26th February 2016

TMT

Axway Software

Price EUR19.60

FY15 conference call feedback: clarifying 2018 ambitions, 'reinventing' the company

Fair Value EUR24 (+22%) **NEUTRAL**

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 17.6
Market Cap (EUR)	403
Ev (BG Estimates) (EUR)	393
Avg. 6m daily volume (000)	10.20
3y EPS CAGR	3.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-16.6%	-19.8%	-13.8%	-19.7%
Softw.& Comp.	-3.7%	-6.8%	8.2%	-6.7%
DJ Stoxx 600	-2.9%	-14.3%	-8.4%	-10.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	284.7	308.5	330.1	355.4
% change		*8.4%*	*7.0%*	*7.6%*
EBITDA	52.3	48.9	53.8	60.3
EBIT	27.4	32.5	41.3	47.8
% change		*18.5%*	*27.3%*	*15.7%*
Net income	41.1	37.2	41.3	46.4
% change		*-9.4%*	*11.1%*	*12.2%*

	2015	2016e	2017e	2018e
Operating margin	15.6	14.8	15.3	16.0
Net margin	9.8	8.3	9.8	10.6
ROE	8.2	7.2	8.5	9.1
ROCE	15.3	11.3	12.2	13.9
Gearing	-10.5	-2.8	-11.7	-20.7

(EUR)	2015	2016e	2017e	2018e
EPS	1.94	1.73	1.91	2.15
% change	-	*-11.0%*	*10.6%*	*12.2%*
P/E	10.1x	11.3x	10.2x	9.1x
FCF yield (%)	10.7%	6.5%	10.1%	11.4%
Dividends (EUR)	0.40	0.40	0.39	0.46
Div yield (%)	2.0%	2.0%	2.0%	2.3%
EV/Sales	1.3x	1.3x	1.1x	0.9x
EV/EBITDA	7.0x	8.0x	6.7x	5.3x
EV/EBIT	8.3x	8.6x	7.1x	5.6x

We reiterate our Neutral rating following the conference call held yesterday, and have fine-tuned our adj. EPS ests. (-3% for 2016, -2% for 2017 and +1% for 2018). Management provided more details on Axway's 2018 ambitions, but needs to deliver now. We consider the aim to double revenues over 2014-2018 an ambitious scenario, which relies on high expectations for licence sales growth, while the margin will be burdened by Appcelerator in 2016 and should recover thereafter.

ANALYSIS

- **High ambitions: doubling revenues between 2014 and 2018**. By 2018, Axway aims to double in size, preserve margins at current scope (incl. Appcelerator), achieve average growth of 30% p.a. in Ecosystem Engagement revenue (analytics, API management, community management, identity, mobile app development), keep its historic leadership in France, and be active in M&A both in the engagement and foundation domains. It is important to highlight that doubling size in terms of revenues uses 2014, not 2015, as a baseline, with clear emphasis put to the U.S. As such, Axway targets c. EUR520m revenues in 2018, i.e. an average 22% growth p.a. over 2015-2018, of which half organic (i.e. +11% p.a.) and half from acquisitions (EUR130m revenues). In order to reach 10-11% lfl revenue growth p.a., based on our assumptions of +7%/+8% p.a. on maintenance and +3%/+4% p.a. on services, we deem Axway has to deliver an impressive +15%/+20% p.a. on licence revenues to be in line with plan, which is an ambitious scenario in our view.
- **Margin dilution in 2016 due to Appcelerator**. A stable operating margin over 2015-2018 means delivering an average operating margin of 15.6% over 2015-2018. Due to the acquisition of Appcelerator - which we understand was loss-making at c. EUR4-4.5m for an est. EUR9-10m revenues in 2015 -, Axway is very likely to see a fall of its operating margin in 2016 - but on a standalone basis it is likely to rise -, then pick up again. If we assume that, excluding Appcelerator, Axway may reach a margin of 16.1% (+0.5ppt) - thanks to R&D and sales rationalisation - and that Appcelerator posts EUR13m revenues for a EUR2m loss, the acquisition of Appcelerator would be dilutive by 1.3ppt to Axway's operating margin in 2016. Beyond 2016, at constant scope, Axway could keep increasing the margin, and, in order to reach an average 15.6% during the 3-year period, we expect the company could exit in 2018 with a 16% margin.
- **Where does Axway invest in Digital?** 1). Axway has increased R&D investment by 60% in API management (Dublin, new team in Paris), 36% in Analytics/Operational Intelligence (starting in Bucharest), 275% in Community Management (Phoenix, Annecy) and 60% in Track & Trace (Noida, Annecy); 2). The sales pipeline is weighted towards the US (41%) and France (27%), and, on a product basis, Digital Engagement (45%) and Managed File Transfer (28%), while B2B Integration accounts for only 13%; 3). Marketing campaigns have been oriented towards "Road to Digital" for digital business enablement, "Ready for Digital" for integration and "Digital Business Innovator" for the ecosystem; 4). Axway is also undergoing its own internal digital transformation.
- **Other topics.** 1). Axway had virtually no debt left at the end of 2015, the EUR125m credit line has been extended to mid-2020 and is available for paying acquisitions, and the company has the ability to increase the financial leverage up to 3x EBITDA; 2). API management and Operational Intelligence account for 25% of licence revenues; 3). Cloud revenues were up 44% to EUR10m.

VALUATION

- Axway's shares are trading at est. 8.6x 2016 and 7.1x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR35.7m (net gearing: -11%).

NEXT CATALYSTS

Q1 16 sales on 27th April after markets close.

Click here to download document

Analyst :
Gregory Ramirez
33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 62,2% NEUTRAL ratings 28,9% SELL ratings 8,9%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	**YES**
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	**YES**
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC. 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..