

20th July 2016

TMT

Software AG

Price EUR33.27

Final Q2 16 results fully in line with initial estimates and FY16 guidance confirmed

Fair Value EUR40 (+20%)

BUY

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	34.9 / 23.8
Market Cap (EUR)	2,628
Avg. 6m daily volume (000)	250.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	-1.7%	14.9%	25.9%
Softw.& Comp.				
SVS	4.3%	-0.9%	1.8%	-3.0%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%
	2015	2016e	2017e	2018e
P/E	14.3x	13.9x	13.2x	12.3x
Div yield (%)	1.7%	1.8%	2.0%	2.1%

ANALYSIS

- **Software AG has confirmed the preliminary Q2 16 results announced on 14th July.** The figures are fully in line with those pre-announced: revenues down 1.1% to EUR203.4m (+2.1% lfl), a non-IFRS op. margin of 27.4% (+3.8ppt), EBIT up 30.4% to EUR43.3m, and net profit up 41.7% to EUR28.2m. By division, figures were also confirmed, with DBP (Digital Business Platform) sales up 4% cc, A&N (Adabas & Natural) sales down 5% lfl, and Consulting up 7% lfl. The new figure announced today was free cash flow, which was up 8% year-to-date to EUR114.3m (27.9% of sales, +1.3ppt).
- **FY16 guidance confirmed.** Software AG confirmed the FY16 guidance raised on 14th July, i.e. DBP product sales up 5-10% lfl, A&N product sales down 2-6% lfl, and a non-IFRS operating margin of 30.5-31.5%. Thanks to the improving trend in the DBP division and the strong Q1 16 in the A&N division we expect 3.4% lfl sales growth and a non-IFRS operating margin of 31.5% - which implies that the margin should widen by only 0.4ppt (vs. +3.9ppt for H1 16) over H2 16.

VALUATION

- Software AG's shares are trading at est. 9.0x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR65.8m (net gearing: -6%).

NEXT CATALYSTS

Q3 16 results on 20th October before markets open.

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NEUTRAL ratings 34%

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