

Atos

Price EUR90.27

Acquisition of Anthelio Healthcare Solutions in the US

Fair Value EUR102 vs. EUR93 (+13%)

BUY

Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	90.4 / 62.7
Market Cap (EUR)	9,457
Ev (BG Estimates) (EUR)	8,768
Avg. 6m daily volume (000)	309.7
3y EPS CAGR	14.9%

We reiterate our Buy rating and increase our DCF-derived fair value to EUR102 from EUR93 on updated assumptions for medium-term lfl sales growth (3% vs. 2% = +EUR5/share), WCR (-6% of sales vs. -3% = +EUR4) and fx (-EUR1), and our increased EPS ests. (+EUR1). Yesterday evening, Atos announced the acquisition of Anthelio for USD275m in cash or an 8.5x 2017 post-synergies EV/EBIT multiple. This acquisition, which we consider as 2% accretive to our adj. EPS ests. for 2017-18, allows Atos to enlarge its customer base in Healthcare in the US.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.3%	14.2%	32.2%	16.6%
Softw. & Comp.	1.3%	10.6%	11.3%	6.0%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

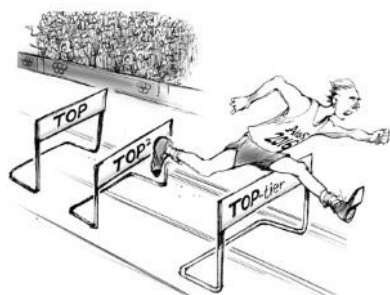
ANALYSIS

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	10,686	11,803	12,341	12,634
% change		10.5%	4.6%	2.4%
EBITDA	1,334	1,545	1,722	1,809
EBIT	589.0	834.0	922.0	1,010
% change		41.6%	10.6%	9.5%
Net income	609.0	736.0	870.0	947.0
% change		20.9%	18.2%	8.9%

	2015	2016e	2017e	2018e
Operating margin	8.6	9.3	10.1	10.5
Net margin	4.0	5.1	5.6	6.2
ROE	9.9	13.3	13.4	13.3
ROCE	22.9	25.7	41.3	46.8
Gearing	-14.0	-16.0	-48.0	-57.0

(€)	2015	2016e	2017e	2018e
EPS	5.83	6.95	8.18	8.84
% change	-	19.2%	17.7%	8.1%
P/E	15.5x	13.0x	11.0x	10.2x
FCF yield (%)	4.2%	5.6%	6.7%	8.7%
Dividends (€)	0.90	1.10	1.40	1.55
Div yield (%)	1.0%	1.2%	1.6%	1.7%
EV/Sales	0.8x	0.7x	0.6x	0.5x
EV/EBITDA	6.6x	5.7x	4.1x	3.5x
EV/EBIT	9.7x	8.0x	5.7x	4.8x

- Strategic rationale of the deal.** Atos signed an agreement to acquire Anthelio Healthcare Solutions, which is the largest independent provider of healthcare technology solutions in North America, for an enterprise value of USD275m, or an 8.5x EV/EBIT multiple, post-synergies, for 2017. This deal, to be fully financed by cash and expected to close late September, strengthens Atos' presence in Healthcare in the US with est. USD0.4bn revenue in Healthcare IT and est. USD2.5bn revenues in North America. Founded in 1999 in Dallas (Texas), Anthelio generates c.USD200m revenues (growing at 8%) with 1,700 staff (1,300 in the US and 400 in India), essentially in Managed Services (IT management, BPO services such as medical coding, revenue cycle management, patient financial services, clinical documentation, cancer registry services, electronic medical records). Its largest customer is McLaren Health Care, which had a 26% stake in Anthelio and signs a partnership with Atos through a 5-year renewed outsourcing contract.
- A bit of synergies ahead.** We understand that this year Anthelio will generate an operating margin around 11-12% for revenues at c. USD200m. Based on the 8.5x post-synergies EV/EBIT multiple expected for 2017, we estimate 2017 EBIT around USD32m. These synergies are expected to be primarily on revenues. Based on a 2017 revenue assumption above USD220m - taking into account at least 8% growth - we consider Anthelio's operating margin would reach 14%, notwithstanding the assumption that the remaining synergies will materialise in 2018. In total, we estimate the synergies between Anthelio and Atos will be around USD10m, or c. 4% of sales, by end 2018.
- We estimate adj. EPS accretion at 2% by 2018.** Based on an operating margin of 11% for 2016, 14% for 2017 and 16% for 2018, synergies around USD10m by 2018 and a first consolidation date at 1st October 2016, we estimate Anthelio will be accretive to EPS by 1% for 2016 and 2% for 2017-18. We calculate that Atos will enhance its non-IFRS operating margin by 0.1ppt from 2017 onwards. We consider the deal is too small to have an impact on free cash flow, which explains why Atos has not changed FY16 company guidance regarding free cash flow above EUR550m. However, we understand Anthelio generates a free cash flow around 50% of EBIT.
- Capital Markets Day in sight.** While Anthelio has a negligible impact to our DCF-derived fair value (+EUR1), we increase it to EUR102 lies in the run-up the next Capital Markets Day scheduled on 8th November. We consider that, while organic growth tends to accelerate on the back of some acceleration at Worldline, solid growth in Big Data & Cybersecurity and the turnaround in Systems Integration thanks to the focus made on digital transformation, management will be able to achieve at least 2-3% lfl sales growth and a double-digit operating margin by 2020.



VALUATION

- Atos' shares are trading at est. 8.0x 2016 and 5.7x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR412.3m (net gearing: -10%).

NEXT CATALYSTS

Q3 2016 sales on 20th October before markets open.

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