

Esker

FY16 results

Investing for sustainable growth

Esker reported another year of double-digit organic revenue growth and confirmed that it expects to achieve similar in FY17. The company's investment in headcount was higher than we expected and is likely to continue at a similar pace in FY17. While this weighs on our earnings forecasts, it should provide the foundations to support growth on a multi-year basis. Bolt-on acquisitions of businesses with a similar recurring revenue model and complementary technology are likely to accelerate the pace of growth.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	58.5	9.3	1.31	0.30	35.9	0.6
12/16	66.0	9.9	1.23	0.33	38.2	0.7
12/17e	75.6	11.9	1.42	0.36	33.1	0.8
12/18e	82.0	12.8	1.51	0.39	31.1	0.8

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

FY16: Another strong year

Esker reported FY16 revenue growth of 13% and normalised operating profit growth of 7%. The SaaS business, which now makes up 77% of revenues, continues to show double-digit growth (+20% vs +24% in FY15), and this growth more than outweighs the decline in the Legacy business. During FY16 contracts worth more than €9m were signed (+33% y-o-y), which should contribute to revenues over the next two to three years. Recurring revenues were flat at 79% of total revenues. The company ended FY16 with net cash of €13.7m. Management expects to be able to generate double-digit organic growth in FY17.

Maintaining high levels of investment for growth

Esker increased headcount faster than we expected in FY16 and expects to invest at a similar pace in FY17, before incorporating the recent e-integration acquisition (effective 1 January 2017). This has the effect of reducing our operating margin forecasts. Combined with increasing tax rates, this results in a cut to our FY17 normalised EPS forecast. In addition to investing to drive medium-term organic growth, management continues to seek out bolt-on acquisitions and has a strong cash position to fund this.

Valuation: Reflects strength of SaaS business

On an EV/sales and P/E basis, Esker is trading at a premium to document process automation software companies and French small-cap software companies; in our view this is justified by forecast revenue growth and operating margins that are higher than both groups. In our view, the transition to SaaS is likely to suppress operating margins across the software sector (even after transition costs are taken into account). Esker is ahead of many peers in making this transition and is generating strong growth and margins. The company has recurring revenues of c 80%, which provides a high level of revenue and cash flow predictability.

Software & comp services

21 April 2017

Price €47.01

Market cap €253m

\$1.08/€1

Net cash (€m) at end FY16 13.7

Shares in issue 5.3m

Free float 76%

Code ALESK

Primary exchange Alternext Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (0.6) (5.9) 69.7

Rel (local) (2.0) (10.5) 52.5

52-week high/low €50.0 €27.3

Business description

Esker provides end-to-end document automation solutions, offering on-premise and on-demand delivery models. The business generates 50% of revenues from Europe, 40% from the US and the remainder from Asia and Australia.

Next event

Q2 revenues 18 July 2017

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Review of FY16 results

Exhibit 1: FY16 results highlights

€m	FY16e	FY16a	difference	y-o-y
Revenues	66.0	66.0	0.0%	12.9%
EBITDA	15.4	14.9	-3.3%	10.9%
EBITDA margin	23.3%	22.5%	-0.8%	-0.4%
Normalised EBIT	10.66	9.93	-6.8%	7.3%
EBIT margin	16.1%	15.1%	-1.1%	-0.8%
PBT	10.9	9.9	-8.8%	6.8%
Normalised net income	8.2	6.8	-17.0%	-1.3%
Normalised EPS	1.50	1.23	-18.1%	-6.0%
Reported EPS	1.49	1.23	-17.1%	-5.3%
Net cash	14.7	13.7	-6.7%	52.4%
DPS	0.33	0.33	0.0%	10.0%

Source: Esker, Edison Investment Research

Esker reported revenue growth of 12.9% for FY16 (like-for-like, constant currency +12%), in line with our forecast. EBITDA came in 3% below our forecast due to higher than forecast staff costs – we estimate Esker hired 40 staff during the year, taking average headcount from 350 in FY15 to more than 400 in FY16. The company highlighted that it had hired more R&D staff (+26%), more sales staff (+15%) and more consulting staff (+21%) to ensure continued growth on a medium-term basis. This resulted in a 15.1% EBIT margin, 1pp below the margin generated in FY15. The company reported a small net finance cost compared to our forecast for net interest income (as the company is in a strong net cash position) – this includes FX losses from the UK business since sterling weakened against the euro. The reported tax rate increased from 26% in FY15 to 32% in FY16, as profits were taxed at close to the statutory rate in most geographies – this was a higher rate than we had forecast. Net cash increased 52% y-o-y to reach €13.7m at year-end. The company incurred exceptional costs of €0.2m for office moves in Lyon and Madison, and a further €0.2m for pension provisions.

The company's joint venture with Neopost saw a 70% increase in volumes over the year. Esker's share of the results (30%) was €123k for FY16, up from €61k in FY15. The company noted that services provided to the JV generated c 5% of Esker's revenues.

Business update

DPA business continues strong growth trajectory

Excluding legacy products, Esker grew revenues 16% in FY16. The TermSync business made good progress, contributing revenues of €0.95m in FY16, up from €0.33m in FY15. CalvaEDI showed minimal revenue growth (revenues of €2.5m grew 2% on a pro-forma basis) but generated an operating margin of 48%. SaaS-based revenues grew 20% y-o-y to make up 66% of the total (FY15 63%).

Contracts signed in FY16 support growth over next 2-3 years

In FY16, customers signed contracts worth €9.2m (+33% y-o-y), with an average term of three years. Contracts typically consist of a fixed monthly subscription fee (which includes a minimum volume of documents) plus a per document fee once the minimum volume has been reached. While only a small proportion of the contract value would have been recognised in FY16, all customer acquisition costs were expensed in the year.

Materiality of declining legacy business reducing

Legacy Products declined 19%, to make up only 6.7% of revenues in FY16 (FY15 9.3%). We expect a further decline in the coming years.

Plans for FY17

- **Process:** the company continues to work on reducing the time it takes to implement new contracts and reducing the length of the sales cycle. At the same time, it is investing to improve the security, performance and scalability of the SaaS platform.
- **Product:** the company plans to launch the TermSync product in France – it has only been available in the US to date. The JV is looking to extend its offering to the US, UK, Belgium and Ireland.
- **M&A:** management will focus on integrating the recent e-integration acquisition as well as looking for other appropriate acquisition targets, with a particular focus on the UK.

Outlook and changes to forecasts

The company expects to generate double-digit organic revenue growth in FY17 and expects to generate better growth than in FY16, despite a tough comparison for Legacy Products in H117. The e-integration acquisition completed in February and will be consolidated from 1 January 2017.

Despite the strong revenue growth in recent years, the operating margin has not expanded as fast as it could have done because management has been keen to reinvest to support revenue growth in the longer term. Average headcount has increased from 294 in FY13 to more than 400 in FY16, partly through acquisition but also through a concerted effort to build the R&D team and strengthen customer support and sales and marketing. We expect the company to continue to invest heavily in these parts of the business, which means that operating margins are likely to remain around the 15% level.

We have revised our forecasts to reflect the following:

- **Revenues:** we factor in growth in DPA software and services of 12% in FY17 and 10% in FY18 (including the 2015 acquisitions of TermSync and Calva-EDI). We reduce our Legacy Products forecasts by €1.2m to €3.6m in FY17 and assume a further decline to €3.2m in FY18 (to 3.9% of total revenues). This results in organic growth forecasts of 10% in FY17 and 9% in FY18. We also incorporate e-integration, assuming revenues of €3m in FY17 and €3.1m in FY18 (this compares to revenues of €3.2m in 2016).
- **Staff costs:** we have factored in an increase in headcount of 68 in FY17 (including 30 staff in Germany for e-integration) and 34 heads in FY18.
- **Tax rate:** we have increased our forecast rate from 25% to 33% for FY17 and use 33% for FY18.
- **Normalised EPS:** the combination of lower normalised operating profit (due to higher investment in headcount), higher tax and a small increase in the share count (some of the e-integration initial consideration was settled with equity) results in a cut to our FY17e forecast of 23% (y-o-y growth 15.9%). We forecast EPS growth of 5.9% in FY18.
- **Net cash:** the combination of lower EBITDA, higher tax and the cost of acquiring e-integration results in a cut to our year-end FY17 net cash forecast.

Exhibit 2: Changes to forecasts

€m	FY17e old	FY17e new	change	y-o-y	FY18e new	y-o-y
Revenues	73.6	75.6	2.8%	14.6%	82.0	8.5%
EBITDA	18.5	16.6	-10.1%	11.9%	17.7	6.2%
EBITDA margin	25.2%	22.0%	-3.1%	-0.5%	21.6%	-0.5%
Normalised EBIT	13.6	11.6	-14.5%	17.2%	12.6	8.0%
EBIT margin	18.5%	15.4%	-3.1%	0.4%	15.3%	-0.1%
PBT	13.9	11.9	-14.4%	19.3%	12.8	7.8%
Normalised net income	10.4	8.0	-23.5%	17.2%	8.6	7.8%
Normalised EPS, €	1.84	1.42	-22.8%	15.9%	1.51	5.9%
Reported EPS, €	1.87	1.48	-21.2%	19.8%	1.56	6.0%
Net cash	21.6	14.4	-33.4%	5.2%	18.7	29.7%
DPS, €	0.36	0.36	0.0%	9.1%	0.39	8.3%

Source: Edison Investment Research

Exhibit 3: Financial summary

	€'000s	2012	2013	2014	2015	2016	2017e	2018e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
PROFIT & LOSS								
Revenue		40,260	41,116	46,061	58,457	65,990	75,597	82,009
EBITDA		6,637	6,598	8,979	13,405	14,871	16,646	17,674
Operating Profit (before amort and except)		4,265	3,883	5,700	9,257	9,934	11,646	12,574
Amortisation of acquired intangibles		0	0	0	(302)	(200)	(200)	(200)
Exceptionals and other income		(16)	60	53	(245)	(474)	0	0
Other income		0	0	0	0	0	0	0
Operating Profit		4,249	3,943	5,753	8,710	9,260	11,446	12,374
Net Interest		38	6	220	(6)	(108)	100	100
Profit Before Tax (norm)		4,303	3,889	5,920	9,312	9,949	11,869	12,797
Profit Before Tax (FRS 3)		4,287	3,949	5,973	8,765	9,275	11,669	12,597
Tax		(1,286)	(761)	(1,323)	(2,292)	(2,950)	(3,851)	(4,157)
Profit After Tax (norm)		3,012	3,140	4,609	6,877	6,785	7,952	8,574
Profit After Tax (FRS 3)		3,001	3,188	4,650	6,473	6,325	7,818	8,440
Average Number of Shares Outstanding (m)		4.7	4.7	4.8	5.0	5.1	5.3	5.4
EPS - normalised (c)		64	67	97	138	132	150	159
EPS - normalised fully diluted (c)		60	62	90	131	123	142	151
EPS - (GAAP) (c)		64	68	97	130	123	148	156
Dividend per share (c)		14.00	18.00	24.00	30.00	33.00	36.00	39.00
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		16.5	16.0	19.5	22.9	22.5	22.0	21.6
Operating Margin (before GW and except) (%)		10.6	9.4	12.4	15.8	15.1	15.4	15.3
BALANCE SHEET								
Fixed Assets		8,764	9,437	12,552	25,184	28,324	36,352	38,125
Intangible Assets		5,521	6,458	7,709	19,603	22,381	30,599	32,522
Tangible Assets		2,835	2,450	4,470	4,985	5,158	4,968	4,818
Other		408	529	373	596	785	785	785
Current Assets		24,358	26,834	33,894	36,110	42,024	45,575	51,778
Stocks		100	89	93	161	101	101	101
Debtors		11,567	12,144	15,110	18,073	19,523	22,368	24,266
Cash		11,393	13,411	17,559	16,295	21,338	22,044	26,350
Other		1,298	1,190	1,132	1,581	1,062	1,062	1,062
Current Liabilities		(15,551)	(16,164)	(19,827)	(24,789)	(28,299)	(30,752)	(32,390)
Creditors		(15,551)	(16,164)	(19,827)	(24,789)	(28,299)	(30,752)	(32,390)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		(2,019)	(1,450)	(5,113)	(7,317)	(7,657)	(9,757)	(9,757)
Long term borrowings		(2,019)	(1,450)	(5,113)	(7,317)	(7,657)	(7,657)	(7,657)
Other long term liabilities		0	0	0	0	0	(2,100)	(2,100)
Net Assets		15,552	18,657	21,506	29,188	34,392	41,417	47,757
CASH FLOW								
Operating Cash Flow		6,163	6,539	9,245	14,307	16,303	16,254	17,415
Net Interest		122	90	310	(27)	(127)	100	100
Tax		(1,366)	(645)	(1,075)	(1,165)	(1,456)	(3,851)	(4,157)
Capex		(3,548)	(3,434)	(4,028)	(3,909)	(7,021)	(6,718)	(7,074)
Acquisitions/disposals		0	0	22	(11,700)	(948)	(3,300)	0
Financing		400	628	(694)	1,324	(581)	0	0
Dividends		(550)	(659)	(877)	(1,208)	(1,550)	(1,780)	(1,978)
Net Cash Flow		1,221	2,519	2,903	(2,378)	4,620	706	4,306
Opening net debt/(cash)		(8,526)	(9,354)	(11,961)	(12,446)	(8,978)	(13,681)	(14,387)
HP finance leases initiated		(393)	0	(2,293)	(1,090)	83	0	0
Other		(0)	88	(125)	0	0	0	0
Closing net debt/(cash)		(9,354)	(11,961)	(12,446)	(8,978)	(13,681)	(14,387)	(18,693)

Source: Esker, Edison Investment Research

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