

# CREALOGIX Group

Interim results

Recurring revenue jumps 48%

Recurring revenue grew by 48% to represent 44% of H1 sales, reflecting an ongoing shift to SaaS and the acquisition of Elaxy BS&S. However, due to uncertainties over the timing of new contracts and the magnitude of the shift to SaaS, management has reduced its FY19 EBITDA guidance and deferred its long-term projections until later in the year. We have cut our EBITDA forecasts by 25% in FY20 and by 26% FY21. Nevertheless, the digital banking industry dynamics remain attractive and pure-play CREALOGIX has a strong pipeline. In our view, CREALOGIX is uniquely positioned in this industry and is an attractive play on digital banking.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/17	74.9	5.0	2.59	0.50	37.8	0.5
06/18	87.1	5.0	2.39	0.25	41.0	0.3
06/19e	107.3	3.5	1.67	0.75	58.8	0.8
06/20e	115.4	8.1	4.16	1.25	23.6	1.3

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

## Interim results: 28% local currency revenue growth

H1 revenues grew by 29% to CHF51.0m, including a 1% benefit from currency movements and full period contributions from Innofis and Elaxy BS&S, which were acquired in January 2018 and July 2018 respectively. Recurring revenue grew by 48% to CHF22.3m to represent 44% of H1 group revenue. Sales outside Switzerland represented 64% of total revenue, up from 58% in H118. The EBITDA margin fell by 470bp to 6.4% but was an improvement on the H218 margin of 5.6%.

## Digital banking remains in a strong growth phase

CREALOGIX has been benefiting from the open banking wave. PSD2, which came into force in January 2018, is driving the digital transformation of the financial industry across the EU. Additional rules that require banks to provide open interfaces, or APIs, for authorised third-party providers came into effect in mid-March 2019. APIs are key to creating a digital ecosystem for customers.

## Forecast changes: EBITDA cut 25/26% in FY20/FY21

Company guidance remains for FY19 revenues to exceed CHF100m while H2 EBITDA guidance is now for at least the H1 level. We have cut our revenues by 3% in FY19 to CHF107.3m, with FY20 and FY21 coming back by 5% and 7%. We have also cut our EBITDA margins, hence EBITDA falls by 37% in FY19, 25% in FY20 and by 26% in FY21. These cuts reflect the delayed contracts and the ongoing shift to SaaS. We now forecast the group to end FY19 with net cash of CHF4.5m after the refinancing of the remaining convertible bonds in November.

## Valuation: 10% revenue CAGR with 10%+ operating margins would imply substantial upside

A DCF scenario incorporating 10% organic revenue CAGR over 2019–29e falling thereafter to 2%, operating margins of 10% from FY22e along with a 9% WACC would suggest a valuation of CHF148 per share, c 51% above the current share price. Increasing the margin to 15% from FY25e lifts the value to CHF209 p/sh.

Software &amp; comp services

28 March 2019

Price **CHF98.00**  
Market cap **CHF136m**

Net cash (CHFm) at 31 December 2018	0.0
Shares in issue	1.39m
Free float	37%
Code	CLXN
Primary exchange	Switzerland
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(3.0)	(10.9)	(43.4)
Rel (local)	(2.7)	(22.2)	(47.9)
52-week high/low	CHF172	CHF93	

### 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

Final results	17 September
AGM	28 October
German Equity Forum	25–27 November

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## Interim results: Switch to SaaS continues

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H1 revenues grew by 28% to CHF51.0m at constant currencies, along with a 1% benefit from currency movements and full period contributions from Innofis and Elaxy BS&S, which were acquired in January 2018 and July 2018 respectively. The company did not provide organic growth figures as the new businesses are integrated and difficult to detangle. However, based on our initial forecasts of c CHF10m annual revenues for each of these acquired business, along with some modest growth at Innofis, this would suggest that H1 organic revenue growth was broadly flat.

Nevertheless, this organic growth is also clouded by the decline in (one-off) licence revenue as customers increasingly move to SaaS. We note that a CHF1m traditional perpetual licence deal would typically generate CHF1m plus 20% maintenance revenue in the first year while on a SaaS basis this would be c CHF450k (ie, CHF1,800/4), proportionate for the period. A new SaaS contract signed on the first day of last month of the financial year will only generate CHF38k of revenue in the first financial year. However, the SaaS model is more lucrative over the long-term, breaking even after four years and generating significantly more revenue thereafter (ie CHF450k per annum compared with CHF200k per year for the perpetual licence model).

There were delays in new contract wins in H1, which management says, reflect the significantly increased deal size that CREALOGIX is signing and the longer sales cycles associated with these deals. Meanwhile the uncertainty over Brexit has been deferring decision making in the UK. Despite these issues, CREALOGIX has a strong pipeline but there are uncertainties over the timing and form (SaaS or traditional) of new deals. CREALOGIX is in negotiation with Tier 1 banks and is optimistic it will close several deals in the next few months. As a number of these are likely to be on a traditional licence basis, licensing fees are expected to recover in H2, while the form of other deals are yet to be decided and these decisions will have a significant bearing on revenues and profits.

Given the ongoing shift to the SaaS revenue model, CREALOGIX did not publish its long-term guidance in the latest results (previously >20% annual revenue growth and >15% medium term EBITDA margin) and management will review these numbers with the final results.

Nine open-banking customers were signed up during the period, of which three were new customers. Most new customers continue to choose the SaaS option, which involves lower upfront revenues, but greater revenues over the term of the contract. Consequently, this reduces the current period revenues and profitability.

Revenues in Switzerland grew by 9% while Europe grew by 30%. Spain-based Innofis, which is focused on Islamic banking, made a slow start after its acquisition, as we reported with the FY18 results, due to management focus on acquisition procedures and integration. However, management is pleased with the progress. The group is also shifting work handled by contractors in Switzerland to new permanent roles in Spain, which results in significant cost savings, but there were duplicate costs in H1 as this transition is being made. There will be c 20 new roles in place by the end of June. The group's headcount rose by 65% over the 12 months to stand at 688 at end December, reflecting the acquisitions of Innofis and Elaxy BS&S.

Hosting and SaaS services revenue jumped 184% to CHF7.6m, which includes c 50% of Elaxy BS&S revenues – Elaxy BS&S has added a significant hosting business to the group. Recurring revenue (Hosting/SaaS plus maintenance) expanded by 48% to CHF22.3m to represent 44% of H1 group revenue. Sales outside Switzerland represented 64% of total revenue, up from 58% in H118. The gross margin slipped by 360bp to 73.6%, reflecting the change in the product mix. The EBITDA margin fell from 11.1% in H118 to 6.4% in H119 but was an improvement on the H218 margin of 5.6%.

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

CHF000's	2018e			2019e			2020e
	H1a	H2a	FY	H1a	H2e	FY	FY
Services	15,163	17,326	32,489	20,499	20,454	40,953	45,074
Goods	1,327	1,901	3,228	2,519	1,881	4,400	4,400
Hosting and SaaS services	2,680	3,215	5,895	7,604	7,786	15,390	17,325
Maintenance	12,391	14,347	26,738	14,693	14,744	29,437	30,725
Licensing fees	8,109	10,685	18,794	5,706	11,450	17,156	17,856
Total Revenue	39,670	47,474	87,144	51,021	56,315	107,336	115,379
Gross profit	30,616	36,661	67,277	37,567	45,098	82,665	88,701
Gross Margin	77.2%	77.2%	77.2%	73.6%	80.1%	77.0%	76.9%
Opex before depn & amortisation	(26,231)	(34,016)	(60,247)	(34,310)	(41,343)	(75,653)	(77,688)
Adjusted EBTDA	4,385	2,645	7,030	3,257	3,755	7,012	11,013
EBITDA Margin	11.1%	5.6%	8.1%	6.4%	6.7%	6.5%	9.5%
Depreciation	(680)	(909)	(1,589)	(1,218)	(1,382)	(2,600)	(2,600)
Adjusted operating profit	3,705	1,736	5,441	2,039	2,373	4,412	8,413
Operating Margin	9.3%	3.7%	6.2%	4.0%	4.2%	4.1%	7.3%
Associates	(323)	303	(20)	(274)	0	(274)	0
Net interest	(332)	(97)	(429)	(311)	(339)	(650)	(300)
Edison Profit Before Tax (norm)	3,050	1,942	4,992	1,454	2,034	3,488	8,113
Amortisation of acquired intangibles	(872)	(2,072)	(2,944)	(2,567)	(2,833)	(5,400)	(5,400)
Profit before tax	2,178	(130)	2,048	(1,113)	(799)	(1,912)	2,713

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

Cash fell over the six months, primarily due to the CHF8.9m acquisition of Elaxy BS&S along with a free cash outflow of CHF2.1m (CHF2.8m outflow in H118). There was a CHF4.8m working capital outflow – we note that December is the low point in the cash flow cycle with most maintenance revenue collected in January - and increased capital investment of CHF1.6m that mainly related to investment in IT infrastructure in Switzerland (CHF1.1m). In addition, we note the group spends c 20% of revenues on R&D, all of which is expensed as incurred. Net assets declined due to the statutory loss and currency movements. The outstanding convertible bonds are due in October and the company plans to refinance them. These bonds convert at CHF104.5 which is slightly above the current share price.

**Exhibit 2: Capital structure**

CHF000s	31/12/16	30/06/17	31/12/17	30/06/18	30/12/18
Cash & ST securities	(29,433)	(33,775)	(30,366)	(20,692)	(8,589)
Short-term borrowings	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Convertible bonds	24,260	23,154	14,054	9,291	8,560
Net cash	(5,173)	(10,621)	(16,312)	(11,401)	(29)
Assumed ELAXY FS&S deferred payment	2,387	2,387	2,387	2,387	2,387
Adjusted net debt (cash)	(2,786)	(8,234)	(13,925)	(9,014)	2,358
Net assets	27,124	29,515	41,464	71,053	67,226
Debt/equity	(10.3%)	(27.9%)	(33.6%)	(12.7%)	3.5%

Source: CREALOGIX

## Forecasts: Revenues and EBITDA cuts

Company guidance is for FY19 revenues to exceed CHF100m and H2 EBITDA of at least the H1 level. Consequently, we have eased our revenues by 3% in FY19 to CHF107.4m, with FY20 and FY21 coming back by 5% and 7% to CHF115.4m and CHF122.0m respectively. We have cut our EBITDA margins by 360bp in FY19, 260bp in FY20 and 280bp in FY21, but we continue to forecast the margin to expand as the SaaS revenue book gains scale. Hence our EBITDA falls by 37% in FY19 to CHF7.0m, 25% in FY20 to CHF11.0m and by 26% in FY21 to CHF13.4m. We have reallocated Elaxy BS&S to the appropriate revenue types, which primarily affected hosting (c 50% of revenues), but is also reflected in services. We have shifted our goods (hardware) forecasts higher, due to significantly higher than expected sales in H1, but these are related to one-off

contracts and we continue to forecast this category to flatline, albeit from a higher level. Associates represents Qontis and we have adjusted FY19 associates for the CHF274k loss although we assume breakeven going forward. We have maintained our interest costs and tax rate assumptions. We now forecast the group to end FY19 with net cash of CHF4.5m (previously CHF10.3m), which rises to CHF11.1m at end FY20 and to CHF16.7m at end FY21. We now assume the remaining convertible bonds will be refinanced in November with debt.

**Exhibit 3: Forecast changes**

	Old	New	Change	Old	New	Change	Old	New	Change
Year end 30 June	2019e	2019e	(%)	2020e	2020e	(%)	2021e	2021e	(%)
Revenues (CHF'000s)									
Licensing fees	23,570	17,156	(27)	26,230	17,856	(32)	28,916	18,630	(36)
Maintenance	30,450	29,437	(3)	32,550	30,725	(6)	34,860	31,140	(11)
Hosting and SaaS services	7,020	15,390	119	8,640	17,325	101	9,990	19,525	95
Services	36,006	40,953	14	40,300	45,074	12	44,109	48,314	10
Goods	3,119	4,400	41	2,807	4,400	57	2,807	4,400	57
Elaxy BS&S	10,000	0	(100)	10,500	0	(100)	10,973	0	(100)
Total Group revenues	110,164	107,336	(3)	121,027	115,379	(5)	131,654	122,009	(7)
Growth (%)	26.4	23.2		9.9	7.5		8.8	5.7	
Gross profit	85,232	82,665	(3)	94,195	88,701	(6)	103,145	94,247	(9)
Gross margin (%)	77.4	77.0		77.8	76.9		78.3	77.2	
Opex before depn & amortisation	(74,121)	(75,653)	2	(79,499)	(77,688)	(2)	(84,983)	(80,839)	(5)
EBITDA	11,111	7,012	(37)	14,696	11,013	(25)	18,162	13,408	(26)
EBITDA margin (%)	10.1	6.5		12.1	9.5		13.8	11.0	
Normal depreciation	(2,400)	(2,600)	8	(2,350)	(2,600)	11	(2,300)	(2,500)	9
Adjusted operating profit	8,711	4,412	(49)	12,346	8,413	(32)	15,862	10,908	(31)
Operating margin (%)	7.9	4.1		10.2	7.3		12.0	8.9	
Growth (%)	60.1	(18.9)	(131)	41.7	90.7	117	28.5	29.7	4
Associates	0	(274)		0	0		0	0	
Net interest	(650)	(650)	0	(100)	(300)	200	100	(100)	(200)
Profit before tax norm	8,061	3,488	(57)	12,246	8,113	(34)	15,962	10,808	(32)
Amortisation of acquired intangibles	(5,300)	(5,400)	2	(5,300)	(5,400)	2	(5,300)	(5,400)	2
Profit before tax	2,761	(1,912)	(169)	6,946	2,713	(61)	10,662	5,408	(49)
Total taxation	(2,257)	(1,053)	(53)	(3,429)	(2,272)	(34)	(4,469)	(3,026)	(32)
Minority interest	(123)	(123)	0	(67)	(67)	0	(75)	(75)	0
Net income	381	(3,089)	(911)	3,450	374	(89)	6,118	2,307	(62)
Statutory EPS (CHF)	0.27	(2.23)	(911)	2.41	0.27	(89)	4.14	1.66	(60)
Adjusted EPS (CHF)	4.09	1.67	(59)	6.10	4.16	(32)	7.72	5.55	(28)
P/E - Adjusted EPS		58.8			23.6			17.6	

Source: Edison Investment Research

**Exhibit 4: Financial summary**

	CHF'000s	2016	2017	2018	2019e	2020e	2021e
Year end 30 June		Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP
<b>PROFIT &amp; LOSS</b>							
Revenue		63,317	74,858	87,144	107,336	115,379	122,009
Gross Profit		51,693	59,695	67,277	82,665	88,701	94,247
EBITDA		3,696	7,304	7,030	7,012	11,013	13,408
Adjusted Operating Profit		2,264	5,916	5,441	4,412	8,413	10,908
Amortisation of acquired intangibles		(2,634)	(1,799)	(2,944)	(5,400)	(5,400)	(5,400)
Exceptionals		0	0	0	0	0	0
Operating Profit		(370)	4,117	2,497	(988)	3,013	5,508
Associates		517	(21)	(20)	(274)	0	0
Net Interest		(630)	(936)	(429)	(650)	(300)	(100)
Profit Before Tax (norm)		2,151	4,959	4,992	3,488	8,113	10,808
Profit Before Tax (Statutory)		(483)	3,160	2,048	(1,912)	2,713	5,408
Tax		(130)	(1,751)	(1,350)	(1,053)	(2,272)	(3,026)
Profit After Tax (norm)		2,021	3,208	3,642	2,435	5,841	7,782
Profit After Tax (Statutory)		(613)	1,409	698	(2,965)	441	2,382
Minority interest		(270)	(360)	(681)	(123)	(67)	(75)
Net income (norm)		1,751	2,758	2,944	2,311	5,774	7,707
Net income (Statutory)		(883)	1,049	17	(3,089)	374	2,307
Average Number of Shares Outstanding (m)		1.06	1.06	1.23	1.39	1.39	1.39
EPS - normalised (CHF)		1.65	2.59	2.39	1.67	4.16	5.55
EPS - Statutory (CHF)		(0.83)	0.99	0.01	(2.23)	0.27	1.66
Dividend per share (CHF)		0.00	0.50	0.25	0.75	1.25	1.75
Gross Margin (%)		81.6	79.7	77.2	77.0	76.9	77.2
EBITDA Margin (%)		5.8	9.8	8.1	6.5	9.5	11.0
Op Margin (before GW and except.) (%)		3.6	7.9	6.2	4.1	7.3	8.9
<b>BALANCE SHEET</b>							
Fixed Assets		28,910	26,430	62,506	65,689	59,651	53,825
Intangible assets and deferred tax		21,004	18,119	54,330	57,430	52,030	46,630
Tangible Assets		1,595	1,385	1,363	1,446	808	382
Investments & pensions		6,311	6,926	6,813	6,813	6,813	6,813
Current Assets		48,275	52,495	49,576	48,755	58,067	65,796
Stocks		3,661	3,419	5,950	7,329	7,878	8,331
Debtors		17,119	15,301	22,934	28,248	30,365	32,110
Cash		27,495	33,775	20,692	13,179	19,824	25,356
Current Liabilities		(24,752)	(24,219)	(29,704)	(45,510)	(48,917)	(51,860)
Creditors		(24,752)	(24,219)	(29,704)	(36,810)	(40,217)	(43,160)
Short term borrowings		0	0	0	(8,700)	(8,700)	(8,700)
Long Term Liabilities		(27,331)	(25,191)	(11,325)	(2,034)	(2,034)	(2,034)
Long term borrowings		(24,141)	(23,154)	(9,291)	0	0	0
Other long term liabilities		(3,190)	(2,037)	(2,034)	(2,034)	(2,034)	(2,034)
Net Assets		25,102	29,515	71,053	66,901	66,767	65,727
<b>CASH FLOW</b>							
Operating Cash Flow		1,281	9,735	3,388	7,012	11,590	14,018
Net Interest		5	(616)	(455)	(650)	(300)	(100)
Tax		(144)	(1,273)	(421)	(700)	(942)	(2,190)
Capex		(486)	(862)	(1,117)	(2,683)	(1,961)	(2,074)
Acquisitions/disposals		(9,350)	(346)	(11,814)	(8,892)	(700)	(2,387)
Financing		1,504	(215)	(2,447)	0	0	0
Dividends		0	0	(559)	(342)	(1,041)	(1,735)
Net Cash Flow		(7,190)	6,423	(13,425)	(6,255)	6,646	5,532
Opening net debt/(cash)		(10,815)	(3,354)	(10,621)	(11,401)	(4,479)	(11,124)
Other		(271)	844	14,205	(667)	0	0
Closing net debt/(cash)		(3,354)	(10,621)	(11,401)	(4,479)	(11,124)	(16,656)

Source: CREALOGIX (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 in the Other category.

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