

CREALOGIX Group

Expanding into the Middle Eastern markets

Acquisition

Software & comp services

CREALOGIX is acquiring Innofis, a Barcelona-based digital banking competitor, for an undisclosed price, to expand its core digital banking business into the lucrative Middle Eastern markets. Noting that Innofis is fast growing and highly profitable, we would expect the value of the deal to be priced above the average of comparable transactions. As well as expanding the group's geographical coverage the acquisition broadens its product offering and creates an opportunity to grow the employee base in a significantly lower-cost market. We estimate that the deal will boost the group's operating margins by 200bp, but the level of value creation is dependent on the deal cost, and we are retaining our forecasts until more information is available.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/16	63.3	2.2	1.65	0.00	106.3	N/A
06/17	74.9	5.0	2.67	0.50	65.6	0.3
06/18e	82.3	8.1	5.24	1.00	33.4	0.6
06/19e	89.7	10.5	6.89	1.50	25.4	0.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Acquisition of Innofis

The acquisition fits with the group's strategy to target new markets and acquire customers and add product offerings. Innofis generates more than CHF10m of revenues and is highly profitable. CREALOGIX says the purchase will be mainly settled in CREALOGIX shares. David Moreno, the CEO and founder of Innofis, is selling his entire 98% shareholding and will hold more than 10% of the enlarged share capital; this suggests he would hold at least 145k CREALOGIX shares worth at least CHF25.4m at current market prices. Mr Moreno is staying with the company and will head its Middle Eastern operations.

Forecasts: Unchanged until we have more details

CREALOGIX has not disclosed precise details of the transaction and we need more information before we update our forecasts. Full details of the transaction will be available in a prospectus which is expected to be published before the end of March. While we could assume that two thirds of the consideration is in shares, the number of shares issued would depend on the share price used in the calculation. Based on the size of the share issue to the vendors, this would indicate a deal value of CHF35-40m at the current market price. Assuming that Innofis's operating margins were 30%, we estimate that the acquisition would boost CREALOGIX's operating margins by c 200bp. However, the level of earnings accretion and value creation will depend on the overall consideration, including the number of shares that will be issued.

Valuation: Deal solidifies the investment case

The acquisition creates a range of opportunities for management to accelerate revenue growth and boost margins. The stock trades on 33.4x our existing pre-deal earnings in FY18e, which falls to 25.4x in FY19e and to 22.5x in FY20e.

18 January 2018

Price CHF175
Market cap CHF192m

Net cash (CHFm) as at 30 June 2017	9.8
Shares in issue	1.09m
Free float	32%
Code	CLXN
Primary exchange	Switzerland
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.0	16.5	29.6
Rel (local)	(0.4)	11.8	8.4
52-week high/low	CHF100.0		CHF81.0

Business description

CREALOGIX Group provides digital banking technology solutions to banks, wealth managers and other financial services companies. The company's suite of solutions includes online and mobile banking, digital payments, digital learning and security.

Next events

Interim results	20 March 2018
Final results	18 September 2018

Analysts

Richard Jeans	+44 (0)20 3077 5700
Katherine Thompson	+44 (0)20 3077 5730

tech@edisongroup.com

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Acquisition of Innofis

CREALOGIX is buying Innofis for an undisclosed sum from David Moreno, its CEO and founder. The company says that most of the purchase price will be settle in shares, which suggests that potentially a third will be paid in cash and there is no mention of any deferred consideration. Given the size of the share issue, the company is issuing a prospectus and further details on the transaction will be given at the time of the results in March. David Moreno will become a member of the executive group management of CREALOGIX and will continue to be responsible for the Middle Eastern market. We understand that the reason the vendor chose to sell was because Innofis was looking for a strong partner to expand its markets.

Background on Innofis

Founded in 2012, Innofis has 120 staff, all of whom are based in Barcelona, Spain, which will increase the number of employees in the enlarged CREALOGIX group to c 540. Importantly, Innofis has tier one Middle Eastern bank customers, including NCB (National Commercial Bank) and the Al Rajhi Banking Corporation. This reflects the company's strategy to focus on the Middle Eastern markets which require English speaking skills. Innofis has smaller customers also, including non-banking Spanish domestic customers, but c 90% of revenues relate to digital banking.

Innofis operates a similar business model as CREALOGIX with on premise licence and maintenance along with hosted offerings. There is a strong preference for the traditional on premise software licensing model in the Middle Eastern market. Innofis has been growing consistently in double digits and generated revenues of c CHF10m in the year to December 2017. Innofis is highly profitable, and noting its relatively low cost base in Spain and lucrative customer base, we understand that it has 30%+ operating margins.

Key attractions of Innofis to CREALOGIX

While there is clearly an overlap of products, Innofis adds some interesting products to the CREALOGIX portfolio including predictive analytics (for marketing), a SaaS-based digital loyalty programme (facilitates a points-based reward system for retail customers), and a suite of specific modules for Islamic banking. As the CREALOGIX Digital Banking Hub is open, these modules can be integrated easily (while CREALOGIX's modules could also be integrated easily into the Innofis platform). Additionally, Innofis has greater experience with microservices, which will be advantageous for product development. Over time, the enlarged group will transition its customers to the CREALOGIX Digital Banking Hub and new customers will be encouraged to take the CREALOGIX platform.

CREALOGIX will aim to cross-sell its modules to Innofis customers, including its Wealth Management and Financial Advisory modules.

Previously without a Spanish office, CREALOGIX plans to take advantage of its new office infrastructure in Barcelona to prioritise staff growth in a market where staff are 50-75% cheaper than the group's core markets of Switzerland and Germany.

CREALOGIX wants to benefit from what it sees as a strategic shift away from oil in the Middle East towards a more diversified working environment which will include the need for more digital banking.

Exhibit 1: Financial summary

	CHF'000s	2015	2016	2017	2018e	2019e	2020e
Year end 30 June		Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP
PROFIT & LOSS							
Revenue		49,307	63,317	74,858	82,345	89,707	97,090
Gross Profit		37,017	51,693	59,695	67,198	74,814	82,428
EBITDA		(10,555)	3,696	7,304	9,879	12,170	13,983
Adjusted Operating Profit		(11,815)	2,264	5,916	8,579	10,920	12,783
Amortisation of acquired intangibles		(1,616)	(2,634)	(1,799)	(1,799)	(1,799)	(1,799)
Exceptionals		0	0	0	0	0	0
Operating Profit		(13,431)	(370)	4,117	6,780	9,121	10,984
Associates		(837)	517	(21)	250	263	276
Net Interest		95	(630)	(936)	(750)	(650)	(100)
Profit Before Tax (norm)		(12,557)	2,151	4,959	8,079	10,532	12,959
Profit Before Tax (Statutory)		(14,173)	(483)	3,160	6,280	8,733	11,160
Tax		3,899	(130)	(1,751)	(2,192)	(2,876)	(3,551)
Profit After Tax (norm)		(8,658)	2,021	3,208	5,887	7,657	9,407
Profit After Tax (Statutory)		(10,274)	(613)	1,409	4,088	5,858	7,608
Minority interest		0	(270)	(360)	(198)	(108)	(58)
Net income (norm)		(8,658)	1,751	2,848	5,689	7,549	9,349
Net income (Statutory)		(10,274)	(883)	1,049	3,890	5,750	7,550
Average Number of Shares Outstanding (m)		1.06	1.06	1.07	1.09	1.09	1.20
EPS - normalised (CHF)		(8.13)	1.65	2.67	5.24	6.89	7.80
EPS - Statutory (CHF)		(9.65)	(0.83)	0.98	3.58	5.25	6.30
Dividend per share (CHF)		2.00	0.00	0.50	1.00	1.50	2.00
Gross Margin (%)		75.1	81.6	79.7	81.6	83.4	84.9
EBITDA Margin (%)		(21.4)	5.8	9.8	12.0	13.6	14.4
Op Margin (before GW and except.) (%)		(24.0)	3.6	7.9	10.4	12.2	13.2
BALANCE SHEET							
Fixed Assets		20,371	28,910	26,430	24,401	22,564	20,924
Intangible assets and deferred tax		14,115	21,004	18,119	16,320	14,521	12,722
Tangible Assets		1,869	1,595	1,385	1,155	1,117	1,276
Investments & pensions		4,387	6,311	6,926	6,926	6,926	6,926
Current Assets		28,217	48,275	52,495	60,847	67,792	78,161
Stocks		3,447	3,661	3,419	3,761	4,097	4,434
Debtors		11,633	17,119	15,301	16,831	18,336	19,845
Cash		10,815	27,495	33,775	40,255	45,358	53,882
Current Liabilities		(19,183)	(24,752)	(24,219)	(26,546)	(50,716)	(31,253)
Creditors		(19,183)	(24,752)	(24,219)	(26,546)	(28,879)	(31,253)
Short term borrowings		0	0	0	0	(21,837)	0
Long Term Liabilities		(2,723)	(27,331)	(25,191)	(22,043)	(206)	(206)
Long term borrowings		0	(24,141)	(24,005)	(21,837)	0	0
Other long term liabilities		(2,723)	(3,190)	(1,186)	(206)	(206)	(206)
Net Assets		26,682	25,102	29,515	36,660	39,434	67,626
CASH FLOW							
Operating Cash Flow		(4,503)	1,281	9,735	10,291	12,618	14,469
Net Interest		91	5	(616)	(750)	(650)	(100)
Tax		(269)	(144)	(1,273)	(1,178)	(2,181)	(2,844)
Capex		(1,018)	(486)	(862)	(1,070)	(1,211)	(1,359)
Acquisitions/disposals		(4,158)	(9,350)	(346)	0	(2,387)	0
Financing		925	1,504	(215)	1,890	0	21,837
Dividends		(2,126)	0	0	(534)	(1,086)	(1,642)
Net Cash Flow		(11,058)	(7,190)	6,423	8,648	5,103	30,360
Opening net debt/(cash)		(21,724)	(10,815)	(3,354)	(9,770)	(18,418)	(23,521)
Other		149	(271)	(7)	0	0	0
Closing net debt/(cash)		(10,815)	(3,354)	(9,770)	(18,418)	(23,521)	(53,882)

Source: CREALOGIX (historics), Edison Investment Research (forecasts).

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