

# Expert System

Fund-raise

More funding for international expansion

A recent fund-raise generated gross proceeds of €3m for Expert System and added two new investors to the shareholder register. The company intends to use the proceeds to support its international expansion plans, primarily in the US. It recently announced a partnership with SDL to increase multilingual support.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/18	30.5	4.6	(1.4)	0.0	N/A	26.0
12/19	33.7	5.5	(1.3)	0.0	N/A	22.1
12/20e	35.5	5.1	(4.4)	0.0	N/A	23.8
12/21e	39.7	6.9	(0.5)	0.0	N/A	17.4

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

## Fund-raise attracts new investors

The company has gained two new investors through the issue of 1.11m shares at €2.7 per share. Indaco Venture Partners SGR has acquired 740,740 shares (a 1.8% stake) and Investec has acquired 370,371 shares (a 0.9% stake), resulting in gross proceeds of €3m for Expert System. We have revised our forecasts to reflect the fund-raise. FY20 EPS moves from -€0.045 to -€0.044 and FY21 is unchanged at -€0.005. Our net debt forecast reduces from €7.2m to €4.2m at the end of FY20 and from €9.9m to €6.9m at the end of FY21.

## Partnership with SDL for multilingual support

Expert System recently announced that it had entered into a partnership with SDL to expand knowledge discovery and intelligent process automation to additional languages. SDL develops and provides language translation technology; more specifically, the plan is to link SDL's Machine Translation Edge software with Expert System's Cogito platform. SDL is able to translate text for more than 140 language pairs, while Cogito is available in 12 languages. The partnership means that Cogito customers would be able to analyse a much wider range of content as they will not be restricted to the 12 languages for which Expert System has created knowledge graphs. We understand that the main way the two software solutions could be used together would be to use SDL's software to translate all documents into a central language, eg English, before feeding the output into Cogito for semantic analysis.

## Valuation: Reflects growth potential

Compared to a diverse set of peers, Expert System is forecast to grow faster but is less profitable. Based on EV/Sales, it is trading at a premium to Italian peers and at a discount to all other peer groups. On an EV/EBITDA basis, it is trading at a premium to Italian and enterprise search and information management peers, and at a discount to data analytics peers. Evidence that recent investment is accelerating revenue growth would be a key driver of share price upside once a more normal business environment resumes. Progress towards operating profitability and cash generation should also provide support.

Software & comp services

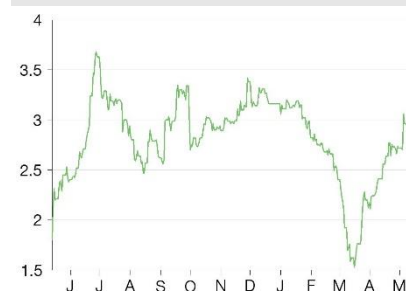
13 May 2020

Price **€2.86**

Market cap **€118m**

Net debt (€m) at end FY19	2.8
Shares in issue	41.1m
Free float	73%
Code	EXSY
Primary exchange	AIM Italia
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	18.7	3.6	50.5
Rel (local)	19.0	45.8	79.4
52-week high/low	€3.68	€1.53	

### Business description

Expert System has developed and patented an AI-based technology platform that extracts useful information from unstructured text using a unique mix of natural language understanding and machine learning algorithms and applies it to verticals such as enterprise search, customer experience management and big data analytics.

### Next events

Shareholders meeting	26 June 2020
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**Exhibit 1: Financial summary**

	€'000s	2015	2016	2017	2018	2019	2020e	2021e
31-December		IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP	IT GAAP
<b>PROFIT &amp; LOSS</b>								
Revenue		19,368	25,057	27,783	30,457	33,712	35,465	39,702
EBITDA		1,463	(2,245)	1,711	4,638	5,459	5,069	6,933
Operating Profit (before amort. and except.)		(1,226)	(5,941)	(3,189)	(662)	(312)	(1,199)	563
Intangible Amortisation		(2,549)	(2,608)	(2,608)	(2,567)	(2,567)	(855)	0
Exceptionals		0	0	(700)	0	0	0	0
Other		0	0	0	0	0	0	0
Operating Profit		(3,775)	(8,549)	(6,496)	(3,229)	(2,878)	(2,054)	563
Net Interest		213	(156)	(2,191)	97	(102)	(782)	(782)
Profit Before Tax (norm)		(1,013)	(6,097)	(5,380)	(565)	(413)	(1,981)	(219)
Profit Before Tax (reported)		(3,562)	(8,705)	(8,687)	(3,131)	(780)	(2,836)	(219)
Tax		277	579	348	(650)	(203)	284	22
Profit After Tax (norm)		(934)	(5,692)	(5,164)	(508)	(521)	(1,783)	(197)
Profit After Tax (reported)		(3,284)	(8,126)	(8,339)	(3,781)	(983)	(2,553)	(197)
Average Number of Shares Outstanding (m)		22.8	25.8	28.1	35.8	38.6	40.8	41.1
EPS - normalised (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.3)	(4.4)	(0.5)
EPS - normalised and fully diluted (c)		(4.1)	(22.0)	(18.3)	(1.4)	(1.3)	(4.4)	(0.5)
EPS - (IFRS) (c)		(14.4)	(31.5)	(29.6)	(10.6)	(2.5)	(6.3)	(0.5)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		7.6	-9.0	6.2	15.2	16.2	14.3	17.5
Adj Operating Margin (%)		-6.3	-23.7	-11.5	-2.2	-0.9	-3.4	1.4
<b>BALANCE SHEET</b>								
Fixed Assets		20,301	20,379	18,864	16,655	14,708	14,185	14,415
Intangible Assets		18,539	18,372	16,944	14,734	13,092	12,582	12,839
Tangible Assets		916	915	792	715	702	689	661
Investments		846	1,092	1,128	1,206	915	915	915
Current Assets		42,588	37,012	37,634	38,004	51,495	52,890	52,930
Stocks		1,797	627	99	109	59	59	59
Debtors		10,228	10,233	12,384	15,792	20,447	22,901	25,649
Cash		11,249	9,063	11,235	7,883	21,647	20,305	17,575
Other		19,314	17,088	13,916	14,220	9,342	9,626	9,648
Current Liabilities		(20,517)	(22,679)	(19,480)	(21,170)	(22,839)	(23,264)	(23,731)
Creditors		(15,082)	(16,459)	(14,104)	(15,511)	(16,945)	(17,370)	(17,837)
Short term borrowings		(5,435)	(6,219)	(5,376)	(5,659)	(5,893)	(5,893)	(5,893)
Long Term Liabilities		(22,227)	(18,275)	(17,742)	(18,411)	(22,464)	(22,464)	(22,464)
Long term borrowings		(18,240)	(15,252)	(14,683)	(14,811)	(18,588)	(18,588)	(18,588)
Other long-term liabilities		(3,987)	(3,023)	(3,060)	(3,600)	(3,876)	(3,876)	(3,876)
Net Assets		20,145	16,437	19,276	15,077	20,901	21,348	21,151
<b>CASH FLOW</b>								
Operating Cash Flow		2,738	2,088	(1,921)	2,583	3,144	3,016	4,628
Net Interest		(324)	(155)	(626)	(441)	(694)	(758)	(758)
Tax		(1,576)	0	0	0	0	0	0
Capex		(20,045)	(6,378)	(6,321)	(5,830)	(6,401)	(6,600)	(6,600)
Acquisitions/disposals		3,045	46	1,275	(76)	7,189	0	0
Financing		6,573	4,418	11,178	0	7,000	3,000	0
Dividends		0	0	0	0	0	0	0
Net Cash Flow		(9,588)	18	3,585	(3,764)	10,237	(1,342)	(2,730)
Opening net debt/(cash)		2,839	12,426	12,408	8,824	12,587	2,834	4,176
HP finance leases initiated		0	0	0	0	0	0	0
Other		0	0	0	0	(484)	0	(0)
Closing net debt/(cash)		12,426	12,408	8,824	12,587	2,834	4,176	6,906

Source: Expert System, Edison Investment Research

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