

# Esker

Q3 revenue update

## Rebound in SaaS-based business

Esker reported revenue growth of 7% y-o-y for Q320 and 8% for 9M20. The volume processed through its platform returned to close to pre-COVID levels by September. As companies look to Esker's technology to support their digital transformation projects, orders for 9M20 grew 11% y-o-y. While management guidance for FY20 is maintained on a constant currency basis, we reduce our revenue forecasts for FY20/21 by 1% to reflect the recent strengthening of the euro, resulting in small EPS reductions.

Year end	Revenue (€m)	PBT* (€m)	Diluted EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	86.9	12.2	1.65	0.41	90.6	0.3
12/19	104.2	13.6	1.79	0.33	83.4	0.2
12/20e	112.9	13.6	1.69	0.35	88.1	0.2
12/21e	130.6	18.0	2.21	0.40	67.6	0.3

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

## Q3 shows recovery in volumes processed

Esker reported revenue of €27.1m for Q320, +7% y-o-y or +10% in constant currency. SaaS-based revenue grew 14% in constant currency (21% in September), while licence-based revenues declined 17% and legacy revenues declined 39% y-o-y. The company noted that the variable element of subscription revenues (usually c 45% of total revenue) saw volumes recover to 95% of pre-COVID levels by September. Despite the economic situation, Esker saw the value of orders signed in 9M20 grow by 11% compared to the prior year to €21.3m, providing support for growth in FY21. Management commented that while some projects have been delayed, other customers have accelerated their transition to digital working to ensure operational continuity. Net cash at the end of Q320 was €25.2m, up from €22.9m at the end of H120.

## FY20 constant currency growth target maintained

Management continues to expect constant currency revenue growth of close to 9% for FY20, with profitability close to that achieved in FY19. As the euro has strengthened significantly against the dollar through Q3 (from \$1.125/€ on 30 June to \$1.179/€ on 13 October), we have reduced our H2 revenue forecast slightly, with forecast reported revenue growth of 8.4% for FY20 and 15.7% for FY21. With a proportion of costs dollar-based, we reduce normalised EPS by 3.7% in FY20 and 0.1% in FY21.

## Valuation: Reflects high recurring revenues

The stock trades at a premium to DPA software and French software peers but at a discount to US SaaS peers. Esker has re-rated over the last year, with its P/E multiple moving more towards the US SaaS peer group. We believe that this is due to the value placed on businesses with high levels of recurring revenue, providing visibility through a period of economic uncertainty. Esker has the added advantage of a strong balance sheet that does not require additional funding to support growth. Successful execution of Esker's partner strategy could be a trigger for earnings and share price upside.

## Software & comp services

14 October 2020

**Price** €149.2

**Market cap** €847m

\$1.177:€1

Net cash (€m) at end Q320 25.2

Shares in issue 5.7m

Free float 68%

Code ALESK

Primary exchange Euronext Growth Paris

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 9.1 12 93.3

Rel (local) 10.5 13.5 119.7

52-week high/low €153.00 €76.70

## Business description

Esker provides end-to-end document automation solutions, offering on-demand and on-premise delivery models. In FY19, the business generated 57% of revenues from Europe, 38% from the US and the remainder from Asia and Australia.

## Next events

Q4 revenue update 12 January 2021

## Analyst

Katherine Thompson +44 (0)20 3077 5730

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

**Esker is a research client of  
Edison Investment Research  
Limited**

## Changes to forecasts

Exhibit 1: Changes to forecasts								
€m	FY20e old	FY20e new	change	y-o-y	FY21e old	FY21e new	change	y-o-y
Revenues	113.9	112.9	(0.9%)	8.4%	131.8	130.6	(0.9%)	15.7%
EBITDA	22.2	21.7	(2.3%)	8.4%	26.2	26.2	(0.1%)	20.5%
EBITDA margin	19.5%	19.2%	(0.3%)	(0.0%)	19.9%	20.1%	0.2%	0.8%
Normalised EBIT	14.0	13.5	(3.7%)	4.8%	17.3	17.3	(0.1%)	28.7%
Normalised EBIT margin	12.3%	11.9%	(0.3%)	(0.4%)	13.2%	13.3%	0.1%	1.3%
Reported EBIT	13.5	13.0	(3.8%)	5.5%	16.9	16.9	(0.1%)	29.6%
Reported EBIT margin	11.9%	11.5%	(0.4%)	(0.3%)	12.8%	12.9%	0.1%	1.4%
Normalised PBT	14.1	13.6	(3.7%)	(0.2%)	18.0	18.0	(0.1%)	32.5%
Normalised net income	10.3	9.9	(3.7%)	(1.7%)	13.2	13.2	(0.1%)	32.5%
Normalised dil. EPS (€)	1.76	1.69	(3.7%)	(5.3%)	2.21	2.21	(0.1%)	30.2%
Reported basic EPS (€)	1.88	1.81	(3.6%)	0.7%	2.23	2.23	(0.1%)	23.2%
Reported diluted EPS (€)	1.81	1.75	(3.6%)	1.6%	2.16	2.15	(0.1%)	23.3%
Net cash	26.0	25.7	(1.0%)	22.4%	33.0	32.8	(0.8%)	27.4%
DPS (€)	0.35	0.35	0.0%	6.1%	0.40	0.40	0.0%	14.3%

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	€'000s	2016	2017	2018	2019	2020e	2021e
Year end 31 December		French GAAP	French GAAP	French GAAP	French GAAP	French GAAP	French GAAP
<b>PROFIT &amp; LOSS</b>							
Revenue		65,990	76,064	86,871	104,188	112,903	130,603
EBITDA		14,871	16,399	18,279	20,054	21,730	26,192
Operating Profit (before amort and except)		9,934	10,547	11,955	12,843	13,455	17,317
Amortisation of acquired intangibles		(200)	(300)	(344)	(425)	(425)	(425)
Exceptionals and other income		(474)	(456)	(88)	(62)	0	0
Other income		0	0	0	0	0	0
Operating Profit		9,260	9,791	11,523	12,356	13,030	16,892
Net Interest		(108)	(110)	(57)	268	(200)	100
Profit Before Tax (norm)		9,949	10,669	12,215	13,634	13,603	18,017
Profit Before Tax (FRS 3)		9,275	9,913	11,783	13,147	14,030	17,592
Tax		(2,950)	(3,148)	(2,940)	(3,402)	(3,788)	(4,750)
Profit After Tax (norm)		6,785	7,281	9,168	10,106	9,930	13,153
Profit After Tax (FRS 3)		6,325	6,765	8,843	9,745	10,242	12,842
Ave. Number of Shares Outstanding (m)		5.3	5.3	5.4	5.4	5.7	5.8
EPS - normalised (c)		128	138	170	186	175	228
EPS - normalised fully diluted (c)		122	132	165	179	169	221
EPS - (GAAP) (c)		120	128	164	180	181	223
Dividend per share (c)		30	32	41	33	35	40
Gross margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		22.5	21.6	21.0	19.2	19.2	20.1
Operating Margin (before GW and except) (%)		15.1	13.9	13.8	12.3	11.9	13.3
<b>BALANCE SHEET</b>							
Fixed Assets		28,324	37,912	39,635	47,201	49,849	52,649
Intangible Assets		22,381	26,673	28,096	29,323	31,723	34,223
Tangible Assets		5,158	7,115	7,050	10,434	10,334	10,034
Other		785	4,124	4,489	7,444	7,792	8,392
Current Assets		42,024	42,823	49,016	52,022	68,207	65,273
Stocks		101	176	147	185	185	185
Debtors		19,523	21,253	25,551	30,015	32,479	36,497
Cash		21,338	20,632	22,794	21,357	35,078	28,126
Other		1,062	762	524	465	465	465
Current Liabilities		(28,299)	(26,206)	(30,072)	(34,300)	(47,338)	(38,960)
Creditors		(28,299)	(26,206)	(30,072)	(34,300)	(35,838)	(38,960)
Short term borrowings		0	0	0	0	(11,500)	0
Long Term Liabilities		(7,657)	(14,909)	(10,810)	(8,276)	(5,776)	(3,276)
Long term borrowings		(7,657)	(13,716)	(9,318)	(6,516)	(4,016)	(1,516)
Other long term liabilities		0	(1,193)	(1,492)	(1,760)	(1,760)	(1,760)
Net Assets		34,392	39,620	47,769	56,647	64,943	75,686
<b>CASH FLOW</b>							
Operating Cash Flow		15,944	17,311	18,366	20,290	20,804	25,297
Net Interest		(127)	(75)	63	352	(200)	100
Tax		(1,456)	(2,053)	(2,795)	(3,329)	(2,936)	(4,750)
Capex		(7,021)	(9,304)	(7,789)	(10,995)	(11,000)	(11,500)
Acquisitions/disposals		(935)	(7,551)	(225)	(486)	0	0
Financing		467	(345)	785	1,449	0	0
Dividends		(1,550)	(1,633)	(1,756)	(2,237)	(1,946)	(2,099)
Net Cash Flow		5,322	(3,650)	6,649	5,044	4,722	7,047
Opening net debt/(cash)		(8,978)	(13,681)	(10,016)	(16,576)	(21,018)	(25,739)
HP finance leases initiated		(645)	0	0	0	0	0
Other		26	(15)	(90)	(602)	0	0
Closing net debt/(cash)		(13,681)	(10,016)	(16,576)	(21,018)	(25,739)	(32,787)

Source: Esker, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by Esker and prepared and issued by Edison, in consideration of a fee payable by Esker. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia