

Exasol

Software

25 September 2020

Winning new business despite COVID-19

Exasol made solid progress in H120, growing annual recurring revenue (ARR) by 18% half-on-half and 30% year-on-year. Overall revenue declined 8% year-on-year as the number of perpetual licences signed fell, in line with the company's strategy to focus on subscription licensing. Cash proceeds from the recent IPO contributed to the €40m net cash position at the end of H120, providing more than adequate funding to support the growth of the company until it reaches cash flow profitability.

Growing proportion of recurring revenues

Exasol reported H120 revenue of €10.1m, down 8% y-o-y due to a higher proportion of subscription licence deals signed compared to H119. Recurring revenue made up 90.7% of H120 revenue compared to 64.2% in H119 and ARR increased 30% y-o-y and 18% h-o-h to €20.8m in June 2020. Despite COVID-19 restrictions, the company signed up 16 new customers in H1. Exasol reported EBITDA of -€15.0m for H120 (H119: -€5.1m); and excluding one-off items, adjusted EBITDA of -€1.8m compared to €0.8m in H119.

Targeting ARR growth of 36% in FY20

The company is targeting ARR of at least €24m by the end of FY20, which implies 36% growth y-o-y and 15% growth compared to the end of H1. Consensus forecasts for FY20 imply either stronger growth in ARR or a higher contribution from non-recurring revenues in H2. Since the end of H1, the company has made a small acquisition (€0.9m cash): yotilla (based in Germany), which has developed a software solution to automate the creation of data warehouses based on pre-defined criteria. Exasol plans to sell this alongside its core product to new and existing customers.

Valuation: Reflects growth prospects

Exasol has traded above its IPO price since listing in May and is now 96% higher than its listing price of €9.5. On an EV/sales basis, it is trading at a premium to the average for German software peers, although it is more in line with high-growth peers. Compared to US SaaS software peers, it is trading at a discount despite faster growth prospects.

Price €18.6
Market cap €402m

Share price graph



Share details

Code EXL
Listing Deutsche Börse Scale
Shares in issue 21.6m
Net cash as at 30 June 2020 €40.3m

Business description

Exasol is an analytics database software developer with more than 175 customers in 30 countries. Its headquarters are in Nuremberg, Germany, and it has offices in the UK and the US.

Bull

- Industry-leading product.
- High customer retention.
- Large and growing addressable market.

Bear

- Small compared to competitors.
- Loss-making.
- Share overhang.

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Consensus estimates

Year end	Revenue (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	17.7	(0.6)	(0.06)	0.0	N/A	N/A
12/19	21.6	(13.9)	(1.33)	0.0	N/A	N/A
12/20e	27.4	(19.1)	(0.28)	0.0	N/A	N/A
12/21e	43.3	(9.5)	(0.30)	0.0	N/A	N/A

Source: Exasol, Refinitiv

Review of H120 results

Exhibit 1: Half-year income statement			
€m	H119	H120	y-o-y
Revenue	11.04	10.13	-8.3%
Other operating income	0.10	0.22	112.6%
Cost of materials	(1.10)	(1.00)	-8.7%
Gross profit	10.05	9.35	-7.0%
Own work capitalised	0.89	0.95	6.0%
Personnel expenses	(12.88)	(18.61)	44.5%
Other operating expenses	(3.22)	(6.71)	108.7%
EBITDA	(5.15)	(15.02)	191.9%
D&A	(1.08)	(1.04)	-4.1%
EBIT	(6.23)	(16.06)	157.9%
Interest income	(0.43)	(0.17)	-61.0%
PBT	(6.66)	(16.22)	143.7%
Tax	(0.02)	(0.01)	-60.0%
Net income	(6.67)	(16.23)	143.2%
<i>Gross margin</i>	91.0%	92.3%	
<i>EBITDA margin</i>	-46.6%	-148.3%	
<i>EBIT margin</i>	-56.4%	-158.5%	

Source: Exasol

Exhibit 2: Revenue breakdown			
€m	H119	H120	y-o-y
Recurring revenue	7.1	9.2	29.6%
Other revenue	4.0	0.9	-76.2%
Total revenue	11.0	10.1	-8.3%
<i>Recurring/total</i>	64.2%	90.7%	26.5%

Source: Exasol

Exhibit 3: Adjusted EBITDA reconciliation			
€m	H119	H120	
EBITDA	(5.1)	(15.0)	
Add back:			
Share-based payments	5.9	10.1	
IPO expenses	0	3.1	
Adjusted EBITDA	0.8	(1.8)	

Source: Exasol

Recurring revenue growth

In H120, Exasol reported an 8% decline in revenue year-on-year. Subscription licences increased by 30% y-o-y whereas perpetual licence sales declined 76% y-o-y (see Exhibit 2). The company's preference is to sell licences on a subscription basis and it only sells perpetual licences if there is a specific customer need, which was the case in H119. ARR (recurring revenue for the month x 12) increased by 30% y-o-y and 18% h-o-h to €20.8m in June 2020. The company noted that it won 16 new customers and signed 38 new partners in H1.

Large one-off items skew results

Personnel and other operating costs were significantly higher year-on-year due to one-off items. In Exhibit 3, we show a reconciliation to adjusted EBITDA. Share-based payments consist of provisions for stock appreciation rights granted to executives and employees and are included in personnel expenses. Excluding these provisions, personnel costs increased 23% y-o-y, reflecting the increase in headcount over the course of H119. IPO expenses are included within other operating expenses; excluding these costs, other operating expenses increased 13% y-o-y. Excluding one-off costs, adjusted EBITDA reduced from €0.8m in H119 to a loss of €1.8m in H120.

IPO proceeds provide a healthy cash position

The company ended H120 with a net cash position of €40.3m, compared to a net debt position of €1.6m at the end of FY19 plus €3.1m in shareholder loans. Cash flows from operating activities consumed €4.8m in H120 (this includes the €3.1m of IPO costs and €2.4m initial payment of stock appreciation rights) and investing activities consumed €1.2m (mainly capitalised development costs). In its May IPO, the company raised gross proceeds of €48.5m from the issue of 5.1m shares and €2.7m from the sale of 285k treasury shares, both at €9.5 per share. After this, the company repaid substantially all debt.

Stock appreciation rights (SARs) – €13.7m provision to date

The company has three share-based remuneration schemes in place:

- **SAR Executive Board programme:** we estimate that c 975k SARs have been granted. The holders of the SARs are entitled to a payment equivalent to the value of the share price less €1; this can be in the form of cash or equity. An initial cash payment of €2.4m was made in H120. The scheme runs until August 2022 when the final payment is due. As at the end of June 2020, €9.7m of this had been provided for. We note that a total of 881,794 shares were contributed to the company prior to the IPO for use in this scheme. 285,000 were sold as part of the IPO greenshoe, generating proceeds of €2.7m, which more than covered the initial payment. A further 596,794 shares are held in treasury and can be sold or issued to contribute towards the final payment, reducing the net cost of the programme.
- **SAR employee programme:** employees are entitled to 579,000 SARs. The equivalent value of a SAR is €13 so the total cost of the programme will be €7.5m. It will be paid out over three years, with 30% due in May 2021, 40% in May 2022 and 30% in May 2023. As at the end of H120, €4m had been provided for.
- **Executive Board stock awards:** the number of shares to be awarded is linked to annual base remuneration and a factor dependent on the performance of the Exasol share price, up to a maximum level. Payment of the entitlement is over three years.

Events since the end of H120

In August, the company set up a Swiss subsidiary, Exasol Schweiz AG, based in Zurich. This will be used to distribute Exasol products in Switzerland. The first sales employee started working there last week.

Exasol acquired 100% of the shares of yotilla GmbH, headquartered in Cologne, paying €900k in cash. Yotilla has developed a software solution that enables the automatic construction of a data warehouse based on given parameters. Three employees instrumental to the development of the solution were also part of the acquisition.

Outlook and changes to forecasts

The company took action in Q220 to respond to the restrictions imposed by COVID-19, with most staff working from home. Despite this, the company signed up 16 new customers in H1 and expects to grow ARR to at least €24m by the end of 2020.

The one set of forecasts in the market has not changed post-results, forecasting revenue of €27.4m for FY20. Based on the revenue generated in H1 (€10.1m) and the recurring revenue target for year-end, in our view this forecast assumes either that the ARR target is beaten or the company generates a high level of non-recurring revenue in H220.

Valuation

We compare Exasol to two groups of peer companies: US SaaS software companies and German software companies (which are a mix of SaaS and traditional software models).

We note that the US SaaS companies are much larger in size, both in terms of market cap and revenues. They tend to report recurring revenues at a higher level than Exasol (which reported 70% recurring revenues in FY19), anywhere from 80% to 100%. As Exasol shifts more of its business to subscription licensing, and sells more via the channel (so it does not undertake implementation work), it should see its recurring revenues increase as a percentage of revenues; in fact in H120, this had already increased to 91%. Of the 40 US SaaS companies included in the averages, 11 were loss-making in the last reported year. Exasol is forecast to grow revenue faster than the group average and is trading at a discount on an EV/sales basis for both years.

Exhibit 4: US SaaS software metrics

	Market cap	Revenue \$m		Rev growth (%)		EBIT margin (%)		EV/sales		EV/EBIT	
	\$m	LY	CY	NY	CY	NY	CY	NY	CY	NY	
Average	22,378	1,146	27.9	22.8	3.5	9.7	15.5	12.4	249.8	109.6	
Median	7,975	577	23.2	22.5	7.4	9.8	14.0	11.4	44.8	63.2	

Source: Refinitiv (as at 21 September). Note: Average EV/EBIT excludes loss-making companies.

The German software peers are all profitable at the EBIT level. Those with a market cap sub-€1bn are forecast to grow revenues at an average of 9.7% this year, compared to Exasol's 26% growth forecast, and are forecast to grow on average 14.2% next year. On an EV/sales basis, Exasol is trading at a premium to the group average, but looking at the higher growth peers, the valuation looks more in line.

Exhibit 5: German software peer metrics

	Market cap	EV	Sales growth (%)		EBITDA margin (%)		EBIT margin (%)		EV/sales (x)	
	€m	€m	CY	NY	CY	NY	CY	NY	CY	NY
Exasol AG	406	362	26.8	58.0	-60.6	-14.8	-69.0	-21.7	13.2	8.4
SAP SE	166,462	176,004	2.3	7.8	34.2	35.2	29.1	29.4	6.2	5.8
TeamViewer AG	8,552	9,013	17.8	20.1	52.3	54.6	45.4	49.8	19.6	16.3
Nemetschek SE	7,548	7,692	5.2	13.6	27.7	29.3	20.1	22.7	13.1	11.6
Software AG	3,144	2,852	-3.9	1.9	23.2	24.6	19.1	20.6	3.3	3.3
RIB Software SE	1,268	1,168	22.4	18.4	25.9	26.1	13.2	16.0	4.4	3.8
Mensch und Maschine Software SE	919	935	7.0	11.2	15.4	16.4	12.1	13.1	3.6	3.2
Atoss Software AG	986	967	17.0	16.0	31.1	32.8	26.7	28.4	11.6	10.0
PSI Software AG	391	363	-3.3	8.3	11.2	12.1	6.4	7.8	1.7	1.5
IVU Traffic Technologies AG	283	257	8.1	8.3	15.6	14.4	13.5	12.5	2.7	2.5
init innovation in traffic systems SE	318	333	15.5	13.2	14.8	14.9	10.7	11.4	1.8	1.6
Cyan AG	99	94	11.3	33.2	35.7	38.9	7.7	24.4	3.1	2.4
USU Software AG	254	243	8.7	12.5	9.5	11.1	4.9	7.9	2.3	2.1
GK Software SE	158	182	9.0	13.8	14.4	16.3	6.8	9.5	1.4	1.3
Serviceware SE	152	123	14.1	11.3	5.9	6.4	3.2	3.8	1.6	1.5
Average			9.4	13.6	22.6	23.8	15.6	18.4	5.5	4.8
Median			8.8	12.9	19.4	20.5	12.6	14.5	3.2	2.8
Average market cap <€1bn			9.7	14.2	17.1	18.2	10.2	13.2	3.3	2.9
Median market cap <€1bn			9.0	12.5	14.8	14.9	7.7	11.4	2.3	2.1

Source: Refinitiv (as at 21 September)

We note that Snowflake, a key competitor to Exasol, came to the market (NYSE) on 16 September. Its IPO was very well received, with the price range moved up during the process from an initial range of \$75–85 per share to a final price of \$120. This valued Snowflake at \$33bn and generated gross proceeds for the company of \$3.9bn. Since IPO, the share price has soared and currently stands at \$226.74 giving the company a market cap of \$63bn. No consensus forecasts are yet available for the company, but based on the last reported quarter's revenues (three months to 31 July 2020 \$133.1m; annualised \$532.4m), this values the company on an annualised price/sales multiple of 118x. Snowflake is loss-making; revenue growth was 174% for FY20 (year ended 31

January) and 121% for Q221 (quarter ended 31 July 2020). Prior to its IPO, Snowflake had already raised \$1.4bn over several investment rounds, providing significant funds to drive growth. Exasol's recent IPO provided the largest cash injection in its history, putting it in the position where it can now accelerate its sales and marketing efforts.

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