Esker

H122 results

Better profitability in FY22

Software and comp services

Esker reported a robust H122 performance, with 19% revenue growth year-on-year, 41% operating profit growth and 19% growth in the annual recurring value of new contracts signed. Reflecting the potential for slowing demand due to current macroeconomic uncertainty, the company slightly reduced its revenue guidance for FY22 but expects to be at the upper end of its operating margin target range. We reduce our cost forecasts for FY22/23 and revenue forecast by 1% in FY23, driving a 16% EPS upgrade in FY22 and a 9% downgrade in FY23.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/20	112.3	14.5	1.99	0.50	63.2	0.4
12/21	133.6	18.0	2.36	0.60	53.2	0.5
12/22e	158.0	25.4	3.20	0.65	39.3	0.5
12/23e	180.9	25.0	3.10	0.70	40.5	0.6

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

Operating margin strength in H122

In H122, Esker reported revenue growth of 19% (13% in constant currency), EBITDA growth of 33% and operating profit growth of 41%, equating to a 16.9% operating margin (H121: 14.2%). Excluding a €2.2m accrual reversal, the margin was 14.0%, still well within the company's 12–15% guidance range. After paying €9m in cash for Market Dojo in Q222, Esker closed H122 with net cash of €27.7m.

Outlook: Sounding a note of caution

Esker lowered its FY22 revenue guidance slightly on a constant currency organic basis (from 15–16% to 12–14%) to reflect increasing macro-economic uncertainty, although on a reported basis it will be much higher due to the strength of the US dollar. After the strong operating margin reported in H1, the company has narrowed its operating margin range (13–15%) and we expect it to hit the top end of the range. While our FY22 revenue forecast is unchanged, we slightly reduce our FY23 forecast by 1%. Reduced cost assumptions in both years result in a normalised EPS upgrade of 16% in FY22 and a reduction of 9% in FY23. We note that the high level of recurring revenue (c 80% in H122) and recent strong order intake provide a good level of support to the business, even if volume-related revenues and future new business start to be affected by weaker end-user demand.

Valuation: Recurring revenue supports premium

The share price appears to have stabilised after declining from its December 2021 peak of €361.5. Based on FY22 and FY23 P/E ratios, the stock continues to trade at a premium to French software peers and at a discount to US SaaS peers, we believe due to its high level of recurring revenue, history of and potential for double-digit profitable growth and strong balance sheet. The company highlighted that it is well-funded to take advantage of opportunities to make bolt-on acquisitions.

20 September 2022

Price	**€125.6**
Market cap	**€733m**
	$1.00/€1
Net cash (€m) at end H122	27.7
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	(13.7)	6.6	(58.6)
Rel (local)	(7.5)	4.0	(54.4)
52-week high/low		€361.50	€112.10

Business description

Esker provides end-to-end SaaS-based document automation solutions supporting order-to-cash and procure-to-pay processes. In FY21, the business generated 55% of revenues from Europe, 39% from the United States and the remainder from Asia and Australia.

Next events

Q3 revenue update	18 October

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Edison profile page

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Review of H122 results

Exhibit 1: Summary of H122 results

€m	H122	H121	Y-o-y
Revenues	76.3	64.4	18.5%
EBITDA	18.0	13.6	32.7%
EBITDA margin	*23.6%*	*21.1%*	*2.5%*
Reported operating profit	12.9	9.1	41.0%
Operating margin	*16.9%*	*14.2%*	*2.7%*
Reported net income after minority interest	10.2	7.6	35.0%
Basic EPS (€)	1.75	1.31	33.6%
Diluted EPS (€)	1.72	1.30	32.3%
Net cash	27.7	33.6	-17.5%

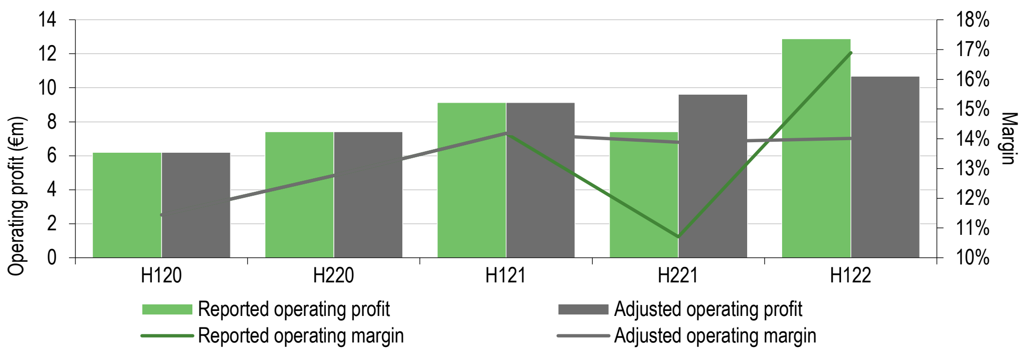
Source: Esker

For H122, Esker reported revenue growth of 19% y-o-y (13% constant currency). EBITDA was 33% higher year-on-year and operating profit 41% higher benefiting from two factors:

- Reversal of personnel tax accrual: FY21 operating profit was depressed by an accrual made for tax payable relating to share-based payments (Esker's share price increased from €178.0 to €361.5 over 2021). In H122, with the share price declining to €127.3 at the end of June, €2.2m of the accrual was reversed.
- Currency translation: with c 40% of revenues from North America but a lower proportion of costs in that region (most R&D is based in France), the company saw a €1.1m benefit to operating profit in H123 versus H122. Of this, €0.9m was due to US$/€ translation (H122 US$/€ 1.085 vs H121 1.202).

This resulted in a reported operating margin of 16.9% for H122, well ahead of the target 12–15% range. Adjusting out the tax accrual results in a margin of 14.0% and further adjusting for the currency impact results in a margin of 12.6%, within the target range. The chart below shows the progression of operating margins on a reported and adjusted basis, adjusting for the tax accrual in H221 and H122. This shows that excluding the accrual and reversal, operating margins were around the 14% level.

Exhibit 2: Reported versus adjusted operating margin, H120–H122



Source: Esker

The company continued to increase headcount during H123, with average headcount of 884 up 12% y-o-y and period end headcount of 922 (end FY21: 840). This includes the addition of Market Dojo, which was consolidated from 1 June (see Positive outlook for further detail). The company expects to continue hiring in H2 but most likely at a slower pace than in H1.

The joint venture (JV) with Quadient provided a contribution of €0.8m, up from €0.6m a year ago. Esker also received its first dividend from the JV, totalling €1.8m. The company reported an exceptional charge of €0.5m relating to the revaluation of treasury shares.

The company closed H122 with net cash of €27.7m (€39.9m cash plus €4.8m included in financial assets offset by €17m in new loans), after paying €8.8m in cash to acquire 50.1% of Market Dojo. The remaining €1.3m of the consideration was funded via equity (we estimate c 9k shares).

SaaS revenue continued its strong growth trajectory

The table below shows the split of revenue by type.

Exhibit 3: Revenue by type

€m	H122	H121	y-o-y	y-o-y constant currency
SaaS	60.8	49.5	23%	17%
Implementation services	12.1	11.0	10%	9%
Legacy products	3.3	3.9	-15%	-26%
Total revenue	**76.2**	**64.4**	**19%**	**13%**

Source: Esker

SaaS revenue, which includes a fixed monthly subscription and variable per document fees, was 23% higher year-on-year and 17% higher in constant currency (cc). The company noted that subscription-based revenue made up 55% of SaaS revenue (up 33% y-o-y) and variable revenue made up 45% (up 9% y-o-y). Management noted that the slower rate of variable revenue growth could signal that customers are starting to see pressure on their businesses in the current tough economic environment. Implementation services revenue was 10% higher y-o-y (9% cc). On a reported basis, this splits out as growth of 6% in Q122 and 16% in Q222, reflecting the lower availability of Esker and customer staff to implement projects in Q1 due to the Omicron variant. As expected, legacy product continues to decline.

Robust order intake

In its Q222 revenue trading update, the company reported bookings with a lifetime contract value of €14.6m (+41% y-o-y cc) and we estimate that bookings for H122 were c 30% higher year-on-year on a reported basis. The annual recurring value (ARR) of Q222 contracts was €4.2m (more than 25% higher y-o-y, 17% cc), equating to an average contract length of 3.5 years. For H122, ARR of bookings increased 8% in constant currency. As a reminder, the ARR only includes the subscription fee element of the contract and does not include the volume-related element.

H1 bookings were 16% higher year-on-year in Europe, 62% higher in the Asia-Pacific region (APAC) and 4% lower in the Americas. APAC's rebound was mainly due to Australia and New Zealand; other Asian countries continue to be intermittently affected by zero-COVID-19 policies. The Americas saw very strong order intake in H121, creating a tough comparison; the company expects this region to grow in H222, particularly Q4.

Further bolt-on M&A possible

During H1, the company took out €17m in fixed rate loans of four- to five-year duration, with an average rate of less than 0.5%. This was partly to fund the initial payment for Market Dojo but also to ensure available funds for further M&A. Esker typically looks to acquire smaller businesses that have technology to fill gaps in the company's product suite; these have attracted very high valuation multiples in recent years. Areas of interest include contract management, inventory management, EDI and payments. With the recent equity market declines, valuation multiples in the private market are also falling, potentially providing good buying opportunities for Esker.

Outlook and changes to forecasts

Raising a note of caution, the company has reduced its full year revenue guidance on a constant currency organic basis from 15–16% growth to 12–14%. Our FY22 forecasts were already conservative so we make no changes to our FY22 revenue forecast. We reduce our FY23 forecast by 1%, bringing reported revenue growth down from 15.8% to 14.5%. The company narrowed its operating margin guidance slightly from 12–15% to 13–15%, stating that it expects FY22 to be at the higher end of this range. We have reduced our staff cost forecasts, as based on H122 reported costs we were well ahead even taking into account the reversal of the tax accrual. Overall, we have reduced our cost forecasts (before depreciation and amortisation) by €4.4m in FY22 and €1.5m in FY23. We have increased our tax rate assumption from 22% to 24% based on the rate achieved in H122. For FY22, these changes drive a 2.6pp increase in FY22 reported operating margin and 15.7% increase in diluted normalised EPS. In FY23, the revenue decline outweighs the lower cost base, with reported operating margin declining 0.7pp to 12.9% and our diluted normalised EPS forecast declining by 8.6%.

Exhibit 4: Changes to forecasts

€m	FY22e old	FY22e new	change	y-o-y	FY23e old	FY23e new	change	y-o-y
Revenues	**158.0**	**158.0**	**0.0%**	**18.3%**	**183.0**	**180.9**	**(1.1%)**	**14.5%**
EBITDA	29.7	34.1	14.9%	32.8%	35.7	35.1	(1.7%)	2.9%
EBITDA margin	18.8%	21.6%	2.8%	2.4%	19.5%	19.4%	(0.1%)	(2.2%)
Normalised EBIT	**20.1**	**24.0**	**19.7%**	**43.0%**	**25.3**	**23.6**	**(6.5%)**	**(1.7%)**
Normalised EBIT margin	***12.7%***	***15.2%***	***2.5%***	***2.6%***	***13.8%***	***13.1%***	***(0.8%)***	***(2.2%)***
Reported EBIT	**19.7**	**23.8**	**21.0%**	**43.7%**	**24.9**	**23.4**	**(6.0%)**	**(1.7%)**
Reported EBIT margin	***12.4%***	***15.0%***	***2.6%***	***2.7%***	***13.6%***	***12.9%***	***(0.7%)***	***(2.1%)***
Normalised PBT	21.4	25.4	18.7%	40.9%	26.7	25.0	(6.1%)	(1.3%)
Normalised net income	16.7	19.3	15.7%	36.5%	20.8	19.0	(8.6%)	(1.3%)
Reported net income	16.3	18.7	14.5%	31.3%	20.5	18.8	(8.1%)	0.7%
Normalised dil. EPS (€)	**2.76**	**3.20**	**15.7%**	**35.4%**	**3.39**	**3.10**	**(8.6%)**	**(2.9%)**
Reported basic EPS (€)	2.80	3.21	14.5%	31.6%	3.45	3.17	(8.1%)	(1.0%)
Reported diluted EPS (€)	2.71	3.10	14.5%	30.3%	3.34	3.07	(8.1%)	(1.0%)
Net cash	34.1	37.3	9.2%	(3.5%)	44.0	45.5	3.3%	22.1%
DPS (€)	0.65	0.65	0.0%	8.3%	0.70	0.70	0.0%	7.7%

Source: Edison Investment Research

Valuation

We compare Esker's valuation to a group of listed global document processing automation (DPA) software companies and to French-listed small-cap software companies (Exhibit 5). We have also included aggregate data for a group of US SaaS software companies (some of the companies in the first group are also in this group).

US SaaS companies on average are growing faster than Esker, although they are generating operating margins below the level of Esker. The typical growth path for US SaaS companies involves investing heavily in sales and marketing to gain market share as fast as possible, with little focus on achieving profitability in the short term. Esker's model sits somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high-growth operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins.

We believe that Esker deserves a premium rating compared to its non-SaaS peers as its c 80% level of recurring revenue provides good visibility, it has the potential for multi-year profitable double-digit growth and it has a strong balance sheet that does not require additional funding to support growth.

Exhibit 5: Peer financial and valuation metrics

Company	Share price	Market cap	Revenue growth		Normalised EBIT margin		EBITDA margin		EV/sales (x)		P/E (x)	
		m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Esker	€125.6	€733	18.3%	14.5%	15.2%	13.1%	21.6%	19.4%	4.4	3.8	39.3	40.5
Software companies with DPA software offerings												
Basware*	€39.60	€572	4.9%	9.8%	5.3%	8.8%	15.7%	18.1%	3.9	3.6	264.0	66.0
Bill.com*	$163.12	$17,102	51.0%	33.5%	3.0%	5.4%	5.6%	7.7%	16.7	12.5	496.6	265.5
Billtrust*	$6.81	$1,117	54.8%	22.3%	-41.9%	-19.2%	-8.8%	-1.5%	5.8	4.7	N/A	N/A
Coupa*	$69.95	$5,311	16.0%	18.5%	7.8%	8.7%	14.1%	18.1%	7.9	6.7	162.0	105.9
OpenText	$39.12	$10,555	1.2%	3.8%	33.8%	34.2%	36.7%	37.2%	3.0	2.9	12.1	11.4
Pagero*	SEK12.74	SEK1,965	34.5%	25.6%	-32.5%	-17.3%	-7.2%	2.5%	3.0	2.4	N/A	N/A
Average			**27.1%**	**18.9%**	**-4.1%**	**3.4%**	**9.3%**	**13.7%**	**6.7**	**5.5**	**233.7**	**112.2**
Median			**25.2%**	**20.4%**	**4.2%**	**7.0%**	**9.9%**	**12.9%**	**4.8**	**4.1**	**213.0**	**86.0**
French small-cap software companies												
Axway Software**	€20.50	€443	3.4%	3.5%	10.6%	12.1%	13.1%	14.4%	1.8	1.7	25.3	20.3
Claranova	€3.22	€148	2.1%	12.3%	5.8%	7.3%	7.1%	8.6%	0.3	0.3	10.0	5.9
ESI Group	€70.20	€425	4.3%	6.1%	10.1%	13.9%	18.3%	22.1%	3.1	2.9	36.8	25.3
Lectra	€31.00	€1,162	89.3%	6.8%	14.4%	15.9%	18.8%	19.9%	2.3	2.2	21.0	17.8
Linedata Service**	€40.70	€259	2.6%	2.4%	18.8%	17.6%	29.1%	27.9%	2.0	1.9	10.9	13.8
Sidetrade*	€126.50	€182	13.5%	20.1%	6.5%	10.8%	9.5%	13.7%	4.8	4.0	74.9	42.4
Average			**19.2%**	**8.6%**	**11.0%**	**12.9%**	**16.0%**	**17.8%**	**2.4**	**2.2**	**29.8**	**20.9**
Median			**3.9%**	**6.5%**	**10.4%**	**13.0%**	**15.7%**	**17.2%**	**2.1**	**2.0**	**23.1**	**19.0**
US SaaS software companies												
Average			**22.0%**	**18.3%**	**5.2%**	**8.2%**	**10.2%**	**12.9%**	**6.7**	**5.5**	**84.6**	**89.9**
Median			**19.7%**	**18.4%**	**4.0%**	**5.9%**	**9.3%**	**11.8%**	**5.6**	**4.6**	**22.8**	**36.8**

Source: Edison Investment Research, Refinitiv (as at 15 September) *SaaS business model **Hybrid model

Exhibit 6: Financial summary

€'000s	2017	2018	2019	2020	2021	2022e	2023e
Year end 31 December	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
PROFIT & LOSS							
Revenue	76,064	86,871	104,188	112,274	133,580	158,042	180,923
EBITDA	16,399	18,279	20,054	21,927	25,653	34,075	35,062
Operating Profit (before amort and except)	10,547	11,955	12,843	14,037	16,804	24,038	23,625
Amortisation of acquired intangibles	(300)	(344)	(425)	(425)	(263)	(263)	(263)
Exceptionals and other income	(456)	(88)	(62)	0	0	0	0
Other income	0	0	0	0	0	0	0
Operating Profit	9,791	11,523	12,356	13,612	16,541	23,775	23,362
Net Interest	(110)	(57)	268	(67)	202	136	115
Profit Before Tax (norm)	10,669	12,215	13,634	14,462	18,008	25,374	25,040
Profit Before Tax (FRS 3)	9,913	11,783	13,147	14,528	18,148	24,611	24,777
Tax	(3,148)	(2,940)	(3,402)	(2,966)	(3,907)	(5,907)	(5,946)
Profit After Tax (norm)	7,281	9,168	10,106	11,509	14,131	19,284	19,030
Profit After Tax (FRS 3)	6,765	8,843	9,745	11,562	14,241	18,704	18,830
Ave. Number of Shares Outstanding (m)	5.3	5.4	5.4	5.7	5.8	5.8	5.9
EPS - normalised (c)	138	170	186	203	242	331	321
EPS - normalised fully diluted (c)	132	165	179	199	236	320	310
EPS - (GAAP) (c)	128	164	180	204	244	321	317
Dividend per share (c)	32	41	33	50	60	65	70
Gross margin (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)	21.6	21.0	19.2	19.5	19.2	21.6	19.4
Operating Margin (before GW and except) (%)	13.9	13.8	12.3	12.5	12.6	15.2	13.1
BALANCE SHEET							
Fixed Assets	37,912	39,635	47,201	48,987	57,229	69,589	73,289
Intangible Assets	26,673	28,096	29,323	30,787	33,644	46,704	49,204
Tangible Assets	7,115	7,050	10,434	10,036	9,896	9,796	9,696
Other	4,124	4,489	7,444	8,164	13,689	13,089	14,389
Current Assets	42,823	49,016	52,022	72,918	71,534	94,640	109,252
Stocks	176	147	185	257	341	341	341
Debtors	21,253	25,551	30,015	31,440	35,548	44,165	50,559
Cash	20,632	22,794	21,357	40,421	34,978	49,467	57,685
Other	762	524	465	800	667	667	667
Current Liabilities	(26,206)	(30,072)	(34,300)	(50,150)	(45,872)	(48,440)	(51,936)
Creditors	(26,206)	(30,072)	(34,300)	(38,650)	(44,703)	(48,440)	(51,936)
Short term borrowings	0	0	0	(11,500)	(1,169)	0	0
Long Term Liabilities	(14,909)	(10,810)	(8,276)	(6,342)	(2,497)	(19,497)	(19,497)
Long term borrowings	(13,716)	(9,318)	(6,516)	(3,644)	0	(17,000)	(17,000)
Other long term liabilities	(1,193)	(1,492)	(1,760)	(2,698)	(2,497)	(2,497)	(2,497)
Net Assets	39,620	47,769	56,647	65,413	80,394	96,292	111,108
CASH FLOW							
Operating Cash Flow	17,311	18,366	20,290	24,389	28,844	29,195	32,163
Net Interest	(75)	63	352	(30)	253	136	115
Tax	(2,053)	(2,795)	(3,329)	(884)	(3,420)	(5,907)	(5,946)
Capex	(9,304)	(7,789)	(10,995)	(10,167)	(11,140)	(13,200)	(14,100)
Acquisitions/disposals	(7,551)	(225)	(486)	(492)	(5,491)	(10,077)	0
Financing	(345)	785	1,449	48	2,769	2,069	0
Dividends	(1,633)	(1,756)	(2,237)	(1,896)	(2,897)	(3,558)	(4,014)
Net Cash Flow	(3,650)	6,649	5,044	10,968	8,918	(1,342)	8,218
Opening net debt/(cash)	(13,681)	(10,016)	(16,576)	(21,018)	(30,285)	(38,609)	(37,267)
HP finance leases initiated	0	0	0	0	0	0	0
Other	(15)	(90)	(602)	(1,701)	(594)	0	0
Closing net debt/(cash)	(10,016)	(16,576)	(21,018)	(30,285)	(38,609)	(37,267)	(45,485)

Source: Esker, Edison Investment Research

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