

# Esker

FY17 results

## Investing for sustained growth

Esker's FY17 results confirmed that the company has maintained its double-digit revenue growth rate. While investment in R&D and consulting capacity held back the rate of profit growth in FY17, this highlights the company's focus on driving multi-year revenue growth. We have revised our forecasts to take account of the higher cost base, which is more than offset by the reduction in the group tax rate. We increase our normalised EPS forecast by 0.6% in FY18 and forecast EPS growth of 19.5% in FY19.

Year end	Revenue (€m)	PBT* (€m)	Dil. EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	66.0	9.9	1.22	0.30	42.8	0.6
12/17	76.1	10.7	1.29	0.33	40.5	0.6
12/18e	83.9	12.5	1.55	0.36	33.7	0.7
12/19e	92.0	15.2	1.85	0.39	28.2	0.7

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

## FY17 – revenue growth funds investment

Esker reported FY17 revenue growth of 15.3% (11% constant currency organic), with normalised operating profit growth of 6.2% (margin 13.9%). Investment in headcount was ahead of our forecast, with consulting seeing the largest increase due to the demands of new customers requiring implementation services. e-integration performed well in the year, generating 9% revenue growth and an 18% operating margin.

## Outlook – double digit growth; build partner network

Based on strong order intake in FY17 and high levels of recurring revenues (77% in FY17), management expects to be able to generate double-digit organic revenue growth in FY18. We expect costs to grow at a slower rate than revenues in FY18/19, resulting in operating margin expansion from 13.9% in FY17 to 14.5% in FY18 and 16.1% in FY19. In order to be able to support the implementation requirements of new customers, the company is working on building out a partner network; this could ultimately become a reseller network. While the company has a strong net cash position, it has de-emphasised its search for acquisition targets due to its perception that interesting early stage SaaS companies are currently overvalued. This shifts the focus back to in-house product development.

## Valuation: Premium deserved

Esker trades at a premium to other DPA software providers and small cap French software suppliers, although we highlight it is showing stronger revenue growth and profitability than both groups, and has a high level of recurring revenues. Compared to US SaaS companies, which have faster growth but lower profitability, Esker is trading at a discount. Continued evidence of strong organic growth combined with margin expansion would be the key triggers for upside from this point.

## Software & comp services

10 April 2018

**Price** €52.30

**Market cap** €278m

\$1.23:€1

Net cash (€m) at end FY17 10.0

Shares in issue 5.3m

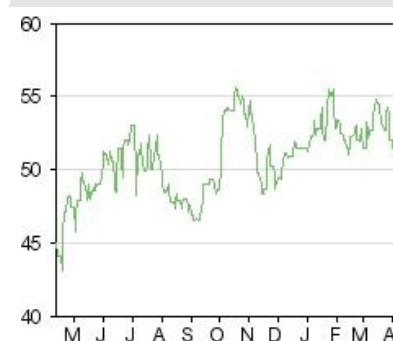
Free float 81%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (0.8) (1.9) 12.3

Rel (local) (0.3) 2.8 8.5

52-week high/low €55.6 €43.1

## Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. The business generates c 55% of revenues from Europe, c 40% from the US and the remainder from Asia and Australia.

## Next events

Q118 revenues 17 April 2018

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## Review of FY17 results

### Exhibit 1: FY17 results highlights

€m	FY16a	FY17e	FY17a	difference	y-o-y
Revenues	66.0	75.4	76.1	0.9%	15.3%
EBITDA	14.9	17.1	16.4	-4.2%	10.3%
EBITDA margin	22.5%	22.7%	21.6%	-1.1%	-1.0%
Normalised EBIT	9.9	12.0	10.5	-12.2%	6.2%
Normalised EBIT margin	15.1%	15.9%	13.9%	-2.1%	-1.2%
Reported EBIT	9.3	11.7	9.8	-16.4%	5.7%
Reported EBIT margin	14.0%	15.5%	12.9%	-2.7%	-1.2%
Normalised PBT	9.9	12.2	10.7	-12.8%	7.3%
Normalised net income	6.8	8.2	7.3	-11.2%	7.3%
Normalised dil. EPS (€)	1.22	1.45	1.29	-11.2%	5.6%
Reported basic EPS (€)	1.20	1.51	1.28	-15.4%	6.5%
Net cash	13.7	14.7	10.0	-31.8%	-26.8%
DPS (€)	0.30	0.33	0.33*	0.0%	10.0%

Source: Esker, Edison Investment Research. Note: \*Still an estimate.

Revenues were slightly ahead of our forecast, growing 15.3% y-o-y; on a constant currency, organic basis revenues grew 11% y-o-y. e-integration, which was consolidated from 1 January 2017, contributed revenues of €3.6m (+9% y-o-y) and operating profit of €0.65m (18.1% margin). The company added 76 heads in the year, of which 29 came from the consolidation of e-integration. This was ahead of our forecast for 70 additional employees and hence increased staff costs by 2% compared to our forecast. Other operating costs were also 2% ahead of our forecast. Exceptional costs of €0.5m were incurred in relation to pension provisions and the final costs of moving the company's headquarters in Lyon. Clean operating profit was therefore 12.2% below our forecast and reported operating profit 16.4% below. The company paid an effective tax rate of 32%, versus our 33% forecast. Esker closed the year with a net cash position of €10.0m consisting of gross cash of €23.7m and a debt position of €13.7m. We note that gross cash includes €3.1m of cash on deposit for more than 12 months, which is reported within fixed assets.

During the year, the dollar and the pound weakened against the euro (the average €/£ rate in FY17 was 1.128 versus 1.107 in FY16). Currency effects reduced operating profit by €0.4m in FY17, with c 75% due to the weaker dollar and c 25% due to the weaker pound.

### Exhibit 2: Revenues by product type

€m	FY16	FY17	y-o-y
SaaS	43.4	51.0	17.5%
Maintenance	8.6	7.6	-12.0%
Consulting	10.6	14.5	35.9%
Licences	2.6	2.3	-12.2%
Hardware	0.7	0.8	4.6%
Total	66.0	76.1	15.3%
SaaS-based DPA revenues	50.9	64.4	26.5%
Licence and maintenance-based DPA revenues	10.7	8.1	-24.3%
Legacy products	4.4	3.6	-18.2%
Total	66.0	76.1	15.3%

Source: Esker

In the table above, we show Esker's revenues split in terms of product type and also by DPA versus legacy products. SaaS-based revenues grew 17.5% y-o-y as new contracts were implemented and existing customers generated higher volumes. Maintenance revenues declined, as perpetual licence sales have been in decline for several years. Consulting revenues were 35.9% higher, reflecting the large number of new contracts that were implemented in the year.

DPA revenues increased by 17.6% overall, with SaaS-related revenues (SaaS plus consulting) up 26.5% whereas licence and maintenance revenues decline 24.3%. Legacy products, which have been in decline since FY10, fell 18.2% and now make up less than 5% of revenues. Recurring revenues were 77% of the total in the year, giving the company good visibility on revenues for FY18.

## **Business update**

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### **Technology focus – product enhancements and security**

The company increased R&D headcount by 18% y-o-y to make up 22% of the total. Management outlined the key developments made or underway, including the use of machine learning, robotic process automation and deep learning to add further automation to its product range, as well as the development of the Esker Anywhere mobile app. Work is also underway to improve the user experience and to reduce the amount of consulting time required to install the software. The company achieved ISO27001 certification during the year – this demonstrates that the company is meeting internationally recognised information security standards, crucial when supplying a cloud-based solution.

### **Keeping up with customer demand**

The company increased consulting headcount by 27% y-o-y (now 23% of total headcount) in order to keep pace with the implementation demands of new customers. It believes that capacity utilisation has now stabilised. To accelerate the pace at which it can sign up new customers, it is starting to build out a network of channel partners. For example, the company signed a partnership with Optima ECM Consulting in the US in January. Ideally, these partners will start as implementation partners, but could end up as resellers. Management emphasised that the process of building out the network will take time, as even once partners are identified and signed up, their staff will need to be trained in the use of the software.

### **Early days for supply chain finance initiative**

In November 2017, Esker announced that it had launched a supply chain finance initiative in Singapore in partnership with Jing King Tech Group (JK Tech). JK Tech is a provider of payment solutions, transaction security and services to the banking industry. The joint venture will connect Esker's e-invoicing platform to a group of banking partners, including UOB, Singapore's second largest bank. Esker and JK Tech will market NEMO, a cloud-based supply chain finance solution to banking and financing partners in China and South East Asia. Having visibility into approved invoices gives finance providers a more efficient way of assessing the credit-worthiness of customers seeking finance. If this proves popular, Esker would look to extend this type of offering into other countries.

### **Joint venture with Neopost progressing well**

The contribution from the Neopost joint venture (in which Esker has a 30% stake) increased from €0.1m in FY16 to €0.2m in FY17. The JV launched Neotouch (the product developed by Esker for SMEs) in the US; it was previously only available in France.

## **Outlook and changes to forecasts**

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The company expects to be able to achieve double-digit organic revenue growth in FY18 – and even pointed to an acceleration in the growth rate. The dollar has weakened further against the

euro year-to-date, although we had already factored in an average exchange rate of \$1.22/€ for FY18. Any further weakening of the dollar could have a negative impact on revenues and operating profit.

Contracts worth €12.8m signed in FY17 were 45% higher than those signed in FY16, which in turn were 33% higher than in FY15. As the company has noted before, this value represents several years of revenues, whereas all the costs incurred in winning this business are charged in the period that the contracts were signed. Sales commission costs increased by €0.5m y-o-y. In addition, 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.

We have increased our FY18 revenue forecast to reflect the company's outlook. We have also increased the cost base after factoring in the higher year-end headcount and factoring in a higher level of hiring in 2018. We have reduced our tax rate forecast from 33% to 28% to reflect the reduced tax rate in the US from the beginning of 2018.

### Exhibit 3: Changes to forecasts

€m	FY18e old	FY18e new	change	y-o-y	FY19e new	y-o-y
Revenues	82.2	83.9	2.0%	10.3%	92.0	9.6%
EBITDA	18.4	18.6	1.0%	13.2%	21.5	16.1%
EBITDA margin	22.3%	22.1%	-0.2%	0.6%	23.4%	1.3%
Normalised EBIT	13.1	12.2	-7.4%	15.3%	14.8	22.1%
Normalised EBIT margin	16.0%	14.5%	-1.5%	0.6%	16.1%	1.7%
Reported EBIT	12.8	11.9	-7.5%	21.1%	14.5	22.7%
Reported EBIT margin	15.6%	14.1%	-1.5%	1.3%	15.8%	1.7%
Normalised PBT	13.3	12.5	-6.4%	17.0%	15.2	21.6%
Normalised net income	8.9	9.0	0.6%	23.5%	10.9	21.6%
Normalised dil. EPS (€)	1.54	1.55	0.6%	20.3%	1.85	19.5%
Reported basic EPS (€)	1.62	1.63	0.4%	27.3%	1.95	19.9%
Net cash	19.4	15.4	-20.8%	53.4%	22.6	47.3%
DPS (€)	0.36	0.36	0.0%	9.1%	0.39	8.3%

Source: Edison Investment Research

## Valuation

We have compared Esker's valuation to a group of companies operating in the DPA software market as well as small cap French software companies. Esker is forecast to generate revenue growth and EBIT margins ahead of the median for both peer groups. This is reflected in the premium valuation on a P/E basis. We note that companies in both peer groups are not predominantly SaaS companies, whereas Esker has been operating a SaaS business model for more than a decade. US SaaS companies in Exhibit 5 show faster growth than Esker, although are generating operating margins below the level that Esker is achieving. Esker is valued at a discount to this peer group on both EV/sales and P/E multiples.

**Exhibit 4: Peer group financial and valuation metrics**

Company	Share price	Market cap	Rev growth		EBIT margin		EBITDA margin		EV/Sales		P/E	
		m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
<b>Esker</b>	€ 52.30	€ 278.2	10.3%	9.6%	14.5%	16.1%	22.1%	23.4%	3.2	2.9	33.7	28.2
<b>Software companies with DPA software offerings</b>												
Basware	€ 41.50	€ 597.7	-3.1%	8.7%	-4.5%	-6.1%	2.3%	1.0%	4.3	4.0	N/A	N/A
Bottomline	\$39.39	\$1,601.8	9.8%	6.0%	10.2%	11.9%	22.8%	24.1%	4.0	3.7	28.0	24.5
ITESoft	€ 3.70	€ 22.7	1.5%				12.4%	13.3%	1.1	0.0	8.6	
OpenText	\$34.86	\$9,312	4.2%	1.5%	33.7%	34.4%	37.1%	38.2%	4.0	3.9	12.2	11.8
<b>Average</b>			<b>3.1%</b>	<b>5.4%</b>	<b>13.2%</b>	<b>13.4%</b>	<b>18.6%</b>	<b>19.1%</b>	<b>3.3</b>	<b>2.9</b>	<b>16.3*</b>	<b>18.2*</b>
<b>Median</b>			<b>2.9%</b>	<b>6.0%</b>	<b>10.2%</b>	<b>11.9%</b>	<b>17.6%</b>	<b>18.7%</b>	<b>4.0</b>	<b>3.8</b>	<b>10.4*</b>	<b>11.8*</b>
<b>French small-cap software companies</b>												
Axway Software	€ 19.00	€ 403	-0.8%	1.2%	13.3%	16.8%	11.6%	13.2%	1.4	1.4	17.5	15.1
Claranova	€ 0.90	€ 355	51.0%	34.0%	8.1%	13.4%	8.7%	13.5%	1.2	0.9	22.6	7.5
ESI Group	€ 38.45	€ 231	7.1%	7.3%	8.0%	9.9%	9.7%	11.5%	1.8	1.7	35.0	25.4
Harvest	€ 80.00	€ 112	10.1%	10.2%	18.5%	20.2%	20.4%	22.5%	3.7	3.4	29.9	24.0
Lectra	€ 23.20	€ 734	4.5%	8.4%	13.1%	13.5%	15.6%	16.0%	2.2	2.0	25.8	22.6
Linedata Service	€ 33.15	€ 242	-4.1%	0.8%	15.7%	16.5%	26.3%	29.1%	1.9	1.8	13.1	12.9
Sidetrade	€ 63.00	€ 88	17.6%	17.3%	8.7%	12.1%	12.2%	15.4%	3.2	2.7	44.4	27.4
<b>Average</b>			<b>12.2%</b>	<b>11.3%</b>	<b>12.2%</b>	<b>14.6%</b>	<b>14.9%</b>	<b>17.3%</b>	<b>2.2</b>	<b>2.0</b>	<b>26.9</b>	<b>19.3</b>
<b>Median</b>			<b>7.1%</b>	<b>8.4%</b>	<b>13.1%</b>	<b>13.5%</b>	<b>12.2%</b>	<b>15.4%</b>	<b>1.9</b>	<b>1.8</b>	<b>25.8</b>	<b>22.6</b>

Source: Edison Investment Research, Bloomberg (as at 9 April). Note: \*Excludes Basware.

**Exhibit 5: US SaaS companies financial and valuation metrics**

Name	Market cap (\$m)	EV in rep. ccy (m)	Sales Growth 1FY (%)	Sales Growth 2FY (%)	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)	EBIT margin 1FY (%)	EBIT margin 2FY (%)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
SALESFORCE.COM	87,219	84,384	21.2	19.3	23.2	24.3	16.4	17.9	6.6	5.6	55.8	44.1
WORKDAY	26,639	24,862	25.5	22.8	18.3	20.2	8.9	10.2	9.2	7.5	105.4	77.6
SERVICENOW	29,009	28,403	32.0	28.7	25.6	28.4	19.7	23.0	11.1	8.7	81.8	55.8
ATLASSIAN CORP PLC	13,154	12,494	38.2	28.5	29.3	28.9	19.0	19.5	14.6	11.3	118.4	85.2
PAYCOM SOFTWARE	6,498	6,487	25.7	23.6	39.5	39.9	35.1	35.5	11.9	9.6	44.7	35.9
PROOFPPOINT	6,120	5,986	32.7	28.2	12.5	14.6	8.0	12.0	8.8	6.8	131.3	79.1
COUPA SOFTWARE	2,617	2,368	23.0	24.3	-2.9	1.2	-4.8	-0.7	10.3	8.3	N/A	N/A
ZENDESK	4,842	4,498	30.7	28.5	6.0	8.1	0.4	3.4	8.0	6.2	1191.0	161.3
TWILIO	3,585	3,293	28.2	23.5	1.5	5.1	-2.1	1.1	6.4	5.2	N/A	679.2
FIREEYE	3,337	3,219	9.1	8.3	12.3	14.5	1.5	6.2	3.9	3.6	1024.4	106.2
CORNERSTONE ONDEMAND	2,334	2,304	4.5	10.7	17.7	21.6	11.4	16.2	4.6	4.1	61.0	35.9
HORTONWORKS	1,403	1,331	25.2	24.9	6.3	12.0	-14.7	-8.8	4.1	3.3	N/A	N/A
KINAXIS INC	2,104	1,498	20.9	22.3	26.0	28.7	15.4	17.6	9.3	7.6	61.2	45.2
<b>Average</b>			<b>24.4</b>	<b>22.6</b>	<b>16.6</b>	<b>19.1</b>	<b>8.8</b>	<b>11.8</b>	<b>8.4</b>	<b>6.8</b>	<b>287.5</b>	<b>72.6</b>
<b>Median</b>			<b>25.5</b>	<b>23.6</b>	<b>17.7</b>	<b>20.2</b>	<b>8.9</b>	<b>12.0</b>	<b>8.8</b>	<b>6.8</b>	<b>61.2</b>	<b>55.8</b>

Source: Bloomberg (as at 9 April)

**Exhibit 6: Financial summary**

	€'000s	2012	2013	2014	2015	2016	2017	2018e	2019e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
<b>PROFIT &amp; LOSS</b>									
Revenue		40,260	41,116	46,061	58,457	65,990	76,065	83,907	91,971
EBITDA		6,637	6,598	8,979	13,405	14,871	16,400	18,558	21,549
Operating Profit (before amort and except)		4,265	3,883	5,700	9,257	9,934	10,548	12,158	14,849
Amortisation of acquired intangibles		0	0	0	(302)	(200)	(300)	(300)	(300)
Exceptionals and other income		(16)	60	53	(245)	(474)	(456)	0	0
Other income		0	0	0	0	0	0	0	0
Operating Profit		4,249	3,943	5,753	8,710	9,260	9,792	11,858	14,549
Net Interest		38	6	220	(6)	(108)	(110)	100	100
Profit Before Tax (norm)		4,303	3,889	5,920	9,312	9,949	10,670	12,490	15,181
Profit Before Tax (FRS 3)		4,287	3,949	5,973	8,765	9,275	9,914	12,190	14,881
Tax		(1,286)	(761)	(1,323)	(2,292)	(2,950)	(3,148)	(3,413)	(4,167)
Profit After Tax (norm)		3,012	3,140	4,609	6,877	6,785	7,282	8,992	10,931
Profit After Tax (FRS 3)		3,001	3,188	4,650	6,473	6,325	6,766	8,776	10,715
Average Number of Shares Outstanding (m)		4.7	4.7	4.8	5.0	5.3	5.3	5.4	5.5
EPS - normalised (c)		64	67	97	138	128	138	167	199
EPS - normalised fully diluted (c)		60	62	90	131	122	129	155	185
EPS - (GAAP) (c)		64	68	97	130	120	128	163	195
Dividend per share (c)		14.00	18.00	24.00	30.00	30.00	33.00	36.00	39.00
EBITDA Margin (%)		16.5	16.0	19.5	22.9	22.5	21.6	22.1	23.4
Operating Margin (before GW and except) (%)		10.6	9.4	12.4	15.8	15.1	13.9	14.5	16.1
<b>BALANCE SHEET</b>									
Fixed Assets		8,764	9,437	12,552	25,184	28,324	37,912	38,620	39,134
Intangible Assets		5,521	6,458	7,709	19,603	22,381	26,673	27,681	28,595
Tangible Assets		2,835	2,450	4,470	4,985	5,158	7,115	6,815	6,415
Other		408	529	373	596	785	4,124	4,124	4,124
Current Assets		24,358	26,834	33,894	36,110	42,024	42,823	50,962	57,979
Stocks		100	89	93	161	101	176	176	176
Debtors		11,567	12,144	15,110	18,073	19,523	21,253	23,448	25,702
Cash		11,393	13,411	17,559	16,295	21,338	20,632	26,576	31,339
Other		1,298	1,190	1,132	1,581	1,062	762	762	762
Current Liabilities		(15,551)	(16,164)	(19,827)	(24,789)	(28,299)	(27,399)	(28,918)	(30,481)
Creditors		(15,551)	(16,164)	(19,827)	(24,789)	(28,299)	(27,399)	(28,918)	(30,481)
Short term borrowings		0	0	0	0	0	0	0	0
Long Term Liabilities		(2,019)	(1,450)	(5,113)	(7,317)	(7,657)	(13,716)	(11,216)	(8,716)
Long term borrowings		(2,019)	(1,450)	(5,113)	(7,317)	(7,657)	(13,716)	(11,216)	(8,716)
Other long term liabilities		0	0	0	0	0	0	0	0
Net Assets		15,552	18,657	21,506	29,188	34,392	39,620	49,448	57,916
<b>CASH FLOW</b>									
Operating Cash Flow		6,163	6,539	9,245	14,307	15,331	17,312	17,882	20,858
Net Interest		122	90	310	(27)	(127)	(75)	100	100
Tax		(1,366)	(645)	(1,075)	(1,165)	(1,456)	(2,053)	(3,413)	(4,167)
Capex		(3,548)	(3,434)	(4,028)	(3,909)	(7,021)	(9,304)	(7,408)	(7,514)
Acquisitions/disposals		0	0	22	(11,700)	(335)	(7,551)	0	0
Financing		400	628	(694)	1,324	480	(345)	0	0
Dividends		(550)	(659)	(877)	(1,208)	(1,550)	(1,633)	(1,813)	(2,014)
Net Cash Flow		1,221	2,519	2,903	(2,378)	5,322	(3,649)	5,348	7,263
Opening net debt/(cash)		(8,526)	(9,354)	(11,961)	(12,446)	(8,978)	(13,681)	(10,012)	(15,360)
HP finance leases initiated		(393)	0	(2,293)	(1,090)	(645)	0	0	0
Other		(0)	88	(125)	0	26	(20)	0	0
Closing net debt/(cash)		(9,354)	(11,961)	(12,446)	(8,978)	(13,681)	(10,012)	(15,360)	(22,623)

Source: Esker, Edison Investment Research

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