

# CREALOGIX Group

Exceptional H1, but a slower H2 is anticipated

Interim results

Software & comp services

CREALOGIX saw strong momentum in H117 on the back of the group's internationalisation strategy, supported by favourable digital banking industry dynamics. The numbers were boosted by several large deals that were booked earlier than anticipated and hence management anticipates slower licence sales in H2. While customers' decision making in the UK remains frozen following the Brexit vote, management continues to see the UK as one of the most attractive markets. The recent expansion in Germany is working out well, as demand remains strong. Given the strength of the H1 numbers, we have moved up our FY17 EBITDA forecasts from CHF4.0m to CHF6.0m. Given the attractive growth drivers and strong balance sheet, we believe the shares are attractive on 17x our FY19e EPS.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/15	49.3	(12.6)	(8.13)	0.00	N/A	N/A
06/16	63.3	2.2	1.65	0.00	71.0	N/A
06/17e	71.6	3.9	2.01	0.00	58.1	N/A
06/18e	76.9	6.4	4.38	0.00	26.7	N/A

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

## H1 results: EBITDA beats comfortably

Group H117 revenue jumped 28% to CHF35.8m as EBITDA surged by CHF4.0m to CHF4.1m. New licence sales rose by 24%, while recurring revenues (support & maintenance plus hosting & SaaS) lifted by 53%. International sales represented 50% of the total, up from 45% in FY16. Operating cash flow rose by CHF2.7m to CHF2.0m and the net cash position improved by CHF1.8m over the six months to CHF5.2m. Additionally, the deferred payment for MBA, which is expected to be paid in FY18, fell below CHF1m to reflect the challenging UK market, and hence the adjusted net cash position rose by CHF3.2m to CHF4.2m. Following the recent share price gain, the outstanding CHF25m convertible bond is well in the money.

## Forecasts: Profits move up, FY18 revenues eased

We have maintained our FY17 revenue forecasts, but tweaked the revenue mix, and we have lifted profits to reflect the healthy licence wins and tightly controlled costs. FY18 and FY19 revenues ease on declining hardware sales and a conservative reduction in hosting & SaaS to reflect the uncertainties in the UK following the Brexit vote. Attractive licence sale growth should continue to boost operating margins, and we now forecast the margin to rise to 11.7% in FY19 (previously 10.0%). Our FY17 operating cash flow rises by CHF2.0m to CHF6.4m.

## Valuation: Upside with growth and margin expansion

CREALOGIX has a heavily invested modern software platform and several key components are now in place to underpin strong revenue growth, while investment has peaked. While the shares look pricey on c 58x our FY17 EPS, this falls to c 17x in FY19 as the operating margin rises to 11.7%. We believe the margin can rise further if management executes successfully on its internationalisation strategy.

29 March 2017

Price

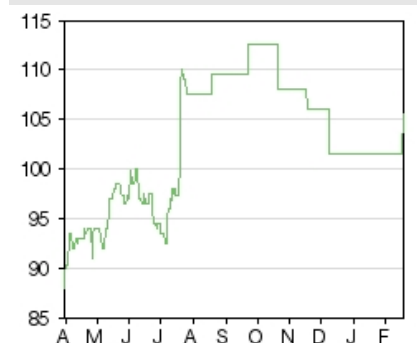
CHF117

Market cap

CHF124m

Net cash (CHFm) at 31 December 2016	5.2
Shares in issue	1.06m
Free float	30.0%
Code	CLXN
Primary exchange	Switzerland
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(0.9)	(0.5)	26.3
Rel (local)	(3.3)	(6.8)	18.0
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

Annual results	September 2017
AGM	October 2017

## Analysts

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

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

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## H117 results: EBITDA beats comfortably

Group revenue rose by 28% to CHF35.8m. On a constant currency basis, growth was c 30%, after a c CHF0.3m effect from the fall in sterling. Operating costs rose by a more modest 9%, enabling EBITDA to surge from CHF0.1m in the corresponding period to CHF4.1m. New licence sales rose by 24%, while recurring revenues (support & maintenance plus hosting & SaaS) lifted by 53%. International sales represented 50% of the total, up from 45% in FY16 and 37% in H116.

Licensing fees, which include additional licence sales to existing customers along with very significant support & maintenance revenue, rose by 48% to CHF17.6m. Hosting & SaaS rose by 30% to CHF2.2m, which is lower than we had expected due to the decline in sterling. The bulk of this category represents the UK-based customers the group acquired when it purchased MBA Systems at the beginning of 2015. Services rose by 17% to CHF14.4m and services business will remain very active in H2 on the back of recent licence implementations. Hardware sales slipped by 8% to CHF1.5m as the group remains focused on developing its software revenue.

ELAXY Financial Software & Solutions (ELAXY FS&S) has been performing well. It has boosted the group's position in digital banking advisory software solutions and expanded its customer base in Germany. The partnership with Fiducia & GAD, which sold ELAXY to CREALOGIX, has been progressing well. CREALOGIX's front-end advisory solutions are integrated with Fiducia & GAD's core banking offerings and around one-third of new German customers are derived from the relationship.

Associated undertakings showed a small loss, as losses at 37.5%-owned Qontis outweighed a small profit from 20%-owned ELAXY Business Solution & Services (ELAXY BS&S).

The tax rate was higher than normal, due to the strong profitability, declining tax losses available and a final agreement with Swiss tax authorities concerning the years since 1 July 2012.

### Exhibit 1: Half-by-half analysis

	2016			2017e			2018e
	H1a	H2e	FY	H1a	H2e	FY	FY
Services	12,300	12,860	25,160	14,417	14,165	28,582	26,657
Goods	1,945	1,802	3,747	1,499	1,499	2,998	2,698
Hosting & SaaS services	1,720	2,808	4,528	2,240	2,350	4,590	7,560
Licensing fees	11,924	17,958	29,882	17,620	17,810	35,430	40,018
<b>Total Revenue</b>	<b>27,889</b>	<b>35,428</b>	<b>63,317</b>	<b>35,776</b>	<b>35,824</b>	<b>71,600</b>	<b>76,932</b>
Gross profit	22,316	29,377	51,693	28,354	29,785	58,139	65,339
Gross Margin	80.0%	82.9%	81.6%	79.3%	83.1%	81.2%	84.9%
Opex before depn & amortisation	(22,198)	(25,799)	(47,997)	(24,211)	(27,928)	(52,139)	(57,311)
Adjusted EBITDA	118	3,578	3,696	4,143	1,857	6,000	8,028
Depreciation	(630)	(802)	(1,432)	(684)	(566)	(1,250)	(1,150)
Adjusted operating profit	(512)	2,776	2,264	3,459	1,291	4,750	6,878
Operating Margin	(1.8%)	7.8%	3.6%	9.7%	3.6%	6.6%	8.9%
Associates	571	(54)	517	(237)	237	0	250
Net interest	(132)	(498)	(630)	(467)	(383)	(850)	(725)
Edison Profit Before Tax (norm)	(73)	2,224	2,151	2,755	1,145	3,900	6,403
Amortisation of acquired intangibles	(1,003)	(1,631)	(2,634)	(903)	(797)	(1,700)	(1,400)
Profit before tax (FRS 3)	(1,076)	593	(483)	1,852	348	2,200	5,003

Source: CREALOGIX, Edison Investment Research

## Capital structure

The healthy H117 EBITDA on CHF4.1m translated to an operating cash flow (before interest and tax) of CHF2.5m and helped boost the group's net cash position by CHF1.8m over the six months to CHF5.2m. Additionally, the deferred payment for MBA, which is expected to be paid in FY18, fell below CHF1m to reflect the challenging UK market, and hence the adjusted net cash position rose

by CHF3.2m to CHF4.2m. Following the recent share price gain, the outstanding CHF25m convertible bond is comfortably above the CHF104.5 conversion price.

Assuming all the bonds convert, it will require 239,234 new shares to be issued, representing 18.4% of the expanded share capital. Based on pro forma numbers, that would return the group to c CHF22.7m net cash while nearly doubling net assets to c CHF48m. In achieving this number, we have assumed a deferred payment of CHF2.4m for the 20% of ELAXY FS&S that the group does not own. However, we have ignored the 80% of ELAXY BS&S, as this is growing slowly and a purchase decision is at CREALOGIX's option. CREALOGIX does not record either of these potential ELAXY acquisition costs as liabilities in its accounts as it is not required to do so under Swiss GAAP.

#### Exhibit 2: Balance sheet position

CHF000s	30/06/15	30/12/15	30/06/16	31/12/16	31/12/16	31/12/16
			Book value	Book value	Adjusted*	Bonds convert
Cash & ST securities	(10,815)	(36,658)	(27,495)	(29,433)	(29,433)	(29,433)
Short-term borrowings	0	0	0	0	0	0
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	0	23,995	24,141	24,260	25,000	0
Net cash	(10,815)	(12,663)	(3,354)	(5,173)	(4,433)	(29,433)
Short-term securities	(2,322)	0	0	0	0	0
MBA deferred payment	2,630	2,654	2,370	980	980	980
Assumed ELAXY FS&S deferred payment	0	0	0	0	2,387	2,387
Adjusted net debt (cash)	(10,507)	(10,009)	(984)	(4,193)	(1,066)	(26,066)
Net assets	26,682	25,335	25,102	27,124	24,243	48,384
Debt/equity	(39.4%)	(39.5%)	(3.9%)	(15.5%)	(4.4%)	(53.9%)

Source: CREALOGIX, Edison Investment Research. Note: We assume the remaining 20% of FS&S is purchased for €2.4m in FY20. The €25m convertible bonds are shown in the balance sheet at an accreting value and, if not exercised, will be redeemed at par in November 2019.

## Outlook: Remains underpinned by a healthy pipeline

Management is expecting slower licence sales in H2, as disproportionate pipeline sales slipped into H1, and there is a long sales cycle of six to 18 months, or more typically nine to 12 months.

Demand remains very healthy in the German market. However, sales in the UK remain frozen following the Brexit vote. Nevertheless, management is very optimistic in the outlook for the UK as banks will have to invest in digitalisation projects. Overall, management says it continues to expect double-digit growth in sales in FY17, and with a higher EBITDA than in FY16.

Management has continued to maintain its medium-term targets, with revenue growth rates of at least 20% and a minimum EBITDA margin of 10% as annual averages. The international side of the business should contribute at least 50% to total sales and the target for the proportion of sales attributable to products is at least 70%. Near-term international growth is largely from Germany, with some growth also expected in the UK, while the group's position in Asia remains nascent. The Singapore office was established to follow the group's European customers into the Asian market.

## Forecast changes: Profits move up, revenues eased

We have maintained our FY17 revenue forecasts, but tweaked the revenue mix, and we have lifted profits to reflect the healthy licence wins and tightly controlled costs. We have conservatively cut our hosting & SaaS forecasts to reflect the uncertainties in the UK market following the Brexit vote. Nevertheless, we still anticipate healthy growth in the UK. We have eased hardware sales as the company focuses on driving software sales. High-margin software licence sales growth should continue to boost operating profitability, and we now forecast the margin to rise to 11.7% in FY19

(previously 10.0%). Our FY17 operating cash flow forecast rises by CHF2.0m to CHF6.4m. We estimate the currency impact from the fall in sterling at CHF0.8-0.9m of revenues for the full year.

We continue to forecast strong growth in software revenues (including hosting & SaaS) of 16% in FY17, 19% in FY18 and 17% in FY19. In all, we forecast revenues to grow by 7% to CHF76.9m in FY18 (previously CHF78.7m) and by 10% to CHF84.4m in FY19 (previously CHF86.2m). We forecast CHF6.0m EBITDA in FY17 (previously CHF4.0m), rising to CHF8.0m in FY18 (CHF7.4m) and to CHF10.9m in FY19 (CHF9.5m). The figures do not include any additional acquisitions.

We forecast operating costs (before depreciation) to rise 9% to CHF52.1m, reflecting a full period from ELAXY in FY17. We note that CREALOGIX expenses all its R&D costs. This leaves the group with an adjusted operating margin of 6.6% in FY17. While noting that margins are difficult to forecast, we are estimating operating margins to rise to 8.9% in FY18 and to 11.7% in FY19 as the group scales up its international revenues.

Associates represent 37.5% of Qontis, which is very difficult to forecast, and 20% of ELAXY BS&S (the ELAXY hosting business), which we expect to generate c CHF0.2m on a full-year basis.

Net interest includes the coupon on the convertible bond, which amounts to CHF594k per year.

Goodwill is amortised over five to 10 years under Swiss GAAP and we are forecasting amortisation of CHF1.7m in FY17 (against CHF2.6m in FY16), falling to CHF1.4m in FY18. The decline is due to goodwill from previous acquisitions having been fully amortised.

We continue to forecast a tax rate of 27% on normalised profits in FY17, easing to 26% in FY18 and to 25% in FY19.

The minority interest represents the 20% outstanding in ELAXY FS&S, which we anticipate will be acquired by CREALOGIX at the beginning of FY21.

### Exhibit 3: Forecast changes

	Old	New	Change	Old	New	Change	Old	New	Change
	2017e	2017e	(%)	2018e	2018e	(%)	2019e	2019e	(%)
Revenues (€'000s)									
Services	26,775	28,582	7	26,657	26,657	0	26,248	26,248	0
Goods	3,185	2,998	(6)	2,866	2,698	(6)	2,723	2,563	(6)
Hosting & SaaS services	6,210	4,590	(26)	9,180	7,560	(18)	12,150	10,530	(13)
Licensing fees	35,430	35,430	0	40,018	40,018	0	45,085	45,085	0
Total Group revenues	71,600	71,600	0	78,720	76,932	(2)	86,206	84,426	(2)
Growth (%)	13.1	13.1		9.9	7.4		9.5	9.7	
Gross profit	59,739	58,139	(3)	68,012	65,339	(4)	76,090	73,962	(3)
Gross margin (%)	83.4	81.2		86.4	84.9		88.3	87.6	
Opex before depn & amortisation	(55,710)	(52,139)	(6)	(60,647)	(57,311)	(6)	(66,556)	(63,041)	(5)
EBITDA	4,030	6,000	49	7,364	8,028	9	9,534	10,922	15
Normal depreciation	(1,200)	(1,250)	4	(1,100)	(1,150)	5	(914)	(1,050)	15
Adjusted operating profit	2,830	4,750	68	6,264	6,878	10	8,621	9,872	15
Operating margin (%)	4.0	6.6		8.0	8.9		10.0	11.7	
Growth (%)	25.0	109.8		121.4	44.8		37.6	43.5	
Associates	200	0	(100)	250	250	0	263	263	0
Net interest	(550)	(850)	55	(500)	(725)	45	(475)	(625)	32
Profit before tax norm	2,480	3,900	57	6,014	6,403	6	8,408	9,509	13
Amortisation of acquired intangibles	(1,700)	(1,700)	0	(1,400)	(1,400)	0	(1,400)	(1,400)	0
Profit before tax	780	2,200	182	4,614	5,003	8	7,008	8,109	16
Taxation	(616)	(1,463)	138	(1,499)	(1,600)	7	(2,036)	(2,312)	14
Minority interest	(305)	(305)	0	(168)	(164)	(2)	(92)	(90)	(2)
Net income	(141)	432	(406)	2,948	3,239	10	4,880	5,707	17
Statutory EPS (CHF)	(0.13)	0.41	(406)	2.78	3.06	10	4.61	5.39	17
Adjusted EPS (CHF)	1.47	2.01	37	4.11	4.38	7	5.93	6.71	13
P/E - Adjusted EPS		58.1			26.7			17.4	

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

**Exhibit 4: Financial summary**

	CHF'000s	2014	2015	2016	2017e	2018e	2019e
Year end 30 June		Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP
<b>PROFIT &amp; LOSS</b>							
Revenue		50,113	49,307	63,317	71,600	76,932	84,426
Gross Profit		41,461	37,017	51,693	58,139	65,339	73,962
EBITDA		1,710	(10,555)	3,696	6,000	8,028	10,922
Adjusted Operating Profit		501	(11,815)	2,264	4,750	6,878	9,872
Amortisation of acquired intangibles		(1,609)	(1,616)	(2,634)	(1,700)	(1,400)	(1,400)
Exceptionals		0	0	0	0	0	0
Operating Profit		(1,108)	(13,431)	(370)	3,050	5,478	8,472
Associates		(915)	(837)	517	0	250	263
Net Interest		168	95	(630)	(850)	(725)	(625)
Profit Before Tax (norm)		(246)	(12,557)	2,151	3,900	6,403	9,509
Profit Before Tax (Statutory)		(1,855)	(14,173)	(483)	2,200	5,003	8,109
Tax		331	3,899	(130)	(1,463)	(1,600)	(2,312)
Profit After Tax (norm)		85	(8,658)	2,021	2,438	4,803	7,197
Profit After Tax (Statutory)		(1,524)	(10,274)	(613)	738	3,403	5,797
Minority interest		0	0	(270)	(305)	(164)	(90)
Net income (norm)		85	(8,658)	1,751	2,132	4,639	7,107
Net income (Statutory)		(1,524)	(10,274)	(883)	432	3,239	5,707
<b>BALANCE SHEET</b>							
Fixed Assets		14,865	20,371	28,910	26,927	25,473	24,289
Intangible assets and deferred tax		6,169	14,115	21,004	19,304	17,904	16,504
Tangible Assets		1,841	1,869	1,595	1,312	1,258	1,474
Investments & pensions		6,855	4,387	6,311	6,311	6,311	6,311
Current Assets		40,273	28,217	48,275	55,294	60,862	72,452
Stocks		3,563	3,447	3,661	4,140	4,448	4,882
Debtors		12,424	11,633	17,119	19,358	20,800	22,826
Cash		21,724	10,815	27,495	31,796	35,613	44,745
Current Liabilities		(15,367)	(19,183)	(24,752)	(27,886)	(30,058)	(57,891)
Creditors		(15,367)	(19,183)	(24,752)	(27,886)	(30,058)	(32,991)
Short term borrowings		0	0	0	0	0	(24,900)
Long Term Liabilities		(1,350)	(2,723)	(27,331)	(25,940)	(25,160)	(560)
Long term borrowings		0	0	(24,141)	(24,400)	(24,600)	0
Other long term liabilities		(1,350)	(2,723)	(3,190)	(1,540)	(560)	(560)
Net Assets		38,421	26,682	25,102	28,395	31,117	38,291
<b>CASH FLOW</b>							
Operating Cash Flow		5,517	(4,503)	1,281	6,358	8,413	11,343
Net Interest		34	91	5	(850)	(725)	(625)
Tax		(293)	(269)	(144)	(500)	(1,014)	(1,601)
Capex		(859)	(1,018)	(486)	(967)	(1,096)	(1,266)
Acquisitions/disposals		(253)	(4,158)	(9,350)	0	(980)	0
Financing		(6,515)	(1,201)	1,504	0	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(2,369)	(11,058)	(7,190)	4,042	4,598	7,851
Opening net debt/(cash)		(24,101)	(21,724)	(10,815)	(3,354)	(7,396)	(11,993)
Other		(8)	149	(271)	(0)	0	(0)
Closing net debt/(cash)		(21,724)	(10,815)	(3,354)	(7,396)	(11,993)	(19,845)

Source: Company data, Edison Investment Research. Note: The FY18 outflow represents the outstanding acquisition liabilities for MBA Systems.

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