

Dassault Systèmes

Price EUR69.93

Q1 16 analysts' meeting and conference call feedback: the Champion's syndrome, again

Fair Value EUR62 vs. EUR63 (-11%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EURm)	17,953
Ev (BG Estimates) (EURm)	16,034
Avg. 6m daily volume (000)	285.4
3y EPS CAGR	11.1%

We reiterate our Sell rating and have shaved our DCF-derived Fair Value to EUR62 from EUR63 after reducing our adjusted EPS ests. by 1% for 2016 and 3% for 2017-18. We consider that yesterday's 4% share price decline reflects Dassault Systèmes' 'Champion's syndrome': current high valuation multiples imply the company regularly exceeds its quarterly guidance, and we believe that when a quarter is in line or just above the high-end of the range, as in Q1 2016, the stock is sanctioned.

ANALYSIS

- FY16 growth to be back-end loaded.** Management is confident in achieving FY16 guidance (revenues up 6-7% at cc, non-IFRS op. margin of c. 30%, non-IFRS EPS up 7% to EUR2.40 with a fx headwind of 4% and a tax rate 2ppt lower than in FY15) based on a strong pipeline, driven by 'new' industries like Marine & Offshore, High Tech, Life Sciences, and Energy, Process & Utilities. However, quarterly revenue seasonality this year is expected to be more pronounced than for previous years, with Q1 and Q3 lower and Q4 higher, i.e. the weight of Q1 within the full-year could be 2ppt lower than in 2015, while that of Q4 could be 2ppt higher. For Q2 16, DS expects revenues up 5-6% at cc, with flat services (down from +6% in Q1 16 amidst of a strong software installation activity and Quintiq) and software growth above +6% (new licence sales up high single-digit). We estimate that, in order to reach 7% lfl revenue growth for FY16 Dassault Systèmes has to deliver an outstanding 11-12% lfl growth rate in Q4 with new licence sales up 18-20% lfl.
- Non-IFRS EPS boosted by a tax reversal.** Non-IFRS EPS in Q1 was inflated for EUR0.05 by a tax reserve reversal after a tax audit in France. In other words, excluding this tax tailwind, Dassault Systèmes' non-IFRS EPS would have totalled EUR0.46, or just above the high-end of company guidance (EUR0.42-0.45). However, the impact to the full-year tax rate will be marginal (32.5% instead of 33%) and will not affect FY16 non-IFRS EPS guidance (EUR2.40). At constant fx, the non-IFRS operating margin in Q1 16 would have been up 0.6ppt to 26.4% (vs. +0.4ppt as reported), which is in line with the 0.5ppt progression expected for the full-year, while Dassault Systèmes will continue to sustain its R&D investments on the 3DEXperience platform (multi-physics simulation, Life Sciences...) and increase the sales coverage in targeted industries or regions.
- SolidWorks evolution towards the 3DEXperience platform.** SolidWorks revenues up 8% in Q1 16, driven by maintenance while new licence sales were down, reflect the back-end loaded feature of this business in 2016. Beyond 2016, the strategy on SolidWorks is to expand the desktop version to cloud-based services through the 3DEXperience platform. The Industrial Design cloud app has been launched, and the beta version of Xdesign will be available in the summer. Over time, the desktop version will become a collection of apps, and the management considers the SolidWorks value-added distributors are no longer concerned by a risk of squeezing their cash flow.
- Update on M&A.** With EUR2.6bn cash on its balance sheet, Dassault Systèmes has not imposed itself a budget for acquisitions. The company has a pipeline of opportunities but it will choose the right targets that fit with its strategy, terms and valuation criteria. A few targets are in the pipeline and no "mega-transaction" is expected, but the management is very optimistic that the company will be able to make acquisitions this year. Mechatronics and IoT can be domains of interest.

VALUATION

- Dassault Systèmes's shares are trading at est. 16.9x 2016 and 14.6x 2017 EV/EBIT multiples.
- Net cash position on 31st March 2016 was EUR2,590.2m (net gearing: -46%).

NEXT CATALYSTS

- AGM on 26th May. Capital Markets Day on 10th June in Vélizy-Villacoublay (France).
- Q2 16 results on 21st July before markets open.

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