

Axway Software

Price EUR19.44

Q1 16 sales below our expectations, focused on the transformation plan

Fair Value EUR20 (+3%)

NEUTRAL

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 19.3
Market Cap (EUR)	400
Ev (BG Estimates) (EUR)	385
Avg. 6m daily volume (000)	9.10
3y EPS CAGR	3.0%

Yesterday evening Axway reported Q1 16 sales 4% below our expectations, essentially due to the slippage in a couple of licence deals in France, while America confirmed its strong recovery. We are making virtually no change to our forecasts as we cannot rule out that the prospect of longer sales cycles in Operational Intelligence (OI, ex Syster) transforming into deals at the back-end of the year. We do not expect the share price to react significantly short-term, pending more positive catalysts.

ANALYSIS

- Q1 sales penalised by slippage in a couple of deals.** Q1 sales rose 4.3% (+2.3% lfl) to EUR65.3m or 4% below our EUR67.9m estimate, with Licences down 8.6% lfl to EUR12.4m (BG est.: EUR14.8m), Maintenance up 3.5% lfl to EUR34.7m (BG est.: EUR35.4m), and Services up 8.8% lfl to EUR18.2m (BG est.: EUR17.7m) including cloud subscriptions up 20%+ to EUR4.2m. Sales were negatively impacted by the slippage of 5-6 licence deals in France for an est. EUR1.3m, mostly in Operational Intelligence (OI, ex Syster), of which many of them already slipped from Q4 15. The net cash position on 31st March 2016 was EUR15.6m, which means net cash flow in Q1 16 was a negative EUR20.1m, taking into account, on the negative side, the payment of the acquisition of Appcelerator (BG est.: EUR45m) and, on the positive side, the cash-in of maintenance contracts.
- More details on revenues by geography.** 1). France was down 9.2% lfl to EUR20.1m due to the above-mentioned delayed licence deals with lengthening sales cycles due to the larger number of parties involved in the decision-making process (lines of business on top of IT), and tough comps given that Axway sold a significant amount of software licences to banks in Q1 15; 2). The Rest of Europe was up 2.3% lfl to EUR14.6m, with 20%+ growth in the UK, but flat or slightly declining revenues in Germany and other countries; 3). America was up 11.6% lfl to EUR27.5m, driven by a +24% on licence sales; 4). Asia-Pacific was up 11% lfl to EUR3.3m.
- The integration of Appcelerator looks promising.** Axway considers the acquisition of Appcelerator in January 2016 looks promising. The customer feedback has been very positive and the synergies between mobile technology and the existing digital offering (notably APIs) show the potential for rapid sales growth. While Appcelerator's SaaS/Cloud model will remain intact, Axway expects the first enterprise licence deals to be signed before the end of Q2.
- Focused on the transformation plan.** Management considers Q1 sales were in line with the transformation plan (clear move to Digital, "digitising" the product portfolio, streamlining R&D centres, sales focus on America and Digital). It is paying close attention to progress in this plan within the context of the transition started just six months ago. Finally, it is very confident about the performance in America in 2016 (+20% expected on licence sales over the full-year), while growth in France remains conditional on the signature of several licence deals which determine the final performance for the quarter. At this stage, we see no reason to change our forecasts and cannot rule out the prospect of 2016 being more back-end loaded on licence sales.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	-16.6%	-19.7%	-20.3%
Softw. & Comp.	-0.5%	-0.5%	1.1%	-3.8%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	284.6	305.2	325.3	350.0
% change		7.2%	6.6%	7.6%
EBITDA	50.7	48.4	53.1	59.5
EBIT	27.4	32.0	40.7	47.0
% change		16.8%	27.0%	15.6%
Net income	41.0	36.8	40.8	45.8
% change		-10.1%	10.8%	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	7.1	8.4	9.0
ROCE	15.3	11.4	12.3	14.0
Gearing	-10.5	-4.3	-13.1	-22.0

(EUR)	2015	2016e	2017e	2018e
EPS	1.96	1.73	1.91	2.14
% change	-	-11.8%	10.5%	12.2%
P/E	9.9x	11.2x	10.2x	9.1x
FCF yield (%)	11.1%	7.8%	10.3%	11.7%
Dividends (EUR)	0.40	0.40	0.39	0.45
Div yield (%)	2.1%	2.1%	2.0%	2.3%
EV/Sales	1.3x	1.3x	1.1x	0.9x
EV/EBITDA	7.2x	7.9x	6.6x	5.2x
EV/EBIT	8.2x	8.5x	7.0x	5.5x



VALUATION

- Axway's shares are trading at est. 8.5x 2016 and 7.0x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR35.7m (net gearing: -11%).

NEXT CATALYSTS

- AGM on 21st June.
- H1 16 results on 27th July after markets close.

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