

Expert System

ADmantX stake sold for €7m

Expert System has sold its 60.8% stake in ADmantX for cash proceeds of €7m. ADmantX is a spin-off that has adapted Expert's Cogito technology for the advertising industry. The disposal price reflects a trailing EV/sales multiple of 8x, well ahead of Expert's trailing multiple of 4.1x. In our view, the deal highlights the value of Expert's technology as well as providing welcome funds to support the growth of the business.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/17	27.8	1.7	(18.3)	0.0	N/A	72.4
12/18	30.5	4.6	(1.4)	0.0	N/A	26.7
12/19e	34.5	5.6	(1.9)	0.0	N/A	22.2
12/20e	38.5	7.6	1.6	0.0	190.5	16.4

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

ADmantX sold to US adtech company

In 2010, Expert System decided to create a separate business, ADmantX, to commercialise its technology within the advertising industry. ADmantX uses Cogito software to help advertisers understand the content on the pages on which they wish to serve ads. By understanding this better, advertisers can improve ad targeting and increase click-through rates. In November 2019, the entire share capital of ADmantX was sold to Integral Ad Science, a US-based adtech company, for an enterprise value of €16m.

Proceeds reduce net debt position

Expert has received proceeds of €7.1m for its 60.8% stake in ADmantX. This stake has always been accounted for as an equity investment as it was deemed to be non-core. We estimate that the company will report a profit on disposal of c €2.3m and by the end of FY19 will shift from a previously forecast net debt position of €6.6m to a net debt position of €1.4m. The valuation equates to a trailing EV/sales multiple of 8x for a business that was substantially break-even at the EBITDA level in FY18.

Valuation: Stronger balance sheet supports upside

The share price has performed well since the fund-raising in April, as the proceeds allowed the company to reduce its debt burden and accelerate investment in growth. The ADmantX disposal should provide further support, strengthening the balance sheet and highlighting the value to a third party of Expert's IP. Compared to a diverse set of peers, Expert is forecast to grow faster but is less profitable. On an EV/sales basis, Expert is trading at 3.6x FY19 and 3.2x FY20, at a premium to Italian peers and at a discount to all other peer groups, with forecast revenue growth towards the upper end of the group. Evidence that recent investment is accelerating revenue growth would be a key driver of share price upside. Progress towards operating profitability and cash generation should also provide further upside potential.

Sale of non-core business

Software & comp services

9 December 2019

Price **€3.14**

Market cap **€125m**

Net debt (€m) at end H119 5.7

Shares in issue 39.9m

Free float 73%

Code EXSY

Primary exchange AIM Italia

Secondary exchange N/A

Share price performance



Business description

Expert System has developed and patented technology that extracts useful information from unstructured text using semantic-based techniques. It applies this technology to a number of verticals including enterprise search, customer experience management and big data analytics.

Next events

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Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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ADmantX stake disposal

Background to ADmantX investment

The ADmantX subsidiary was created to make use of Expert's natural language processing capability in the advertising industry. It provides software to advertisers, in 29 languages, that enables them to automatically determine which ads are most suitable for advertising on a given website, based on the content on that website.

In 2010, it was decided that this business needed further investment to develop its full potential, and at that time, management decided to accept external investment. Expert retained a 69.4% stake, Atlante Ventures Mezzogiorno (AVM) took a 20.7% stake and private investors bought the remaining 9.9%. In 2015, the business raised further investment of €2.16m, reducing Expert's stake to 60.7%, AVM to 18.1% and private investors to 21.2%. This investment was at a pre-money valuation of €15m. By the end of H119, Expert's stake had increased marginally to 60.8%.

Disposal to Integral Ad Science

On 20 November, Expert announced that ADmantX had been sold to Integral Ad Science, a US-based adtech business owned by Vista Equity Partners. We understand that Integral Ad Science and ADmantX had worked together prior to this deal. The transaction is subject to a price adjustment to be determined by the end of Q120, depending on possible changes in net working capital and the net financial position.

The deal values ADmantX at an enterprise value of €16m, implying a €9.73m valuation for Expert's stake. After adjustments, Expert received cash proceeds of €7.098m (of which €0.2m is in escrow pending final price adjustments). Expert noted that the enterprise value was at an 8x multiple to FY18 revenues, implying that ADmantX generated revenues of €2m in FY18. The company also noted that ADmantX was substantially break-even at the EBITDA level in FY18.

This investment has been accounted for by the equity method since 2010 as it was deemed to be non-core. At the end of H119, ADmantX was reported as a current investment at a book value of €4.775m, which implies a profit on disposal of €2.323m.

Revision to forecasts

We have reflected the disposal in our forecasts. We have treated the gain on disposal as an exceptional item. We reduce our end FY19 net debt forecast from €6.6m to €1.4m.

Exhibit 1: Changes to estimates

Year end 31 December (€m)	FY19e old	FY19e new	Change	y-o-y	FY20e old	FY20e new	Change	y-o-y
Sales	33.0	33.0	0.0%	14.9%	37.0	37.0	0.0%	12.4%
Other income & grants	1.5	1.5	0.0%	(14.7%)	1.5	1.5	0.0%	0.0%
Total revenues	34.5	34.5	0.0%	13.2%	38.5	38.5	0.0%	11.8%
Capitalised development costs & changes in WIP	5.1	5.1	0.0%	0.9%	5.2	5.2	0.0%	2.0%
Production value	39.6	39.6	0.0%	11.4%	43.7	43.7	0.0%	10.6%
EBITDA	5.6	5.6	0.0%	20.2%	7.6	7.6	0.0%	35.5%
EBITDA margin	16.2%	16.2%	0.0%	0.9%	19.6%	19.6%	0.0%	3.4%
D&A	(5.7)	(5.7)	0.0%		(6.0)	(6.0)	0.0%	
Normalised operating profit	(0.1)	(0.1)	0.0%	(84.4%)	1.5	1.5	0.0%	N/A
Normalised operating margin	-0.3%	-0.3%	0.0%	1.9%	4.0%	4.0%	0.0%	4.3%
Amortisation of acquired intangibles	(2.6)	(2.6)	0.0%		(0.9)	(0.9)		
Exceptional items	0.0	2.3	0.0%		0.0	0.0		
Reported operating profit	(2.7)	(0.3)	(87.0%)	89.2%	0.7	0.7	0.0%	N/A
Normalised net income	(0.8)	(0.8)	(3.7%)	(48.2%)	0.6	0.7		(187%)
Reported net income	(3.1)	(1.0)	(68.5%)	74.3%	(0.2)	(0.1)		88.7%
Diluted normalised EPS (c)	(2.0)	(1.9)	(3.7%)	(37.3%)	1.5	1.6	9.6%	184.6%
Net debt	6.6	1.4	(78.2%)	(88.6%)	6.5	2.2	(65.2%)	56.6%

Source: Edison Investment Research

Exhibit 2: Financial summary

	€'000s	2015	2016	2017	2018	2019e	2020e
31-December		IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP
PROFIT & LOSS							
Revenue		19,368	25,057	27,783	30,457	34,463	38,545
EBITDA		1,463	(2,245)	1,711	4,638	5,575	7,554
Operating Profit (before amort. and except.)		(1,226)	(5,941)	(3,189)	(662)	(103)	1,545
Intangible Amortisation		(2,549)	(2,608)	(2,608)	(2,567)	(2,567)	(854)
Exceptionals		0	0	(700)	0	2,322	0
Other		0	0	0	0	0	0
Operating Profit		(3,775)	(8,549)	(6,496)	(3,229)	(347)	691
Net Interest		213	(156)	(2,191)	97	(734)	(814)
Profit Before Tax (norm)		(1,013)	(6,097)	(5,380)	(565)	(837)	731
Profit Before Tax (reported)		(3,562)	(8,705)	(8,687)	(3,131)	(1,081)	(123)
Tax		277	579	348	(650)	108	12
Profit After Tax (norm)		(934)	(5,692)	(5,164)	(508)	(753)	658
Profit After Tax (reported)		(3,284)	(8,126)	(8,339)	(3,781)	(973)	(110)
Average Number of Shares Outstanding (m)		22.8	25.8	28.1	35.8	38.6	39.9
EPS - normalised (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.9)	1.6
EPS - normalised and fully diluted (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.9)	1.6
EPS - (IFRS) (c)		(14.4)	(31.5)	(29.6)	(10.6)	(2.5)	(0.3)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		7.6	-9.0	6.2	15.2	16.2	19.6
Adj Operating Margin (%)		-6.3	-23.7	-11.5	-2.2	-0.3	4.0
BALANCE SHEET							
Fixed Assets		20,301	20,379	18,864	16,655	13,719	12,556
Intangible Assets		18,539	18,372	16,944	14,734	12,102	10,967
Tangible Assets		916	915	792	715	702	675
Investments		846	1,092	1,128	1,206	915	915
Current Assets		42,588	37,012	37,634	38,004	52,022	53,384
Stocks		1,797	627	99	109	609	609
Debtors		10,228	10,233	12,384	15,792	18,003	20,163
Cash		11,249	9,063	11,235	7,883	24,037	23,226
Other		19,314	17,088	13,916	14,220	9,373	9,386
Current Liabilities		(20,517)	(22,679)	(19,480)	(21,170)	(21,451)	(21,760)
Creditors		(15,082)	(16,459)	(14,104)	(15,511)	(15,792)	(16,101)
Short term borrowings		(5,435)	(6,219)	(5,376)	(5,659)	(5,659)	(5,659)
Long Term Liabilities		(22,227)	(18,275)	(17,742)	(18,411)	(23,411)	(23,411)
Long term borrowings		(18,240)	(15,252)	(14,683)	(14,811)	(19,811)	(19,811)
Other long term liabilities		(3,987)	(3,023)	(3,060)	(3,600)	(3,600)	(3,600)
Net Assets		20,145	16,437	19,276	15,077	20,880	20,769
CASH FLOW							
Operating Cash Flow		2,738	2,088	(1,921)	2,583	3,121	5,679
Net Interest		(324)	(155)	(626)	(441)	(710)	(790)
Tax		(1,576)	0	0	0	0	0
Capex		(20,045)	(6,378)	(6,321)	(5,830)	(5,446)	(5,700)
Acquisitions/disposals		3,045	46	1,275	(76)	7,189	0
Financing		6,573	4,418	11,178	0	7,000	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(9,588)	18	3,585	(3,764)	11,154	(811)
Opening net debt/(cash)		2,839	12,426	12,408	8,824	12,587	1,433
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	0	0
Closing net debt/(cash)		12,426	12,408	8,824	12,587	1,433	2,244

Source: Expert System accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia