

Esker

Q2 revenue update

Another record quarter

Continued strong demand for Esker's SaaS-based software in H119, with group revenue growth of 17% y-o-y and the value of contracts signed 51% higher y-o-y, prompts us to upgrade our revenue forecasts for FY19 and FY20. In our view, high levels of recurring revenue, a strong balance sheet and a focus on investing to maintain growth justify Esker's premium valuation.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	76.1	10.7	1.32	0.32	64.6	0.4
12/18	86.9	12.2	1.64	0.41	51.9	0.5
12/19e	100.6	14.4	1.81	0.45	47.0	0.5
12/20e	114.6	17.8	2.19	0.50	38.9	0.6

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

Positive revenue momentum continues in H1

Esker's Q219 revenue update confirmed continued strong demand for its SaaS software: Q2 revenue €26.1m (+18% y-o-y/+16% constant currency (cc)); H119 revenue €50.1m (+17% y-o-y/+15% cc). SaaS-based revenues made up 90% of Q2 revenues and grew 21% cc y-o-y. Despite being in long-term decline, legacy products (4% of revenues) were up 9% cc in Q219 and H119. Esker had gross cash of €21.5m and net cash of €15.0m at the end of H119. The value of contracts signed in H119 was 51% higher y-o-y, providing good support for medium-term growth. As H1 revenues have typically made up 49% of annual revenues, the company expects to achieve revenues in excess of €100m for FY19, assuming no major FX changes. We have revised up our revenue forecasts by 1.6% in FY19 and 1.7% in FY20, but maintain our EPS forecasts reflecting the initial costs of new contract implementations and the impact of the stronger dollar on the cost base.

New sales and technology partnerships

In June, Esker announced it had partnered with KPMG in the Netherlands. KPMG will market Esker's cloud-based Accounts Payable solution as part of its RPA and Finance Transformation offering. This week, Esker announced that it had made an investment in B/2BNOW, a Wisconsin-based start-up providing electronic data interchange (EDI) solutions for SAP S/4HANA Cloud ERP systems. Steve Smith, Esker's US head, will join the board of B/2BNOW.

Valuation: Reflects high levels of recurring revenue

The stock is up 38% year-to-date and continues to trade at a premium to document processing automation peers and French software peers, in our view due to its superior growth and profitability. With 90% of revenues from SaaS activities, we view US SaaS software peers as more relevant and Esker trades at a discount on all metrics. In our view, high levels of recurring revenue, a strong balance sheet and a focus on investing to maintain growth justify Esker's premium valuation.

Software & comp services

18 July 2019

Price **€85.1**

Market cap **€474m**

\$1.13:€1

Net cash (€m) at end H119 15.0

Shares in issue 5.6m

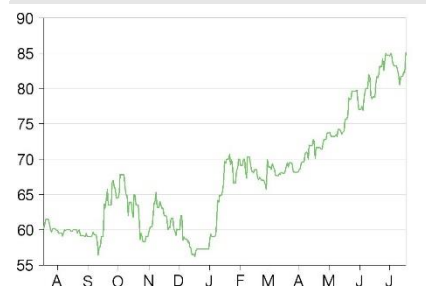
Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 5.6 21.4 46.0

Rel (local) 2.3 21.7 44.3

52-week high/low €85.1 €56.2

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

H1 results 12 September

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Changes to forecasts

We have revised our forecasts to reflect strong H119 revenues, a stronger dollar versus the euro and higher dividend forecasts for FY19 and FY20; this has no impact on our normalised EBIT or EPS forecasts. We have also revised the amount paid for the dividend announced and paid in June. The company paid a dividend of €0.41 (versus our €0.36 forecast), which was increased to €0.451 for investors who had held their shares for at least two years (we assume 25% of shareholders were entitled to the higher amount).

Exhibit 1: Forecast revisions								
€m	FY19e old	FY19e new	change	y-o-y	FY20e old	FY20e new	change	y-o-y
Revenues	99.1	100.6	1.6%	15.9%	112.7	114.6	1.7%	13.9%
EBITDA	21.0	21.0	0.0%	13.2%	24.8	24.8	0.0%	18.2%
EBITDA margin	21.2%	20.8%	(0.3%)	(0.5%)	22.0%	21.6%	(0.4%)	0.8%
Normalised EBIT	14.0	14.0	0.0%	17.4%	17.4	17.4	0.0%	24.4%
Normalised EBIT margin	14.1%	13.9%	(0.2%)	0.2%	15.4%	15.2%	(0.3%)	1.3%
Reported EBIT	13.7	13.7	0.0%	18.7%	17.1	17.1	0.0%	25.0%
Reported EBIT margin	13.8%	13.6%	(0.2%)	0.3%	15.2%	14.9%	(0.2%)	1.3%
Normalised PBT	14.4	14.4	0.1%	18.4%	17.8	17.8	0.1%	23.7%
Normalised net income	10.4	10.4	0.1%	13.6%	12.8	12.8	0.1%	23.7%
Normalised dil. EPS (€)	1.812	1.813	0.0%	10.5%	2.19	2.19	0.1%	20.6%
Reported basic EPS (€)	1.839	1.832	(0.4%)	11.8%	2.24	2.23	(0.8%)	21.5%
Reported diluted EPS (€)	1.77	1.77	0.0%	11.7%	2.15	2.15	0.1%	21.1%
Net cash	23.7	23.3	(1.9%)	40.6%	32.0	31.2	(2.7%)	33.8%
DPS (€)	0.39	0.45	15.4%	9.8%	0.43	0.50	16.3%	11.1%

Source: Edison Investment Research

Exhibit 2: 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	100,649	114,596
EBITDA		8,979	13,405	14,871	16,399	18,529	20,980	24,794
Operating Profit (before amort and except)		5,700	9,257	9,934	10,547	11,911	13,980	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	13,680	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	14,410	17,824
Profit Before Tax (FRS 3)		5,973	8,765	9,275	9,913	11,783	14,110	17,524
Tax		(1,323)	(2,292)	(2,950)	(3,148)	(2,940)	(3,951)	(4,907)
Profit After Tax (norm)		4,609	6,877	6,785	7,281	9,135	10,375	12,833
Profit After Tax (FRS 3)		4,650	6,473	6,325	6,765	8,843	10,159	12,617
Ave. No. 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	187	226
EPS - normalised fully diluted (c)		90	131	122	132	164	181	219
EPS (GAAP) (c)		97	130	120	128	164	183	223
Dividend per share (c)		24.00	30.00	30.00	32.00	41.00	45.00	50.00
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	20.8	21.6
Operating Margin (before GW and except) (%)		12.4	15.8	15.1	13.9	13.7	13.9	15.2
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	58,914	68,185
Stocks		93	161	101	176	147	147	147
Debtors		15,110	18,073	19,523	21,253	25,551	28,127	32,024
Cash		17,559	16,295	21,338	20,632	22,794	30,116	35,490
Other		1,132	1,581	1,062	762	524	524	524
Current Liabilities		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(32,555)	(35,069)
Creditors		(19,827)	(24,789)	(28,299)	(26,206)	(30,072)	(32,555)	(35,069)
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	58,340	67,972
CASH FLOW								
Operating Cash Flow		9,245	14,307	15,331	17,311	18,366	20,887	23,411
Net Interest		310	(27)	(127)	(75)	63	100	100
Tax		(1,075)	(1,165)	(1,456)	(2,053)	(2,795)	(3,951)	(4,907)
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)	(2,357)	(2,656)
Net Cash Flow		2,903	(2,378)	5,322	(3,650)	6,607	6,723	7,873
Opening net debt/(cash)		(11,961)	(12,446)	(8,978)	(13,681)	(10,011)	(16,576)	(23,298)
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)	(23,298)	(31,172)

Source: Esker, Edison Investment Research

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