

Expert System

Fund-raise

Fund-raising target achieved

Expert System has met two key milestones in the execution of its new five-year growth plan, raising €25m from the issue of 9.26m shares at €2.7 per share and launching expert.ai, its NL API (natural language application programming interface). The first supports the investment required to execute the plan and the second is the first stage in the development of the cloud platform.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/18	30.5	4.6	(1.4)	0.0	N/A	26.0
12/19	33.7	5.5	(1.6)	0.0	N/A	22.1
12/20e	33.2	2.0	(10.6)	0.0	N/A	59.9
12/21e	34.4	(5.0)	(22.7)	0.0	N/A	N/A
12/22e	47.7	(0.5)	(16.5)	0.0	N/A	N/A

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

€25m raised to fund growth plan

When Expert System announced its five-year growth plan in June, it outlined its intention to invest in ramping up its sales and marketing capacity in the US as well as the development of its SaaS platform. Management estimated that it would need to raise €25m to fund the company until it reached a cash flow positive position in FY24. Through a combination of an entitlement offer and an accelerated book build (ABB), the company has raised €25m from the issue of 9.26m shares at €2.7 per share (18% dilution). We have revised our forecasts to reflect the cash proceeds and higher share count, with a forecast net cash position of €23.6m at year-end.

First technical milestone reached; senior hires made to drive sales and marketing plans

On 27 July, the company launched expert.ai, its NL API. This enables data scientists, computational linguists, knowledge engineers and developers to embed advanced natural language understanding and processing functionality into their applications. This is the first stage in the development of the full SaaS platform and allows Expert System to offer its technology via a freemium model. Since the funds were raised, the company has hired a chief revenue officer (Colin Matthews) and chief marketing officer (Keith C Lincoln) to help drive the sales and marketing effort in the US.

Valuation: Considerable upside if executed well

With the full SaaS platform not scheduled to launch until the end of Q121, the plan calls for significant investment before adoption of the SaaS platform is expected to drive material revenue growth in FY22. Based on a DCF valuation, we estimate that successful execution of the plan could see the stock valued in the region of €5.0 per share. To monitor progress towards the revenue inflection, we look to track the number of users signing up to use the platform, length and frequency of platform usage, conversion rates to paid subscriptions, net dollar retention and contribution from channel partners.

Software & comp services

6 August 2020

Price **€2.86**

Market cap **€144m**

Net debt (€m) at end FY19 2.8

Shares in issue 50.4m

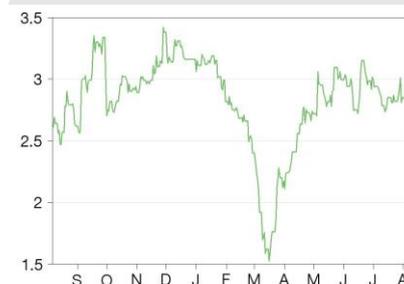
Free float 75%

Code EXSY

Primary exchange AIM Italia

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.5) (6.3) 10.2

Rel (local) (2.8) (17.5) 16.0

52-week high/low €3.43 €1.52

Business description

Expert System has developed and patented an AI-based technology platform that extracts useful information from unstructured text using a unique mix of natural language understanding and machine learning algorithms and applies it to verticals such as enterprise search, customer experience management and big data analytics.

Next events

H120 results 28 September 2020

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Changes to forecasts

Exhibit 1: Changes to forecasts													
Year end 31 December (€m)	FY20e old	FY20e new	% change	% y-o-y	FY21e old	FY21e new	% change	% y-o-y	FY22e old	FY22e new	% change	% y-o-y	
Sales	31.7	31.7	0.0%	0.3%	32.9	32.9	0.0%	3.8%	46.2	46.2	0.0%	40.2%	
Other income & grants	1.5	1.5	0.0%	(27.1%)	1.5	1.5	0.0%	0.0%	1.5	1.5	0.0%	0.0%	
Total revenues	33.2	33.2	0.0%	(1.4%)	34.4	34.4	0.0%	3.6%	47.7	47.7	0.0%	38.5%	
Capitalised development costs & changes in WIP	6.5	6.5	0.0%	8.3%	8.0	8.0	0.0%	22.3%	10.3	10.3	0.0%	29.6%	
Production value	39.8	39.8	0.0%	0.1%	42.4	42.4	0.0%	6.7%	58.0	58.0	0.0%	36.8%	
EBITDA	2.0	2.0	0.0%	(63.2%)	(5.0)	(5.0)	0.0%	(347%)	(0.5)	(0.5)	0.0%	(90.4%)	
EBITDA margin	6.0%	6.0%	0.0%	(10.1%)	(14.4%)	(14.4%)	0.0%	(20.5%)	(1.0%)	(1.0%)	0.0%	13.4%	
D&A	(6.4)	(6.4)	0.0%		(6.9)	(6.9)	0.0%		(7.9)	(7.9)	0.0%		
Normalised operating profit	(4.4)	(4.4)	0.0%	1135.7%	(11.9)	(11.9)	0.0%	168.3%	(8.4)	(8.4)	0.0%	(29.6%)	
Normalised operating margin	(13.3%)	(13.3%)	0.0%	(12.3%)	(34.5%)	(34.5%)	0.0%	(21.2%)	(17.5%)	(17.5%)	0.0%	16.9%	
Amortisation of acquired intangibles	(0.9)	(0.9)	0.0%	N/A	0.0	0.0	0.0%	N/A	0.0	0.0		N/A	
Exceptional items	0.0	0.0	0.0%	N/A	0.0	0.0	0.0%	N/A	0.0	0.0		N/A	
Reported operating profit	(5.3)	(5.3)	0.0%	N/A	(11.9)	(11.9)	0.0%	N/A	(8.4)	(8.4)	0.0%	N/A	
Normalised net income	(4.7)	(4.7)	0.7%	N/A	(11.7)	(11.5)	(1.9%)	142.8%	(8.8)	(8.3)		(27.6%)	
Reported net income	(0.9)	(0.9)	3.9%	6.5%	(11.7)	(11.5)	(1.9%)	N/A	(8.8)	(8.3)		27.6%	
Diluted normalised EPS (c)	(11.5)	(10.6)	(7.9%)	N/A	(28.4)	(22.7)	(19.9%)	N/A	(21.5)	(16.5)	(23.5%)	27.6%	
Net debt/(cash)	0.4	(23.6)	N/A	N/A	14.2	(10.1)	N/A	(57.2%)	25.6	0.7	N/A	(107%)	

Source: Edison Investment Research

Exhibit 2: Financial summary

	€'000s	2015	2016	2017	2018	2019	2020e	2021e	2022e
31-December		IT GAAP							
PROFIT & LOSS									
Revenue		19,368	25,057	27,783	30,457	33,712	33,248	34,445	47,699
EBITDA		1,463	(2,245)	1,711	4,638	5,459	2,011	(4,962)	(477)
Operating Profit (before amort. and except.)		(1,226)	(5,941)	(3,189)	(662)	(358)	(4,426)	(11,875)	(8,361)
Intangible Amortisation		(2,549)	(2,608)	(2,608)	(2,567)	(2,520)	(902)	0	0
Exceptionals		0	0	(700)	0	0	0	0	0
Other		0	0	0	0	0	0	0	0
Operating Profit		(3,775)	(8,549)	(6,496)	(3,229)	(2,878)	(5,328)	(11,875)	(8,361)
Net Interest		213	(156)	(2,191)	97	(123)	(817)	(855)	(855)
Profit Before Tax (norm)		(1,013)	(6,097)	(5,380)	(565)	(481)	(5,243)	(12,730)	(9,216)
Profit Before Tax (reported)		(3,562)	(8,705)	(8,687)	(3,131)	(780)	(1,021)	(12,730)	(9,216)
Tax		277	579	348	(650)	(203)	102	1,273	922
Profit After Tax (norm)		(934)	(5,692)	(5,164)	(508)	(607)	(4,719)	(11,457)	(8,294)
Profit After Tax (reported)		(3,284)	(8,126)	(8,339)	(3,781)	(983)	(919)	(11,457)	(8,294)
Average Number of Shares Outstanding (m)		22.8	25.8	28.1	35.8	38.6	44.6	50.4	50.4
EPS - normalised (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.6)	(10.6)	(22.7)	(16.5)
EPS - normalised and fully diluted (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.6)	(10.6)	(22.7)	(16.5)
EPS - (IFRS) (c)		(14.4)	(31.5)	(29.6)	(10.6)	(2.5)	(2.1)	(22.7)	(16.5)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		7.6	-9.0	6.2	15.2	16.2	6.0	-14.4	-1.0
Adj Operating Margin (%)		-6.3	-23.7	-11.5	-2.2	-1.1	-13.3	-34.5	-17.5
BALANCE SHEET									
Fixed Assets		20,301	20,379	18,864	16,655	14,761	14,190	15,748	18,694
Intangible Assets		18,539	18,372	16,944	14,734	13,092	12,790	14,380	17,373
Tangible Assets		916	915	792	715	702	684	652	604
Investments		846	1,092	1,128	1,206	968	716	716	716
Current Assets		42,588	37,012	37,634	38,004	51,442	81,007	68,766	62,463
Stocks		1,797	627	99	109	59	59	59	59
Debtors		10,228	10,233	12,384	15,792	20,447	21,060	21,060	24,641
Cash		11,249	9,063	11,235	7,883	21,647	50,497	36,982	26,178
Other		19,314	17,088	13,916	14,220	9,289	9,392	10,665	11,586
Current Liabilities		(20,517)	(22,679)	(19,480)	(21,170)	(22,839)	(23,264)	(24,037)	(28,975)
Creditors		(15,082)	(16,459)	(14,104)	(15,511)	(16,945)	(17,370)	(18,144)	(23,081)
Short term borrowings		(5,435)	(6,219)	(5,376)	(5,659)	(5,893)	(5,893)	(5,893)	(5,893)
Long Term Liabilities		(22,227)	(18,275)	(17,742)	(18,411)	(22,464)	(24,852)	(24,852)	(24,852)
Long term borrowings		(18,240)	(15,252)	(14,683)	(14,811)	(18,588)	(20,976)	(20,976)	(20,976)
Other long term liabilities		(3,987)	(3,023)	(3,060)	(3,600)	(3,876)	(3,876)	(3,876)	(3,876)
Net Assets		20,145	16,437	19,276	15,077	20,901	47,082	35,625	27,330
CASH FLOW									
Operating Cash Flow		2,738	2,088	(1,921)	2,583	2,479	1,802	(4,208)	860
Net Interest		(324)	(155)	(626)	(441)	(558)	(797)	(835)	(835)
Tax		(1,576)	0	0	0	0	0	0	0
Capex		(20,045)	(6,378)	(6,321)	(5,830)	(6,749)	(7,020)	(8,472)	(10,830)
Acquisitions/disposals		3,045	46	1,275	(76)	7,496	5,375	0	0
Financing		6,573	4,418	11,178	0	7,084	27,100	0	0
Dividends		0	0	0	0	0	0	0	0
Net Cash Flow		(9,588)	18	3,585	(3,764)	9,753	26,461	(13,514)	(10,805)
Opening net debt/(cash)		2,839	12,426	12,408	8,824	12,587	2,834	(23,627)	(10,113)
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		0	0	0	0	0	0	0	0
Closing net debt/(cash)		12,426	12,408	8,824	12,587	2,834	(23,627)	(10,113)	692

Source: Expert System, Edison Investment Research

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