

Buy

PT: €10.54 (vs €11.50)

Changes	2021E	2022E
Revenue	-	-0.7%
EPS	NM	-83.0%

Key data

Ticker	ALPRO FP
Price (18 October 2021)	€5.14
Upside to Price Target (%)	105.1
Market Cap (m)	40
Free Float (%)	45.1
Daily Value Traded (m)	0.1
Next Reporting Date	Feb 24 2022
No. of Shares (m)	7.75
1mth perf (%)	(10.5)
3mth perf (%)	(11.1)
12mth perf (%)	(6.9)
12mth high-low (€)	7 - 4

Key financials

(In EUR M)

Year to Dec	2020A	2021E	2022E
Group revenue	172	169	175
EBITDA (rep.)	49.1	36.2	35.2
EBIT (rep.)	19	4.81	10.43
EPS (adj.) (c)	1.22	(0.38)	0.30
DPS (c)	0.03	0.00	0.00
Net debt/(cash)	85.2	81.3	78.6
ROCE (NOPAT) (%)	5.6	2.4	2.8
EPS (adj.) y/y (%)	21.5	(131.2)	(178.1)
Net debt/EBITDA	2.27	3.31	3.34
EV/Sales	0.8	0.8	0.7
EV/EBITDA (adj.)	3.5	5.2	5.3
EV/EBIT (adj.)	7.5	17.8	14.3
P/E (adj.)	4.20	(13.5)	17.2
Dividend yield (%)	0.6	0.0	0.0
Free CF yield (%)	22.9	19.0	16.1
EV/CE	0.4	0.4	0.4

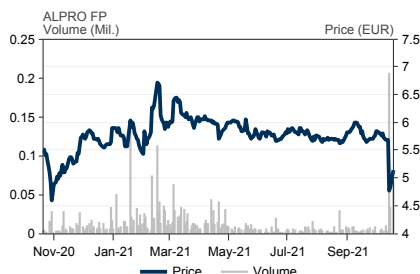
Price as of 18 October 2021 close.

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

Share price performance (indexed)



Acceleration of SaaS erodes profitability

Summary

- **Prodware published H1-21 results which illustrated pressure on margins as the business model switches towards SaaS revenues.**
- **Balance sheet risk becomes an issue as our new estimates lead us to anticipate a breach of covenants. We estimate a leverage ratio of 3.3x for 2021, above the 2.5x covenant.**
- **We reduce our target price to €10.54 but maintain our Buy rating as we see the shares as severely discounted.**

Key Points

Pursuing its 2021-25 strategic plan, Prodware has emphasised consulting practices and the development of industry-specific software solutions to support its clients' digital transformation. Hence, SaaS-related revenues reached €22m in H1-21 (+16% on a pro forma basis), representing 27% of group revenues. This strategy has been pursued at a cost in terms of profitability. With 5 to 6 new monthly hires (c. 60 annually), H1 EBITDA declined by -22%, lowering the margin from 28% to 23%, a decline further amplified by the unfavourable base effect on 2020 operational expenses.

- **Revenues** are expected to grow at 2.2% in 2021, 3.2% in 2022, and 3.9% in 2023.
- **Exceptional impairment charge** amounting to c.€5m in H1 resulted from the mechanical withdrawal of on-premise license sales.
- **Operating loss** of €1m in H1.
- **R&D investments** are expected to slow down going forward, consequently leading to a reduction in capitalised R&D, capping the EBITDA margin to 17% by 2023.
- **Net debt** position (excluding IFRS 16) stands at €81.3m in 2021e, limiting management's flexibility.

With regard to the valuation, the numerous restatements related to capitalised R&D and IFRS16 questions the relevance of discounted cash flow valuation as amortisations correspond to cash expenses and complicate a clean EBITDA comparability between Prodware and its peers, thus questioning also an EV/EBITDA multiple approach. We subsequently opted for a peer group multiple based on EV/Sales. Using a sample of French small and mid-cap companies in the IT and software publishing sectors, we obtain a fair value of €10.54 when applying peer multiples (EV/Revenue) to our estimates.

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All relevant disclosures and certifications appear on pages 7 - 10 of this report.

KEY FINANCIALS AND RATIOS

YEAR TO DECEMBER (IN EUR m)	2020A	2021E	2022E	2023E
PROFIT & LOSS ACCOUNT				
Group revenue	172	169	175	181
EBITDA (rep.)	49.1	36.2	35.2	30.4
EBIT (rep.)	19	4.81	10.43	8.09
Pre-tax results	13.1	(1)	6.39	4.05
Income tax and other items	(2)	(3)	(4)	(3)
Net result group	11.4	(4)	2.78	1.02
Minorities and other items	(0)	0	0	0
Net result shareholders, rep.	11.2	(4)	2.78	1.02
EPS, fully diluted (c)	1.47	(0.46)	0.36	0.13
Exceptionals in EBIT	1.81	(2)	1.74	0.05
Profit and Loss Account (adj)				
EBITDA	37.5	24.6	23.5	18.8
EBIT	17.39	7.15	8.69	8.04
Operating result (company definition)	19.2	4.81	10.4	8.09
Net result, shareholders	8.48	(1)	1.04	0.98
EPS (adj.) (c)	1.22	(0.38)	0.30	0.11
CASH FLOW STATEMENT				
EBITDA (rep.)	49.1	36.2	35.2	30.4
Cash interest and tax payments	5.94	3.69	3.69	3.69
Change in working capital	(9)	2.97	2.96	3.08
Other operating cash flow items	(10)	(8)	(8)	(7)
Cash flow before capex	35.7	34.5	34.2	30.1
Capital expenditure	(27)	(27)	(28)	(25)
Free cash flow	9	7.56	6.40	4.90
Acquisitions/Disposals/Financial assets	0	0	0	0
Dividends, minority payouts	0	0	0	0
Equity measures, other	(11)	(4)	(4)	(4)
Change in net cash	(2)	3.87	2.71	1.20
Net cash (debt)	(85)	(81)	(79)	(77)
BALANCE SHEET				
Fixed assets	255	264	267	270
Goodwill	32.6	32.6	32.6	32.6
Current Assets	132	116	121	125
t/o Inventories	0.04	0	0	0
t/o Trade receivables	74.2	59.2	61.1	63.5
t/a Cash and equivalents	36.1	39.6	42.3	43.5
Group equity	155	152	155	156
t/o Shareholders equity	155	152	155	156
Interest-bearing liabilities	121	121	121	121
Other liabilities and provisions	110	106	112	118
t/ Pension provisions	5.92	5.92	5.92	5.92
t/o Trade liabilities	19.7	21.2	21.6	22.2
Balance sheet total	387	379	387	395
Net Working Capital	54.6	38.0	39.5	41.3
Capital Employed (incl. Goodwill)	309	302	306	311
RATIOS				
Revenue y/y (%)	(8.1)	(1.9)	3.2	3.9
EBITDA Margin (adj.) (%)	21.8	14.5	13.5	10.4
EBIT adj margin (%)	10.1	4.2	5.0	4.4
EPS (adj.) y/y (%)	21.5	(131.2)	(178.1)	(63.2)
Working capital intensity (%)	31.7	22.4	22.6	22.8
DSOs	157	128	128	128
Inventory turnover (Days)	0.08	0	0	0
Net debt (cash) / EBITDA (adj.)	2.27	3.31	3.34	4.12
EBITDA (adj.) / Capex	1.41	0.91	0.85	0.74
Free CF yield (%)	22.9	19.0	16.1	12.3
Oper. FCF Yield (%)	2.4	3.0	2.2	1.0

Company Snapshot

Investment case summary

We believe 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 2.2% in 2021 and 3.2% in 2022.

Target price methodology

We value Prodware using peer group multiples (EV/Sales).

High capex, increasing indebtedness in recent years, and a slower-than-expected conversion of the model towards SaaS have weighed on the stock historically.

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

- 2021 annual sales : 24 February 2022

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 63% of sales in 2020.

Key shareholders

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

Senior management

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

Shift to SaaS should help bolster growth

The group is pursuing its 2021-25 strategic plan "The Place to Be and to Work With" with a strong focus on its Consulting practice and on developing innovative industry-specific software solutions, to support its clients in accelerating their digital transformation.

SaaS-related revenues reached €22m in H1-21 (+16% on a pro forma basis), representing 27% 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.

Figure 1: SaaS revenues (m€)



Source: Company reports and Stifel Research

We are confident that this trend will continue, leading Prodware to deliver organic growth of 2.2% in 2021, 3.2% in 2022 and 3.9% in 2023.

Figure 2: Revenue evolution (EUR M)

P&L	2016	2017	2018	2019	2020	2021e	2022e	2023e
Infrastructure & SaaS	30,153	38,346	40,331	54,933	52,989	60,937	70,078	80,590
Var	14.5%	27.2%	5.2%	36.2%	-3.5%	15.0%	15.0%	15.0%
%Sales	17%	23%	23%	29%	31%	36%	40%	44%
Others	145,693	129,347	135,537	132,728	119,407	108,228	104,440	100,784
Var	-6.3%	-11.2%	4.8%	-2.1%	-10.0%	-9.4%	-3.5%	-3.5%
%Sales	83%	77%	77%	71%	69%	64%	60%	56%
Revenues	175,846	167,693	175,868	187,661	172,396	169,165	174,518	181,374
Growth		-4.6%	4.9%	6.7%	-8.1%	-1.9%	3.2%	3.9%
Organic Growth		-0.8%	3.8%	0.3%	-5.6%	2.2%	3.2%	3.9%

Source: Company reports and Stifel Research & estimates

A shift affecting profitability

To deliver growth, Prodware made 5 to 6 monthly new hires, mainly consultants, representing c. 60 people per year.

Considering the exceptional nature of 2020, with an unfavorable base effect on operational expenses, combined with an additional effort in terms of recruitment, the H1 EBITDA declined by -22%, lowering the margin from 28% to 23%.

The mechanical withdrawal of on-premise license sales led the company to take an exceptional impairment charge amounting to c. €5 million in H1. The group thus posted an operating loss of €1m in H1.

In addition to these recruitment efforts, we anticipate a slowdown in R&D investments and consequently a reduction in capitalized R&D, capping the EBITDA margin to 17% by 2023.

We note that when adjusted for capitalized R&D and IFRS16, the adjusted EBITDA happen to reach €10m (6% of revenues) for 2021.

Figure 3: EBITDA margin evolution and EBITDA adjusted (EUR M)

P&L	2016	2017	2018	2019	2020	2021e	2022e	2023e
Revenues	175,846	167,693	175,868	187,661	172,396	169,165	174,518	181,374
Growth		-4.6%	4.9%	6.7%	-8.1%	-1.9%	3.2%	3.9%
Organic Growth		-0.8%	-3.6%	3.8%	0.3%	-5.6%	2.2%	3.9%
Gross margin	118,761	120,047	125,312	127,698	116,971	116,051	120,444	125,952
Gross margin rate	67.5%	71.6%	71.3%	68.0%	67.9%	68.6%	69.0%	69.4%
OPEX	(32,848)	(30,050)	(21,261)	(21,261)	(16,503)	(18,608.16)	(18,760.66)	(19,044.27)
%CA								
Personal expenses	(54,806)	(55,309)	(58,119)	(58,119)	(49,842)	(59,215.12)	(64,531.83)	(74,470.73)
Employees	1,226	1,277	1,322	1,272	1,060	1,120	1,180	1,240
Research tax credit	10,734	11,096	7,808	5,851	4,676	4,380	4,500	3,600
Wages, salaries and social charges	(76,346)	(76,607)	(81,358)	(87,389)	(72,555)	(78,195)	(84,032)	(90,071)
Wages, salaries and social charges / employee	(62.27)	(59.99)	(61.54)	(68.70)	(68.45)	(69.82)	(71.21)	(72.64)
Capitalized R&D	10,923	10,477	11,813	23,419	18,037	14,600	15,000	12,000
Other OPEX	(891)	(5,944)	(2,882)	(1,823)	(1,748)	(2,000)	(2,000)	(2,000)
EBITDA	30,217	28,744	31,883	46,494	48,879	36,228	35,152	30,437
EBITDA margin	17%	17%	18%	25%	28%	21%	20%	17%
Adjusted EBITDA	2016	2017	2018	2019	2020	2021e	2022e	2023e
EBIT	14,754	15,377	17,236	17,291	19,220	4,813	10,425	8,086
D&A	(14,444)	(11,313)	(15,061)	(29,216)	(29,933)	(31,415)	(24,727)	(22,351)
IFRS 16 amortizations	(2)	(1)	-	11,480	11,300	11,300	11,300	11,300
IFRS 16 cost of debt	-	-	-	381	339	339	339	339
EBITDA excluding IFRS 16	29,200	26,691	32,297	34,646	37,514	24,589	23,513	18,798
Capitalized R&D	10,923	10,477	11,813	23,419	18,037	14,600	15,000	12,000
Adjusted EBITDA	18,277	16,214	20,484	11,227	19,477	9,989	8,513	6,798
Adjusted EBITDA margin	10%	10%	12%	6%	11%	6%	5%	4%

Source: Company reports and Stifel Research & estimates

The group's financial situation, reflected in a net debt position of €81.3m in 2021e, excluding IFRS16, could limit management's flexibility.

Figure 4: Financial situation (EUR M)

Leverage	2016	2017	2018	2019	2020	2021e	2022e	2023e
Financial debt	92,910	93,330	110,152	112,620	121,263	120,900	120,900	120,900
Cash and cash equivalent	24,482	32,757	33,521	29,427	36,098	39,603	42,313	43,515
Net financial debt	68,428	60,573	76,631	83,193	85,165	81,297	78,587	77,385
EBIT	14,754	15,377	17,236	17,291	19,220	4,813	10,425	8,086
D&A	(14,444)	(11,313)	(15,061)	(29,216)	(29,933)	(31,415)	(24,727)	(22,351)
IFRS 16 amortisations	(2)	(1)	-	11,480	11,300	11,300	11,300	11,300
IFRS 16 cost of debt	-	-	-	381	339	339	339	339
EBITDA excluding IFRS 16	29,200	26,691	32,297	34,646	37,514	24,589	23,513	18,798
Leverage	2.34	2.27	2.37	2.40	2.27	3.31	3.34	4.12
Equity shareholders	118,484	130,024	137,610	144,359	155,394	151,837	154,615	155,638
Gearing	57.8%	46.6%	55.7%	57.6%	54.8%	53.5%	50.8%	49.7%
Cost of debt	(3,476)	(3,459)	(4,555)	(4,533)	(3,694)	(3,694)	(3,694)	(3,694)
%	-3.7%	-3.7%	-4.1%	-4.0%	-3.0%	-3.1%	-3.1%	-3.1%
Interest Cover	8.40	7.72	7.09	7.64	10.16	6.66	6.37	5.09

Source: Company reports and Stifel Research & estimates

Rating (Buy) unchanged and target price adjusted to €10.54 from €11.50

As the amortisations related to capitalised R&D and IFRS 16 are 1/ significant and 2/ cash expenditure, numerous accounting restatements are necessary and complicate the analysis of cash flow. In our opinion, this calls into question the relevance of a valuation using the DCF method. In line with this reasoning, the comparability of EBITDA between

Prodware and its peers is very low. Consequently, we have favoured a valuation based on revenue multiples.

We have selected a sample of French small and mid-cap companies in the IT and software publishing sectors. When applying peer multiples (EV/Revenue) to our estimates on Prodware, we obtain a fair value of €10.54.

Figure 5: Peers method

Priced at 18th October 2021	Price close	Mkt. Cap.	Net Debt	Revenue	EBITDA	EBITDA margin	CAPEX	CAPEX Ratio	EV/Revenue (x)		
	(EUR)	(EURm)	(EURm)	(EURm)	(EURm)	(%)	(EURm)	(%)	2021E	2022E	2023E
Aubay	50.70	670	-26	426.38	47.23	11%	1.02	0.2%	1.39	1.31	1.24
SQLI	31.20	144	42	213.67	19.15	9%	1.93	0.9%	0.82	0.78	0.73
IT Link	28.60	50	2	49.11	4.28	9%	0.40	0.8%	0.81	0.76	0.73
Infotel	49.90	340	-65	235.24	25.08	11%	4.43	1.9%	1.10	1.04	0.98
Visiativ SA	24.40	107	37	189.95	14.13	7%	0.72	0.4%	0.77	0.72	0.67
Sword	42.85	409	-96	212.53	29.48	14%	1.39	0.7%	1.72	1.48	1.32
Prodware	5.14	40	111	172.40	48.39	28%	26.60	15%	0.89	0.87	0.86
Median peers average multiples									0.96	0.91	0.85
Equity value of Prodware based on peers									102.0	98.2	94.4
Average Price per share										10.54	

Source: Company reports and Stifel Research & estimates

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Prodware (ALPRO FP) as of October 18, 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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Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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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