

Expert System

Acquisition

Transformational acquisition

Expert System has signed an agreement to acquire French text analytics company TEMIS for €12m EV (€4m cash, €1m debt acquired and €7m in shares). It has an impressive customer base that includes BNP Paribas, Reed Elsevier and BASF and would extend Expert System's geographic reach to France, Germany and Canada if the deal is finalised. The transaction values TEMIS at a large discount to Expert System's and therefore the re-rating alone could result in up to 36% upside in Expert's share price.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	11.6	1.5	4.6	0.0	48.6	N/A
12/13	11.1	0.5	0.8	0.0	N/A	N/A
12/14	13.0	0.7	0.4	0.0	N/A	N/A
12/15e	21.4	1.7	4.7	0.0	47.6	N/A

Note: *PBT and EPS (fully diluted) are normalised, excluding acquired intangible amortisation, exceptional items and share-based payments. FY12 and FY13 exclude subsidiaries. FY14 and FY15e exclude ADmantX, but include Expert System USA.

Complementary verticals, geographies and tech

TEMIS's technology offers similar functionality to Expert System's, but is a more standardised solution that customers can deploy off the shelf. It therefore nicely complements Expert's high-quality but bespoke offering. With the additional geographies in which TEMIS operates, the combined group would be able to provide services to the whole of Western Europe and North America. TEMIS's strength in life sciences and publishing would also round off Expert's advantage in defence, oil and gas and financing.

Financial results in line with expectations

Expert System's FY14 results were published last week, with revenue 2.6% ahead and operating profit 22% ahead of forecast. The key value driver remains growth in sales of off-the-shelf software and TEMIS's standardised solution should therefore help accelerate that strategy. The acquisition is subject to approval by shareholders who are expected to meet by the end of June. We will update our forecasts following the outcome of that meeting.

Valuation: 35% upside from multiples arbitrage alone

The implied enterprise value of TEMIS following this transactions is €12m, which is 1.3x expected FY14 sales and 7.3x EBITDA (adjusted for Italian GAAP) compared to 3.4x EV/Sales and 19.2x EBITDA for Expert System. If TEMIS, once consolidated into Expert System, were to trade on similar multiples (which is justifiable given its similar product range and target markets) it could add €27-31m to the enterprise value of Expert System and a €24-28m boost to Expert's market cap. The shares issued for the transaction would increase share count by 14% and the upside in price per share would therefore be commensurately diluted, but would still be substantial at c 36%.

Software & comp services

5 June 2015

Price €2.25
Market cap €49m

Net cash (€m) at 31 December 2014	5.5
Shares in issue	21.95m
Free float	62.5%
Code	EXSY
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.7	(3.3)	10.7
Rel (local)	0.1	(8.6)	2.2
52-week high/low		€2.4	€1.7

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, advertising and big data analytics.

Next events

Shareholder meeting to approve transaction	June 2015
Annual financial statements	July 2015
Mid-year financial statements	October 2015

Analysts

Tom Grady	+44 (0)20 3077 5767
Moirra Daw	+44 (0)20 3077 5700

tech@edisongroup.com

[Edison profile page](#)

Review of results

Exhibit 1 provides a summary of the FY14 results, which were slightly better (although within the margin of error) than forecast. We will review our forecasts if the transaction is approved at the shareholders meeting, which is expected to take place by the end of June. Until then, our forecasts remain unchanged.

Exhibit 1: Review of results				
	FY14 actual	FY14e	Var	Var (%)
Revenue	13.0	12.7	0.3	2.6
Operating costs	(10.7)	(10.5)	(0.2)	1.8
D&A	(1.7)	(1.7)	(0.0)	1.8
Operating profit	0.6	0.5	0.1	21.9
Net finance costs	0.1	(0.4)	0.5	(123.9)
EBT	0.7	0.1	0.6	424.4
Tax	(0.6)	(0.4)	(0.2)	69.1
Net income	0.1	(0.2)	0.3	(139.0)
Closing net cash	5.5	2.4	3.1	131.6

Source: Edison Investment Research, company accounts

Exhibit 2: Financial summary

	€'000s	2012	2013	2014	2015e
31-December		IT GAAP	IT GAAP	IT GAAP	IT GAAP
PROFIT & LOSS					
Revenue		11,593	11,109	13,045	21,371
Cost of Sales		0	0	0	0
EBITDA		2,655	2,014	2,339	4,144
Operating Profit (before amort. and except.)		1,765	916	609	2,000
Intangible Amortisation		0	0	0	0
Exceptionals		(319)	45	0	0
Other		0	0	0	0
Operating Profit		1,446	961	609	2,000
Net Interest		(298)	(376)	88	(348)
Profit Before Tax (norm)		1,467	539	697	1,652
Profit Before Tax (reported)		1,148	584	697	1,652
Tax		(452)	(359)	(609)	(615)
Profit After Tax (norm)		1,015	180	89	1,037
Profit After Tax (reported)		697	225	89	1,037
Average Number of Shares Outstanding (m)		22.0	22.0	22.0	22.0
EPS - normalised (c)		4.6	0.8	0.4	4.7
EPS - normalised and fully diluted (c)		4.6	0.8	0.4	4.7
EPS - (IFRS) (c)		3.2	1.0	0.4	4.7
Dividend per share (p)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		22.9	18.1	17.9	19.4
Adj Operating Margin (%)		15.2	8.2	4.7	9.4
BALANCE SHEET					
Fixed Assets		6,691	9,905	12,883	13,139
Intangible Assets		1,111	2,462	4,641	4,897
Tangible Assets		635	606	692	692
Investments		4,945	6,836	7,549	7,549
Current Assets		12,767	15,491	25,519	24,650
Stocks		722	476	1,563	1,563
Debtors		5,488	5,820	7,866	11,247
Cash		2,065	2,967	13,224	8,974
Other		4,492	6,228	2,866	2,866
Current Liabilities		(8,871)	(10,333)	(10,093)	(9,315)
Creditors		(6,538)	(7,350)	(7,153)	(6,375)
Short term borrowings		(2,332)	(2,984)	(2,940)	(2,940)
Long Term Liabilities		(4,642)	(5,172)	(11,350)	(10,479)
Long term borrowings		(4,642)	(5,172)	(4,799)	(4,799)
Other long term liabilities		0	0	(6,552)	(5,680)
Net Assets		5,945	9,890	16,958	17,995
CASH FLOW					
Operating Cash Flow		1,899	2,979	4,210	(887)
Net Interest		(298)	(376)	88	(348)
Tax		(452)	(359)	(609)	(615)
Capex		(3,095)	(2,384)	(4,128)	(2,400)
Acquisitions and Investment in subs/disposals		0	0	(1,645)	0
Financing		0	0	12,766	0
Dividends		0	(180)	0	0
Net Cash Flow		(1,946)	(320)	10,683	(4,250)
Opening net debt/(cash)		6,352	4,909	5,189	(5,485)
HP finance leases initiated		0	0	0	0
Other		3,389	40	(8)	0
Closing net debt/(cash)		4,909	5,189	(5,485)	(1,236)

Source: Edison Investment Research, Expert System

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Expert System and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2015. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.