

PUBLICATIONS

30 September 2019

EXPERT SYSTEM

H1 2019 Earnings (-)

(Company press release)

A Year of Transition

Friday afternoon during the market session, ES disclosed its H1 2019 earnings which fell below expectations. It also revised its guidance for 2019E EBITDA, which was also down, due to a considerable increase in sales and marketing expenses necessary for the development of international markets with high potential (i.e. France, UK, US mainly in the form of an increase in the headcount).

The production value amounted to €15.4m (-3.4% YoY, -€0.4m YoY - vs. €16.1m expected), which accounts for 1/3 of anticipated FY2019E revenues (vs. 45% in FY2018) due to the increase in the seasonality of the BM this year. This performance can be explained by (i) the progressive internalisation of the BM with 58% of turnover achieved abroad (vs. 54% in H1 2018) through the development of UK subsidiaries (+ 62% YoY), FR (+ 23% YoY) and US, (ii) the BM's shift to a recurring licensing model (91% of H1 2019 sales vs. 79% in H1 2018), and (iii) the ramp-up of the indirect sales channel.

EBITDA was -€0.43m (vs +€70k in H1 2018 vs. expected at equilibrium) with OpEx exactly in line YoY, the cost structure being mainly fixed; this drop is totally in line with the decline in production. D&A increased slightly (+€0.15m YoY) following Capex invested throughout the year. The Group also benefited from a positive tax effect (+€0.24m) - all leading ES to publish a negative NI of -€4.0m (vs -€3.7m in H1 2018).

The net debt amounted to €5.7m (-54% YoY, 32% gearing) in particular because of the reserved capital increase fully subscribed by ERGO in April 2019 for an amount of €7.0m.

Outlook: The group is targeting a more internationalized BM with significant Sales & Marketing investments in high-potential markets (i.e. US & Europe), leading it to lower its EBITDA guidance from €7-8m to €5-6m over the year. We duly factored these elements in our FM, leading to a decline in our EBITDA of -25% over the period 2019E-21E. Consequently, we expect a full revision of guidance to be down in 2020E and 2021E also.

We are reiterating our opinion to Buy but adjusting our target price to €3.75 (vs. €3.90) following the improvement in trading multiples.

Buy, TP of €3.75 (vs. €3.90) – Pierre Buon : +33 1 53 45 10 77

Market Data

Industry	AI
Share Price (€)	3,3
Market Cap (€M)	133,4
Bloomberg	EXSY IM
Market Segment	FTSE AIM Italia

Ownership structure

Management	22,4%
Ergo Srl	9,7%
Free float	67,9%

€M (31/12)	2018a	2019e	2020e	2021e
Sales (€M)	28,7	32,8	37,7	43,3
Growth	9,8%	14,3%	14,9%	14,9%
EBITDA	4,6	5,3	6,9	8,5
Marge	16,2%	16,2%	18,3%	19,7%
Net income	-3,8	-3,5	0,0	1,4
EPS (€)	-0,11	-0,09	0,00	0,04
EPS growth	n.m.	n.m.	n.m.	n.m.
Dividend	0,00	0,00	0,00	0,00
Yield (%)	0,0%	0,0%	0,0%	0,0%
FCF	-2,9	-2,7	-1,0	-0,2
ROCE	-14,5%	-11,2%	1,3%	5,9%
EV/Sales (x)		4,2	3,7	3,2
EV/EBITDA (x)		26,0	20,1	16,2
EV/EBIT (x)		n/a	364,4	60,1
Net Debt	12,4	8,7	10,1	10,7
Gearing	82%	47%	55%	53%

Midcap Partners estimates

Upcoming event : Results FY 2019 - n.d.

TOP Peers	Market Cap (€M)	EV/Sales 2019E	EV/Sales 2020E	EV/EBITDA 2019E	EV/EBITDA 2020E
BrainChip Holdings Ltd.	39	6,3	5,3	12,7	11,2
OBIC Co., Ltd.	10 406	10,3	8,5	17,8	15,2
Blue Prism Group Plc	885	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
AKWEL	17.02	Buy	Nil
BIGBEN INTERACTIVE	13.12	Buy	Nil
BONDUELLE	23.5	Hold	Nil
EXPERT SYSTEM	3.34	Buy	G
GROUPE BOGART	8.7	Buy	D, G
GUERBET	47.85	Hold	Nil
LDC	110.5	Buy	Nil
M2I	5.95	Buy	D, G

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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 September 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	75%	80%
Hold	23%	20%
Sell	2%	0%

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

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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

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