

Dassault Systèmes

Price EUR71.28

Q3 2016 analysts' meeting and conference call feedback: the price of success

Fair Value EUR64 (-10%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	78.8 / 64.4
Market Cap (EUR)	18,336
Ev (BG Estimates) (EUR)	16,659
Avg. 6m daily volume (000)	232.4
3y EPS CAGR	11.7%

We reiterate our Sell rating following the analysts' meeting and the conference call held yesterday. Q3 2016 demonstrate that Dassault Systèmes' route to get an average 9% CAGR for lfl revenue growth for 2014-2019 may take a bit longer than initially expected in our view (BG est. +8% for 2017 and +7% for 2016 after +7% for 2015 and +5% for 2014) due to the success of the 3DEXperience platform. This translate into bigger and more transformational deals which need the approval at the Board level and sometime slip.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.6%	-0.8%	1.6%	-3.4%
Softw.& Comp.	-2.4%	4.0%	9.9%	6.3%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

ANALYSIS

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,839	3,055	3,359	3,681
% change		7.6%	10.0%	9.6%
EBITDA	897	1,009	1,129	1,269
EBIT	633.2	693.9	824.4	960.5
% change		9.6%	18.8%	16.5%
Net income	617.4	709.9	778.2	870.5
% change		15.0%	9.6%	11.9%

	2015	2016e	2017e	2018e
Operating margin	29.8	31.2	31.9	32.8
Net margin	14.2	15.2	16.1	17.2
ROE	11.5	12.2	12.8	13.5
ROCE	28.9	34.3	41.4	52.9
Gearing	-38.7	-44.1	-55.2	-65.0

(€)	2015	2016e	2017e	2018e
EPS	2.37	2.71	2.97	3.30
% change	-	14.4%	9.5%	11.2%
P/E	30.1x	26.3x	24.0x	21.6x
FCF yield (%)	2.9%	4.0%	4.5%	5.0%
Dividends (€)	0.42	0.45	0.53	0.61
Div yield (%)	0.6%	0.6%	0.7%	0.9%
EV/Sales	6.0x	5.5x	4.8x	4.2x
EV/EBITDA	18.9x	16.5x	14.2x	12.1x
EV/EBIT	20.1x	17.5x	15.0x	12.7x

• **The side effects of transformational deals.** EUR5m of strategic transactions were delayed in Q3 - primarily in North America and the UK -, as Dassault Systèmes faces the side effects of the success of the 3DEXperience platform: deals in the pipeline become bigger and require the customers' Board approval, while competitors make some activism for not being displaced. In addition, the management has adopted a more cautious stance regarding the ability to deliver double-digit lfl new licence revenue growth in Q4. Company guidance for Q4 2016 implies total revenues up 7-9% at cc (o/w EUR10m from the CST acquisition, which implies +6%/+8% lfl), of which +8%/+12% at cc on new licence sales and +7%/+8% at cc on recurring revenues. The management, who mentioned the pipeline was still solid, considers this prepares future growth, but will not give any comment on DS' ability to deliver double-digit lfl new licence revenues in 2017. In addition, the indirect channel for medium-sized deals needs to be improved for 2017. Finally, the FY16 revenue guidance upgrade (EUR15-25m) is due to fx tailwinds (+EUR17m excluding a -EUR2m GBP headwind), CST (EUR10m), and the deals that slipped in Q3 (-EUR5m).

• **Hiring activity will cancel the positive effect of the strong Q3 margin in Q4.** The management sticks to a 0.5ppt improvement in the non-IFRS operating margin for 2016 at cc to c. 31%. Despite a strong level in Q3 2016 (32% or +1.9ppt ex-fx and Q3 2015 research tax credit reversal), the non-IFRS operating margin is expected to decline by c. 0.5ppt in Q4 2016 at the mid-point of the 33-35% guidance, as DS plans to accelerate recruitments in sales and marketing and R&D as well as boosting marketing programs. Approximately 300 staff is expected to be hired in Q4, or more or less the same amount as in Q3 - yet in Q3 the recruitment was pretty much back-end loaded, which means the full effect on opex will be seen in Q4. Taking into account heavy currency headwinds (-6ppt impact based on official assumptions of EUR/USD at 1.15 and of EUR/JPY at 120 for Q4), the management forecasts Q4 2016 non-IFRS EPS will be at -3%/+4%.

• **Other Q3 2016 takeaways.** The 3DEXperience platform increased its new licence sales by 76% at cc year-to-date and now accounts for 33% of new licence revenues (+13ppt) on the V6 architecture. In Q3 2016, 3DEXperience software revenues were up 40% at cc (+38% YTD). New licence sales in High-tech were up 36% lfl in Q3 (+30% YTD), with good traction in Electronics and Semiconductors. The 2% rise in Other PLM software is not related to Simulia - which performed well as well as Quintiq and Exalead - but tough comps on Delmia and accounting changes on Biovia. Finally, the "weak" operating cash flow (EUR526m year-to-date vs. EUR530m as of 30th September 2015) was related to a EUR80m fall in tax down payments in Q3 2016 and the timing impact of tax refunds.

VALUATION

- Dassault Systèmes' shares are trading at est. 17.5x 2016 and 15.0x 2017 EV/EBIT multiples.
- Net cash position on 30th September 2016 was EUR1,502.4m (net gearing: -41%).

NEXT CATALYSTS

FY16 results in February 2017.

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