

Dassault Systèmes

Price EUR66.97

Feedback from Capital Markets Day: highlighting the value-based approach

Fair Value EUR63 vs. EUR62 (-6%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EUR)	17,209
Ev (BG Estimates) (EUR)	15,287
Avg. 6m daily volume (000)	265.4
3y EPS CAGR	11.3%

On Friday, Dassault Systèmes hosted a Capital Markets Day at its head office in Vélizy-Villacoublay (France). While 2019 targets remain unchanged, the company highlighted the success of its value-based approach and new opportunities offered by the 3DEXperience platform to accelerate growth going forward. Our Sell rating remains unchanged, while we increase our DCF-derived fair value to EUR63 from EUR62 as we update our FX assumptions (stronger JPY).

ANALYSIS

- Targets unchanged, growth drivers revisited.** 2019 objectives remain unchanged, with non-IFRS EPS expected at EUR3.50 based on a 2014-19 non-IFRS revenue CAGR of 14% to reach c. EUR4.5bn (+9% to c. EUR3.9bn excluding acquisitions, o/w double-digit growth on new licence sales). The 6 growth drivers will be: 1). Brands value creation (functional coverage, transaction value up 19% for large accounts and 8% on indirect channels); 2). Industry focus (industry solutions upping average transaction size by 40%); 3). 3DEXperience platform (Big Data, trading platform...); 4). Sales coverage (indirect channels +8% and direct channels +10%, new licences direct sales productivity +12%, systems integrators x2...); 5). Cloud and Mobile (small engineering firms, architecture, design offices) with cloud contributing positively to sales over 1 year if 50% of new business with cloud is incremental to perpetual licenses; 6). Acquisitions (c. EUR150m sales per year from 2017). Ex-acquisitions, DS expects the non-IFRS operating margin to increase by 0.8-1ppt per year and reach 33-34% in 2019, but acquisitions are expected to dilute it to c. 30%.
- Widening the 3DEXperience.** The main drivers for accelerating organic growth going forward are widening the industry portfolio through replicable offers, selling the business value and not the features, and going beyond engineering with new disciplines. Dassault Systèmes plans to have 86 industry solutions experiences by end 2016, vs. 73 end 2015 and 51 end 2014, of which 15 will be available only on the cloud. The company has engaged with 650 customers with a solution-based approach so far and 150 partners have won solution deals, which has translated into a 40% deal size increase and a win rate up 50% compared to a feature-based approach.
- Expanding business model to marketplace and big data services.** On top of a software platform, 3DEXperience is also becoming a marketplace for user-generated content. The new solutions also open DS to new ecosystems (governments, health professionals, fablabs, universities...) and new category of offers (apps, content and services for city planning, virtual maintenance, epidemiology monitoring, population genomics, function-based generative design...): city virtual universes, resources and energy virtual universes, health virtual universes, and 3D printing.
- Update on brands.** Catia now has 22,000 customers (+1,650 in 2015), of which 8,000 with only 1-2 users. Enovia (15,000 customers) won market share during the last quarters, with a win rate of 75% and 40% of competitive displacements, as the brand addresses more roles beyond design, engineering and project management (merchandising, quality, collection sourcing, packaging...). SolidWorks has 200,000+ customers, 700+ solution partners and 350+ resellers. Only 26% of the Mechanical CAD is equipped with 3D CAD software, with strong growth in Energy/Utilities, CPG and Architecture. Growth for SolidWorks is also driven by 2D-3D migration and 3D displacements, opportunities is 5+ seats accounts, term licenses and pay per use, and new opportunities offered on the 3DEXperience platform on the cloud (XDesign and 3DDrive in 2016).

VALUATION

- Dassault Systèmes' shares are trading at est. 16.1x 2016 and 13.8x 2017 EV/EBIT multiples.
- Net cash position on 31st March 2016 was EUR2,590.2m (net gearing: -46%).

NEXT CATALYSTS

Q2 16 results on 21st July before markets open.

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