TMT

EV/Sales

EV/EBIT

EV/EBITDA

Software AG

Price EUR35.62

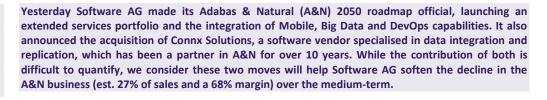
Announcing the Adabas & Natural 2050 agenda and acquisition of Connx Solutions

Fair Value EUR40 (+12%)

BUY

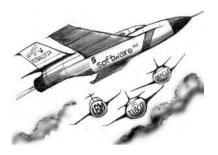
Bloomberg	SOW GR			
Reuters	SOWG.DE			
12-month High	36	5.7 / 23.8		
Market Cap (El		2,814		
Ev (BG Estimate		2,682		
Avg. 6m daily v		201.8		
3y EPS CAGR				5.2%
	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.2%	2.1%	9.4%	34.8%
Softw.& Comp.	1.0%	5.5%	11.4%	5.3%
DJ Stoxx 600	0.5%	-1.1%	2.9%	-6.1%
YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	873 1	889 8	922	4 964 7

2015	20106	20176	20106
873.1	889.8	922.4	964.7
	1.9%	3.7%	4.6%
278	291	307	328
209.4	239.1	261.5	283.2
	14.2%	9.3%	8.3%
188.0	192.7	203.7	218.9
	2.5%	5.7%	7.5%
2015	2016e	2017e	2018e
30.2	31.0	31.7	32.5
16.0	17.7	19.0	19.8
12.8	13.1	13.1	13.0
17.7	18.5	20.0	22.0
1.3	-11.0	-22.0	-31.7
2015	2016e	2017e	2018 e
2.33	2.39	2.53	2.71
-	2.5%	5.8%	7.5%
15.3x	14.9x	14.1x	13.1x
6.1%	6.8%	7.4%	8.0%
0.55	0.60	0.65	0.70
1.5%	1.7%	1.8%	2.0%
	873.1 278 209.4 188.0 2015 30.2 16.0 12.8 17.7 1.3 2015 2.33 - 15.3x 6.1% 0.55	873.1 889.8 1.9% 278 291 209.4 239.1 188.0 192.7 2.5% 2.5% 2015 2016e 30.2 31.0 16.0 17.7 12.8 13.1 17.7 18.5 1.3 -11.0 2015 2016e 2.33 2.39 - 2.5% 15.3x 14.9x 6.1% 6.8% 0.55 0.60	873.1 889.8 922.4 1.9% 3.7% 278 291 307 209.4 239.1 261.5 14.2% 9.3% 188.0 192.7 203.7 2.5% 5.7% 2015 201e 201re 30.2 31.0 31.7 16.0 17.7 19.0 12.8 13.1 13.1 17.7 18.5 20.0 2015 20.1e -22.0 2015 201e 201re 2.33 2.39 2.53 - 2.5% 5.8% 15.3x 14.9x 14.1x 6.1% 6.8% 7.4% 0.55 0.60 0.65



ANALYSIS

- Announcing the Adabas & Natural roadmap. Software AG yesterday released details of its agenda to support and further develop its Adabas & Natural product portfolio until beyond 2050. In order to leverage its digitisation capabilities to Adabas & Natural enterprise applications, Software AG is launching an extended services portfolio named "A&N Managed Services", which provides staff training, and application modernisation, management and operations to protect the investments made by customers and extend the life-cycle of their mission-critical applications. New A&N product releases and capabilities, as underlined in a recent statement of direction for 2015-2020, include: 1) Mobile, by adding capabilities to develop mobile-optimised applications with Natural; 2) Big Data, by replicating Adabas data in real-time into Terracotta In-memory to enable internet scale applications and services, and through the integration with Apama Streaming Analytics to develop analytic solutions with real-time insights and decisions; 3) DevOps, by extending capabilities to improve DevOps tasks in the Eclipse-based NaturalOne (support, profiling, testing).
- Acquisition of Connx Solutions. Founded in 1989 and based in Redmond (USA), Connx Solutions provides API-based data integration/replication technology for Adabas & Natural customers. The company has been an OEM partner of Software AG for over 10 years with broad adoption within the Adabas & Natural customer base. The rationale of the acquisition for Software AG is to secure access to this technology in the light of the 2050 agenda. In addition, Software AG customers gain access to the full range of Connx Solutions technologies (SQL data access, ETL, data sync, desktop query and reporting, cloud integration, integration with Excel...). The acquisition closed on 31st July. We have no details regarding the acquisition price and the revenues Connx generates, but at first glance we doubt the company will have a significant contribution to Software AG's P&L.
- Efforts to soften the decline in A&N revenues. We estimate that Adabas & Natural products, before the contribution of Connx Solutions, will account for 27% of revenues to EUR240m (-3% vs. 2015) vs. company guidance of -6%/-2% at cc) with a margin of 68% (70% in 2015) before G&A and central costs. For H1 2016, the A&N division was up 7% IfI with +20% IfI in Q1 especially on the back of a large deal which was booked ahead of schedule. While the impact of the roadmap and Connx are challenging to evaluate, we expect A&N revenues to fall 6-7% IfI by 2019-2020, but we cannot rule out the prospect of this decline being softened in the medium-term by a sustained software renewal rate (currently 98%) and Connx products. In addition, the addition of A&N Managed Services could enhance services revenue growth (est. +4.5% for 2020).



3.2x

10.2x

10.7x

3.0x

9.2x

2.7x

8.2x

8.6x

2.4x

7.2x

7.5x

VALUATION

- Software AG's shares are trading at est. 9.7x 2016 and 8.6x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR65.8m (net gearing: -6%).

NEXT CATALYSTS

Q3 2016 results on 20th October before markets open.

Click here to download document



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Stock rating

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Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL

Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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