

Axway Software

Price EUR27.62

Q3 2016 sales in line, confirmation that momentum is improving

Fair Value EUR31 vs. EUR28 (+12%)

BUY

Bloomberg	AXW FP
Reuters	AXW PA
12-month High / Low (EUR)	28.8 / 19.2
Market Cap (EUR)	574
Ev (BG Estimates) (EUR)	556
Avg. 6m daily volume (000)	7.60
3y EPS CAGR	5.8%

We reiterate our Buy rating and raise our DCF-derived fair value to EUR31 from EUR28 as we increase our medium-term assumptions for adj. EBIT margin (to 19% from 18% = +EUR2/share) and lfl revenue growth (to 9% from 8% = +EUR1). Yesterday evening, Axway reported Q3 2016 sales fully in line with our expectations, and clearly driven by Digital solutions. Positive outlook confirms that momentum is improving, thus showing that the sales transformation is bearing fruit.

ANALYSIS

- Q3 2016 sales fully in line with our forecasts.** Q3 2016 sales rose 9.2% (+7.6% lfl) to EUR71.9m or fully in line with our forecast, with Licences up 15.2% lfl to EUR16.8m (BG est.: EUR16.7m), Maintenance up 4.8% lfl to EUR35.7m (BG est.: EUR35.2m), and Services up 6.8% lfl to EUR19.4m (BG est.: EUR20m) including cloud subscriptions up 35%+. Sales of digital solutions (API Gateway, Operational Intelligence) were particularly strong, with growth exceeding 40%, and now account for c. 50% of licence sales. It is interesting to note that, contrary to Q2 2016 when Axway signed Fannie Mae (est. EUR4-5m), Q3 2016 licence revenue growth did not benefit from a deal above EUR1m, but rather a larger number of medium-sized transactions.
- More details on revenues by geography.** 1). France was down 6.1% lfl to EUR19.3m, continues its transformation and expects its operations to stabilise during Q4 2016 both in terms of licence sales and total revenues; 2). The Rest of Europe was up 13.8% lfl to EUR17.6m, with still strong traction from the UK (est. 5% of sales) since the management switched the sales effort to Digital, while Germany performed well thanks to a EUR0.7-0.8m migration deal in B2B integration with an existing customer in Automotive; 3). America was up 14.5% lfl to EUR31.7m, driven by around 20 medium-sized deals; 4). Asia-Pacific was up 5% lfl to EUR3.3m with some deals that slipped to Q4.
- Positive outlook confirms that momentum is improving.** Management considers the strong overall performance since the beginning of the year bears witness to the successful execution of Axway's strategy to support its customers in their digital transformation. Q4 remains very important in terms of Licenses. At this stage, current commercial portfolio activity is encouraging and allows a positive outlook. In addition, Axway forecasts a net cash position by end 2016 at EUR15-20m, excluding potential acquisitions.

VALUATION

- Axway's shares are trading at est. 11.1x 2016 and 9.4x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR6.9m (net gearing: -2%).

NEXT CATALYSTS

FY16 results on 22nd February 2017 after markets close.[Click here to download document](#)

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