

19th January 2016

TMT

Software AG

Price EUR25.72

Preliminary FY15 results above expectations, FY16 guidance exceeding hopes

Fair Value EUR33 (+28%)

BUY

| | |
|----------------------------|-------------|
| Bloomberg | SOW GR |
| Reuters | SOWG.DE |
| 12-month High / Low (EUR) | 28.0 / 21.6 |
| Market Cap (EUR) | 2,032 |
| Ev (BG Estimates) (EUR) | 1,975 |
| Avg. 6m daily volume (000) | 209.8 |
| 3y EPS CAGR | 8.6% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | -0.6% | 2.9% | 1.4% | -2.6% |
| Softw. & Comp. | -5.4% | 3.4% | -2.0% | -6.6% |
| DJ Stoxx 600 | -9.0% | -9.5% | -19.0% | -10.2% |

| YEnd Dec. (€m) | 2014 | 2015e | 2016e | 2017e |
|----------------|-------|-------|-------|-------|
| Sales | 857.8 | 865.7 | 886.8 | 920.4 |
| % change | | 0.9% | 2.4% | 3.8% |
| EBITDA | 250 | 266 | 281 | 300 |
| EBIT | 238.0 | 252.9 | 266.5 | 285.4 |
| % change | | 6.3% | 5.4% | 7.1% |
| Net income | 164.5 | 176.6 | 187.2 | 201.7 |
| % change | | 7.4% | 6.0% | 7.7% |

| | 2014 | 2015e | 2016e | 2017e |
|------------------|------|-------|-------|-------|
| Operating margin | 27.7 | 29.2 | 30.1 | 31.0 |
| Net margin | 12.9 | 15.4 | 16.7 | 17.7 |
| ROE | 10.9 | 12.8 | 12.9 | 12.9 |
| ROCE | 16.6 | 18.8 | 20.0 | 22.0 |
| Gearing | 7.0 | -5.4 | -16.7 | -26.7 |

| (€) | 2014 | 2015e | 2016e | 2017e |
|---------------|-------|-------|-------|-------|
| EPS | 1.86 | 2.19 | 2.21 | 2.38 |
| % change | - | 18.0% | 0.8% | 7.7% |
| P/E | 13.9x | 11.8x | 11.7x | 10.8x |
| FCF yield (%) | 5.9% | 8.8% | 8.6% | 9.2% |
| Dividends (€) | 0.50 | 0.55 | 0.60 | 0.65 |
| Div yield (%) | 1.9% | 2.1% | 2.3% | 2.5% |
| EV/Sales | 2.5x | 2.3x | 2.1x | 1.8x |
| EV/EBITDA | 8.4x | 7.4x | 6.6x | 5.7x |
| EV/EBIT | 8.8x | 7.8x | 6.9x | 5.9x |

This morning Software AG pre-announced FY15 results above expectations thanks to an outstanding Q4 in licence sales for the DBP (Digital Business Platform) division, while sales in the A&N (Adabas & Natural) division, and Services, were in line with our forecasts. The strong DBP licence sales and cost control boosted the non-IFRS operating margin to 29.7%, while we expected 29.1%. FY16 company guidance is positive, with DBP growth expected to accelerate as the transformation of the sales approach bears fruit, A&N to erode moderately in view of solid customer retention, and the non-IFRS operating margin to exceed all hopes at 30-31%. We expect the share price to react positively.

ANALYSIS

- FY15 preliminary results above expectations. Based on preliminary figures, FY15 sales rose 1.8% to EUR873.1m, 1% above our forecast (EUR865.7m) and the consensus (EUR863.6m). Non-IFRS operating profit was up 8.3% to EUR259.1m or 29.7% of sales (+1.8ppt) or 3% ahead of our est. (EUR251.7m or 29.1%), 2% above consensus (EUR253.2m or 29.3%), and significantly higher than company guidance (28-29%). IFRS EBIT was up 19% to EUR209.4m (BG est.: EUR205.2m; consensus: EUR204.3m). Licence sales were up 0.7% to EUR271.9m or 3% above our est. (EUR265m) and the consensus (EUR265.2m), while maintenance was up 9.6%.
- Details by division. 1) For the Digital Business Platform (DBP) division, Product sales were up 9.4% (or +2% at cc, vs. company guidance of 0%/+3% at cc) to EUR431.5m (BG est.: EUR426m, consensus: EUR422.9m), of which EUR183.5m (+2.6%) in licences - with an impressive +22.9% in Q4 - with good progress in the sales approach transformation, and +15% on maintenance; 2) For the A&N (Adabas & Natural) division, Product sales were up 1.1% (or -5% at cc, vs. company guidance -8%/-4% at cc) to EUR248m (BG est.: EUR247.7m; consensus: EUR247.6m), of which EUR88.4m (-2.9% lfl) in licences and +3.4% on maintenance; 3) For Consulting, sales were down 11.2% (-1.1% at constant scope) to EUR193.6m (BG est.: EUR191.9m; consensus: EUR193.1m) with a business line margin of 11.3% (+2.7ppt) thanks to the divestment of non-strategic services.
- FY16 guidance exceeding hopes. For FY16, Software AG forecasts DBP Product sales up 5-10% at cc, A&N Product sales at -8%/-4% at cc, and a non-IFRS operating margin of 30-31%. These figures are globally above our forecasts, as we expected +9.6% for DBP, -7.9% for A&N, and a non-IFRS operating margin of 30.1%. The FY16 consensus average anticipated Product revenues up +7.2% on DBP and down 6.6% on A&N, and a non-IFRS operating profit of 29.5%.

VALUATION

- Software AG's shares are trading at est. 6.9x 2016 and 5.9x 2017 EV/EBIT multiples.
- Net debt on 30th September 2015 was EUR1.7m (net gearing: 0%).

NEXT CATALYSTS

- Conference call today at 9am CET / 8am BST / 3am EDT (UK: +44 20 30 59 81 28; USA: +1 631 302 65 47).

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| | |
|---------|--|
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