EXPERT.AI

Entering a ramping growth stage

1 February 2021

BUY

Target Price: **€6.3** (vs. €3.8)

Upside: **+160%**

Solid Foundations…

2020 marks the first year of Expert.ai (Expert System - EXSY) "Path to Lead" strategic plan. The group is giving itself four years to reach €100m of revenue, including €80m in annual recurring revenue (ARR) and to establish itself as a leader in the fast-growing Natural Language Understanding (NLU) market. In order to finance its 2020 - 2024 plan, the group successfully raised more than €40m this year through a €28m capital increase and the sale of its stake in CY4GATE for €5.4m and in Admantx for €7m. The company doubled its US sales force and strengthened its R&D team by 30 skilled employees. Another important milestone was reached this year with the launch of the free version of the expert.ai API to encourage the use of its solutions.

...to Enter a Phase of Accelerated Growth

The Group is expected to launch its SaaS platform in March 2021, which should be one of its main growth drivers. Expert.ai aims to multiply its SaaS revenue by nearly 8x by 2024 to reach nearly €80m. The group hopes to attract open-source users and accelerate the acquisition of new customers by encouraging the use of its products through its "entry-level" offers (~€10k) and free trial periods. This strategy should gradually enable the group's customers to move towards higher value-added offers. Thus, (i) the shift towards a SaaS offer, (ii) the acquisition of new customers thanks to the Freemium offer, (iii) an up-sell towards high value-added solutions and (iv) the development of indirect marketing will enable the group to generate positive FCF in 2024 and to post an EBITDA margin in excess of 20%.

Adoption of AI Stimulated by the Pandemic

The exponential growth of data makes AI tools increasingly indispensable to monitor and secure our interactions. The Covid-19 pandemic has further accelerated the adoption of this technology. According to a Relx survey, 68% of the respondents said they increased their investment in AI technologies during the Covid-19 pandemic. We believe that by simplifying its offer and making it more accessible, Expert.ai's strategy is relevant to accelerate the technology's adoption. The global NLP market is expected to have CAGR growth of 28% from 2020-2025, boosting its market size by almost 4x.

A substantial upside potential!

We believe that Expert.ai has laid the foundations permitting it to enter a new phase of its business plan in 2021, one which foresees a tripling of its revenue by 2024. Following the modification of our peer group and the addition of transactional multiples to our valuation, we are raising our **TP to €6.3** (vs. €3.8), suggesting a strong potential for re-rating once the market has identified the company as a real growth stock with a recurring revenue business model (80% ARR in 2024E). We are strongly reiterating our **Buy** rating.

Market Data

Industry	Technology
Share Price (€)	2.4
Market Cap (€M)	122.9
Market Segment	AIM Italia
Bloomberg	EXSY IM

Ownership Structure

Ergo	8.8%
Founders & Management	17.6%
Free Float	73.5%

€M (31/12)	2019	2020E	2021E	2022E
Sales (€M)	31.7	31.0	33.5	46.5
Growth	*10.3%*	*-2.1%*	*8.0%*	*38.8%*
EBIT	-2.9	-7.1	-14.5	-11.4
EBIT Margin	*-9.1%*	*-23.0%*	*-43.4%*	*-24.5%*
Net Income	-1.0	-2.3	-15.2	-12.2
EPS €	-0.02	-0.05	-0.30	-0.24
EPS growth	*-76.8%*	*87.3%*	*550.7%*	*-19.6%*
Dividend	0.00	0.00	0.00	0.00
Yield	*0.0%*	*0.0%*	*0.0%*	*0.0%*
FCF	-4.7	-0.9	-12.0	-13.3
ROIC				
EV/Sales (x)		3.2	3.0	2.2
EV/EBIT (x)				
PE (x)				
Net debt	2.8	-24.5	-12.5	0.7
Gearing net	*13%*	*-53%*	*-40%*	*4%*

Midcap Partners estimates

Upcoming Event

29th March 2021	FY 2020

Contact

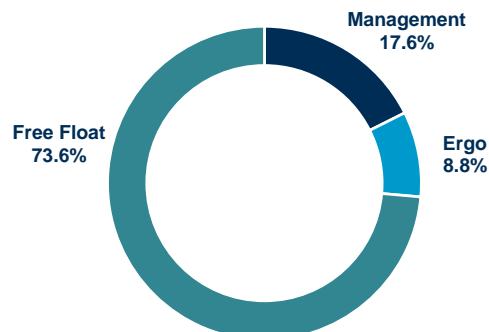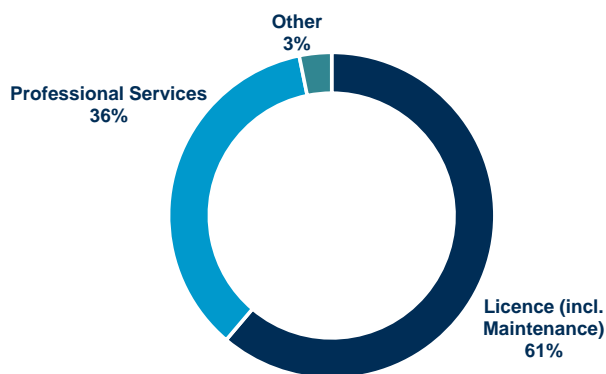| **Analyst**	Alessandro CUGLIETTA
Email	acuglietta@midcapp.com
Phone	+33 (0)1 78 95 71 64

I. OVERVIEW

Description

Founded in Modena (Italy) in 1989, Expert.ai is a world leader in artificial intelligence that develops and markets cognitive analysis software based on artificial intelligence Natural Language Understanding (NLU) algorithms capable of reading and understanding the content of text documents in 12 different languages. Its flagship platform offers a unique mix of natural language comprehension algorithms and machine learning to help organisations bring understanding to any type of text in order to accelerate business processes, improve knowledge discovery and improve decision making.
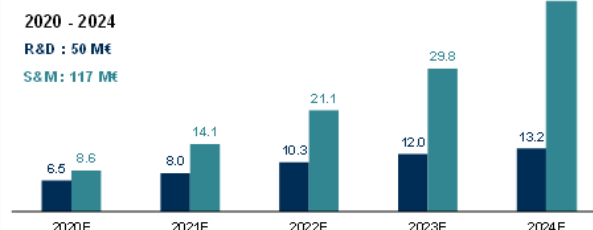
Shareholders

Management 17.6%

Free Float 73.6%

Ergo 8.8%

2019 revenue breakdown by segment

Other 3%

Professional Services 36%

Licence (incl. Maintenance) 61%

2020 - 2024 investment plan (€M)

2020 - 2024
R&D : 50 M€
S&M : 117 M€

	2020E	2021E	2022E	2023E	2024E
R&D	6.5	8.0	10.3	12.0	13.2
S&M	8.6	14.1	21.1	29.8	43.8

SWOT Analysis

Strengths

- Independent leader in semantic cognitive AI
- Market Validation (company mentioned in the most prestigious industry journals such as Gartner & Forrester)
- Strong know-how and ability to implement custom solutions
- Protected and patented technologies that also apply in the USA
- Migrating to an annual model vs. perpetual licensing (previously)

Weaknesses

- Significant investments in R&D and Marketing
- The implementation of NLU solutions is complex and undertaken in several phases

Opportunities

- Strong growth in the addressable market
- Cross-sell and up-sell strategies
- Centralise R&D in a country offering significant tax savings
- Could be of interest to tech giants

Threats

- Risk of dilution following the potential exercise of stock options and the bonus share plan
- Impediments to the adoption of AI technologies
- Competition from tech giants, even if the offering is not part of their core business
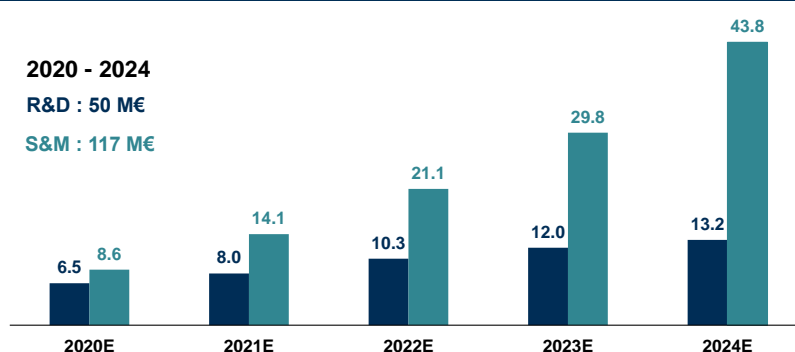
Sources: Expert.ai & Midcap

II.   From Solid Foundations…

2020 marks the first year of Expert.ai's "Path to Lead" strategic plan. The group is giving itself four years to reach **€100m of revenue, including €80m in annual recurring revenues (ARR)** and to become the reference platform in the fast-growing Natural Language Understanding (NLU) market.

ES' strategy is based on developing a scalable Software as a Service (SaaS) platform and prioritising US growth, a market 10x larger than the Italian market. Thus, the company will strengthen its investments in the US in Sales & Marketing (S&M) and R&D. Over the period 2020-2024, the plan calls for total cumulative investments of €50m in R&D and €117.4m in S&M. The goal of these investments is to attract new users with a broader and more user-friendly offer.

2020 – 2024 investment plan (€M)

2020 - 2024
R&D : 50 M€
S&M : 117 M€

	2020E	2021E	2022E	2023E	2024E
R&D	6.5	8.0	10.3	12.0	13.2
S&M	8.6	14.1	21.1	29.8	43.8

Sources: Expert.ai, Midcap

In order to finance its 2020 - 2024 plan, the group successfully **raised more than €40m** through (i) a €3m capital increase in May from institutional investors, (ii) the sale of a 17% stake in CY4GATE for €5.4m and in Admantx for €7m and (iii) a €25m capital increase (of which €17m came from institutional investors).

Another important milestone was reached this year with the launch of the **free version of the expert.ai API**. This cloud platform allows data scientists, developers and engineers to test and integrate the NLP/NLU solution into their applications free of charge. More concretely, the project aims to make Expert.ai the reference platform for Natural Language Processing (NLP) solutions and to direct users to paid solutions in a second step. In the same logic, the company has proceeded to a rebranding: **expert.ai**.

Expert.ai has **doubled its US sales team and strengthened its R&D team with 30 additional skilled workers**. The group continues to invest in simplifying its technology to encourage the adoption of its tools. The first example of the success of ES' commercial strategy is the **signing of a new contract with AEGIS**, a leading energy insurer, which becomes the group's **first Insurance customer in the US**.

Finally, the group has strengthened its management team with the arrival of **Walt Mayo as CEO**, **Colin Matthews, Chief Revenue Officer** and **Keith C. Lincoln, Chief Marketing Officer**. Thus, the new headquarters of the Sales & Marketing team is now based in Boston, demonstrating the importance that the company attaches to its development in the USA. Thus, we believe that Expert.ai has conquered the fundamentals that will enable it to enter a new phase its strategic business plan in 2021 which foresees a tripling of its revenue by 2024.

III.   …to a Phase of Accelerated Growth

This year, Expert.ai will engage a new phase of its strategic plan. More precisely, the launch of the SaaS platform is expected in March 2021. This offer is at the heart of the group's growth objectives, which aim to multiply its SaaS revenue by nearly 8x by 2024. We should have the first data on user engagement starting in Q2 2021.

Business Plan 2020 – 2024: Revenue breakdown (€M)
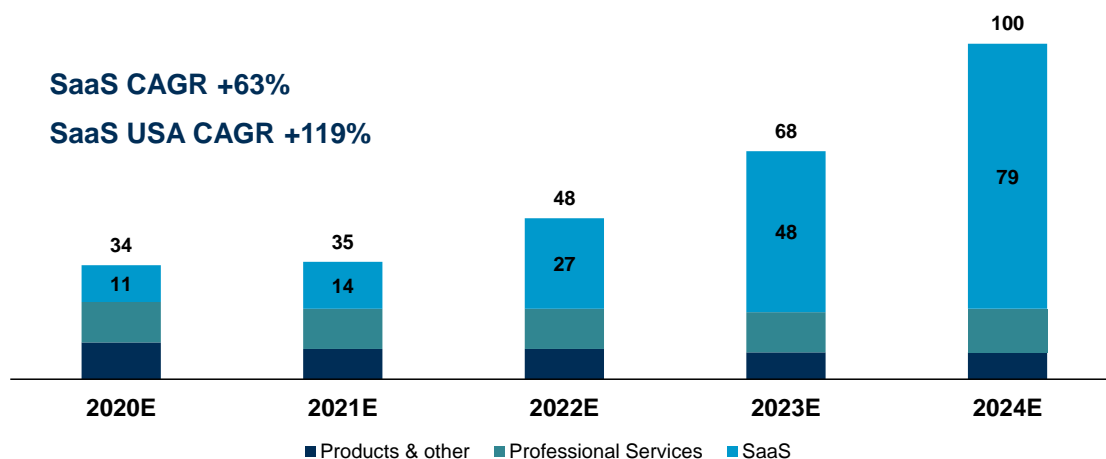
Sources: Expert.ai, Midcap

The launch of the group's SaaS offer should help attract new users, targeting small and mid-size companies, via a freemium offer and attractive entry-level pricing (~€10k). Indeed, despite strong interest, NLU/NLP is still an emerging technology whose mass adoption is hampered by its complexity. ES's Volume to Value strategy should gradually encourage customers to opt for higher value-added offers.

Business model: Volume to Value
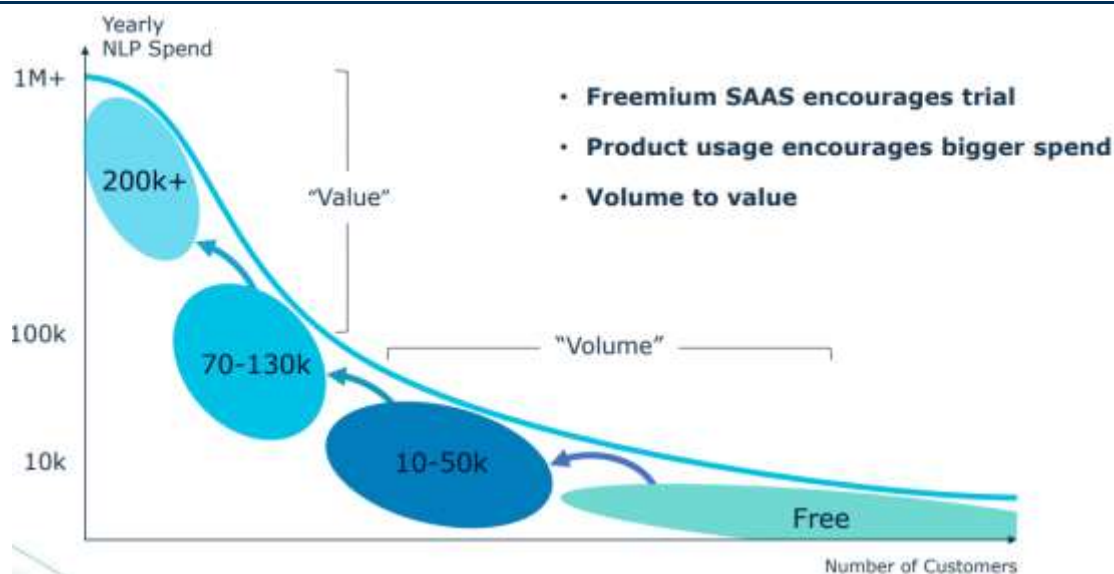
Sources: Expert.ai, Midcap

Expert.ai also focuses on the definition of vertical solutions to accelerate customer acquisition. It thus defines "practical cases" for the application of its solutions in order to be able to reproduce them with other customers.

The acceleration phase should also be driven by the development of **indirect distribution** which should represent 40% of revenue by 2024E (vs. 10% in 2019). The group will strengthen this marketing method through key partnerships with (i) systems integrators (e.g. ATOS, Cap Gemini, Sopra Steria, Cloudera, etc.), and (ii) consulting firms (e.g. Deloitte, Accenture, etc.), enabling it to improve its visibility and working capital.

Thus, (i) the shift towards a SaaS offer, (ii) the acquisition of new customers, (iii) the up-selling towards higher value-added solutions and (iv) the development of indirect marketing will enable the group to generate positive FCF in 2024 (approximately €10m according to the BP) and to post an EBITDA margin of over 20%. Over the longer-term, the group's business is expected to be driven by the IA megatrend.

**Business Plan 2020 – 2024: EBITDA & Free-Cash-Flow (€M)**
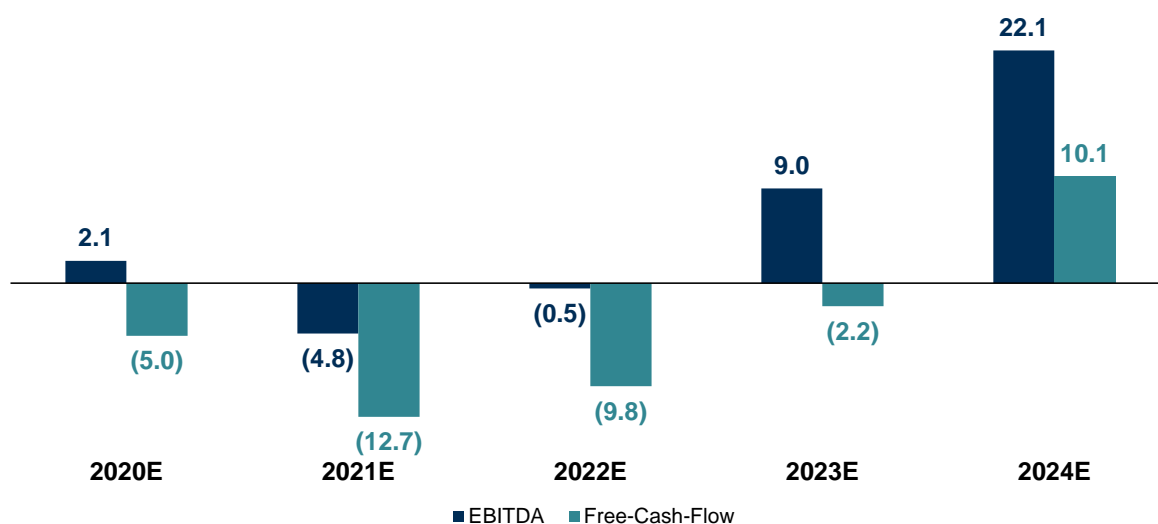
Sources: Expert.ai, Midcap

IV. AI Adoption Stimulated by the Pandemic

The importance of AI is only growing as digitisation accelerates. We are storing and generating more data than ever before. Data's exponential growth makes AI tools increasingly indispensable to monitor and secure our interactions. According to IDC, the size of the world's data will reach 175 zettabytes in 2024 (1 zettabyte = 1 billion terabytes) compared with 45 zettabytes in 2019. Thus, it is very likely that in the future most companies will integrate solutions using Artificial Intelligence and technologies such as NLP/NLU to optimise their processes.

Exponential growth of data in the world (in zettabytes)
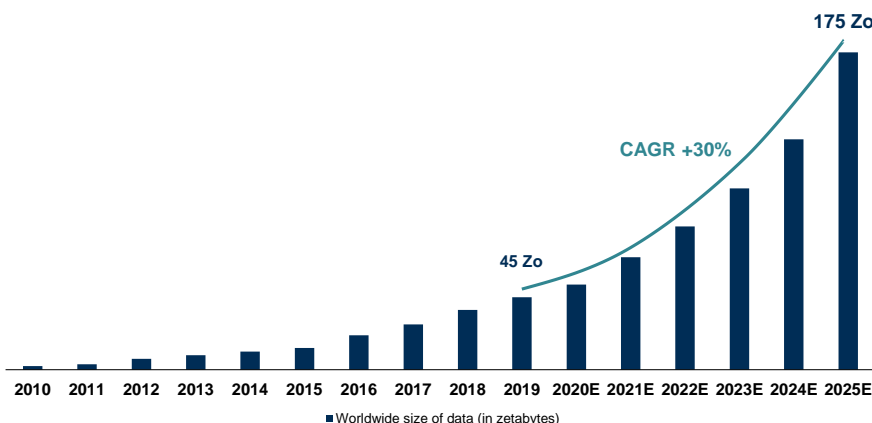
Source: IDC, "Data Age 2025"

According to the same study, 80% of this data will be "unstructured" by 2024. This represents a considerable opportunity for the development of AI solutions such as those proposed by Expert.ai for the analysis and understanding of textual data.

According to a Relx survey published in October 2020, the Covid-19 pandemic has accelerated the adoption of AI technologies. In 2020, 81% of the respondents declare that AI is used in their company against 48% in 2018, an increase of 33 points! According to the same study, 68% said they increased their investment in AI technologies during the Covid-19 pandemic.

**Impact of Covid-19 on investment and adoption of AI technologies**
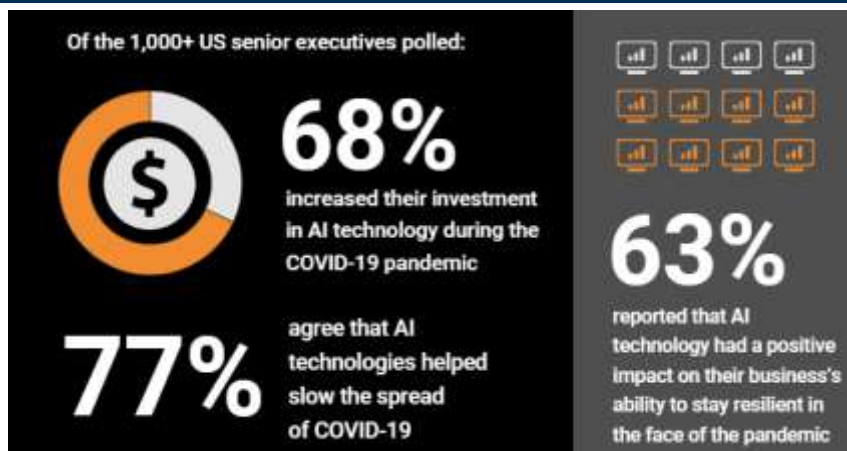
Source: RELX, "2020 RELX Emerging Tech Study"

Thus, the health crisis has confirmed the importance of AI solutions to improve companies' agility and profitability. However, it should be noted that not all companies offering digitisation services have benefited from the healthcare context in the same way. Expert.ai solutions are longer and more complex to implement. As a result, we expect a very strong acceleration in the group's business activity for 2022.

Nevertheless, there are still obstacles slowing down the adoption of these technologies. According to a Gartner study, the top 3 barriers to the adoption of AI/ML technologies are (i) lack of skills and expertise in the enterprise, (ii) understanding the benefits and uses of AI and (iii) data quality. Thus, we believe that by simplifying its offer and making it freely accessible to its users, Expert.ai's strategy is relevant to face these challenges.

Expert.ai is exposed to the megatrend of NLP/NLU AI driven by the explosion of unstructured data and digitalization. The global NLP market is expected to grow by 28% CAGR over the period 2020-2025, i.e. a multiplication by almost 4x of the market size.

Expected evolution of the Natural Language Processing market (in $M)
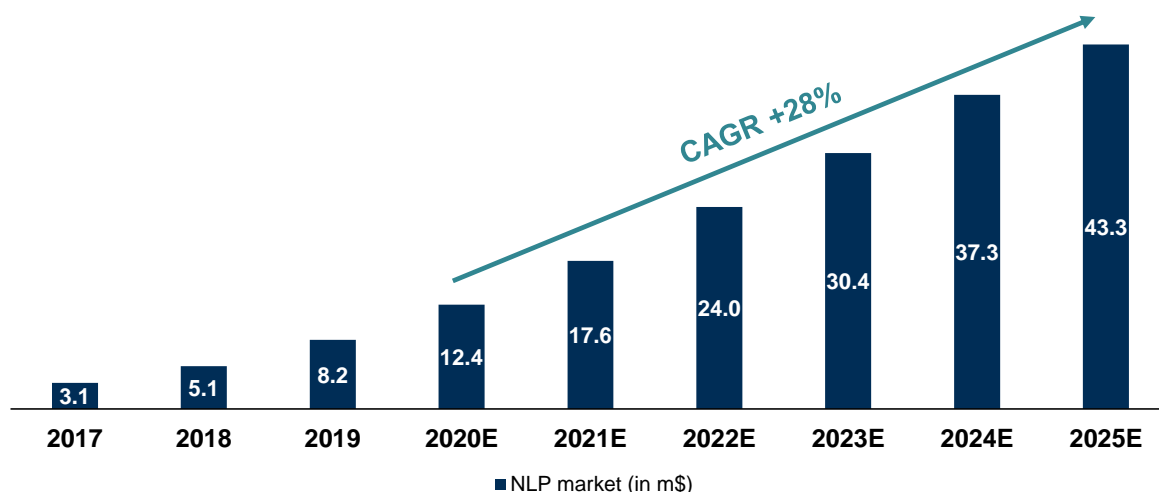
Source: RELX, "2020 RELX Emerging Tech Study"

V. A Sector in Turmoil

Investors are increasingly expressing their appetite for companies in the Artificial Intelligence sector. These companies, most of which are listed in the United States, are valued at more than 10 times their revenues. Their valuation multiples can reach even higher levels depending on their growth potential and business model.

Most of these companies have the particularity of structurally generating recurring revenues. These business models, such as the Software as a Service (SaaS) model, are well known and appreciated by investors because they offer good visibility on the company's future revenues. This explains, among other things, the craze for companies operating in this sector.

Many technology companies have recently completed impressive IPOs. C3.ai is one of the most highly valued technology companies with an EV/Sales multiple of over 80x. The company went public in December 2020, raised more than $650 million and its share price jumped +178% on its first day of listing.

A few days ago, we also learned that Databricks, a US company specializing in AI, has raised more than $2 billion in a new round of financing, valuing the company at more than $29 billion. The market is expecting an IPO in 2021 that could value the company at $35-50 billion. Similarly, Datarobot, a company specializing in the Cloud, has raised more than $750 million and is expected to announce its IPO in the near future.

Similarly, numerous M&A transactions have taken place in recent years. The finding is similar: valuation levels are very high in the sector even though most of the companies acquired are not yet profitable.

Valuation of sector transactions

Acquirer	Target	Date	Transaction value	Sales ($M)	EV/TTM Sales
Salesforce.com	Tableau Software	01 August 2019	15.7 $ bn	1,402	11.2 x
Microsoft	GitHub	25 October 2018	7.5 $ bn	306	24.5 x
IBM	RedHat	09 August 2019	34 $ bn	3,178	10.7 x
SAP	Qualtrics	23 January 2019	8 $ bn	348	23.0 x
Salesforce.com	Mulesoft	02 May 2018	5.9 $ bn	278	21.2 x
Cisco	AppDynamics	25 January 2017	3.7 $ bn	214	17.3 x
Adobe	Marketo	31 October 2018	1.8 $ bn	122	14.8 x
Workday	Adaptive Insights	01 August 2018	1.55 $ bn	109	14.2 x
Twilio	Sendgrid	01 February 2019	2 $ bn	175	11.4 x
Cloudera	Hortonworks	03 January 2019	5.2 $ bn	963	5.4 x

	Mean		15.4 x
	Median		**14.5 x**
	Harmonic Mean		12.8 x

Expert.ai *vs. Peers' average*		**33**	**3.3 x** *(77.3%)*

Sources: Companies, Midcap, FactSet

The development of Expert.ai's SaaS platform and its penetration of the U.S. market should bring more visibility to the company. Given the booming nature of the industry, we believe that Expert.ai still has strong upside potential.

VI. Valuation

Methods Used

Update

We decided to adjust our valuation of Expert.ai by (i) redefining our group of comparable companies, (ii) adjusting the assumptions of our DCF and (iii) integrating the transactional multiples method.

Given the heterogeneity of our peers and the differences in positioning with Expert.ai, we weight our method of discounting FCFFs at 70%, our comparable multiples method at 20% and our transactional multiples method at 10%. In addition, we have slightly adjusted the assumptions of our DCF valuation (see p10).

We are raising our TP to **€6.3** (vs. €3.8). In view of the upside potential, we are reiterating our **Buy** rating. At our target price, Expert.ai would trade at an EV/Sales 2021E multiple of 10.0x compared to 15.7x for the median of our peer group.

Summary of the valuation

	2020E	2021E	2022E	Weight	W. avg	Implied Multiples	2021E	2022E
DCF valuation	€ 6.3			70.0%	€ 6.3	EV/Sales	10.0x	7.2x
EV/Sales	€ 6.4	€ 5.9	€ 6.4	20.0%	€ 6.2			
Transaction	€ 5.1	€ 5.5	€ 7.4	10.0%	€ 6.0			
Target price					**€ 6.3**			

Sources: Company, Midcap, FactSet

Number of Shares Retained

As of 31 December 2020, the company's capital was divided into 50,776,941 shares. To date, the company does not hold any treasury shares.

The group has a bonus share and stock option plan for 2020 - 2023 for a total of 6,452,500 shares, representing a potential dilution of 12.71% of the share capital. Thus, we include a **total number of shares of 57,229,440**. Although this method is approximate, we favour this conservative assumption.

Bridge from Enterprise Value to Equity Value

We determine the bridge on the basis of the information disclosed in the group's consolidated financial statements concerning net debt.

Equity Bridge

Equity Bridge	2019	2020E
Market capitalization	**129**	**129**
Preferred stocks	-	-
Minorities	-	-
Financial debt (incl leases)	24	18
Cash & Equivalents	(22)	(43)
Equity investments in uncosolidated companies	-	-
Provisions pensions obligations	2	2
Bridge	**5**	**(22)**
Enterprise Value	**134**	**107**

Sources: Company, Midcap Partner

Discounted FCF

For this approach, we use the following assumptions:

Normative flows

- A normative 2029E EBITDA margin rate of 29% (vs. 29.7%)
- Capex in the explicit period between €14m and 18m/year (vs. 18-33M€)
- A normative WCR of 17% of revenue (vs. 18,1%)
- Corporate tax modelling in line with the Italian rate of 27.9%

Discount Rate

- A risk-free rate of 0.65% (BTP 10 years)
- A share risk premium of 8.0% (vs. 8.5%)
- A beta of 1.0x including 100% equity financing (vs. 0.9x)
- A size, liquidity and specific risk premium of 300bps (vs. 150bps)
- An after-tax cost of debt of 1.4%.
- A long-term growth rate of 3% in relation to the underlying market megatrend
- A WACC from year 1-5 of 11.5%. (vs. 10,7%)
- From year 6, WACC converges to its normative level of 10.0% in year 10 (vs. 10,7%)

DCF Method

DCF Valuation - FCFF	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
(All figures in K EUR millions)										
Sales	31.0	33.5	46.5	67.5	99.0	138.2	183.5	230.9	274.5	307.5
% YoY	*(2.1%)*	*8.0%*	*38.8%*	*45.4%*	*46.6%*	*39.7%*	*32.7%*	*25.8%*	*18.9%*	*12.0%*
EBITDA	1.2	(5.2)	(0.8)	8.4	21.8	32.9	46.7	62.1	77.2	89.1
% margin	*4.0%*	*(15.5%)*	*(1.7%)*	*12.5%*	*22.0%*	*23.8%*	*25.4%*	*26.9%*	*28.1%*	*29.0%*
Depreciation & Amortization	8.4	9.3	10.6	12.1	13.9	18.3	22.8	26.9	29.7	30.7
% of Sales	*27.0%*	*27.9%*	*22.8%*	*18.0%*	*14.1%*	*13.3%*	*12.4%*	*11.6%*	*10.8%*	*10.0%*
EBIT	(7.1)	(14.5)	(11.4)	(3.7)	7.8	14.5	23.8	35.3	47.5	58.4
EBIT Margin	*(23.0%)*	*(43.4%)*	*(24.5%)*	*(5.5%)*	*7.9%*	*10.5%*	*13.0%*	*15.3%*	*17.3%*	*19.0%*
Marginal tax rate	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
NOPAT	(5.1)	(10.5)	(8.2)	(2.7)	5.7	10.5	17.2	25.4	34.3	42.1
Add: Depreciation & Amortization + N(	8.4	9.3	10.6	12.1	13.9	18.3	22.8	26.9	29.7	30.7
Less: Capital Expenditures	6.4	7.9	10.0	12.5	14.3	13.8	14.7	16.2	17.8	18.4
% of Sales	*20.5%*	*23.5%*	*21.5%*	*18.5%*	*14.5%*	*10.0%*	*8.0%*	*7.0%*	*6.5%*	*6.0%*
NWC	18.9	17.1	18.8	20.2	19.6	26.6	34.3	41.9	48.2	52.3
% of Sales	*60.9%*	*51.2%*	*40.4%*	*30.0%*	*19.9%*	*19.3%*	*18.7%*	*18.1%*	*17.6%*	*17.0%*
Less : Increase (decrease) in NWC	0.8	(1.7)	1.6	1.4	(0.6)	7.0	7.7	7.6	6.4	4.0
% of Sales	*2.5%*	*(5.2%)*	*3.5%*	*2.1%*	*(0.6%)*	*5.1%*	*4.2%*	*3.3%*	*2.3%*	*1.3%*
Unlevered Free Cash Flow	(3.9)	(7.3)	(9.2)	(4.5)	5.8	8.0	17.7	28.6	39.8	50.4
WACC	11.5%	11.5%	11.5%	11.5%	11.5%	11.2%	10.9%	10.6%	10.3%	10.0%
Discount Period	0.09	0.92	1.92	2.92	3.92	4.92	5.92	6.92	7.92	8.92
Discount Factor	99%	90%	81%	73%	65%	59%	54%	50%	46%	43%
Present Value of Free Cash Flow	(3.9)	(6.6)	(7.5)	(3.2)	3.8	4.7	9.3	13.4	16.8	19.0

Sources: Company, Midcap

FCF Discount Rate

Terminal Value Calculation:	
Perpetuity Growth Rate	**3.0%**
Terminal Year Free Cash Flow	50.4
Terminal Value at WACC year 10	746.2
TV as a % of EV	*87%*
Terminal EBIT Multiple	12.8 x
Terminal FCF Multiple	14.8 x
Discount Factor	43%
NPV of Terminal Value	**320.3**

Cumulative NPV of Free Cash Flow	45.8
NPV of Terminal Value	320.3
Enterprise Value	**366.1**
Less : Bridge	5.1
Equity Value	**360.9**
Shares Outstanding (fully diluted)	57.2
Price Per Share	**6.3**

WACC CALCULATION	
Risk free rate (10 YR Bund)	-0.51%
Country premium	1.15%
Size premium	3.0%
Beta	1.0
Equity premium	8.0%
Cost of equity	**11.5%**
Interest rate	2.0%
Tax rate	27.9%
Cost of debt (after tax)	**1.4%**
% equity	100.00%
% debt	0.00%
WACC year 1 to 5	**11.5%**
WACC year 10	**10.0%**

Sources: Company, Midcap

Sensitivity analysis – Equity Value (€)

Price (€)		WACC				
		10.5%	11.0%	**11.5%**	12.0%	12.5%
Perpetuity growth rate	2.0%	5.6	5.6	5.6	5.5	5.5
	2.5%	6.0	5.9	5.9	5.9	5.8
	3.0%	6.4	6.3	**6.3**	6.3	6.2
	3.5%	6.8	6.8	6.8	6.7	6.7
	4.0%	7.4	7.3	7.3	7.3	7.2

Sources: Company, Midcap

Peer Group Method

Expert.ai is currently in the development phase of its new SaaS platform and its current model does not reflect what it is aiming for. At the end of the 2020 - 2024 strategic plan, the group's intention is to be in a position to generate €80m of ARR (SaaS Platform), to post growth of around 40% and an EBITDA margin > 20%.

We have therefore created a peer group of companies with a recurring revenue model (80-100% of revenue) and positioned in high-growth markets. The sample is very heterogeneous in terms of margins and growth prospects.

As Expert.ai EBITDA is negative at this stage, we compare below the EV/Sales multiples based on analyst consensus estimates in 2020E, 2021E and 2022E.

EV/Sales Multiples of Peer Companies

Company Name	Ticker	Country	Market Value (M€)		EV/Sales		
			Equity	EV	2020E	2021E	2022E
Alteryx, Inc. Class A	AYX-US	United States	5,607	7,288	17.0 x	15.1 x	12.3 x
Anaplan, Inc.	PLAN-US	United States	7,790	7,510	20.1 x	16.2 x	13.0 x
Appian Corporation Class A	APPN-US	United States	6,803	12,411	36.6 x	43.2 x	37.1 x
Blackbaud, Inc.	BLKB-US	United States	2,713	3,118	3.7 x	4.2 x	4.2 x
BlackLine, Inc.	BL-US	United States	6,109	5,999	21.3 x	17.5 x	14.6 x
C3.ai, Inc. Class A	AI-US	United States	10,611	11,025	75.6 x	56.9 x	42.1 x
Cloudera, Inc.	CLDR-US	United States	3,931	3,747	5.1 x	4.6 x	4.2 x
Cloudflare Inc Class A	NET-US	United States	14,760	18,498	52.2 x	39.3 x	30.3 x
Coupa Software, Inc.	COUP-US	United States	18,409	17,719	39.6 x	31.2 x	24.8 x
Elastic NV	ESTC-US	United States	10,932	10,530	21.6 x	17.3 x	14.0 x
Esker SA	ALESK-FR	France	1,276	1,232	9.0 x	9.9 x	8.5 x
HubSpot, Inc.	HUBS-US	United States	14,058	13,640	19.6 x	15.0 x	12.3 x
Okta, Inc. Class A	OKTA-US	United States	25,843	26,976	38.7 x	29.8 x	23.2 x
Ooma Inc	OOMA-US	United States	252	232	1.6 x	1.5 x	1.4 x
Open Text Corporation	OTEX-CA	Canada	10,053	12,302	4.6 x	4.5 x	4.4 x
Paycom Software, Inc.	PAYC-US	United States	18,289	17,017	30.0 x	20.7 x	16.7 x
Pharmagest Interactive SA	PHA-FR	France	1,742	1,748	9.8 x	9.2 x	8.3 x
RingCentral, Inc. Class A	RNG-US	United States	24,350	27,986	29.5 x	23.6 x	19.1 x
ServiceNow, Inc.	NOW-US	United States	87,226	89,742	19.0 x	15.2 x	11.9 x
Snowflake, Inc. Class A	SNOW-US	United States	11,370	59,574	122.8 x	65.0 x	39.8 x
Splunk Inc.	SPLK-US	United States	21,968	22,347	12.4 x	10.3 x	8.1 x
Twilio, Inc. Class A	TWLO-US	United States	41,497	41,390	27.1 x	22.0 x	17.1 x
Veeva Systems Inc Class A	VEEV-US	United States	31,030	35,481	29.5 x	24.9 x	21.1 x
Veritone, Inc.	VERI-US	United States	1,008	846	12.3 x	14.4 x	12.2 x
WIIT SpA	WIIT-IT	Italy	402	455	9.4 x	6.4 x	5.8 x
Workiva, Inc. Class A	WK-US	United States	3,201	3,750	12.0 x	11.1 x	9.6 x
				Mean	**26.2 x**	**20.4 x**	**16.0 x**
				Median	*19.9 x*	*15.7 x*	*12.7 x*
				Harmonic Mean	*10.7 x*	*9.8 x*	*8.6 x*

Expert.ai - Midcap Estimates					**3.2 x**	**3.0 x**	**2.2 x**
vs. Peers' average					*(87.6%)*	*(85.2%)*	*(86.4%)*

Sources: Company, Midcap, FactSet

As our peer group is much larger than Expert.ai and its business model is not yet characterised by strong revenue recurrence, we apply a 40% discount to the EV/Sales 2020E, 2021E and 2022E multiples.

Summary of valuation by market peers

EV/Sales	2020E	2021E	2022E
Figure	31.0	33.5	46.5
Multiple	19.9 x	15.7 x	12.7 x
Multiple at -40% discount	11.9 x	9.4 x	7.6 x
Enterprise Value	**369.5**	**315.5**	**353.3**
Bridge	(5.1)	22.2	10.2
Equity	**364.3**	**337.6**	**363.5**
Diluted Number of shares 2020E	57.2	57.2	57.2
Price/share	**6.4**	**5.9**	**6.4**
% upside (downside)	*163.1%*	*143.8%*	*162.5%*

Sources: Companies, Midcap, FactSet

In order to take into account the expected sharp increase in the Group's results over the next three fiscal years, we use the arithmetic average of the valuations obtained for 2020E, 2021E and 2022E.

Below we derive the EV/Sales 2021E multiples on (i) the average annualised revenue growth over 2019-2022E and (ii) the size of our peer group companies (ex- Snowflake & C3.ai). As expected, companies with higher expected revenue growth tend to have higher valuations (R^2 = 52%). Also, companies with the largest market capitalisations tend to have higher valuations (R^2 = 44%).

EV/Sales Multiples 2021E vs. CA CAGR 19A-22E
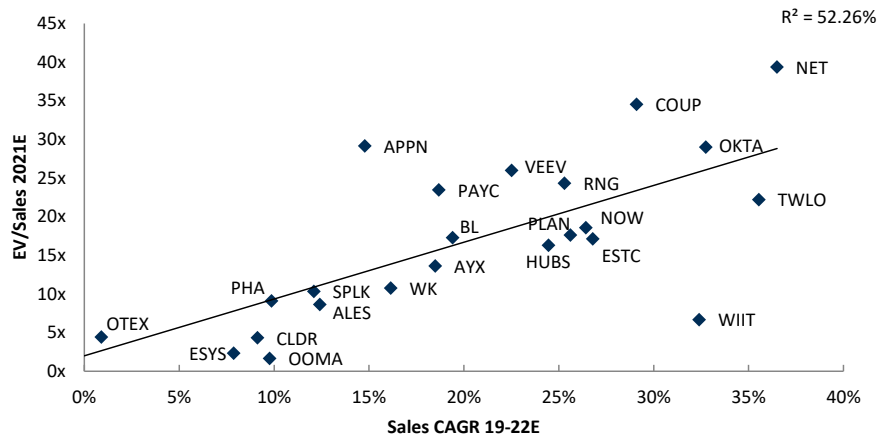
EV/Sales Multiples 2021E vs. Size (natural log of market capital (€M)
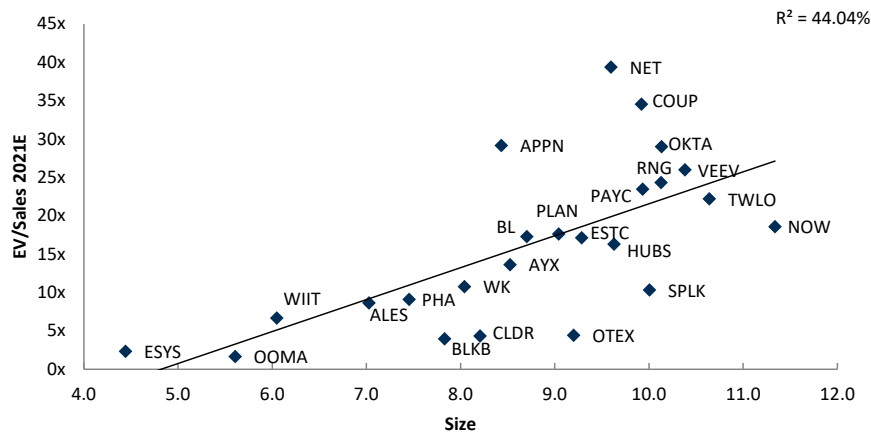
Thus, using multiple regression, we observe a correlation of 80% (R^2 = 64%) between the EV/Sales multiple and the CAGR growth factors of revenue and size combined (significant at 95%).

We believe that if Expert.ai reaches its objectives (€100m revenue of which 80% in CAGR, 40% growth), its stock could trade between 7-10x its revenue (EV/Sales).

Transactional Multiple Methods

The AI sector is booming in terms of financing and M&A transactions. More and more investors are realising the importance and value of AI companies. In addition, the SaaS business model, characterised by strong revenue recurrence, is a model that is increasingly understood and appreciated by investors. Thus, innovative companies (AI, Business Intelligence, API, Automation...), showing significant growth levels (>25% per year) and having a recurring revenue model can reach very high valuation levels (10x to 25x the revenue).

We have therefore listed a sample of transactions from companies meeting these criteria.

Valuation of sector transactions

Acquirer	Target	Date	Transaction value	Sales ($M)	EV/TTM Sales	Information
Salesforce.com	Tableau Software	01 August 2019	15.7 $ bn	1,402	11.2 x	BI & Data Analytics : ARR
Microsoft	GitHub	25 October 2018	7.5 $ bn	306	24.5 x	Dev platform : recurring revenue
IBM	RedHat	09 August 2019	34 $ bn	3,178	10.7 x	Open Source : 90% recurring
SAP	Qualtrics	23 January 2019	8 $ bn	348	23.0 x	80% recurring
Salesforce.com	Mulesoft	02 May 2018	5.9 $ bn	278	21.2 x	API Platform : 80% recurring
Cisco	AppDynamics	25 January 2017	3.7 $ bn	214	17.3 x	APM Solutions
Adobe	Marketo	31 October 2018	1.8 $ bn	122	14.8 x	Marketing Automation : ARR
Workday	Adaptive Insights	01 August 2018	1.55 $ bn	109	14.2 x	Budget planning
Twilio	Sendgrid	01 February 2019	2 $ bn	175	11.4 x	Email marketing : ARR
Cloudera	Hortonworks	03 January 2019	5.2 $ bn	963	5.4 x	Big Data / AI
		Mean			15.4 x	
		Median			**14.5 x**	
		Harmonic Mean			12.8 x	
Expert System *vs. Peers' average*				33	3.2 x (78.0%)	

Sources: Companies, Midcap, FactSet

Based on the average of its ratios, we apply a size and liquidity discount of 40%.

Summary of valuation by transactions

EV/Sales	2020E	2021E	2022E
Figure	31.0	33.5	46.5
Multiple	14.5 x	14.5 x	14.5 x
Multiple at -40% discount	8.7 x	8.7 x	8.7 x
Enterprise Value	269.7	291.2	404.1
Bridge	22.2	22.2	22.2
Equity	291.9	313.4	426.3
Diluted Number of shares	57.2	57.2	57.2
Price/share	**5.1**	**5.5**	**7.4**

Sources: Companies, Midcap, FactSet

In order to take into account the expected sharp increase in the Group's results over the next three fiscal years, we use the arithmetic average of the valuations obtained for 2020E, 2021E and 2022E.

VII. Financial Data (1/2)

Income statement

€M	2018	2019	2020E	2021E	2022E	2023E
Total sales	**28.7**	**31.7**	**31.0**	**33.5**	**46.5**	**67.5**
Change	*9.8%*	*10.3%*	*-2.1%*	*8.0%*	*38.8%*	*45.4%*
Change in inventory	0.0	(0.1)	0.0	0.0	0.0	0.0
Other revenues	6.8	8.1	7.4	8.4	10.7	13.5
Value of Production	**35.5**	**39.7**	**38.4**	**41.8**	**57.1**	**81.0**
	0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
COGS	(1.8)	(1.2)	(1.2)	(1.2)	(1.4)	(1.7)
Gross Profit	**33.7**	**38.5**	**37.2**	**40.7**	**55.7**	**79.3**
Personnel	(18.6)	(18.8)	(22.2)	(32.1)	(42.3)	(57.4)
External charges	(10.2)	(13.9)	(13.6)	(13.6)	(14.0)	(13.2)
Other revenues and expenses	(0.3)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)
EBITDA reported	**4.6**	**5.5**	**1.2**	**(5.2)**	**(0.8)**	**8.4**
% of revenue	*16.2%*	*17.2%*	*4.0%*	*-15.5%*	*-1.7%*	*12.5%*
Net depreciation, amortization and provisions	(7.9)	(8.3)	(8.4)	(9.3)	(10.6)	(12.1)
EBIT	**(3.2)**	**(2.9)**	**(7.1)**	**(14.5)**	**(11.4)**	**(3.7)**
% of revenue	*-11.3%*	*-9.1%*	*-23.0%*	*-43.4%*	*-24.5%*	*-5.5%*
Financial result	0.1	2.1	4.8	(0.7)	(0.8)	(1.0)
Income tax	(0.6)	(0.2)	0.0	0.0	0.0	0.0
Tax rate	*-20.7%*	*-26.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net income	(3.8)	(1.0)	(2.3)	(15.2)	(12.2)	(4.7)
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Net income group share	**(3.8)**	**(1.0)**	**(2.3)**	**(15.2)**	**(12.2)**	**(4.7)**

Balance sheet

€M	2018	2019	2020E	2021E	2022E	2023E
Goodwiil	0.0	0.0	0.0	0.0	0.0	0.0
Tangible and intangible fixed assets	14.7	13.1	11.1	9.7	9.1	9.4
Tangible and intangible fixed assets	0.7	0.7	0.6	0.6	0.6	0.7
Right-of-use assets	0.0	0.0	0.0	0.0	0.0	0.0
Financials assets	0.3	0.3	0.1	0.1	0.1	0.1
Deferred tax	1.2	1.3	1.3	1.3	1.3	1.3
Other assets	2.6	2.4	2.4	2.4	2.4	2.4
Current assets	27.2	26.7	26.3	25.3	29.0	33.9
Cash	7.9	21.6	42.9	30.9	17.7	11.2
Assets	**54.7**	**66.2**	**84.9**	**70.3**	**60.2**	**58.9**
Shareholder's equity	15.1	20.9	46.5	31.3	19.1	14.3
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	2.2	2.4	2.4	2.4	2.4	2.4
Deferred tax	1.0	1.1	1.1	1.1	1.1	1.1
Financial debt	18.0	23.3	17.5	17.5	17.5	17.5
Other non-current liabilities	2.1	1.4	1.4	1.4	1.4	1.4
Current liabilities	16.2	17.1	16.0	16.6	18.7	22.1
Liabilities	**54.7**	**66.2**	**84.9**	**70.3**	**60.2**	**58.9**

Cash-flow statement

€M	2018	2019	2020E	2021E	2022E	2023E
Operating cash-flow	4.7	5.4	6.3	(5.9)	(1.6)	7.4
∆NWC	(2.5)	(3.5)	(0.8)	1.7	(1.6)	(1.4)
Cash-flow from operating activities	**2.1**	**1.9**	**5.5**	**(4.1)**	**(3.3)**	**6.0**
CAPEX	(5.5)	(6.6)	(6.4)	(7.9)	(10.0)	(12.5)
FCF	**(3.3)**	**(4.7)**	**(0.9)**	**(12.0)**	**(13.3)**	**(6.5)**
Other change in scope	0.4	(7.4)	0.0	0.0	0.0	0.0
Cash-flow from investing activities	**(5.9)**	**0.7**	**(6.4)**	**(7.9)**	**(10.0)**	**(12.5)**
Capital increase	0.0	7.1	27.9	0.0	0.0	0.0
Change in borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	0.4	4.0	(5.7)	0.0	0.0	0.0
Cash-flow from financing activities	**0.4**	**11.1**	**22.2**	**0.0**	**0.0**	**0.0**
Currency effect	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	**(3.4)**	**13.8**	**21.3**	**(12.0)**	**(13.3)**	**(6.5)**

KEY RATIOS

	2018	2019	2020E	2021E	2022E	2023E
Revenue growth	9.8%	10.3%	-2.1%	8.0%	38.8%	45.4%
Reported EBITDA margin	16.2%	17.2%	4.0%	-15.5%	-1.7%	12.5%
Adjusted EBITDA margin	16.2%	17.2%	4.0%	-15.5%	-1.7%	12.5%
EBIT margin	-11.3%	-9.1%	-23.0%	-43.4%	-24.5%	-5.5%
Net margin	-13.2%	-3.1%	-7.5%	-45.4%	-26.3%	-7.0%
Reported EPS	-0.1	0.0	0.0	-0.3	-0.2	-0.1
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0
Dividende Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NWC as a % of Revenue	0.0%	57.2%	60.9%	51.2%	40.4%	30.0%
DIO	0.0	0.0	0.0	0.0	0.0	0.0
DSO	0.0	0.0	185.8	162.9	140.0	117.2
DPO	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-3.3	-4.7	-0.9	-12.0	-13.3	-6.5
FCF yield	0%	0%				
Conversion rate (FCF/EBITDA)	-72%	-86%	-70%	231%	1678%	-77%
CAPEX/Sales	19.1%	21.0%	20.5%	23.5%	21.5%	18.5%
ROE	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
ROA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
ROCE (after tax)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Gearing, net	82.3%	13.4%	-52.8%	-40.1%	3.8%	50.4%
Financial leverage	2.7x	0.5x	-19.8x	2.4x	-0.9x	0.9x
EV/Sales			3.2x	3.0x	2.2x	1.5x
EV/EBITDA			81.2x			11.9x
EV/EBIT						
PE						

MIDCAP PARTNERS vs CONSENSUS

	2020E		2021E		2022E	
	Midcap Partners	Consensus	Midcap Partners	Consensus	Midcap Partners	Consensus
Sales	31.0	31.6	33.5	32.9	46.5	46.5
EBITDA	1.2		-5.2		-0.8	
EBIT	-7.1	2.0	-14.5	-4.9	-11.4	-0.3
EPS	0.0	0.0	-0.3	-0.3	-0.2	-0.3

IX. Annex

Management

Stefano Spaggiari
Founder & Chairman

Walt Mayo
Chief Executive Officer

Marco Varone
Chief Technology Officer

Valentina Biscotti
Chief Financial Officer

Keith C. Lincoln
Chief Marketing Officer

Francesca Petronio
Chief People Officer

Colin Matthews
Chief Revenue Officer

Gabriele Donino
Chief Operating Officer

Luca Scagliarini
Chief Product Officer

Source: Expert.ai

Example of clients

DOW JONES   ING   AXA   LLOYD'S   eni

Government Agencies
Europe and USA

GENERALI   INTESA SANPAOLO   CRÉDIT AGRICOLE   ZURICH

Source: Expert.ai