

Buy

PT: €11.50

Key data

| | |
|----------------------------|-------------|
| Ticker | ALPRO FP |
| Price (13 October 2021) | €5.68 |
| Upside to Price Target (%) | 102.5 |
| Market Cap (m) | 53 |
| Free Float (%) | 45.1 |
| Daily Value Traded (m) | 0.1 |
| Next Reporting Date | Oct 13 2021 |
| No. of Shares (m) | 9.29 |
| 1mth perf (%) | (4.1) |
| 3mth perf (%) | (3.7) |
| 12mth perf (%) | (1.7) |
| 12mth high-low (€) | 7 - 4 |

Key financials

(In EUR M)

| Year to Dec | 2020A | 2021E | 2022E |
|--------------------|-------|-------|-------|
| Group revenue | 172 | 169 | 176 |
| EBITDA (rep.) | 49.1 | 47.8 | 50.8 |
| EBIT (rep.) | 19 | 17.82 | 20.3 |
| EPS (adj.) (c) | 1.51 | 1.53 | 1.76 |
| DPS (c) | 0.03 | 0.04 | 0.05 |
| Net debt/(cash) | 112.3 | 106.6 | 97.1 |
| ROCE (NOPAT) (%) | 7.0 | 7.4 | 8.2 |
| EPS (adj.) y/y (%) | 6.6 | 1.4 | 15.2 |
| Net debt/EBITDA | 2.24 | 2.18 | 1.88 |
| EV/Sales | 0.9 | 0.9 | 0.8 |
| EV/EBITDA (adj.) | 3.2 | 3.2 | 2.8 |
| EV/EBIT (adj.) | 8.6 | 8.8 | 7.3 |
| P/E (adj.) | 3.77 | 3.72 | 3.23 |
| Dividend yield (%) | 0.5 | 0.7 | 1.0 |
| Free CF yield (%) | 8.0 | 24.4 | 33.3 |
| EV/CE | 0.6 | 0.6 | 0.6 |

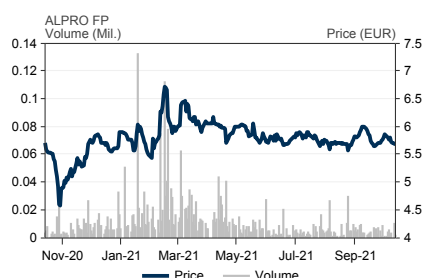
Price as of 13 October 2021.

Completed: 13 October 2021 13:52EDT

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All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Share price performance (indexed)



Towards a change of economic model

Key Points

Given the strong acceleration of the change in business model towards SaaS, we are waiting for the analysts' meeting to get more clarification on the landing of 2021 profitability figures.

Prodware released half-year revenues of €81.6m, up 2.3% pro forma, along with an EBITDA of €18.7m, reflecting a margin of 22.9% (vs. 27.9% in H1 2020, including the Tunisian subsidiary and the integration activity in Israel). At this stage, we currently do not have enough information to comment on this margin deterioration and thus are waiting for the analysts' meeting tomorrow to dig into this matter. The withdrawal from on-premise license sales has led to an impairment charge of €5m on operating income.

Net debt (ex IFRS16) stands at €92.5m, reflecting a gearing of 62%, but implying that EBITDA in 2021 must reach €37m (ex IFRS16) in order to respect the leverage ratio < 2.5x.

Q3 revenue continues to grow moderately (+2.6% pro forma), still supported by SaaS (representing c. 25% of group revenues). In a context where the COVID-19 crisis has accelerated digital adoption, SaaS subscription models and collaboration tools have proven to be especially well adapted to enable work from home lifestyles.

Analysts' meeting 14 October 10:00 am

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Company Snapshot

Investment case summary

Prodware is well placed to capitalise on the growth in the digital transformation market, which has been heightened by the pandemic, with a solid foundation of strategic partnerships and its know-how in terms of innovation. The group offers a unique value proposition that has required investment and reorganisation, to accompany its clients from end to end, throughout their digital transformation. We are confident in Prodware's ability to deliver organic growth of 2.5% in 2021 and 4% in 2022.

In addition to being a source of recurring revenue, the ramp-up of SaaS (from 21% in 2019 to 40% in 2022) should contribute to a reduced cost structure and therefore increase Prodware's profitability to 12% from 9.1% in 2019.

Capex should also gradually improve from here as ERP investments are gradually phased out by 2021. This should propel FCF into positive territory and help alleviate concerns around its high level of net debt.

Target price methodology

We value Prodware using a mixture of a DCF approach – applying a WACC of 9.2% and a perpetual growth rate of 1.5% – and peer group multiples (EV/Revenue, EV/EBIT, P/E).

High capex, increasing indebtedness in recent years, and a slower than expected conversion of the model towards SaaS have weighed on the stock historically. As indicated above, we believe those issues will be addressed in the coming months, which should lead to a re-rating. Nevertheless, we acknowledge that investors will want to see actual progress before agreeing to pay full price for the shares, and hence we apply a 20% discount to our valuation methods to reflect these issues, which we may reassess this depending on the group's progress.

Risk to our valuation and rating

- Lack of visibility due to the current economic context (cancellation or postponement of projects)
- More competitive pressure, especially in attracting the best employees
- Limited financial manoeuvres in the current economic context

Key dates

- H1-21 Results: 13 October 2021

Company description

Founded in 1989, Prodware is a leading French consulting, publishing and IT integration services company. Present in 13 countries worldwide, the company supports SMEs and subsidiaries of major groups through their digital transformation. The group has streamlined its services, focusing on what it masters best, only addressing the Distribution, Manufacturing, Professional services and Retail sectors. What sets Prodware apart is that it has the ability to accompany its customers from end to end with its four key fundamentals: Consulting, Publishing, Implementation and Management services. Prodware has also placed innovation at the heart of its strategy, enabling the group to offer tailor-made solutions with higher added value.

Key products, clients and end markets

Prodware addresses the global digital transformation market which was valued at US\$284.4 billion in 2019 and is expected to reach US\$1.17 trillion by 2027, at a CAGR of 22.5% over the forecast period 2020-2027. The group, a hybrid of a digital service company and software publisher, is the only French group to be part of Microsoft's "Inner Circle", allowing Prodware to obtain valuable certifications such as Scorefact. Relying on its strategic partnerships and on its know-how in terms of innovation, the group develops its own software bricks to offer adapted and customised solutions. Prodware has strengthened its regional and international footprint in recent years, to offer a responsive local service to over 19,000 clients. International activities represented 60% of sales in 2019 compared with 49% in 2013.

Key shareholders

- Management: 47.7%
- Private investors: 5.4%
- Employees: 1.7%

Senior management

- Chairman: Philippe Bouaziz
- CEO: Alain Conrard
- CFO: Stephane Conrard

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Prodware (ALPRO FP) as of October 12, 2021 (in EUR)



*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for ALPRO FP go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=ALPRO FP>

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Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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¹ This rating is only utilised by Stifel Canada.

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