



# Prodware

Application Software / France

## Decline in revenue as expected in Q3 18.

Earnings/sales releases - 19/11/2018

The decrease in revenue by -1.2% on a constant perimeter was broadly in line with expectation; note last year's high comparative (+3% on constant scope in Q3 17). Software editing and integration were satisfactory overall while SaaS revenue decelerated strongly in Q3 18 following two buoyant quarters. We see this as temporary and not calling into question SaaS future growth since the expansion of SaaS is structural in the software market.

### Fact

In Q3 18, revenue stood at €33.1m (-1.7% and -1.2% on constant scope). During the quarter, the main change in perimeter related to the disposal of the non-core Sage businesses (Q4 17). The integration of the Microsoft Dynamics activities of Ctac (annual revenue of €2m) acquired in early October 18 was not mentioned.

### 9m18 revenue.

- Revenue reached €123.2m (+1.9% and +1.6% on constant scope).
- SaaS revenue was €20.7m (+19.4%) thanks to strong revenue growth in H1 18. The proportion of SaaS revenue, which is a source of recurring revenue, increased to 17% of Group revenue (vs 14% of the total in 9m17).
- Revenue was relatively stable in software editing (€42.1m, 34% of Group revenue) and integration (€60.3m, 49% of the total).
- International revenue was the group's growth driver (+20.8% to €68.4m) and represented 56% of the total.

### Analysis

#### Slightly above expectation.

Prodware posted revenue of €33.1m in Q3 18 which was slightly above our estimate (€32.8m expected). On constant scope, revenue growth (-1.2%) was broadly in line with expectation (-1% estimated).

The decrease in revenue has to be seen within the context of a high comparative last year (+3% on a constant scope in Q3 17). In addition, the deceleration in Q3 18 revenue growth vs Q2 18 and Q1 18 is explained by the fact that there had been a positive impact from the postponement of some projects from Q4 17 to H1 18.

In the Q3 18 release, the growth rates on constant currency in Q1 18 and Q2 18 were adjusted downwards; we need to reconcile these figures with the company.

#### Temporary deceleration in SaaS.

SaaS revenue slowed significantly in Q3 18 (+2% vs +23% in Q3 17) following the strong growth in Q2 18 (+20%) and Q1 18 (+37%). We believe that it does not call into question SaaS future growth since the expansion of SaaS is structural in the software market.

Software editing revenue was pretty stable in Q3 18 (€11.2m vs €11.5m in Q3 17) which is a satisfactory performance and Integration revenue showed some resilience (€16.9m vs €17.3m in Q3 17).

#### International-driven growth.

In 9m18, revenue growth was fueled by International (+20.8%) o/w Germany and Spain. More specifically, International was buoyant in H1 18 (+30.1%) boosted by



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AlphaValue is contracted by Prodware to provide equity research on Prodware, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

### Buy Upside: 66.8%

Target Price (6 months)	€ 14.9
Share Price	€ 8.94
Market Cap. €M	69.2
Price Momentum	<b>NEGATIVE</b>
Extremes 12Months	8.94 ▶ 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA



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PERF	1w	1m	3m	12m
Prodware	-8.59%	-15.8%	-30.4%	-15.0%
Software	-3.41%	-8.02%	-12.7%	-0.69%
STOXX 600	-2.20%	-1.60%	-6.22%	-7.07%

Last updated: 31/05/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	6.35	6.88	5.54	5.10
Dividend yield (%)	0.60	0.68	0.89	1.12
EV/EBITDA(R) (x)	3.22	3.49	2.92	2.52
Adjusted EPS (€)	1.04	1.29	1.61	1.75
Growth in EPS (%)	52.7	23.8	25.0	8.63
Dividend (€)	0.04	0.06	0.08	0.10
Sales (€M)	176	168	172	173
EBITDA/R margin (%)	18.2	18.3	18.6	19.0
Attributable net profit (€M)	9.44	11.6	13.8	15.0
ROE (after tax) (%)	7.95	8.94	10.2	10.2
Gearing (%)	48.5	49.6	40.6	32.9

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the large number of contracts based on the Microsoft Dynamics 365 online platform signed in early 2018, and slowed significantly in Q3 18 (c.+1%).

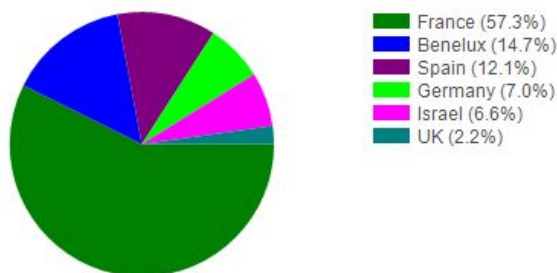
Conversely, we notice a slowing revenue decline in the French-speaking countries in Q3 18 (c.-5% vs -18% in H1 18). Regarding the recent contract wins in the French-speaking countries, Prodware has signed a contract with the French company Onatera (distribution of dietary supplements, essential oils, beauty/hygiene/health nutrition products) for the installment of Microsoft Dynamics NAV ERP software with more comprehensive practical coverage than the other solutions existing in the market.

## ■ Impact

No change to our current 2018 estimates following the Q3 18 revenue report. At this stage, we still anticipate Group revenue in the range of €172-173m (o/w €49.6m estimated in Q4 18 vs €46.8m in Q4 17). Q4 is generally the strongest quarter in revenue terms. The comparative should be favourable as Q4 17 revenue dropped by 16.7% on a constant scope due to the postponement of some projects to H1 18.

We maintain our positive recommendation and valuation on the stock.

## Sales by Geography



## Consolidated P&L Accounts

	12/17A	12/18E	12/19E
Sales	€M 168	172	173
Change in sales	% -4.64	2.75	0.46
Change in staff costs	% -0.40	3.23	1.80
EBITDA	€M 20.5	21.6	22.3
<b>EBITDA(R) margin</b>	<b>% 12.2</b>	<b>12.5</b>	<b>12.9</b>
Depreciation	€M -2.54	-2.58	-2.60
Underlying operating profit	€M 7.18	8.43	9.40
<b>Operating profit (EBIT)</b>	<b>€M 4.62</b>	<b>6.93</b>	<b>7.90</b>
Net financial expense	€M -4.47	-3.84	-3.72
of which related to pensions	€M	-0.07	-0.06
Exceptional items & other	€M 0.02	0.00	0.00
Corporate tax	€M 10.4	9.96	9.91
Equity associates	€M 0.59	0.79	0.93
Minority interests	€M -0.02	-0.02	-0.02
<b>Adjusted attributable net profit</b>	<b>€M 11.1</b>	<b>13.8</b>	<b>15.0</b>
NOPAT	€M 5.27	6.73	7.56

## Cashflow Statement

	12/17A	12/18E	12/19E
EBITDA	€M 20.5	21.6	22.3
Change in WCR	€M 7.00	1.22	-0.05
Actual div. received from equity holdi...	€M 0.17	0.17	0.17
Paid taxes	€M -0.37	9.96	9.91
Exceptional items	€M		
Other operating cash flows	€M 6.54	0.00	0.00
Total operating cash flows	€M 33.8	33.0	32.3
Capital expenditure	€M -23.1	-22.0	-21.0
Total investment flows	€M -24.8	-22.0	-21.0
Net interest expense	€M -4.47	-3.84	-3.72
Dividends (parent company)	€M -0.31	-0.46	-0.62
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M 1.36	0.00	0.00
Total financial flows	€M -5.04	-9.96	-10.5
Change in cash position	€M 6.32	1.00	0.86
<b>Free cash flow (pre div.)</b>	<b>€M 6.24</b>	<b>7.12</b>	<b>7.62</b>

## Per Share Data

	Mio	7.74	7.74	7.74
No. of shares net of treas. stock (year...				
Number of diluted shares (average)	Mio	8.61	8.57	8.57
<b>Benchmark EPS</b>	€	<b>1.29</b>	<b>1.61</b>	<b>1.75</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	€	<b>0.06</b>	<b>0.08</b>	<b>0.10</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 14.5	35%	● Atos
NAV/SOTP per share	€ 21.9	20%	● Capgemini
EV/Ebitda	€ 14.3	20%	● Indra Sistemas
P/E	€ 13.0	10%	● Sopra Steria Group
Dividend Yield	€ 3.97	10%	● Sage Group (the)
P/Book	€ 17.9	5%	● Software AG
TARGET PRICE	€ 14.9	100%	

### NAV/SOTP Calculation

## Balance Sheet

	12/17A	12/18E	12/19E
Goodwill	€M 34.2	34.2	34.2
Total intangible	€M 101	107	112
Tangible fixed assets	€M 7.44	6.65	5.85
Financial fixed assets	€M 62.9	63.5	64.2
WCR	€M 11.7	10.4	10.5
Other assets	€M 2.14	2.10	2.10
Total assets (net of short term liab.)	€M 186	190	195
<b>Ordinary shareholders' equity</b>	<b>€M 130</b>	<b>141</b>	<b>153</b>
Quasi Equity & Preferred	€M		
Minority interests	€M 0.36	0.38	0.39
Provisions for pensions	€M 4.35	4.47	4.51
Other provisions for risks and liabilities	€M 0.62	0.50	0.50
Total provisions for risks and liabilities	€M 4.97	4.97	5.01
Tax liabilities	€M -10.3	-10.5	-10.5
Other liabilities	€M		
<b>Net debt (cash)</b>	<b>€M 60.6</b>	<b>53.9</b>	<b>46.8</b>
Total liab. and shareholders' equity	€M 186	190	195

## Capital Employed

	12/17A	12/18E	12/19E
Capital employed after depreciation	€M 183	188	193

## Profits & Risks Ratios

	%	8.94	10.2	10.2
<b>ROE (after tax)</b>				
ROCE	%	2.88	3.59	3.92
<b>Gearing (at book value)</b>	<b>%</b>	<b>49.6</b>	<b>40.6</b>	<b>32.9</b>
Adj. Net debt/EBITDA(R)	x	2.95	2.49	2.10
Interest cover (x)	x	1.65	2.28	2.62

## Valuation Ratios

	x	6.88	5.54	5.10
<b>Reference P/E (benchmark)</b>				
Free cash flow yield	%	9.09	10.3	11.0
P/Book	x	0.53	0.49	0.45
<b>Dividend yield</b>	<b>%</b>	<b>0.68</b>	<b>0.89</b>	<b>1.12</b>

## EV Calculation

	€M	68.6	69.2	69.2
Market cap				
+ Provisions	€M	4.97	4.97	5.01
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	60.6	53.9	46.8
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M	62.9	65.2	65.2
+ Minority interests (fair value)	€M	0.36	0.38	0.39
= EV	€M	71.7	63.2	56.1
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>3.49</b>	<b>2.92</b>	<b>2.52</b>
EV/Sales	x	0.43	0.37	0.32

Analyst : H el ene Coumes, Changes to Forecasts : 31/05/2018.