104.1	11.2%				
License-based DPA revenues	7.8	6.6	(16.1%)	5.5	(16.5%)				
Legacy products	3.3	3.9	19.9%	2.6	(35.1%)				
Total	**86.9**	**104.2**	**19.9%**	**112.3**	**7.8%**				
SaaS						102.3	N/A	123.3	20.6%
Implementation Services						21.9	N/A	24.2	10.3%
Legacy Products						7.4	N/A	6.1	(17.8%)
Total						**131.6**	**N/A**	**153.6**	**16.7%**
SaaS	60.5	75.5	24.8%	84.9	12.4%	102.3	20.6%	123.3	20.6%
Consulting	16.6	18.9	13.7%	19.7	4.1%	21.9	11.4%	24.2	10.3%
Maintenance	7.4	6.9	(6.1%)	6.2	(10.6%)	5.3	(14.0%)	4.7	(12.0%)
Licenses	1.9	2.4	28.7%	1.3	(45.2%)	1.7	30.0%	1.1	(35.0%)
Hardware	0.5	0.4	(11.9%)	0.2	(42.5%)	0.4	48.0%	0.3	(20.0%)
Total	**86.9**	**104.2**	**19.9%**	**112.3**	**7.8%**	**131.6**	**17.2%**	**153.6**	**16.7%**

Source: Esker, Edison Investment Research

SaaS (or traffic) revenues are generated on a per-transaction basis from all SaaS DPA products customers. **Licence** and **maintenance** fees are generated from DeliveryWare on-premise licence sales and the fax server and host access businesses (although as DeliveryWare has been discontinued there will no longer be any licence sales from this product). **Hardware** sales are generated by the fax server business. **Consulting** (or service) revenues are generated from the SaaS business. Older DPA subscription sales were structured on a traffic-only basis, with consulting revenues charged for the initial integration of the software. For the last few years, Esker has sold on a hybrid subscription model that guarantees minimum monthly revenues plus transaction-based revenues, reducing Esker's dependence on the speed at which a customer implements the software. Management recently noted it is aiming to increase the monthly subscription fee and reduce the per-transaction fee to add more predictability to revenues. SaaS contracts are typically signed for a minimum of 12 months and are most commonly for three years.

SaaS revenue has shown significant growth in recent years: 18.5% in FY17, 17.7% in FY18 and 24.8% in FY19, before dipping to 12.4% in FY20 because of COVID-19. We forecast 20%+ growth in SaaS revenue in FY21 and FY22 as new orders are translated into revenue and existing customer volumes normalise after the pandemic. We expect consulting revenue growth to lag behind as it is constrained by the number of consultants.

High level of recurring revenue provides good visibility

In H121, recurring revenues[2] made up 81% of the total, versus 79% in FY19 and 81% in FY20. Esker has a strong record of retaining customers – management estimates that churn is less than 1% per year. As each new customer comes on board, this adds another layer of recurring revenues. Esker saw a weaker order environment in H120, with orders up only 3% y-o-y, but demand

2 SaaS plus maintenance revenues.

rebounded from Q320 and Q420 saw record order intake. In H121, Esker won orders worth €21.3m (+76% y-o-y); this is the amount of revenue the company is contracted to earn over the (usually) three-year life of the contract and does not include variable per document fees, which can make up the same amount again over the three years. Esker also discloses the ARR for bookings. This was €6.5m in H121, up 64% y-o-y. Management noted that 37% of H121 SaaS revenue growth (c €3.5m) came from contracts signed over the previous 12 months, with €1.1m from contracts signed in H121 and €2.4m from H220.

Review of H121 results: Growth reaccelerates

Exhibit 7: Half-year results highlights

€m	H120	H121	y-o-y
Revenues	54.2	64.4	18.6%
EBITDA	10.2	13.6	33.3%
EBITDA margin	18.8%	21.1%	2.3pp
Reported operating profit	6.2	9.2	47.1%
Operating margin	11.4%	14.3%	2.8pp
Reported net income	5.4	7.6	39.7%
Basic EPS (€)	0.96	1.31	36.5%
Diluted EPS (€)	0.96	1.30	35.4%
Net cash (includes investments reported in fixed assets)	22.9	33.6	46.7%

Source: Esker

Esker generated 19% y-o-y revenue growth for H121 (22% cc). SaaS revenue grew 26% cc while consulting revenues grew 13% cc. Legacy products also generated 6% cc growth, benefiting from a one-off sale in the US in Q221. The company reaccelerated hiring during H1, with headcount increasing by 85 or 12% y-o-y; this combined with pay rises and higher sales commissions resulted in staff costs increasing 21% y-o-y. Other operating costs (excluding depreciation and amortisation) declined 4% y-o-y, as travel and marketing costs remained low and a higher level of development costs were capitalised (although the percentage of R&D costs capitalised declined from 63% in H120 to 61% in H121). Overall, this resulted in a 47% increase in reported operating profit and a 2.8pp increase in the operating margin year-on-year.

The JV with Quadient saw a large decline in volumes in H120. This rebounded in H121, with a contribution of €621k versus €174k in H120.

Overall, diluted EPS increased 35% y-o-y, lower than the increase in operating profit due to the inclusion of a €0.85m exceptional tax credit in H120.

Strong cash position

In H1, Esker generated operating cash flow of €10.7m. As well as paying the prior-year dividend of €2.9m, the company repaid the €11.5m government-backed loans it took out last year at the height of the COVID-19 pandemic. The company invests in tangible fixed assets for its mail centres and offices and capitalises development costs. In H1, Esker capitalised €4.3m of development costs, amortised €2.9m and spent €0.7m on tangible assets. We expect a gradual increase in both capitalisation and amortisation in FY21 and FY22, reflecting the growing R&D headcount.

Gross cash was €30.7m at period end (excluding a further €5.3m recorded in fixed assets), providing ample funds for acquisitions and investment. The company ended H121 with a net cash position of €33.6m (including the investments recorded in fixed assets). We forecast that net cash will increase to €38.2m by the end of FY21 and €47.9m by the end of FY22.

Changes to forecasts

Management maintained revenue guidance for FY21, expecting cc growth of at least 17% (revenue of at least €130m) and profitability in line with H121.

Our revenue forecast for FY21 is unchanged while we have slightly reduced our assumption for FY22 to better reflect the mix of revenues. We have updated our cost and JV contribution forecasts to reflect H121 performance (ie higher staff costs and lower other operating costs) and the assumption that operating margins will not exceed 15% as any excess above this level will be reinvested. This results in a 4.4% increase in our FY21 normalised diluted EPS forecast and a 3.7% reduction in FY22.

Exhibit 8: Changes to forecasts

€m	FY21e old	FY21e new	change	y-o-y	FY22e old	FY22e new	change	y-o-y
Revenues	131.6	131.6	0.0%	17.2%	154.5	153.6	(0.6%)	16.7%
EBITDA	26.5	27.4	3.3%	24.8%	34.2	32.7	(4.3%)	19.6%
EBITDA margin	20.1%	20.8%	0.7%	1.3%	22.1%	21.3%	(0.8%)	0.5%
Normalised EBIT	17.6	18.2	3.3%	29.6%	24.7	23.1	(6.3%)	27.2%
Normalised EBIT margin	13.4%	13.8%	0.4%	1.3%	16.0%	15.1%	(0.9%)	1.2%
Reported EBIT	17.2	17.8	3.7%	30.9%	24.3	22.7	(6.5%)	27.5%
Reported EBIT margin	13.1%	13.5%	0.5%	1.4%	15.7%	14.8%	(0.9%)	1.2%
Normalised PBT	18.3	19.1	4.3%	32.0%	25.5	24.5	(3.8%)	28.5%
Normalised net income	14.3	14.9	4.3%	29.4%	19.9	19.1	(3.8%)	28.5%
Reported net income	13.9	14.6	4.7%	26.3%	19.6	18.8	(3.9%)	28.8%
Normalised dil. EPS (€)	2.40	2.51	4.4%	26.1%	3.29	3.17	(3.7%)	26.4%
Reported basic EPS (€)	2.43	2.54	4.8%	24.8%	3.35	3.22	(3.8%)	26.6%
Reported diluted EPS (€)	2.35	2.46	4.8%	23.1%	3.24	3.11	(3.8%)	26.7%
Net cash	36.5	38.2	4.7%	26.2%	47.3	47.9	1.4%	25.4%
DPS (€)	0.55	0.55	0.0%	10.0%	0.60	0.60	0.0%	9.1%

Source: Edison Investment Research

Currency impact

With 38% of revenues from the US but a lower proportion of the cost base in US dollars, Esker is exposed to changes in the dollar-euro exchange rate. In our cost calculations, we use a rate of $1.21/€ for FY21 and $1.20/€ for FY22. Any weakening of the dollar could have a material negative impact on our forecasts.

Valuation

The stock has gained 65% year-to-date and 109% over the last year and is trading close to its all-time high of €303.5; this compares to growth in the Euronext Growth index of 4% year-to-date and 43% over the last year. We have compared Esker's valuation to a group of listed global DPA software companies and to French-listed small-cap software companies (Exhibit 9). We have also included aggregate data for a group of c 40 US SaaS software companies. We note that most companies in the first two peer groups are not predominantly SaaS companies, whereas Esker has been operating a SaaS business model for well over a decade.

US SaaS companies on average are growing faster than Esker, although they are generating operating margins below the level of Esker. The typical growth path for US SaaS companies involves investing heavily in sales and marketing to gain market share as fast as possible, with little focus on achieving profitability in the short term. Esker's model sits somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high-growth operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins.

Esker has re-rated over the last two years, with its P/E multiple moving much closer to the US SaaS 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. In addition, Esker has the potential for multi-year profitable double-digit growth and has a strong balance sheet that does not require additional funding to support growth.

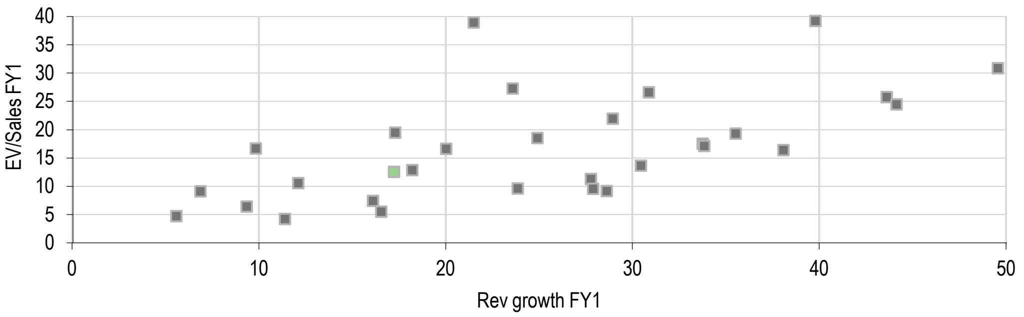
Exhibit 9: Peer financial and valuation metrics

Company	Share price	Market cap (m)	Revenue growth		EBIT margin		EBITDA margin		EV/sales		P/E	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Esker	**€ 291.00**	**€ 1,677**	**17.2%**	**16.7%**	**13.8%**	**15.1%**	**20.8%**	**21.3%**	**12.5**	**10.7**	**116.1**	**91.8**
US SaaS software companies												
Average			**28.5%**	**23.7%**	**7.8%**	**10.4%**	**13.8%**	**15.7%**	**18.7**	**14.7**	**195.4**	**124.5**
Median			**27.9%**	**23.4%**	**8.5%**	**10.5%**	**13.2%**	**13.8%**	**16.6**	**13.7**	**122.8**	**95.9**
Software companies with DPA software offerings												
Basware	€ 34.70	€ 501.35	2.4%	11.2%	4.3%	8.5%	14.1%	17.9%	3.5	3.2	N/A	103.9
Bill.com	$289.25	$27,994	102.5%	38.9%	-15.7%	-8.0%	-15.7%	-7.0%	57.7	41.5	N/A	N/A
Billtrust	$11.21	$1,774	18.5%	19.0%	-30.8%	-19.3%	-11.5%	-6.7%	11.6	9.7	N/A	N/A
Bottomline	$41.63	$1,900	10.3%	11.8%	13.5%	14.0%	20.4%	20.6%	3.6	3.2	36.6	31.4
Coupa	$241.84	$17,911	30.8%	23.0%	5.0%	7.0%	7.1%	10.9%	26.6	21.6	N/A	379.4
ITESoft	€ 3.50	€ 21	4.8%	1.8%	0.9%	0.9%	6.0%	5.9%	0.9	0.9	20.6	10.3
OpenText	$66.70	$18,126	1.7%	2.2%	35.2%	32.5%	38.2%	38.8%	4.7	4.6	15.4	15.0
Tungsten Corp	£0.32	£40	7.4%	2.8%	1.5%	3.3%	11.3%	12.8%	1.1	1.1	N/A	30.5
Average			**22.3%**	**13.8%**	**1.8%**	**4.9%**	**8.7%**	**11.6%**	**13.7**	**10.7**	**24.2**	**95.1**
Median			**8.9%**	**11.5%**	**2.9%**	**5.1%**	**9.2%**	**11.8%**	**4.2**	**3.9**	**20.6**	**31.0**
French small-cap software companies												
Axway Software	€ 27.20	€ 586	2.3%	5.3%	10.6%	12.4%	14.1%	15.5%	2.1	2.0	25.7	21.2
Claranova	€ 6.82	€ 285	14.9%	14.5%	5.4%	6.7%	7.0%	7.8%	0.5	0.5	20.3	13.6
ESI Group	€ 68.00	€ 405	4.7%	6.2%	5.6%	6.7%	10.4%	11.8%	3.1	2.9	89.7	67.6
Lectra	€ 36.30	€ 1,360	59.9%	27.7%	10.2%	13.4%	15.5%	18.1%	3.8	2.9	50.2	30.1
Linedata Service	€ 43.50	€ 283	1.9%	2.6%	19.7%	18.8%	30.0%	29.0%	2.2	2.2	13.9	13.9
Sidetrade	€ 159.50	€ 229	17.4%	20.0%	7.2%	7.2%	8.6%	10.1%	6.3	5.2	103.9	88.9
Average			**16.9%**	**12.7%**	**9.8%**	**10.9%**	**14.3%**	**15.4%**	**3.0**	**2.6**	**50.6**	**39.2**
Median			**9.8%**	**10.4%**	**8.7%**	**9.8%**	**12.2%**	**13.7%**	**2.7**	**2.5**	**38.0**	**25.6**

Source: Edison Investment Research, Refinitiv. Note: Priced at 16 September.

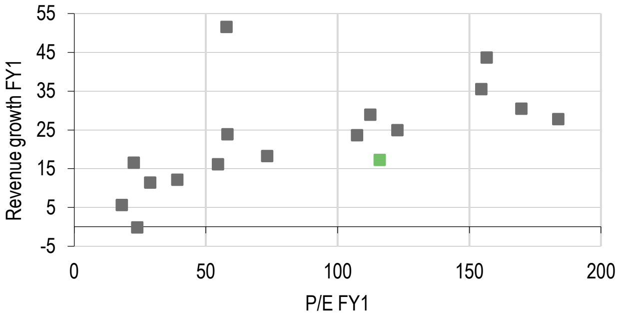
In Exhibit 10 we show how Esker (marked in green) compares to a selection of US SaaS peers when considering current year revenue growth versus current year EV/sales multiple. Exhibits 11 and 12 show how the peer group is trading on a P/E basis compared to revenue forecasts this year and next (we have excluded any companies trading on a P/E above 200 for either year). In Exhibit 13 we compare average revenue growth and average EBIT margins over the next two years.

Exhibit 10: Current year revenue growth and EV/sales: US peers versus Esker



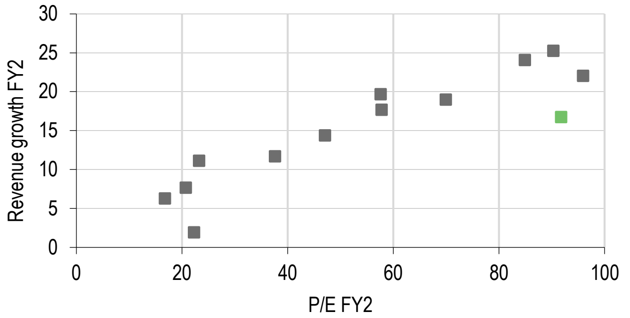
Source: Edison Investment Research, Refinitiv

Exhibit 11: Revenue growth (%) and P/E – current year forecasts: US peers versus Esker



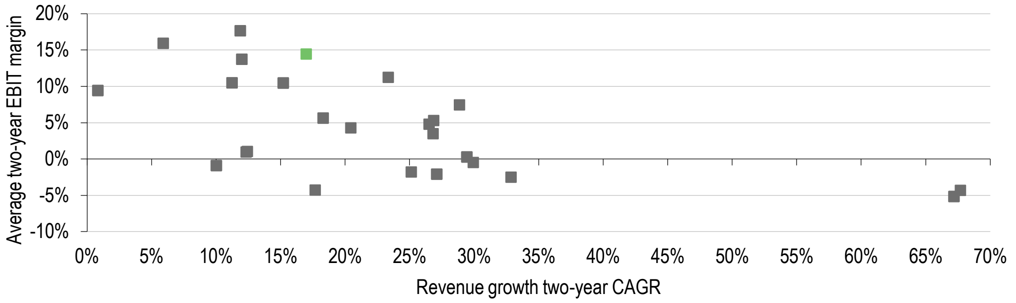
Source: Edison Investment Research, Refinitiv

Exhibit 12: Revenue growth (%) and P/E – next year forecasts: US peers versus Esker



Source: Edison Investment Research, Refinitiv

Exhibit 13: Two-year revenue growth and EBIT margins: US peers versus Esker



Source: Edison Investment Research, Refinitiv

Exhibit 14: 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
PROFIT & LOSS							
Revenue	65,990	76,064	86,871	104,188	112,274	131,614	153,583
EBITDA	14,871	16,399	18,279	20,054	21,927	27,363	32,712
Operating Profit (before amort and except)	9,934	10,547	11,955	12,843	14,037	18,188	23,137
Amortisation of acquired intangibles	(200)	(300)	(344)	(425)	(425)	(425)	(425)
Exceptionals and other income	(474)	(456)	(88)	(62)	0	57	0
Other income	0	0	0	0	0	0	0
Operating Profit	9,260	9,791	11,523	12,356	13,612	17,820	22,712
Net Interest	(108)	(110)	(57)	268	(67)	100	200
Profit Before Tax (norm)	9,949	10,669	12,215	13,634	14,462	19,088	24,537
Profit Before Tax (FRS 3)	9,275	9,913	11,783	13,147	14,528	18,720	24,112
Tax	(2,950)	(3,148)	(2,940)	(3,402)	(2,966)	(4,118)	(5,305)
Profit After Tax (norm)	6,785	7,281	9,168	10,106	11,509	14,888	19,139
Profit After Tax (FRS 3)	6,325	6,765	8,843	9,745	11,562	14,601	18,808
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	259	328
EPS - normalised fully diluted (c)	122	132	165	179	199	251	317
EPS - (GAAP) (c)	120	128	164	180	204	254	322
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	20.8	21.3
Operating Margin (before GW and except) (%)	15.1	13.9	13.8	12.3	12.5	13.8	15.1
BALANCE SHEET							
Fixed Assets	28,324	37,912	39,635	47,201	48,987	51,687	55,087
Intangible Assets	22,381	26,673	28,096	29,323	30,787	33,187	35,587
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	8,964	10,164
Current Assets	42,024	42,823	49,016	52,022	72,918	71,029	85,736
Stocks	101	176	147	185	257	257	257
Debtors	19,523	21,253	25,551	30,015	31,440	36,780	42,919
Cash	21,338	20,632	22,794	21,357	40,421	33,193	41,760
Other	1,062	762	524	465	800	800	800
Current Liabilities	(28,299)	(26,206)	(30,072)	(34,300)	(50,150)	(41,983)	(45,770)
Creditors	(28,299)	(26,206)	(30,072)	(34,300)	(38,650)	(41,983)	(45,770)
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	76,891	92,355
CASH FLOW							
Operating Cash Flow	15,944	17,311	18,366	20,290	24,389	25,356	30,359
Net Interest	(127)	(75)	63	352	(30)	100	200
Tax	(1,456)	(2,053)	(2,795)	(3,329)	(884)	(4,118)	(5,305)
Capex	(7,021)	(9,304)	(7,789)	(10,995)	(10,167)	(11,500)	(12,200)
Acquisitions/disposals	(935)	(7,551)	(225)	(486)	(492)	0	0
Financing	467	(345)	785	1,449	48	1,000	0
Dividends	(1,550)	(1,633)	(1,756)	(2,237)	(1,896)	(2,897)	(3,343)
Net Cash Flow	5,322	(3,650)	6,649	5,044	10,968	7,941	9,712
Opening net debt/(cash)	(8,978)	(13,681)	(10,016)	(16,576)	(21,018)	(30,285)	(38,226)
HP finance leases initiated	(645)	0	0	0	0	0	0
Other	26	(15)	(90)	(602)	(1,701)	0	(0)
Closing net debt/(cash)	(13,681)	(10,016)	(16,576)	(21,018)	(30,285)	(38,226)	(47,937)

Source: Esker, Edison Investment Research

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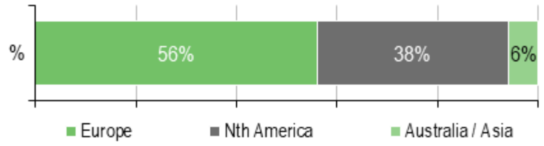
Revenue by geography



Management team

President of the board and CEO: Jean-Michel Bérard

Mr Bérard received his computer engineering degree in 1984 from the Lyon Institut National des Sciences Appliquées and shortly after co-founded Esker. He is responsible for defining and executing Esker's business plan. He also represents Esker to potential partners, the European technological community, IT analysts and the trade press.

COO: Emmanuel Olivier

Mr Olivier leads Esker's operations worldwide, covering sales, marketing and consulting activities. He also supervises Esker's finances and is in charge of financial communication and IR. He joined Esker in 1999 as CFO and was promoted to COO in 2003. He previously worked as an audit manager for Ernst & Young for seven years, including two years in the US. He has an MBA from SKEMA Business School, Nice Sophia Antipolis, France, and earned a CPA qualification from the state of Pennsylvania, US.

Principal shareholders	(%)
Jean-Michel Bérard	6.7
Premier Miton	3.8
Brown Capital Management LLC	3.5
Credit Agricole Group	3.0
Treasury shares	2.5
Grandeur Peak Global Advisors LLP	2.3
Montanaro Group	1.8

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