

Esker

Positive outlook

Esker reported a strong close to the year, with Q421 revenue up 16% y-o-y despite a resurgence of the pandemic in December and FY21 revenue ahead of our estimate. Growth in both the annual recurring value and average length of contracts signed in FY21 provides support for management's expectations of 16% revenue growth in FY22. Esker also recently agreed to acquire Market Dojo, an e-procurement software provider, to enhance its Procure-to-Pay offering. We have revised our forecasts to reflect better FY21 revenues, currency and the acquisition. Our normalised diluted EPS forecast increases by 3.2% in FY21 and reflecting investment in Market Dojo, reduces by 3.2% in FY22.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	104.2	13.6	1.79	0.33	145.8	0.1
12/20	112.3	14.5	1.99	0.50	131.2	0.2
12/21e	133.7	19.7	2.59	0.55	100.8	0.2
12/22e	157.1	23.7	3.07	0.60	85.0	0.2

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

FY21 revenue ahead of expectations

Esker reported Q421 revenue of €35.9m (+16% y-o-y) and FY21 revenue of €133.7m (+19% y-o-y, 1.6% ahead of our forecast). The annual recurring revenue (ARR) of orders received in the year increased 25% to €13.2m and the average contract length increased from 3.2 years in FY20 to 3.6 years in FY21. The company expects to generate revenue of c €155m in FY22 (+16%) and maintained its operating margin target range of 12–15%.

Acquiring e-procurement business, Market Dojo

Esker has agreed to acquire Market Dojo, a provider of SaaS-based e-procurement software, with the deal structured in two stages: 50.1% to be acquired upfront and the remaining 49.9% after four years, funded 80/20 cash/equity. We have factored in an initial cost of €10.2m in Q122 and assume the business is operating at break-even. Market Dojo provides software for the earlier part of the procurement process (eg e-sourcing, reverse auctions), rounding out Esker's Procure-to-Pay offering. We have revised our forecasts to reflect currency, stronger than expected performance in Q421, guidance for FY22 and the Market Dojo deal.

Valuation: Reflects growth in recurring revenues

After doubling in 2021, the stock has declined 27% year to date, and continues to trade at a premium to document processing automation software and French software peers but at a discount to US SaaS peers. Esker's valuation metrics have moved much closer to the US SaaS software peer group over the last two years. 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.

Q4 revenue update

Software & comp services

18 January 2022

Price €261

Market cap €1,514m

\$1.13:€1

Net cash (€m) at end FY21 38.6

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 (19.4) (8.6) 27.6

Rel (local) (22.5) (13.8) 1.9

52-week high/low €362 €184

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

FY21 results 24 March 2022

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Acquisition of Market Dojo

Esker has announced the planned acquisition of e-procurement software business Market Dojo. Market Dojo (MD) was established in 2010 in the UK and has 20 employees and more than 160 customers (60% outside of the UK, including France, the US and the Middle East). MD provides SaaS-based software for the procurement market, with solutions for e-sourcing and supplier engagement. MD generated trailing 12-month revenue of £1.3m, representing growth of 30%.

Terms of the deal

Esker will initially buy 50.1% of the company and will buy the remaining 49.9% after four years. In both cases, the company will be valued at 13x annual recurring revenue (Esker currently trades at c 16.4x FY21e recurring revenue). The price will be settled in a mixture of cash and equity in the ratio 80/20, with shares locked up for two years. MD will continue to operate as a standalone business over the next four years, although we would expect Esker and MD to work closely together to grow the MD business and introduce MD customers to Esker.

The company has not disclosed the ARR to be used for the first payment. We have made the following assumptions:

- Initial payment: using an ARR of £1.3m (trailing 12-month revenue), we estimate a payment of £8.5m/€10.2m (using €1.2/£).
- Final payment: using a 30% growth rate per year, this would imply ARR of £3.7m after four years and a payment of £24.1m/€28.9m.

Deal rationale

Esker's Procure-to-Pay suite has evolved from its Accounts Payable automation software, with functionality added over time to address the earlier parts of the procurement cycle such as supplier, contract and catalogue management. A major area of product development for the company has been and continues to be deepening this functionality. The acquisition of MD brings additional functionality for the procurement process, including e-sourcing, reverse auction and category spend analysis, as well as supplier management, supplier onboarding and contract management. In addition, MD typically serves customers for both direct and indirect spend, whereas Esker has historically served more of the indirect spend market.

Q421 revenue update

Esker reported Q421 revenue of €35.9m, up 16% y-o-y or 14% at constant currency (cc). This resulted in FY21 revenue of €133.7m, up 19% or 20% cc, and 1.6% ahead of our €131.6m forecast. The company noted that December saw a slowing in transaction volumes due to the resurgence of the pandemic but, despite this, saw Q421 SaaS revenue increase 20% y-o-y/18% cc and FY21 SaaS revenue increase 22%/23% cc. Revenue from implementation services increased 18% year-on-year/19% cc in FY21, growing from €5.5m in Q121 to €6.2m in Q421. Revenue from legacy products declined 12% y-o-y/10% cc.

The company received bookings worth €3.65m in ARR in Q421, slightly down from the €3.78m in Q420, which was a record quarter for Esker and reflected a catch-up in orders after pandemic-related delays earlier in FY20. The company noted that the resurgence of the pandemic delayed the signing of some contracts in Q421. The ARR of orders received in FY21 was €13.2m, 25% higher y-o-y.

The lifetime value of orders received in FY21 was €48.0m, 38% higher than in FY20 (note that this includes the value of SaaS subscriptions only, with volume-related fees excluded from this measure as they are variable). This implies an average contract length of 3.6 years for contracts signed in FY21 compared to 3.2 years in FY20.

Esker expects to report operating income at a similar level to H121 (14.3% margin) and closed the year with a net cash position of €38.6m.

For FY22, the company expects to achieve double-digit organic growth with sales around €155m (our forecast was €153.6m) and operating profitability of 12–15%.

Changes to forecasts

We have factored in the MD acquisition, assuming it completes in Q122. We assume that the company invests in Market Dojo in FY22 and FY23, reducing our operating margin forecast. We have also raised our revenue forecasts for the original Esker business in FY21 and FY22, mainly due to currency. We have revised our €/€ exchange rate assumptions for FY22 from 1.20 to 1.15 and this also results in increased operating expenses. Overall, our normalised diluted EPS increases by 3.2% in FY21e and falls by 3.2% in FY22e. We also introduce forecasts for FY23.

Exhibit 1: Changes to forecasts

€m	FY21e old	FY21e new	change	y-o-y	FY22e old	FY22e new	change	y-o-y	FY23e new	y-o-y
Revenues	131.6	133.7	1.6%	19.1%	153.6	157.1	2.3%	17.5%	183.2	16.6%
EBITDA	27.4	28.0	2.2%	27.5%	32.7	31.9	(2.4%)	14.1%	36.8	15.2%
EBITDA margin	20.8%	20.9%	0.1%	1.4%	21.3%	20.3%	(1.0%)	(0.6%)	20.1%	(0.3%)
Normalised EBIT	18.2	18.8	3.3%	33.9%	23.1	22.3	(3.4%)	18.9%	26.6	19.0%
Normalised EBIT margin	13.8%	14.1%	0.2%	1.6%	15.1%	14.2%	(0.8%)	0.2%	14.5%	0.3%
Reported EBIT	17.8	18.4	3.4%	35.4%	22.7	21.9	(3.5%)	19.0%	26.2	19.4%
Reported EBIT margin	13.5%	13.8%	0.2%	1.7%	14.8%	14.0%	(0.8%)	0.2%	14.3%	0.3%
Normalised PBT	19.1	19.7	3.2%	36.2%	24.5	23.7	(3.2%)	20.6%	28.0	17.9%
Normalised net income	14.9	15.4	3.2%	33.5%	19.1	18.5	(3.2%)	20.6%	21.8	17.9%
Reported net income	14.6	15.1	3.2%	30.4%	18.8	18.2	(3.3%)	20.7%	21.5	18.2%
Normalised dil. EPS (€)	2.51	2.59	3.2%	30.1%	3.17	3.07	(3.2%)	18.6%	3.56	16.0%
Reported basic EPS (€)	2.54	2.63	3.2%	28.8%	3.22	3.11	(3.3%)	18.6%	3.62	16.2%
Reported diluted EPS (€)	2.46	2.54	3.2%	27.1%	3.11	3.01	(3.3%)	18.7%	3.50	16.3%
Net cash	38.2	38.5	0.7%	27.0%	47.9	38.4	(19.9%)	(0.1%)	49.8	29.7%
DPS (€)	0.55	0.55	0.0%	10.0%	0.60	0.60	0.0%	9.1%	0.65	8.3%

Source: Edison Investment Research

Exhibit 2: Financial summary

	€'000s	2016	2017	2018	2019	2020	2021e	2022e	2023e
Year end 31 December		French GAAP	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	133,700	157,055	183,203
EBITDA		14,871	16,399	18,279	20,054	21,927	27,968	31,922	36,771
Operating Profit (before amort and except)		9,934	10,547	11,955	12,843	14,037	18,793	22,347	26,596
Amortisation of acquired intangibles		(200)	(300)	(344)	(425)	(425)	(425)	(425)	(425)
Exceptionals and other income		(474)	(456)	(88)	(62)	0	57	0	0
Other income		0	0	0	0	0	0	0	0
Operating Profit		9,260	9,791	11,523	12,356	13,612	18,425	21,922	26,171
Net Interest		(108)	(110)	(57)	268	(67)	100	200	200
Profit Before Tax (norm)		9,949	10,669	12,215	13,634	14,462	19,693	23,747	27,996
Profit Before Tax (FRS 3)		9,275	9,913	11,783	13,147	14,528	19,325	23,322	27,571
Tax		(2,950)	(3,148)	(2,940)	(3,402)	(2,966)	(4,251)	(5,131)	(6,066)
Profit After Tax (norm)		6,785	7,281	9,168	10,106	11,509	15,360	18,522	21,837
Profit After Tax (FRS 3)		6,325	6,765	8,843	9,745	11,562	15,073	18,191	21,505
Ave. Number of Shares Outstanding (m)		5.3	5.3	5.4	5.4	5.7	5.7	5.8	5.9
EPS - normalised (c)		128	138	170	186	203	268	317	368
EPS - normalised fully diluted (c)		122	132	165	179	199	259	307	356
EPS - (GAAP) (c)		120	128	164	180	204	263	311	362
Dividend per share (c)		30	32	41	33	50	55	60	65
Gross margin (%)		N/A	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	20.9	20.3	20.1
Operating Margin (before GW and except) (%)		15.1	13.9	13.8	12.3	12.5	14.1	14.2	14.5
BALANCE SHEET									
Fixed Assets		28,324	37,912	39,635	47,201	48,987	51,687	65,247	68,847
Intangible Assets		22,381	26,673	28,096	29,323	30,787	33,187	45,747	48,147
Tangible Assets		5,158	7,115	7,050	10,434	10,036	9,536	9,336	9,336
Other		785	4,124	4,489	7,444	8,164	8,964	10,164	11,364
Current Assets		42,024	42,823	49,016	52,022	72,918	71,861	77,190	95,893
Stocks		101	176	147	185	257	257	257	257
Debtors		19,523	21,253	25,551	30,015	31,440	37,363	43,889	51,196
Cash		21,338	20,632	22,794	21,357	40,421	33,441	32,243	43,640
Other		1,062	762	524	465	800	800	800	800
Current Liabilities		(28,299)	(26,206)	(30,072)	(34,300)	(50,150)	(42,343)	(46,368)	(50,875)
Creditors		(28,299)	(26,206)	(30,072)	(34,300)	(38,650)	(42,343)	(46,368)	(50,875)
Short term borrowings		0	0	0	0	(11,500)	0	0	0
Long Term Liabilities		(7,657)	(14,909)	(10,810)	(8,276)	(6,342)	(3,842)	(2,698)	(2,698)
Long term borrowings		(7,657)	(13,716)	(9,318)	(6,516)	(3,644)	(1,144)	0	0
Other long term liabilities		0	(1,193)	(1,492)	(1,760)	(2,698)	(2,698)	(2,698)	(2,698)
Net Assets		34,392	39,620	47,769	56,647	65,413	77,363	93,371	111,168
CASH FLOW									
Operating Cash Flow		15,944	17,311	18,366	20,290	24,389	25,738	29,420	33,971
Net Interest		(127)	(75)	63	352	(30)	100	200	200
Tax		(1,456)	(2,053)	(2,795)	(3,329)	(884)	(4,251)	(5,131)	(6,066)
Capex		(7,021)	(9,304)	(7,789)	(10,995)	(10,167)	(11,500)	(12,200)	(13,000)
Acquisitions/disposals		(935)	(7,551)	(225)	(486)	(492)	0	(9,000)	0
Financing		467	(345)	785	1,449	48	1,000	0	0
Dividends		(1,550)	(1,633)	(1,756)	(2,237)	(1,896)	(2,897)	(3,343)	(3,709)
Net Cash Flow		5,322	(3,650)	6,649	5,044	10,968	8,189	(54)	11,396
Opening net debt/(cash)		(8,978)	(13,681)	(10,016)	(16,576)	(21,018)	(30,285)	(38,474)	(38,420)
HP finance leases initiated		(645)	0	0	0	0	0	0	0
Other		26	(15)	(90)	(602)	(1,701)	0	(0)	0
Closing net debt/(cash)		(13,681)	(10,016)	(16,576)	(21,018)	(30,285)	(38,474)	(38,420)	(49,817)

Source: Esker, Edison Investment Research

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