

5th December 2016

TMT

Software AG

Price EUR32.78

Acquisition of Zementis: capturing opportunities in artificial intelligence

Fair Value EUR40 (+22%)

BUY

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	38.9 / 25.3
Market Cap (EUR)	2,589
Avg. 6m daily volume (000)	207.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	-10.6%	-5.8%	24.1%
Softw.& Comp.				
SVS	-0.6%	-6.9%	0.8%	0.2%
DJ Stoxx 600	2.4%	-3.2%	-1.4%	-7.2%

	2015	2016e	2017e	2018e
P/E	14.1x	13.9x	13.0x	12.2x
Div yield (%)	1.7%	1.8%	2.0%	2.1%

ANALYSIS

- **On Friday, Software AG announced the acquisition of Zementis.** Founded in 2004 and based in San Diego, CA, Zementis provides the ADAPA (Adaptive Decision and Predictive Analytics) decision engine for structuring predictive models, which is key for machine learning and artificial intelligence. As part of a partnership with Software AG, ADAPA has been embedded in Software AG's Digital Business Platform (DBP) since 2015 and has become key on recent large deals in IoT (e.g. Bosch). ADAPA works on Amazon, Microsoft Azure and SAP HANA environments.
- **No significant impact to our model.** We estimate the impact of this acquisition on revenues and profit is below 1%, which means Zementis generates annual revenues below EUR8-9m. The deal price has not been disclosed, but we deem it is in the range of that of previous "bolt-on" acquisitions, i.e. an EV/sales multiples between 3x and 7x, i.e. a couple of tens of million euros, in our view. Finally, Software AG's P&L in Q4 2016 will be impacted between non-IFRS operating profit and EBIT by a couple of hundred thousand euros of acquisition related costs.

VALUATION

- Software AG's shares are trading at est. 9.1x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net cash position on 30th September 2016 was EUR93.4m (net gearing: -8%).

NEXT CATALYSTS

FY16 results on 26th January 2017 before markets open.

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