

Expert System

Fund-raise

€10m raised to fund growth

Expert has raised gross proceeds of €10m from the issue of 7.7m shares at €1.30 through a combination of a rights issue and an accelerated book build. The company continues to make good progress in the insurance market where its software can improve the efficiency of business processes, particularly claims management.

Year end	Revenue (€m)	EBITDA (€m)	EPS* (€)	DPS (p)	P/E (x)	EV/EBITDA (x)
12/15	19.4	1.5	(4.1)	0.0	N/A	41.0
12/16	25.1	(2.2)	(22.0)	0.0	N/A	N/A
12/17e	25.1	(1.5)	(14.0)	0.0	N/A	N/A
12/18e	28.6	3.0	(3.4)	0.0	N/A	19.8

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

Successful rights issue and accelerated book build

In November, Expert announced the launch of a rights issue, giving shareholders the right to acquire two shares for every 15 held at a price of €1.30 per share. This was fully subscribed, raising €4.84m from the issue of 3.719m shares. We note that management participated in the rights issue. In December, the company announced an accelerated book build, which was also fully subscribed. This raised a further €5.16m from the issue of 3.971m shares at €1.30 per share. We have revised our forecasts to reflect the proceeds (we assume net proceeds of €9.7m) and new share count. This results in a new net debt forecast of €4.3m as at the end of FY17, down from our previous €14.0m forecast. This provides Expert with the funds to support the growth of the business, in particular to fund R&D and sales and marketing.

Continued adoption in the insurance market

Last year, Expert announced that it had signed a global agreement with Zurich Insurance Group to provide cognitive computing solutions to units worldwide and signed up Lloyds of London to support its members. Expert recently announced an agreement with Generali to provide support for its business processes, starting with registration and claims management. Expert's Cogito software will be used to classify millions of inbound customer emails; the project will go live in Spain in Q118.

Valuation: DCF suggests upside

Expert System trades on an EV/EBITDA of 19.8x FY18e. This is at a premium to enterprise search and information management companies, and Italian software and services peers, and at a discount to high-growth big data analytics software companies. Our DCF valuation of Expert System suggests a value of €1.83/share (previously €1.97). Expert's ability to convert customer interest in the fast-growing data mining and analytics market into commercial contracts, combined with achieving targeted cost cuts, will be key to share price upside from this point.

Software & comp services

12 February 2018

Price **€1.33**

Market cap **€48m**

Net debt (€m) at end H117 (pre-raise) 15.1

Shares in issue 35.7m

Free float 73%

Code EXSY

Primary exchange AIM Italia

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.3) (3.5) (28.5)

Rel (local) (0.2) (1.2) (39.3)

52-week high/low €2.0 €1.3

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

FY17 results 23 March 2018

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Expert System is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	€000s	2012	2013	2014	2015	2016	2017e	2018e
31-December		IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP
PROFIT & LOSS								
Revenue		11,593	11,109	13,045	19,368	25,057	25,118	28,623
EBITDA		2,624	2,014	2,339	1,463	(2,245)	(1,528)	3,021
Operating Profit (before amort. and except.)		1,765	916	609	(1,226)	(5,941)	(5,575)	(1,417)
Intangible Amortisation		0	0	0	(2,549)	(2,608)	(2,608)	(2,608)
Exceptionals		(319)	45	59	0	0	0	0
Other		0	0	0	0	0	0	0
Operating Profit		1,446	961	669	(3,775)	(8,549)	(8,183)	(4,025)
Net Interest		(298)	(376)	29	213	(156)	(468)	(428)
Profit Before Tax (norm)		1,467	539	638	(1,013)	(6,097)	(6,043)	(1,846)
Profit Before Tax (reported)		1,148	584	697	(3,562)	(8,705)	(8,650)	(4,453)
Tax		(452)	(359)	(609)	277	579	3,028	1,559
Profit After Tax (norm)		1,015	180	29	(934)	(5,692)	(3,928)	(1,200)
Profit After Tax (reported)		697	225	89	(3,284)	(8,126)	(5,623)	(2,894)
Average Number of Shares Outstanding (m)		22.0	22.0	22.0	22.8	25.8	28.1	35.7
EPS - normalised (c)		4.6	0.8	0.1	(4.1)	(22.0)	(14.0)	(3.4)
EPS - normalised and fully diluted (c)		4.6	0.8	0.1	(4.1)	(22.0)	(14.0)	(3.4)
EPS - (IFRS) (c)		3.2	1.0	0.4	(14.4)	(31.5)	(20.0)	(8.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		22.6	18.1	17.9	7.6	-9.0	-6.1	10.6
Adj Operating Margin (%)		15.2	8.2	4.7	-6.3	-23.7	-22.2	-5.0
BALANCE SHEET								
Fixed Assets		6,691	9,905	5,719	20,301	20,379	18,924	17,679
Intangible Assets		1,111	2,462	4,640	18,539	18,372	16,976	15,705
Tangible Assets		635	606	692	916	915	856	882
Investments		4,945	6,836	387	846	1,092	1,092	1,092
Current Assets		12,767	15,491	32,681	42,588	37,012	40,566	40,399
Stocks		722	476	1,563	1,797	627	627	627
Debtors		5,488	5,820	7,866	10,228	10,233	10,233	11,768
Cash		2,065	2,967	4,900	11,249	9,063	13,748	11,487
Other		4,492	6,228	18,352	19,314	17,088	15,958	16,517
Current Liabilities		(8,871)	(10,333)	(13,639)	(20,517)	(22,679)	(21,957)	(22,605)
Creditors		(6,538)	(7,350)	(10,698)	(15,082)	(16,459)	(16,419)	(17,067)
Short term borrowings		(2,332)	(2,984)	(2,940)	(5,435)	(6,219)	(5,538)	(5,538)
Long Term Liabilities		(4,642)	(5,172)	(7,803)	(22,227)	(18,275)	(15,838)	(16,672)
Long term borrowings		(4,642)	(5,172)	(4,799)	(18,240)	(15,252)	(12,466)	(13,300)
Other long term liabilities		0	0	(3,005)	(3,987)	(3,023)	(3,372)	(3,372)
Net Assets		5,945	9,890	16,958	20,145	16,437	21,695	18,801
CASH FLOW								
Operating Cash Flow		8,077	2,891	737	2,738	2,088	3,302	3,134
Net Interest		(298)	(376)	29	(324)	(155)	(468)	(428)
Tax		(452)	(359)	(609)	(1,576)	0	0	0
Capex		(3,095)	(2,384)	(3,905)	(20,045)	(6,378)	(5,200)	(5,800)
Acquisitions/disposals		0	0	(6,436)	3,045	46	0	0
Financing		0	0	12,341	6,573	4,418	10,559	0
Dividends		0	(180)	0	0	0	0	0
Net Cash Flow		4,232	(408)	2,156	(9,588)	18	8,193	(3,095)
Opening net debt/(cash)		6,352	4,909	4,822	2,839	12,426	12,408	4,256
HP finance leases initiated		0	0	0	0	0	0	0
Other		(2,788)	128	(173)	0	0	(41)	0
Closing net debt/(cash)		4,909	5,189	2,839	12,426	12,408	4,256	7,351

Source: Expert System, Edison Investment Research

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