Prodware

Application Software / France

The positive on EBITDA, the negative on free cash flow

Earnings/sales releases - 13/03/2019

In 2018, Prodware had satisfactory EBITDA in a challenging transformation to SaaS. Conversely, free cash flow was disappointing due to a deterioration in the collection of trade receivables in Q4 18, a strong increase in capex due to the renovation of the headquarters and agencies within the group. Management confirmed the focus on the development of SaaS revenue, margin improvement and higher free cash flow by the end of the strategic programme 2016-21.

Fact

2018 figures

- Revenue reached €175.9m (+4.9%, +4.3% at constant scope). Organic revenue grew by 4.1% thanks to strong activities in international, mainly Germany, Spain and Belux. Recurring revenue (SaaS, maintenance, hosting) grew by 12.1% (o/w SaaS revenue up 25.8%) and represented 38.4% of the total (+2.4pt yoy).
- EBITDA increased to €33.3m (+8.4%), corresponding to a margin rate of 18.9% of revenue (+0.6pt), above expectation. The increase in EBITDA was due to revenue growth, the reduction of external costs (-2.9%), which represented 16.6% of revenue, and lower other operating costs (€-1.5m vs €-4m in 2017).
- Current operating income was down 3.5% to €16.8m considering that the 2017 respective result included the reversal of a provision related to a customer dispute in Germany (€2.5m).
- Operating profit increased to €17.2m (+12.1%) taking into account lower non-recurring charges, net (€+0.4m vs €-2m in 2017).
- Group net profit dropped to €9.1m (-21%) due to non-recurring financial costs, i.e. the refinancing cost (€-1.7m) of new debt (debt refinancing in August 2018), the depreciation of financial investments (€-1.6m) and prepayment penalties related to the old debt. Excluding these non-recurring financial items, group net profit would have increased by 6.9% to €12.4m.

Operating cash flow decreased to $\notin 24.7m$ (-27%) due to a deterioration in WCR related to lower collection of trade receivables in France in Q4 18. Capex increased significantly to $\notin 36.1m$ (vs $\notin 24.6m$ in 2017) due to the renovation and expansion of the headquarters in France and the renovation of agencies withing the group, which represented a total of around $\notin 5m$.

At year-end 2018, gross debt amounted to €110m and net debt increased by €16m to €76.6m, corresponding to gearing of 55%.

Analysis

In 2018, EBITDA increased significantly to 18.9% of revenue (+0.6pt), benefiting from a comparative in 2017 which included a cost of \in 2.5m related to a customer dispute accounted in the EBITDA (cost covered by the reversal of the provision below the EBITDA level). Therefore, 2018 EBITDA (\in 33.3m) was stable if it is compared to the 2017 level excluding the customer dispute-related cost. Nevertheless, it is tempered by the change in the research tax credit. EBITDA includes the research tax credit deducted from staff costs. In 2018, the research



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Company Page

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: 59.1%
Target Price (6 months)	€ 15.5
Share Price	€ 9.74
Market Cap. €M	75.4
Price Momentum	UNFAVORABLE
Extremes 12Months	8.10 🕨 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA
d committee	





PERF	1 w	1m	3m	· ·	12m
Prodware	-3.18%	0.10%	10.6	% -1	9.9%
Software	-0.25%	3.70%	7.79	% 1	0.5%
STOXX 600	-0.64%	4.24%	6.64	% -1.	57%
Last updated:	27/02/2019	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x))	6.88	7.04	5.56	5.39
Dividend yield (%)	0.68	0.67	1.03	1.23
EV/EBITDA(R) (x)	3.49	3.84	2.77	2.38
Adjusted EPS (E)	1.29	1.69	1.75	1.81
Growth in EPS	(%)	23.8	30.8	3.78	3.24
Dividend (€)		0.06	0.08	0.10	0.12
Sales (€M)		168	176	175	174
EBITDA/R marg	in (%)	18.3	18.6	18.8	19.3
Attributable net	profit (€M)	11.6	14.5	15.0	16.1
ROE (after tax)	(%)	8.94	10.6	10.2	10.1
Gearing (%)		49.6	40.3	32.4	25.7
Company Valuation - Company Financials					



tax credit decreased to \in 7.6m (-29%), leading to a negative impact of \in 2.9m on staff costs. It is a structural trend and Prodware anticipates a reduction to \in 4-5m at the end of the 2016-21 strategic programme.

In conclusion, EBITDA was satisfactory in 2018 (\in 33.3m vs \in 30.3m in 2017 excluding the customer dispute-related cost and with a similar research tax credit as in 2018).

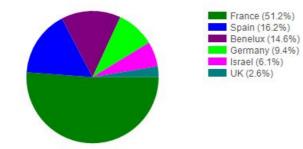
In 2018, Prodware continued to reduce subcontracted costs and made some progress in productivity thanks to a higher 'nearshore' headcount (employees in the Czech Republic, Romania, Georgia, Morocco, Tunisia) which represented 17% of the workforce (vs 12% of the workforce in 2017). Conversely, staff costs surged by 11% to \in 61.4m (including the negative effect of a lower research tax credit) due to salary increases and the increase in the headcount (+3.8% at year-end 2018). Prodware recruited people in management functions and in new technologies (artificial intelligence, IoT in particular) which should bring higher value-added offerings in the future.

Impact

We will factor in the 2018 figures and adjust our estimates accordingly. No major change is assumed at this stage. According to management, the start to the year 2019 is good in terms of activity.

Prodware ended the third year of its 2016-21 strategic programme and reiterated the focus on the development of SaaS revenue (16.4% of revenue in 2018), the EBITDA margin improvement (revenue growth, higher productivity, lower R&D costs based on efficiency, restructuring of agencies in France) and higher free cash flow. The group is anticipating some acquisitions of small-sized companies with a high technological content.

Sales by Geography



Change in sales % -4.64 4.90 -0.66 Change in staff costs % -0.40 3.23 1.88 EBITDA €M 20.5 22.3 22.3 EBITDA(R) margin % 12.2 12.7 12.4 Depreciation €M -2.54 -2.64 -2.63 Underlying operating profit €M 7.18 9.10 9.44 Operating profit (EBIT) €M 4.62 7.60 7.90 Net financial expense €M -4.47 -3.84 -3.72 of which related to pensions €M -4.47 -3.84 -3.72 of which related to pensions €M 0.02 0.00 0.00 Corporate tax €M 0.02 0.02 -0.02 Adjusted attributable net profit €M 11.1 14.5 15.4 NOPAT €M 20.5 22.3 22.3 22.3 Cashflow Statement €M -0.01 1.00 0.00 Charge in WCR €M 7.00 1.00 0.00 Actual div	Consolidated P&L Accounts		12/17A	12/18E	12/19E
Change in staff costs % -0.40 3.23 1.88 EBITDA €M 20.5 22.3 22.3 EBITDA(R) margin % 12.2 12.7 12.4 Depreciation €M -2.54 -2.64 -2.63 Underlying operating profit €M 7.18 9.10 9.44 Operating profit (EBIT) €M 4.62 7.60 7.94 Net financial expense €M -4.47 -3.84 -3.72 of which related to pensions €M -0.02 -0.00 0.00 Corporate tax €M 0.02 0.00 0.00 Corporate tax €M 0.59 0.79 0.93 Minority interests €M 0.02 -0.02 -0.02 Adjusted attributable net profit €M 1.11 14.5 15.1 NOPAT €M 5.27 7.20 7.58 Cashflow Statement EBITDA €M 0.07 0.07 Paid taxes €M -0.37 9.93 9.93 Exceptional items €M	Sales	€M	168	176	175
EBITDA €M 20.5 22.3 22.5 EBITDA(R) margin % 12.2 12.7 12.4 Depreciation €M -2.54 -2.64 -2.65 Underlying operating profit €M 7.18 9.10 9.44 Operating profit (EBIT) €M 4.62 7.60 7.99 Net financial expense €M -4.47 -3.84 -3.72 of which related to pensions €M 0.02 0.00 0.00 Corporate tax €M 10.4 9.93 9.97 Equity associates €M 0.59 0.79 0.93 Minority interests €M -0.02 -0.02 -0.02 Adjusted attributable net profit €M 11.1 14.5 15.4 NOPAT €M 2.05 22.3 22.3 22.5 Cashflow Statement €M 7.00 1.00 0.00 Actual div. received from equity holdi €M 0.17 0.17 0.17 Paid taxes €M -0.37 9.93 9.97 Exc	Change in sales	%	-4.64	4.90	-0.64
EBITDA(R) margin % 12.2 12.7 12.4 Depreciation €M -2.54 -2.64 -2.65 Underlying operating profit €M 7.18 9.10 9.44 Operating profit (EBIT) €M 4.62 7.60 7.99 Net financial expense €M -4.47 -3.84 -3.72 of which related to pensions €M 0.02 0.00 0.00 Corporate tax €M 10.4 9.93 9.97 Equity associates €M -0.02 -0.02 -0.02 Adjusted attributable net profit €M -0.02 -0.02 -0.02 Adjusted attributable net profit €M 5.27 7.20 7.55 Cashflow Statement €M 0.017 0.17 0.17 Paid taxes €M -0.02 -0.02 -0.02 Actual div. received from equity hold €M 0.017 0.17 0.17 Paid taxes €M -0.37 9.93 9.97 Exceptional items €M -0.31 -22.0 -21.0	Change in staff costs	%	-0.40	3.23	1.80
Charles -2.64 -2.64 -2.64 -2.64 Underlying operating profit €M 7.18 9.10 9.40 Operating profit (EBIT) €M 4.62 7.60 7.90 Net financial expense €M -4.47 -3.84 -3.72 of which related to pensions €M 0.02 0.00 0.00 Exceptional items & other €M 0.02 0.00 0.00 Corporate tax €M 10.4 9.93 9.99 Equity associates €M 0.59 0.79 0.93 Minority interests €M 0.02 -0.02 -0.02 Adjusted attributable net profit €M 11.1 14.5 15.1 NOPAT €M 5.27 7.20 7.58 Cashflow Statement EBITDA €M 20.5 22.3 22.4 Change in WCR €M 7.00 1.00 0.07 Actual div. received from equity holdi €M 0.17 0.17 0.17 Paid taxes €M -23.1 2.2.0 -21.0	EBITDA	€M	20.5	22.3	22.3
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Other operating cash flows $\in M$ 6.54 0.00 0.00 Total operating cash flows $\in M$ 33.8 33.4 32.4 Capital expenditure $\in M$ -23.1 -22.0 -21.0 Total investment flows $\in M$ -24.8 -22.0 -21.0 Total investment flows $\in M$ -4.47 -3.84 -3.72 Dividends (parent company) $\in M$ -0.31 -0.46 -0.62 Dividends to minorities interests $\in M$ 0.00 0.00 New shareholders' equity $\in M$ 1.36 0.00 0.00 Total financial flows $\in M$ -5.04 -9.96 -10.6 Change in cash position $\in M$ 6.32 1.42 0.97 Free cash flow (pre div.) $\in M$ 6.24 7.54 7.72 Per Share DataNo. of shares net of treas. stock (yearMio 7.74 7.74 7.74 Number of diluted shares (average)Mio 8.61 8.57 8.57 Benchmark EPS \in 1.29 1.69 1.75 Restated NAV per share \in 1.29 1.69 1.75	Paid taxes	€M	-0.37	9.93	9.91
Total operating cash flows€M33.833.432.4Capital expenditure€M-23.1-22.0-21.0Total investment flows€M-24.8-22.0-21.0Net interest expense€M-4.47-3.84-3.72Dividends (parent company)€M-0.31-0.46-0.62Dividends to minorities interests€M0.000.000.00New shareholders' equity€M1.360.000.00Total financial flows€M-5.04-9.96-10.6Change in cash position€M6.321.420.97Free cash flow (pre div.)€M6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€1.291.691.75	Exceptional items	€M			
Capital expenditure $\in M$ -23.1 -22.0 -21.0 Total investment flows $\in M$ -24.8 -22.0 -21.0 Net interest expense $\in M$ -4.47 -3.84 -3.72 Dividends (parent company) $\in M$ -0.31 -0.46 -0.62 Dividends to minorities interests $\in M$ 0.00 0.00 New shareholders' equity $\in M$ 1.36 0.00 0.00 Total financial flows $\in M$ -5.04 -9.96 -10.6 Change in cash position $\in M$ 6.32 1.42 0.93 Free cash flow (pre div.) $\in M$ 6.24 7.54 7.73 Per Share DataNo. of shares net of treas. stock (yearMio 7.74 7.74 Number of diluted shares (average)Mio 8.61 8.57 8.57 Benchmark EPS \in 1.29 1.69 1.75	Other operating cash flows	€M	6.54	0.00	0.00
Total investment flows€M-24.8-22.0-21.0Net interest expense€M-4.47-3.84-3.72Dividends (parent company)€M-0.31-0.46-0.62Dividends to minorities interests€M0.000.000.00New shareholders' equity€M1.360.000.00Total financial flows€M-5.04-9.96-10.6Change in cash position€M6.321.420.97Free cash flow (pre div.)€M6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€	Total operating cash flows	€M	33.8	33.4	32.4
Net interest expense \in M-4.47-3.84-3.72Dividends (parent company) \in M-0.31-0.46-0.62Dividends to minorities interests \in M0.000.000.00New shareholders' equity \in M1.360.000.00New shareholders' equity \in M-5.04-9.96-10.5Change in cash position \in M6.321.420.97Free cash flow (pre div.) \in M6.247.547.75Per Share DataNo. of shares net of treas. stock (yearMio7.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS \in 1.291.691.75Restated NAV per share \in 1.291.691.75	Capital expenditure	€M	-23.1	-22.0	-21.0
Dividends (parent company)€M-0.31-0.46-0.62Dividends to minorities interests€M0.000.000.00New shareholders' equity€M1.360.000.00Total financial flows€M-5.04-9.96-10.5Change in cash position€M6.321.420.97Free cash flow (pre div.)€M6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€	Total investment flows	€M	-24.8	-22.0	-21.0
Dividends to minorities interests€M0.000.00New shareholders' equity€M1.360.000.00Total financial flows€M-5.04-9.96-10.6Change in cash position€M6.321.420.97Free cash flow (pre div.)€M6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€1.291.691.75	Net interest expense	€M	-4.47	-3.84	-3.72
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 1.42 0.93 Free cash flow (pre div.) €M 6.24 7.54 7.73 Per Share Data No. of shares net of treas. stock (year Mio 7.74 7.74 7.74 Number of diluted shares (average) Mio 8.61 8.57 8.57 Benchmark EPS € 1.29 1.69 1.75 Restated NAV per share € 1.29 1.69 1.75	Dividends (parent company)	€M	-0.31	-0.46	-0.62
Total financial flows $\in M$ -5.04-9.96-10.5Change in cash position $\in M$ 6.321.420.97Free cash flow (pre div.) $\in M$ 6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS \in 1.291.691.75Restated NAV per share \in 1.291.691.75	Dividends to minorities interests	€M	0.00	0.00	0.00
Change in cash position€M6.321.420.97Free cash flow (pre div.)€M6.247.547.73Per Share DataNo. of shares net of treas. stock (yearMio7.747.747.74Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€1.291.691.75	New shareholders' equity	€M	1.36	0.00	0.00
Free cash flow (pre div.)€M6.247.547.73Per Share DataMio7.747.747.74No. of shares net of treas. stock (yearMio8.618.578.57Benchmark EPS€1.291.691.75Restated NAV per share€1.691.75	Total financial flows	€M	-5.04	-9.96	-10.5
Per Share Data No. of shares net of treas. stock (year Mio 7.74 7.74 Number of diluted shares (average) Mio 8.61 8.57 8.57 Benchmark EPS € 1.29 1.69 1.75 Restated NAV per share € 1.21 1.61 1.75	Change in cash position	€M	6.32	1.42	0.97
No. of shares net of treas. stock (year Mio 7.74 7.74 7.74 Number of diluted shares (average) Mio 8.61 8.57 8.57 Benchmark EPS € 1.69 1.75 Restated NAV per share € 1.69 1.75	Free cash flow (pre div.)	€M	6.24	7.54	7.73
Number of diluted shares (average)Mio8.618.578.57Benchmark EPS€1.291.691.79Restated NAV per share€	Per Share Data				
Benchmark EPS € 1.29 1.69 1.79 Restated NAV per share €	No. of shares net of treas. stock (year	Mio	7.74	7.74	7.74
Restated NAV per share €	Number of diluted shares (average)	Mio	8.61	8.57	8.57
	Benchmark EPS	€	1.29	1.69	1.75
Net dividend per share € 0.06 0.08 0.10	Restated NAV per share	€			
	Net dividend per share	€	0.06	0.08	0.10

Valuation Summary

Benchmarks	Value	Weight
DCF	€ 13.7	35%
NAV/SOTP per share	€23.0	20%
EV/Ebitda	€ 16.1	20%
P/E	€14.4	10%
Dividend Yield	€ 4.72	10%
P/Book	€ 19.5	5%
TARGET PRICE	€ 15.5	100%

Largest comparables

Atos Capgemini Indra Sistemas Sopra Steria Group

Sage Group (the) Software AG

NAV/SOTP	Calculation
	• all

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	6.62	5.81
Financial fixed assets	€M	62.9	63.5	64.2
WCR	€M	11.7	10.7	10.6
Other assets	€M	2.14	2.10	2.10
Total assets (net of short term liab.)	€M	186	190	195
Ordinary shareholders' equity	€M	130	142	154
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			
Net debt (cash)	€M	60.6	53.4	46.3
Total liab. and shareholders' equity	€M	186	190	195
Capital Employed				
Capital employed after depreciation	€M	183	188	193
Profits & Risks Ratios				
ROE (after tax)	%	8.94	10.6	10.2
ROCE	%	2.88	3.83	3.92
Gearing (at book value)	%	49.6	40.3	32.4
Adj. Net debt/EBITDA(R)	х	2.95	2.40	2.07
Interest cover (x)	х	1.65	2.46	2.62
Valuation Ratios				
Reference P/E (benchmark)	x	6.88	7.04	5.56
Free cash flow yield	%	9.09	8.20	10.2
P/Book	х	0.53	0.65	0.49
Dividend yield	%	0.68	0.67	1.03
EV Calculation				
Market cap	€M	68.6	92.0	75.4
+ Provisions	€M	4.97	4.97	5.01
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	60.6	53.4	46.3
+ 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	85.5	61.8
EV/EBITDA(R)	x	3.49	3.84	2.77
EV/Sales	х	0.43	0.49	0.35

Analyst : Hélène Coumes, Changes to Forecasts : 27/02/2019.

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