

Dassault Systèmes

Price EUR68.66

Analysts' meeting and conference call feedback: between confidence and doubt

Fair Value EUR63 vs. EUR65 (-8%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 57.7
Market Cap (EURm)	17,627
Ev (BG Estimates) (EURm)	15,695
Avg. 6m daily volume (000)	302.3
3y EPS CAGR	12.5%

We reiterate our Sell rating and cut our DCF-derived fair value to EUR63 from EUR65, as we have reduced our adj. EPS ests. by 2% for 2016 and 4% for 2017-18 in order to make our forecasts converging with FY 2016 company guidance (sales up 6-7% lfl and an op. margin of c. 31%). Although Dassault Systèmes has a history of exceeding quarterly guidance, we deem the outlook for 2016 is more at risk than for previous years – especially since company guidance is back-end loaded.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	-5.8%	-1.7%	-6.9%
Softw. & Comp.	-3.3%	-4.1%	0.2%	-6.1%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,840	3,089	3,379	3,705
% change		8.8%	9.4%	9.6%
EBITDA	900	1,024	1,142	1,286
EBIT	633.2	728.1	842.9	983.8
% change		15.0%	15.8%	16.7%
Net income	613.2	712.8	788.5	880.7
% change		16.2%	10.6%	11.7%

	2015	2016e	2017e	2018e
Operating margin	29.9	31.3	32.0	33.0
Net margin	14.2	15.6	16.5	17.6
ROE	11.5	12.5	13.1	13.7
ROCE	29.1	37.1	46.2	59.4
Gearing	-38.7	-50.2	-60.2	-68.9

(€)	2015	2016e	2017e	2018e
EPS	2.36	2.73	3.01	3.36
% change	-	15.7%	10.5%	11.5%
P/E	29.1x	25.2x	22.8x	20.4x
FCF yield (%)	3.3%	4.2%	4.6%	5.1%
Dividends (€)	0.43	0.47	0.55	0.64
Div yield (%)	0.6%	0.7%	0.8%	0.9%
EV/Sales	5.7x	5.1x	4.5x	3.9x
EV/EBITDA	18.1x	15.3x	13.2x	11.2x
EV/EBIT	19.2x	16.2x	13.9x	11.7x

• **FY16 growth to be back-end loaded.** For Q1 2016, DS forecasts sales up 3-5% lfl, due to a strong base of comparison with new licence overperformance of c. EUR11m in Q1 15, and as the more volatile economic environment is pushing clients to spend the majority of their budget in H2. An acceleration is expected over the year, and for FY16, DS anticipates sales up 6-7% lfl – which denotes no acceleration compared to 2015 (+7% lfl). As for 2015, new licence sales are expected to rise in double-digits lfl (+11% lfl for 2015), while recurring revenues are likely to be in line with last year's trend (+7%) with a recovery expected for licence rentals in Aerospace & Defence while maintenance, which made strong progress during the last two years, especially on the SolidWorks side (the renewal rate rose to 92% from 85%), is likely to soften its growth rate. Services are likely to be flat lfl given DS' trend to hand over more implementation work to systems integrators with the 3DEXperience platform. Services were up 3% lfl in Q415, while company guidance was -6%, thanks to a strong quarter for Quintiq and the completion of implementations.

• **Margins stalling in 2016: investing for growth acceleration in 2017 and beyond.** Dassault Systèmes is convinced product development is at the advent of a new era, which will radically change the way products are designed and manufactured. This will serve as a catalyst for selling more industry solutions. 80 customers went live in 2015 on the 3DEXperience platform, and the V6 architecture accounted for 29% of new licence revenues (+5ppt) in 2015, with 36% in H2 15 (+16ppt vs. H1), and is likely to exceed 33% in 2016. As such, management has decided to accelerate investment in R&D and sales channels in order to underpin customer adoption. This justifies the stable non-IFRS operating margin guidance for 2016 at c. 31%, embedding a 0.5ppt increase excluding fx and a 0.5ppt headwind from fx. We understand that sales growth will accelerate from 2017, yet it is unclear if the 9% lfl CAGR expected for 2014-2019 will be done.

• **Update on cloud solutions.** Cloud solutions did not generate significant sales (c. EUR5m for 2015), and as opposed to Autodesk customers will not be forced to pay subscriptions instead of keeping the licence + maintenance model. On SolidWorks, the company launched Xdesign, a full SaaS product design offering based on the 3DEXperience platform. A new pricing model will be based on a primary licence charge, then an annual subscription fee.

• **Acquisitions: eyes on the future, not on solutions from the past.** With gross cash of almost EUR2.4bn, DS has strong firepower to make acquisitions. However, it has no intention of acquiring market share or solutions from the past. As such, management denied it was in competition with Siemens for the acquisition of CD-adapco in CFD (computational fluid dynamics), for USD970m or 4.8x sales. Potential targets may be sizeable but will be focused on technologies or industries which are complementary with DS, provided that they match the 3DEXperience strategy. One area that the company admits it is interested in is AEC (Architecture Engineering & Construction).

VALUATION

- Dassault Systèmes' shares are trading at est. 16.2x 2016 and 13.9x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR1,351.3m (net gearing: -39%).

NEXT CATALYSTS

Q1 2016 results on 21st April before markets open.

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