

CREALOGIX Group

Prospectus

Forecasts updated for acquisition document

In January, CREALOGIX announced the acquisition of Innofis, a Barcelona-based digital banking business, to expand its core digital banking business into the Middle Eastern markets. No financial information on the transaction was provided at the time and, given the size of the deal, the company was required to produce a prospectus, which has revealed all the relevant information. The value of the deal is c CHF39m, which translates to c 3.6x trailing revenues or 9.3x EBITDA. On our updated forecasts, the deal is 11% earnings enhancing (undiluted basis) in FY19.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/16	63.3	2.2	1.65	0.00	99.0	N/A
06/17	74.9	5.0	2.67	0.50	61.1	0.3
06/18e	88.1	10.0	5.72	1.00	28.5	0.6
06/19e	102.4	14.7	7.62	1.50	21.4	0.9

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

Cost of Innofis

The prospectus reveals that CREALOGIX is issuing 170k shares and paying CHF12m in cash for Innofis, which had CHF1.4m in cash on its balance sheet as at 31 December 2017. There is no deferred consideration. Transaction costs are estimated at CHF0.5m. In the year ended December, Innofis generated revenue of CHF10.8m, up 44%, and an operating profit of CHF4.1m for a margin of 37.7%.

Forecasts: Innofis added

We have increased our revenue forecasts by 7% in FY18 and 14% in each of FY19 and FY20 and our EBITDA forecasts increase by 20%, 35% and 34%, respectively. Given the significantly higher operating margins at Innofis, we forecast operating margins to rise by c 250bp. Our adjusted EPS (undiluted basis) increases by 10%, 12% and 14% in the respective years, tempered by the higher share count. Given the rise in the share price, convertible bonds have been actively converting. Hence we now forecast the group to end FY18 with net cash at CHF19.2m (previously CHF18.4m), which rises to CHF28.0m a year later (CHF23.5m). Assuming that the remaining bonds convert will add CHF10.6m of net cash to the balance sheet.

Valuation: 10% growth with 20% operating margins would imply significant upside

The acquisition creates a range of opportunities for management to accelerate revenue growth and boost margins. A discounted cash flow (DCF) scenario incorporating 10% organic revenue CAGR over 2017-27 fading thereafter to 2%, operating margins tapering up to a level of 20% from FY22, along with a 9% WACC, would suggest a valuation of CHF259, 59% above the current share price. Assuming a 25% margin target, all other things being equal, would lift the valuation to CHF317. These valuations are after the dilution impact from the outstanding convertible bonds.

Software & comp services

17 May 2018

Price CHF163

Market cap CHF225m

CHF1.192/€

Net cash (CHFm) at 31 December 2017 15.4

Shares in issue 1.38m

Free float 32%

Code CLXN

Primary exchange Switzerland

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(1.8)	(5.1)	43.7
Rel (local)	(1.3)	2.4	39.6

52-week high/low CHF178 CHF114.5

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 18 September 2018

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Updated prospectus information on Innofis transaction

CREALOGIX has acquired Innofis from David Moreno, its CEO, founder and 96.5% shareholder, and the minority shareholders. CREALOGIX is issuing 170k shares and paying CHF12m in cash for Innofis, and there is no deferred consideration. Transaction costs are estimated at CHF0.5m. That puts a valuation on the deal at CHF40.7m based on the CHF166 issue price, or CHF39.3m after deducting the CHF1.4m in cash that Innofis had on its balance sheet as at 31 December 2017. There is a lock-in clause whereby the vendors are unable to sell their shares for at least three years. Please refer to our January [update note](#) for our initial analysis on the Innofis transaction.

Exhibit 1: Innofis's selected financial history			
€000s	FY15	FY16	FY17
Revenues	5,473	6,786	9,770
Change (%)		24.0	44.0
Operating profit	2,470	2,819	3,684
Operating margin (%)	45.1	41.5	37.7

Source: CREALOGIX Group

CREALOGIX's capital structure

Following the transaction, CREALOGIX retains a strong financial position, as shown in Exhibit 2, with a net cash position and no bank debt. Further, CREALOGIX's convertibles bonds have been actively converting, with CHF10.6m nominal outstanding as at 9 May, down from CHF25m as at launch. Consequently CREALOGIX had 1,377,677 shares outstanding at 9 May, including the 170k issued for Innofis, along with CHF10,612,750 in convertibles corresponding to 101,557 voting rights. There were also 107,000 warrants outstanding, which represent 10,700 voting rights.

Exhibit 2: Balance sheet position				
CHF000s	31/12/17	31/12/17	31/12/17	31/12/17
	Book values	Acquisition of Innofis*	Pro forma	Assume all outstanding bonds convert
Cash & ST securities	(30,366)	11,068	(19,298)	(19,298)
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Convertible bonds	14,054	0	14,054	0
Net cash	(16,312)	11,068	(5,244)	(19,298)
Assumed ELAXY FS&S deferred payment	2,387		2,387	2,387
Adjusted net debt (cash)	(13,925)		(2,857)	(16,911)
Net assets	41,464	25,416	66,880	80,934
Debt/equity	(33.6%)		(4.3%)	(20.9%)

Source: CREALOGIX Group. Note: *Cash purchase price less cash acquired, less transaction costs.

Forecasts: Innofis added, otherwise unchanged

The group recorded organic growth of 8% in H1, as we reported last month, but management expects this to accelerate in H2. Consequently, CREALOGIX maintained its mid-term guidance with annual sales growth of more than 20%, EBITDA of more than 15%, product sales of 70%+ of the total and international sales of 70%+. For FY18, CREALOGIX now expects 15% revenue growth, including a six-month contribution from Innofis, and at least a 10% EBITDA margin.

We note that the recent weakness in the Swiss franc against the euro provides a tailwind for revenues.

We have added Innofis and otherwise broadly maintained our forecasts. At the current exchange rate of CHF1.18/€, Innofis generated CHF11.5m of revenue in FY17 (vs reported CHF10.8m). We

have conservatively assumed CHF5.8m for six months in FY18, growing at 10%, which translates to CHF12.7m in FY19 and CHF14.0m in FY20. We note that the numbers, particularly in the FY18 period, will be sensitive to new licence sales due to the traditional licence model. We have conservatively assumed operating margins of 32.5% for Innofis, which is below the historical levels, but we note that the margins have been declining.

Exhibit 3: The impact of adding Innofis			
CHF000s	FY18	FY19	FY20
CREALOGIX continuing			
Revenues	82,345	89,707	97,090
Costs	(73,766)	(78,787)	(84,307)
Operating profit	8,579	10,920	12,783
Operating margin (%)	10.4	12.2	13.2
Innofis			
Revenues	5,768	12,691	13,960
Costs	(3,894)	(8,566)	(9,423)
Operating profit	1,875	4,124	4,537
Operating margin (%)	32.5	32.5	32.5
Combined			
Revenues	88,113	102,398	111,050
Costs	(77,660)	(87,354)	(93,730)
Operating profit	10,454	15,044	17,320
Operating margin (%)	11.9	14.7	15.6
Source: Edison Investment Research			

In all, we have increased our revenue forecasts by 7% in FY18 to CHF88.1m and 14% in each of FY19 and FY20 to CHF102.4m and CHF111.1m respectively. Our EBITDA forecasts increase by 20%, 35% and 34% to CHF11.8m, CHF16.4m and CHF18.7m, respectively. The acquisition boosts operating margins to rise by 140bp in FY18, 250bp in FY19 and 240bp in FY20. We have maintained our interest forecasts since the group maintains a healthy net cash position, and we also maintain our tax charge assumptions. We have ignored intangible amortisation at this stage. Our adjusted EPS (undiluted basis) increases by 10%, 12% and 14% in the respective years, tempered by the higher share count. Given the rise in the share price, convertible bonds have been actively converting. Hence we now forecast the group to end FY18 with net cash slightly higher at CHF19.2m, which rises to CHF27.8m a year later (previously CHF23.5m). Assuming that the remaining bonds convert will add CHF10.6m of net cash to the balance sheet. Consequently, the group has plenty of headroom to make additional bolt-on acquisitions.

Exhibit 4: Forecast changes

CHF000s	2018e			2019e			2020e		
	Previous	New	Change (%)	Previous	New	Change (%)	Previous	New	Change (%)
Revenues									
Licensing fees	17,920	17,920	0	21,382	21,382	0	23,146	23,146	0
Maintenance	25,200	25,200	0	26,670	26,670	0	28,560	28,560	0
Hosting and SaaS services	7,560	7,560	0	10,800	10,800	0	14,580	14,580	0
Services	28,200	28,200	0	27,737	27,737	0	27,998	27,998	0
Goods	3,465	3,465	0	3,119	3,119	0	2,807	2,807	0
Innofis		5,768	N/A		12,691	N/A		13,960	N/A
Total group revenues	82,345	88,113	7	89,707	102,398	14	97,090	111,050	14
Growth (%)	10.0	17.7	77	8.9	16.2	81	8.2	8.4	3
Gross profit	67,198	72,101	7	74,814	85,601	14	82,428	94,294	14
Gross margin (%)	81.6	81.8		83.4	83.6		84.9	84.9	
Opex before depn & amortisation	(57,319)	(60,273)	5	(62,645)	(69,157)	10	(68,445)	(75,624)	10
EBITDA	9,879	11,829	20	12,170	16,444	35	13,983	18,670	34
EBITDA margin (%)	12.0	13.4		13.6	16.1		14.4	16.8	
Normal depreciation	(1,300)	(1,375)	6	(1,250)	(1,400)	12	(1,200)	(1,350)	13
Adjusted operating profit	8,579	10,454	22	10,920	15,044	38	12,783	17,320	35
Operating margin (%)	10.4	11.9		12.2	14.7		13.2	15.6	
Growth (%)	45.0	76.7		27.3	43.9		17.1	15.1	
Associates	250	250	0	263	263	0	276	276	0
Net interest	(750)	(750)	0	(650)	(650)	0	(100)	(100)	0
Profit before tax norm	8,079	9,954	23	10,532	14,657	39	12,959	17,495	35
Amortisation of acquired intangibles	(1,799)	(1,799)	0	(1,799)	(1,799)	0	(1,799)	(1,799)	0
Share-based payments	0	0		0	0		0	0	
Exceptional items (net of tax)	0	(500)		0	0		0	0	
Profit before tax	6,280	7,655	22	8,733	12,858	47	11,160	15,696	41
Taxation	(2,192)	(2,717)	24	(2,876)	(4,030)	40	(3,551)	(4,822)	36
Minority interest	(198)	(212)	7	(108)	(123)	14	(58)	(67)	14
Net income	3,890	4,726	21	5,750	8,704	51	7,550	10,808	43
Statutory EPS (CHF)	3.58	3.85	7	5.25	6.32	20	6.30	7.57	20
Adjusted EPS (CHF)	5.24	5.72	9	6.89	7.62	11	7.80	8.83	13
P/E - Adjusted EPS		28.5			21.4			18.5	

Source: Edison Investment Research

Exhibit 5: 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	88,113	102,398	111,050
Gross Profit		37,017	51,693	59,695	72,101	85,601	94,294
EBITDA		(10,555)	3,696	7,304	11,829	16,444	18,670
Adjusted Operating Profit		(11,815)	2,264	5,916	10,454	15,044	17,320
Amortisation of acquired intangibles		(1,616)	(2,634)	(1,799)	(1,799)	(1,799)	(1,799)
Exceptionals		0	0	0	(500)	0	0
Operating Profit		(13,431)	(370)	4,117	8,155	13,245	15,521
Associates		(837)	517	(21)	250	263	276
Net Interest		95	(630)	(936)	(750)	(650)	(100)
Profit Before Tax (norm)		(12,557)	2,151	4,959	9,954	14,657	17,495
Profit Before Tax (Statutory)		(14,173)	(483)	3,160	7,655	12,858	15,696
Tax		3,899	(130)	(1,751)	(2,717)	(4,030)	(4,822)
Profit After Tax (norm)		(8,658)	2,021	3,208	7,237	10,626	12,674
Profit After Tax (Statutory)		(10,274)	(613)	1,409	4,938	8,827	10,875
Minority interest		0	(270)	(360)	(212)	(123)	(67)
Net income (norm)		(8,658)	1,751	2,848	7,025	10,503	12,607
Net income (Statutory)		(10,274)	(883)	1,049	4,726	8,704	10,808
Average Number of Shares Outstanding (m)		1.06	1.06	1.07	1.23	1.38	1.43
EPS - normalised (CHF)		(8.13)	1.65	2.67	5.72	7.62	8.83
EPS - Statutory (CHF)		(9.65)	(0.83)	0.98	3.85	6.32	7.57
Dividend per share (CHF)		2.00	0.00	0.50	1.00	1.50	2.00
Gross Margin (%)		75.1	81.6	79.7	81.8	83.6	84.9
EBITDA Margin (%)		(21.4)	5.8	9.8	13.4	16.1	16.8
Op Margin (before GW and except.) (%)		(24.0)	3.6	7.9	11.9	14.7	15.6
BALANCE SHEET							
Fixed Assets		20,371	28,910	26,430	56,401	54,585	52,991
Intangible assets and deferred tax		14,115	21,004	18,119	48,320	46,521	44,722
Tangible Assets		1,869	1,595	1,385	1,155	1,138	1,343
Investments & pensions		4,387	6,311	6,926	6,926	6,926	6,926
Current Assets		28,217	48,275	52,495	63,024	75,218	77,704
Stocks		3,447	3,661	3,419	4,024	4,677	5,072
Debtors		11,633	17,119	15,301	18,010	20,930	22,699
Cash		10,815	27,495	33,775	40,989	49,611	49,934
Current Liabilities		(19,183)	(24,752)	(24,219)	(28,052)	(54,055)	(34,987)
Creditors		(19,183)	(24,752)	(24,219)	(28,052)	(32,218)	(34,987)
Short term borrowings		0	0	0	0	(21,837)	0
Long Term Liabilities		(2,723)	(27,331)	(25,191)	(22,894)	(1,057)	(1,057)
Long term borrowings		0	(24,141)	(23,154)	(21,837)	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	68,480	74,691	94,651
CASH FLOW							
Operating Cash Flow		(4,503)	1,281	9,735	12,270	16,956	19,225
Net Interest		91	5	(616)	(750)	(650)	(100)
Tax		(269)	(144)	(1,273)	(1,178)	(2,687)	(3,957)
Capex		(1,018)	(486)	(862)	(1,145)	(1,382)	(1,555)
Acquisitions/disposals		(4,158)	(9,350)	(346)	(38,788)	(2,387)	0
Financing		925	1,504	(215)	27,387	0	0
Dividends		(2,126)	0	0	(954)	(1,227)	(2,067)
Net Cash Flow		(11,058)	(7,190)	6,423	(3,159)	8,622	11,547
Opening net debt/(cash)		(21,724)	(10,815)	(3,354)	(9,770)	(19,152)	(27,774)
Other		149	(271)	(7)	12,541	(0)	10,613
Closing net debt/(cash)		(10,815)	(3,354)	(9,770)	(19,152)	(27,774)	(49,934)

Source: CREALOGIX Group (historics), Edison Investment Research (forecasts). Note: The FY19 outflow represents the final payment for Elaxy FS&S. We have treated the convertible bond conversions in FY18 and FY20 in the Other category.

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