

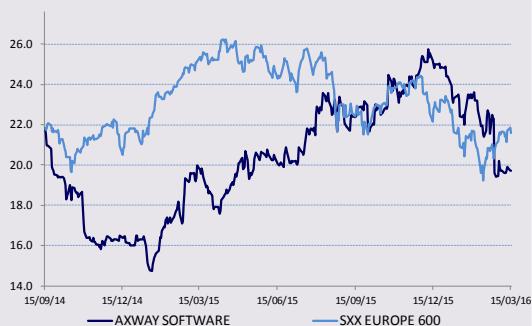
FOCUS
TMT CONFERENCE

17th March 2016

TMT

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



Axway Software

The remedial test

Fair Value EUR24 (price EUR19.79)

NEUTRAL

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.

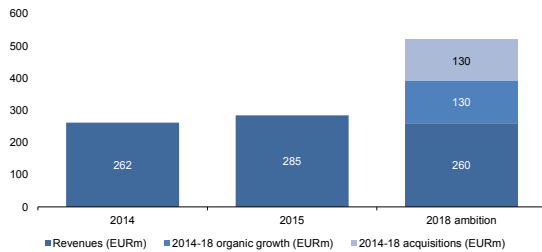
■ **Sizeable acquisition capacity.** With EUR125m of available credit lines, Axway considers it currently has an acquisition capacity of EUR180-200m, while the banking covenants stipulate a net debt/EBITDA limit of 3x. The bulk of future acquisitions will be paid for in cash, but it could be made in 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.

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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.

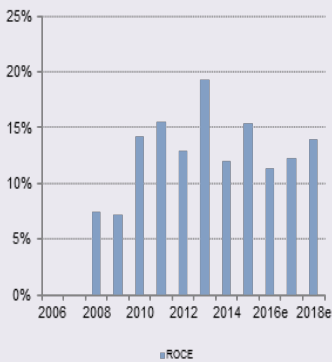
4. How does the Conference impact our Investment Case

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

Axway Software


Company description

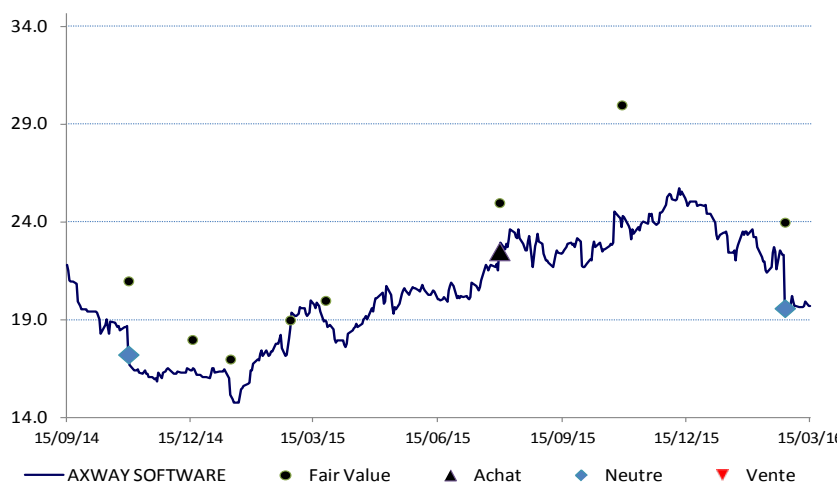
Founded in 2001 from a business created by Sopra Group in 1983, and listed on Euronext Paris since 2011, Axway Software is one of the global leaders in software publishing for governing the flow of data. Its product offering covers two segments: 1). Integration Foundation, which encompasses managed file 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
<i>Change (%)</i>		5.9%	10.1%	8.8%	8.4%	7.0%	7.6%
<i>fl change (%)</i>		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
<i>Change (%)</i>		-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
<i>Change (%)</i>		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
<i>% change</i>		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

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SELL ratings 7,4%

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