

Esker

FY18 results

Accelerating growth in new contracts

Esker reported another year of double-digit revenue growth in FY18 and expects to repeat this in FY19. The company continues hiring to drive and support growth, resulting in operating margins undershooting its 15% target. We have revised our forecasts to reflect the higher level of investment. The 68% growth in the value of contracts signed in FY18 (up from 45% in FY17) supports the sustained growth of the business.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	76.1	10.7	1.32	0.32	51.6	0.5
12/18	86.9	12.2	1.64	0.36	41.5	0.5
12/19e	99.1	14.4	1.81	0.39	37.5	0.6
12/20e	112.7	17.8	2.19	0.43	31.1	0.6

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

FY18 results confirm strong revenue & profit growth

Esker reported FY18 revenue growth of 14% (16% in constant currency, cc). SaaS-related revenues grew 18% (20% cc), whereas licence-based DPA revenues declined 4% (-1% cc) and legacy product revenues declined 8% y-o-y (-7% cc). Normalised operating profit grew 13% y-o-y, although higher than expected operating costs resulted in a normalised operating margin of 13.7% versus our 15.4% forecast. Higher than expected contract wins towards the end of Q4 resulted in the payment of higher sales commissions (which are expensed immediately) whereas revenue from these multi-year contracts made almost no contribution in FY18. Normalised diluted EPS grew 24.4%, and was 3.7% below our forecast. Net cash of €16.6m at the end of FY18 was 65% higher than a year ago.

Growth in contract base gives good visibility

The company saw contracts worth €21.5m signed in FY18, 68% higher than in FY17. With contracts typically signed for three years, this gives the company good revenue visibility. Management expects to generate double-digit revenue growth in FY19 and is targeting 20% growth of SaaS-related revenues with operating margins in the region of 15%. We have revised our forecasts to reflect a higher cost base entering FY19; we reduce our FY19 normalised EPS forecast by 4.4% (10.6% growth y-o-y) and introduce a forecast for 20.6% growth in FY20.

Valuation: Reflects high levels of recurring revenue

On a P/E basis, Esker continues to trade at a premium to global DPA software peers and French small-cap software peers. As SaaS-related revenues make up 87% of group revenues, we believe it is more relevant to consider US SaaS software companies: Esker trades at a discount on all valuation metrics. We view Esker's operating model as sitting somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high-growth, high-investment operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins. In our view, high levels of recurring revenue, a strong balance sheet and a focus on investing to maintain growth warrant a premium valuation.

Software & comp services

28 March 2019

Price €68.00

Market cap €372m

\$1.13:€1

Net cash (€m) at end FY18 16.6

Shares in issue 5.5m

Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.9 17.8 26.5

Rel (local) 1.8 3.1 22.8

52-week high/low €70.7 €50.8

Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. In FY18, the business generated 56% of revenues from Europe, 38% from the US and the remainder from Asia and Australia.

Next events

Q119 revenues 16 April

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Review of FY18 results

Exhibit 1: FY18 results highlights					
€m	FY17a	FY18e	FY18a	change	y-o-y
Revenues	76.1	86.9	86.9	(0.1%)	14.2%
EBITDA	16.4	19.8	18.5	(6.2%)	13.0%
EBITDA margin	21.6%	22.7%	21.3%	(1.4%)	(0.2%)
Normalised EBIT	10.5	13.4	11.9	(10.8%)	12.9%
Normalised EBIT margin	13.9%	15.4%	13.7%	(1.6%)	(0.2%)
Reported EBIT	9.8	13.1	11.5	(11.7%)	17.7%
Reported EBIT margin	12.9%	15.0%	13.3%	(1.7%)	0.4%
Normalised PBT	10.7	13.7	12.2	(11.1%)	14.1%
Normalised net income	7.3	9.9	9.1	(7.3%)	25.5%
Normalised diluted EPS (€)	1.32	1.70	1.64	(3.7%)	24.4%
Reported basic EPS (€)	1.28	1.79	1.64	(8.5%)	28.0%
Diluted basic EPS (€)	1.22	1.66	1.59	(4.7%)	30.3%
Net cash	10.0	15.5	16.6	7.3%	65.5%
DPS (€)	0.32	0.36	0.36	0.0%	12.5%
Source: Esker, Edison Investment Research					

Double-digit growth for fifth year in a row

As Esker had previously reported Q4 revenues, FY18 revenues were in line with expectations. Revenues grew 14% in FY18, the fifth year of double-digit growth. On a constant currency basis, revenues grew 16% y-o-y. Recurring revenues made up 78% of total revenues, flat in percentage terms versus last year.

Exhibit 2: Revenues by type			
€m	FY17	FY18	y-o-y
SaaS	51.4	61.0	18.6%
Maintenance	8.0	6.9	(13.6%)
Consulting	14.4	16.5	14.9%
Licences	1.6	1.6	(5.1%)
Hardware	0.6	0.9	43.6%
Total	76.1	86.9	14.2%
SaaS-based DPA revenues	64.4	75.8	17.7%
Licence & maintenance-based DPA revenues	8.1	7.8	(3.7%)
Legacy products	3.6	3.3	(8.3%)
Total	76.1	86.9	14.2%
Source: Esker			

SaaS revenues grew 19% y-o-y to make up 70% of revenues. Maintenance revenues continued to decline, reflecting the gradual decline in perpetual licence sales, which now make up only 2% of revenues. Consulting revenues grew 15%, reflecting the growth in new contracts signed.

Looking at all SaaS-based DPA revenues (including consulting), growth was 18% over the year, or 20% on a constant currency basis.

Higher investment in headcount reduces profit growth

EBITDA came in €1.4m lower than our forecast. Staff costs were €0.9m/1.8% higher than forecast and other operating costs were €0.9m/3.9% higher than forecast, partially offset by higher other income (€1.3m versus our €1.0m forecast).

The business increased headcount by 15% over the year to end FY18 with 580 employees. Average headcount increased 13% y-o-y. R&D and consulting headcount made up 56% of the overall increase. More recently the company started increasing investment in sales and marketing headcount.

As the proportion of costs that are US-dollar denominated is lower than the proportion of revenues generated in US dollars, the weakening of the dollar versus the euro (average 1.18 in FY18 vs 1.13 in FY17) had a €0.48m negative impact on operating profit.

New contract wins increase costs in short term but boost recurring revenue base

Contracts worth €21.5m were signed in FY18, 68% higher than in FY17, which in turn was 45% higher than FY16. As the company has noted before, this value represents several years of revenues (typically three), whereas all the costs incurred in winning this business are charged in the period the contracts were signed. The total amount of revenue typically generated from a contract is roughly double the level originally contracted, owing to volume-based revenues. This gives the company good revenue visibility. Esker highlighted that sales towards the end of Q4 were higher than expected, resulting in higher than expected pay-out of sales commission, but very little impact on revenues yet. In total, Esker paid out €1.1m more in sales commissions in FY18 than it did in FY17.

The company saw a small increase in the contribution from the Neopost JV, from €232k in FY17 to €317k in FY18. As expected, the tax rate decreased due to tax cuts enacted in the US.

Normalised net income was 7.3% below our forecast and diluted normalised EPS came in 3.7% lower – the difference was due to a lower than forecast dilutive share count.

The company had a net cash balance of €16.6m at the end of FY18, up 65.5% y-o-y. It generated operating cash inflow of €15.6m, and paid out €1.8m in dividends and €8.1m in capex.

Business update

Recent contract announcement highlights potential in Asia

In February, the company announced that Fuji Xerox would market Esker's accounts payable automation solution as part of its offering to optimise accounts payable management processes in Japan, and soon Australia, Hong Kong and Singapore. Esker and Fuji Xerox already work together in New Zealand where customers in the construction, retail, business and education sectors have signed up to use Esker's accounts payable solution.

Fuji Xerox is a 75/25 joint venture between FUJIFILM and Xerox; its direct sales force covers Japan and the Asia-Pacific region including China. Esker generated 4% of its revenues in Asia Pacific/Australia in FY18. As the agreement also includes Fuji Xerox providing consulting, implementation and support to customers that choose to buy the software, this agreement could accelerate Esker's penetration of this region without Esker incurring substantial sales and consulting costs in the region.

Continuing to develop the channel

To accelerate the pace at which it can sign up new customers, Esker has started to build a network of channel partners. Last year, the company signed a partnership with Optima ECM Consulting in the US and with systems integrator Viveris in France. Ideally, these companies will start as implementation partners, but could end up as resellers. Esker has started training partners in France, with some implementation projects already underway.

Outlook and changes to forecasts

Management confirmed it is targeting 20% recurring organic growth (ie growth in SaaS revenues) with operating margins in the region of 15%, while continuing to invest in sales, consulting and R&D.

We have made minimal changes to our FY19 revenue forecast and we introduce a forecast for 13.8% growth in FY20. We have increased our cost base to reflect costs incurred in FY18 and a faster hiring rate. This reduces our FY19e normalised EBIT margin from 15.3% to 14.1%; however, as the company is targeting 15% margins we could see upside to our forecast. For FY20, we forecast growth in the margin to 15.4%. This results in normalised diluted EPS growth of 10.6% in FY19 and 20.6% in FY20. We expect continued strong cash generation and a net cash position of €32.0m by the end of FY20.

Exhibit 3: Changes to forecasts						
€m	FY19e old	FY19e new	change	y-o-y	FY20e	y-o-y
Revenues	99.0	99.1	0.1%	14.1%	112.7	13.8%
EBITDA	22.2	21.0	(5.4%)	13.2%	24.8	18.2%
EBITDA margin	22.4%	21.2%	(1.2%)	(0.2%)	22.0%	0.8%
Normalised EBIT	15.2	14.0	(7.9%)	17.4%	17.4	24.4%
Normalised EBIT margin	15.3%	14.1%	(1.2%)	0.4%	15.4%	1.3%
Reported EBIT	14.9	13.7	(8.0%)	18.7%	17.1	25.0%
Reported EBIT margin	15.0%	13.8%	(1.2%)	0.5%	15.2%	1.4%
Normalised PBT	15.5	14.4	(7.1%)	18.3%	17.8	23.7%
Normalised net income	11.2	10.4	(7.1%)	13.5%	12.8	23.7%
Normalised dil. EPS (€)	1.89	1.81	(4.4%)	10.6%	2.19	20.6%
Reported basic EPS (€)	1.99	1.84	(7.8%)	12.4%	2.24	22.0%
Diluted basic EPS (€)	1.86	1.77	(4.5%)	11.9%	2.15	21.0%
Net cash	22.3	23.7	6.3%	43.2%	32.0	34.9%
DPS (€)	0.39	0.39	0.0%	8.3%	0.43	10.3%
Source: Edison Investment Research						

Valuation

On a P/E basis, Esker continues to trade at a premium to global DPA software peers and French small-cap software peers. As SaaS-related revenues make up 87% of group revenues, we believe it is more relevant to consider US SaaS software companies: Esker trades at a discount on all valuation metrics. We view Esker's operating model as sitting somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high-growth, high-investment operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins. In our view, high levels of recurring revenue, a strong balance sheet and a focus on investing to maintain growth warrant a premium valuation.

Exhibit 4: Peer group multiples

Company	Share price	Market cap (m)	Rev growth		EBIT margin		EBITDA margin		EV/Sales (x)		P/E (x)	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Esker	€ 68.00	€ 372.2	14.1%	13.8%	14.1%	15.4%	21.2%	22.0%	3.6	3.2	37.5	31.1
Software companies with DPA software offerings												
Basware	€ 23.40	€ 338.8	5.1%	9.9%	-8.8%	(5.1%)	1.3%	2.9%	2.4	2.2	N/A	N/A
Bottomline	\$48.33	\$2,087.6	8.6%	11.2%	19.6%	20.9%	24.9%	25.9%	4.6	4.1	31.1	26.3
Coupa	\$90.40	\$5,373.8	25.9%	25.2%	1.7%	6.3%	5.5%	10.8%	16.0	12.7	1234.8	279.3
ITESoft	€ 3.10	€ 19.1	(1.2%)		7.5%		10.8%		0.6		11.5	
OpenText	\$50.27	\$13,511	5.2%	0.6%	34.8%	35.9%	38.4%	39.6%	4.0	3.9	16.9	16.1
Average			8.7%	11.7%	11.0%	14.5%	16.2%	19.8%	5.5	5.7	19.8*	21.2*
Median			5.2%	10.5%	7.5%	13.6%	10.8%	18.3%	4.0	4.0	16.9*	21.2*
French small-cap software companies												
Axway Software	€ 11.30	€ 236	1.0%	1.6%	8.1%	9.9%	10.2%	12.0%	0.9	0.8	16.4	15.3
Claranova	€ 0.73	€ 289	18.7%	17.7%	9.8%	10.8%	10.1%	11.4%	0.9	0.7	13.7	10.4
ESI Group	€ 23.20	€ 139	2.6%	6.3%	5.3%	8.2%	7.4%	9.9%	1.2	1.1	39.7	19.7
Harvest	€ 85.50	€ 121	10.0%	9.9%	22.0%	25.0%	23.3%	26.2%	3.6	3.2	26.1	21.0
Lectra	€ 21.70	€ 692	6.6%	4.4%	14.2%	14.6%	16.9%	17.5%	2.0	1.9	21.9	20.4
Linedata Service	€ 29.60	€ 212	(1.4%)	3.8%	16.6%	17.0%	25.3%	25.5%	1.6	1.6	10.5	10.1
Sidetrade	€ 58.60	€ 83	4.6%	17.1%	7.1%	10.8%	10.3%		3.1	2.6	51.4	
Average			6.0%	8.7%	11.9%	13.7%	14.8%	17.1%	1.9	1.7	25.7	16.1
Median			4.6%	6.3%	9.8%	10.8%	10.3%	14.7%	1.6	1.6	21.9	17.5

Source: Edison Investment Research, Refinitiv. Note: Priced at 25 March; *excludes Basware and Coupa.

Exhibit 5: SaaS companies financial and valuation metrics

Name	Market cap (m)	EV in reporting currency (m)	Sales Growth CY (%)	Sales Growth NY (%)	EBITDA margin CY (%)	EBITDA margin NY (%)	EBIT margin CY (%)	EBIT margin NY (%)	EV/ Sales CY (x)	EV/ Sales NY (x)	P/E CY (x)	P/E NY (x)
Salesforce.Com	124,517	123,351	20.7	19.5	24.2	25.0	18.3	19.6	7.7	6.4	58.4	46.9
Workday	42,420	41,846	25.9	22.7	19.0	20.9	12.4	14.3	11.8	9.6	115.2	86.7
ServiceNow	43,538	42,702	31.5	28.1	26.8	28.1	21.2	23.1	12.4	9.7	77.6	56.3
Atlassian	26,305	25,497	37.1	27.8	26.5	26.9	20.5	21.3	21.3	16.7	134.5	107.9
Twilio	16,007	15,696	65.6	32.2	3.7	5.6	0.7	3.1	14.6	11.0	1320.5	482.1
Paycom Software	10,616	10,605	25.8	22.4	40.6	41.7	35.4	36.8	14.9	12.2	57.3	45.2
Ultimate Software Group	10,460	9,692	19.7	19.3	24.2	24.7	20.1	20.7	7.1	5.9	52.7	43.5
Okta	9,096	8,804	33.8	30.6	-9.7	-2.8	-11.9	-4.1	16.5	12.6	Nm	Nm
Zendesk	8,974	9,006	34.0	29.6	7.0	10.1	2.1	6.2	11.2	8.7	289.7	125.5
HubSpot	6,819	6,546	26.9	23.7	12.1	14.0	7.4	9.7	10.1	8.1	145.9	100.7
Proofpoint	6,636	6,405	21.8	21.0	15.3	16.5	11.3	13.3	7.3	6.1	72.7	53.3
Coupa Software	5,374	5,227	25.9	25.2	5.5	10.8	1.7	6.3	16.0	12.7	1234.8	279.3
Paylocity	4,525	4,421	21.8	21.0	28.2	29.3	20.5	21.8	9.6	7.9	67.5	52.5
Blackbaud	3,696	4,051	4.9	5.3	20.1	20.7	17.0	16.3	4.5	4.3	34.4	31.0
FireEye	3,386	3,232	6.6	7.4	9.9	12.6	5.2	8.3	3.6	3.4	88.9	53.7
Cornerstone OnDemand	3,157	3,103	4.8	13.8	22.1	26.7	14.0	17.7	5.5	4.8	54.8	37.4
Qualys	3,223	2,936	15.4	16.3	38.4	39.4	29.7	30.9	9.1	7.8	44.2	37.6
Mimecast	2,735	2,767	29.6	23.7	15.8	17.9	7.8	10.2	8.1	6.6	167.7	90.5
Box	2,752	2,648	15.4	16.0	6.7	9.4	-0.2	4.3	3.8	3.3	Nm	110.1
LivePerson	1,803	1,737	15.3	19.2	3.9	8.4	-2.1	2.9	6.0	5.1	Nm	221.2
Kinaxis	2,053	1,357	23.7	18.1	24.5	25.7	19.5	19.3	7.3	6.2	52.2	42.0
Upland Software	873	1,136	31.3	4.6	36.6	38.0	34.9	31.3	5.8	5.5	19.2	18.4
Average			24.4	20.3	18.2	20.5	13.0	15.2	9.7	7.9	125.7	112.5
Median			24.7	21.0	19.6	20.8	13.2	15.3	8.6	7.2	63.0	53.5

Source: Refinitiv. Note: Priced at 25 March.

Exhibit 6: Financial summary

	€'000s	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 December		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	99,079	112,716
EBITDA		8,979	13,405	14,871	16,399	18,529	20,979	24,794
Operating Profit (before amort and except)		5,700	9,257	9,934	10,547	11,911	13,979	17,394
Amortisation of acquired intangibles		0	(302)	(200)	(300)	(300)	(300)	(300)
Exceptionals and other income		53	(245)	(474)	(456)	(88)	0	0
Other income		0	0	0	0	0	0	0
Operating Profit		5,753	8,710	9,260	9,791	11,523	13,679	17,094
Net Interest		220	(6)	(108)	(110)	(57)	100	100
Profit Before Tax (norm)		5,920	9,312	9,949	10,669	12,171	14,396	17,811
Profit Before Tax (FRS 3)		5,973	8,765	9,275	9,913	11,783	14,096	17,511
Tax		(1,323)	(2,292)	(2,950)	(3,148)	(2,940)	(3,947)	(4,903)
Profit After Tax (norm)		4,609	6,877	6,785	7,281	9,135	10,365	12,824
Profit After Tax (FRS 3)		4,650	6,473	6,325	6,765	8,843	10,149	12,608
Ave. Number of Shares Outstanding (m)		4.8	5.0	5.3	5.3	5.4	5.5	5.6
EPS - normalised (c)		97	138	128	138	169	188	228
EPS - normalised fully diluted (c)		90	131	122	132	164	181	219
EPS - (GAAP) (c)		97	130	120	128	164	184	224
Dividend per share (c)		24.00	30.00	30.00	32.00	36.00	39.00	43.00
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		19.5	22.9	22.5	21.6	21.3	21.2	22.0
Operating Margin (before GW and except) (%)		12.4	15.8	15.1	13.9	13.7	14.1	15.4
BALANCE SHEET								
Fixed Assets		12,552	25,184	28,324	37,912	39,635	40,292	40,666
Intangible Assets		7,709	19,603	22,381	26,673	28,096	29,253	30,227
Tangible Assets		4,470	4,985	5,158	7,115	7,050	6,550	5,950
Other		373	596	785	4,124	4,489	4,489	4,489
Current Assets		33,894	36,110	42,024	42,823	49,016	58,922	68,514
Stocks		93	161	101	176	147	147	147
Debtors		15,110	18,073	19,523	21,253	25,551	27,688	31,499
Cash		17,559	16,295	21,338	20,632	22,794	30,563	36,344
Other		1,132	1,581	1,062	762	524	524	524
Current Liabilities		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(32,272)	(34,730)
Creditors		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(32,272)	(34,730)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		(5,113)	(7,317)	(7,657)	(14,909)	(10,810)	(8,310)	(5,810)
Long term borrowings		(5,113)	(7,317)	(7,657)	(13,716)	(9,318)	(6,818)	(4,318)
Other long term liabilities		0	0	0	(1,193)	(1,492)	(1,492)	(1,492)
Net Assets		21,506	29,188	34,392	39,620	47,769	58,631	68,640
CASH FLOW								
Operating Cash Flow		9,245	14,307	15,331	17,311	18,366	21,043	23,441
Net Interest		310	(27)	(127)	(75)	63	100	100
Tax		(1,075)	(1,165)	(1,456)	(2,053)	(2,795)	(3,947)	(4,903)
Capex		(4,028)	(3,909)	(7,021)	(9,304)	(7,792)	(7,957)	(8,074)
Acquisitions/disposals		22	(11,700)	(335)	(7,551)	(264)	0	0
Financing		(694)	1,324	480	(345)	785	0	0
Dividends		(877)	(1,208)	(1,550)	(1,633)	(1,756)	(2,070)	(2,282)
Net Cash Flow		2,903	(2,378)	5,322	(3,650)	6,607	7,169	8,282
Opening net debt/(cash)		(11,961)	(12,446)	(8,978)	(13,681)	(10,011)	(16,576)	(23,745)
HP finance leases initiated		(2,293)	(1,090)	(645)	0	0	0	0
Other		(125)	0	26	(20)	(43)	(0)	0
Closing net debt/(cash)		(12,446)	(8,978)	(13,681)	(10,011)	(16,576)	(23,745)	(32,026)

Source: Esker, Edison Investment Research

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