

## Dassault Systèmes

Price EUR70.18

Q2 2016 analysts' meeting and conference call feedback: the devil is in the detail...again

Fair Value EUR64 (-9%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EUR)	18,053
Ev (BG Estimates) (EUR)	16,126
Avg. 6m daily volume (000)	275.5
3y EPS CAGR	11.8%

We reiterate our Sell rating. Although management basically reiterated 2016 company guidance with some marginal adjustments related to currencies, mixed market conditions in Asia has caused Dassault Systèmes to drop its target of generating double-digit new licence growth over the full-year, prompting the share price to fall 3%. As quarter after quarter Dassault Systèmes no longer exceeds quarterly company guidance, we consider the share price will remain under pressure.

## ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.5%	0.4%	4.9%	-4.9%
Softw. & Comp.	4.2%	4.1%	7.2%	1.1%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,839	3,086	3,388	3,706
% change		8.7%	9.8%	9.4%
EBITDA	897	1,019	1,139	1,280
EBIT	633.2	745.3	865.2	1,003
% change		17.7%	16.1%	15.9%
Net income	617.2	724.1	781.2	871.3
% change		17.3%	7.9%	11.5%

	2015	2016e	2017e	2018e
Operating margin	29.8	31.2	31.9	32.9
Net margin	14.2	16.5	16.8	17.8
ROE	11.5	13.3	13.3	13.8
ROCE	28.9	37.7	45.5	57.8
Gearing	-38.7	-50.2	-60.0	-68.6

(€)	2015	2016e	2017e	2018e
EPS	2.38	2.78	3.00	3.32
% change	-	16.9%	7.7%	10.9%
P/E	29.5x	25.2x	23.4x	21.1x
FCF yield (%)	3.0%	4.2%	4.5%	5.0%
Dividends (€)	0.43	0.50	0.56	0.65
Div yield (%)	0.6%	0.7%	0.8%	0.9%
EV/Sales	5.9x	5.2x	4.6x	4.0x
EV/EBITDA	18.6x	15.8x	13.6x	11.6x
EV/EBIT	19.8x	16.7x	14.3x	12.1x

• **Double-digit new licence revenue growth only for H2 2016, not for the full-year anymore.** With new licence sales up only 2% lfl in H1 2016 (o/w +6% lfl for Q2), management is no longer banking on double-digit lfl growth in this revenue line for the full-year and now expects this double-digit growth rate to be possible only for H2. Based on a solid pipeline, DS anticipates a growth acceleration in H2, but the weak performance in Q2 in Korea (impact from the new 'industrial policy' in China), India (execution to be improved, volatility of the business) and Australia (weak mining market again), which had a negative impact on Catia sales (up only 1% in Q2) is unlikely to be caught up in H2. Reaching the top-end of total revenue growth guidance for 2016 (+6%/+7% lfl) following +5% in H1 and a guidance of +6%/+8% lfl for Q3, implies +8%/+10% lfl for Q4. Enovia is likely to keep double-digit revenue growth over H2 (after +34% in Q2 and +32% in H1), while Catia is supposed to accelerate again. While services revenues were down 3% lfl in Q2, the management expects them flat for H2. NB. that in H1, 3DEXperience new licence revenues were up 68% lfl and now account for 33% (+13ppt) of new licence revenues ex-SolidWorks and acquisitions.

• **Investment plans unchanged, so operating margin growth will slow in H2.** Non-IFRS operating margin was up 0.7ppt in H1 (+0.9ppt at cc) but management has firmly reiterated its full-year guidance of c. +0.2ppt to 31% (+0.5ppt at cc), as it has decided to accelerate investment in R&D and sales channels in order to underpin customer adoption. 2016 non-IFRS EPS guidance remains unchanged, but it is impacted by fx (-EUR0.02) and activity (+EUR0.02).

• **A closer look at marginal changes made to full-year guidance.** The marginal change to the full-year revenue guidance (EUR5m for the low-end) was underpinned by H1 fx rates (-EUR9m), the British pound (-EUR14m), the Japanese yen (+EUR7m), other currencies (-EUR4m: Swedish krona, Australian dollar, Chinese yuan, Malaysian ringgit...) and Ortems (+EUR2m). Brexit has had no noticeable impact so far. Two transactions worth EUR1 each were put on hold in the UK pending the outcome of the referendum, but management is confident they will close.

• **CST: slightly accretive to EPS.** Ortems, acquired in June, is specialised in production planning and scheduling software. Based in Lyon (France), it employs 50 staff and posted EUR5m sales in 2015 (50% software, 50% services). It was paid EUR11.2m in cash or 2.2x sales. Ortems' constrain-based production scheduling capabilities complement Delmia Manufacturing Execution Systems (MES) and Manufacturing Operations Management (MOM). CST - Computer Simulation Technology, which is expected to close by early October, is specialised in electromagnetic/electronic simulation software. Based in Darmstadt (Germany), it employs 270 staff, posted EUR47m sales in 2015 (35% new licences, 65% recurring licence fees, almost no service) with a 2010-15 CAGR of c. 10%, and its op. margin was c. 25%. It will be acquired EUR220m in cash or 4.7x sales and 18.7x EBIT. DS considers CST will be immediately accretive to non-IFRS EPS (BG est.: +1%/+2%).

## VALUATION

- Dassault Systèmes' shares are trading at est. 16.7x 2016 and 14.3x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR1,636.2m (net gearing: -46%).

## NEXT CATALYSTS

Q3 16 results on 21<sup>st</sup> October before markets open.

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