

Axway Software

Price EUR19.79

The remedial test (focus report will release today)

Fair Value EUR24 (+21%)

NEUTRAL

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 17.6
Market Cap (EURm)	407
Ev (BG Estimates) (EURm)	397
Avg. 6m daily volume (000)	10.10
3y EPS CAGR	3.4%

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.

ANALYSIS

- 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

VALUATION

- Axway's shares are trading at est. 8.7x 2016 and 7.2x 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.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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