FOCUS
TMT CONFERENCE

17th March 2016

Axway Software

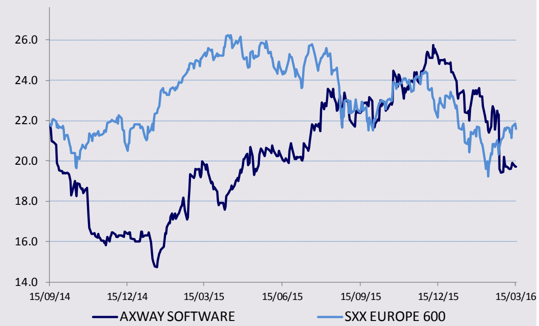
The remedial test

TMT

Fair Value EUR24 (price EUR19.79) **NEUTRAL**

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 17.6
Market capitalisation (EURm)	407
Enterprise Value (BG estimates EURm)	397
Avg. 6m daily volume ('000 shares)	10.10
Free Float	27.2%
3y EPS CAGR	3.4%
Gearing (12/15)	-10%
Dividend yield (12/16e)	2.02%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	284.68	308.50	330.13	355.36
EBITA EURm)	44.5	45.6	50.4	56.9
Op.Margin (%)	15.6	14.8	15.3	16.0
Diluted EPS (EUR)	1.94	1.73	1.91	2.15
EV/Sales	1.3x	1.3x	1.1x	0.9x
EV/EBITDA	7.1x	8.1x	6.7x	5.3x
EV/EBITA	8.3x	8.7x	7.2x	5.7x
P/E	10.2x	11.4x	10.3x	9.2x
ROCE	15.3	11.3	12.2	13.9



During meetings with Axway at our TMT conference, much of the time was spent clarifying the 2018 ambitions announced for the FY15 results on 25th February. The goals set by the management are ambitious on growth, while the company has EUR125m credit lines for making acquisitions. Given the challenging targets, we deem investors will wait and see before buying the stock again despite low valuation multiples.

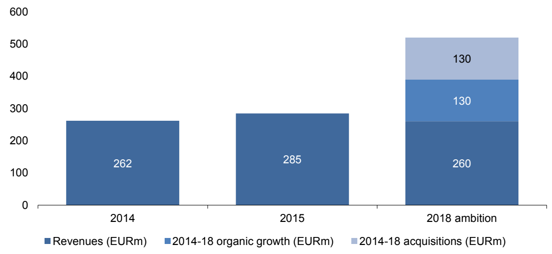
- **Clarifying 2018 ambitions**. For 2018, Axway aims at doubling its size compared to 2014 while preserving its non-IFRS operating margin before the next acquisitions. The goal is to reach EUR520m revenues in 2018 (o/w EUR130m from organic growth and EUR130m from acquisitions) while the non-IFRS op. margin over the 2016-2018 period would be, on average and excluding future acquisitions, similar to that of 2015 (15.6%).
- **Ambitious revenue growth goals**. These goals are translating, according to Axway, into 7-8% lfl revenue CAGR over 2016-18. We calculate that a 30% revenue CAGR in the "Ecosystem Engagement" segment (25-30% of licence sales) implies a low- to mid-single digit CAGR in the "Integration Foundation" segment (70-75% of licence sales). These are a challenge but growth will essentially be driven by the US.
- **Sizeable acquisition capacity**. With EUR125m of available credit lines, Axway considers it currently has an acquisition capacity of EUR180-200m, while the banking covenants stipulate a net debt/EBITDA limit of 3x. The bulk of future acquisitions will be paid for in cash, but it could be made in shares if a large opportunity arises without generating significant dilution for shareholders. Axway has two kinds of potential acquisition targets in mind: small technological acquisitions with a cloud-based model, or 'legacy' competitors with a sizeable installed base in a specific geography.
- **Comments on the cloud strategy**. In addition, most of Axway's cloud revenues are not cloud native (i.e. pure 'multi-tenant' on a public cloud). Some products - essentially in the Ecosystem Engagement segment - can be ported to a pure cloud version, but this is not the case for MFT or B2B integration products as they were not designed for this.

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

Sector Analyst Team:
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

Axway Software major keys to focus on from the TMT conference

1. One Chart



- **On 25th February, Axway unveiled its new medium-term ambitions.** For 2018, the company aims at doubling its size compared to 2014 (not 2015) while preserving its non-IFRS operating margin before the next acquisitions. In other words, **the goal is to reach EUR520m revenues in 2018 while the non-IFRS op. margin over the 2016-2018 period would be, on average and excluding future acquisitions, similar to that of 2015** (15.6%). Secondary targets include 20% CAGR on licence/cloud sales in the US and 30% sales CAGR in the "Ecosystem Engagement" segment.

- **EUR520m sales in 2018 are planned to be reached through organic growth (EUR130m) and acquisitions (EUR130m)**. According to the Head of IR, Patrick Gouffran, **Axway has to deliver a 7-8% lfl revenue CAGR over 2016-18** - implying a double-digit CAGR on licences/cloud and a 6-8% CAGR on maintenance. We calculate this implies a mid-single digit licence/cloud CAGR in Europe/Asia and a low-single digit CAGR in services. We also calculate that a 30% revenue CAGR in the "Ecosystem Engagement" segment (API management, identity management, mobile app development, analytics: 25-30% of licence sales) implies a low- to mid-single digit CAGR in the "Integration Foundation" segment (managed file transfer, B2B/EDI integration, XML/service-oriented architecture, API integration for IoT and mobile, cloud service integration: 70-75% of licence sales).

- Patrick Gouffran confirmed that **Appcelerator, acquired in January, will be loss-making in 2016 and at breakeven in 2017**. In 2015, Appcelerator generated c. USD10m revenues for a loss above USD4m. **If we consider these losses will be halved in 2016, we estimate Appcelerator's burden to Axway's non-IFRS op. margin at 1.3ppt this year, 0.9ppt in 2017 and 0.4-0.5ppt by 2018**. **As such, a non-IFRS op. margin back to 16% looks possible by 2018, excluding future acquisitions, in our view**. Appcelerator, which markets a mobile app development platform and mobile backend 'as a service' solutions, has a community of 750,000 app developers downloading the software development kit for free (100,000+ apps have been built with Appcelerator and run on 300,000+ devices), and no sales rep in-house to address large corporates. As such, Axway intends to sell Appcelerator products by its own sales teams and address large enterprises through a paid enterprise licence business model.

2. One Sentence

« We certainly have been too vague about our ambitions for 2018. »

Patrick Gouffran acknowledges there has been a lot of confusion among investors regarding the communication of Axway's ambitions for 2018, as translated into the 12% share price fall on 25th February. **This needed some clarification on how to reach them since they imply double-digit average lfl licence revenue growth per year**. This looks to be a challenge as Axway had reported **only two years of lfl licence sales growth since 2010** (+1.2% in 2011 and +0.3% in 2013). However, **the CEO, Jean-Marc Lazzari, has put the US at the top of the agenda as a window of opportunity exists for boosting growth in that geography**. Thus, while in the US most of the sales-force has been replaced during the past two years in order to be realigned with the solution-selling approach, the sales territories have been redefined, and the missing key module to the Axway 5 product suite (SecureTransport) made available in June 2015, some competitors (Tibco, Informatica) seem to be less aggressive after their acquisition by private equity firms. **The strong growth posted in the America region in Q4 15 (+12.9% lfl) is an encouraging sign for the future**.

3. One Figure

125

125 is in millions of euros the amount of Axway's available credit lines as of end 2015, until mid-2020. This amount remains intact since early 2016 as Appcelerator was paid through Axway's own cash resources, for an amount we estimate at around USD50m or 5x 2014 revenues. The company's net cash position was EUR35.7m on 31st December 2015. Taking into account future free cash flow, **Axway considers it currently has an acquisition capacity of EUR180-200m, while the banking covenants stipulate a net debt/EBITDA limit of 3x**. This compares with the EUR130m revenues to be acquired by end 2018. The question now is how Axway can acquire companies - especially players with a cloud business model - in cash (financed or not by debt) for an average 1.4-1.5x sales? Patrick Gouffran admits that **if a sizeable M&A opportunity arises it may be paid for in shares**. However, the risk for Axway's major shareholders (Sopra Steria Group 26%, Sopra GMT 22%) of being diluted is not an issue as they largely control the company.

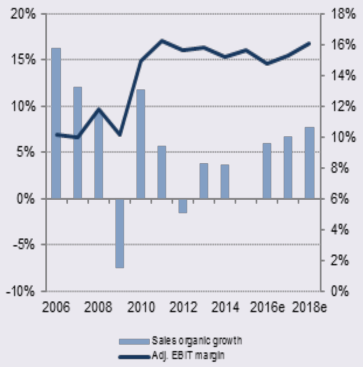
Axway has two kinds of potential acquisition targets in mind: small technological acquisitions with a cloud-based model, or 'legacy' competitors with a sizeable installed base in a specific geography. On the MFT/B2B segment, strong local players are Seeburger (Germany), Primeur (Italy), Indra (Spain) or Ipswitch (USA). Axway's future development on the cloud will be made essentially through acquisitions, as cloud revenues for 2015 (EUR9.9m, or 3% of sales), despite fast growth (+44%), are likely to remain small for a long time. In addition, most of Axway's cloud revenues are not cloud native (i.e. pure 'multi-tenant' on a public cloud). Some products - essentially in the Ecosystem Engagement segment - can be ported to a pure cloud version, but this is not the case for MFT and B2B integration products as they were not designed for this.

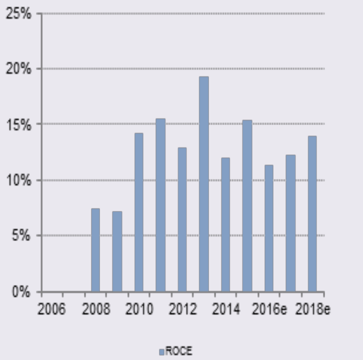
4. How does the Conference impact our Investment Case

Axway's share price has not recovered since 25th February, as we deem investors need to be convinced on the targets set for 2018: for five years now, the company has not posted lfl revenue growth above 3.7% in a year. **Although the meetings held during our TMT conference gave a bit more clarity on how to achieve them in our view, we believe investors will wait for catalysts before buying the stock again despite low valuation multiples**: 1). Axway has to demonstrate its ability to generate at least 7-8% lfl revenue growth; and 2). Acquisitions can be appreciated if they are accretive to EPS and raise the competitiveness of Axway.

Next Catalysts

27/04/2016	**Q1 16 sales (after markets close)**
27/07/2016	**H1 16 results (after markets close) - conference call on 28/07/2016**





Company description

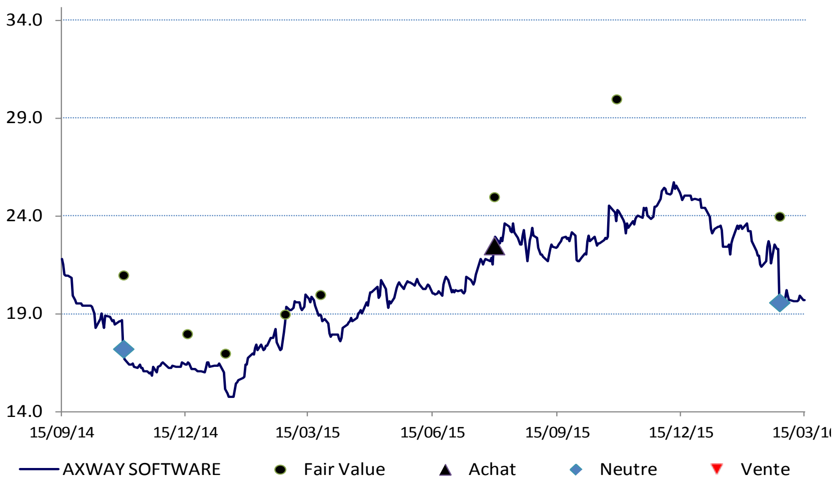
Founded in 2001 from a business created by Sopra Group in 1983, and listed on Euronext Paris since 2011, Axway Software is one of the global leaders in software publishing for governing the flow of data. Its product offering covers two segments: 1). Integration Foundation, which encompasses managed file transfer (MFT), enterprise application integration (EAI), enterprise services bus (ESB), business process management (BPM), B2B data exchange, and the integration of application programming interfaces (API) for mobile and the Internet of Things; 2). Ecosystem Engagement, which encompasses API management, identity federation and validation, mobile app development, and operational intelligence. By geography, 39% of revenues are generated in America, 33% in France, 23% in the Rest of Europe, and 5% in Asia-Pacific. By Industry, 42% of revenues are generated in Financial services, 19% in the Supply chain, 12% with Government, and 9% in Healthcare. Around 19% of group revenues are indirect.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	238	262	285	309	330	355
Change (%)	*5.9%*	*10.1%*	*8.8%*	*8.4%*	*7.0%*	*7.6%*
Ifl change (%)	*3.7%*	*3.6%*	*0.0%*	*6.0%*	*6.6%*	*7.6%*
Adjusted EBITDA	41.4	43.7	52.3	48.9	53.8	60.3
Depreciation & amortisation	(3.9)	(4.0)	(7.8)	(3.3)	(3.4)	(3.4)
Adjusted EBIT	37.5	39.7	44.5	45.6	50.4	56.9
EBIT	27.2	31.3	27.4	32.5	41.3	47.8
Change (%)	*-5.5%*	*15.1%*	*-12.3%*	*18.5%*	*27.3%*	*15.7%*
Financial results	(1.3)	(0.92)	(1.7)	(0.52)	0.53	1.5
Pre-Tax profits	25.8	30.3	25.8	32.0	41.9	49.3
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Tax	9.8	(3.6)	2.1	(6.2)	(9.4)	(11.8)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.20	0.0	0.0	0.0	0.0
Net profit	35.6	26.5	27.9	25.7	32.5	37.5
Restated net profit	43.1	33.6	41.1	37.2	41.3	46.4
Change (%)	*48.2%*	*-21.9%*	*22.0%*	*-9.4%*	*11.1%*	*12.2%*
Cash Flow Statement (EURm)						
Operating cash flows	31.9	36.4	36.3	36.2	44.4	49.5
Change in working capital	(3.5)	11.0	13.3	(3.9)	3.4	4.0
Capex, net	(3.0)	(4.7)	(5.2)	(5.0)	(5.0)	(5.0)
Financial investments, net	(0.36)	(0.04)	(0.10)	0.0	0.0	0.0
Acquisitions, net	(0.29)	(49.7)	(0.01)	(50.0)	0.0	0.0
Dividends	(7.1)	(8.2)	(8.2)	(8.2)	(8.2)	(8.1)
Other	(6.2)	9.4	(41.0)	5.4	0.0	0.0
Net debt	(11.2)	3.1	(35.7)	(10.2)	(44.8)	(85.1)
Free Cash flow	25.3	42.7	44.4	27.3	42.8	48.4
Balance Sheet (EURm)						
Tangible fixed assets	6.3	6.9	7.8	9.7	11.4	13.2
Intangibles assets & goodwill	218	282	293	334	325	317
Investments	1.2	1.4	1.5	1.5	1.5	1.5
Deferred tax assets	30.3	40.7	45.5	45.5	45.5	45.5
Current assets	86.9	103	96.4	111	117	123
Cash & equivalents	49.2	44.6	44.7	44.7	79.3	120
Total assets	392	479	489	546	580	620
Shareholders' equity	258	299	341	358	382	412
Provisions	9.4	6.6	6.2	10.2	10.2	10.2
Deferred tax liabilities	5.4	9.5	9.5	9.5	9.5	9.5
L & ST Debt	38.0	47.7	9.0	34.5	34.5	34.5
Current liabilities	80.9	116	123	134	143	154
Total Liabilities	392	479	489	546	580	620
Capital employed	247	302	305	348	338	327
Ratios						
Operating margin	15.77	15.17	15.63	14.77	15.28	16.02
Tax rate	(37.77)	12.02	(8.16)	19.48	22.45	23.89
Net margin	14.98	10.12	9.79	8.34	9.84	10.56
ROE (after tax)	13.78	8.87	8.18	7.19	8.49	9.11
ROCE (after tax)	19.25	11.92	15.31	11.29	12.19	13.91
Gearing	(4.33)	1.05	(10.48)	(2.84)	(11.71)	(20.67)
Pay out ratio	22.84	30.98	29.53	31.97	25.00	25.00
Number of shares, diluted	20.46	20.57	21.11	21.50	21.60	21.60
Data per Share (EUR)						
EPS	1.75	1.29	1.35	1.25	1.58	1.82
Restated EPS	2.11	1.64	1.94	1.73	1.91	2.15
% change	*48.4%*	*-22.3%*	*18.9%*	*-11.0%*	*10.6%*	*12.2%*
EPS bef. GDW	2.11	1.64	1.94	1.73	1.91	2.15
BVPS	12.63	14.51	16.13	16.65	17.70	19.07
Operating cash flows	1.56	1.77	1.72	1.68	2.06	2.29
FCF	1.24	2.07	2.10	1.27	1.98	2.24
Net dividend	0.40	0.40	0.40	0.40	0.39	0.46

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Axway Software



Ratings

Date	Ratings	Price
25/02/16	NEUTRAL	EUR22.29
30/07/15	BUY	EUR21.48
30/10/14	NEUTRAL	EUR18.66
13/11/13	BUY	EUR22.9

Target Price

Date	Target price
25/02/16	EUR24
25/02/16	EUR24
28/10/15	EUR30
30/07/15	EUR25
24/03/15	EUR20
26/02/15	EUR19
13/01/15	EUR17
16/12/14	EUR18
30/10/14	EUR21
28/07/14	EUR26
29/04/14	EUR33
20/02/14	EUR32
10/01/14	EUR29
13/11/13	EUR28

Page left blank intentionally

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 64,4%   NEUTRAL ratings 28,1%   SELL ratings 7,4%

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

BRYAN, GARNIER & CO

London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by	Financial Conduct Authority (FCA)		Regulated by the	Fax +91 11 2621 9062
the Financial Conduct	and the Autorité de Contrôle		FINMA	
Authority (FCA)	prudential et de resolution (ACPR)			