



## Altium Ltd (ALU.ASX)

### Leveraging the Dassault Systemes Relationship

#### Event:

- We initiate coverage on Altium (ALU), with a BUY recommendation and a price target of A\$13.14/share.

#### Investment Highlights:

- Our primary thesis for investing in ALU is its partnership with Dassault Systemes. We value the SolidWorks opportunity at A\$7.54. We would not expect to see material revenues until December 2018e, at the earliest. Of note, major resellers ramp-up in 6-12 months, whilst in total it is likely to be 2 years. The real opportunity however is integration of ALU's ATINA with Dassault's core high-end CATIA product (in early negotiating stages only).
- ALU's Enterprise product, ATINA is released in 2H17e and will likely contribute to 2018e financials. ATINA is targeting the high-end market, with ALU's direct sales force and possibly select customers in conjunction with Dassault sales force in due course. A very conservative estimate of ALU potential direct sales is: approx. US\$10-20m by 2020 (4k seats x ASP \$5.0k). Of Note ATINA is sold on subscription basis, whilst Altium Designer is around US\$7.5k + 25% maintenance. In 2016A, Dassault Systemes had SolidWorks licenses software revenues of €626m, whilst CATIA revenues were €971m (+1.5x SolidWorks license revenues).
- ALU's goal is US\$200m in total sales in 2020 (PCB US\$150m), a viable target, in our opinion, with ramp-up from Dassault Systemes in 2019e and beyond. We note that software companies have high operating leverage, which can impact their bottom-line, positively and negatively, in a material way. Approximately 50% of sales in 2H are generated in May/June, so visibility is limited. We would be concerned if there was any slowdown of economic activity in the US in 2H, delaying IT spend decisions.
- By geography, EMEA has built capacity to sell direct in key markets, namely Germany, Switzerland, Austria, Netherlands, Benelux, UK & Ireland (acquired Benelux 1H and UK January). Further EMEA expansion is likely. The Americas sales were disappointing in 1H17a. Management commented they added sales capacity in 1H to contribute to 2H performance and have seen an uptick in activity since. China has performed well and may finally be breaking through, sells approximately 1,000 licenses per year vs an estimate of c.100k users mostly using unlicensed versions.

#### Recommendation:

- We initiate on ALU with a BUY recommendation and a valuation of A\$13.14/share. We value the core ALU operations at A\$5.60 per share (17.5x PER 2018e) & Dassault OEM Agreement at A\$7.54 per share (in our opinion the latter is very conservative, particularly when ALU are looking to integrate with Dassault's high-end product), so possibly +A\$16.00 valuation. Based on history, we would not be surprised to see an acquisition by Dassault down-the-track, but a strong partnership over 3-5 years is a possibility, providing greater upside to ALU's shareholders, in our opinion.
- Catalysts include:** 1) acquisition by a leading CAD/CAM vendor, 2) expansion of Dassault Systemes relationship to CATIA, 3) FY17E results that are merely in-line with expectations. **Key risks include:** a breakdown of the Dassault Systemes relationship and a shortfall in Altium Designer sales in its key May/Jun selling period.

#### Recommendation BUY

Previous	n/a
Risk	High
Price Target	A\$13.14
Previous	n/a

#### Share Price (A\$) 7.28

ASX Code	ALU
52 week low - high (A\$)	5.57-9.98

#### Capital structure

Shares on Issue (M)	130.2
Market Cap (A\$M)	948
Net Debt/(Cash) (A\$M)	-47
EV (A\$M)	901
12mth Av Daily Volume ('000)	630

#### Y/e Jun US\$ FY16A FY17E FY18E FY19E

Sales \$M	93.6	106.9	120.3	144.3
EBITDA \$M	32.6	32.5	38.5	46.2
NPAT Adj. \$M	28.1	25.9	31.8	38.9
EPS adj c	21.9	19.9	24.4	29.9
PER (x)	25.4	27.9	22.7	18.6
Dividend c	15.3	16.8	17.5	18.3
Div Payout Ratio %	70%	84%	72%	61%
Dividend yield %	2.7%	2.9%	3.1%	3.2%

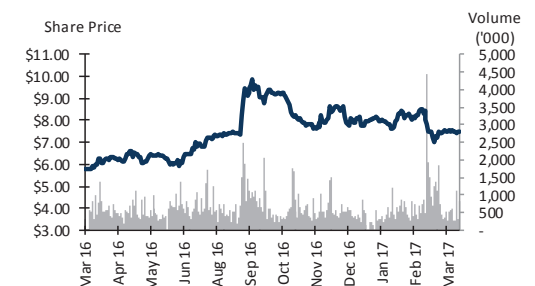
#### Board

Aram Mirkazemi	CEO
Samuel Weiss	Non-Executive Chairman
Lynn Mickelburgh	Non-Executive Director
Raelene Murphy	Non-Executive Director
Dr David Warren	Non-Executive Director

#### Major Shareholders

Mirkazemi Holdings	7.5%
Perpetual	5.0%

#### Share Price Graph



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The analyst owns no shares in ALU.