

Exasol

Software

28 September 2021

FY21 guidance maintained

Exasol reported H121 results that reflected its focus on structuring the business for growth. Annual recurring revenue (ARR) was 27% higher year-on-year and reported revenue 29% higher, and management maintained its target for ARR growth of 45% for FY21. Headcount nearly doubled y-o-y, reflecting investment in product development and sales and marketing. The imminent release of Exasol's cloud-native SaaS solution provides greater flexibility for customers and widens the addressable market to include those companies that prefer a consumption model.

H121 ARR +27% y-o-y; FY21 guidance maintained

Exasol reported 29% growth in revenue in H121 and an adjusted EBITDA loss of €14.1m. This reflects the rapid increase in headcount (138 over the last year and 65 over the last six months) and related costs. ARR increased 27% y-o-y and 10% h-o-h, with Q2 seeing a slower pace of growth than Q1 as sales cycles lengthened and the company spent longer finalising its go-to-market strategy. With visibility over a pipeline of deals that are expected to close by year-end, management maintains the target to reach ARR of €35m by the end of FY21 (+45% y-o-y) and €100m by the end of FY24. Net cash at the end of H121 was €46.6m, down from €69.4m at the end of FY20 reflecting the investment in headcount.

Putting the structure in place

Exasol has spent much of this year putting in place a structure for sales and marketing in order to strengthen its positioning and visibility in core markets. It has also developed a cloud-native version of its software to give customers the flexibility to separate out data storage and data compute, in our view a necessity if it is going to compete with cloud-native analytics database software providers.

Valuation: ARR growth the trigger

Consensus forecasts have been reduced since we last wrote in [May](#) (FY21e revenue cut by 18%, FY22 by 14%) and the share price has declined 28% over the same period. In our view, evidence of accelerating growth in ARR will be the key driver of share price performance. On an EV/sales basis, the company trades 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.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	21.6	(13.9)	(1.33)	0.0	N/A	N/A
12/20	23.6	(34.3)	(1.67)	0.0	N/A	N/A
12/21e	28.9	(29.6)	(1.17)	0.0	N/A	N/A
12/22e	44.3	(22.3)	(0.87)	0.0	N/A	N/A

Source: Refinitiv.

Price €13.41
Market cap €327m

Share price graph



Share details

Code EXL
Listing Deutsche Börse Scale
Shares in issue 24.4m
Last reported net cash at end H121 €46.6m

Business description

Exasol is an analytics database software developer with more than 200 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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Review of H121 results

Exhibit 1: H121 results highlights			
€m	H120	H121	y-o-y
Revenue	10.1	13.1	29%
Cost of materials	(1.0)	(1.7)	73%
Capitalised development costs	0.9	1.2	25%
Staff costs	(18.6)	(17.4)	-6%
Other operating costs	(6.5)	(9.7)	50%
EBITDA	(15.0)	(14.6)	-3%
D&A	(1.0)	(1.3)	29%
EBIT	(16.1)	(15.9)	-1%
Net loss	(16.2)	(16.2)	0%
Net cash/(debt)	40.3	46.6	15%
Adjusted results			
EBITDA	(15.0)	(14.6)	
Provision for SARs and stock awards	10.1	0.5	
Costs related to fund raises	3.1	0	
Adjusted EBITDA	(1.8)	(14.1)	
Net loss	(16.2)	(16.2)	
Adjustments	13.2	0.5	
Adjusted net loss	(3.0)	(15.7)	

Source: Exasol

Exasol published a trading update in August, confirming ARR at the end of H121 of €26.5m (+27% y-o-y) and revenue of €13.1m for H121 (+30% y-o-y). Exhibit 1 summarises full H121 results published on 21 September. Staff costs declined on a reported basis, but when one-off costs relating to share awards are excluded, staff costs increased 125% y-o-y. Headcount increased by 138 to 288 since H120 (+92% y-o-y) and 65 since the end of FY20 (+65% h-o-h). The company is targeting headcount of 300 by year-end but will flex hiring depending on ARR progress. Other operating costs increased 50% on a reported basis and 185% once IPO-related costs are excluded, reflecting increased spend on developing a sales and marketing structure and the overall increase in headcount. This resulted in the reported EBITDA loss reducing from €15.0m to €14.6m y-o-y and on an adjusted basis, increasing from €1.8m to €14.1m.

The company closed H121 with a net cash position of €46.6m. During H121, the company generated a €20.2m cash outflow from operations and invested €2.6m in tangible and intangible assets.

ARR progress

Exhibit 2: Quarterly ARR progress			
	ARR	q-o-q	y-o-y
Q419	17.6		
Q120	18.4	4.5%	
Q220	20.8	13.0%	
Q320	21.5	3.4%	
Q420	24.1	12.1%	36.9%
Q121	25.3	5.0%	37.5%
Q221	26.5	4.7%	27.4%

Source: Exasol

The table above tracks ARR progress on a quarterly basis. Exasol saw strong growth of 38% y-o-y in Q121 but this slowed to 27% in Q221. The company noted that sales cycles extended in Q2 for certain major customer projects, although it is hopeful these will close by year-end. In addition, the company's go-to-market ramp-up has been a bit slower than originally planned and management believes its data volume-driven business model has prevented faster adoption.

In H121, churn (in terms of ARR) reduced to 3% from 5% in FY20. The company saw average growth in ARR of 19% y-o-y from existing customers. The company signed up 11 new customers in H1, including DB System, LBBW and Digital Planet to close H121 with 202 customers in total.

Technology update

The Exasol Cloud Performance Data Warehouse is due for imminent release. This cloud-native SaaS solution, currently using AWS, will be made available via a phase launched with the first customers offered access by the end of Q321. It will also be made available on Google Cloud Platform and Microsoft Azure in FY22. This solution allows customers to separate the data storage and data compute elements, providing a more cost-effective solution for those customers that want to use Exasol's analytics technology on an ad hoc basis or who want to analyse smaller amounts of data. Exasol will also be able to offer its ExaCloud managed services offering via the public cloud.

Exasol acquired a small business, yotilla, in H220. Using yotilla's technology, the company is developing a data warehouse automation solution, which should be made available in H122. This is designed to allow business units within enterprises to create their own customised data warehouses on an ad hoc, automated basis, without specialist knowledge.

Outlook and changes to consensus estimates

Management has maintained its guidance for FY21 ARR growth of 45% to reach at least €35m by year-end. The company has a strong pipeline of possible deals, which it believes could close by year-end to hit this target, noting that historically, Q4 is seasonally stronger. The company also continues to target ARR of at least €100m by the end of FY24.

The table below summarises consensus forecasts, which have declined since we last wrote in May, we believe because Q2 ARR growth was lower than expected.

Exhibit 3: Changes to consensus forecasts									
Consensus forecasts (€m)	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
	As at 23/9/21			As at 12/5/21			Change		
Revenue	28.9	44.3	66.5	35.0	51.6	78.5	-17.6%	-14.1%	-15.4%
EBITDA	(26.8)	(19.0)	(5.6)	(16.5)	(17.9)	(10.9)	62.4%	6.1%	-48.6%
PBT	(29.6)	(22.3)	(9.8)	(18.6)	(20.7)	(14.1)	59.1%	7.5%	-30.9%
Adjusted EPS (€)	(1.17)	(0.87)	(0.38)	(0.53)	(0.59)	(0.40)	120.8%	47.5%	-6.3%
Net cash/(debt)	30.5	13.4	(10.9)	55.5	41.0	29.5	-45.1%	-67.3%	N/A

Source: Refinitiv

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 also show Exasol's closest peer, Snowflake, which listed on the NYSE in September 2020.

We note the US SaaS companies are much larger in size, both in terms of market cap and revenues. Of the 37 US SaaS companies included in the averages, nine were loss-making in the last reported year. Exasol is forecast to grow revenue faster than the group average over the next two years and is trading at a discount on an EV/sales basis for both years.

Snowflake is trading at a significant premium to all peer companies in the table below, with forecast revenue growth well ahead of all peers. Since we last wrote in May, Snowflake consensus estimates for revenue have increased, while operating loss forecasts have reduced. This has been reflected in its valuation with EV/Sales multiples expanding significantly: FY22e from 52.5x to 79.0x and FY23e from 32.0x to 48.2x.

The German software peers are all profitable at the EBIT level. Those with a market cap of less than €1bn are forecast to grow revenues at an average of 10% this year, compared to Exasol's 22% growth forecast, and are forecast to grow on average 12% next year, versus Exasol at 54%. 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 4: Peer group valuation 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	333	286	22.3	53.6	-92.9	-42.9	-101.4	-49.2	9.9	6.5
Snowflake (US\$)	94,817	90,681	93.9	63.8	-7.1	-1.2	-9.3	-3.8	79.0	48.2
US SaaS software			28.4	23.7	13.9	15.7	7.8	10.4	18.9	14.9
<u>German software companies</u>										
SAP	149,317	156,886	0.2	4.1	33.1	32.0	28.4	28.2	5.7	5.5
TeamViewer	5,474	5,877	16.1	27.2	46.0	48.8	37.2	40.5	11.1	8.7
Nemetschek	10,407	10,394	12.0	9.2	31.2	29.6	24.4	23.6	15.5	14.2
Software	3,050	2,792	-0.7	7.4	20.1	23.4	16.7	20.1	3.4	3.1
RIB Software	2,235	2,100	15.9	16.6	24.4	25.0	10.5	14.4	7.1	6.1
Atoss Software	1,450	1,422	12.0	13.8	30.6	29.7	26.8	26.1	14.8	13.0
Mensch und Maschine Software	1,134	1,151	7.0	11.0	17.4	18.1	13.8	14.8	4.4	4.0
PSI Software	603	584	11.1	7.6	15.0	15.3	9.7	10.5	2.4	2.2
init innovation in traffic systems	467	487	1.1	15.1	15.5	16.3	10.8	11.6	2.7	2.3
IVU Traffic Technologies	346	323	13.0	8.7	15.4	15.0	12.5	12.4	3.1	2.9
USU Software	261	255	7.2	11.8	12.1	13.5	7.6	9.6	2.2	2.0
GK Software	368	357	15.7	14.0	22.5	20.6	16.1	14.6	2.6	2.3
Serviceware	143	109	10.4	13.8	7.1	8.1	1.5	4.4	1.4	1.2
Average			9.3	12.3	22.3	22.7	16.6	17.8	5.9	5.2
Median			11.1	11.8	20.1	20.6	13.8	14.6	3.4	3.1
Average market cap <€1bn			9.8	11.8	14.6	14.8	9.7	10.5	2.4	2.1
Median market cap <€1bn			10.8	12.8	15.2	15.2	10.2	11.1	2.5	2.3

Source: Refinitiv (as at 23 September)

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