EDISON

MotorK

Initiation of coverage

Gearing up for the automotive digital revolution

Software and comp services

MotorK is a European software-as-a-service (SaaS) provider of sales and marketing software that helps automotive retailers to bridge the gap between their digital capabilities and the expectations of their customers. It is the only European player to offer a range of products on one platform, SparK, simplifying the implementation of digital strategies for the entire sales process at a low cost for both dealers and manufacturers. We forecast rapid revenue growth and margin expansion as MotorK broadens its product suite, expands geographically and executes its M&A strategy.

Year end	Revenue (€m)	ARR** (€m)	PBT* (€)	Diluted EPS* (€)	DPS (€)	EV/sales (x)	EV/EBITDA (x)
12/20	19.3	10.0	(6.1)	(0.19)	0.0	4.5	N/A
12/21	27.6	15.1	(8.2)	(0.37)	0.0	3.1	103.7
12/22e	46.4	32.0	2.1	0.04	0.0	1.9	10.9
12/23e	69.6	42.9	11.5	0.22	0.0	1.2	4.6

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

Simplifying the transition to digital

Accelerated by COVID-19, automotive retailers are moving away from traditional bricks-and-mortar sales methods and are investing more in their digital capabilities. A major issue facing retailers is the plethora of single-product solutions developed by multiple providers. MotorK's SparK platform has been designed to simplify the adoption of digital processes, providing a one-stop shop for automotive-specific applications such as website development, customer and sales data management and advertising. R&D is focused on evolving the platform to meet the changing needs of the industry. M&A is core to MotorK's growth strategy with the aim of consolidating a fragmented market, extending its geographical presence and providing more customers for its land and expand strategy. MotorK targets two to three bolt-on deals a year and has already completed two deals this year.

Strong SaaS metrics support growth targets

MotorK's H122 results confirmed it is on track to meet FY22 guidance (which excludes FY22 acquisitions) for year-end ARR of €28–30m (+85–99% y-o-y), revenue of €45–47m (+63-70%) and a c 20% EBITDA margin. H122 net revenue retention of 113%, churn of 3.1% and LTV/CAC (lifetime value/customer acquisition cost) of 15x highlighted good customer retention and the success of MotorK's land and expand strategy. The transition of customers from recent acquisitions onto the SparK platform should provide further potential for average contract value growth.

Valuation: Peers and DCF support upside potential

Were MotorK's shares to trade in line with peers on a blend of EV/sales and EV/EBITDA across FY22e and FY23e, the implied share price would be €6.91, suggesting significant upside potential. Performing a reverse 10-year discounted cash flow (DCF) analysis based on our forecasts to FY24 requires average revenue growth of 14.8% from FY25–31 and an EBITDA margin of 40% for FY26–31 to arrive at this value. Based on nearer-term forecasts and market potential, we believe this appears reasonable.

13 September 2022

Price	**€2.64**
Market cap	**€107m**
Net cash (€m) at end H122	20.8
Shares in issue	40.7m
Free float	26.5%
Code	MTRK
Primary exchange	Euronext Amsterdam
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(7.0)	(39.6)	N/A
Rel (local)	(3.2)	(40.9)	NA
52-week high/low		€7.00	€2.55

Business description

MotorK is a European SaaS provider operating in the automotive retail industry, selling mainly in the EU5 but with a global presence. Its cloud-based platform, SparK, offers OEMs and dealers a suite of digital tools to support the vehicle lifecycle end-to-end.

Next events

Q322 trading update	18 October 2022

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MotorK is a research client of Edison Investment Research Limited

Investment summary

Company description: A one-stop shop for automotive retail

MotorK is a SaaS provider for the automotive retail industry in the Europe, Middle East and Africa (EMEA) region, providing digital enablement software and services to 670 franchised dealers and 18 car manufacturers (original equipment manufacturers (OEMs)). Evolving consumer expectations and increased demand for an agile omnichannel (offline/online) car buying experience are pressuring automotive retailers to adapt their sales strategies to more digital models. According to management, MotorK is the only European player that can provide an end-to-end stack of products to support the digitisation of the entire car sale process, with SparK providing tools that include website-building, customer and sales data management and advertising. Its modular design allows the seamless integration of new products, as well as efficient upgrades to existing ones to address the future needs of the market. MotorK's M&A strategy is focused on the opportunity to consolidate the market by acquiring local single-product specialists and expanding more widely across Europe. The group has 11 offices in Italy, Spain, France, Germany, Israel, Portugal, the Netherlands and Belgium.

Financials: On track to reach ambitious targets

In H122, MotorK reported 32% y-o-y revenue growth to €16.9m, driven by up-sells and cross-sells among its growing customer base (net revenue retention was 113%), acquisitions and customer retention (churn: 3.1% annualised). With revenues heavily weighted to H2, increased R&D spend in H122 (+37% y-o-y) resulted in an EBITDA loss of €2.3m. We expect revenue to accelerate in H2, as recently acquired customers migrate onto the SparK platform, and we forecast FY22 revenue of €46.4m (+69% y-o-y). Our expectations are underpinned by annualised recurring revenue (ARR), which was 75% higher y-o-y at €20.1m at the end of H122 (+25% organic). With H222 costs essentially flat h-o-h, we forecast an adjusted EBITDA margin of 17% for FY22 (FY21: 3%), approaching the company's 20% target. We forecast this to grow to 30% by FY24. The group's balance sheet is robust, with net cash of €20.8m at the end of H122, which will be used to support its M&A strategy.

Valuation: Discount to peers shows upside potential

We have compared MotorK's price performance and valuations against European SaaS providers. On enterprise value (EV) multiples, MotorK trades at a significant discount. Were the shares to trade at parity with peers on a blend of EV/sales and EV/EBITDA across FY22e and FY23e, the implied share price would be €6.91, suggesting significant upside potential. Performing a reverse 10-year DCF analysis based on our forecasts to FY24 requires average revenue growth of 14.8% for FY25–31 and an EBITDA margin of 40% from FY26 to arrive at this value. We believe this is achievable based on the company's growth trajectory and its strong operating leverage (management has good visibility on its future operating expenses, which mainly comprise staff costs). Additional accretive M&A has the potential to add further upside.

Sensitivities: Macroeconomic conditions create uncertainty

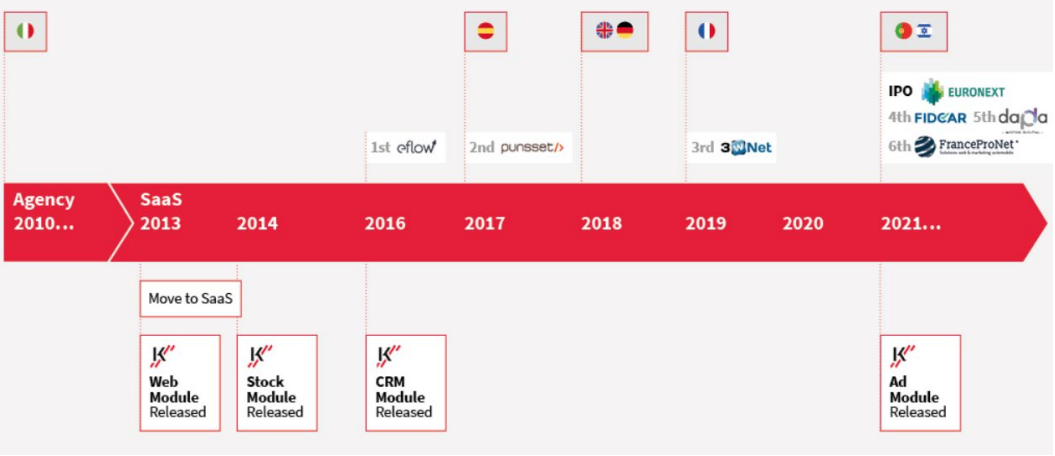
Ongoing supply chain constraints due to the pandemic and the Russia/Ukraine war present challenges for MotorK's OEM and dealer customer base. Our valuation assumes that management is successful in its goal of reaching EBITDA margins of >40% in FY26. A changing competitive landscape and consumer preferences, or an inability to replicate its success in other geographies or in its M&A strategy and execution, could affect MotorK's performance and growth.

Company description: Simplifying the digital landscape

MotorK was founded in 2010 and pivoted to a SaaS model in 2013, growing to become a leading SaaS provider for the automotive retail industry in the EMEA region. Its SparK platform delivers sales and marketing software to 670 franchised dealers and 18 OEMs; its customers deal in new cars and trade-ins.

MotorK's SparK platform is modular: management has added products consistently over the years, both organically and through M&A, evolving the company from a single-product offering to a full-service platform. Exhibit 1 shows the timing of product launches and acquisitions.

Exhibit 1: MotorK's evolution



Source: MotorK

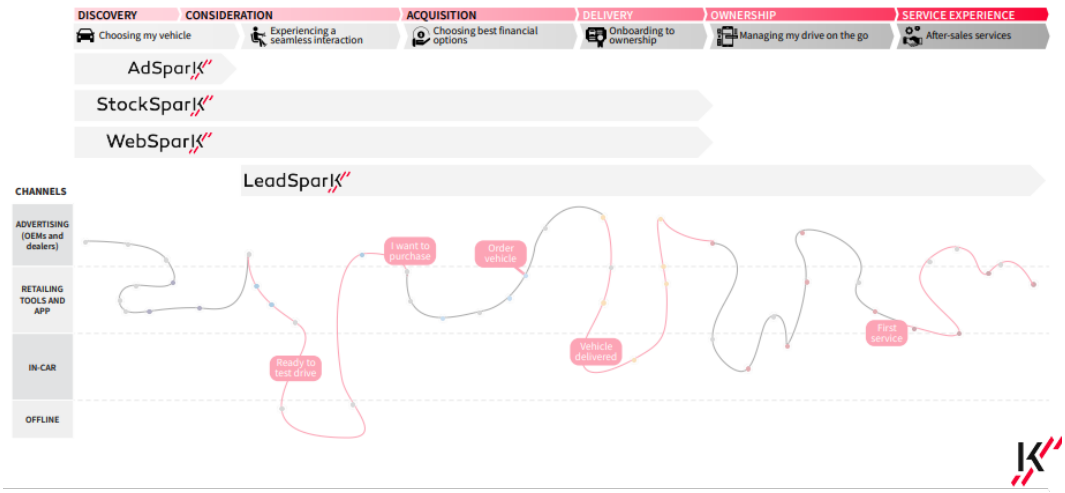
MotorK has over 418 employees, spread across Europe with 11 offices in eight countries (Italy, Spain, France, Germany, Israel, Portugal, the Netherlands and Belgium). The company's scalable business model is enhanced by an effective M&A strategy, which focuses on building market share in both existing and new geographies, as well as enhancing its product suite. Product development is supported by its team of over 100 full time employees based in the company's R&D centres in Italy and Portugal.

MotorK listed on Euronext Amsterdam in November 2021, raising net proceeds of €70.1m following the issue of 11.5m new shares at €6.50/share. Proceeds are being used to invest in growth, with c 60% being used to drive its M&A strategy, while the remaining 40% is to be equally spent between product innovation and sales and marketing.

SparK: One-stop shop for European automotive retail

Digital adoption across the automotive retail market in Europe is accelerating as both dealers and OEMs look to manage an increasingly complex car buying process (see Exhibit 2) and grow sales using an expanding amount of data. On one side, many consumers are now seeking an omnichannel experience (eg research online, test drive at a dealer, purchase online), which elevates the required number of interactions between the customer and retailer before a car is sold. On the other side, interconnectivity between cars, dealers and manufacturers is growing and will continue to do so with developments such as Industry 4.0 and 5G, bringing with it a significant number of new opportunities for retailers that have the capabilities to analyse and utilise large volumes of data.

Exhibit 2: How SparK supports the customer journey



Source: MotorK

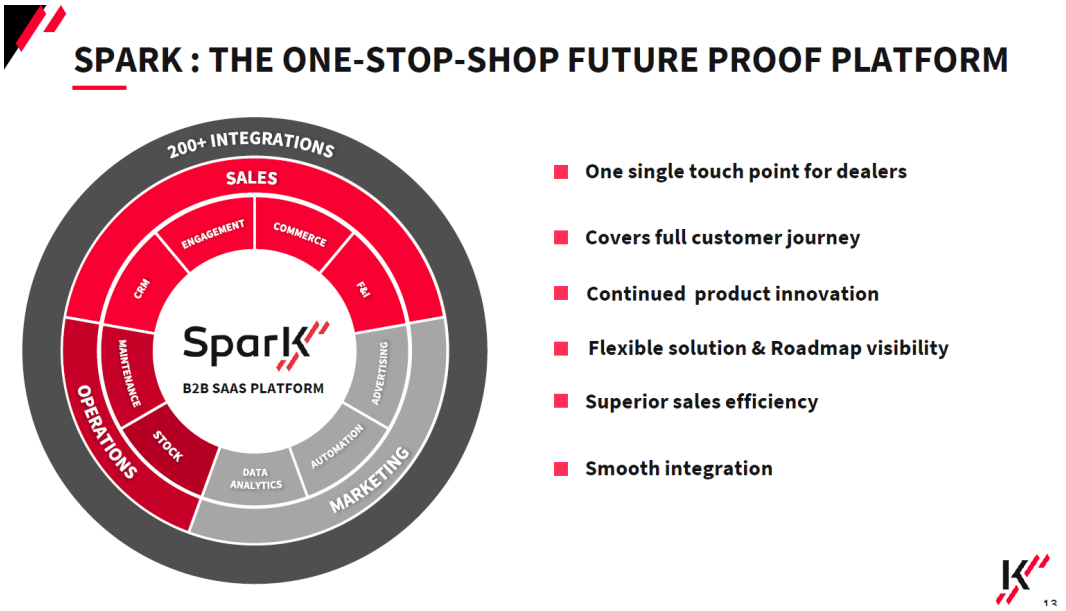
MotorK has evolved its product strategy from being a single product vendor (2013), expanding to offer a suite of products (2016) and most recently this year launching its SparK platform.

An introduction to the SparK platform

MotorK has developed the SparK platform to address several key inefficient areas within the sales and marketing functions as well as back-office operations of European automotive retailers. Management's plan is to add modules over time (via internal product development and acquisition) as it identifies new customer applications. Over the last few years, adding and developing modules has been key to rapidly growing its value proposition and the average contract values (ACVs) of its retail customers. The platform is 'headless': customers can gain access to the platform by adopting one module, from which they can then be cross-sold other modules that integrate with each other.

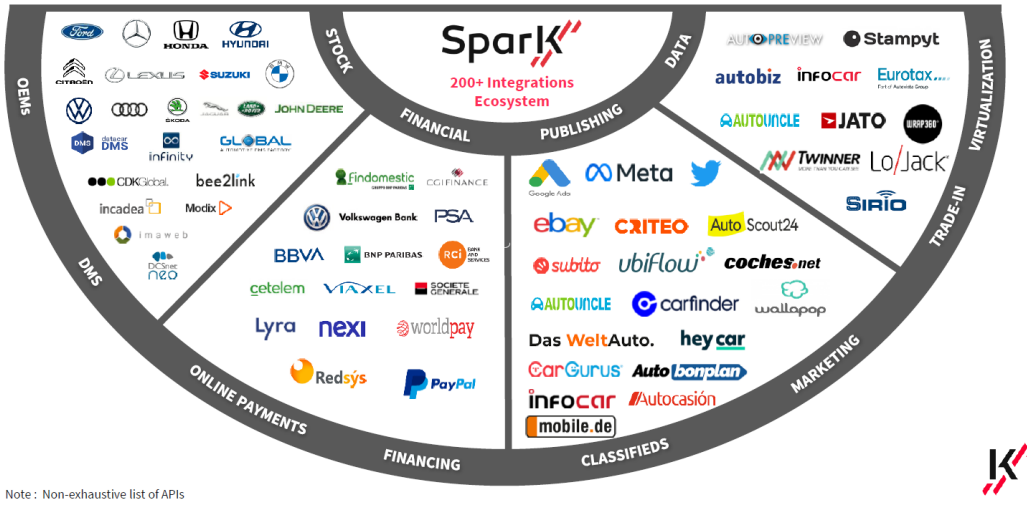
Exhibit 3 shows the functionality offered by the platform and Exhibit 4 shows some of the main third-party integrations, which include dealer management systems (DMS).

Exhibit 3: SparK platform



Source: MotorK

Exhibit 4: Third-party integrations



Note : Non-exhaustive list of APIs

Source: MotorK

The ability to integrate with over 200 different third-party providers of auto-specific software is a key differentiator of the platform in our view. Many of these are disparate systems that are not cloud-enabled, limiting the exchange of data, which can lead to inefficiencies in selling processes. MotorK's ability to integrate and centralise data onto the SparK platform allows OEMs/dealers to gain a more holistic view of the entire sales ecosystem. The interoperability of all of SparK's modules helps ensure consistency across sales, marketing and operations without any additional work required by the end-user.

Without a one-stop shop platform like SparK, dealers and OEMs could struggle to navigate the vast landscape of single-product providers to find the most appropriate digital solution for each type of interaction. Management believes that these issues exponentially worsen when retailers try to implement their own multi-product system as they will need to undertake work to integrate each piece of software with the other applications in use. SparK has been designed so that all modules integrate with each other, simplifying the adoption of its technology.

We provide further detail on the most used modules to date:

- **WebSparK**: this is MotorK's most established product; it helps franchised dealers and OEMs develop their own websites, providing tools to create a digital showroom for increased digital traffic acquisition and lead generation. Customers are provided with a fully autonomous platform to customise their websites to a high technical and design standard, using the modules' 138 functionalities specifically designed for the automotive industry. The modules' search engine optimisation (SEO) capabilities also drive higher quality lead acquisition for the dealer/OEM.
- **StockSparK:** enables customers to fully utilise their inventory data. Historically this has been a challenge as both dealers and OEMs require several DMSs to record inventory data from different sources, which are local and decentralised. Through StockSparK, data collected from DMSs can be imported into a central platform, making it easier for dealers and OEMs to enrich and manage inventory with 360° pictures and video, as well as stock promotion information, for example. The time to market for inventory is significantly reduced and any updates to stock happen in real time across all sales channels. In Q322, management is launching its StockSparK app, which will further reduce uploading times for new inventory and enables dealers to take high-quality photos with the app's photo wizard, removing the need for a potentially expensive photo shoot.
- **LeadSparK**: is a customisable lead management, CRM and marketing automation module, providing a turnkey solution aimed at improving sales efficiency. Customers are provided with

easy-to-use tools that automate many of the general management processes in the customer sales cycle, including lead management, deal management, after-sales support, nurturing and marketing, and sales review.

Product development roadmap

Management invests significantly in upgrading existing modules and adding new ones to increase the range of options available to its customers. Its development strategy is key to enable retailers to address increasingly complex consumer buying habits and utilise customer data more effectively. MotorK's success in this is highlighted by the 92% of customers signing up to its H221 upgrade of WebSparK, despite a price increase of 20–35%.

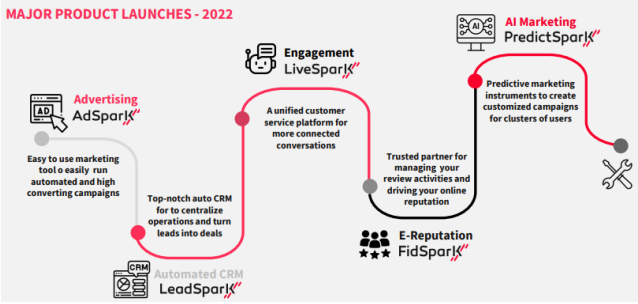
The company has announced three new launches this year, including LiveSparK, WebSparK Revolution and an upgraded version of LeadSparK, which are all set to go live in H222. **LiveSparK** is its own internally developed live chat/chatbot, highlighting a new area for the company and illustrating management's aim of launching new products and features that use the latest technologies.

MotorK is also migrating AdSparK and the products acquired with Fidcar (FidSparK, PredictSparK) onto the platform.

- **AdSparK:** historically, MotorK has offered digital marketing services separately from the SparK platform and has developed a strong background in programmatic advertising, which uses technologies like artificial intelligence (AI) to create more targeted and lower-cost campaigns. MotorK has developed AdSparK as a separate module – OEMs and dealers can either use MotorK's in-house marketing services team to run their campaigns for them, or they can use the AdSparK software to run them internally. Moving forward, we believe that management will focus on selling the higher-margin recurring software element of AdSparK, rather than the one-off revenues from providing marketing services. This should support management's goal of reaching 70% recurring revenue for FY22.
- **FidSparK:** e-reputation software that helps dealers improve their net promoter scores; and
- **PredictSparK:** AI-based software that helps predict when cars are due for maintenance and when a customer may be looking to replace their car.

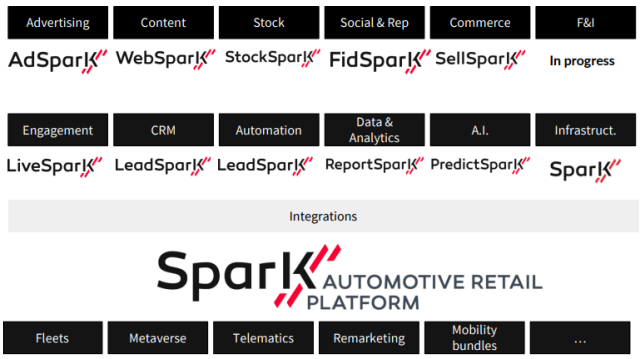
More details on all its major product launches can be found in Exhibit 5, and opportunities management has identified as potential growth areas are shown by Exhibit 6.

Exhibit 5: Major product launches for planned for FY22



Source: MotorK

Exhibit 6: Potential functionality of the SparK platform

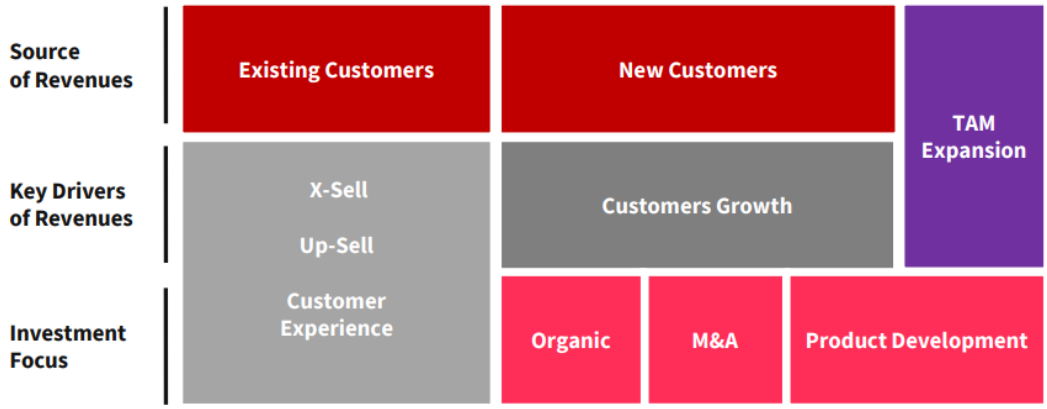


Source: MotorK

Strategy: Primed for the market opportunity

MotorK employs several levers to optimise growth and diversify its revenue streams, as shown in Exhibit 7.

Exhibit 7: Using multiple levers for growth



Source: MotorK

SparK platform underpins growth strategy

As described in the previous section, MotorK's SparK cloud-based platform has been designed to support customers to deploy its modules at scale and adapt them to their business needs. MotorK has evolved the platform using a mix of internal development and bolt-on acquisitions and will continue to invest to develop the platform to meet customer needs. In FY21, the company spent €7.8m on R&D (28% of sales) and in H122 €4.6m (27% of sales), highlighting its commitment to innovation.

Significant cross- and upselling potential

To increase the value of a contract, management employs a land and expand strategy comprised of a mix of cross- and upselling methods. When a customer signs up for a specific application, they gain access to the platform. From there, they can choose to upgrade to higher levels of functionality within the same application and can easily add other modules. A contract's value can also increase if more seats (users) are added on to the package, as dealers will normally have a fixed monthly fee per seat. Management's ability to cross-sell is supported by the affordability of SparK for the retailer, where the cost typically makes up 0.1% of a dealer's revenue on average. Exhibit 8 demonstrates the progress the company has made in terms of retail customers signed up and average contract values.

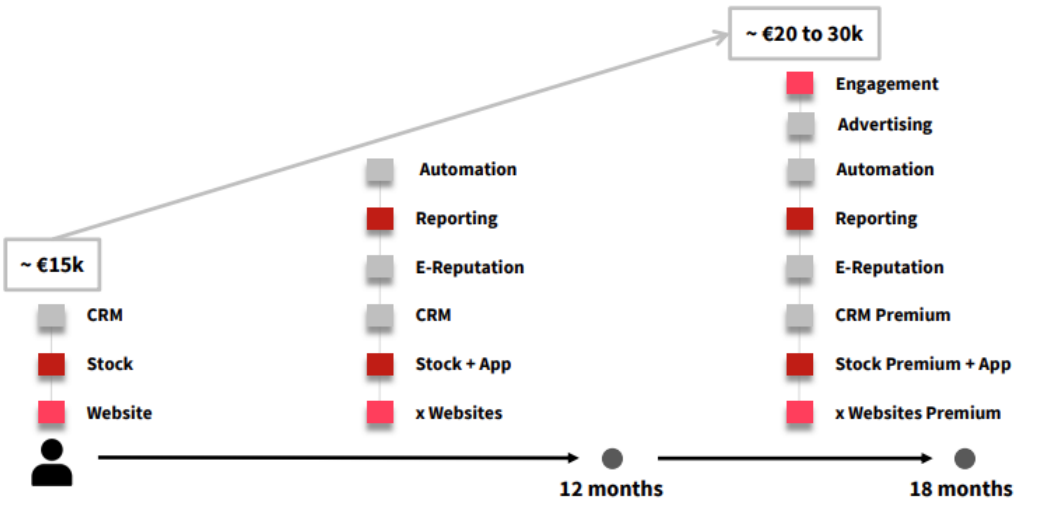
Exhibit 8: ACV progression highlights successful cross- and upselling strategy

Customer type	FY19	FY20	FY21	Q122	H122
Retail (dealers) average contract value (€k)	10.9	13.9	14.9	16.1	16.6
Retail customer numbers	584	599	633	-	670

Source: MotorK. Note: customer numbers and ACV exclude acquisitions made in 2021 and 2022 and customers with ARR <€250 per month.

Exhibit 9 illustrates how management believes selling SparK as a single platform with a wide range of modules can drive significantly higher ACV among its medium-sized retail clients.

Exhibit 9: Platform supports growth in ACV



Source: MotorK

OEM enterprise contracts a key growth engine

OEMs supply cars to franchised dealers. MotorK sells to both franchised dealers (bottom up) and OEMs (top down), which allows for the OEM's network of dealers to also get access to the software. MotorK describes contracts with OEMs as enterprise contracts. The company has grown the number of enterprise contracts from 11 at the end of FY19 to 18 at the end of H122.

A MotorK OEM contract can be signed on a global, regional or national basis, depending on the OEM's dealer relationships. This means that MotorK may have several enterprise contracts per OEM. However, we note that although OEMs form most of MotorK's enterprise contracts, some dealer contracts may also be classified as enterprise if large enough.

The number of franchised dealers an OEM sells to is known as the number of 'rooftops', which drives the size of a contract (for example, WebSparK is sold on a per rooftop basis and LeadSparK on a per seat basis). OEMs may own several brands, such as Toyota/Lexus or Jaguar/Land Rover in Italy, which can amplify the size of the contract. OEM contract sizes are larger than they are for dealers (ranging from the low €100,000s to the low euro millions) but are much more variable as the number of rooftops they sell to can change substantially from contract to contract.

Using a top-down approach can be an effective entry strategy into new geographies. Just one OEM deal can lead to hundreds of franchised dealers using SparK, bringing myriad cross- and upselling opportunities with it.

We note the significant potential for MotorK's Q122 deal with Skoda, which makes MotorK Skoda Auto's Global Certified Website Provider and gives the company a global reach of c 1,000 potential rooftops (see page 12 for an analysis of market size).

In April, the company announced a deal between the recently acquired Fidcar and Stellantis's European retail business, Stellantis & You, Sales and Services (SYSS). After one SYSS dealership undertook a proof of concept of Fidcar's predictive after-sales marketing software over the last year, SYSS has signed a deal to roll the software out across all European dealerships by the end of 2022.

M&A strategy to consolidate Europe's single solution providers

MotorK uses M&A primarily to capture market share, but also occasionally to expand its product range. M&A is a core part of MotorK's growth strategy – for each country in which it operates or wants to operate, the company makes a buy-or-build decision. It estimates that the payback period

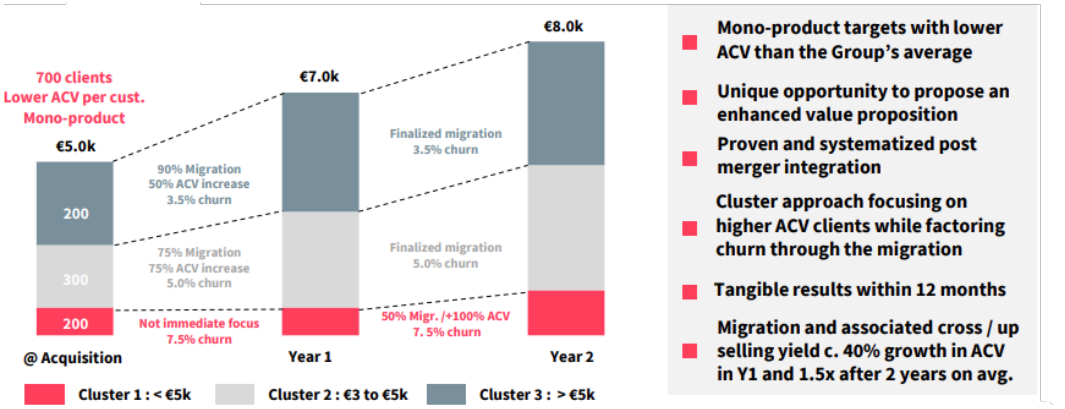
is broadly similar for organic versus acquired customers, but to build critical mass quickly it often prefers to acquire.

The European automotive software market is highly fragmented, with disparate systems making it hard for retailers and OEMs to optimise their data. By consolidating the market, MotorK can offer customers a more comprehensive suite of digital tools and itself benefit from economies of scale.

MotorK typically looks for targets that are profitable, with a single product, but low growth due to lack of funds to scale. It uses these acquisitions as a way to enter a new region or to consolidate its position in an existing region. The company is focused on growing in regions in which it already operates, for example expanding into more of the DACH area (WebMobil24 deal completed in July), as well as entering neighbouring regions such as Benelux (Carflow deal completed in May). However, management may also look to develop its European coverage outside of these regions, with the Nordics and Central Eastern Europe highlighted as examples. To reduce the integration burden on a particular country, management intends to work its way around the map, looping back to a country after it has had sufficient time to integrate previous acquisitions.

As single-product companies, targets typically have ACVs well below MotorK's average. Once completed, MotorK will work with the acquired company over the course of two years to transition its customer base onto the SparK platform. Exhibit 10 demonstrates the process. We note that the company expects that a small minority of the acquired customer base will choose not to transition across and will therefore churn, but this is more than outweighed by the number that do.

Exhibit 10: Example of rapid value creation following an acquisition



Source: MotorK

Another consideration for acquisitions is the OEM relationships that the target can bring. For example, the most recent acquisition, WebMobil24, has relationships with German OEMS including Opel, Suzuki and Kia.

The €70m of net IPO proceeds received in November 2021 provided MotorK with the firepower to accelerate its M&A strategy. It has since made three acquisitions in Q421 and a further two in FY22 for initial consideration of c €20m in cash and stock (Exhibit 11). Exhibit 12 details the rationale for each deal.

Exhibit 11: Financial details for recent acquisitions

(€m)	Fidcar	Dapda	FranceProNet	Carflow	WebMobil24*	Total
Initial consideration	**1.9**	**5.5**	**3.9**	**5.0**	**2.8**	**19.0**
Cash component	0.5	5.5	2.9	4.0	2.8	15.6
Equity component	1.4	0.0	1.0	1.0	0.0	3.4
Deferred consideration	**0.0**	**1.0**	**0.4**	**0.0**	**0.0**	**1.4**
Cash component	0.0	0.2	0.4	0.0	0.0	0.6
Equity component	0.0	0.8	0.0	0.0	0.0	0.8
Earn-out	**0.6**	**3.0**	**0.5**	**2.4**	**0.7**	**7.2**
Consideration incl. earnout	**2.5**	**9.5**	**4.8**	**7.4**	**3.5**	**27.7**
FY21 sales	0.8	3.0	1.4	3.0	2.0	10.2
Initial consideration/sales (x)	***2.3***	***1.8***	***2.8***	***1.7***	***1.4***	***1.9***
Total potential consideration/sales (x)	***3.1***	***3.2***	***3.4***	***2.5***	***1.8***	***2.7***
Date of completion	Dec 21	Dec 21	Feb 22*	May 22	Jul 22	

Source: MotorK, Edison Investment Research Note: *Announced in October 2021.

Exhibit 12: Rationale for recent acquisitions

	2021		2022		
	dapda	FIDCAR	FranceProNet	carflow	webmobil24
Country	Spain	France	France	Benelux	Germany
Rationale	Market Share	Product	Market Share	New Country	Country Expansion
Synergies	Up & X-Sell	X-Sell	SaaS Migration	X-Sell	Up & X-Sell
Revenues Acquired(1)	€3.0 M	€0.8 M	€1.4 M	€3.0 M	€2.0 M
ACV Upside	+ + + + +	+ + +	+ + +	+ + +	+ + + + +

Source: MotorK

The company has a strong pipeline of M&A opportunities; it reports that it has 40 short- to mid-term opportunities with the most based in the UK (20). We note the full benefits from acquired companies typically take 24 months to materialise.

Opportunities in a large, fragmented market

Automotive retail is rapidly evolving, driven by digitisation, shifting consumer expectations and the global presence of leading car brands. The market for car sales is split into two: new and used cars. The sale of new cars relies on a close-knit relationship between OEMs (eg PSA, Toyota, VW) and franchised dealers. OEMs manufacture one or more car brands and use franchised dealers in different regions to either sell them or provide customers a location to browse and test drive cars.

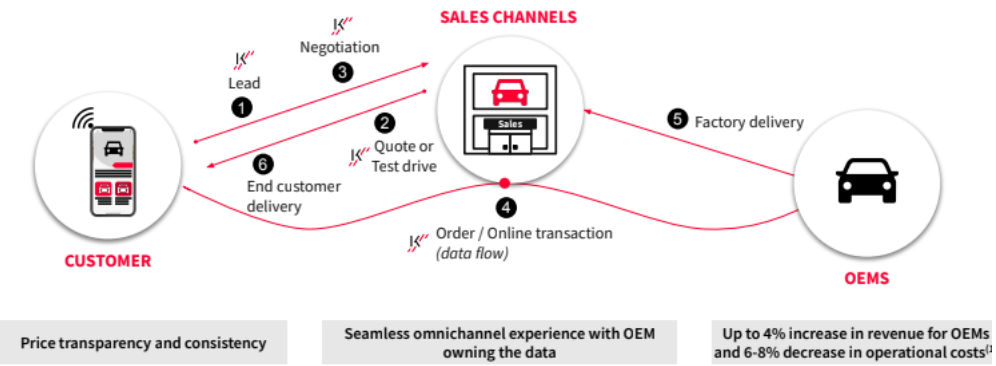
Used cars are mainly sold using part-exchange schemes with franchised or independent dealers (trade in old as part of your payment for a new or second-hand car). There is also a growing number of online marketplaces for used cars such as Cazoo, Carvana and Vroom, although we believe they make up less than 1% of used car sales. Many of these online marketplaces have come under fire in the press recently, primarily relating to the lack of quality control before cars are sold, and are also struggling to sell cars profitably. MotorK does not face the same business risk as it sells software to reputable OEMs and dealers in the new car market.

Shift to an agency model

The new car market is shifting towards an agency model, where the OEM sells directly to the customer and the dealer acts as an agent. Dealers are becoming more of a physical touchpoint

where customers can test drive, negotiate prices and pick up the car after the purchase has been made from the OEM. Giving the OEM control of the car selling process reduces price competition among same-brand dealers and alleviates margin pressures. The move towards an agency model requires OEMs and dealers to make a significant investment in technology to facilitate an effective flow in sales data (MotorK prospectus, Capgemini). As highlighted in Exhibit 13, SparK is designed to add value to several points in the agency model.

Exhibit 13: MotorK's value in the agency model



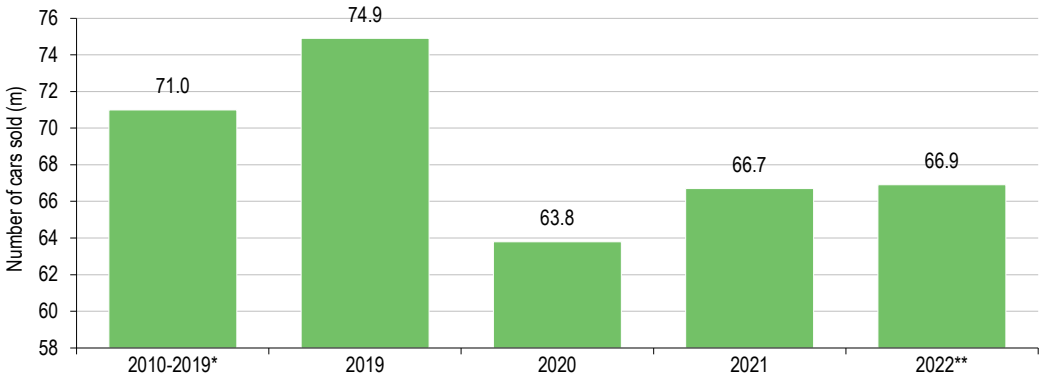
Source: MotorK

Adapting to automotive market trends

The number of new and used cars sold globally in 2020 fell sharply from 2019 highs following the onset of the pandemic (see Exhibit 14). Recovery from 2020 has been slow due to persistent challenging market conditions, including COVID-19-related factors, the ongoing global semiconductor shortage and the Ukraine/Russia war.

However, despite the shortage of new cars, many of the largest European and US dealer groups have increased revenues from 2019 to 2021, with market consensus for 2022 also indicating significant margin expansion from pre-pandemic levels. Looking at our basket of listed US and European dealer groups, average operating margins are expected to be 5% in FY22, 228bp ahead of FY19 levels. The growing use of digital solutions has been key to strengthening the operating leverage of many of these dealer groups, and we believe that adoption will keep following a secular trend that only serves to benefit MotorK.

Exhibit 14: Number of cars sold globally, 2010–22e



Source: Statista. Note: *Average number of cars sold annually in the period. **Statista forecast.

The technology landscape is changing as both DMS and other automotive software providers are recognising the importance of a more integrated approach, with a shift from a product-driven to a customer-centric approach. This provides a good backdrop for consolidation in a market that is still highly fragmented, with many companies providing only single-solution products.

Within the automotive market, there are several trends that are changing the types of cars sold and the way that consumers use and buy cars:

- **electric vehicles:** more expensive to build than petrol cars but require less maintenance, creating substantial differences in the vehicle lifecycle. Also, consumers require different information, for example charge times or driving range. Net zero emission targets globally provide a strong background to foster demand.
- **car-sharing/ride-sharing**: reduces individual consumer demand but higher utilisation of the cars drives more frequent servicing. It also creates a different type of customer, that is the service providers/car fleet owners.
- **autonomous vehicles**: these will have an impact on the way consumers buy and use cars, but fully autonomous cars are some way off in the future. Robotaxis are already being piloted in some cities and a full roll-out should lead to a rise in demand and supply for autonomous vehicles.
- **other mobility options**: demand for cars may reduce in favour of new vehicle types, such as e-scooters, e-bikes and public bicycle hire. However, management believes it is more likely that people will use multiple modes of transport in the future.
- **greater interconnectivity**: cars are becoming smarter, being installed with greater amounts of technology that can facilitate higher levels of data exchange between the cars, OEMs and dealers. Being able to utilise these higher volumes of data effectively will be crucial for targeting customers.
- **online commerce**: the success (in marketing terms at least) of the online used car platforms such as AutoScout, Cazoo and Carvana puts pressure on dealers to improve their online commerce offerings.

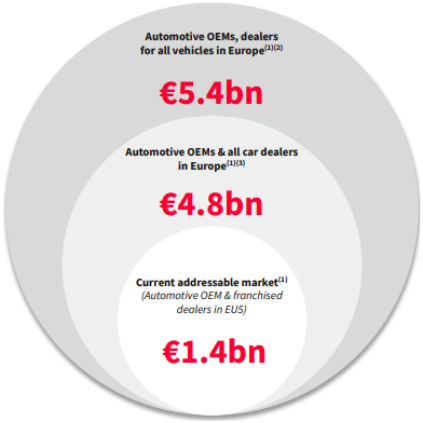
A rapidly changing market backdrop driven by these trends is creating a complex operating environment for OEMs and dealers, requiring them to be agile in their use of technology. MotorK monitors these trends and, where relevant, factors them into its product roadmap to make it easier for OEMs and dealers to adapt their digital infrastructures.

Opportunity underpinned by a large addressable market

MotorK's current addressable market of automotive OEMs and franchised dealers in EU5[1] already presents a significant opportunity at a market size of €1.4bn (MotorK estimate); we note that end-H122 ARR was only 1% of this. However, while MotorK focuses its operations in the EU5, it also services dealers outside of these countries if they make up parts of dealer groups or OEMs. The agility of the SparK platform should allow MotorK to move easily into the far larger (€5.4bn) market of all European automotive OEMs and dealers for all vehicle types, if management chooses to do so, as shown in Exhibits 15 and 16. However, the company believes these are harder to penetrate as they lag the digital capabilities of the OEMs and franchised dealers in its current addressable market.

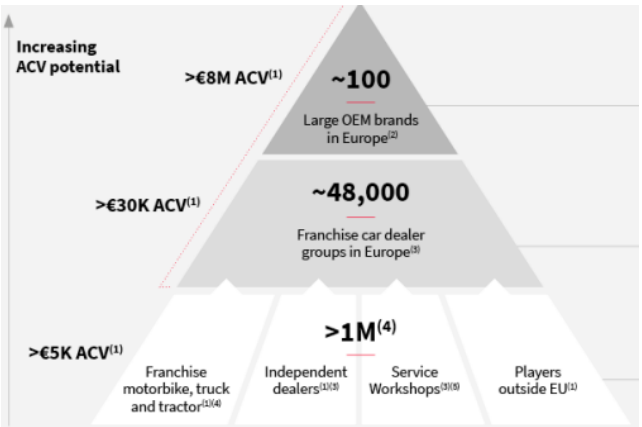
[1] EU5 – France, Germany, Italy, Spain and the UK.

Exhibit 15: MotorK's large and growing addressable market



Source: MotorK. Note: Calculated using the total number of dealers/OEMs in a region, multiplied by ACV.

Exhibit 16: MotorK's target audience, currently representing the top two segments



Source: MotorK

Competitive landscape

MotorK provides several different types of services, meaning that it faces competition from companies that may only specialise in one or two of MotorK's use cases. Exhibit 17 illustrates several companies that MotorK competes with directly in Europe; we believe that GForces is the only company that can compete with the whole SparK platform. However, competition could increase from other types of European software service providers if they choose to expand into the automotive retail market. For example, giosg provides web services across a range of verticals. We have also included DMS providers that provide similar functionalities to StockSparK and LeadSparK, such as Pinewood Technologies and Incadea, but note that these have limited benefit if a franchised dealer uses more than one DMS.

In Exhibit 17 below we only show European competitors, as this is MotorK's primary market. However, there are several other large DMS providers, mainly in North America, such as CDK Global, Cox Automotive, Reynolds & Reynolds, Tekion and PBS.

In addition to those companies in Exhibit 17 there are several companies with similar business models to MotorK that solely operate in one country, including MotorDesk (UK), Dealerdesk (Germany), bee2link (France), and OpusVL (UK). While these companies may present competition in those countries, they could also form part of expected industry consolidation.

We have not included the European online car dealers, such as Cazoo, Vroom and Carvana, as these are exchanges rather than providers of software products. Many of these develop their own proprietary technology, which, unlike MotorK, they would not share with other retailers as they believe it gives them a competitive advantage. Additionally, the operating models and the way cars are sold are markedly different in the second-hand market compared to the new car market.

Exhibit 17: European competitive landscape

	Relevant MotorK modules					
Company name	**WebSparK**	**LeadSparK**	**StockSparK**	**AdSparK**	**Relevant geographies**	**Additional information**
GForces	Y Provides similar specialised services.	Y Has some CRM features but not to the same extent as SparK.	Y Same end-to-end capabilities as StockSparK.	Y Has similar automated omnichannel marketing capabilities.	UK HQ, operates in over 50 countries.	Part of AutoFutura. Similar business model, potentially does not have the same specialist European capabilities.
Modix	Y Similar features and also has a vehicle locator product.	N No clear CRM capabilities.	Y Video and image product enriches vehicle data in a similar way to StockSparK.	Y Similar marketing capabilities and also has products to monitor campaign effectiveness.	Main office in the UK, also has offices in Germany, Belgium, Spain, Italy, France and China.	Part of Cox Automotive. Platform has similar modules to some in MotorK's product pipeline eg LiveChat, Financing.
Pixel Concept	Y E-commerce platform that allows customers to create a digital showroom.	Y E-commerce retail solution has lead qualification capability.	Y Inventory management and video/photo products.	N No clear capabilities.	Germany HQ, offices in Switzerland and Austria.	Has similar products to some in MotorK's product roadmap eg Financing & Leasing and automated vehicle valuations.
Incadea	N Has a digital sales workspace, not customer facing.	Y Provides some end-to-end tools, including business intelligence software.	Y Integrates into OEM systems and allows for stock to be managed, does not have the same publishing capabilities.	N No clear capabilities.	Germany HQ, global presence	Serves several different areas, including passenger cars, commercial vehicles, tyre & aftermarket, and professional services.
Pinewood Technologies	N Similar features, eg online payments.	Y Similar proposition, eg social CRM.	Y Several features but does not have StockSparK's managing and publishing features.	N No clear capabilities.	UK and Ireland, Sweden, the Netherlands, Africa, Asia-Pacific.	Solutions for used and new car market, as well as for commercial and motorcycle manufacturers.
Giosg	Y Similar features to WebSparK and has a live chat function similar to LiveSparK.	N No proprietary features but integrates into several third-party CRMs like Salesforce and Hubspot.	N No features – could affect performance of its web module.	N No comparable features.	Finland, Sweden, UK.	Supplies several verticals, including car dealerships, real estate and retail.

Source: Edison Investment Research

The board and executive management

MotorK has a one-tier board structure consisting of the chairman, CEO and three non-executive directors. CEO Marco Marlia co-founded the group in 2010 and is a serial entrepreneur experienced in running digital companies. Executive chairman Amir Rosentuler joined MotorK in 2020 and has over 25 years of executive management and entrepreneurial experience in leading technology companies. The non-executive directors include Laurel Bowden, who represents 19.3% shareholder 83North.

The board is supported by a highly experienced executive management team (selected biographies on page 23), including CFO Andrea Servo, CPO Nir Erlich, CTO Fabio Gurgone (one of the co-founders), VP Corporate Development & IR Etienne Jacquet, senior VP and head of R&D Yair Pinyan, chief revenue officer Joe Sanchez, chief operations officer Jason Fitzpatrick, senior VP Brand and Communication Jean-Pierre Diernaz, chief human resources officer Luisa Corvino, and chief of staff Asaf Polturak.

Financials

Business model

MotorK sells to both OEMs and franchised dealers; contract sizes and sales cycles vary greatly between the two:

- **Franchised dealers** form the majority of MotorK's customer base at 97% by number (670) in H122 and have an average annual contract value of c €16.6k (H122). The dealer sales cycle is relatively short at one to two months.
- **OEMs** sign much larger contracts, where contract values can vary between €100,000 and the low millions. Typical sales cycles are nine to 12 months.

Both new and renewed contracts are typically signed on a two-year basis. Most costs are incurred at the start of the contract (eg installation, sales, etc) and do not repeat when a contract is renewed.

Three types of revenue are reported: SaaS platform (consisting of SaaS recurring subscription fees and one-off implementation fees), digital marketing and other (which includes training and consulting). In addition, MotorK discloses ARR, which is defined as the yearly subscription value of the customer base at the end of the reporting period, to provide better clarity on the underlying contract base. The difference between ARR and recurring revenue comes from the IFRS 15 impact, described in detail in the appendix. Management believes that ARR provides a more accurate representation of the group's contract base, as the use of IFRS 15 accounting for its SaaS-based products can amplify performance trends depending on the timing and duration of contracts.

H122 results highlight continuing momentum

Despite operating in a tough economic environment, MotorK reported double-digit revenue growth and made significant progress towards its FY22 targets in the first half of the year, showing continuing momentum from a strong FY21.

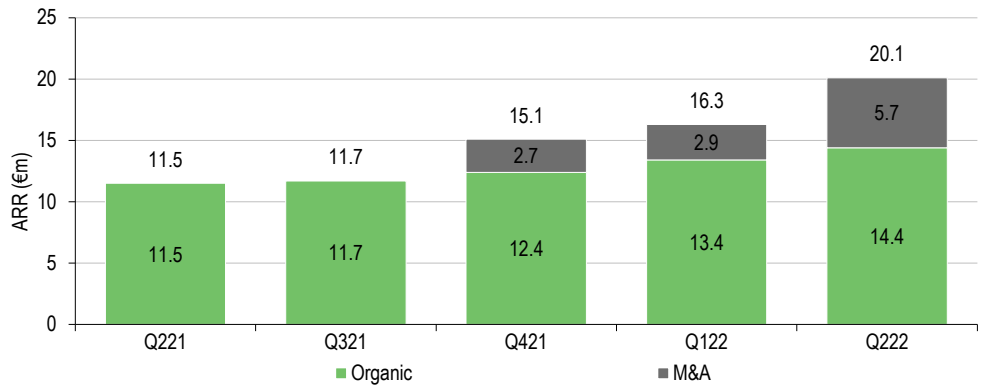
Exhibit 18: Summary of H122 results

(€m)	H122	H121	y-o-y change
SaaS	11.4	6.6	74.6%
Digital marketing	3.6	4.0	(9.9%)
Other	1.8	2.2	(16.3%)
Total revenue	**16.9**	**12.8**	**32.3%**
% recurring revenue	64%	43%	20.7%
ARR	**20.1**	**11.5**	**74.8%**
Adjusted EBITDA	(2.3)	0.3	N/A
Reported EBIT	(6.9)	(2.4)	187.3%
Reported net income	(7.6)	(2.6)	195.7%

Source: MotorK

Revenue was up 32% y-o-y to €16.9m, with SaaS recurring revenues accounting for 64% of group revenues (H121: 43%) and on course to reach management's target of 70% by year-end. The group's performance was driven by upselling and cross-selling among its growing customer base, investment in R&D, and customer stickiness (annualised churn: 3.1%, net revenue retention (NRR): 113% – both an improvement on pre-pandemic levels). Management expects revenue momentum to continue in H2 as the company benefits from the migration of new customers from its recently acquired companies onto the SparK platform. Period-end ARR reached €20.1m, up 75% y-o-y (+25% organic). Exhibit 19 shows the progression of ARR, including the contribution from acquisitions.

Exhibit 19: Annual recurring revenue quarterly progression, Q221–Q222



Source: MotorK

R&D spend grew by 37% y-o-y to €4.6m (€2.6m capitalised, equating to 16% of revenue), which will fuel its product release roadmap for the year and will continue to support its upselling and cross-selling strategies. While heightened expenditure resulted in a €0.3m y-o-y increase in EBITDA loss to €2.3m, management anticipates that the group's strong operating leverage combined with expected revenue growth from acquisitions will drive profitability in H2.

The group's LTV to CAC ratio has remained consistently high compared to the previous year at 15x, indicating scope to increase sales and marketing spend to drive further customer acquisition, especially given its strong position to retain customers and elevate LTV from cross- and upselling.

Well-funded to pursue growth strategy

At the end of FY21, MotorK had a net cash position of €34.3m, comprising cash of €43.3m, debt of €6.1m and leases totalling €2.8m. At the end of H122, the company had net cash of €20.8m after paying €4.9m for the acquisitions of FranceProNet and Carflow, €2.8m in capitalised development costs and a cash outflow from operating activities of €3.6m. We forecast net cash of €13.7m at the end of FY22, which takes account of the €4m acquisition of WebMobil24 in July.

Management guidance and introduction to our forecasts

Exhibit 20 summarises the guidance given by the company, originally at the IPO but reiterated with H122 results. We note that this excludes the contribution from acquisitions made in FY22 (ie Carflow and WebMobil24).

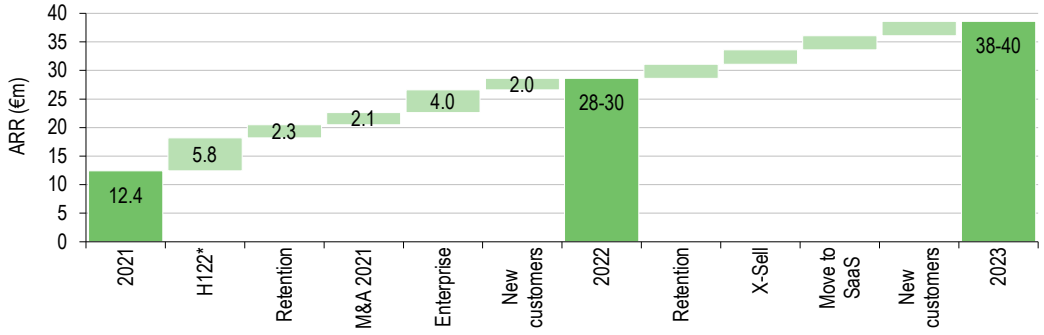
Exhibit 20: Summary of management's guidance

Targets	€m	FY22	FY23	FY26
ARR at year-end		28–30	38–40	-
Revenue		45–47	-	160
Organic revenue		36–38	-	110
Revenue from acquisitions		9	-	50
Adjusted EBITDA margin		c 20%	-	>40%
Capex/sales		15%	-	10%

Source: MotorK

As highlighted in Exhibit 21, management expects that ARR growth will be driven mostly by a blend of organic strategies, with a material contribution to growth from enterprise contracts. Management is continuing to focus on OEM contracts as a key area of growth, shown by the partnerships signed with Skoda Auto and Stellantis & You in H122.

Exhibit 21: Bridge ARR visibility, FY21–FY23



Source: MotorK. Note: *Does not include €1.8m Carflow contribution.

We have used the ARR trend as the basis for our forecasts. We expect SaaS-based revenues to drive overall growth, underpinned by new module integrations, upgrades to existing ones and higher ACVs. While the migration of AdSparK on to the SparK platform should add to the group's ARR, we expect it to have a negative impact on revenues in the short term due to the expected loss in sales from digital marketing services. Our forecasts only include acquisitions that have completed. Management has not yet included the contribution of Carflow or WebMobil24 in its FY22/23 ARR guidance; we estimate this will add an additional €3m to end-FY22 ARR (included in our forecasts).

Exhibit 22: Summary of revenue and profit forecasts

(€m)	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
SaaS	5.7	16.0	9.8	16.3	36.1	59.8	71.0
Digital marketing	4.8	7.8	6.8	7.7	7.0	6.2	5.6
Other	1.7	4.2	2.8	3.6	3.3	3.6	4.0
Total revenue	**12.2**	**27.9**	**19.3**	**27.6**	**46.4**	**69.6**	**80.6**
Operating expenses (excluding D&A, SBP and One-off items)	(22.5)	(26.5)	(20.5)	(26.7)	(38.5)	(50.7)	(56.6)
Adjusted EBITDA	**(10.3)**	**1.5**	**(1.1)**	**0.8**	**7.9**	**18.9**	**24.1**
D&A	(1.1)	(2.3)	(3.2)	(4.2)	(5.3)	(6.8)	(8.8)
Normalised operating profit	**(11.3)**	**(0.8)**	**(4.3)**	**(3.4)**	**2.6**	**12.1**	**15.3**
Share-based payments	(0.3)	(0.2)	(0.1)	(9.7)	(1.6)	(1.6)	(1.7)
Exceptional items	(0.1)	(0.0)	(0.1)	(3.2)	(2.5)	(2.2)	0.0
Reported operating profit	**(11.7)**	**(1.1)**	**(4.5)**	**(16.4)**	**(1.5)**	**8.2**	**13.6**
Recurring revenue	4.7	15.0	8.9	14.8	32.8	54.4	64.6
Recurring revenue/total revenue	*39%*	*54%*	*46%*	*54%*	*71%*	*78%*	*80%*
Adjusted EBITDA margin	-	*5%*	-	*3%*	*17%*	*27%*	*30%*
Normalised operating margin	-	-	-	-	*6%*	*17%*	*19%*
Reported operating margin	-	-	-	-	-	*12%*	*17%*
ARR (€m) at year-end	**4.3**	**7.5**	**10.0**	**15.1**	**32.0**	**42.9**	**57.9**
ARR churn	2.1%	3.5%	8.5%	6.6%	-	-	-
Net revenue retention (NRR)	117%	116%	90%	105%	-	-	-
LTV/CAC (x)	-	-	16	16	-	-	-

Source: MotorK, Edison Investment Research. Note: *ARR churn is defined as annualised sum of recurring revenue from customers that churned between January and December, divided by total recurring revenue at the beginning of the period.

We believe that the company can control its operating costs while it continues to scale, with personnel costs the largest cost consideration as employee numbers grow. Our adjusted EBITDA forecast is conservatively below management's FY22 margin goal of c 20%. Margin growth towards the company's 40% target in FY26 will be driven by the expected increase in recurring revenue, high customer retention and strong operating leverage, where the costs of running SparK are limited once it has been set up with a customer.

MotorK capitalised 45% of R&D costs in FY21 (€3.5m of €7.8m R&D costs, 13% of revenue) and expects to capitalise at a higher rate going forward as it concentrates on upgrading existing and developing new modules. We forecast capitalised development costs at 16% of revenue in FY22 reducing to 13% in FY24 with the company target to reduce further to 10% by FY26.

In our working capital forecasts, we account for the increase in contract assets: while the revenue for two-year contracts is typically recognised in year one of the contract, the company only receives cash for the second year of the contract in year two (see page 21 in appendix for further explanation).

We forecast net cash of €13.7m at the end of FY22, reducing to €5.3m by the end of FY23 and shifting to a net debt position of €5.2m by the end of FY24.

Management is in the process of selling its DriveK (B2C virtual marketplace) product, which it expects to do by the end of FY22. DriveK is still a growing, profitable and cash-generative business, however it is not aligned with MotorK's SaaS-focused strategy. It is carried on the balance sheet as assets/liabilities held for sale at a net value of €2.7m and its results are reported in discontinued operations. We have not factored this disposal into our net cash forecasts.

Valuation

Peer valuation highlights upside potential

Below we show MotorK's share price performance and valuation against European SaaS providers.

Exhibit 23: Peer group valuation

	Price	Ytd perf.	Market cap	EV	Ave. sales growth (%)	EBITDA margin (%)		EV/sales (x)		EV/ARR (x)	EV/EBITDA (x)	
Company		**(%)**	**(€m)**	**(€m)**	**FY0–FY2e**	**FY0**	**FY1e**	**FY1e**	**FY2e**	**FY21**	**FY1e**	**FY2e**
European small/mid-cap SaaS providers												
DarkTrace	379p	(9.8)	3,150.0	2,838.2	29.1	22.0	14.4	5.2	4.1	5.8	36.0	25.9
TeamViewer	€10.29	(13.0)	1,882.9	2,209.8	13.0	33.6	44.0	3.9	3.5	N/A	8.8	7.9
Atoss	€129.60	(40.3)	1,026.1	987.1	15.2	32.3	29.7	8.9	7.7	38.2	30.1	24.7
Esker	€130.00	(64.0)	766.8	732.9	17.0	19.4	19.7	4.6	4.0	N/A	23.3	20.0
Craneware	1800p	(25.8)	738.4	541.5	70.4	35.9	30.3	3.3	2.9	N/A	10.9	9.7
Smartcraft	NOK16.18	(20.7)	275.3	261.5	22.4	40.1	40.3	7.5	6.5	10.0	18.7	15.5
DotDigital	89p	(55.2)	303.4	270.1	8.2	34.0	32.1	3.6	3.3	3.8	11.2	10.7
Generix	€9.70	13.1	219.0	226.2	6.6	10.2	10.0	2.5	2.4	N/A	25.1	20.6
Sidetrade	€125.00	(27.1)	168.0	163.1	17.6	18.7	9.8	4.3	3.6	N/A	44.1	26.3
Peer average		**(27.0)**			**22.2**	**27.3**	**25.6**	**4.9**	**4.2**	**14.4**	**23.1**	**17.9**
MotorK	€2.64	(63.4)	107.4	86.6	58.9	3.0	17.1	1.9	1.2	5.8	10.9	4.6
Premium/(discount)		***(36.5)***			***36.7***	***(24.3)***	***(8.5)***	***(62%)***	***(70%)***	***(60%)***	***(53%)***	***(74%)***

Source: Refinitiv, Edison Investment Research. Note: Prices at 12 September 2022.

On an EV basis, MotorK trades at a significant discount to the peer group, despite forecast revenue growth well ahead of the group over the next two years and EBITDA margins growing rapidly over the same period. Were the shares to trade at parity with peers on a blend of EV/sales and EV/EBITDA across FY22e and FY23e (applying peer multiples to our estimates), the implied share price would be €6.91, suggesting significant upside potential. We expect this discount to reduce as management delivers on its ARR and EBITDA margin targets.

Screens well on Rule of 40

The 'Rule of 40' refers to a rule of thumb used when assessing SaaS companies. This says that if the total of revenue growth and profitability exceeds 40% in a given year, the company is performing well. The phrase was coined by venture capitalists investing in SaaS start-ups to assess the balance between growth and profitability. In the early phases, growth could be well over 40% but the company could be loss-making, as funds are invested in growing the customer base as fast as possible. As revenue growth moderates, investment in sales & marketing and R&D can be slowed allowing for higher profitability (say 20% revenue growth and 20% margins), still satisfying the rule of 40. In the table below, MotorK performs well on this metric and is well ahead of the peer group average.

Exhibit 24: Rule of 40

	Revenue growth (%)		EBITDA margin (%)		Revenue growth + EBITDA margin (%)	
	FY1e	FY2e	FY1e	FY2e	FY1e	FY2e
DarkTrace	32	27	14	16	46	43
TeamViewer	14	12	44	44	58	56
Atoss	14	16	30	31	44	48
Esker	19	15	20	20	39	35
Craneware	154	15	30	30	184	44
Smartcraft	29	16	40	42	69	58
DotDigital	9	8	32	31	41	39
Generix	7	7	10	11	17	18
Sidetrade	15	20	10	14	25	34
Peer average	**32**	**15**	**26**	**27**	**58**	**42**
MotorK	69	50	3	17	72	67

Source: Edison Investment Research, Refinitiv (as at 12 September). Note: Highlighted cells represent companies meeting the Rule of 40.

DCF confirms potential

We have performed a reverse 10-year DCF, as a sense check on the value produced by the peer comparison. We use our forecasts up to 2024, a WACC of 9% and a terminal growth rate of 3%. Assuming average revenue growth of 14.8% from FY25 to FY31 (declining from 18% to 12% over the period), an EBITDA margin of 35% in FY25 and a 40% margin from FY26 to FY31 gives an implied share price of €6.91. In our view, this looks achievable given the trends in the group's current performance.

Further upside potential from well-executed M&A strategy

As is our practice, our forecasts only include previously completed acquisitions. However, MotorK expects to make two to three bolt-on acquisitions every year, targeting businesses with revenue in the range of €1–3m, and expects acquisitions to contribute an incremental €50m of revenue by FY26.

We estimate that this could be achieved through an average of 2.5 deals a year with annual revenue on acquisition of c €2m, assuming that MotorK is able to double revenue from each target within two years and then grow it at 10% pa thereafter. As we have no access to profitability data at this point, we do not attempt to calculate earnings accretion.

Historically, MotorK has acquired on multiples of 2–3x trailing sales and has grown revenue quickly post acquisition, either by transitioning customers over to its technology or by selling the acquired technology to the wider MotorK customer base. MotorK is trading on an EV/sales multiple of 3.1x FY21 revenue and 1.9x FY22 revenue. Acquisitions provide a twofold opportunity for value accretion: (1) by making use of the company's existing customer base, the target's revenue growth can be accelerated; and (2) as long as the company is able to buy companies at a discount to the group valuation, it will also benefit from multiple expansion on the acquired business (assuming organic growth of the underlying MotorK business continues to meet targets).

Sensitivities

Our forecasts and MotorK's share price will be sensitive to the following factors:

- **Ongoing macroeconomic uncertainty**: ongoing supply chain constraints, including shortages of semiconductors, due to the pandemic and the Russia/Ukraine war, present challenges for MotorK's OEM and dealer customer base.
- **Competitive landscape**: although there are only a handful of companies that compete with the whole of the SparK platform, we note that this grows significantly when looking at companies that compete directly with specific SparK modules.

- **Consumer preferences**: MotorK's ability to provide a platform that addresses current consumer expectations is a competitive advantage; however, MotorK may not be able to keep up if these expectations change rapidly or unexpectedly.
- **Business execution and acquisition risk**: management's >40% EBITDA margin target relies on its ability to maintain strong revenue growth, operating leverage and cost control. Increasing M&A deal flow highlights potential integration risks.
- **Geographic expansion**: dealers and OEMs in a new region may not meet management's expected level of demand for MotorK's products. Regulation may also be a barrier to entry in new geographies and changes to regulation in countries in which it already operates may affect consumer demand. Foreign exchange may become a sensitivity if MotorK expands to countries that do not use the euro (eg it is already looking to enter Switzerland).
- **Restricted liquidity:** the free float of MotorK shares is low at 26.5%, with its three largest shareholders owning 46%.

Exhibit 25: Financial summary

€m	2018	2019	2020	2021	2022e	2023e	2024e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue	12.2	27.9	19.3	27.6	46.4	69.6	80.6
Annualised recurring revenue (ARR)	4.3	7.5	10.0	15.1	32.0	42.9	57.9
Operating costs excl. D&A	(22.5)	(26.5)	(20.5)	(26.7)	(38.5)	(50.7)	(56.6)
EBITDA	(10.3)	1.5	(1.1)	0.8	7.9	18.9	24.1
Normalised operating profit	(11.3)	(0.8)	(4.3)	(3.4)	2.6	12.1	15.3
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	(0.1)	(0.0)	(0.1)	(3.2)	(2.5)	(2.2)	0.0
Share-based payments	(0.3)	(0.2)	(0.1)	(9.7)	(1.6)	(1.6)	(1.7)
Reported operating profit	(11.7)	(1.1)	(4.5)	(16.4)	(1.5)	8.2	13.6
Net Interest	(0.3)	(1.4)	(1.8)	(4.8)	(0.5)	(0.6)	(0.6)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(11.6)	(2.3)	(6.1)	(8.2)	2.1	11.5	14.7
Profit Before Tax (reported)	(12.1)	(2.5)	(6.3)	(21.2)	(2.0)	7.6	13.0
Reported tax	1.4	1.1	0.9	(2.8)	0.3	(1.5)	(3.1)
Profit After Tax (norm)	(10.3)	(1.1)	(5.2)	(11.0)	1.8	9.2	11.2
Profit After Tax (reported)	(10.7)	(1.4)	(5.4)	(23.9)	(1.7)	6.1	9.9
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	3.9	1.6	0.0	0.4	(0.3)	0.0	0.0
Exceptionals	(0.2)	(0.0)	(0.2)	(0.0)	0.0	0.0	0.0
Net income (normalised)	(10.3)	(1.1)	(5.2)	(11.0)	1.8	9.2	11.2
Net income (reported)	(7.0)	0.2	(5.5)	(23.5)	(2.0)	6.1	9.9
Basic average number of shares outstanding (m)	26	26	27	30	41	41	41
EPS - basic normalised (€)	(0.39)	(0.04)	(0.19)	(0.37)	0.04	0.23	0.27
EPS - diluted normalised (€)	(0.39)	(0.04)	(0.19)	(0.37)	0.04	0.22	0.26
EPS - basic reported (€)	(0.27)	0.01	(0.20)	(0.79)	(0.05)	0.15	0.24
Dividend (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	-	128.8	(-30.8)	42.6	68.5	49.8	15.9
EBITDA Margin (%)	-	5.3	-	3.0	17.1	27.2	29.9
Normalised Operating Margin	-	-	-	-	5.5	17.3	19.0
BALANCE SHEET							
Fixed Assets	9.2	22.8	16.8	26.2	47.0	58.1	67.6
Intangible Assets	6.6	11.2	9.9	18.0	33.4	36.2	38.6
Tangible Assets	0.4	1.6	1.7	3.1	3.0	2.9	2.8
Investments & other	2.1	10.1	5.2	5.2	10.6	19.0	26.2
Current Assets	22.4	25.4	28.3	63.4	53.7	58.8	56.4
Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	15.6	16.0	11.5	16.0	25.8	39.4	48.9
Cash & cash equivalents	6.8	9.4	11.8	43.3	24.0	15.5	3.6
Other	0.0	0.0	4.9	4.2	3.9	3.9	3.9
Current Liabilities	(16.8)	(13.6)	(14.5)	(15.2)	(17.8)	(25.6)	(28.7)
Creditors	(10.5)	(11.1)	(6.1)	(8.3)	(12.7)	(19.1)	(22.1)
Tax and social security	0.0	0.0	0.0	(2.9)	(2.9)	(2.9)	(2.9)
Short term borrowings	(6.3)	(2.5)	(7.1)	(2.7)	(0.9)	(2.4)	(2.4)
Other	0.0	0.0	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Long Term Liabilities	(10.9)	(27.1)	(28.5)	(10.0)	(16.5)	(17.2)	(9.7)
Long term borrowings	(9.1)	(23.5)	(25.6)	(6.2)	(9.3)	(7.8)	(6.4)
Other long term liabilities	(1.8)	(3.7)	(2.9)	(3.8)	(7.2)	(9.4)	(3.3)
Net Assets	4.0	7.5	2.1	64.4	66.3	74.1	85.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	4.0	7.5	2.1	64.4	66.3	74.1	85.6
CASH FLOW							
Net income	(6.9)	0.2	(5.4)	(23.5)	(2.0)	6.1	9.9
Depreciation & amortisation	1.3	2.7	3.8	4.2	5.3	6.8	8.8
Working capital	0.7	(7.4)	2.5	(2.0)	(7.4)	(13.5)	(19.8)
Exceptional & other	0.7	1.6	1.9	15.0	1.5	2.2	2.3
Tax	(0.2)	(0.1)	(1.2)	2.6	0.0	0.0	0.0
Net operating cash flow	(4.4)	(3.0)	1.7	(3.6)	(2.5)	1.7	1.2
Capex	(3.9)	(3.6)	(3.2)	(3.9)	(7.4)	(8.7)	(10.2)
Acquisitions/disposals	0.0	(0.6)	0.0	(5.4)	(9.3)	0.0	0.0
Net interest	(0.3)	(0.5)	(0.5)	(6.9)	(0.4)	(0.5)	(0.5)
Equity financing	0.0	0.0	0.0	70.1	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.2)	(0.1)	0.1	0.2	0.0	0.0	0.0
Net Cash Flow	(8.7)	(7.8)	(1.9)	50.5	(19.6)	(7.5)	(9.5)
Opening net debt/(cash)	(0.3)	8.5	16.6	20.9	(34.3)	(13.7)	(5.3)
FX	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	(0.1)	0.0	(2.4)	4.7	(1.0)	(1.0)	(1.0)
Closing net debt/(cash)	8.5	16.6	20.9	(34.3)	(13.7)	(5.3)	5.2

Source: MotorK, Edison Investment Research

Appendix: Revenue recognition per IFRS 15

MotorK reports revenue according to IFRS 15 (revenue from contracts with customers). To recognise revenue from a contract, five criteria must be met:

- identify the contract with a customer.
- identify the performance obligation in the contract.
- determine the transaction price (ie the amount of consideration an entity expects in exchange for transferring promised goods/services to a customer).
- allocate the transaction price to each performance obligation (PO) on the basis of relative standalone selling prices for each distinct good or service promised.
- recognise revenue when a PO is satisfied by transferring a promised good/service to a customer. The PO may be satisfied at a point in time or over time.

Subscription licensing revenue recognised upfront

MotorK provides several products and services (subscription licensing, consulting, implementation services, marketing services and training) and each is assessed separately under IFRS 15. All bar subscription licensing are recognised on a percentage of completion or as invoiced basis. While many SaaS companies recognise the revenue from their subscription contracts over the life of the contract, MotorK recognises the full value of its subscription contracts, which typically have a two-year duration, upfront (this is true for new, upsell and renewal contracts). Once MotorK has completed the set-up of the software for the customer, and the software is fully available for use, the company is deemed to have satisfied its performance obligation. The crucial difference between MotorK and those SaaS companies that recognise their subscription licences over the life of the contract is that MotorK's contracts cannot be cancelled early. So even if a customer stops using the software within the life of the contract, MotorK is still entitled to be paid for the full duration.

ARR disclosed to aid forecasting

This method of revenue recognition makes forecasting difficult, so to provide better clarity on the underlying contract base, the company discloses **annualised recurring revenue (ARR)**. This takes the total of monthly fees across the customer base at a specific point in time and multiplies it by 12. We note that SaaS revenue includes a non-recurring element (typically implementation fees), with ARR relating only to the recurring element. Exhibit 26 shows the historical comparison of reported SaaS recurring revenue and ARR. The table shows that the difference between the two numbers varies depending on the direction of growth. In FY19, MotorK signed a large number of new contracts, so SaaS recurring revenue was nearly double the year-end ARR. In FY20, the level of new business dropped, and as new business in FY19 was all recognised in the prior year, SaaS recurring revenue was in fact lower than the year-end ARR. We believe that FY20 was an anomaly due to the pandemic and expect the company to grow on a consistent basis from FY21. The table below shows our calculations; we use average ARR adjusted for acquisitions to calculate SaaS recurring revenue on a pre-adjusted basis. We then assume that the IFRS 15 adjustment is 110% of the change in recurring revenue each year, based on recognising two years upfront with an element of upselling.

Exhibit 26: ARR versus SaaS recurring revenue

€m	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Year-end ARR	**4.3**	**7.5**	**10.0**	**15.1**	**32.0**	**42.9**	**57.9**
SaaS recurring revenue pre-IFRS 15 adjustment	4.6	7.7	9.9	12.2	22.0	37.4	50.4
Change in recurring revenue		3.0	2.2	2.3	9.8	15.4	12.9
IFRS 15 adjustment	0.4	7.4	(1.0)	2.6	10.8	17.0	14.2
Reported SaaS recurring revenue	**4.7**	**15.0**	**8.9**	**14.8**	**32.8**	**54.4**	**64.6**
IFRS 15 adjustment/change in recurring revenue		241%	-46%	113%	110%	110%	110%

Source: MotorK, Edison Investment Research

Contract asset part of working capital considerations

In Exhibit 27 below, we illustrate the difference between MotorK and a SaaS company that reports revenue rateably. We use the example of a three-year subscription contract priced at €1,000 per month. We assume that MotorK invoices quarterly in advance whereas the SaaS peer invoices annually in advance. MotorK reports a **contract asset**, which represents the difference between revenue recognised and cash received.

For MotorK, we combine trade receivables and contract assets (long and short term) in our calculation of working capital requirements.

Exhibit 27: Illustration of accounting for a three-year subscription contract

	MotorK				Typical SaaS provider		
€k	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Revenue	36	0	0		12	12	12
Cash received	12	12	12		12	12	12
Contract asset at year-end	24	12	0		0	0	0
Off balance sheet:							
Backlog					24	12	0

Source: Edison Investment Research

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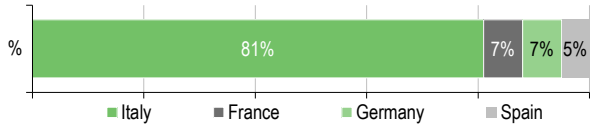
Revenue by geography



Management team

Chairman: Amir Rosentuler

Amir joined MotorK in 2020 as executive chairman and is responsible for overseeing the company's relationship with the investor community, among other objectives. He has over 25 years of management and entrepreneurship experience within leading tech companies, including more than 15 years serving at Nasdaq and NYSE-listed companies. He was previously co-CEO of Deutsche Telekom HBS, a subsidiary of Deutsche Telekom AG. Amir currently serves as the chairman or board director of several companies, including Radix Technologies, Quantum Hub, Compit, Craft.io, Nostromo Energy, emaze and Openvalley Israel.

CEO and co-founder: Marco Marlia

Marco has a long history of entrepreneurship, with over 20 years of experience launching and scaling innovative digital companies. Prior to MotorK, between 2000 and 2010, he co-founded several online companies focused on web development, search engine marketing and lead generation. Marco holds a master's degree in economics & business finance from Bocconi University. He won *Automotive News Europe's* Rising Stars award in 2019 and is the author of the first operational manual for digital dealers, which has been translated into five languages.

Chief innovation and product officer: Nir Erlich

Nir's responsibilities as chief product officer include product, technology and professional services. He has over 20 years' experience in the technology sector, leading teams and projects at SaaS, B2Bm and e-commerce businesses, including in a public company context. He also has extensive experience as a founder and CEO of digital companies, with his previous experience including senior roles at Rayv, Nasdaq-listed Kaltura, Waze and Craft.io.

Global chief financial officer: Andrea Servo

Andrea joined as CFO in 2021 to lead the finance and legal teams, overseeing both departments' strategies and processes. He has a proven track record of growing companies through organic and inorganic strategies, overseeing successful roll-ups and building excellent teams within private and public companies. He was most recently CFO of DentalPro, Italy's premier dental services provider, and between 2013 to 2016 he was CFO Seat Pagine Gialle.

Principal shareholders	(%)
83 North III Limited Partnership	19.3
Marco Marlia	13.5
Fabio Gurgone	13.0
Marco De Michele	13.0
Zobito AB	7.0
Capital Group	5.7
Universal Investment	3.7
M&G	3.0

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