



# 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 €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 €36.1m (vs €24.6m in 2017) due to the renovation and expansion of the headquarters in France and the renovation of agencies within the group, which represented a total of around €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 €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 (€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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<b>Buy</b>	<b>Upside: 59.1%</b>
Target Price (6 months)	€ 15.5
Share Price	€ 9.74
Market Cap. €M	75.4
Price Momentum	<b>UNFAVORABLE</b>
Extremes 12Months	8.10 ► 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA



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PERF	1w	1m	3m	12m
Prodware	-3.18%	0.10%	10.6%	-19.9%
Software	-0.25%	3.70%	7.79%	10.5%
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 (€)	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 margin (%)	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

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

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

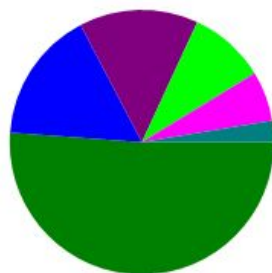
In 2018, Prodware continued to reduce subcontracted costs and made some progress in productivity thanks to a higher 'nearshore' headcount (employees in the Czech Republic, Romania, Georgia, Morocco, Tunisia) which represented 17% of the workforce (vs 12% of the workforce in 2017). Conversely, staff costs surged by 11% to €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



France	(51.2%)
Spain	(16.2%)
Benelux	(14.6%)
Germany	(9.4%)
Israel	(6.1%)
UK	(2.6%)

## Consolidated P&L Accounts

	12/17A	12/18E	12/19E
Sales	€M 168	176	175
Change in sales	% -4.64	4.90	-0.64
Change in staff costs	% -0.40	3.23	1.80
EBITDA	€M 20.5	22.3	22.3
<b>EBITDA(R) margin</b>	<b>% 12.2</b>	<b>12.7</b>	<b>12.8</b>
Depreciation	€M -2.54	-2.64	-2.62
Underlying operating profit	€M 7.18	9.10	9.40
<b>Operating profit (EBIT)</b>	<b>€M 4.62</b>	<b>7.60</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	9.93	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>14.5</b>	<b>15.0</b>
NOPAT	€M 5.27	7.20	7.55

## Cashflow Statement

	12/17A	12/18E	12/19E
EBITDA	€M 20.5	22.3	22.3
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 -0.37	9.93	9.91
Exceptional items	€M		
Other operating cash flows	€M 6.54	0.00	0.00
Total operating cash flows	€M 33.8	33.4	32.4
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	1.42	0.97
<b>Free cash flow (pre div.)</b>	<b>€M 6.24</b>	<b>7.54</b>	<b>7.73</b>

## Per Share Data

	12/17A	12/18E	12/19E
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
<b>Benchmark EPS</b>	<b>€ 1.29</b>	<b>1.69</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	€ 13.7	35%	● Atos
NAV/SOTP per share	€ 23.0	20%	● Capgemini
EV/Ebitda	€ 16.1	20%	● Indra Sistemas
P/E	€ 14.4	10%	● Sopra Steria Group
Dividend Yield	€ 4.72	10%	● Sage Group (the)
P/Book	€ 19.5	5%	● Software AG
TARGET PRICE	€ 15.5	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	6.62	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
<b>Ordinary shareholders' equity</b>	<b>€M 130</b>	<b>142</b>	<b>154</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>53.4</b>	<b>46.3</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

	12/17A	12/18E	12/19E
<b>ROE (after tax)</b>	<b>% 8.94</b>	<b>10.6</b>	<b>10.2</b>
ROCE	% 2.88	3.83	3.92
<b>Gearing (at book value)</b>	<b>% 49.6</b>	<b>40.3</b>	<b>32.4</b>
Adj. Net debt/EBITDA(R)	x 2.95	2.40	2.07
Interest cover (x)	x 1.65	2.46	2.62

## Valuation Ratios

	12/17A	12/18E	12/19E
<b>Reference P/E (benchmark)</b>	<b>x 6.88</b>	<b>7.04</b>	<b>5.56</b>
Free cash flow yield	% 9.09	8.20	10.2
P/Book	x 0.53	0.65	0.49
<b>Dividend yield</b>	<b>% 0.68</b>	<b>0.67</b>	<b>1.03</b>

## EV Calculation

	12/17A	12/18E	12/19E
Market cap	€M 68.6	92.0	75.4
+ 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	53.4	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
<b>EV/EBITDA(R)</b>	<b>x 3.49</b>	<b>3.84</b>	<b>2.77</b>
EV/Sales	x 0.43	0.49	0.35

Analyst : H el ene Coumes, Changes to Forecasts : 27/02/2019.