

NEWS

21 June 2019

EXPERT SYSTEM

Objective raised (+)

(Midcap Partners)

Outperforming EBITDA growth in 2018 by +343% YoY with recurring licenses now representing 72% of sales in 2018 (vs. 41% in 2017), ES confirms the strong positioning of its AI Cogito platform for the European markets. Intelligent Process Automation and Knowledge Discovery Today, with strong presence in publishing and media, intelligence and law enforcement, and growing interest in banking, ES is well positioned to create value over the long term by strengthening its marketing and sales operations while consolidating strategic alliances with RPA players and other AI-related platforms.

A new shareholder: ES announced in April 2019, a reserve capital increase of €7M fully supported by ERGO Srl, a NewCo controlled by influential private investors such as Claudio Costamagna (former president Goldman Sachs EMEA, former President of Bulgari, Luxottica, Salini Impregilo, Cassa Depositi e Prestiti (Italian Ministry of Finance)), Diego Piacentini (Board Member of Bocconi, former VP of Amazon reporting directly to Jeff Bezos, former GM of Apple Europe), and Francesco Caio (President of Saipem, former DG of Poste Italiane which he carried out the IPO in October 2015, former CEO of Avio (whose majority stake was sold to GE), former VP of Nomura and Lehman Brothers, former DG of Indesit).

Positive points: We believe that ES can rely on certain positive aspects unique to the company: 1/ substantial growth prospects offered by AI, 2/ its leadership position in the field of AI cognitive semantics, 3/ market validation (a company mentioned in the most prestigious sectoral journals, such as Gartner & Forrester), 4/ strong know-how and the ability to implement tailor-made solutions, 5/ protected and patented technology that also applies in the United States, 6/ its migration to an annual recurring license and distribution model, 7/ market validation with winning tenders from large groups (eg. AXA, Bloomberg, Bayer, BNPP, Generali, Eli Lilly, Zurich Insurance, etc.) and institutions (eg. IMF, U.S. Department of Justice, etc.).

It should be noted that if ES would have been listed in the U.S., the current market capitalization would have been significantly higher. We also believe that there is a speculative bias on its valuation as ES could be an attractive M&A target for many players.

We maintain our Buy rating and leave our BP unchanged. Nevertheless, we are raising our target price to €3.90/share (vs. €2.70) (equal weighting between EV/Sales 2020E and EV/EBITDA 2020E with the application of a 30% discount on multiples obtained), valuation by multiple trading remains the most appropriate method to determine ES's value.

Buy, TP of €3.90 (vs. €2.70) - Pierre Buon : +33 1 86 95 47 71

Market Data	
Industry	AI
Share Price (€)	2,9
Market Cap (€M)	116,9
Bloomberg	EXSY IM
Market Segment	FTSE AIM Italy

Ownership structure	
Management	22,8%
Ergo Srl	9,8%
Free float	67,5%

€M (31/12)	2018a	2019e	2020e	2021e
Sales (€M)	28,7	33,2	37,8	43,1
Growth	9,8%	15,5%	14,0%	14,0%
EBITDA	4,6	7,4	9,5	10,9
Marge	16,2%	22,3%	25,1%	25,3%
Net income	-3,8	-2,1	1,0	2,3
EPS (€)	-0,11	-0,05	0,02	0,06
EPS growth	n.m.	n.m.	n.m.	135,4%
Dividend	0,00	0,00	0,00	0,00
Yield (%)	0,0%	0,0%	0,0%	0,0%
FCF	-2,9	-0,3	1,3	2,1
ROCE	-14,5%	-1,6%	9,1%	12,7%
EV/Sales (x)		3,5	3,1	2,7
EV/EBITDA (x)		15,8	12,3	10,7
EV/EBIT (x)		n/a	39,4	25,0
Net Debt	12,4	7,6	8,0	7,6
Gearing	82%	38%	38%	33%

Midcap Partners estimates

Upcoming event : H1 2019 Results - 27/09/2019

TOP Peers	Market Cap (€M)	EV/Sales 2019E	EV/Sales 2020E	EV/EBITDA 2019E	EV/EBITDA 2020E
BrainChip Holdings Ltd.	51	6,3	5,3	12,7	11,2
OBIC Co., Ltd.	10 688	10,3	8,5	17,8	15,2
Blue Prism Group Plc	1 261	21,2	11,2	32,1	19,1

Source: FACTSET

Disclaimer

This document may refer to valuation methods defined as follows:

- 1 - DCF method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used is the weighted average cost of capital, defined as the weighted average cost of the company's borrowings and the theoretical cost of its equity as estimated by the analyst.
- 2 - Comparables method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and applied to the company's financial aggregates to determine its valuation. The analyst builds the sample according to the company's characteristics (size, growth, profitability, etc). The analyst may also apply a premium/discount based on his perception of the company's characteristics.
- 3 - Asset-based method: estimation of the value of the equity on the basis of the revalued and corrected assets comprising the fair value of the liability.
- 4 - Discounted dividend method: discounted future value of estimated dividend flows. The discounting rate taken is general the cost of capital.
- 5 - The sum of the parts: this method consists in estimating a company's various activities by using the most appropriate evaluation method for each of them, then by adding them together.

Rating structure:

- Buy: expected over-performance 10% greater than the market within 6 – 12 months
Hold: expected performance of between -10% and +10% compared to the market within 6 – 12 months
Sell: expected under-performance 10% greater than the market within 6 – 12 months

Company	Closing price (€)	Rating	Warning
EXPERT SYSTEM	2.94	Buy	G
WIIT	47.2	Buy	G
XILAM	42.15	Buy	D,G

A LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it holding more than 5% of the total shares issued by the issuer;

B The issuer holds more than 5% of the total shares issued by LOUIS CAPITAL MARKETS - MCP or any corporate entity related to it;

C LOUIS CAPITAL MARKETS - MCP, alone or with other corporate entities, is related to the issuer by other significant financial interests;

D LOUIS CAPITAL MARKETS - MCP or any corporate entity related holding a contract or providing liquidity with which it entered into a liquidity agreement with regard to the issuer's financial instruments;

E LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it operated, during the past 12 months, in its capacity as leader or leader associated with an offer concerning the issuer's financial instruments made available to the public

F LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it is a party in any other agreement with the issuer concerning the provision of investment services relating to the corporate activity, provided that this does not result in the disclosure of confidential commercial information and that the agreement was in force during the last 12 months or gave rise to payment of, or a promise to pay, remuneration during the same period;

G LOUIS CAPITAL MARKETS – MCP and the issuer agreed that the former should provide the latter with a service to produce and circulate the investment recommendation on the said issuer;

Stock rating distribution

At June 2019 the stock rating distribution issued by the LOUIS CAPITAL MARKETS - MCP Midcap research team is as follows:

Rating	Midcap Partners coverage universe	of which Investment banking services*
Buy	71%	79%
Hold	27%	21%
Sell	2%	0%

* Investment banking services provided by Midcap Partners in the previous 12 months

The reference prices used in this document are closing prices. Any opinion given in this document reflects our current judgement and may be changed without any prior warning. LOUIS CAPITAL MARKETS - MCP has adopted effective administrative and organisational methods, including the "information barriers", to guard against and to avoid conflicts of interest with regard to the investment recommendations. The remuneration of the financial analysts involved in drafting the recommendation is not tied to the Corporate Finance activity. Past performance cannot be relied on as an indicator of future performance.

MIFID 2 WARNING: we remind you that pursuant to MIFID , it is your responsibility, as a recipient of this research document, to determine whether or not your firm is impacted by the provisions of the Directives 2014/65 EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments("MIFID 2") regarding the unbundling of research and execution (the "MIFID 2 Research Rules"). For any request on the provision of research documents, please send an email to clplanade@midcapp.com

Please note that this document is a deferred and translated release from the original issue in French, of which copy can be obtained on demand at marketing@midcapp.com

London

Midcap Partners - LCM
4th Floor - 130 Wood Street
London EC2V 6DL
+44 20 7936 1722

Paris

Midcap Partners - LCM
42, rue Washington
75008 Paris
+33 1 55 35 69 47

The following is to be affixed to any reports issued by a 15a-6 relationship party when the report may go to US investors.

Research Disclosure - NOTICE TO US INVESTORS:

This report was prepared, approved, published and distributed by Midcap Partners, a company located outside of the United States (a "non-US Company"). This report is distributed in the U.S. by Louis Capital Markets, LP, a U.S. registered broker dealer, which assumes responsibility for the research report's content, and is meant only for major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Louis Capital Markets, LP rather than with or through the non-US Company.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. The non-US Company is not registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. The non-US Company is the employer of the research analyst(s) responsible for this research report. The research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and such recommendations were elaborated independently; and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

This material was produced solely for information purposes and for the use of the recipient. This document does not constitute an offer of, or an invitation to buy or sell any security. The information contained herein has been obtained from published information and other sources which are considered to be reliable. The Companies noted herein accepts no liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document.

Louis Capital Markets, LP assumes responsibility for the research reports content in regards to research distributed in the U.S. Louis Capital Markets, LP, or its affiliates, has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. Louis Capital Markets, LP, or its affiliates, do not beneficially own 1% or more of the subject securities and there are not any other actual, material conflicts of interest noted at the time of the publication of this research report. As of the publication of this report, Louis Capital Markets, LP does not make a market in the subject securities.

The non-US Company will refrain from initiating follow-up contacts with any recipient of this research report that does not qualify as a Major Institutional Investor, or seek to otherwise induce or attempt to induce the purchase or sale of any security addressed in this research report by such recipient.