EDISON

eServGlobal

Core business update

Trading update

Software & comp services

Delays in closing contracts in the core business resulted in a revenue shortfall for eServGlobal in FY17, although some of these have now been signed and will contribute from FY18. Continued efforts to reduce the cost base should reduce the break-even revenue level to c €12.5m/A$19min FY18, which the company is aiming to achieve through focusing on additional sales to its existing customer base. eServGlobal participated in the recent HomeSend funding round, marginally increasing its stake to 35.7%.

Year end	Revenue (A$m)	EBITDA* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
10/15	25.9	(10.4)	(5.41)	0.0	N/A	N/A
10/16	21.6	(7.0)	(3.88)	0.0	N/A	N/A
10/17	10.8	(11.7)	(3.53)	0.0	N/A	N/A
12/17e**	12.2	(13.1)	(3.77)	0.0	N/A	N/A

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **14-month period.

Delayed contract signings hit FY17 revenues

eServGlobal expects to report FY17 (14 months to 31 December 2017) revenues of €8.3-8.5m/A$12.1-12.4m, below its guidance range of €9.7-11m. This was due to some of the contracts expected to sign in Q417 actually being signed in January. These contracts are worth €3m/A$4.6m over three years. The company is making progress in cutting its cost base: it expects to enter FY18 with an annualised cost base of €12.8m/A$19.6m and hopes to reduce this to €12-12.5m/A$18.4-19.1m through the course of the year.

Changes to forecasts

We have reflected the results for the 12 months to 31 October 2017 (12M17) as well as the trading update for FY17. We have reduced our revenue forecast for FY17 from A$15.2m to A$12.2m and increased our adjusted EBITDA loss forecast from A$7.6m to A$13.1m. We forecast a net cash position of A$9.7m at the end of FY17, which takes into account the €3.89m recently invested in HomeSend.

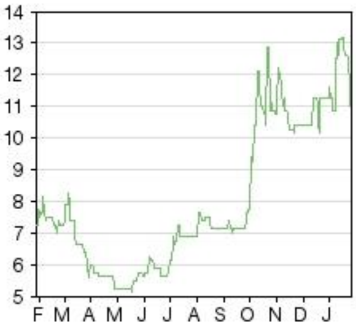
Valuation: Reflects HomeSend opportunity

Since the HomeSend update and the fund-raising in October, the share price has traded in the range of 10.25-13.15p. With funding concerns removed, we believe the market is now starting to factor the banking opportunity into the valuation of eServGlobal's stake in HomeSend. Evidence of progress in the banking sector for HomeSend (new agreements as well as recently signed banks transitioning volumes to the platform) and pipeline conversion in the core business could support further upside to the share price. Conversely, weaker performance in the core business or slower execution for HomeSend could weigh on the share price.

26 January 2018

Price	**11.0p**
Market cap	**£100m**
	A$1.76:€1.14:£1
Net cash (A$m) at 31 October 2017	14.2
Shares in issue	906.9m
Free float	97%
Code	ESG
Primary exchange	AIM
Secondary exchange	ASX

Share price performance



%	1m	3m	12m
Abs	(2.2)	1.2	69.0
Rel (local)	(2.6)	(1.1)	57.0
52-week high/low		13.2p	4.9p

Business description

eServGlobal develops mobile software solutions to support mobile financial services, with a focus on emerging markets. It also has a 35.7% share in the HomeSend international remittances hub, alongside Mastercard and BICS.

Next events

FY17 results	End February 2018

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Edison profile page

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Review of trading in 12M17 and FY17

The company has changed its year-end to 31 December and will report results for FY17 (the 14 months to 31 December 2017) by the end of February. In its trading update on 24 January, eServGlobal confirmed that revenue for FY17 came in below the guidance range of €9.7-11m and is likely to be in the range €8.3-8.5m. This implies that revenues in November and December 2017 totalled €0.9-1.1m. The company noted that the shortfall was due to delays in signing certain orders – agreements worth €3m in revenue were signed in January. The revenue on these contracts is expected to be recognised over three years. The company continues to focus on selling to its existing customer base, and has other active opportunities in the pipeline.

The company confirmed that, as planned, it had used some of the proceeds of the recent fund-raise to reduce the cost base further, achieving annualised cost savings of c €2m in H217. The company expects to enter FY18 with an adjusted like-for-like cost base of c €12.8m and hopes to reduce this to €12-12.5m by the end of FY18. As stated before, the company believes it can achieve revenues around this level through €2m in deferred revenue, €5m in recurring revenue and €5m from changes and upgrades from existing customers. If PLC and corporate costs are excluded, the cost base would reduce to €9.5-10.5m – on €12m revenues, this would imply EBITDA margins in the range of 12.5-20.8%.

Review of results for 12 months ended 31 October 2017

eServGlobal recently published results for the 12 months to 31 October 2017 (12M17). It reported 12M17 revenues of A$10.8m (H1: A$5.9m, H2: A$4.9m). The company wrote down A$3.7m of work-in-progress (H1: A$1.5m, H2: A$2.2m), which resulted in a negative gross margin for the period. Excluding the write-offs, the gross margin would have been 9.0%. Provisions totalling A$4.2m were taken against receivables (H1: A$2.8m, H2: A$1.4m). Stripping out these costs, as well as FX and other exceptional items, the company reported an EBITDA loss of A$11.7m. Administrative costs, pre-exceptionals and depreciation and amortisation have reduced from A$14.5m in FY16 to A$12.7m in 12M17.

After receiving the majority of the proceeds of the fund-raise in October, the company closed 12M17 with a net cash balance of A$14.2m. The remainder of the fund-raise (the retail portion – c A$5.4m) was received in November. Part of the proceeds of the fund-raise were targeted at further restructuring and we expect to see the administrative cost base reduce further.

Exhibit 1: Results highlights

A$'000	FY17e	FY17a	Difference	Y-o-y
Revenues	12,890	10,791	(16.3%)	(50.0%)
Gross profit	1,462	(2,718)	(285.9%)	(144.7%)
Gross margin	11.3%	-25.2%	(36.5%)	(53.4%)
Normalised EBITDA	(8,181)	(11,709)	43.1%	67.7%
Normalised EBITDA margin	(63.5%)	(108.5%)	(45.0%)	(76.1%)
Normalised EBIT	(11,571)	(15,391)	33.0%	(53.3%)
Normalised EBIT margin	(89.8%)	(142.6%)	(52.9%)	(96.1%)
Reported EBIT	(15,731)	(23,456)	49.1%	(149.7%)
Normalised PBT	(17,225)	(22,171)	28.7%	(26.4%)
Reported PBT	(21,385)	(30,236)	41.4%	(43.0%)
Normalised net income*	(13,980)	(22,617)	61.8%	(59.0%)
Reported net income*	(21,685)	(30,840)	42.2%	(40.6%)
Normalised EPS	(2.18)	(3.53)	61.8%	9.0%
Net debt/(cash)	(17,175)	(14,180)	(17.4%)	(694.8%)

Source: eServGlobal, Edison Investment Research. Note: *Net income after minorities.

Exhibit 2: Adjusted financials			
A$m	**FY16**	**12M17**	**y-o-y**
Gross profit	6.09	(2.72)	(144.7%)
Gross margin	*28.2%*	*(25.2%)*	*(53.4%)*
Normalised gross profit	7.49	0.97	(87.1%)
Normalised gross margin	*34.7%*	*9.0%*	*(25.7%)*
Normalised EBITDA	(6.98)	(11.71)	40.4%
Normalised EBITDA margin	*(32.4%)*	*(108.5%)*	*(76.1%)*
Total costs excl D&A, FX & exceptionals	28.56	22.50	(21.2%)
Admin costs excl D&A, FX & exceptionals	14.47	12.68	(12.4%)

Source: eServGlobal, Edison Investment Research

Recent investment round for HomeSend

HomeSend had another funding round in December 2017. A total of €10m was invested: BICS decided not to participate in this round, Mastercard invested €6.11m and eServGlobal €3.89m. This has resulted in a change in joint venture ownership as follows: Mastercard from 55% to 56.09%, eServGlobal from 35% to 35.69% and BICS from 10% to 8.21%. Proceeds are expected to be used for working capital and to accelerate the development of additional functionality to meet the JV's medium and long-term aims.

Outlook and changes to forecasts

Based on the 12M17 results and the FY17 trading update, we have revised our forecasts:

- We have reduced our FY17 revenue forecast from A$15.2m to A$12.2m.
- This reduces our underlying gross profit forecast from A$3.9m to A$1.5m and our reported gross margin forecast from A$2.4m to -A$2.2m.
- We forecast an EBITDA loss of A$13.1m, which implies underlying operating costs of A$14.6m/€9.9m for FY17.
- We have factored in the A$7.8m in WIP and accounts receivable write-downs.
- Our net cash forecast now takes into account the €3.89m invested in HomeSend.

Exhibit 3: Changes to forecasts			
A$'000	**14 months to end CY17**		**Change**
	Old	**New**	
Revenues	15,233	12,159	(20.2%)
Gross profit	2,400	(2,171)	(190.5%)
Gross margin	15.8%	(17.9%)	(33.6%)
Normalised gross profit	3,909	1,515	(61.2%)
Normalised gross margin	25.7%	12.5%	(13.2%)
Normalised EBITDA	(7,582)	(13,101)	72.8%
Normalised EBITDA margin	(49.8%)	(107.7%)	(58.0%)
Normalised EBIT	(11,537)	(17,397)	50.8%
Normalised EBIT margin	(75.7%)	(143.1%)	(67.3%)
Reported EBIT	(15,730)	(25,486)	62.0%
Normalised PBT	(17,846)	(25,031)	40.3%
Reported PBT	(22,040)	(33,119)	50.3%
Normalised net income*	(14,510)	(25,492)	75.7%
Reported net income*	(22,373)	(33,725)	50.7%
Normalised EPS	(2.15)	(3.77)	75.7%
Net debt/(cash)	(22,727)	(9,690)	(57.4%)

Source: Edison Investment Research. Note: *Net profit after minorities.

Exhibit 4: Financial summary

A$'000s	2012	2013	2014	2015	2016	2017	2017e*
Year end 31 October	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	28,070	31,003	31,261	25,866	21,577	10,791	12,159
Cost of Sales	(12,267)	(11,789)	(13,359)	(20,608)	(15,490)	(13,509)	(14,330)
Gross Profit	15,803	19,214	17,902	5,258	6,087	(2,718)	(2,171)
EBITDA	(1,936)	1,683	2,571	(10,449)	(6,982)	(11,709)	(13,101)
Operating Profit (before amort acq intang, SBP and except.)	(7,277)	(660)	1,987	(12,469)	(10,039)	(15,391)	(17,397)
Amortisation of acquired intangibles	0	0	0	0	0	0	0
Exceptionals	(6,485)	5,997	28,735	(12,539)	(3,533)	(7,905)	(7,905)
Share-based payments	(624)	(456)	(438)	(54)	(75)	(160)	(184)
Operating Profit	(14,386)	4,881	30,284	(25,062)	(13,647)	(23,456)	(25,486)
Income from associate	0	0	(2,275)	(3,831)	(4,638)	(4,478)	(5,332)
Net Interest	(1,016)	(386)	(254)	(1,356)	(2,861)	(2,302)	(2,302)
Profit Before Tax (norm)	(8,293)	(1,046)	(542)	(17,656)	(17,538)	(22,171)	(25,031)
Profit Before Tax (FRS 3)	(15,402)	4,495	27,755	(30,249)	(21,146)	(30,236)	(33,119)
Tax	(187)	5,879	(13,515)	(2,125)	(596)	(592)	(592)
Profit After Tax (norm)	(5,805)	(732)	(379)	(14,125)	(14,030)	(22,605)	(25,478)
Profit After Tax (FRS3)	(15,589)	10,374	14,240	(32,374)	(21,742)	(30,828)	(33,711)
Average Number of Shares Outstanding (m)	196.8	241.1	253.1	264.0	366.6	640.2	676.4
EPS - normalised (c)	(3.01)	(0.36)	(0.20)	(5.41)	(3.88)	(3.53)	(3.77)
EPS - FRS 3 (c)	(7.98)	4.25	5.57	(12.33)	(5.98)	(4.82)	(4.99)
DPS (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	56.3%	62.0%	57.3%	20.3%	28.2%	(25.2%)	(17.9%)
EBITDA Margin (%)	(6.9%)	5.4%	8.2%	(40.4%)	(32.4%)	(108.5%)	(107.7%)
Operating Margin (before am and except.) (%)	(25.9%)	(2.1%)	6.4%	(48.2%)	(46.5%)	(142.6%)	(143.1%)
BALANCE SHEET							
Fixed Assets	16,303	14,330	43,431	42,928	33,274	27,567	32,279
Intangible Assets	9,386	3,523	9,011	6,939	5,598	4,411	4,010
Tangible Assets	912	482	3	84	32	136	66
Other Fixed Assets	6,005	10,325	34,417	35,905	27,644	23,020	28,202
Current Assets	18,136	38,855	30,761	34,895	28,240	40,361	18,254
Stock	158	74	173	66	72	110	110
Debtors	14,094	21,846	26,811	24,403	17,976	6,870	8,328
Cash	3,794	4,909	3,679	4,976	9,375	33,255	9,690
Other	90	12,026	98	5,450	817	126	126
Current Liabilities	(12,934)	(15,082)	(18,033)	(25,520)	(14,469)	(11,812)	(12,312)
Creditors	(11,665)	(11,932)	(13,010)	(22,285)	(14,189)	(11,812)	(12,312)
Taxation & social security	(69)	(150)	(2,023)	(235)	(280)	0	0
Short term borrowings	(1,200)	(3,000)	(3,000)	(3,000)	0	0	0
Long Term Liabilities	(6,431)	(749)	(865)	(19,532)	(12,649)	(20,392)	(1,317)
Long term borrowings	(6,000)	0	0	(16,531)	(11,759)	(19,075)	0
Other long term liabilities	(431)	(749)	(865)	(3,001)	(890)	(1,317)	(1,317)
Net Assets	14,989	37,154	55,070	32,359	33,823	35,718	36,896
CASH FLOW							
Operating Cash Flow	(11,901)	(7,207)	(5,810)	(12,130)	(10,712)	(9,492)	(13,273)
Net Interest	(974)	(580)	(271)	(423)	(175)	0	0
Tax	(7,813)	(1,088)	2,018	(3,148)	(1,159)	(719)	(839)
Capex	(1,966)	(1,950)	(6,403)	(2,921)	(1,583)	(2,351)	(2,743)
Acquisitions/disposals	23,307	0	5,418	0	5,133	0	0
Financing	(77)	16,140	3,964	4,365	15,929	32,007	31,810
Dividends	(111)	0	(146)	0	0	(579)	(579)
Net Cash Flow	465	5,315	(1,230)	(14,257)	7,433	18,866	14,376
Opening net debt/(cash)	3,871	3,406	(1,909)	(679)	14,555	2,384	2,384
HP finance leases initiated	0	0	0	0	48	0	0
Other	0	0	0	977	(4,690)	2,302	2,302
Closing net debt/(cash)	3,406	(1,909)	(679)	14,555	2,384	(14,180)	(9,690)

Source: eServGlobal, Edison Investment Research. Note: *14-month period ended 31 December 2017.

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