



Prodware

Application Software / France

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Revenue growth above expectations

Earnings/sales releases - 23/07/2018

Revenue growth accelerated above expectations at constant scope in Q2 18 (+6.9% following +4.9% in Q1 18). Growth was driven by the international markets which benefited from the signature of a large number of contracts based on the Microsoft Dynamics 365 online platform. The development of the SaaS model, a source of recurring revenue, continued at high double-digit growth. In H1 18, SaaS revenue represented 17.4% of the total (+3.1pts).

Fact

Q2 18 revenue

Prodware posted strong revenue above expectations in Q2 18. Revenue reached €44.9m, +2.2% and +6.9% at constant scope (vs our estimates of €44.7m, +1.8% and +4.5% at constant scope). There was a change in perimeter related to the disposal of non-core Sage businesses in France in Q4 17 and the integration of Nerea in Q2 17.

SaaS revenue increased by 19.9% to €10m and represented 22.3% of the total (+3.4pts yoy). There is no figure for the trend in the Business Consulting activity in the quarter. Finally, software editing performed very well, +5.8% to €15.6m, corresponding to 35% of the total.

International revenue continued to be a solid growth driver, +39% to €24.8m in Q2 18 vs +22.3% to €24.9m in Q1 18, thanks to the large number of contracts based on the Microsoft Dynamics 365 online platform signed since the beginning of the year 2018.

H1 18 revenue

Revenue reached €90m, +3.2% and +4.1% at constant perimeter (vs +3.1% and +2.3% at constant perimeter in H1 17).

SaaS revenue reached €15.7m (+25.7%) and represented 17.4% of the total (+3.1pt). The Business Consulting activity benefited from strong growth (undisclosed figure) despite a challenging hiring situation in the market. Software editing revenue reached €30.9m, +3.2%, and was stable at 34.4% of the total.

Analysis

Revenue growth acceleration at constant scope

Excluding the change in the perimeter, revenue growth accelerated significantly, above expectations, between Q1 18 (+4.9%) and Q2 18 (+6.9%) contrary to last year (+2.2% in Q1 17 and +2.5% in Q2 17). This acceleration was mainly attributable to international markets and probably to a positive impact from the postponement of some projects from Q4 17 to H1 18.

Fast-growing in international markets

The strong International revenue growth (+39% in Q2 18 vs +22.3% in Q1 18) was attributable to the large number of contracts based on the Microsoft Dynamics 365 online platform signed since the beginning of the year 2018. In H1 18, the breakdown of revenue by geography was the opposite of those in H1 17. Revenue in French-speaking countries reached €40.3m (-18%), 45% of revenue (vs 56% of revenue in H1 17) while International revenue was €49.7m (+30%), 55% of revenue (vs 44% of revenue in H1 17).

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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: 19.0%

Target Price (6 months)	€ 16.4
Share Price	€ 13.8
Market Cap. €M	107
Price Momentum	GOOD
Extremes 12Months	8.11 ▶ 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA

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PERF	1w	1m	3m	12m
Prodware	0.74%	-0.99%	2.98%	68.0%
Software	-1.57%	-1.02%	17.5%	19.6%
STOXX 600	0.15%	0.35%	0.99%	0.40%

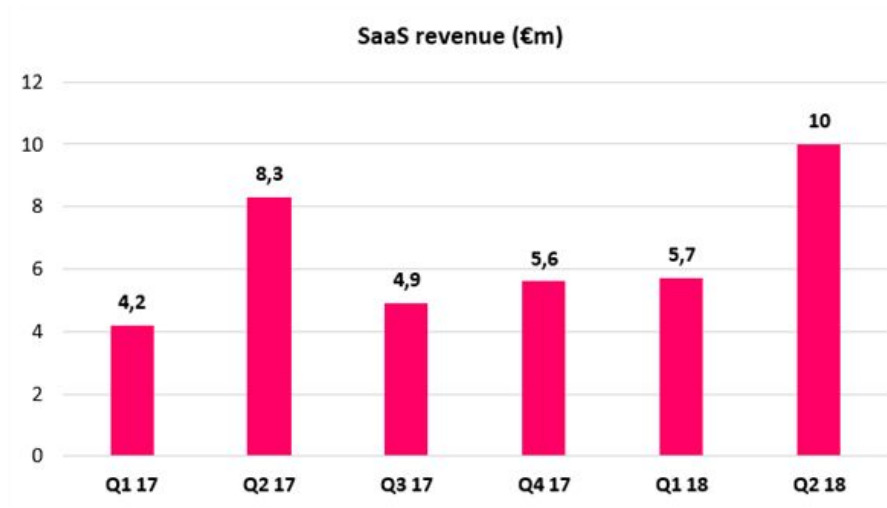
Last updated: 31/05/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	6.35	6.88	8.56	7.88
Dividend yield (%)	0.60	0.68	0.58	0.72
EV/EBITDA(R) (x)	3.22	3.49	4.66	4.20
Adjusted EPS (€)	1.04	1.29	1.61	1.75
Growth in EPS (%)	52.7	23.8	25.0	8.63
Dividend (€)	0.04	0.06	0.08	0.10
Sales (€M)	176	168	172	173
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

[Company Valuation](#) - [Company Financials](#)

Strong and seamless development of SaaS revenue

As a reminder, Prodware is involved in a business transformation which consists of replacing traditional software licence fees by three-year subscription fees in the SaaS mode. The development of SaaS is expected to continue to be a growth driver in the medium term. The advantage of SaaS is higher recurring and predictable revenue for Prodware in the medium term.

In H1 18, SaaS grew at a high pace, or +25.7% (vs +26% in H1 17), and represented 17.4% of the total.



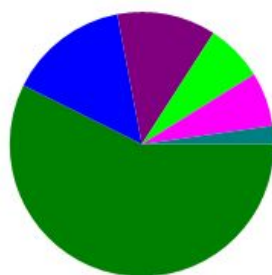
Source: Prodware Press releases

■ Impact

The positive set of figures in Q2 18 show the group's ability to move to a SaaS model without disruption at the top-line.

We will update our estimates after the release of H1 18 earnings due on 16 October 18.

Sales by Geography



France (57.3%)
Benelux (14.7%)
Spain (12.1%)
Germany (7.0%)
Israel (6.6%)
UK (2.2%)

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
EBITDA(R) margin	% 12.2	12.5	12.9
Depreciation	€M -2.54	-2.58	-2.60
Underlying operating profit	€M 7.18	8.43	9.40
Operating profit (EBIT)	€M 4.62	6.93	7.90
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
Adjusted attributable net profit	€M 11.1	13.8	15.0
NOPAT	€M 5.27	6.73	7.56

Cashflow Statement

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
Free cash flow (pre div.)	€M 6.24	7.12	7.62

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	1.61	1.75
Restated NAV per share	€		
Net dividend per share	€ 0.06	0.08	0.10

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 15.0	35%	● Atos
NAV/SOTP per share	€ 21.9	20%	■ Capgemini
EV/Ebitda	€ 17.0	20%	● Indra Sistemas
P/E	€ 16.8	10%	■ Sopra Steria Group
Dividend Yield	€ 4.97	10%	■ Sage Group (the)
P/Book	€ 24.2	5%	■ Software AG
TARGET PRICE	€ 16.4	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
Ordinary shareholders' equity	€M 130	141	153
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	53.9	46.8
Total liab. and shareholders' equity	€M 186	190	195

Capital Employed

Capital employed after depreciation	€M 183	188	193
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Profits & Risks Ratios

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

Valuation Ratios

Reference P/E (benchmark)	x	6.88	8.56	7.88
Free cash flow yield	%	9.09	6.66	7.13
P/Book	x	0.53	0.76	0.70
Dividend yield	%	0.68	0.58	0.72

EV Calculation

Market cap	€M 68.6	107	107	
+ 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	101	93.8	
EV/EBITDA(R)	x	3.49	4.66	4.20
EV/Sales	x	0.43	0.58	0.54

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