

# Esker

## Strong guidance for FY20

FY19 revenue update

Software & comp services

20 January 2020

**Price** €103.8

**Market cap** €582m

\$1.12/€

Net cash (€m) at end FY19 20.2

Shares in issue 5.6m

Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Esker saw SaaS-based revenue growth accelerate through 2019 as previously signed contracts started to contribute and existing customers grew volumes processed through the platform. With FY19 revenues ahead of our forecast and guidance for revenue growth of at least 15% in FY20, we have raised our revenue and EPS forecasts for both years. Revenues are now more than 90% SaaS based, with c 80% recurring revenues providing good visibility for future growth.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	76.1	10.7	1.32	0.32	78.8	0.3
12/18	86.9	12.2	1.64	0.41	63.3	0.4
12/19e	104.2	15.6	1.89	0.45	55.0	0.4
12/20e	120.1	18.7	2.20	0.50	47.1	0.5

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

## Strong finish to the year

Esker reported Q4 revenue of €28.7m, 22% higher year-on-year on a reported basis and 21% higher on a constant currency (cc) basis. For FY19, this resulted in revenues of €104.2m (+20% reported, +18% cc), 3.6% ahead of our €100.6m forecast. SaaS-based revenues accelerated to growth of 25% cc in Q4, compared to 17% in Q1, 21% in Q2 and 22% in Q3, and now make up more than 90% of revenues. For FY19 on a cc basis, SaaS-based revenues grew 21%, licence and maintenance revenues declined 22% and legacy products grew 25%.

## Positive outlook drives upgrades

Esker signed new contracts worth €28m in FY19, 41% higher than in FY18 and expects to generate revenues of at least €120m in FY20 (compared to our €114.6m forecast). The company previously pointed to a target revenue growth rate of 20% per year. This was achieved on a reported basis in FY19, although was slightly below on a cc basis. Guidance suggests a growth rate of 15% in FY20 and we have raised our estimates to reflect this. We maintain operating margins approaching 15%, resulting in upgrades to our normalised EPS forecasts of 8.4% in FY19 and 4.1% in FY20.

## Valuation: Recent performance reflects Q4 upside

Esker's stock has gained 48% over the last year and 13% in the last month alone. It trades at a premium to French small-cap software peers and global DPA software providers. Compared to companies with a similar SaaS business model, however, Esker trades at a discount on all multiples. As the company accelerates revenue growth towards its 20% target, we would expect the shares to re-rate. We note that Esker has a strong balance sheet with €20m net cash, representing ample funds to support growth via internal investment or selective M&A.

### Share price performance



% 1m 3m 12m

Abs 16.0 25.1 49.6

Rel (local) 13.5 16.6 19.1

52-week high/low €104.2 €65.7

### Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. In FY18, the business generated 58% of revenues from Europe, 37% from the US and the remainder from Asia and Australia.

### Next events

FY19 results 19 March 2020

### Analyst

Katherine Thompson +44 (0)20 3077 5730

[tech@edisongroup.com](mailto:tech@edisongroup.com)

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**Exhibit 1: Financial summary**

	€'000 s	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
<b>PROFIT &amp; LOSS</b>								
Revenue		46,061	58,457	65,990	76,064	86,871	104,174	120,126
EBITDA		8,979	13,405	14,871	16,399	18,237	22,154	25,997
Operating Profit (before amort and except)		5,700	9,257	9,934	10,547	11,913	14,948	18,041
Amortisation of acquired intangibles		0	(302)	(200)	(300)	(344)	(344)	(344)
Exceptionals and other income		53	(245)	(474)	(456)	(88)	139	0
Other income		0	0	0	0	0	0	0
Operating Profit		5,753	8,710	9,260	9,791	11,481	14,743	17,697
Net Interest		220	(6)	(108)	(110)	(57)	200	100
Profit Before Tax (norm)		5,920	9,312	9,949	10,669	12,173	15,648	18,741
Profit Before Tax (FRS 3)		5,973	8,765	9,275	9,913	11,741	15,443	18,397
Tax		(1,323)	(2,292)	(2,950)	(3,148)	(2,940)	(4,787)	(5,703)
Profit After Tax (norm)		4,609	6,877	6,785	7,281	9,125	10,797	12,931
Profit After Tax (FRS 3)		4,650	6,473	6,325	6,765	8,801	10,656	12,694
Average Number of Shares Outstanding (m)		4.8	5.0	5.3	5.3	5.4	5.5	5.7
EPS - normalised (c)		97	138	128	138	169	195	228
EPS - normalised fully diluted (c)		90	131	122	132	164	189	220
EPS - (GAAP) (c)		97	130	120	128	163	192	224
Dividend per share (c)		24	30	30	32	41	45	50
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	21.0	21.3	21.6
Operating Margin (before GW and except) (%)		12.4	15.8	15.1	13.9	13.7	14.3	15.0
<b>BALANCE SHEET</b>								
Fixed Assets		12,552	25,184	28,324	37,912	39,635	42,185	43,585
Intangible Assets		7,709	19,603	22,381	26,673	28,096	29,696	31,196
Tangible Assets		4,470	4,985	5,158	7,115	7,050	8,000	7,900
Other		373	596	785	4,124	4,489	4,489	4,489
Current Assets		33,894	36,110	42,024	42,823	49,016	57,964	66,376
Stocks		93	161	101	176	147	147	147
Debtors		15,110	18,073	19,523	21,253	25,551	29,112	33,569
Cash		17,559	16,295	21,338	20,632	22,794	28,181	32,136
Other		1,132	1,581	1,062	762	524	524	524
Current Liabilities		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(33,190)	(36,066)
Creditors		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(33,190)	(36,066)
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	58,648	68,086
<b>CASH FLOW</b>								
Operating Cash Flow		9,245	14,307	15,331	17,311	18,324	21,712	24,414
Net Interest		310	(27)	(127)	(75)	63	200	100
Tax		(1,075)	(1,165)	(1,456)	(2,053)	(2,795)	(4,787)	(5,703)
Capex		(4,028)	(3,909)	(7,021)	(9,304)	(7,789)	(10,100)	(9,700)
Acquisitions/disposals		22	(11,700)	(335)	(7,551)	(225)	0	0
Financing		(694)	1,324	480	(345)	785	0	0
Dividends		(877)	(1,208)	(1,550)	(1,633)	(1,756)	(2,237)	(2,656)
Net Cash Flow		2,903	(2,378)	5,322	(3,650)	6,607	4,788	6,455
Opening net debt/(cash)		(11,961)	(12,446)	(8,978)	(13,681)	(10,011)	(16,576)	(21,363)
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)	(21,363)	(27,818)

Source: Esker, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia