

CREALOGIX Group

SaaS switch depresses margins

Trading update and acquisition

Software & comp services

FY18 revenues grew by 13.1% at constant currencies (guidance was 10–15%), to CHF87.1m (we forecast CHF88.1m). EBITDA eased by 4.2% to CHF7.0m (we forecast CHF11.8m), mainly driven by the switch to SaaS. We have updated our forecasts for the trading news along with the acquisition of 80% of Elaxy Business Solution & Services (Elaxy BS&S) that was announced early last month. We have cut our EPS forecasts by 50% in FY18, 46% in FY19 and by 31% in FY20, with the trading news outweighing the earnings enhancement from Elaxy BS&S. The stable, cash-generative nature of Elaxy BS&S balances the higher-risk, stronger growth profile of Innofis, which was acquired at the beginning of 2018.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/16	63.3	2.2	1.65	0.00	92.3	N/A
06/17	74.9	5.0	2.67	0.50	57.0	0.3
06/18e	87.1	5.1	2.88	1.00	52.8	0.7
06/19e	110.2	8.1	4.09	1.50	37.1	1.0

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

Trading update: Local currency growth was 13.1%

All new business in Germany has been on a recurring basis; had it been on a traditional licence basis, revenues would have been CHF3.8m higher. This was due to a greater than anticipated switch to the SaaS, which meant that the 8.1% EBITDA margin was below the >10% management guidance.

Acquisition of Elaxy Business Solution & Services

CREALOGIX has exercised a call option to acquire the remaining 80% of Elaxy BS&S at an undisclosed price. Elaxy BS&S offers solutions in the areas of digital brokerage, external asset management and hosting services. CREALOGIX purchased its original 20% as part of a long-term commercial agreement with Fiducia & GAD that was announced in October 2015.

Forecasts: EPS falls by 46% in FY19 and 31% in FY20

We have cut our revenue and profit forecasts for the trading update and also incorporated Elaxy BS&S. We have assumed a cost of CHF8.5m for the 80% stake of Elaxy BS&S, based on the original Elaxy transaction, which was incorporated into the balance sheet in January 2016. Consequently, our revenues rise by 8% in FY19 and 9% in FY20, while EPS falls by 46% in FY19 and 31% in FY20. We now forecast the group to end FY19 with net cash of CHF15.2m (previously CHF27.8m).

Valuation: 10% growth with 15% operating margins would imply significant upside

A DCF scenario incorporating 10% organic revenue CAGR over 2019–29e falling thereafter to 2%, operating margins tapering up to a level of 15% from FY22e, along with a 9% WACC, would suggest a valuation of CHF217, 43% above the current share price. Increasing the margin target to 20% lifts the valuation to CHF284, while reducing the margin to 10% cuts it to CHF150. These valuations are after the dilution impact from the outstanding convertible bonds.

28 August 2018

Price CHF152
Market cap CHF211m

Net cash (CHFm) at 31 December 2017	16.3
Shares in issue	1.39m
Free float	42%
Code	CLXN
Primary exchange	Switzerland
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.1	(9.6)	26.4
Rel (local)	(0.9)	(11.4)	26.9
52-week high/low	CHF100	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 event

Final results	18 September 2018
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Trading update: New customers sign up with SaaS

Revenues grew by 16.4%, or 13.1% at constant currencies, to CHF87.1m (we forecast CHF88.1m). This compared with management guidance of 10–15% growth. All new licence wins in Germany were in SaaS form; had these been traditional licences, revenues would have been CHF3.8m higher. SaaS rental revenue model means much lower upfront payments, but the model is more lucrative over the long term with break-even after four years. However, we had already been expecting strong SaaS growth, and we understand the level of new licence wins was below our expectations.

EBITDA eased by 4.2% to CHF7.0m (we forecast CHF11.8m). The 8.1% EBITDA margin was below the >10% management target. Management puts this down to a greater-than-anticipated switch to the SaaS rental model, which provides stronger visibility to future revenues.

The net profit was CHF0.9m (FY17: CHF1.4m). Internationalisation has continued as the share of sales generated outside of Switzerland increased to 57% (FY17: 50%).

Management has affirmed its medium-term growth and profitability targets with annual sales growth of more than 20% and an EBITDA margin of more than 15%.

Further awards highlight the value of CREALOGIX's technology

CREALOGIX's technology continues to win awards. Recent awards include Best of Show at FinovateEurope 2018, which follows the same prize in 2017, and Best Web Front End Solution at the Systems in the City Awards 2018 in London.

Acquisition of Elaxy Business Solution & Services

CREALOGIX has exercised a call option to acquire the remaining 80% of Elaxy BS&S at an undisclosed price. Elaxy BS&S has hosting assets as well as software solutions for brokerage and asset management industries. The acquisition adds well-known names such as Sparkassen Broker and DAB BNP Paribas to the customer base. Elaxy BS&S operates its own data centre in Coburg, Germany, which is particularly helpful for German customers, who typically do not want their data to be outside Germany. In addition, it boosts the group's know-how in areas including regulation and data security. Elaxy BS&S generates more than €10m in revenues, of which around half are recurring, and employs around 100 people. In the year to June 2017, CREALOGIX's 20% stake contributed net profit of CHF407k, indicating that the entire business generated net income of CHF2,035k (or €1,884k). This was up from CHF269m in FY16 (CHF1,345k for a 100% interest).

The deal is earnings-enhancing since the acquired business is profitable and it is being financed by zero-yielding cash. However, as this is part of an existing deal announced in October 2015, it was largely discounted by the market, in our view.

CREALOGIX initially acquired a 20% stake in Elaxy BS&S in January 2016 as part of a broader co-operation agreement with the vendor, Fiducia & GAD, a provider of core banking solutions. As part of the deal, CREALOGIX also acquired 80% of Elaxy Financial Software & Solutions (Elaxy FS&S), and CREALOGIX retains a call option to acquire the remaining 20%. The transaction enabled CREALOGIX to accelerate its plan of penetrating the German market. Following the acquisition of the remaining 80% of Elaxy BS&S, the two Elaxy businesses are being rebranded as CREALOGIX.

CREALOGIX retains a healthy balance sheet position, with cash of CHF30.4m as at 31 December 2017, along with CHF14.1m of convertible bonds and CHF0.9m of other financial liabilities (which is matched with a long-term asset of the same size). That resulted in a net cash position of CHF16.3m

at that date. However, the convertible bonds continue to trade well above their conversion price and have been actively converting, and consequently the outstanding financial liabilities have been declining. The group acquired Innofis early this year for an effective CHF11.1m.

Forecasts: Core business cut, Elaxy BS&S added

We have conservatively cut our hosting & SaaS forecasts, as our forecasts have been slightly aggressive. We have moved up our services revenue forecasts, noting these have been 1.9–2.3x licensing revenues over the past four years, and our current forecast implies 1.6x services revenue. Prior to incorporating Elaxy BS&S, this leaves revenues down 1% in FY18, down 2% in FY19 and flat in FY20.

We conservatively forecast that Elaxy BS&S will generate revenues of CHF10.0m in the year to June 2019, rising by 5% to CHF10.5m in FY20. We estimate that Elaxy BS&S has an EBITDA margin in the 10–15% range and hence we forecast an operating margin of 11.5% in FY19, rising to 12% in FY20. We have increased our group depreciated forecast, given the hardware assets of Elaxy BS&S.

We have assumed that the acquisition of the remaining 80% of Elaxy BS&S cost CHF8.5m, based on a valuation in line with the original deal, but assuming a lower level of cash on the balance sheet of the acquired business.

In all, we forecast group revenues to rise 16% in FY18 to CHF87.1m, 26% in FY19 to CHF110.2m and by 10% in FY20 to CHF121.0m. EBITDA comes back by 41% in FY18 to CHF7.0m (8.0% EBITDA margin), by 32% in FY19 to CHF11.1m (10.1% EBITDA margin) and by 21% in FY20 to CHF14.7m (12.1% EBITDA margin). The rising margin trend is driven by the scaling up of the business, including the SaaS revenues from a low base. We now forecast the group to end FY18 with net cash of CHF15.2m, which falls to CHF12.9m at end-FY19 (after the payment for Elaxy BS&S) and increases to CHF30.1m at end-FY20 as the outstanding convertible bonds convert.

Exhibit 1: Elaxy BS&S forecasts		
CHF000s	2019	2020
Revenues	10,000	10,500
Gross profit	8,500	8,925
Gross margin (%)	85	85
Operating expenses	(7,350)	(7,665)
Operating profit	1,150	1,260
Operating margin (%)	11.5	12.0
Source: Edison Investment Research		

We have removed the 20% of Elaxy BS&S from associates, and we assume the Qontis investment generates zero going forward. Hence, we forecast no income from associates. We have maintained our net interest forecasts, as the transaction is financed by existing cash resources. The resulting forecast changes for CREALOGIX are shown in the table below.

Exhibit 2: Forecast changes

	Previous	New	Change	Previous	New	Change	Previous	New	Change
	2018e	2018e	(%)	2019e	2019e	(%)	2020e	2020e	(%)
Revenues (CHF'000s)									
Licensing fees	17,920	17,920	0	21,382	20,382	(5)	23,146	22,910	(1)
Maintenance	25,200	25,200	0	26,670	26,670	0	28,560	28,350	(1)
Hosting and SaaS services	7,560	5,940	(21)	10,800	7,020	(35)	14,580	8,640	(41)
Services	28,200	28,807	2	27,737	30,283	9	27,998	33,861	21
Goods	3,465	3,465	0	3,119	3,119	0	2,807	2,807	0
Innofis	5,768	5,768	0	12,691	12,691	0	13,960	13,960	0
Elaxy BS&S					10,000	N/A		10,500	N/A
Total Group revenues	88,113	87,100	(1)	102,398	110,164	8	111,050	121,027	9
Growth (%)	17.7	16.4		16.2	26.5		8.4	9.9	
Gross profit	72,101	67,273	(7)	85,601	86,619	1	94,294	95,708	1
Gross margin(%)	81.8	77.2		83.6	78.6		84.9	79.1	
Opex before depn & amortisation	(60,273)	(60,273)	0	(69,157)	(75,507)	9	(75,624)	(81,011)	7
EBITDA	11,829	7,000	(41)	16,444	11,111	(32)	18,670	14,696	(21)
EBITDA margin (%)	13.4	8.0		16.1	10.1		16.8	12.1	
Normal depreciation	(1,375)	(1,375)	0	(1,400)	(2,400)	71	(1,350)	(2,350)	74
Adjusted operating profit	10,454	5,625	(46)	15,044	8,711	(42)	17,320	12,346	(29)
Operating margin (%)	11.9	6.5		14.7	7.9		15.6	10.2	
Growth (%)	76.7	(4.9)		43.9	54.9		15.1	41.7	
Associates	250	250	0	263	0	(100)	276	0	(100)
Net interest	(750)	(750)	0	(650)	(650)	0	(100)	(100)	0
Profit before tax norm	9,954	5,125	(49)	14,657	8,061	(45)	17,495	12,246	(30)
Amortisation of acq'd intangibles	(1,799)	(3,100)	195	(1,799)	(5,300)	195	(1,799)	(5,300)	195
Exceptional items (net of tax)	(500)	(500)		0	0		0	0	
Profit before tax	7,655	(1,525)	(109)	12,858	2,761	(79)	15,696	6,946	(56)
Taxation	(2,717)	(1,365)	(50)	(4,030)	(2,257)	(44)	(4,822)	(3,429)	(29)
Minority interest	(212)	(212)	0	(123)	(123)	0	(67)	(67)	0
Net income	4,726	(52)	(148)	8,704	381	(96)	10,808	3,451	(68)
Statutory EPS (CHF)	3.85	(0.04)	(147)	6.32	0.27	(96)	7.57	2.41	(68)
Adjusted EPS (CHF)	5.72	2.88	(50)	7.62	4.09	(46)	8.83	6.10	(31)
P/E - Adjusted EPS		52.8			37.1			24.9	

Source: Edison Investment Research

Exhibit 3: 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	87,100	110,164	121,027
Gross Profit		37,017	51,693	59,695	67,273	86,619	95,708
EBITDA		(10,555)	3,696	7,304	7,000	11,111	14,696
Adjusted Operating Profit		(11,815)	2,264	5,916	5,625	8,711	12,346
Amortisation of acquired intangibles		(1,616)	(2,634)	(1,799)	(3,100)	(5,300)	(5,300)
Exceptionals		0	0	0	(500)	0	0
Operating Profit		(13,431)	(370)	4,117	2,025	3,411	7,046
Associates		(837)	517	(21)	250	0	0
Net Interest		95	(630)	(936)	(750)	(650)	(100)
Profit Before Tax (norm)		(12,557)	2,151	4,959	5,125	8,061	12,246
Profit Before Tax (Statutory)		(14,173)	(483)	3,160	1,525	2,761	6,946
Tax		3,899	(130)	(1,751)	(1,365)	(2,257)	(3,429)
Profit After Tax (norm)		(8,658)	2,021	3,208	3,760	5,804	8,817
Profit After Tax (Statutory)		(10,274)	(613)	1,409	160	504	3,517
Minority interest		0	(270)	(360)	(212)	(123)	(67)
Net income (norm)		(8,658)	1,751	2,848	3,548	5,681	8,751
Net income (Statutory)		(10,274)	(883)	1,049	(52)	381	3,451
Average Number of Shares Outstanding (m)		1.06	1.06	1.07	1.23	1.39	1.43
EPS - normalised (CHF)		(8.13)	1.65	2.67	2.88	4.09	6.10
EPS - Statutory (CHF)		(9.65)	(0.83)	0.98	(0.04)	0.27	2.41
Dividend per share (CHF)		2.00	0.00	0.50	1.00	1.50	2.00
Gross Margin (%)		75.1	81.6	79.7	77.2	78.6	79.1
EBITDA Margin (%)		(21.4)	5.8	9.8	8.0	10.1	12.1
Op Margin (before GW and except.) (%)		(24.0)	3.6	7.9	6.5	7.9	10.2
BALANCE SHEET							
Fixed Assets		20,371	28,910	26,430	60,087	63,091	57,740
Intangible assets and deferred tax		14,115	21,004	18,119	52,019	55,219	49,919
Tangible Assets		1,869	1,595	1,385	1,142	946	895
Investments & pensions		4,387	6,311	6,926	6,926	6,926	6,926
Current Assets		28,217	48,275	52,495	46,264	49,724	60,384
Stocks		3,447	3,661	3,419	3,978	5,032	5,528
Debtors		11,633	17,119	15,301	17,803	22,517	24,738
Cash		10,815	27,495	33,775	24,482	22,175	30,118
Current Liabilities		(19,183)	(24,752)	(24,219)	(27,787)	(43,538)	(37,623)
Creditors		(19,183)	(24,752)	(24,219)	(27,787)	(34,238)	(37,623)
Short term borrowings		0	0	0	0	(9,300)	0
Long Term Liabilities		(2,723)	(27,331)	(25,191)	(10,357)	(1,057)	(1,057)
Long term borrowings		0	(24,141)	(23,154)	(9,300)	0	0
Other long term liabilities		(2,723)	(3,190)	(2,037)	(1,057)	(1,057)	(1,057)
Net Assets		26,682	25,102	29,515	68,207	68,219	79,444
CASH FLOW							
Operating Cash Flow		(4,503)	1,281	9,735	7,435	11,662	15,301
Net Interest		91	5	(616)	(750)	(650)	(100)
Tax		(269)	(144)	(1,273)	(1,178)	(1,384)	(2,177)
Capex		(1,018)	(486)	(862)	(1,132)	(2,203)	(2,300)
Acquisitions/disposals		(4,158)	(9,350)	(346)	(38,788)	(8,500)	(700)
Financing		925	1,504	(215)	27,387	0	0
Dividends		(2,126)	0	0	(954)	(1,232)	(2,082)
Net Cash Flow		(11,058)	(7,190)	6,423	(7,980)	(2,307)	7,943
Opening net debt/(cash)		(21,724)	(10,815)	(3,354)	(10,621)	(15,182)	(12,875)
Other		149	(271)	844	12,541	0	9,300
Closing net debt/(cash)		(10,815)	(3,354)	(10,621)	(15,182)	(12,875)	(30,118)

Source: CREALOGIX Group (historics), Edison Investment Research (forecasts). Note: The FY19 and FY20 acquisition outflows represents the final payments for Elaxy BS&S and MBA respectively with a final payment for Elaxy FS&S expected in FY21. We have treated the convertible bond conversions in FY18 and FY20 in the Other category.

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