



Prodware

Application Software / France

Good revenue growth, above expectation.

Earnings/sales releases - 21/02/2019

In Q4 18, revenue growth (+10.7% on constant scope) was above expectation and benefited also from a low comparative in Q4 17 (-16.7% on constant scope). Prodware had record SaaS revenue growth (+45.9%) following a weak Q3 18 (+2%). Geographically, there was a good development in International (c.+11%), in particular in Benelux (+23.6%) which integrated the Microsoft Dynamics business acquired from CTAC in the Netherlands.

Fact

In Q4 18, revenue reached €52.7m (+12.6%, +10.7% on constant scope). Revenue growth was above expectation and benefited also from a low comparative in Q4 17 (-16.7% on constant scope). Prodware had record SaaS revenue growth (+45.9%) following a weak Q3 18 (+2%). Geographically, revenue growth was sustained by the rebound of activities in Benelux (+23.6%) which integrated the Microsoft Dynamics business acquired from CTAC in the Netherlands.

2018 revenue.

- Prodware posted revenue of €175.9m (+4.9%, +4.3% on constant scope) above expectation (€172m estimated).
- SaaS revenue surged by 25.8% to €29m and represented 16.5% of total revenue (+2.8pts yoy). Software editing was stable at €56.5m (32% of the total) and the integration services increased by 2.9% to €90.5m thanks to the growing implementation of Microsoft Dynamics 365.
- Geographically, the trend was contrasted between International markets and France and the French-speaking countries. International revenue surged by 17% to €107m (61% of total revenue), driven by activities in Germany, Spain and Belgium/Luxembourg. Conversely, revenue in France and the French-speaking countries dropped by 10% to €69m due to a significant slowdown in North Africa and a difficult environment in France in Q4 18.

The release of the 2018 results is due on 11 March 19.

Analysis

Strong year-end for SaaS.

Prodware is involved in a business transformation which consists of replacing traditional software licence fees by three-year subscription fees in the SaaS mode. SaaS provides recurring and predictable revenue. The transformation of the model had been well-managed up to now as there was no significant disruption in total revenue growth.

In Q4 18, Prodware had record SaaS revenue growth (+45.9%) following a weak Q3 18 (+2%) and a strong H1 18 (+25.7% o/w +20% in Q2 18, +37% in Q1 18). All in all, SaaS revenue grew by 25.8% in 2018 and is expected to drive growth in the medium-term considering that it represented 16.5% of revenue in 2018.

Steady software editing and other services.

In 2018, software editing revenue (€56.5m) was stable which was a good performance (vs -11% in 2017, -6% in 2016). Integration revenue growth (+2.9%) benefited from the deployment of the Microsoft Dynamics 365 platform at



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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: 51.1%

Target Price (6 months)	€ 15.3
Share Price	€ 10.2
Market Cap. €M	78.6
Price Momentum	GOOD
Extremes 12Months	8.10 ▶ 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA



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PERF	1w	1m	3m	12m
Prodware	9.48%	-1.93%	11.9%	-17.3%
Software	1.11%	5.26%	11.6%	14.6%
STOXX 600	1.78%	4.24%	5.81%	-2.38%

Last updated: 11/12/2018	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	6.88	7.36	5.80	5.51
Dividend yield (%)	0.68	0.67	0.98	1.18
EV/EBITDA(R) (x)	3.49	3.97	2.94	2.51
Adjusted EPS (€)	1.29	1.61	1.75	1.84
Growth in EPS (%)	23.8	25.1	8.62	5.23
Dividend (€)	0.06	0.08	0.10	0.12
Sales (€M)	168	172	173	176
EBITDA/R margin (%)	18.3	18.6	19.0	19.2
Attributable net profit (€M)	11.6	13.8	15.0	16.4
ROE (after tax) (%)	8.94	10.2	10.2	10.3
Gearing (%)	49.6	40.6	32.9	26.0

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

customers and the integration of the Microsoft Dynamics 365 business acquired in early October 18 from CTAC in the Netherlands (annual revenue of €2m).

Dynamic International activities.

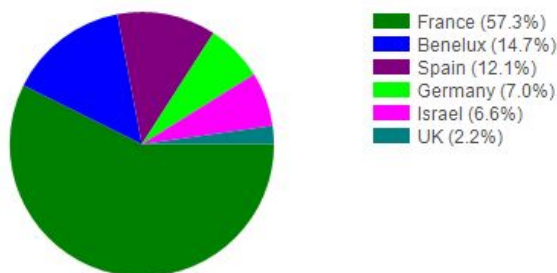
In 2018, International revenue grew significantly (+17%) and represented 61% of the total. The international activities were sustained by the large number of contracts based on the Microsoft Dynamics 365 online platform signed at the beginning of 2018 which had a strong positive impact on revenue growth in H1 18 (+30%). In H2 18, growth (+7%) included a good development in Q4 18 (c.+11%), in particular in Benelux (+23.6%).

In France and the French-speaking countries, revenue dropped significantly (-10% o/w -18% in H1 18). Prodware mentioned that Q4 18 was impacted by a negative environment for the delivery of projects in France but did not disclose the significant effect on revenue.

■ **Impact**

In conclusion, Prodware had good revenue growth in 2018 including a fast-growing business transformation to SaaS. Based on reported revenue of €175.9m (vs €172m estimated), we believe that the EBITDA could be in the range of €32.5-33m in 2018 (vs €32.1m currently estimated).

Sales by Geography



Consolidated P&L Accounts

	12/17A	12/18E	12/19E
Sales	€M 168	172	173
Change in sales	% -4.64	2.71	0.51
Change in staff costs	% -0.40	3.23	1.80
EBITDA	€M 20.5	21.6	22.3
EBITDA(R) margin	% 12.2	12.6	12.9
Depreciation	€M -2.54	-2.58	-2.60
Underlying operating profit	€M 7.18	8.44	9.41
Operating profit (EBIT)	€M 4.62	6.94	7.91
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	6.74	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	1.01	0.86
Free cash flow (pre div.)	€M 6.24	7.13	7.62

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
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	€ 14.0	35%	● Atos
NAV/SOTP per share	€ 21.9	20%	● Capgemini
EV/Ebitda	€ 15.9	20%	● Indra Sistemas
P/E	€ 14.2	10%	● Sopra Steria Group
Dividend Yield	€ 4.57	10%	● Sage Group (the)
P/Book	€ 20.3	5%	● Software AG
TARGET PRICE	€ 15.3	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	53.8	46.8
Total liab. and shareholders' equity	€M 186	190	195

Capital Employed

	12/17A	12/18E	12/19E
Capital employed after depreciation	€M 183	187	193

Profits & Risks Ratios

	12/17A	12/18E	12/19E
ROE (after tax)	% 8.94	10.2	10.2
ROCE	% 2.88	3.59	3.93
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

	12/17A	12/18E	12/19E
Reference P/E (benchmark)	x 6.88	7.36	5.80
Free cash flow yield	% 9.09	7.75	9.69
P/Book	x 0.53	0.65	0.51
Dividend yield	% 0.68	0.67	0.98

EV Calculation

	12/17A	12/18E	12/19E
Market cap	€M 68.6	92.0	78.6
+ 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	53.8	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	85.9	65.6
EV/EBITDA(R)	x 3.49	3.97	2.94
EV/Sales	x 0.43	0.50	0.38

Analyst : H el ene Coumes, Changes to Forecasts : 11/12/2018.