



Prodware

Application Software / France

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Margin improvement despite lower revenue

Earnings/sales releases - 03/04/2018

2017 was characterised by high double-digit revenue growth in SaaS, some difficulties in the recruitment of employees which led to lower services revenue and the postponement of significant projects from Q4 17 to H1 18. Nevertheless, Prodware succeeded in improving its margin rates thanks to the development of consulting services, higher efficiency of the billable headcount, a reduction in subcontracting and the disposal of non-core businesses with low margins.

Fact

2017 figures

Revenue decreased to €167.7m (-4.6%, -3.6% at constant perimeter) due to the difficulties in the recruitment of employees which led to lower services revenue and the postponement of significant projects from Q4 17 to H1 18. The amount of revenue is undisclosed.

SaaS revenue grew significantly (+24% to €23m) while revenue from the editing of software decreased (-7.5% to €56.8m) mainly due to the replacement of up-front payments (software licence fees) by revenue recognisable over time (three-year subscription fees in the SaaS mode). Services revenue decreased (-8.7% to €87.9m) taking into account the sale of non-core activities (revenue of €4.7m in 2016).

EBITDA declined at a lower pace than revenue to €30.7m (-3.8%), corresponding to a margin rate of 18.3% of revenue (+0.2pt). EBITDA included a customer dispute-related cost (€-2.5m) which impacted the Own Software Solutions and integration of Business Software Solutions EBITDA (-6.7% to €25.1m). Conversely, the Infrastructures and SaaS division posted higher EBITDA (+11.5% to €5.5m) due to the increase in the top-line.

Current operating income surged to €17.4m (+10.5%), corresponding to 10.3% of revenue (+1.3pts) due to lower depreciation and amortisation costs (-9%) and the reversal of the provision related to the customer dispute mentioned above.

The reported operating profit increased to €15.4m (+4.2%), corresponding to 9.2% of revenue (+0.8pt).

Group net profit was €11.6m (+22.4%) after lower net financial costs (-20.3% to €-4.5m considering a one-off expense of €-1.6m in 2016 relating to the restructuring of the financial debt) and a higher share of profits of associates and joint ventures at €0.6m (vs €0.1m in 2016) thanks to the increase in earnings of the US joint venture Retail and Digital Venture.

Operating cash flow increased to €33.8m (+17%) thanks to a positive change in WCR, and exceeded net capex and investment in shares totalling €22.4m. During 2017, there were the exercise of warrants for €1.8m, the cancellation of 776,000 owned shares and the payment of the dividend to shareholders of €0.3m (vs €0.2m in 2016).

At year-end 2017, gross debt amounted to €92.9m and net debt was reduced by c.€8m to €60.6m, corresponding to conventional gearing of 46%.

The proposed dividend with respect to FY2017 is €0.06/share (+50%).

Analysis



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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: 25.6%

Target Price (6 months) € 15.7

Share Price € 12.5

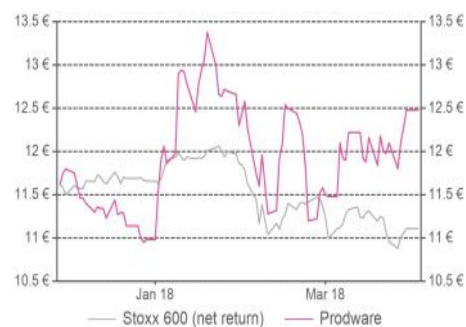
Market Cap. €M 96.6

Price Momentum

Extremes 12Months 11.0 ▶ 13.4

Bloomberg ALPRO FP Equity

Reuters ALPRO.PA

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PERF	1w	1m	3m	12m
Prodware	4.17%	8.33%	13.7%	n/a
Software	-0.25%	0.03%	-4.32%	2.66%
STOXX 600	0.47%	-3.01%	-4.70%	-2.02%

Last updated: 03/04/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	12.0	8.80	7.94	7.15
Dividend yield (%)	0.32	0.53	0.64	0.80
EV/EBITDA(R) (x)	5.54	4.43	4.29	3.82
Adjusted EPS (€)	1.04	1.29	1.57	1.74
Growth in EPS (%)	52.7	23.8	21.8	11.0
Dividend (€)	0.04	0.06	0.08	0.10
Sales (€M)	176	168	170	171
EBITDA/R margin (%)	18.2	18.3	18.6	19.0
Attributable net profit (€M)	9.44	11.6	13.5	14.9
ROE (after tax) (%)	7.95	8.94	9.95	10.2
Gearing (%)	48.5	49.6	40.8	33.3

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

Business transformation to 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.

In 2017, SaaS revenue continued to grow significantly (+24% to €23m), representing 13.7% of total revenue (+3.2pts yoy). The development of SaaS is expected to drive future revenue growth. The advantage of SaaS is higher recurring and predictable revenue for Prodware in the medium term.

Development of consulting services

In 2015, Prodware created the Business Consulting division and the Prodware Academy for the recruitment and training of experts and consultants. This stands out from traditional software vendors. In addition, the development of consulting services enables it to be at the very beginning of customers' IT projects and increase the value of the activities.

In 2017, Prodware employed 45 consultants and posted consulting revenue of €9.3m in 2017 (vs €3.2m in 2016, €0.2m in 2015). The target is to hire 25 to 35 consultants per year over the next two to three years.

Impressive growth in the US

Prodware is mainly involved in Europe. The US is a vast market where Prodware was absent until the creation of the joint venture Retail and Digital Venture with the US company ILOVEMOBILE Group in 2016. The joint venture is 45%/55% owned by Prodware and its US partner.

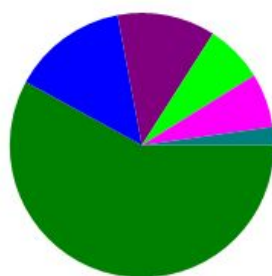
2017 was an impressive year for Retail and Digital Venture. The joint venture had revenue of €10.9m (vs €3.9m in 2016) and net profit of €1.1m (vs 0.2m in 2016) and has signed contracts with Nestlé and Essilor. In early 2018, Tiama and Nomacorc mentioned their willingness to migrate their North American operations on to the Microsoft Dynamics 365 online system.

Higher EBITDA margin despite lower revenue

The EBITDA margin increased slightly to 18.3% of revenue (+0.2pt) despite lower revenue. EBITDA includes the research tax credit deducted from staff costs. In 2017, the research tax credit amounted to €10.7m (-3%).

The margin improvement was attributable to higher efficiency of the billable headcount, the development of consulting services, the reduction in subcontracting and the disposal of non-core businesses with low margins. Nevertheless, the improvement was better than the apparent margin increase, taking into account 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).

Sales by Geography



France	(58.0%)
Benelux	(14.1%)
Spain	(12.0%)
Germany	(7.1%)
Israel	(6.6%)
UK	(2.2%)

Consolidated P&L Accounts

	12/17A	12/18E	12/19E
Sales	€M 168	170	171
Change in sales	% -4.64	1.65	0.41
Change in staff costs	% -0.40	3.23	1.80
EBITDA	€M 20.5	21.2	22.0
EBITDA(R) margin	% 12.2	12.4	12.9
Depreciation	€M -2.54	-2.56	-2.57
Underlying operating profit	€M 7.18	8.06	9.34
Operating profit (EBIT)	€M 4.62	6.56	7.84
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	9.97	9.92
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	13.5	14.9
NOPAT	€M 5.27	6.48	7.51

Cashflow Statement

	12/17A	12/18E	12/19E
EBITDA	€M 20.5	21.2	22.0
Change in WCR	€M 7.00	1.33	-0.04
Actual div. received from equity holdi...	€M 0.17	0.17	0.17
Paid taxes	€M -0.37	9.97	9.92
Exceptional items	€M		
Other operating cash flows	€M 6.54	0.00	0.00
Total operating cash flows	€M 33.8	32.7	32.1
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	0.70	0.58
Free cash flow (pre div.)	€M 6.24	6.81	7.34

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	1.57	1.74
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	€ 21.5	20%	■ Capgemini
EV/Ebitda	€ 15.4	20%	■ Indra Sistemas
P/E	€ 14.9	10%	■ Sopra Steria Group
Dividend Yield	€ 4.32	10%	● Sage Group (the)
P/Book	€ 22.4	5%	■ Software AG
TARGET PRICE	€ 15.7	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	6.66	5.88
Financial fixed assets	€M 62.9	63.5	64.2
WCR	€M 11.7	10.3	10.4
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	152
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	54.2	47.4
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	9.95	10.2
ROCE	% 2.88	3.46	3.90
Gearing (at book value)	% 49.6	40.8	33.3
Adj. Net debt/EBITDA(R)	x 2.95	2.56	2.15
Interest cover (x)	x 1.65	2.18	2.60

Valuation Ratios

	12/17A	12/18E	12/19E
Reference P/E (benchmark)	x 8.80	7.94	7.15
Free cash flow yield	% 7.10	7.05	7.60
P/Book	x 0.68	0.69	0.63
Dividend yield	% 0.53	0.64	0.80

EV Calculation

	12/17A	12/18E	12/19E
Market cap	€M 87.8	96.6	96.6
+ 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	54.2	47.4
+ 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 90.9	90.9	84.1
EV/EBITDA(R)	x 4.43	4.29	3.82
EV/Sales	x 0.54	0.53	0.49

Analyst : H el ene Coumes, Changes to Forecasts : 03/04/2018.