



Altium Ltd (ALU.ASX)

Technology and Business Strategy Update

Event:

- **AGM and Technology & Business Strategy Update. Recommendation change to Hold (from Buy).**

Investment Highlights:

- Following its AGM, ALU hosted a Technology and Business Strategy presentation for the investment community. Management reiterated its FY2020e target of US\$200m in revenues and 35% EBITDA margin (includes 5-10% from future acquisitions).
- ALU's FY2018e focus is to: 1) generate greater than 10% revenue growth and expand EBITDA margin; 2) roll-out its high end PCB product, Nexus (code-named ATINA) and introduce enterprise level "solution sales" at Altium; 3) increase the efficiency of ALU's transactional sales model with improved technology processes; 4) expand its direct sales presence in key markets in Europe; 5) scale up ALU's license compliance operations in China to underpin growth of +20% per annum; and 6) combine Octopart and Upverter's leadership positions in search and electronic parts creation to take advantage of online monetization opportunities.
- From a product perspective ALU management detailed future plans for user collaboration on projects utilising its software, within its product set (among other things) and its planned future release of its cloud based platform, Altium IoT 360. Through its acquisition strategy (Octopart, Upverter, Ciiva), ALU is looking to transform the electronic industry facilitating the collaborative power of the cloud to the new generation of product designers. These ALU's products assist with the discovery, design and manufacturing of electronic circuits required in the creation of smart connected products.
- Whilst limited mention occurred regarding Dassault Systemes, the partnership remains intact. In Dassault's Q317a results, SolidWorks was a standout performer and the CEO commented on its ALU relationship, as being important toward the future. With regards to Dassault's high-end product CATIA, development efforts are on-going, targeting a demonstrable product by year-end with a marketable product by the end of 2018e. These developments take time.

Recommendation, Earnings and Valuation:

- **We have changed our recommendation to Hold (from Buy), based on recent share price appreciation. Our price target remains \$14.11 per share.** We value the core ALU operations at A\$6.14 per share (17.5x PER 2018e) & Dassault OEM Agreement at A\$7.49 per share. 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. **Key risks include:** a breakdown of the Dassault Systemes relationship and a shortfall in Altium Designer sales in its key selling periods Nov/Dec and May/June.

Recommendation	HOLD
Previous	BUY
Risk	High
Price Target	A\$14.11
Previous	A\$14.11
Share Price (A\$)	13.03
ASX Code	ALU
52 week low - high (A\$)	7.01-13.03

Capital structure				
Shares on Issue (M)	129.4			
Market Cap (A\$M)	1,686			
Net Debt/(Cash) (A\$M)	-56			
EV (A\$M)	1,630			
12mth Av Daily Volume ('000)	552			
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)	47.1	43.6	38.2	30.8
Dividend c	15.8	18.2	20.5	22.9
Div Payout Ratio %	72%	77%	76%	69%
Dividend yield %	1.5%	1.8%	2.0%	2.2%

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%

Share Price Graph



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The analyst owns no shares in ALU.