

20th October 2016

TMT

Software AG

Price EUR33.84

Final Q3 2016 results fully in line with initial estimates and FY16 guidance confirmed

Fair Value EUR40 (+18%)

BUY

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	38.9 / 24.3
Market Cap (EURm)	2,673
Avg. 6m daily volume (000)	192.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	1.7%	0.0%	28.1%
Softw.& Comp.				
SVS	-0.8%	9.7%	8.7%	6.4%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

	2015	2016e	2017e	2018e
P/E	14.5x	14.0x	13.4x	12.4x
Div yield (%)	1.6%	1.8%	1.9%	2.1%

ANALYSIS

- **Software AG has confirmed the preliminary Q3 results announced on 14th October.** The figures are in line with those pre-announced: sales -8.1% to EUR198.3m (-7.1% lfl), a non-IFRS op. margin of 33.7% (+1.2ppt), and EBIT down 25% to EUR50.1m. By division, figures were also confirmed, with DBP (Digital Business Platform) sales up 1% cc, A&N (Adabas & Natural) sales down 26% lfl, and Consulting up 5% lfl. The new figures announced today were net profit down 27% to EUR32.4m, and free cash flow, which was up 13% year-to-date to EUR145.4m (23.9% of sales, +3ppt).
- **FY16 guidance confirmed.** Software AG confirmed the FY16 guidance raised on 14th July, i.e. DBP product sales up 5-10% lfl, A&N product sales down 2-6% lfl, and a non-IFRS operating margin of 30.5-31.5%. We expect 2.7% lfl sales growth and a non-IFRS operating margin of 31.6% - which implies that the margin should widen by only 0.4ppt (vs. +3.9ppt for H1 16) over H2 16.

VALUATION

- Software AG's shares are trading at est. 9.1x 2016 and 8.2x 2017 EV/EBIT multiples.
- Net cash position on 30th September 2016 was EUR93.4m (net gearing: -8%).

NEXT CATALYSTS

FY16 results on 26th January before markets open.

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