

Esker

Q4 revenue update

FY18 revenue growth of 14% confirmed

Esker saw another strong quarter in Q418, with underlying revenue growth of 15% resulting in FY18 revenue growth of 14% (or 16% in constant currency). A strong uplift in the value of contracts signed in FY18 provides good visibility for FY19 and support for the company's target of generating another year of double-digit revenue growth. We have revised our forecasts to reflect FY18 revenues and the company's strategy of reinvesting any profits above the 15% target operating margin level.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	66.0	9.9	1.22	0.30	57.9	0.4
12/17	76.1	10.7	1.32	0.32	53.7	0.5
12/18e	86.9	13.7	1.70	0.36	41.6	0.5
12/19e	99.0	15.5	1.89	0.39	37.3	0.6

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

Q4/FY18 revenues ahead of our expectations

Esker reported Q418 revenues of €23.5m (+16% y-o-y reported, +15% constant currency (cc)), resulting in FY18 revenues of €86.9m, up 14% y-o-y (+16% cc) and 1.8% ahead of our forecast. Q4 SaaS-based revenues increased 19% y-o-y and made up 88% of revenues. The cumulative value of contracts signed in FY18 was 65% higher than in FY17. Cash at the end of FY18 stood at €25.3m and net cash was €17m. With recurring revenue amounting to 77% of Q4 revenues, the company expects to achieve another year of double-digit organic revenue growth in FY19.

Revising estimates to reflect stronger revenues

We have increased our revenue forecasts to reflect FY18 actuals. We assume that the company invests incremental revenues in headcount for sales, consulting and R&D, to maintain reported operating margins at 15%. This results in a 1.0% upgrade to our FY18 normalised EPS forecast and a 2.9% cut to our FY19 forecast. This is in line with the company's stated strategy of generating double-digit revenue growth by channelling profits in excess of the 15% reported operating margin back into the business.

Valuation: Reflects high level of recurring revenues

On a P/E basis, Esker continues to trade at a premium to global DPA software peers and French small-cap software peers. As SaaS-related revenues make up 87% of group revenues, we believe it is more relevant to consider US SaaS software companies: Esker trades at a discount on all valuation metrics. We view Esker's operating model as sitting somewhere between low-growth, high-profitability on-premise software businesses and US SaaS companies' high-growth, high-investment operating model, aiming for a happy medium of double-digit revenue growth while achieving mid-teen operating margins. In our view, high levels of recurring revenue, a strong balance sheet and a focus on investing to maintain growth warrant a premium valuation.

Software & comp services

22 January 2019

Price **€70.7**

Market cap **€385m**

\$1.14/€

Net cash (€m) at end FY18 17.0

Shares in issue 5.4m

Free float 81%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 23.6 11.3 36.0

Rel (local) 18.4 16.9 54.8

52-week high/low €70.7 €50.8

Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. The business generates c 55% of revenues from Europe, c 40% from the US and the remainder from Asia and Australia.

Next event

FY18 results 21 March 2019

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Exhibit 1: Financial summary

	€000s	2014	2015	2016	2017	2018e	2019e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
PROFIT & LOSS							
Revenue		46,061	58,457	65,990	76,064	86,927	98,957
EBITDA		8,979	13,405	14,871	16,399	19,752	22,170
Operating Profit (before amort and except)		5,700	9,257	9,934	10,547	13,352	15,170
Amortisation of acquired intangibles		0	(302)	(200)	(300)	(300)	(300)
Exceptionals and other income		53	(245)	(474)	(456)	0	0
Other income		0	0	0	0	0	0
Operating Profit		5,753	8,710	9,260	9,791	13,052	14,870
Net Interest		220	(6)	(108)	(110)	100	100
Profit Before Tax (norm)		5,920	9,312	9,949	10,669	13,684	15,502
Profit Before Tax (FRS 3)		5,973	8,765	9,275	9,913	13,384	15,202
Tax		(1,323)	(2,292)	(2,950)	(3,148)	(3,747)	(4,257)
Profit After Tax (norm)		4,609	6,877	6,785	7,281	9,852	11,162
Profit After Tax (FRS 3)		4,650	6,473	6,325	6,765	9,636	10,946
Ave. Number of Shares Outstanding (m)		4.8	5.0	5.3	5.3	5.4	5.5
EPS - normalised (c)		97	138	128	138	183	203
EPS - normalised fully diluted (c)		90	131	122	132	170	189
EPS - (GAAP) (c)		97	130	120	128	179	199
Dividend per share (c)		24.00	30.00	30.00	32.00	36.00	39.00
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		19.5	22.9	22.5	21.6	22.7	22.4
Operating Margin (before GW and except) (%)		12.4	15.8	15.1	13.9	15.4	15.3
BALANCE SHEET							
Fixed Assets		12,552	25,184	28,324	37,912	39,140	39,886
Intangible Assets		7,709	19,603	22,381	26,673	28,201	29,447
Tangible Assets		4,470	4,985	5,158	7,115	6,815	6,315
Other		373	596	785	4,124	4,124	4,124
Current Assets		33,894	36,110	42,024	42,823	51,901	59,642
Stocks		93	161	101	176	176	176
Debtors		15,110	18,073	19,523	21,253	24,292	27,654
Cash		17,559	16,295	21,338	20,632	26,671	31,050
Other		1,132	1,581	1,062	762	762	762
Current Liabilities		(19,827)	(24,789)	(28,299)	(27,399)	(29,504)	(31,835)
Creditors		(19,827)	(24,789)	(28,299)	(27,399)	(29,504)	(31,835)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(5,113)	(7,317)	(7,657)	(13,716)	(11,216)	(8,716)
Long term borrowings		(5,113)	(7,317)	(7,657)	(13,716)	(11,216)	(8,716)
Other long term liabilities		0	0	0	0	0	0
Net Assets		21,506	29,188	34,392	39,620	50,322	58,977
CASH FLOW							
Operating Cash Flow		9,245	14,307	15,331	17,311	18,818	21,140
Net Interest		310	(27)	(127)	(75)	100	100
Tax		(1,075)	(1,165)	(1,456)	(2,053)	(3,747)	(4,257)
Capex		(4,028)	(3,909)	(7,021)	(9,304)	(7,928)	(8,045)
Acquisitions/disposals		22	(11,700)	(335)	(7,551)	0	0
Financing		(694)	1,324	480	(345)	0	0
Dividends		(877)	(1,208)	(1,550)	(1,633)	(1,798)	(2,059)
Net Cash Flow		2,903	(2,378)	5,322	(3,650)	5,444	6,879
Opening net debt/(cash)		(11,961)	(12,446)	(8,978)	(13,681)	(10,011)	(15,455)
HP finance leases initiated		(2,293)	(1,090)	(645)	0	0	0
Other		(125)	0	26	(20)	(0)	0
Closing net debt/(cash)		(12,446)	(8,978)	(13,681)	(10,011)	(15,455)	(22,334)

Source: Esker, Edison Investment Research

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