

## Axway Software

Price EUR23.26

H1 2016 analysts' meeting and conference call feedback: momentum is there now

Fair Value EUR28 vs. EUR20 (+20%)

BUY vs. NEUTRAL

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	25.7 / 19.2
Market Cap (EUR)	484
Ev (BG Estimates) (EUR)	465
Avg. 6m daily volume (000)	8.70
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	15.1%	19.6%	-1.0%	-4.7%
Softw. & Comp.	17.6%	6.1%	5.8%	3.4%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	284.6	310.2	330.8	356.2
% change		9.0%	6.7%	7.7%
EBITDA	50.7	53.4	58.2	64.7
EBIT	27.4	37.0	45.7	52.2
% change		35.2%	23.5%	14.2%
Net income	41.0	40.2	44.3	49.3
% change		-1.8%	10.0%	11.4%

	2015	2016e	2017e	2018e
Operating margin	15.6	16.2	16.6	17.2
Net margin	9.8	9.3	10.7	11.4
ROE	8.2	8.0	9.1	9.6
ROCE	15.3	12.4	13.3	15.1
Gearing	-10.5	-5.2	-14.6	-23.8

(EUR)	2015	2016e	2017e	2018e
EPS	1.96	1.89	2.07	2.31
% change	-	-3.6%	9.7%	11.4%
P/E	11.9x	12.3x	11.2x	10.1x
FCF yield (%)	9.2%	7.3%	9.3%	10.5%
Dividends (EUR)	0.40	0.40	0.43	0.49
Div yield (%)	1.7%	1.7%	1.9%	2.1%
EV/Sales	1.6x	1.5x	1.3x	1.1x
EV/EBITDA	8.8x	8.7x	7.3x	5.9x
EV/EBIT	10.1x	9.3x	7.8x	6.3x

We upgrade our rating to Buy from Neutral, and raise our DCF-derived fair value to EUR28 from EUR20. We increase our adj. EPS ests. by 8-9% for 2016-18 (+EUR2/share) and reduce our company beta to 1.8x from 2.3x due to a change of stockmarket status of the company since the market cap is close to EUR500m (+EUR6/share). The sales transformation engaged since 2014 and accelerated since the arrival of the CEO Jean-Marc Lazzari one year ago is bearing fruit, while Axway's Digital software see strong growth momentum.

## ANALYSIS

- Sales transformation paying off.** We deem the H1 outperformance (EUR144.7m revenues vs. consensus at EUR140.7m and BG est. of EUR140m) was related to the signing of a multi-million licence deal in the US on Digital. Fannie Mae, which has been a Systar customer for a while, bought an enterprise licence on the Operational Intelligence (OI) offer, Decision Insights. We estimate deal size at EUR4-5m. This was the result of the sales force transformation put in place in the US since 2014 which is now bearing fruit (80-85% of the sales force changed), while the solution selling approach improved win rates. Axway's Digital solutions (API management, OI, etc.), which were initially bought by business line managers on limited scope, are increasingly at the CIOs' agenda for companywide deployments. This translates into an average deal size for Digital around EUR330k, vs. only EUR85k one year ago. The sales pipeline is strong for the rest of the year, while in France the goal is to stabilise revenues by Q4 2016 before growing again. In H1 2016, licence/cloud revenues in the US surged by 76%, and Ecosystem Engagement licence sales were up 68% (+50% excl. Fannie Mae). Digital licence sales now account for 50% of licence/cloud revenues (43% excl. Fannie Mae), vs. 35% last year. Cloud revenues account for 6% of total revenues.
- Cost control and licence sales offset Appcelerator's margin dilution.** Despite Appcelerator, which was loss-making when it acquired the company, Axway has been able to increase its operating margin by 1.9ppt to 11.3% in H1 2016 thanks to strong licence sales - Fannie Mae was helpful - and strict cost control. The gross margin was up 2ppt thanks to a sharp improvement of the Services gross margin (+12.5ppt to 13.8%), while sales and marketing costs were flat. The CEO Jean-Marc Lazzari considers that, unlike initial assumptions in February, Axway may increase its non-IFRS operating margin in 2016 (from 15.6% in 2015) even though Appcelerator will be dilutive to it, and provided that cost control remains strict. As such, we raise our operating margin forecasts to 16.2% from 14.8% for 2016, to 16.6% from 15.3% for 2017, and to 17.2% from 16% for 2018.
- M&A still on the agenda.** With net liquidity of EUR10.5m and a EUR125m revolving credit line which was utilised only at EUR20m for the acquisition of Appcelerator, Axway has the means to pursue its acquisition policy. The 'playbook' remains unchanged, with Axway intending to double revenues between 2014 and 2018 (base: EUR262m) with half of the growth to be done organically and half of it to be done by acquisitions. The company still has two kinds of targets: 1) technology add-ons, for instance on the Internet of Things, web-based file sharing (Dropbox-like software) or cloud; 2) installed bases of competitors in a specific country or area.

## VALUATION

- Axway's shares are trading at est. 9.3x 2016 and 7.8x 2017 EV/EBIT multiples.
- Net cash position on 30<sup>th</sup> June 2016 was EUR6.9m (net gearing: -2%).

## NEXT CATALYSTS

Q3 16 sales on 27<sup>th</sup> October after markets close.

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