

PUBLICATIONS

30 March 2020

EXPERT SYSTEM

Results FY 2019 (-)

(Company press release)

Above Expectations, but Revising Our Scenario

The Group released its FY2019 results on Friday 27 March after the close of trading.

Sales amounted to €31.7m (+10.3% YoY) below our estimates (€32.0m) and the guidance (€33m). More specifically, 61% of the revenue is represented by licences and maintenance, 36% by professional services and 3% by a residual part of other services. Sales growth continued for recurring licenses which, in 2019, represent 76% of all new licenses sold (vs. 40% in 2017). By region, 54% of the sales was generated from exports (i.e. 24% in the USA, and 30% in Europe, particularly the UK, Germany and France, thanks to the reorganization of subsidiaries in recent years).

EBITDA rose to €5.5m (+17.7% YoY; 17.2% margin for +108bps YoY) slightly above our expectations (€5.2m) and in line with the guidance (€5-6m), thanks to the mostly fixed cost structure and the implementation of cost efficiency.

Net Income was -€1.0m (vs. -€3.8m in 2018), above our expectations (-€2.3m) notably thanks to ADMantX's contribution of €+2.2m.

Net debt was €2.8m (-77.4% YoY) mainly due to (i) the €7m primary ABB fully subscribed by ERGO in April 2019 at €1.80/share, and (ii) the cash-in resulting from the sale of ADMantX for c. €7m in November 2019. Net of these two effects, Δ cash was c. €-0.3m.

Covid-19: Expert System's business model is of an intangible nature (AI software) with a certain flexibility regarding the implementation of an efficient and scalable business continuity plan through the use of smartwork. ES's main risk related to Covid-19 is linked to the reduction of commercial activity, particularly related to upsell and new client prospection, which usually requires physical travel to demonstrate proof of concepts. For obvious reasons, the group also announced the postponement of the release of its 2020E-22E industrial plan. It should be noted that: 1) ES's offer is in the form of a license; the price paid by the customer is not reduced for less frequent use due to the current slowdown, and 2) for the time being, the calendar effect is favourable to the group which is subject to strong seasonality (c.60% of the revenue is generated in H2 of each FY, even if it is partly linked to the marketing efforts undertaken in H1).

We are lowering our EPS 2020E and 2021E to -€0.05 and -€0.02 respectively (vs. -€0.01 and €0.00 respectively), as well as our TP to €3.0 vs. €3.2 following: 1) the revision of our financial projections, and 2) the decrease in trading multiples.

Buy, TP of €3.0 (vs. €3.2) - Pierre Buon : +33 1 53 45 10 77

Market Data

Industry	AI
Share Price (€)	2,2
Market Cap (€M)	88,0
Bloomberg	EXSY IM
Market Segment	FTSE AIM Italia

Ownership structure

Management	22,4%
Ergo Srl	9,7%
Free float	67,9%

€M (31/12)	2018	2019	2020	2021
Sales (€M)	28,7	31,7	33,0	37,0
Growth	0,0%	10,3%	4,3%	12,1%
EBITDA	4,6	5,5	5,7	7,0
Marge	16,2%	17,2%	17,3%	18,8%
Net income	-3,8	-1,0	-2,0	-0,6
EPS (€)	-0,11	-0,02	-0,05	-0,02
EPS growth	n.m.	n.m.	n.m.	n.m.
Dividend	0,00	0,00	0,00	0,00
Yield (%)	0,0%	0,0%	0,0%	0,0%
FCF	-2,9	n.a.	-2,7	-3,0
ROCE	-14,5%	-13,2%	-5,5%	-0,6%
EV/Sales (x)			2,8	2,6
EV/EBITDA (x)			16,1	13,8
EV/EBIT (x)			n.m.	n.m.
Net Debt	12,4	2,8	5,9	9,4
Gearing	82%	13%	31%	52%

Midcap Partners estimates

Upcoming event : Results H1 2020 - 28/09/2020

Top Peers (Ccy)	Market Cap (€M)	EV/Sales 2020E	EV/Sales 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E
Cloudera, Inc.	2 081	2,2	1,8	10,5	7,4
Nuance Communications, Inc.	4 142	3,1	3,1	12,4	13,6
Blue Prism Group Plc	1 022	5,3	3,8	n/a	n/a

Source: FACTSET

Disclaimer

This document may refer to valuation methods defined as follows:

- 1 - DCF method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used is the weighted average cost of capital, defined as the weighted average cost of the company's borrowings and the theoretical cost of its equity as estimated by the analyst.
- 2 - Comparables method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and applied to the company's financial aggregates to determine its valuation. The analyst builds the sample according to the company's characteristics (size, growth, profitability, etc). The analyst may also apply a premium/discount based on his perception of the company's characteristics.
- 3 - Asset-based method: estimation of the value of the equity on the basis of the revalued and corrected assets comprising the fair value of the liability.
- 4 - Discounted dividend method: discounted future value of estimated dividend flows. The discounting rate taken is general the cost of capital.
- 5 - The sum of the parts: this method consists in estimating a company's various activities by using the most appropriate evaluation method for each of them, then by adding them together.

Rating structure:

- Buy: expected over-performance 10% greater than the market within 6 – 12 months
Hold: expected performance of between -10% and +10% compared to the market within 6 – 12 months
Sell: expected under-performance 10% greater than the market within 6 – 12 months

Company	Closing price (€)	Rating	Warning
EXPERT SYSTEM	2.2	Buy	G
GL EVENTS	13.58	Buy	Nil

- A LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it holding more than 5% of the total shares issued by the issuer;
B The issuer holds more than 5% of the total shares issued by LOUIS CAPITAL MARKETS - MCP or any corporate entity related to it;
C LOUIS CAPITAL MARKETS - MCP, alone or with other corporate entities, is related to the issuer by other significant financial interests;
D LOUIS CAPITAL MARKETS - MCP or any corporate entity related holding a contract or providing liquidity with which it entered into a liquidity agreement with regard to the issuer's financial instruments;
E LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it operated, during the past 12 months, in its capacity as leader or leader associated with an offer concerning the issuer's financial instruments made available to the public
F LOUIS CAPITAL MARKETS – MCP or any corporate entity related to it is a party in any other agreement with the issuer concerning the provision of investment services relating to the corporate activity, provided that this does not result in the disclosure of confidential commercial information and that the agreement was in force during the last 12 months or gave rise to payment of, or a promise to pay, remuneration during the same period;
G LOUIS CAPITAL MARKETS – MCP and the issuer agreed that the former should provide the latter with a service to produce and circulate the investment recommendation on the said issuer;

Stock rating distribution

At March 2020 the stock rating distribution issued by the LOUIS CAPITAL MARKETS - MCP Midcap research team is as follows:

Rating	Midcap Partners coverage universe	of which Investment banking services*
Buy	71%	75%
Hold	25%	21%
Sell	2%	0%
Under review	2%	4%

* Investment banking services provided by Midcap Partners in the previous 12 months

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