

Axway Software

Price EUR20.61

H1 2016 results way above expectations, positive outlook reiterated

Fair Value EUR20 (-3%)

NEUTRAL

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 19.2
Market Cap (EUR)	429
Ev (BG Estimates) (EUR)	413
Avg. 6m daily volume (000)	8.50
3y EPS CAGR	3.0%

This morning Axway reported H1 2016 results way above our ests. and the consensus' average, thanks to a surge in licence sales in the US. In addition, the management remains confident in Axway's ability to transform its business to Digital and reiterates positive outlook for 2016. We deem the share price will react positively in the short-term.

ANALYSIS

- H1 2016 results way above expectations.** For H1 2016 Axway reported revenues up 7.1% (+5.7% lfl) to EUR144.7m, licence sales up 10.3% lfl to EUR37.4m, an operating margin up 28.3% to EUR16.3m or 11.3% of sales (+1.9ppt), an EBIT up 723% to EUR10.7m with virtually no restructuring costs, and a net profit up 378% to EUR11m. These results were way above our forecasts (sales of EUR140m, operating margin of 7.8%) and the consensus' average (sales of EUR140.7m, operating margin of 8%). Maintenance and Services were up 4% lfl and 4.4% lfl, respectively. In Q2 2016, sales were up 9.5% (+8.6% lfl) to EUR79.4m, with licence sales up 22.9% lfl to EUR25.1m, maintenance up 4.5% lfl and services up 0.5% lfl.
- Q2 2016 details: licence sales surge in the US.** On a lfl basis, sales in Q2 2016 were down 6.1% in France, up 23.8% in America, up 1.9% in the rest of Europe, and up 28.2% in Asia Pacific. In France, Axway is under way to stabilise revenues after a strong year in 2015 in the Banking sector. In America, licence sales surged by an impressive 50% lfl thanks to a strong pipeline and a better win rate. Growth in Q2 was driven by the increasing success of Digital offerings, while cloud revenues surged by 30%. The integration of Appcelerator, which was acquired in January 2016, is according to plan with revenue synergies starting to materialise and expected to be amplified in the years ahead.
- Positive outlook reiterated.** H1 results 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). The good performance of licence sales is considered by management as an encouraging sign of the relevance of Axway's new strategic positioning. According to management, H1 2016 does not provide any particular indication of the performance for the full-year, but H2 2016 looks encouraging with a promising sales pipeline. At this stage, we expect for 2016 revenues up 6% lfl to EUR305.2m and a non-IFRS operating margin down 0.8ppt to 14.8% (consensus: revenues of EUR307.9m and a non-IFRS operating margin of 14.9%).

VALUATION

- Axway's shares are trading at est. 9.2x 2016 and 7.6x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR10.5m (net gearing: -3%).

NEXT CATALYSTS

Analysts' meeting today at 11am CET / 10am BST / 5am EDT in Paris (Pavillon Kléber, 7 rue Cimarosa). Conference call at 5.30pm CET / 4.30pm BST / 11.30am EDT (France: +33 1 76 77 22 30; UK: +44 203 427 1915; USA: +1 646 254 3360; Switzerland: +41 22 592 7953; Luxembourg: +352 20 88 03 59).

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Distribution of stock ratings

BUY ratings 54,4%

NEUTRAL ratings 34,9%

SELL ratings 10,7%

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