



# Prodware

Application Software / France

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## Good margin achievement

Earnings/sales releases - 18/10/2018

**The strong EBITDA margin (21.1% of revenue) resulted from revenue growth, management of subcontracting, the transformation to the SaaS mode and also no restructuring costs, all offsetting the surge in staff costs related to the recruitment of people with greater expertise to meet customer demand.**

### Fact

H1 18 revenue was released in July 2018. In our Latest on 23/07/2018 (see our comments), we concluded that revenue growth had accelerated above expectations at constant scope in Q2 18 (+6.9%) following the strong increase in Q1 18 (+4.9%).

Prodware has now released its H1 18 results which showed margin improvements.

### H1 18 results

Based on revenue of €90.1m (+3.3%, o/w +4.2% at constant perimeter), EBITDA increased to €19m (+8.4%) corresponding to a margin rate of 21.1% of revenue (+1pt). The EBITDA margin improvement was attributable to the management of subcontracting, the transformation to SaaS mode and also no restructuring costs, unlike in H1 17 (€-1m).

The research tax credit due to the deduction of staff costs amounted to €5.2m. As a reminder, we factored in an estimated c.€10m for FY2018.

The current operating result increased to €11.3m (+6.7%), representing 12.5% of revenue (+0.4pt) taking into account the higher depreciation (€-6.9m vs €-6.2m in H1 17) and no reversal in provisions (vs €+0.4m in H1 17).

Operating profit surged to €11.1m (+13.1%), representing 12.3% of revenue (+1.1pt). The comparative basis included a provision of €-0.8m related to the issuance of a free share plan.

Group net profit was €7.6m (+12.5%) after higher net financial expenses (€-3m vs €-2m in H1 17), the share in associates of €0.4m (vs €0.1m) and lower income tax (€-0.7m vs €-1.6m in H1 17).

Free cash flow decreased to €0.8m (vs €5.4m in H1 17) due to the significant increase in capex (€17.7m vs €7.7m in H1 17) including the capitalised R&D investments. The level of capex in H1 18 is not representative of the whole year 2018 as €22-24m is anticipated in FY2018.

### Analysis

#### Strong EBITDA margin

The EBITDA margin was the result of flat external costs (€-14.5m) reflecting a better management of subcontracting despite the increase in the activities, lower purchasing costs (-4.6% to €-24m) on the back of the development of SaaS revenue, no restructuring charges (vs €-1m in the French-speaking countries in H1 17) and the surge in staff costs (+11.5% to €31.9m) due to a change of the profile of the headcount. While the workforce increased moderately by 1.9% to 1,286 employees on 30 June 2018, the recruitment of more people led to close to a 10% increase in the headcount, notably those with greater expertise, i.e. in consulting, artificial intelligence, digital transformation, amongst others, for which high demand generates wage increases.

Although the EBITDA margin improved by 1pt to 21.1% of revenue in H1 18, it



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<b>Buy</b>	<b>Upside: 46.2%</b>
Target Price (6 months)	€ 15.5
Share Price	€ 10.6
Market Cap. €M	82.2
Price Momentum	<b>UNFAVORABLE</b>
Extremes 12Months	9.84 ▶ 14.2
Bloomberg	ALPRO FP Equity
Reuters	ALPRO.PA


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PERF	1w	1m	3m	12m
Prodware	2.12%	-6.18%	-20.9%	-7.24%
Software	1.87%	-4.37%	-5.62%	10.3%
STOXX 600	-0.92%	-3.90%	-5.57%	-6.89%

Last updated: 31/05/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	6.35	6.88	6.58	6.06
Dividend yield (%)	0.60	0.68	0.75	0.94
EV/EBITDA(R) (x)	3.22	3.49	3.52	3.10
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

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was rather stable compared to the EBITDA margin when restated after the restructuring costs in H1 17 (21.3% of revenue). It is a good achievement nonetheless.

### **Confidence of management for H2 18**

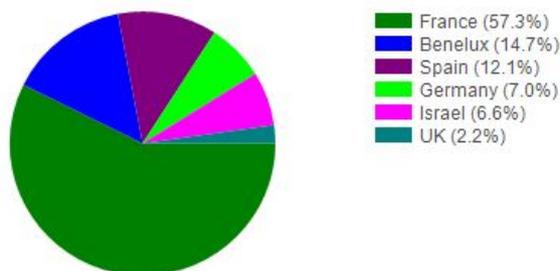
The next release concerns Q3 18 revenue and is due on 13 November 2018. Management is confident of revenue growth at constant scope thanks to the positive momentum in international markets related to Microsoft Dynamics and the good visibility of the activities related to Sage and Autodesk. It is worth knowing that Q4 is a strong quarter for Prodware and represents 30-35% of the group's revenue.

### **■ Impact**

Our model is under review. There should be no significant change in our 2018 estimates on the back of the H1 18 results.

The disappointing share price performance, -10% ytd, o/w -27% in 3M, may not be linked to the pretty good financial performance of Prodware since the beginning of the year 2018 but to investors' distrust of technology stocks in a more tense economic environment.

## Sales by Geography



## 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
<b>EBITDA(R) margin</b>	<b>% 12.2</b>	<b>12.5</b>	<b>12.9</b>
Depreciation	€M -2.54	-2.58	-2.60
Underlying operating profit	€M 7.18	8.43	9.40
<b>Operating profit (EBIT)</b>	<b>€M 4.62</b>	<b>6.93</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	9.96	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>13.8</b>	<b>15.0</b>
NOPAT	€M 5.27	6.73	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	1.00	0.86
<b>Free cash flow (pre div.)</b>	<b>€M 6.24</b>	<b>7.12</b>	<b>7.62</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>1.61</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	€ 14.8	35%	● Atos
NAV/SOTP per share	€ 21.9	20%	● Capgemini
EV/Ebitda	€ 15.3	20%	● Indra Sistemas
P/E	€ 14.4	10%	● Sopra Steria Group
Dividend Yield	€ 4.36	10%	● Sage Group (the)
P/Book	€ 20.8	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	6.65	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
<b>Ordinary shareholders' equity</b>	<b>€M 130</b>	<b>141</b>	<b>153</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>53.9</b>	<b>46.8</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>10.2</b>	<b>10.2</b>
ROCE	% 2.88	3.59	3.92
<b>Gearing (at book value)</b>	<b>% 49.6</b>	<b>40.6</b>	<b>32.9</b>
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
<b>Reference P/E (benchmark)</b>	<b>x 6.88</b>	<b>6.58</b>	<b>6.06</b>
Free cash flow yield	% 9.09	8.66	9.27
P/Book	x 0.53	0.58	0.54
<b>Dividend yield</b>	<b>% 0.68</b>	<b>0.75</b>	<b>0.94</b>

## EV Calculation

	12/17A	12/18E	12/19E
Market cap	€M 68.6	82.2	82.2
+ 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	76.2	69.2
<b>EV/EBITDA(R)</b>	<b>x 3.49</b>	<b>3.52</b>	<b>3.10</b>
EV/Sales	x 0.43	0.44	0.40

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