



## Altium Ltd (ALU.ASX)

Medium Term Strategy in Place to Realize Significant Value

### Event:

- FY17a results at higher-end of consensus & above our forecast. Upgraded PT to A\$14.11.

### Investment Highlights:

- Our primary thesis for investing in ALU is its partnership with Dassault Systemes. We value the SolidWorks opportunity at A\$7.28. 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 (still in negotiating stages).
- FY17a results were at the higher end of expectations. 1) Revenues +18% pcp, 2) our adj. EBITDA \$35.7m (+10% pcp), leading to an EBITDA margin of +32%, 3) adj NPAT \$30.6m (+9% pcp), 4) interim dividend \$0.12 (unfranked) & 5) net cash US\$44.3m. We have adjusted financials for one-off costs/gains.
- By geography, EMEA has built capacity to sell direct in key markets, planned additions are Italy, Spain and Portugal. The Americas sales rebounded in 2H17a (1h +15%, 2H +18%) & we have increased confidence in the future. 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.
- ALU's Enterprise product, ATINA is released in November and will likely contribute to 2018e financials. ATINA is targeting the high-end market, with ALU's direct sales force and maybe 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.
- ALU's goal is c.US\$200m in total sales in 2020 (PCB US\$150m), with an EBITDA margin 35% (+5% pts), a viable target, in our opinion, especially 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.

### Recommendation, Earnings and Valuation:

- We maintain our BUY Recommendation and we have increased our price target to \$14.11 per share (previously A\$13.14). We value the core ALU operations at A\$5.96 per share (17.5x PER 2018e) & Dassault OEM Agreement at A\$7.28 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.
- We have upgraded our EPS forecasts in FY18e & FY19e to US\$0.27 & \$0.33 from \$0.24 and \$0.33, respectively.
- Catalysts include: 1) acquisition by a leading CAD/CAM vendor, 2) expansion of Dassault Systemes relationship to CATIA. 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		BUY			
Risk		High			
Price Target		A\$14.11			
Previous		A\$13.14			
Share Price (A\$)		9.97			
ASX Code		ALU			
52 week low - high (A\$)		7.01-10.04			
Capital structure					
Shares on Issue (M)		129.4			
Market Cap (A\$M)		1,290			
Net Debt/(Cash) (A\$M)		-56			
EV (A\$M)		1,234			
12mth Av Daily Volume ('000)		558			
Y/e Jun US\$	FY16A	FY17A	FY18E	FY19E	
Sales \$M	93.6	110.8	130.2	156.2	
EBITDA \$M	32.6	35.7	41.7	50.8	
NPAT Adj. \$M	28.1	30.6	34.9	43.2	
EPS adj c	21.9	23.6	26.9	33.4	
PER (x)	36.0	33.4	29.2	23.6	
Dividend c	15.8	18.2	20.5	22.9	
Div Payout Ratio %	72%	77%	76%	69%	
Dividend yield %	2.0%	2.3%	2.6%	2.9%	
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%			

### Share Price Graph



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The analyst owns no shares in ALU.