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Authorisation

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Altium (ALU)

Altogether now

Recommendation

Hold (unchanged)

Price

\$36.88

Target (12 months)

\$40.00 (previously \$42.50)

GICS Sector

Software and Services

Expected Return

Capital growth	8.5%
Dividend yield	1.7%
Total expected return	10.1%

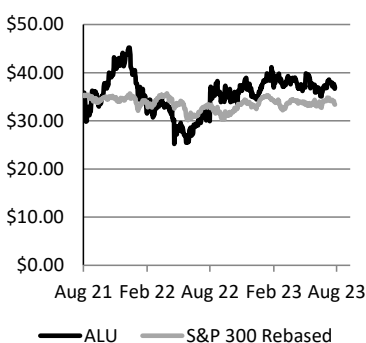
Company Data & Ratios

Enterprise value	\$4,557m
Market cap	\$4,855m
Issued capital	131.6m
Free float	95%
Avg. daily val. (52wk)	\$13.2m
12 month price range	\$29.65 - \$41.44

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	36.81	37.57	30.07
Absolute (%)	0.38	-1.65	22.88
Rel market (%)	2.56	-0.11	21.78

Absolute Price



SOURCE: IRESS

Result in line

Altium reported an FY23 result consistent with both our forecasts and the guidance. Revenue increased 19% to US\$263.3m (vs BPe US\$261.0m and guidance US\$255-265m) and the statutory EBITDA margin improved from 36.2% in FY22 to 36.5% in FY23 (vs BPe 37.0% and guidance 35-37%). Operating cash flow was negatively impacted by a A\$40m payment to the ATO in H2 though Altium is contesting the payment and expects to recover it in future periods. The final dividend of A29.0c was ahead of our forecast of A28.0c but there was no franking (vs BPe 40%).

Guidance in line or slightly below

Altium provided FY24 guidance of revenue b/w US\$315-325m (vs BPe US\$318m) and an EBITDA margin b/w 35-37% (vs BPe 38%). The company also reiterated its FY26 aspirational target of US\$500m revenue (vs BPe US\$448m) and a 38-40% EBITDA margin (vs BPe 40%). The company also reiterated the 100k subscriber target by FY26 but said the revenue could be achieved with only 75-90k seats on subscription.

Modest EPS downgrades

We have downgraded our EPS forecasts by c.1% in both FY24 and FY25. The downgrades have been driven by reductions in our margin estimates while our revenue forecasts are actually increased by c.1% in FY24 and FY25. Our FY26 revenue forecast is also modestly increased to US\$450m but remains below the aspirational target. We assume no acquisitions in our forecasts.

Investment view: PT down 6% to \$40.00, Maintain HOLD

With risk of a downgrade to the FY26 aspirational revenue target – in the absence of any acquisitions – we reduce the multiples we apply in the PE ratio and EV/EBITDA from 50x and 30x to 45x and 25x and also increase the WACC we apply in the DCF from 9.0% to 9.4%. This combined with the changes in our forecasts has resulted in a 6% decrease in our PT to A\$40.00 which is <15% premium to the share price so we maintain our HOLD recommendation.

Earnings Forecast

Year end 30 June	2023	2024e	2025e	2026e
Total revenue (US\$m)	263.3	320.4	383.1	450.5
EBITDA (US\$m)	96.0	118.6	145.6	175.7
NPAT (US\$m)	66.3	83.3	104.4	127.9
EPS (diluted) (US¢ps)	49.9	63.1	78.9	96.4
EPS growth (%)	19%	26%	25%	22%
PER (x)	49.9	39.5	33.9	28.7
Price/CF (x)	59.4	36.7	30.5	25.9
EV/EBITDA (x)	32.0	25.9	22.7	19.5
Dividend (A¢ps)	54.0	62.0	72.0	82.0
Yield (%)	1.5%	1.7%	2.0%	2.2%
ROE (%)	21.8%	23.8%	25.6%	26.6%
Franking (%)	18.5%	20.0%	20.0%	20.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

FY23 Result

A summary of the FY23 result is shown below.

Figure 1 - FY23 result summary

Year end 30 June	Result vs PCP			Result vs Forecast		Comment
	FY22	FY23	Change	1HFY23e	Variance	
Total revenue (US\$m)	220.8	263.3	19%	261.0	1%	Small beat driven by higher subscription and maintenance rev.
Total expenses (excl. D&A and int.)	-141.7	-169.2	19%	-166.1	2%	Total expenses slightly higher than forecast ...
<i>Expenses as % of revenue</i>	<i>-63.8%</i>	<i>-63.5%</i>	<i>31bps</i>	<i>-63.0%</i>	<i>-53bps</i>	<i>... and slightly higher as % of revenue</i>
EBITDA	79.8	96.0	20%	96.6	-1%	Small miss driven by higher total expenses
Depreciation	-8.4	-6.4	-23%	-6.5	-1%	Depreciation in line
Amortisation	-3.6	-3.2	-12%	-3.2	-2%	Amortisation in line
EBIT	67.9	86.4	27%	86.8	0%	Small miss in EBIT consistent with miss in EBITDA
Net interest revenue/(expense)	0.0	1.4	NM	1.0	39%	Higher interest revenue than forecast
Profit before tax	67.9	87.8	29%	87.8	0%	PBT in line with our forecast
Income tax expense	-12.4	-21.4	73%	-22.0	-2%	Lower tax expense than forecast
NPAT from continuing operations	55.5	66.3	20%	65.9	1%	Small beat in NPAT driven by lower tax
Discontinued operations	-0.1	0.0	NM	0.0	NM	
NPAT	55.3	66.3	20%	65.9	1%	
<i>EBITDA margin</i>	<i>36.2%</i>	<i>36.5%</i>	<i>31bps</i>	<i>37.0%</i>	<i>-53bps</i>	<i>EBITDA margin c.50bps below our forecast</i>
<i>EBIT margin</i>	<i>30.7%</i>	<i>32.8%</i>	<i>208bps</i>	<i>33.3%</i>	<i>-45bps</i>	
<i>PBT margin</i>	<i>30.7%</i>	<i>33.3%</i>	<i>260bps</i>	<i>33.6%</i>	<i>-31bps</i>	
<i>Effective tax rate</i>	<i>-18.2%</i>	<i>-24.4%</i>	<i>-617bps</i>	<i>-25.0%</i>	<i>60bps</i>	<i>Effective tax rate c.50bps below our forecast</i>
Weighted average fully diluted shares	131.4m	131.6m	0%	131.5m	0%	
Diluted EPS (USD)	42.1c	49.9c	19%	50.0c	0%	
Final dividend (AUD)	26.0c	29.0c	12%	28.0c	4%	Final dividend higher than our forecast ...
Franking	100%	0%		40%		but no franking
Payout ratio on total dividend	81%	72%		74%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key take-outs are:

- **Small beat in revenue:** Revenue grew 19% to US\$263.3m which was 1% ahead of our forecast of US\$261.0m. The small beat was driven by higher subscription and maintenance revenue than we forecast (US\$95.0m vs BPe US\$88.5m) which only partly offset the lower than expected software licence revenue (US\$103.6m vs BPe US\$106.5m).
- **Small miss in EBITDA:** EBITDA grew 20% to US\$96.0m but was 1% below our forecast of US\$96.6m. The small miss was driven by higher total expenses than we forecast (US\$169.2m vs BPe US\$166.1m) which more than offset the beat at revenue. The EBITDA margin grew from 36.2% in FY22 to 36.5% in FY23 but was below our forecast of 37.0%.
- **Small beat in NPAT:** NPAT also grew 20% to US\$66.3m which was 1% above our forecast of US\$65.9m. The small beat was driven by lower than expected tax expense (US\$21.4m vs BPe US\$22.0m) which PBT was in line with our forecast.
- **Weaker than expected cash flow:** While not shown above, operating cash flow fell 23% to US\$55.7m and was negatively impacted by a A\$40m payment to the ATO which Altium is disputing and expects to recover in future periods. Cash at 30 June was US\$201m which was below our forecast of US\$211m (we did not anticipate the payment).
- **Final dividend above our forecast:** The final dividend of A29.0c was ahead of our forecast of A28.0c but there was no franking (vs BPe 40%). The payout ratio on the total dividend was 72% which was slightly below our forecast of 74%.

Forecast and Valuation Changes

Modest EPS Downgrades

We have downgraded our EPS forecasts by c.1% in both FY24 and FY25. The downgrades have been driven by reductions in our margin estimates while our revenue forecasts are actually increased by c.1% in FY24 and FY25. We now forecast FY24 revenue of US\$320m and an EBITDA margin of 37.0%, both of which are consistent with the guidance. Our FY26 revenue forecast is also modestly increased to US\$450m but remains below the aspirational target. We assume no acquisitions in our forecasts.

A summary of the changes in our key forecasts is shown below. Our DPS are modestly increased – despite the modest downgrades in our EPS forecasts – given we already assume a reduction in the payout ratio to <70%.

Figure 2 - Change in key forecasts

Year end 30 June	FY23			FY24e			FY25e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (US\$m)	261.0	263.3	0.9%	317.7	320.4	0.8%	379.7	383.1	0.9%
EBITDA	96.6	96.0	-0.6%	120.7	118.6	-1.8%	148.1	145.6	-1.7%
NPAT from cont. ops.	65.9	66.3	0.7%	84.4	83.3	-1.2%	105.4	104.4	-0.9%
Diluted EPS from cont. ops. (USc)	50.0c	49.9c	-0.2%	63.9c	63.1c	-1.4%	79.7c	78.9c	-1.0%
DPS (Ac)	53.0c	54.0c	1.9%	61.0c	62.0c	1.6%	71.0c	72.0c	1.4%

SOURCE: BELL POTTER SECURITIES ESTIMATES

6% Decrease in PT to \$40.00

With risk of a downgrade to the FY26 aspirational revenue target – in the absence of any acquisitions – we reduce the multiples we apply in the PE ratio and EV/EBITDA from 50x and 30x to 45x and 25x and also increase the WACC we apply in the DCF from 9.0% to 9.4%. We also roll forward our DCF by a year but there is no change in the terminal growth rate we apply of 5.0%.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 3 - Change in valuations and impact on PT

	Old (as at 20-Feb-22)			New (as at 22-Aug-22)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
PE ratio	\$44.10	33%	\$14.70	\$42.05	33%	\$14.02
EV/EBITDA	\$41.36	33%	\$13.79	\$37.04	33%	\$12.35
DCF	\$42.05	33%	\$14.02	\$40.90	33%	\$13.63
Total			\$42.50			\$40.00

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a decrease in each valuation ranging between low and high single percentage digits. The net result is a 6% decrease in our PT to \$40.00 which is <15% premium to the share price so we maintain our HOLD recommendation. The risk to our neutral rating – to the upside – is a large and/or accretive acquisition though this is obviously difficult to forecast. The risk to the downside is there are no material acquisitions in the next twelve months and the company downgrades its FY26 aspirational revenue target.

Altium

Company Description

Altium Limited (Altium) develops and sells software and hardware for the design and development of electronic products. The company has four key products:

- **Altium Designer:** Software for the design of printed circuit boards (PCBs);
- **Nexus:** A collaborative, cloud enabled PCB design solution;
- **Altium 365:** A cloud based electronics development platform; and
- **Octopart:** An electronic parts search engine.

Altium is based in San Diego, California and sells its products globally (>95% of revenue is outside Australia). The company is one of the largest providers globally of PCB design software and has an estimated market share of around 25%.

Investment Thesis

We maintain our HOLD recommendation on Altium. Our investment thesis is based on:

- **Valuation:** Our 12 month price target for Altium is \$40.00. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is an 8% premium to the current share price and the total expected return (including the dividend yield) is 10%.
- **Higher recurring revenue:** Altium has been steadily increasing its recurring revenue base over the past decade or so with a shift to subscription. Recurring revenue represented 77% of total revenue in FY23 which was up from 75% in FY22. Altium has a target of reaching 95% recurring revenue by FY25 (excluding China and developing countries).
- **Potential takeover target:** Altium has already received an unsolicited takeover offer from Autodesk at \$38.50 which was rejected. Our view is Autodesk's Fusion 360 platform is lacking a high powered ECAD offering so we believe Autodesk would still be very interested in Altium and may come back with a revised offer.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Foreign currency fluctuations:** The majority of Altium's sales are in USD and EUR while the majority of Altium's costs are in USD. There is, therefore, a currency risk from fluctuations in the USD/EUR exchange rate. If there is a material appreciation of the USD against then EUR then this would have a negative impact on our forecasts.
- **Increased competition:** Altium is releasing new products to target the low-end and high-end areas of the market and in our forecasts we have assumed some success in penetrating these new areas. A risk is these products are not successful or cause a competitive response from the established players in these areas of the market.
- **Global economy:** The key market for Altium is the global PCB market and the future condition of the global economy will therefore have an impact on Altium and the growth of its key market. A risk for Altium is a downturn in one or both of Europe and the US as these two regions combined represent approximately 80% of Altium's sales.

Table 1 - Financial summary

Altium (ALU)						Share price:	\$36.88	Target price:	\$40.00		
						No. of issued shares:	131.6m	Market cap:	\$4,855m		
Profit & Loss (US\$m)						Valuation data					
Year end 30 Jun	2022	2023	2024e	2025e	2026e	Year end 30 Jun	2022	2023	2024e	2025e	2026e
Revenue	220.8	263.3	320.4	383.1	450.5	NPAT from cont. ops. (US\$m)	55.5	66.3	83.3	104.4	127.9
Change	23%	19%	22%	20%	18%	Diluted EPS (USc)	42.1	49.9	63.1	78.9	96.4
Expenses (excl. D&A, int.)	-141.0	-167.3	-201.9	-237.5	-274.8	Change	57%	19%	26%	25%	22%
% of revenue	-64%	-64%	-63%	-62%	-61%	Diluted EPS (Ac)	58.0	73.9	93.4	108.8	128.6
EBITDA	79.8	96.0	118.6	145.6	175.7	P/E ratio (x)	63.6	49.9	39.5	33.9	28.7
Depreciation	-8.4	-6.4	-6.1	-5.8	-5.5	CFPS (Ac)	75.8	62.1	100.6	120.8	142.5
Amortisation	-3.6	-3.2	-3.0	-2.9	-2.7	Price/CF (x)	48.7	59.4	36.7	30.5	25.9
EBIT	67.9	86.4	109.4	136.9	167.4	DPS (Ac)	47.0	54.0	62.0	72.0	82.0
Net interest (exp)/rev.	0.0	1.4	1.7	2.3	3.1	Yield	1.3%	1.5%	1.7%	2.0%	2.2%
Pre-tax profit	67.9	87.8	111.1	139.2	170.5	Franking	100%	19%	20%	20%	20%
Income tax expense	-12.4	-21.4	-27.8	-34.8	-42.6	EV/Revenue (x)	15.0	11.7	9.6	8.6	7.6
NPAT from cont. ops.	55.5	66.3	83.3	104.4	127.9	EV/EBITDA (x)	41.4	32.0	25.9	22.7	19.5
Profit from discount ops.	-0.1	0.0	0.0	0.0	0.0	NTA per share (Ac)	242.3	296.5	350.6	389.0	451.4
NPAT	55.3	66.3	83.3	104.4	127.9	Price/NTA (x)	15.2	12.4	10.5	9.5	8.2
Cash Flow (US\$m)						Performance ratios					
Year end 30 Jun	2022	2023	2024e	2025e	2026e	Year end 30 Jun	2022	2023	2024e	2025e	2026e
EBITDA	79.8	96.0	118.6	145.6	175.7	EBITDA margin	36.2%	36.5%	37.0%	38.0%	39.0%
Change in working capital	2.0	7.6	-19.1	-17.6	-19.5	EBIT margin	30.7%	32.8%	34.2%	35.7%	37.2%
Gross operating cash flow	81.8	103.6	99.5	128.0	156.2	Return on assets	14.5%	15.5%	17.6%	19.5%	20.8%
Interest received	0.4	2.2	2.4	3.1	3.8	Return on equity	20.2%	21.8%	23.8%	25.6%	26.6%
Interest paid	-0.5	-0.9	1.7	2.3	3.1	ROIC	NM	NM	NM	NM	NM
Tax paid	-9.2	-49.2	-13.9	-17.4	-21.3	Payout ratio	80.7%	72.3%	66.1%	65.9%	63.5%
Operating cash flow	72.5	55.7	89.7	115.9	141.8	Effective tax rate	-18.2%	-24.4%	-25.0%	-25.0%	-25.0%
Payments for subsidiary	0.0	0.0	0.0	0.0	0.0	Leverage ratios					
Payments for PPE	-1.0	-3.7	-2.5	-3.0	-3.5	Year end 30 Jun	2022	2023	2024e	2025e	2026e
Proceeds of sale of PPE	-15.8	0.0	0.0	0.0	0.0	Net debt/(cash) (A\$m)	-274.9	-297.7	-350.6	-393.7	-463.1
Investing cash flow	-17.3	-3.7	-2.5	-3.0	-3.5	Net debt/equity	NM	NM	NM	NM	NM
Proceeds from equity/options	0.0	0.0	0.0	0.0	0.0	Gearing	NM	NM	NM	NM	NM
Dividends paid	-40.1	-45.3	-51.6	-64.1	-76.4	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Repayment of borrowings	-5.7	-4.3	0.0	0.0	0.0	Net interest cover (x)	>100	>100	>100	>100	>100
Payment for treasury shares	0.0	0.0	0.0	0.0	0.0	Segmentals (US\$m)					
Financing cash flows	-45.8	-49.6	-51.6	-64.1	-76.4	Year end 30 Jun	2022	2023	2024e	2025e	2026e
Net change in cash	9.4	2.4	35.7	48.8	61.9	Revenue					
Cash at start of period	191.5	199.3	201.0	236.6	285.4	Software licence revenue	85.2	103.6	129.4	158.6	190.3
Exchange rate impact	-1.6	-0.7	0.0	0.0	0.0	Hardware revenue	1.6	4.1	3.1	2.5	2.1
Cash at end of period	199.3	201.0	236.6	285.4	347.3	Subscription revenue	80.4	95.0	114.0	133.9	154.0
						Service revenue	3.5	4.2	4.8	5.3	5.7
						Search advertising revenue	49.8	56.2	68.8	82.6	98.0
						Other revenue	0.3	0.3	0.3	0.3	0.3
						Sales revenue	220.8	263.3	320.4	383.1	450.5
						Interest income	0.7	2.0	2.4	3.1	3.8
						Other revenue	0.0	0.0	0.0	0.0	0.0
						Total revenue	221.5	265.2	322.9	386.2	454.3
						Growth					
						Software licence revenue	8%	21%	25%	23%	20%
						Hardware revenue	0%	164%	-25%	-20%	-15%
						Subscription revenue	17%	18%	20%	18%	15%
						Service revenue	22%	21%	15%	10%	8%
						Sales revenue	23%	19%	22%	20%	18%
						Interims					
						Year end 30 Jun	1HFY22	2HFY22	1HFY23	2HFY23	
						Revenue (US\$m)	102.2	118.6	119.5	143.7	
						Change	28%	18%	17%	21%	
						EBITDA	34.8	45.0	43.3	52.7	
						Depreciation	-4.0	-4.3	-3.1	-3.4	
						Amortisation	-1.8	-1.8	-1.6	-1.6	
						EBIT	29.0	38.9	38.6	47.8	
						Net interest (exp)/rev.	0.0	-0.1	0.6	0.8	
						Pre-tax profit	29.0	38.8	39.2	48.6	
						Income tax expense	-6.1	-6.2	-9.5	-11.9	
						NPAT from cont. ops.	22.9	32.6	29.6	36.7	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

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