

Due Diligence and Valuation Report

Arrowhead Code: 75-02-09
 Coverage initiated: April 06, 2018
 This document: June 25, 2020
 Fair share value bracket: EUR 9.5 to EUR 14.2
 Share price (June 24, 2020): EUR 5.74ⁱ

Analysts

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Market Data

52-Week Range:	EUR 4.00–EUR 8.22 ⁱⁱ
Average Daily Volume (3M Avg.):	8,157 ⁱⁱⁱ
Market Cap (June 24, 2020):	EUR 44.5 million (mn)

Financial Forecast (in EUR) (FY Ending – Dec.)

EUR '000	'20E	'21E	'22E	'23E	'24E	'25E
High NI	12.2	11.8	13.4	14.9	16.9	17.2
High EPS	1.17	1.14	1.29	1.44	1.64	1.67
Low NI	8.0	7.7	8.9	9.7	11.6	11.3
Low EPS	0.77	0.74	0.86	0.93	1.12	1.09

Company Overview: Headquartered in France, Prodware SA (Prodware) is involved in consulting, publishing and information technology (IT) integration services for small- and medium-sized enterprises. The company has offices in 14 countries and serves around 19,000 customers. It provides enterprise resource planning (ERP), customer relationship management (CRM) and business solutions, business intelligence (BI) tools, security and telecommunication solutions. Its three operating segments include: 1) software as a service (SaaS) and infrastructure 2) publishing, and 3) managed services, integration and consulting. It is the leading partner of Microsoft in Europe, Middle East and Africa (EMEA) and Sage in French-speaking countries.

FY 2019 results: Prodware generated consolidated revenues of EUR 187.7 mn in FY 2019, registering an increase of 6.7% on a year-on-year (YoY) basis (0.3% YoY on a like-for-like basis), as the company focused on providing comprehensive offerings to its customers. EBITDA increased to EUR 48.3 mn in FY 2019, increasing by 45.2% YoY and 10.0% YoY (after adjusting for changes in accounting standards), as a result of higher turnover, lower external expenses and a decrease in personnel expenses, which helped overcome the impact of an increase in purchase costs. EBITDA margin improved remarkably to 25.8% in FY 2019 from 18.9% in FY 2018.



Company: PRODWARE SA
 Ticker: ALPRO
 Headquarters: Paris, France
 Chairman: Phillipe Bouaziz
 MD/CEO: Alain Conrard
 CFO: Stephane Conrard
 Website: www.prodware.fr

Key Highlights: (1) Prodware expects the global healthcare scenario due to COVID-19 to impact the topline figure in FY 2020 and has applied for the French government's partial unemployment scheme to limit the impact on the bottom line; (2) In Q1 2020, despite the challenging market conditions, the company reported a revenue of EUR 46.9 mn, an increase of 1.4% YoY, mainly driven by growth in software-as-a-service (SaaS) and software license sales; (3) Revenue from the SaaS segment amounted to EUR 8.1 mn in Q1 2020, up 28.2% YoY, while revenue from the publishing and services segments amounted to EUR 16.1 mn (up 3.3% YoY) and EUR 22.8 mn (down 6.7% YoY), respectively; (4) The services segment was affected as projects got postponed and new deals were not signed due to the pandemic due to lockdowns in Europe in March; (5) In July 2019, Prodware signed a partnership with Iteosoft to strengthen their offer and their leadership in the electronic billing market and supplier relationships in Microsoft environments; (6) In August 2019, Prodware was selected by Microsoft to be a part of its Inner Circle for Business Applications for 2019/2020 for the second year in a row; (7) The company held 380,978 treasury shares at the end of FY 2019; (8) The company was ranked fourth in the 2019 Best Employers in France in Software Publishing list; (9) In April 2019, Prodware signed a strategic partnership with Neopost to provide turnkey solutions to companies for successful digital transformation of their businesses;

Key Risks: (a) With the implementation of IFRS 16, the gearing ratios moved closer to 0.8x, whereas excluding the impact of IFRS 16 would take them closer to 0.6x. It would be important to track this ratio, as any further rise could put a strain on the company's financials. (b) Since the IT consulting market is very competitive, there is a risk of departure of key employees of the company which can impact performance and growth.

Valuation and Assumptions^{iv}: Given the due diligence and valuation estimates, Arrowhead believes that Prodware's fair share value lies in the EUR 9.5 to EUR 14.2 bracket, calculated using the discounted cash flow (DCF) method.

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1. Summary and Outlook

We are updating coverage on Prodware. The company, headquartered in France, specializes in providing IT solutions for publishing, business consulting and SaaS, among others.

Key Highlights^v:

- 1) Prodware shifted to remote working infrastructure to safeguard its employees, limiting on-site work to necessary tasks while following safety policies and safety measures. The company will look to reduce its expenses and keep a check on its budget, while adopting the French government's partial unemployment scheme to limit the impact on the bottom line while expecting a potential decline in revenues in FY 2020.
- 2) To deal with the global healthcare scenario, the company has assembled a task force for the management of the crisis and launched internally a business continuity plan to enable workflow management during the Covid-19-related lockdown.
- 3) The severity of the consequences of the global healthcare scenario would depend on the duration of lockdowns in the regions in which Prodware operates, in the short term. In the long term, growth in digital activity is expected as businesses need services such as remote working infrastructure, e-commerce functions, Internet of Things (IoT) capabilities. The company expects business in digital offerings to pick up as customers are expected to adopt digital-based capabilities in the long term.
- 4) The company reported revenues of EUR 46.9 mn for Q1 2020, up 1.4% YoY driven by growth in SaaS segment and increased revenue from sale of software licenses, even as revenue from consulting services decreased. SaaS segment revenue grew by 28.2% YoY to EUR 8.1 mn, while revenue from the publishing segment (software licenses) increased by 3.3% YoY to EUR 16.1 mn. Delay in projects and signing of new contracts led to a 6.7% YoY decrease in revenue from the services segment (consulting) as it amounted to EUR 22.8 mn. In terms of geography, international revenue increased by 6.7% YoY to EUR 27.9 mn with growth in the Netherlands and Germany contributing significantly. Sales in French-speaking regions decreased by 5.0% to reach EUR 19.0 mn in Q1 2020.
- 5) In FY 2019, sales increased by 6.7% YoY to EUR 187.7 mn, and on a like-for-like basis sales amounted to EUR 176.3 mn, a 0.3% YoY growth, as the company followed a focused approach of providing holistic offerings to its customers based on consulting, publishing, implementation and managed services (the four pillars of its strategy). The strategy allowed Prodware to claim prestigious positions with its tech partners (part of Microsoft's highly selective InnerCircle and the highest rank of partner (platinum partner) with AutoDesk. EBITDA increased to EUR 48.3 mn in FY 2019, reporting an increase of 45.2% YoY (10.0% on a YoY basis after adjusting for changes in accounting standards). The margin improved remarkably to 25.8% in FY 2019 from 18.9% in FY 2018, driven by lower external expenses and personnel expenses. An increase in depreciation, amortization and impairment charges, lower other operating income and higher taxes were offset to some extent by lower financial expenses and higher other current operating income. As a result, net income increased by 15.6% YoY to EUR 10.5 mn in FY 2019, even while margins fell to 5.2% in FY 2019 from 5.6% in FY 2018.
- 6) On a segmental basis, revenue from SaaS segment increased by 34.8% YoY to EUR 38.9 mn in FY 2019, while revenue from publishing segment increased by 8.6% YoY to EUR 61.3 mn in FY 2019 while revenue from the services segment declined by 3.5% YoY to EUR 86.9 mn.
- 7) At an international level, Prodware reported revenues of EUR 112.7 mn in FY 2019, increasing by 5.7% YoY, while revenue from French-speaking zones increased by 8.3% YoY to EUR 75.0 mn.
- 8) Prodware has been recognized by Microsoft for providing its innovative service and solution offerings to its customers and helping them in overcoming their business challenges. It has been chosen by Microsoft to be part of its renowned Inner Circle for Business for the second time in a row (Microsoft Applications 2019/2020). Prodware was an Elite member of the 2018/2019 Inner Circle for Microsoft Business Applications as well. Microsoft has differentiated its Inner Circle Business Applications partners based on application category and revenue contribution. These partners represent the top 1% of the entire Business ecosystem of Microsoft applications and have earned more than 30% of their revenue from the Cloud Business Applications activity for FY 2019 globally.

Hence, it serves to bolster Prodware's position as a key strategic partner for selling and promoting Microsoft's Business Application solutions.

- 9) In July 2019, Prodware announced a strategic partnership with Itesoft, a leading publisher in the business process automation solutions segment. This partnership is expected to strengthen Prodware's leadership in the electronic billing market and supplier relationships in Microsoft environments. This successful partnership has already translated into inflow of new business. Circet, a major provider of telecom infrastructure services in Europe, will automate its 120,000 supplier invoices a year with the ITESOFT Streamline for the Invoices solution integrated by Prodware into its Microsoft environment Dynamics.
- 10) In April 2019, Prodware announced a strategic partnership with Neopost France – an expert in treatment solutions and paperless documents. The aim of this partnership is to offer a turnkey solution, integrating Neopost's offer and Prodware's technological know-how, to companies wishing to succeed in their digital transformations.
- 11) The company is currently focused on optimizing profitability as part of its Plan 2016-2021. Accordingly, it has shifted focus towards its SaaS segment which allows the company to achieve recurring revenues at a lower cost. Tacit renewals and pooled operating costs ensure cost efficiencies in this segment. Meanwhile, Prodware expertise and higher margins continue to be the growth drivers for the company's consulting business.
- 12) Prodware Netherlands acquired Ctac's Microsoft Dynamics activities in September 2018. This acquisition marked Prodware's willingness to strengthen its digital footprint. The move brought Prodware additional offerings while reinforcing its market-ready portfolio of innovative solutions intended for the trading, non-profit and manufacturing verticals.
- 13) Prodware finalized senior debt financing to the amount of EUR 92.5 mn, including EUR 62.5 mn from private equity with a maturity period of 6 to 7 years. This development is part of a refinancing strategy for the company's outstanding bank loans and existing long-term debt (which stood at ~EUR 86.6 mn in H1 2019). It was expected to allow Prodware to make use of new stable resources on better terms, while extending the overall maturity of its debt. It was also expected to give the company the necessary means to develop organically with a targeted external growth policy.
- 14) In January 2018, Prodware entered strategic alliances in Belgium and Luxembourg. It was chosen by six companies across four sectors: finance, manufacturing, institutions and services. Along with Alliance Bokiau, another major insurance broker chose Prodware to carry out digital transformation and manage the Dynamics 365 online platform. In the manufacturing sector, Prodware entered into a strategic alliance with Normacorc (wine cork manufacturer) where Prodware will be managing the Dynamics 365 platform for it. UNESCO and Santhea have both chosen Prodware. In the services sector, Tiama has chosen Prodware to set up its Dynamics platform.

Key risks: a) In the past two years, the company's debt has considerably increased as Prodware adopts external funding to finance its growth plans. Recently, with the implementation of IFRS 16, the gearing ratio has moved closer to 0.8x, whereas excluding the impact of IFRS 16 would take them closer to 0.6x. It would be important to track this ratio, as any further rise could put a strain on the company's financials.; b) IT consulting industry is very competitive in nature and is dependent on its employees for generating revenue. So, therein lies the risk of departure of the key employees which could impact the profitability of the company.

2. Business Overview^{vi}

Founded in 1989, Prodware SA is a France-based company that specializes in computer and information technology integration services for small- and medium-sized enterprises (SMEs) across varied industries. Prodware leverages its technological expertise and knowledge of new technologies and business lines to support clients in their digital transformations. The company’s service offerings include ERP, CRM systems, business solutions, BI tools and networks, along with security and telecommunications solutions.

Prodware provides consulting, publishing and IT integration services for small- and medium-sized companies. In FY 2019, the SaaS and the service segments contributed 53.8% to the total revenues, and the international markets accounted for 60.0% of the total revenue of the company.

Prodware also invested further in resources to support its consultancy services, bolster its sales force abroad and capitalize on the development of its own products. This initiative is an evidence of the Prodware Group's desire to enhance the value of its human resources in a field where innovation, expertise and adaptability are essential assets. By drawing on its strategy of entering into leading partnerships with recognized technology leaders such as Itesoft, Neopost, Microsoft Dynamics, Sage and Autodesk, Prodware is strategically moving forward towards positioning itself as a major player in the digital transformation of its clients.

The development of SaaS is expected to continue to be a growth driver in the medium term, as it has an advantage of higher recurring and predictable revenues.

Exhibit 1: Value Proposition^{vii}

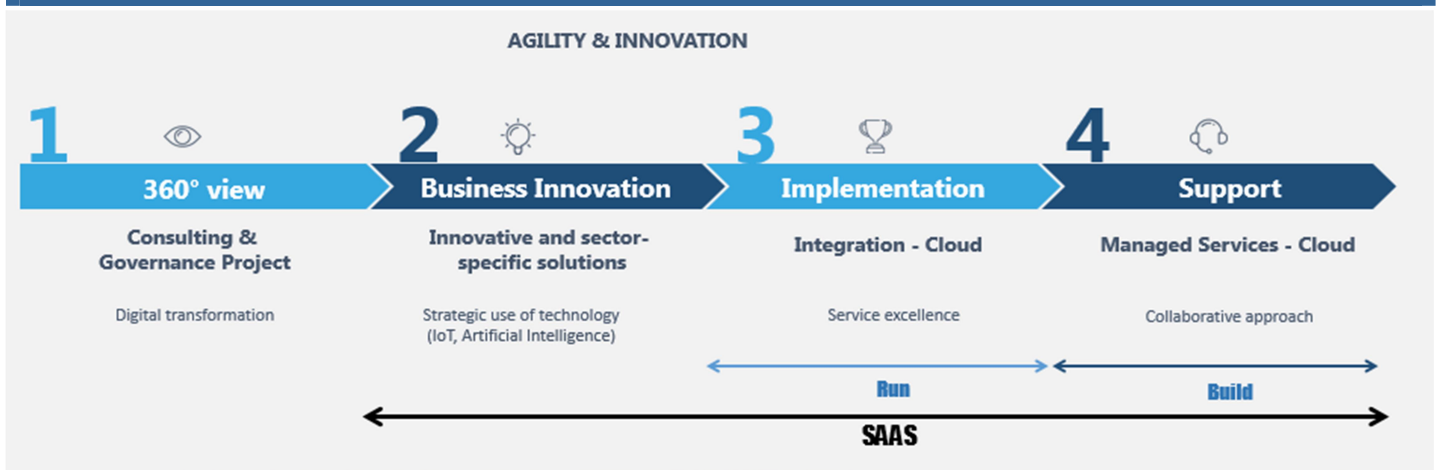
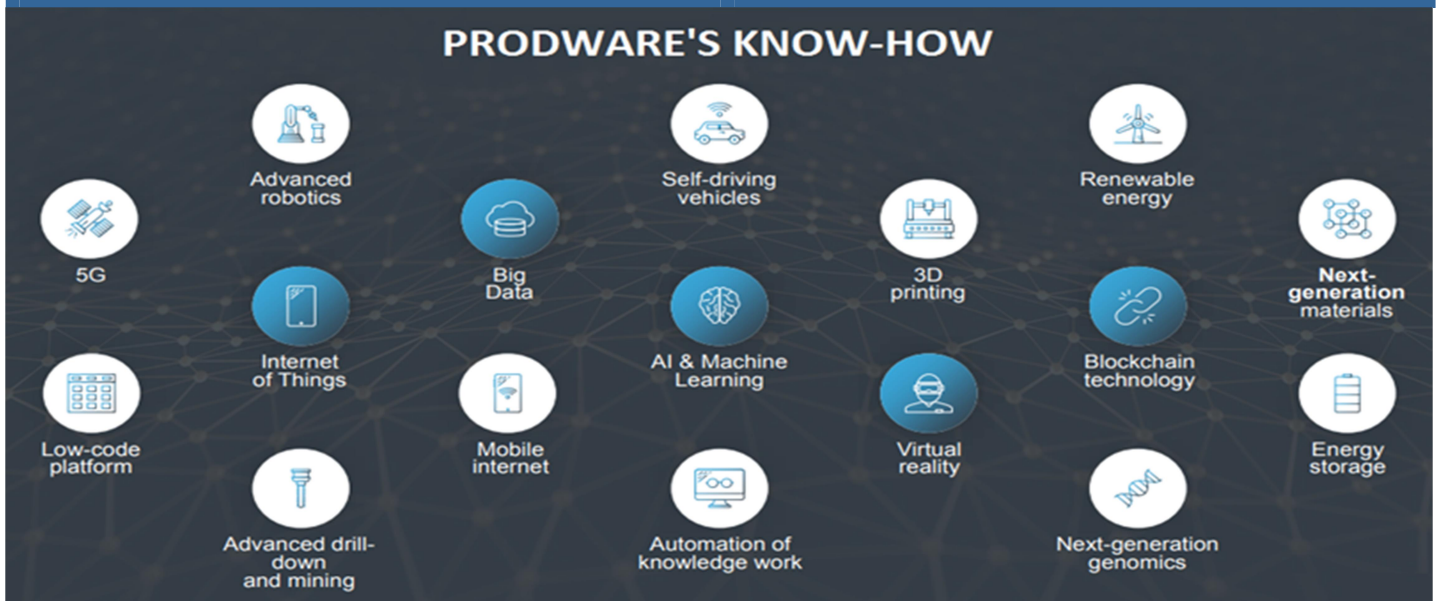


Exhibit 2: Prodware’s Know-How^{viii}



Prodware has operations in 14 countries and is presently serving approximately 19,000 customers through an employee base of 1,355. It operates through its subsidiaries, such as Prodware Belgium, Prodware Luxembourg (NEREA), Prodware Czech Republic, Prodware Deutschland, Prodware East Europe, Prodware Georgia, Prodware Netherlands, Prodware Spain, Prodware UK, Prodware Israel, Prodware Maroc and Prodware Tunisie. Additionally, through its international partner network and sub-contractors, the company has presence in more than 75 countries, meeting clients’ aspirations for growth across the world.

Its acquisition of Netherlands-based pan-European integrator Qurius’s operations in 2011 and 2012, has, over the years, resulted in Prodware becoming a leading partner for Microsoft Dynamics in EMEA. Prodware has been recognized as one of the top ten Microsoft Business Solutions partners in the world and has been honored as a member of 2018/2019 and 2019/20 Inner Circle for Microsoft Dynamics. In addition, the company also acts as a value-added reseller for Sage software products in the French-speaking regions, along with being a partner for Autodesk offerings. In December 2018, Prodware was awarded with the ScoreFact certification for its Sage FRP 1000cloud solution. This award highlighted the fact that customer satisfaction had played an important role in the company's development strategy. In October 2019, Prodware got a certification from ScoreFact on Microsoft Dynamics 365 CRM. Prodware was also presented with an award – by Sage – for the best growth of 2018 as part of the last stage of the Sage Partner Sessions.

Prodware has also entered into a strategic partnership with Neopost, an expert in treatment solutions and paperless documents based in France, in April 2019 to provide turnkey solutions to companies for successful digital transformation for businesses. Further, in July 2019, Prodware entered into strategic partnership with Itesoftware, a French leader in business process automation solutions. This partnership is expected to strengthen Prodware’s leadership in the electronic billing market and supplier relationships in Microsoft environments. The positive impact of this partnership is showing results - Circet, a major provider of telecom infrastructure services in Europe, will automate its 120,000 supplier invoices a year with the ITESOFT Streamline for Invoices solution integrated by Prodware into its Microsoft environment Dynamics.

2.1 Financial Overview^{ix}:

Q1 2020

Topline grew amidst challenging macro conditions due to pandemic, driven by SaaS sales

Prodware reported a growth of 1.4% YoY in revenue as it amounted to EUR 46.9 mn in Q1 2020, in spite of the challenging macroeconomic conditions due to the pandemic. The revenue growth was driven by growth in SaaS sales which amounted to EUR 8.1 mn, growing by 28.2% YoY. Growth in SaaS sales, coupled with an increase in revenue from software licenses (publishing segment) which grew by 3.3% YoY to EUR 16.1 mn, offset the slowdown in sales from the services segment which amounted to EUR 22.8 mn, reporting a decline of 6.7% YoY.

On a geographical basis, revenue from French-speaking countries decreased by 5.0% to EUR 19.0 mn, while international revenue grew by 6.2% YoY to EUR 27.9 mn, as a result of increased sales in Germany and The Netherlands.

FY 2019

Focus on key pillars underlined revenue growth

Prodware focused on a strategy of providing end-to-end services based on the pillars of consulting on IT solutions and innovation, publishing of industry-specific solutions, implementation and managed services to keep the businesses active 24/7. The strategy paid dividends for the company as it reported a growth of 6.7% YoY in revenue as it amounted to EUR 187.7 mn. The like-for-like revenue was EUR 176.3 mn, a growth of 0.3% on a YoY basis.

The growth, in terms of operating segments, was driven by a significant increase of 34.8% YoY in SaaS revenue as it amounted to EUR 38.9 mn. This was supported by an 8.6% YoY growth in the publishing segment which reported a revenue of EUR 61.9 mn as a result of the need of key clients to adapt and customize crucial projects, which helped more than offset the decrease in revenue of services segment, which amounted to EUR 86.9 mn, representing a decrease of 3.5% YoY.

On a geographical basis, revenue from French-speaking countries grew by 8.3% YoY to EUR 75.0 mn, while revenue from the international segment increased by 5.7% YoY to EUR 112.7 mn.

Higher EBITDA margin was underpinned by revenue growth, lower external expenses and falling personnel expenses.

Higher depreciation, amortization and impairment charges and lower other operating income led to the fall in the operating profit margin.

The group earned an EBITDA of EUR 48.3 mn in FY 2019, increasing by 45.2% YoY (10.0% YoY on a like-for-like basis) with an EBITDA margin of 25.8% (as compared with 18.9% in FY 2018) as an increase in purchase costs was more than offset by a higher turnover, decrease in external expenses and a fall in personnel expenses.

Changes as a result of IFRS-16 of EUR 11.5 mn contributed significantly to higher depreciation, amortization and impairment charges of EUR 29.2 mn in FY 2019, increasing by 94.0% YoY. This, coupled with a decrease in other non-current operating income, overcame the effect of a fall in other current expenses, leading to a decrease in operating profit margin to 9.2% in FY 2019 as compared to 9.8% in FY 2018, even while operating profit grew marginally at a rate of 0.3% YoY (a decrease of 1.0% on a like-for-like basis) to EUR 17.3 mn.

Net Profit margin improved owing to higher EBITDA, lower financial expenses and higher share of profit received from associates

The group paid income tax amounting to EUR 822k in FY 2019 as compared with a tax benefit of EUR 264k (owing to deferred tax income) in FY 2018. The group received a higher share of profit of EUR 399k from investment in FY 2019 as compared with EUR 49k in FY 2018 on better performance by the investment. Financial expenses were lower at EUR 6.5 mn in FY 2019 as compared with EUR 8.3 mn in FY 2018 (as a result of lower cost of debt and lower provisions for investments).

Consequently, net profit increased by 15.6% YoY (17.4% YoY on a like-for-like basis) to EUR 10.5 mn with net profit margin improving by 40 basis points to 5.6% in FY 2019.

Lower financing activity resulted in fall in cash and cash equivalents

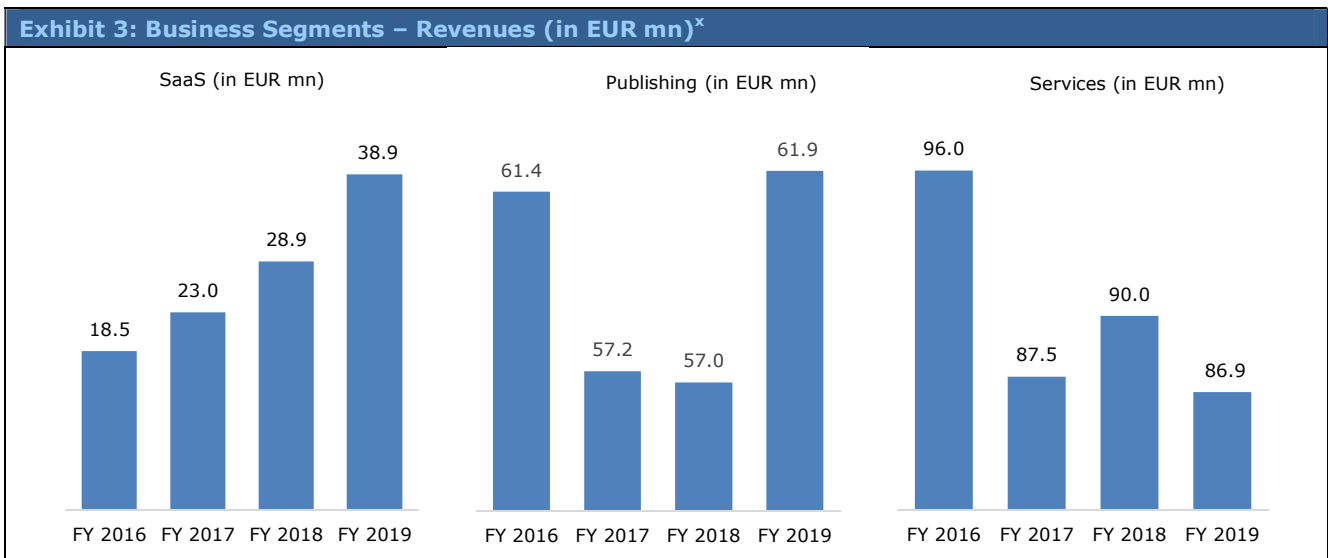
Higher net profit, coupled with the significant increase in depreciation, amortization and impairment charges, led to an increase in cash generated from operations to EUR 50.0 mn in FY 2019 as compared with EUR 24.7 mn in FY 2018.

The group raised loans of EUR 1.3 mn in FY 2019, which was a significant decline as compared with EUR 93.1 mn raised in FY 2018. Repayment of loans amounted to EUR 14.3 mn in FY 2019 as compared with EUR 72.8 mn in FY 2018, while the company additionally bought back shares worth EUR 3.2 mn. This drove the cash outflow amounting to EUR 21.1 mn from financing activities in FY 2019 as compared with cash inflow of EUR 15.2 mn from financing activities in FY 2018.

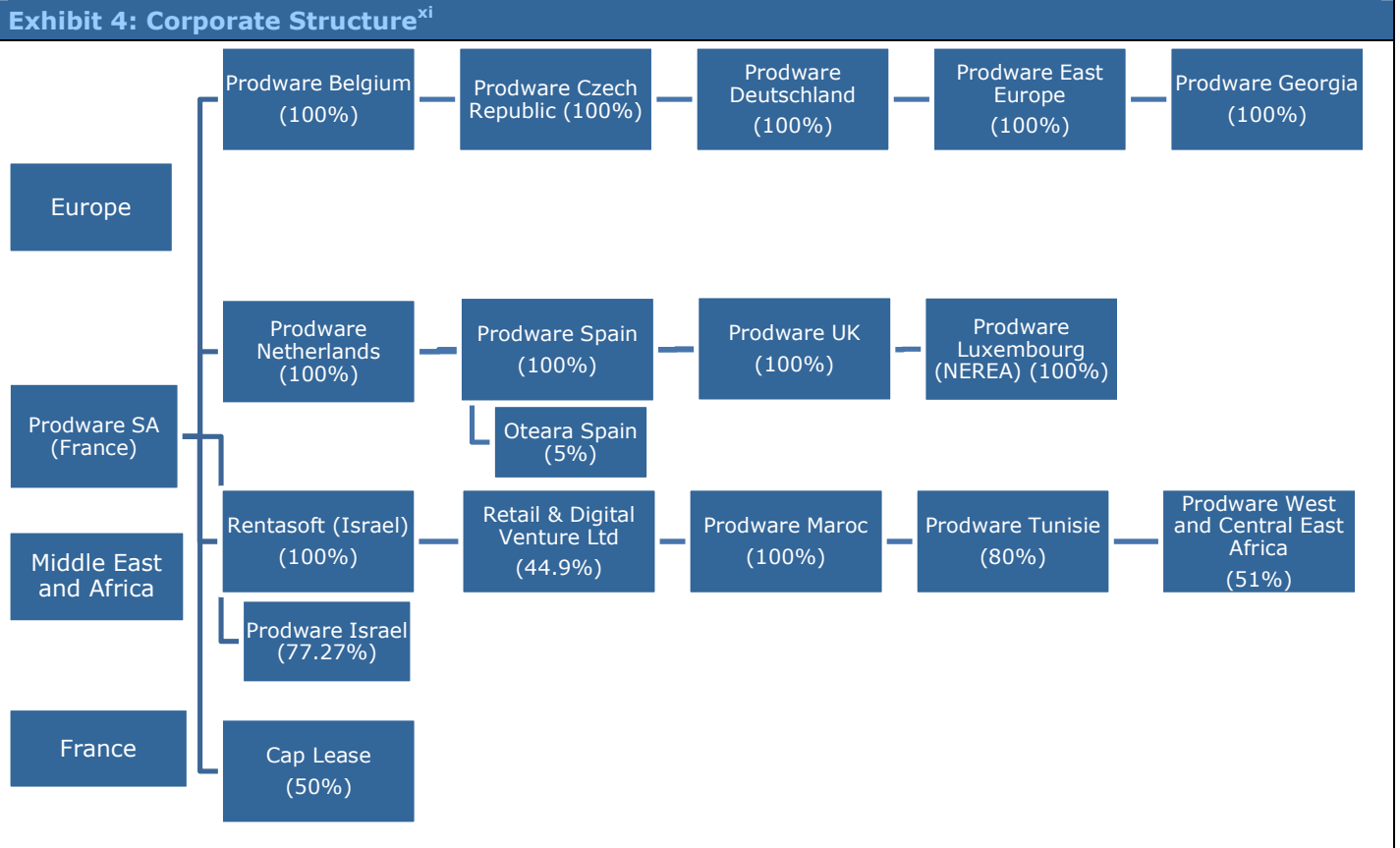
Lower financing activity counteracted the positive inflow from operating activities, leading to a decline in cash and cash equivalents of EUR 8.1 mn in FY 2019. Consequently, the group ended FY 2019 with cash and cash equivalents of EUR 29.4 mn as compared with EUR 33.5 mn in FY 2018.

Change in accounting standards led to increase in gearing ratio

Net debt (including lease liabilities) amounted to EUR 112.8 mn, while net financial debt (excluding lease liabilities) amounted to EUR 83.2 mn in FY 2019. This led to a gearing ratio of 0.8x (calculated using net debt including lease liabilities) and 0.6x (calculated using net financial debt excluding lease liabilities).



2.2 Corporate Structure

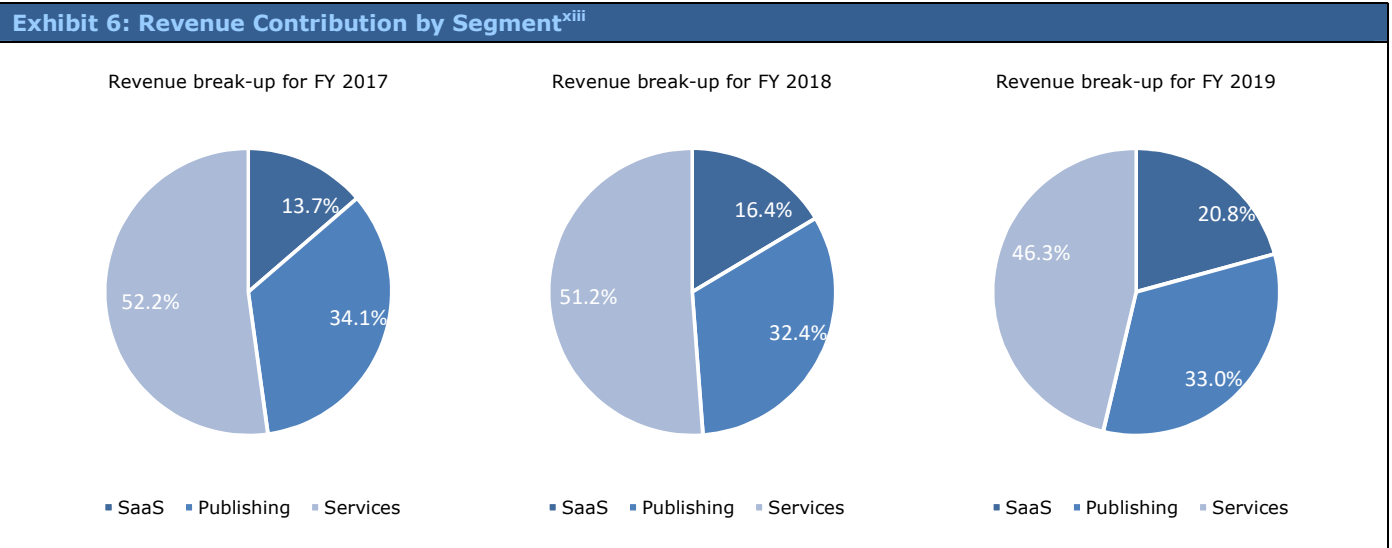


2.3 Company Milestones

Exhibit 5: Prodware Milestones^{xii}	
Year/ Period	Event
1989	<ul style="list-style-type: none"> Incorporated in the year 1989 by Philippe Bouaziz and Francois Richard
1993- 2005	<ul style="list-style-type: none"> Launched 4 lines of business: ERP integration, BI solutions, network infrastructures and security on two platforms, i.e., Sage and Microsoft Prodware acquired Datasoft in Toulouse, France
2005- 2007	<ul style="list-style-type: none"> Acquired Interface Data, EDIC, Tecso and M2I companies Took over big players such as C2A, Interface Data to consolidate in French-speaking areas Focused on operational marketing and performance optimization
2006- 2007	<ul style="list-style-type: none"> Acquired sectoral software publishers and traders Prodware issued an IPO and got listed on Euronext Stock Exchange
2008- 2009	<ul style="list-style-type: none"> Acquired Anelia which was into integration of systems for SMEs Acquired WinIT, Belgian specialist in Microsoft ERP solutions Acquired C2A to become an international player
2010	<ul style="list-style-type: none"> Resumed its Ares Innovation and Design activity, which became Prodware Innovation & Design Continued to invest in R&D Developed its indirect sales through partnering with Microsoft
2011	<ul style="list-style-type: none"> Acquired Qurius Belgium and Spain Acquired French and Spanish subsidiaries of Columbus IT
2012	<ul style="list-style-type: none"> Prodware acquired Qurius Netherlands, Germany, Czech Republic and the UK
2013	<ul style="list-style-type: none"> Revamped its visual identity and repositioned itself with Prodware Adjust Solutions
2014- 2016	<ul style="list-style-type: none"> Accelerated its growth efforts in Benelux and Germany
2018	<ul style="list-style-type: none"> Formed strategic alliances in Belgium and Luxembourg Acquired Ctac's Microsoft Dynamics activities
2019	<ul style="list-style-type: none"> Formed a strategic partnership with Neopost, France Formed a strategic partnership with Itesoft, France

2.4 Business Model

Prodware differentiates itself through its integrated approach to deliver end-to-end services for digital transformation across business lines. The company primarily generates revenues through three business verticals, namely SaaS, Publishing and Services (consulting, integration and maintenance).



The company mainly operates through the following segments: Business Consulting, Software Development & Integration, and SaaS and Infrastructure.

2.4.1 Business Consulting

Business consulting and integration are the company’s core solution offerings, wherein it supports clients in business transformation, achieving goals and challenges; and managing technical, human and financial resources. Prodware helps clients resolve the challenges of digital transformation. The company provides guidance to clients regarding digital strategy, which generally creates change, challenges strategies, impacts business offers, modifies organizations and reorganizes economic models.

2.4.2 Software Development and Integration

The company is into software development and integration based on Microsoft Dynamics ERP and Microsoft Dynamics CRM which can be adjusted by customers as per their functional and technical needs.

The company also provides customized solutions as per clients’ requirements. It has a team of experts who have a strong understanding of the business and customers’ needs, according to which they develop the most appropriate solution for clients.

2.4.3 SaaS and Infrastructure

Prodware provides SaaS to quickly meet business needs. The company also offers Infrastructure as a Service (IaaS) cloud solutions which are customized for technical and service requirements. It provides cross-platform infrastructure support, maintenance and monitoring on networks, servers, peripherals and communications hardware from a number of leading vendors. Prodware provides Remote Telephone Support and Maintenance, IT Manager Services, Return to Service, Communications Monitoring and Hardware Repairs. The company also helps clients design hardware architecture, which offers an IT platform apt for business solutions and is cost-effective. Prodware offers its clients disaster recovery planning, implementation and maintenance. Apart from this, Prodware also offers security and back-up services.

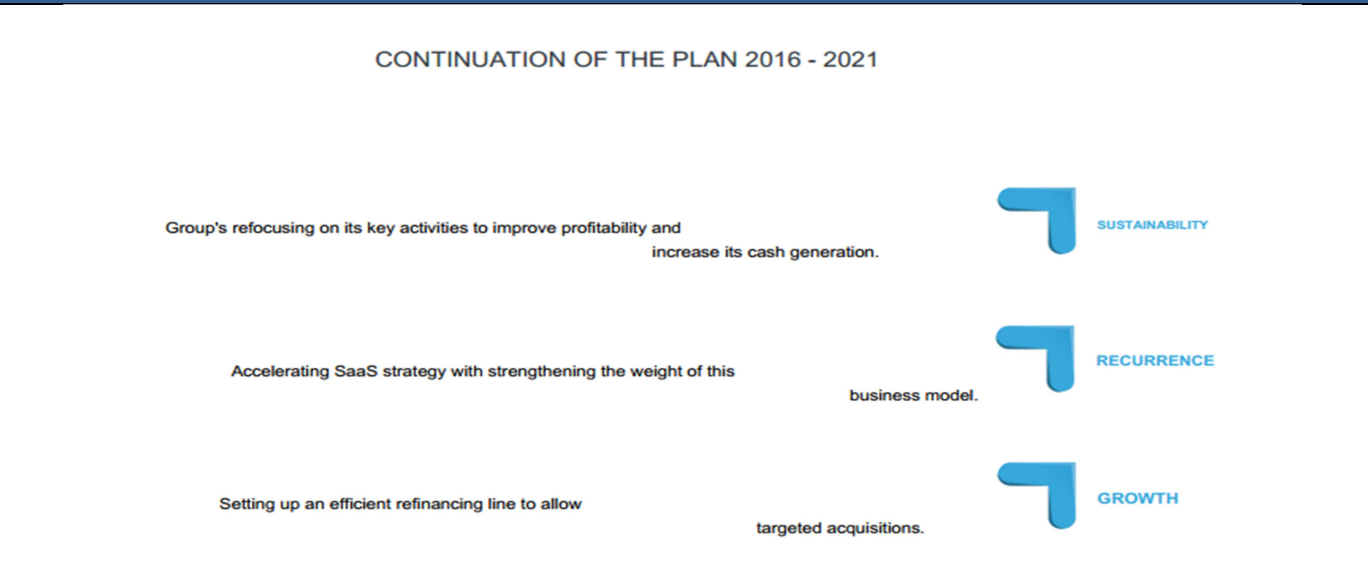
2.5 Corporate Strategy and Future Outlook

2.5.1 Strategy^{xiv}

The company’s strategy mainly focuses on optimizing profitability by focusing attention on the most profitable segment, which is consulting, while laying lower emphasis on publishing. Prodware plans to improve profitability through:

- Continued acceleration of the Services segment backed by development of consulting offerings
- Increase in own software vendor activity
- Focus on acceleration of recurring sales, with SaaS being the most profitable offering
- Integration of the new Microsoft offerings with Microsoft 365 to create significant growth opportunities

Exhibit 7: Prodware’s Development Strategy^{xv}



The company’s strategy is based on four pillars which enable it to provide comprehensive solutions to its customers. The four pillars are:

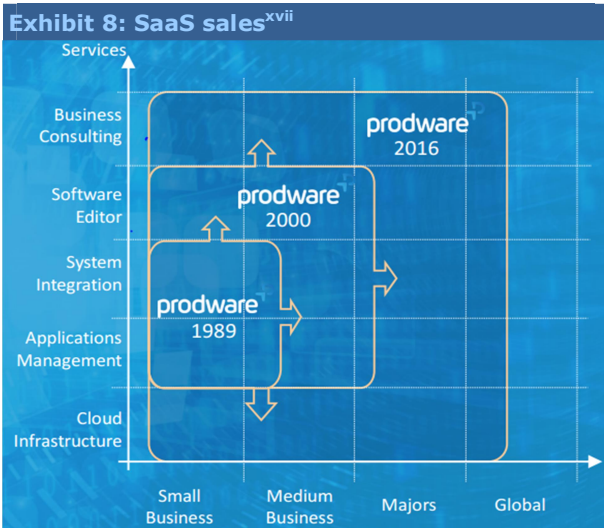
- Consulting on innovation and information technology
- Publishing of innovative business lines
- Implementation of solutions
- Enabling businesses to remain operational 24/7 through Managed Services

Exhibit 7: Prodware’s value proposition for mid-market companies^{xvi}



The company sponsors an incubation program, which helps start-ups with innovative solutions and technologies by assisting in their development and growth strategies and allows them to reach the international market by accessing Prodware’s distribution and sales channels. The products/solutions, in return, can be packaged and incorporated by Prodware in their own way.

2.5.2 Outlook



Prodware is looking to accelerate its recurring sales in SaaS and enhance its business consulting, while focusing on the intersection between consulting, IT systems and its customers’ business operations. The company aims at becoming the leader in rapid digital transformation for medium-sized and large enterprises. It is continuously making efforts to capture new high-potential markets.

Prodware is on track with its 2016-2021 plan, which aims to re-center the group on its flagship activities, deploy its SaaS strategy, and setting up efficient refinancing to accelerate growth with the help of targeted acquisitions. The company is focusing on strengthening its technical expertise through R&D investments and investing in human resources to improve the quality of its workforce.

Prodware assembled a task force for management of COVID-19 crisis and launched internally a business continuity plan to enable

workflow management in order to deal with the **global healthcare scenario**. The company adopted remote working policy, which is allowing it to serve its customers, while on-site work is limited to necessary tasks with adherence to safety policies and safety measures. The company is limiting its expenditure and keeping an eye on the budget. In addition, the company expects the French government’s partial unemployment scheme to limit the impact on profitability from the potential decline in revenue. The company will additionally manage its liquidity and debt in a prudent manner.

The severity of the consequences of the global healthcare scenario is expected to depend on the duration of lockdowns in the regions in which Prodware operates, in the short term. In the long term, growth in digital activity is expected as business needs for services such as remote working infrastructure, e-commerce functions, IoT capabilities and logistical solutions is expected to grow.

2.6 Prodware's Certifications

Exhibit 9: Certifications from Companies^{xviii}



2.7 Company Premiums^{xix}

Partnerships with Microsoft and Sage: Prodware is a leading partner of Microsoft in the EMEA region, where it is engaged in providing Microsoft Management Solutions. These solutions help the employees manage functions such as finance, supply chain management, manufacturing and operations. Sage is a global leader in accounting, business management, payroll and online payment solutions, and has a strong client base in France. Prodware, with its 150-expert staff, offers a wide variety of services to the customers of Sage.

Strong geographical presence: The company has established itself in France, Morocco, Belgium, Tunisia, Luxembourg, Romania, Spain, Czech Republic, the UK, Ivory Coast, the Netherlands, Cameroon, Germany, Georgia and Israel.

2.8 Company Risks^{xx}

Leveraged: The company has increased its level of debt to improve its external growth. There has been a drastic increase in the debt from December 2015 until now because Prodware is focusing on its 2020-21 strategic plan. On December 31, 2015, the company's financial debt stood at EUR 55.6 mn in comparison with EUR 92.9 mn on December 31, 2016. In 2017, the company's debt increased to EUR 93.4 mn. On October 3, 2018, Prodware finalized the introduction of senior debt financing to the amount of EUR 92.5 mn, including EUR 62.5 mn from private equity with a maturity period of 6 to 7 years. The company repaid debt worth EUR 72.3 mn in FY 2018 and EUR 14.2 mn in FY 2019. The company raised new debt of EUR 1.3 mn in FY 2019. This brought the total financial debt to EUR 112.6 mn, while the total debt stood at approximately EUR 142.2 mn. The gearing ratios moved closer to 0.8x as the net debt increased to EUR 112.8 mn as a result of the implementation of IFRS 16 (inclusion of lease liabilities). However, excluding the impact of IFRS 16, the net debt amounted to EUR 83.2 mn and the gearing ratios were closer to 0.6x. In the future, any further increase in this ratio could pose challenges for the company and be a strain on its financials.

Human Resources Risk: Since the IT consulting market is very competitive, the company needs to retain appropriate talent to serve customers and satisfy their needs. So, therein lies the risk of departure of the key employees of the company which can impact performance and profitability.

2.9 Shareholding Pattern

The company had 7,748,042 shares of common stock issued and outstanding on June 25, 2020.

Top 5 Equity Holders	No. of ordinary shares held	Percentage shareholding
FMR LLC	135,644	1.75%
Talence Gestion SAS	88,579	1.14%
Financier de L'Oxer SAS	16,834	0.22%
Uzes Gestion SA/France	10,000	0.13%
Cornerstone Advisors LLC/NC	8,000	0.10%
<i>Source: Bloomberg</i>		

2.10 Listing and Contact Details^{xxi}

Prodware is listed on Euronext Stock Exchange (EPA-ALPRO)

Company Contacts

Address: 45, quai de la Seine, 75019, Paris
 Contact No: +33 (0) 979 999 000
 Fax: +33 (0) 979 999 001
 Website: www.prodware.fr

3. News^{xxii}

- **Announced Q1 2020 sales numbers:** On May 14, 2020, Prodware announced its Q1 2020 sales numbers. Prodware reported a growth of 1.4% YoY in sales as they reached EUR 46.9 mn, driven by growth in SaaS which grew by 28.2% YoY to reach EUR 8.1 mn, while publishing segment reported a revenue of EUR 16.1 mn growing by 3.3% YoY. The services segment reported a decline in revenue of 6.7% YoY as it amounted to EUR 22.8 mn. Sales from the international region amounted to EUR 27.9 mn, growing by 6.2% YoY as business grew in The Netherlands and Germany. The sales from French-speaking regions reduced by 5.0% YoY to EUR 19.0 mn.
- **Announced FY 2019 results:** On March 11, 2020, the company announced the sales results for FY 2019. Prodware reported a growth of 6.7% YoY in revenue as it amounted to EUR 187.7 mn in FY 2019, as the SaaS and publishing segments reported growth in revenue. EBITDA amounted to EUR 48.3 mn, growing by 45.2% YoY, while the EBITDA margins increased to 25.8% in FY 2019 from 18.9% in FY 2018. The higher revenue and improvement in margins were driven by growth in business, in addition to lower external and personnel expenses. The net income increased by 15.6% YoY to EUR 10.5 mn as higher EBITDA was accompanied with an increase in other operating income and a decrease in financial expenses.
- **Prodware hosted mid-market businesses at EXHIBITION 2020:** On February 6, 2020, the company announced that it had hosted the mid-market businesses at EXHIBITION 2020 for the second time in France. The event was a half-day conference dedicated to innovative solutions in the industry. Prodware presented its innovative solutions, developed using disruptive technology, at the conference.
- **Announced Q3 2019 and H1 2019 sales numbers:** On October 22, 2019, Prodware announced the sales numbers for Q3 2019 and H1 2019. The company witnessed a 5.9% YoY increase in its Q3 2019 revenues to EUR 35.2 mn and a 1.1% YoY increase in its H1 2019 revenues to EUR 91.0 mn. Sales from the SaaS and Maintenance segments went up by 7.8% to EUR 35.9 mn. International sales also went up sharply to EUR 55.4 mn in the first half of 2019.
- **Prodware won the “Microsoft Inner Circle” award for the year 2019/2020:** In September 2019, the company announced that it had been awarded with “The Microsoft Inner Circle Award for Business Applications” for the second time in a row.
- **Announced Q2 2019 sales numbers:** On July 16, 2019, Prodware announced the sales numbers for Q2 2019. The company registered a decline of 2.1% YoY in revenues from EUR 44.9 mn in Q2 2018 to EUR 44.0 mn in Q2 2019. In H1 2019, revenue for the SaaS segment increased by 10.8% YoY to EUR 17.4 mn. The publishing and services segments registered revenues of EUR 29.8 mn and EUR 43.1 mn, respectively. International sales of Prodware grew by 22.6% YoY to EUR 55.4 mn, representing 61.4% of the H1 2019 sales.
- **Prodware announced a strategic partnership with Iteisoft France:** On July 02, 2019, the company announced the signing of a strategic partnership with Iteisoft – which has expertise in business process automation solutions. This partnership is expected to strengthen Prodware’s leadership in the electronic billing market and supplier relationships in Microsoft environments.
- **Prodware certified by ScoreFact on Microsoft Dynamics NAV / Business central:** On May 14, 2019, Prodware announced that it had been certified by ScoreFact on Dynamics NAV / Business Central - the leading provider of IT solutions and vendors, on Microsoft Dynamics NAV / Business Central.
- **Announced Q1 2019 sales numbers:** On May 14, 2019, Prodware announced the sales numbers for Q1 2019. The company registered a growth of 2.7% YoY in revenues from EUR 45.1 mn in Q1 2018 to EUR 46.3 mn in Q1 2019. Revenue for SaaS segment increased by 10.5% YoY to EUR 6.3 mn. The publishing and services segments registered revenues worth EUR 15.5 mn and EUR 24.5 mn, respectively. International sales of Prodware grew by 5.4% YoY to EUR 26.3 mn, representing 56.7% of the Q1 2019 sales.

- **Prodware announced a strategic partnership with Neopost France:** On April 29, 2019, the company announced the signing of a strategic partnership with Neopost – an expert in treatment solutions and paperless documents. This partnership is expected to provide turnkey solutions to companies for successful digital transformation of business.
- **Announced Q4 and 2018 sales numbers:** On February 19, 2019, Prodware announced the sales numbers for Q4 2018 and FY 2018. The company registered a growth of 4.9% YoY in revenues from EUR 167.7 mn in FY 2017 to EUR 175.9 mn in FY 2018. In Q4 2018, the turnover increased by 12.6% YoY to EUR 52.7 mn from EUR 46.8 mn in Q4 2017. Sales from the SaaS segment registered EUR 28.9 mn in sales in FY 2018, recording a 25.8% growth over the previous year. Sales from the publishing segment clocked a revenue of EUR 56.5 mn in FY 2018, thus, contributing 32.2% to the overall revenues. Sales from the services segment increased 2.9% YoY to EUR 90.0 mn in FY 2018 from EUR 87.5 mn in FY 2017.
- **Prodware rewarded twice on Sage partner session:** On December 18, 2018, Prodware received certification for ScoreFact Sage FRP solution 1000cloud for customer satisfaction being a central strategy for group development. Prodware was also rewarded with the trophy for best growth in 2018 by Sage.
- **To handle rapid growth, Onatera chose Microsoft Dynamics NAV:** On October 10, 2018, the company announced that in order to manage exponential growth (25% to 30% per year) and an Information System that no longer supported these changes, Onatera had chosen Microsoft technology, enhanced by Prodware's industry and business expertise.
- **EUR 92.5 mn syndicated loan signed:** On October 3, 2018, Prodware announced that it had finalized the introduction of senior debt financing of EUR 92.5 mn, including EUR 62.5 mn from private equity with a maturity period of 6 to 7 years. This development is part of a refinancing strategy for the company's outstanding bank loans and existing debt.
- **Prodware Netherlands acquires Ctac's Microsoft Dynamics activities:** Prodware Netherlands acquired Ctac's Microsoft Dynamics in September 2018, and this marked Prodware's willingness to strengthen its digital footprint. The move brought Prodware additional offerings while reinforcing its market-ready portfolio of innovative solutions intended for the trading, non-profit and manufacturing verticals.

4. Management and Governance^{xxiii}

The Management and Governance team has vast experience in artificial intelligence (AI) and in managing operations and finance for multiple businesses. They also have an extensive background in investment matters.

Exhibit 10: Management and Governance		
Name	Position	Past Experience
Phillippe Bouaziz	Chairman	<ul style="list-style-type: none"> • Philippe graduated from the Institute of Business Computing in 1988. • He completed his PhD from Pierre and Marie Curie University. • He started his career with Texas Instruments Europe's R&D & Support department. • He has performed technical activities and has been a consultant to different companies until 1995. • His articles on software and languages have been published in international conferences.
Alain Conrard	Chief Executive Officer	<ul style="list-style-type: none"> • Alain obtained a degree in Computer Science from University Institute of Technology, France, in 1984. • He also got a degree in Company Management from Institute of Business Administration, France, in 1988. • He has worked with Sage where he has held different commercial and marketing positions. • In 2000, Alain became Marketing Manager of Sage's Mid-Market Department. • In 2003, he became the CEO of Prodware.
Stephane Conrard	Deputy Chief Executive Officer	<ul style="list-style-type: none"> • Stephane completed his degree in Public Accounting in 1996. • He also holds a degree in Eastern Civilization and languages. • He has served as a manager in PricewaterhouseCoopers. • He has also worked with "Organization, Conseil, Audit," a Parisian Public Accounting Firm. • He joined Prodware in 2006.
Viviane Neiter	Director	<ul style="list-style-type: none"> • Viviane graduated from Reims Management School in 1980. • She has also served as a Financial communication professor in Reims Management School, ICN Business School and Esa. • She is serving as a director in Dolphin International, Ginger and Kertel, which are listed companies. • She has also been in charge of local investment funds' press relations in eastern France. • She has been a member of French Institute of Administrators and Savings Commission of the Autorite des Marches Financiers.

5. Industry Overview^{xxiv}

The current era presses for digital transformation of businesses across the globe. According to research firm Gartner, global IT spending is estimated to total USD 3.8 trillion (tn) in 2019, and further rise to USD 3.9 tn by 2020. The IT industry started to experience the turn-around in 2017 and continued growth is expected over the next few years. As an increasing number of companies strive to digitally transform their businesses and processes, projects offering cloud-based flexible consumption models, everything-as-a-service (XaaS), artificial intelligence, and IoT based solutions should gain prominence and drive the market.

Within the IT industry, the enterprise software segment continues to showcase strong growth driven by the shift to cloud. Global expenditure in the segment is forecast to grow by 8.5% in 2019, and 8.2% in 2020, reaching a total of EUR 466 bn by 2020. While the industry has grown at a good pace (3.9%) in 2018, IT spending growth is expected to trim down by 700 bps in 2019 and expected to slow down further in 2020, impacted by the macroeconomic variables including recession rumors, Brexit, and trade wars and tariffs.

Particulars	2018 Expenditure	2018 Growth (%)	2019 Est. Expenditure	2019 Est. Growth (%)	2020 Est. Expenditure	2020 Est. Growth (%)
Data Center Systems	202	11.3	210	4.2	202	-3.9
Enterprise Software	397	9.3	431	8.5	466	8.2
Devices	669	0.5	679	1.6	689	1.4
IT Services	983	5.6	1,030	4.7	1,079	4.8
Communications Services	1,399	1.9	1,417	1.3	1,439	1.5
Total	3,650	3.9	3,767	3.2	3,875	2.8

While the demand for IT services is certainly driven by technological advances, the amount of spending on technological advances is largely dependent on the regulatory and economic landscape facing the industry. Businesses will continue to invest in IT as companies expect a growth in the top-line, but their spending pattern will swing. Moreover, factors such as regulatory uncertainties, change in tax-laws, currency fluctuations, and economic slowdown will continue to exist and impact the growth of the sector.

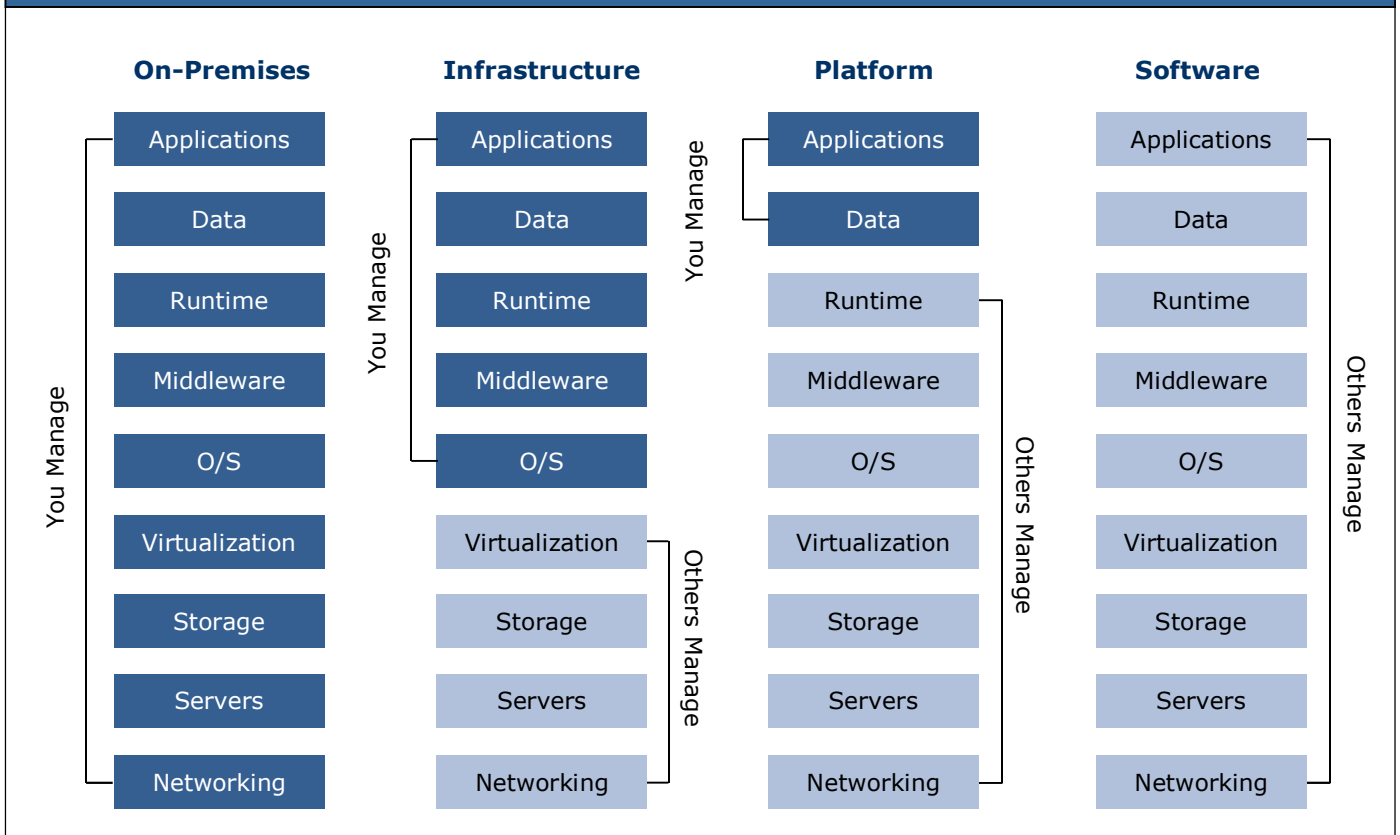
In Europe, a key market for Prodware, the General Data Protection Regulation (GDPR) (which came into force on May 25, 2018) is expected to impact companies operating in the region. At its core, the regulation has mandated a set of standards to be maintained by companies that handle EU citizens' data. Penalties are imposed on organizations that fail to comply. Being one of the most important changes in data privacy in Europe over the last 20 years, the regulation intends to reshape the way organizations approach data privacy. This effectively means that companies must ensure that they have robust consent management processes, along with effective data rights management systems to ensure data security. This presents an opportunity for Prodware, as its integration and role-tailored solutions find more use cases among the increasing number of European companies transforming their processes to comply with the GDPR.

The industry's expansion led by the adoption of newer technologies will also be accompanied by rising concern over issues such as data privacy and cybersecurity.

5.1 SaaS

SaaS differs from traditional software in that it is deployed and made accessible to users over the internet or in the "cloud." Traditional software in comparison is deployed "on-premises," wherein the software is installed on the premises of a business client on their own servers and employees access the software through a desktop interface connected to a local network. On the other hand, cloud technology offers a virtual hosting solution whereby all servers, software and networks are accessible from anywhere as they are in the cloud, off-premises. The advantage of a SaaS-based cloud solution is that the total cost of ownership is less than half vis-à-vis an on-premise solution. Licensing cost takes a larger share (about 2/3rd) of total cost in cloud systems, as compared with on-premise solutions (1/3rd).

Exhibit 12: SaaS in the Cloud



5.1.1 Horizontal Vs. Vertical SaaS^{xxvixxvii}

SaaS companies provide a range of different needs for businesses around the world. Solutions that can be used by the businesses across sectors are called horizontal SaaS solutions, while those which address very specific sectors are termed as vertical SaaS solutions. Prominent examples of each include:

Exhibit 13: Horizontal SaaS Vs. Vertical SaaS

Horizontal SaaS	Vertical SaaS
CRM	Construction
Human Resources	Hospitality
Finance and Accounting	Real Estate
Customer Service and Engagement	Insurance
Workforce Collaboration	Manufacturing
BI	Legal
Data Analytics	Transportation
Budgeting, Reporting and Planning	
Procurement, Spending and Sourcing	
Software Development	
Governance, Risk and Compliance	
Ecommerce	

The public cloud services market is anticipated to attain USD 331.2 bn in size in 2022, at a CAGR of 16.1% from USD 182.4 bn in 2018, according to Gartner. However, growth in the cloud business is expected to be unevenly spread across segments, as can be seen in the chart below. The SaaS segment has held about 44% of the overall public cloud market share in 2018, and the CAGR over the next 4 years is predicted to be 15.8%.

The rise of the SaaS industry has continued to captivate the business community at large, given the impressive growth rate the segment has witnessed over the past three decades. The industry's strong momentum into an even brighter future is hard to refute; and SaaS executives and investors are keen to play bigger and bolder roles as the industry evolves.

The success of SaaS implementation model and the potential it offers has attracted investors in the form of venture capitalists, growth equity, private equity, asset managers, hedge funds as well as individual investors helping to drive the industry's growth. At present, the traditional enterprise application software industry is estimated to be generating approximately USD 300 bn annually. Comparatively, the emerging SaaS industry, a part of the overall "Cloud Services" market, generates USD 80 bn annually and it is expected to grow further to USD 144 bn by 2022. On the other hand, the usage of traditional enterprise software is anticipated to witness reduction as companies experience multiple benefits of SaaS including its lower relative cost compared to traditional software, its continuous and seamless platform technology upgrades, and the increasing trust in security protocols offered by cloud providers.

Exhibit 14: Global Public Cloud Service Revenue (USD bn)^{xxviii}

Particulars	2018	2019E	2020E	2021E	2022E	CAGR
Cloud Business Process Services (BPaaS)	45.8	49.3	53.1	57.0	61.1	7.5%
Cloud Application Infrastructure Services (PaaS)	15.6	19.0	23.0	27.5	31.8	19.5%
Cloud Application Services (SaaS)	80.0	94.8	110.5	126.7	143.7	15.8%
Cloud Management and Security Services	10.5	12.2	14.1	16.0	17.9	14.3%
Cloud System Infrastructure Services (IaaS)	30.5	38.9	49.1	61.9	76.6	25.9%
Total Market	182.4	214.3	249.8	289.1	331.2	16.1%

5.2 Software Publishing^{xxixxxx}

Software Publishing covers developing and distributing different types of computer software. The other aspects of software publishing include designing, providing documentation, assisting in installation and providing customer support services. The software publishers' market is quite concentrated with a few dominant players (such as IBM, Oracle, SAP, and Microsoft) controlling a majority of industry share. The industry is also marked by a high degree of alliances, and mergers and acquisitions. Large companies are acquiring smaller companies to expand their product and service portfolio. Start-ups are advancing into the market because of low barriers to entry, to capture niche markets.

Revenue for the industry accrues mainly from the sale of new software and from software license updates. Profit margins are high as production costs and depreciation are low. Still in the early stages of its growth potential, growth in the industry is expected to be driven by mobile and cloud platforms, corporate profits, and increasing expenditure on IT infrastructure. In terms of geography, the Asia Pacific region was the largest software publishing market in 2017, followed by North America.

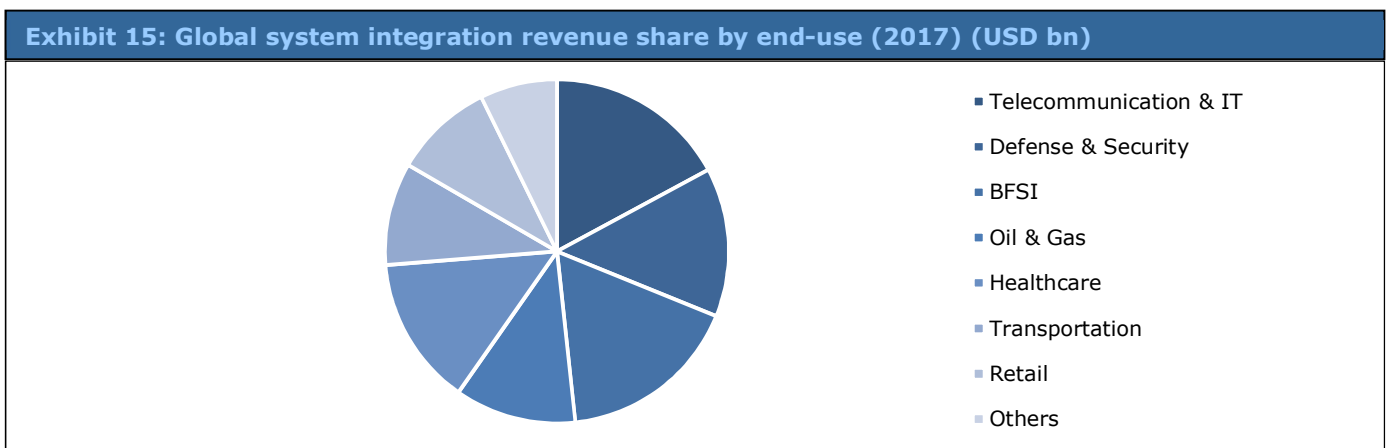
5.3 Consulting

5.3.1 System Integration

The system integration market size is expected to increase at a CAGR of 6% to reach USD 450 bn by 2024^{xxx}. The system integration market is currently being driven by emerging trends such as cloud computing and big data analytics. The benefits from cloud integration such as scalability, minimal investment in hardware, utility style costing, geographic independence and no single point of failure, promote the acceptance and implementation of cloud integration services and solutions. Integrated social software segment is expected to experience the highest CAGR and dominate the system integration market, mainly driven by increased transparency, better communication of business ideas & information, flexibility, and performance along with simplified operations.

While factors such as the need for automation and integrated approach in business process are driving demand, high implementation costs, time constraints and the absence of framework often limit the advancement of the integration market.

5.3.1.1 End-User Insights^{xxxii}



Segmented by end-use, the banking and financial services (BFSI) sector accounts for the largest share and is expected to grow at a very rapid pace, as companies in this sector deal with large amounts of confidential consumer data. The globalization and increase in air traffic present huge growth opportunities for the implementation of system integration in the aviation industry. From a regional perspective, the Asia Pacific region is expected to drive growth, backed by the rise in the numbers of small and medium enterprises, and the relatively lower cost of service offerings in the region.

Infrastructure integration, application integration, and consulting services are the three key segments of the system integration services market. Infrastructure integration encompasses services such as dynamic scaling, utility pricing, and variable costing; application integration includes unified communication, data integration, integrated social and security software services, and; consulting services include business process integration, application lifecycle management and business transformation.

Data integration is forecast to increase at a substantial rate over the next few years. It is expected that business process integration is expected to emerge as a key market owing to its automated governance and efficiency. Infrastructure system integration is estimated to increase at a substantial rate owing to the widespread use of cloud-based services and network management.

5.3.1.3 Regional Insights

Given the huge investments made by the government for the adoption of innovative solutions within various departments, and the demand from the financial sector, North America holds the highest market share. On the other hand, Asia-Pacific is estimated to be the fastest-growing geography with large scale implementation requirements

coming in from the retail, banking, IT, and the telecommunication sectors. The European market for system integration has shown a steady growth in recent times owing to the economic turmoil in the region. However, the manufacturing sector continues to hold great opportunities in Europe especially in countries such as Germany, France and Austria.

Moreover, South America and Africa are also expected to witness slow growth on account of the lack of infrastructure and the absence of or underdevelopment of application industries.

5.3.1.4 Competitive Insights

The Services integration market is characterized by intense competition with the presence of a few major global companies having a substantial market share. Further, the industry is experiencing consolidation between the key players.

5.3.2 Digital Transformation^{xxxiii}




The global digital transformation market is expected to grow from USD 290 bn in 2018 to USD 665 bn by 2023^{xxxiv}. The key drivers for this market are introduction of innovative solutions that are capable of engaging customers or employees to integrate process, data, IT and business and the increasing demand for the adoption of IoT. Through digital transformation, organizations can tackle disruptive changes such as marketplace fluctuation and corporate restructuring.

5.3.3 Customer Experience Management Market^{xxxv}

The customer experience management market is expected to grow from an estimated USD 7.8 bn in 2019 to USD 14.5 bn by 2024 at a CAGR of 13.3% from 2019 to 2024. The key drivers for this market are increasing adoption of customer experience management solutions to reduce the customer churn rate across the globe, the rise in big data analytics, and increasing implementation of cloud-based solutions.

5.4 Competitive Landscape^{xxxvi}

There are various services offered by the players in the industry. The following table presents an overview of the main competitors of Prodware.

Exhibit 16: Services offered by various players in the market			
Company	Business Description	Country	Founding Year
	Ordina NV provides information and communications technology (ICT) services. It offers service packages for management and business consultancy, ICT consultancy, ERP consultancy and management, applications development and management, and embedded software development.	Netherlands	1973
	The company provides IT consulting solutions for financial service organizations in Germany, Austria and Switzerland. Be provides strategic and operational services from management consulting to solutions development to its clients to aid business transformation.	Italy	1987
	The company's products and solutions cover billing, network management, ERP systems, IT security, CRM and loyalty management, EDI, sales support, electronic communication and BI.	Poland	1991

	Business & Decision SA is a France-based global consulting and systems integration company. It specializes in BI, CRM, and e-business, while also catering to its clients' big data and digital transformation needs.	France	1992
	The company provides IT services and software in Europe, North America, the Oceania and Asia. It integrates innovative technologies for new services in complex business and IT environments.	Luxembourg	2001
	The company provides independent consulting and ICT services. Areas of expertise include embedded intelligence, IoT, big data analytics, mobile apps, system engineering, change management, and information systems and web interfaces.	France	1986
	The company is a publisher and integrator of innovative software solutions. Visiativ accelerates the digital transformation of companies through its collaborative and social-oriented business platform.	France	1987
	It is an IT services company that specializes in legacy modernization. The company is also engaged in application development, IT infrastructure and software solutions dedicated to application life-cycle optimization, optimization of application development processes, data management, digital transformation, system maintenance services and training.	France	1986

5.5 Comparison with listed Peers^{xxxvii}

Exhibit 17: Financial Information for various players in the market (EUR mn)

Company Name	Market Cap.	Revenue (Trailing 12 Months)	EBITDA (Trailing 12 Months)	EV	EV/ EBITDA
Ordina NV	171.4	372.3	36.7	184.9	5.0
Be Shaping The Future S.p.A.	143.0	153.9	21.2	168.7	8.0
Comarch SA	365.9	343.3	59.0	364.8	6.2
Business & Decision	62.5	204.0	0.6	127.7	218.4
Sword Group SE	277.8	213.2	27.2	227.1	8.3
IT Link SA	20.5	47.4	3.3	24.1	7.4
Visiativ SA	70.1	184.1	16.6	119.1	6.9
Sodifrance	60.1	106.5	7.9	83.5	10.5
Sum/Average					7.5

6. Valuation

The fair market value for all the company shares stands between EUR 73.6 mn and EUR 109.8 mn as of June 25, 2020. The fair market value for one publicly traded share of the company stands between EUR 9.5 and EUR 14.2 as of June 25, 2020. The valuation approach followed is the DCF method.

6.1 DCF Method

Valuation

WACC

Risk-free rate	0.7% ^{xxxviii}
Beta	1.0 ^{xxxix}
Equity Market return	8.1% ^{xl}
Additional Premium	8.3% ^{xli}
Cost of Equity	16.2%
Cost of Debt	4.0%
Terminal Growth Rate	1.0%
WACC (Discount Rate)	13.6%

Year Ending- Dec	2020E	2021E	2022E	2023E	2024E	2025E	2026E
FCFF (Low)							
Net cash from operating activities	37.3	41.8	41.7	41.2	46.8	44.2	46.8
Capital Expenditure	(12.1)	(26.9)	(23.2)	(24.0)	(20.0)	(20.8)	(21.5)
Free Cash Flow to Firm	25.2	14.9	18.5	17.2	26.8	23.4	25.3
Discount factor	0.9	0.8	0.7	0.6	0.6	0.5	0.4
Present Value of FCF	23.6	12.3	13.4	11.0	15.1	11.6	11.0
FCFF (High)							
Net cash from operating activities	40.0	46.3	46.2	46.3	52.6	50.2	53.6
Capital Expenditure	(12.5)	(27.8)	(24.1)	(25.1)	(20.9)	(22.0)	(22.9)
Free Cash Flow to Firm	27.4	18.5	22.1	21.3	31.7	28.2	30.7
Discount factor	0.9	0.8	0.7	0.6	0.6	0.5	0.4
Present Value of FCF	25.7	15.2	16.0	13.6	17.8	14.0	13.3

Arrowhead Fair Value Bracket	Low	High
Terminal Value (TV) (EUR mn)	203.0	245.6
Present Value of TV (EUR mn)	88.4	106.9
Present Value of FCF (EUR mn)	98.0	115.6
Net Debt (EUR mn)	112.8	112.8
Equity Value Bracket (EUR mn)	73.6	109.8
Shares O/s (mn)	7.7	7.7
Fair Share Value Bracket (EUR)	9.5	14.2
Current Market Price (EUR mn)	5.74	5.74
Upside/(Downside)	65.5%	146.8%
Current Market Cap. (EUR mn)	44.5	44.5
Target Market Cap. Bracket (EUR mn)	73.6	109.8

Sensitivity Analysis

Sensitivity Table - High		WACC (%)				
		12.6%	13.1%	13.6%	14.1%	14.6%
GROWTH RATE (%)	0.0%	15.3	14.1	13.0	12.0	11.1
	0.5%	15.9	14.7	13.6	12.5	11.5
	1.0%	16.7	15.4	14.2	13.1	12.0
	1.5%	17.5	16.1	14.8	13.6	12.6
	2.0%	18.3	16.9	15.5	14.3	13.1

Sensitivity Table - Low		WACC (%)				
		12.6%	13.1%	13.6%	14.1%	14.6%
GROWTH RATE (%)	0.0%	10.4	9.5	8.6	7.7	7.0
	0.5%	11.0	10.0	9.0	8.1	7.3
	1.0%	11.6	10.5	9.5	8.6	7.7
	1.5%	12.2	11.1	10.0	9.1	8.2
	2.0%	13.0	11.7	10.6	9.6	8.6

Approach for DCF Valuation

Time Horizon: The Arrowhead fair valuation for Prodware is based on a DCF method. The time period chosen for the valuation is 78 months (2020E-2026E).

Terminal Value: Terminal value is estimated using terminal growth rate of 1.0%.

Prudential nature of valuation: It should be noted that this Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it discounts the eventuality of any new products being launched in the market or any significant change in the strategy.

Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent depending on the subsectors in which the research is conducted, but all Arrowhead valuation research possesses an underlying set of common principles and a generally common quantitative process.

With Arrowhead Commercial and Technical Due Diligence, Arrowhead extensively researches the fundamentals, assets and liabilities of a Company, and builds solid estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance, such as price/earnings ratios, indicated as applicable, are present mainly for reference purposes. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

Elements of comparison, such as multiple analyses may be to some limited extent integrated in the valuation on a project-by-project or asset-by-asset basis. In the case of this PRODWARE report, there are no multiple analyses integrated in the valuation.

Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analysis, such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for projects, especially relevant to those projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a tool for valuation. The high-bracket DCF valuation is derived from the high-bracket key variables, while the low-bracket DCF valuation is based on the low-bracket key variables.

In principle, an investor who is comfortable with the high-brackets of our key variable analysis will align with the high-bracket in the Arrowhead Fair Value Bracket, and likewise in terms of low estimates. The investor will also take into account the Company intangibles – as presented in the first few pages of this document in the analysis on strengths and weaknesses and other essential Company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in the investor's own analysis.

The bracket should be understood as a tool provided by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader must also understand that on one hand, global capital markets contain inefficiencies, especially in terms of information, and that on the other hand, corporations and their commercial and technical positions evolve rapidly: this present edition of the Arrowhead valuation is for a short to medium-term alignment analysis (one to twelve months). The reader should refer to important disclosures on page 30 of this report.

7. Appendix

7.1 Prodware's Financial Summary

Exhibit 18: Financial Summary		<i>Low Bracket Estimates</i>					
<i>Year Ending Dec</i>	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue (EUR mn)	172.9	179.6	185.6	191.6	200.4	208.2	214.5
Operating Profit (EUR mn)	14.6	14.1	15.2	15.9	17.7	16.4	17.6
Net Income (EUR mn)	8.0	7.7	8.9	9.7	11.6	11.3	13.1
EPS	0.77	0.74	0.86	0.93	1.12	1.09	1.27
Growth rates (%)							
Revenue	(7.9%)	3.8%	3.4%	3.2%	4.5%	3.9%	3.0%
Operating Profit	(15.3%)	(3.8%)	8.0%	4.7%	10.9%	(7.4%)	7.7%
Net Income	(24.0%)	(3.7%)	16.1%	8.1%	19.9%	(2.5%)	16.2%
EPS	(23.2%)	(3.7%)	16.1%	8.1%	19.9%	(2.5%)	16.2%
EBITDA	(10.2%)	2.2%	7.1%	6.1%	6.1%	(3.5%)	5.1%
Margins (%)							
Gross Margins	54.6%	55.0%	55.5%	56.0%	56.2%	56.4%	56.7%
Operating Profit Margin	8.5%	7.9%	8.2%	8.3%	8.8%	7.9%	8.2%
Net Profit Margin	4.6%	4.3%	4.8%	5.0%	5.8%	5.4%	6.1%
EBITDA Margins	25.1%	24.7%	25.6%	26.3%	26.7%	24.8%	25.3%
Ratios							
ROA	2.2%	2.2%	2.6%	2.8%	3.4%	3.5%	4.2%
ROE	5.4%	4.9%	5.5%	5.6%	6.4%	5.9%	6.5%
Debt/Equity	0.7x	0.6x	0.6x	0.5x	0.4x	0.2x	0.2x
Interest Coverage	3.1x	2.9x	3.1x	3.1x	4.0x	5.9x	9.7x

Exhibit 19: Financial Summary		<i>High Bracket Estimates</i>					
<i>Year Ending Dec</i>	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue (EUR mn)	179.1	185.4	192.9	200.6	209.4	220.1	229.2
Operating Profit (EUR mn)	19.3	18.7	20.2	21.8	23.7	23.1	25.1
Net Income (EUR mn)	12.2	11.8	13.4	14.9	16.9	17.2	19.8
EPS	1.17	1.14	1.29	1.44	1.64	1.67	1.91
Growth rates (%)							
Revenue	(4.5%)	3.5%	4.1%	4.0%	4.4%	5.1%	4.2%
Operating Profit	11.8%	(3.3%)	8.3%	7.8%	8.7%	(2.7%)	9.0%
Net Income	15.5%	(3.1%)	13.7%	11.1%	13.8%	1.8%	14.7%
EPS	16.7%	(3.1%)	13.7%	11.1%	13.8%	1.8%	14.7%
EBITDA	(0.3%)	1.9%	7.6%	7.4%	5.9%	(1.9%)	6.1%
Margins (%)							
Gross Margins	55.4%	55.8%	56.3%	57.0%	57.2%	57.4%	57.7%
Operating Profit Margin	10.8%	10.1%	10.5%	10.9%	11.3%	10.5%	11.0%
Net Profit Margin	6.8%	6.4%	6.9%	7.4%	8.1%	7.8%	8.6%
EBITDA Margins	26.9%	26.5%	27.4%	28.3%	28.7%	26.8%	27.3%
Ratios							
ROA	3.4%	3.3%	3.8%	4.1%	4.7%	4.9%	5.7%
ROE	8.1%	7.3%	7.7%	8.0%	8.4%	8.0%	8.5%
Debt/Equity	0.7x	0.6x	0.5x	0.5x	0.4x	0.2x	0.1x
Interest Coverage	4.2x	4.0x	4.3x	4.6x	5.7x	8.7x	14.4x

7.2 Prodware's Balance Sheet Forecast

Exhibit 20: Consolidated Balance Sheet		All figures in EUR mn, unless stated differently		<i>Low Bracket estimates</i>			
<i>Year Ending-Dec</i>	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total current assets	116.6	106.3	107.2	115.1	112.6	100.7	112.9
Total non-current assets	240.5	241.1	236.9	232.5	223.0	213.3	202.9
TOTAL ASSETS	357.1	347.3	344.2	347.7	335.7	314.0	315.8
Total current liabilities	102.9	98.1	93.7	91.5	91.5	91.6	91.7
Total non-current liabilities	101.5	89.0	81.8	78.8	56.4	24.5	14.3
TOTAL LIABILITIES	204.4	187.2	175.5	170.3	147.9	116.1	106.1
Total shareholder's equity	152.2	159.7	168.2	176.9	187.3	197.5	209.3
TOTAL LIABILITIES & EQUITY	357.1	347.3	344.2	347.7	335.7	314.0	315.8

Exhibit 21: Consolidated Balance Sheet		<i>High Bracket estimates</i>					
<i>Year Ending-Dec</i>	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total current assets	120.7	113.4	117.9	129.6	131.3	124.2	141.6
Total non-current assets	240.9	242.3	238.9	235.4	226.6	217.6	208.3
TOTAL ASSETS	361.6	355.7	356.9	365.1	357.9	341.9	349.9
Total current liabilities	103.3	98.5	94.1	91.9	91.9	92.3	92.6
Total non-current liabilities	101.5	89.0	81.8	78.8	56.4	24.5	14.3
TOTAL LIABILITIES	204.8	187.5	175.9	170.7	148.3	116.7	107.0
Total shareholder's equity	156.3	167.8	180.5	193.9	209.2	224.7	242.5
TOTAL LIABILITIES & EQUITY	361.6	355.7	356.9	365.1	357.9	341.9	349.9

8. Analyst Certifications

I, Natasha Agarwal, certify that all the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

I, Sumit Wadhwa, certify that all the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

Important disclosures

Arrowhead Business and Investment Decisions, LLC has received fees in 2018-20 from Prodware for researching and drafting this report and for a series of other services to Prodware including distribution of this report and networking services. Neither Arrowhead BID nor any of its principals or employees own any long or short positions in Prodware. Arrowhead BID's principals intend to seek a mandate for investment banking services from Prodware and intend to seek compensation for investment banking activities for Prodware in 2020-21.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgement.

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Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisers as they deem necessary.

Investors are advised to gather and consult multiple sources of information while preparing their investment decisions. Recipients of this report are strongly advised to read the Information on Arrowhead Methodology section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision-making process.

Past performance of securities described directly or indirectly in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from any of the financial securities described in this report may rise as well as fall and may be affected by simple and complex changes in economic, financial and political factors.

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Should a security described in this report be denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the security.

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9. Notes and References

- i Source: Bloomberg, retrieved on June 25, 2020
- ii Source: Bloomberg: 52 weeks to June 25, 2020
- iii Source: Bloomberg: 3 months to June 25, 2020
- iv Arrowhead Business and Investment Decisions Fair Value Bracket-AFVBTM. See information on valuation on pages 25-27 of this report and important disclosure on pages 30 of this report
- v Source: Company Filings, Company Website and Press Releases
- vi Source: Company website and Company Filings
- vii Source: Company Filings
- viii Source: Company Filings
- ix Source: Company Filings and Press Releases
- x Source: Company Reports
- xi Source: Company Filings
- xii Source: Company Website
- xiii Source: Company Filings
- xiv Source: Company Filings
- xv Source: Company Filings
- xvi Source: Company Filings
- xvii Source: Company Filings
- xviii Source: Company Website
- xix Source: Company Filings
- xx Source: Company Filings
- xxi Source: Company Website
- xxii Source: Company Website
- xxiii Source: Company Website
- xxiv Source: Deloitte (<https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/technology-industry-outlook.html>)
- xxv Source: <https://www.gartner.com/en/newsroom/press-releases/2019-01-28-gartner-says-global-it-spending-to-reach--3-8-trillion>
- xxvi Source: <https://thesaasreport.com/saas/>
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- xxviii Source: Gartner (<https://www.gartner.com/en/newsroom/press-releases/2019-04-02-gartner-forecasts-worldwide-public-cloud-revenue-to-g>)
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- xxxi Source: <https://www.marketwatch.com/press-release/at-6-cagr-system-integration-market-size-is-expected-to-reach-usd-450-billion-in-2024-2019-03-19>
- xxxii Source: <https://www.grandviewresearch.com/industry-analysis/system-integration-market>, <https://www.prnewswire.com/news-releases/system-integration-market-size-to-reach-close-to-usd-528-billion-by-2025--million-insights-682524211.html>
- xxxiii Source: <https://www.grandviewresearch.com/press-release/global-digital-transformation-market>
- xxxiv Source: <https://www.prnewswire.com/news-releases/digital-transformation-market-worth-665-0-billion-by-2023--exclusive-report-by-marketsandmarkets-300829812.html>
- xxxv Source: <https://www.marketsandmarkets.com/PressReleases/customer-experience-management.asp>

xxxvi Source: Bloomberg and Thomson Reuters

xxxvii Source: Bloomberg

xxxviii Source: Bloomberg

xxxix Source: Arrowhead Estimate

xl Source: Bloomberg

xli Source: Bloomberg