EDISON

CREALOGIX Group

FY20 results

Innovating in open banking

Software & comp services

CREALOGIX is a leading, global, digital banking engagement platform provider. In FY20, revenues grew 1.7% to CHF103.7m, with adjusted EBITDA rising to CHF2.4m, slightly below our expectations. Revenues grew 13.2% in H220 vs H120, with minimal impact from the COVID-19 pandemic. Recurring revenues continued to rise to 44%, with SaaS 17% of the mix, while international sales fell to 62%. Management announced a reorganisation (with a CHF7m provision) to accelerate the SaaS transition, funded by the CHF25m convertible H120 bond refinancing. The SaaS transition will be a drag in FY21 (although we expect stronger margins in H221), before a full year of benefit in FY22. We have lowered our forecasts slightly to reflect a more uncertain global economic outlook.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/19	101.9	(1.7)	(0.94)	0.00	NM	N/A
06/20	103.7	(0.9)	(0.15)	0.00	NM	N/A
06/21e	108.8	3.0	1.56	0.00	67.5	N/A
06/22e	114.3	7.5	3.84	0.50	27.4	0.5

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

FY20 results: Broadly on track

CREALOGIX delivered FY20 revenues of CHF103.7m (FY19: CHF101.9m), with adjusted EBITDA of CHF2.4m (including a CHF7m restructuring provision) and adjusted free cash flow of CHF7.9m. H220 revenues were 13.2% above H120 revenues, with particular strength in Switzerland. Accordingly, international sales fell slightly to 62.1% (FY19: 64%) of the total, with year-end headcount falling to 682 (FY19: 702) at the start of the restructuring programme. Recurring revenues increased from 42% in FY19 to 44% in FY20. Following the CHF25m convertible bond refinancing, net cash rose to CHF5.1m (FY19: net debt of CHF2.1m).

Accelerating the business transformation

In its FY20 results, CREALOGIX took a CHF7.0m provision to reorganise the business and accelerate its transformation. This programme is intended to restructure the business to create a single global organisation with four sales regions and three sales segments; consolidate all CREALOGIX's products into a single global platform (the Digital Banking Hub), 'sunsetting' legacy products; and form a global functional organisation for delivery, product development and implementation partners. As part of the process, management expects to rationalise offices and reduce headcount by 10%, with the full benefits expected to accrue in FY22.

Valuation: Upside potential post-transition

Looking at CREALOGIX's trading peers suggests a valuation of c 3–5x revenues and c 15x EBITDA could be achievable as CREALOGIX emerges from its SaaS transition. If we apply the peer group EBITDA multiple to our estimates for CREALOGIX, it suggests an EV of CHF155m in FY22 and CHF187m in FY23, a premium of c 32% to today's EV and a 27% uplift in share price. A multiple of 3x revenues would imply an EV target of CHF350m+ in the medium term.

22 September 2020

Price	**CHF105.0**
Market cap	**CHF147m**

Net cash (CHFm) at 30 June 2020	5.1
Shares in issue	1.40m
Free float	42%
Code	CLXN
Primary exchange	Switzerland
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	5.8	11.7	8.2
Rel (local)	4.7	11.1	5.4
52-week high/low		CHF118	CHF82

Business description

The CREALOGIX Group is a Swiss Fintech 100 company and is among the global market leaders in digital banking, providing front-end digital banking technology solutions to banks, wealth managers and other financial services companies.

Next events

AGM	26 October 2020
Half-year results	16 March 2021

Analysts

Richard Williamson	+44 (0)20 3077 5700
Katherine Thompson	+44 (0)20 3077 5730

tech@edisongroup.com

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CREALOGIX Group is a research client of Edison Investment Research Limited

Investment summary

Background

CREALOGIX is an international leader in digital banking solutions. Founded in Zurich, Switzerland, in 1996 CREALOGIX develops and implements front-end software solutions for the financial services sector that enable digital banking for 'the digital bank of tomorrow'. Driven by consumer pressure, as well as regulation, this market is dynamic and fast changing, with the group's solutions typically used by traditional banks to enable their journey to digitalisation through the provision of a comprehensive, modern, omni-channel offering to their clients. The group's front-end solutions integrate with the customer's back-end systems, either developed in-house or, alternatively, core banking systems from for example Temenos, Avaloq or Infosys.

CREALOGIX's primary target customers are traditional retail, private and commercial banks, as well as wealth managers that need to upgrade legacy systems. These see the benefits of modular, customisable, single-platform solutions, offering lower maintenance and development costs, better content management and stronger security in a swiftly digitalising marketplace.

Reorganisation to accelerate the SaaS transition

As we have discussed previously, since FY18 CREALOGIX has been transitioning from a traditional licence-based business model to an online SaaS-based model. This has a negative impact on revenues and EBITDA in the transition period, but is expected to lead to increasing recurring revenues, double-digit EBIDA and double-digit EBITDA margins in the medium term.

In FY19, management accelerated investment in CREALOIX's Digital Banking Hub to make it more modular (eg open banking, user experience, APIs, AI and security) and easier to deploy, with a reduced time to market. In addition, management started to establish a partner ecosystem to extend the group's global footprint, particularly in the Asia-Pacific region.

In its FY20 results, its first under its new CEO, Oliver Weber, management set out a programme to reorganise and rationalise the business to:

- create a global organisation with four sales regions, three sales segments;
- consolidate the group's product suite into a single global platform (the Digital Banking Hub); and
- form a global functional organisation for delivery, product development and partners.

With these targets in mind, management took a CHF7.0m provision to reorganise the business and accelerate the pace of change:

- **Acceleration of a go-to-market strategy**: the global sales team has been re-aligned to become segment focused, working on a local and regional basis to strengthen client relationships. The group has also grown its in-house sales and marketing team to support the sales drive. CREALOGIX continues to work with implementation partners to expand the group's global footprint, leveraging global partnerships with the likes of IBM.
- **Streamlining the platform**: the global product portfolio has been consolidated and streamlined into a single global Digital Banking Hub, with the 'sunsetting' of peripheral products. This will provide development as well as delivery efficiencies, allowing the business to focus on sales of a smaller core offering.

As a result of these changes, CREALOGIX is reducing headcount by 10% and closing a number of sites and, where possible, consolidating office space. Although the benefit will be felt in FY21, the full impact of these savings is not expected until FY22.

Management guidance

Management expects FY21 EBITDA to be above FY20 adjusted EBITDA (CHF2.4m), together with double-digit EBITDA margins and 60% recurring revenues in the medium term. However, management notes that COVID-19 may impact short-term targets, although to date, the pandemic has actually helped to accelerate the digital transition in banking (cf Deloitte highlights a 39% rise in the adoption of digital banking services Q1–Q220).

Outlook: Continuing positive progress

We expect more of the same. Management has slimmed down the product set to focus the group's sales efforts, with the global sales team reorganised into segmental teams on a regional basis to help establish stronger client relationships. The group remains focused on international sales (particularly in the Middle East and Asia-Pacific) via partnerships with the likes of IBM, as well as a continuing focus on building SaaS and other recurring revenues (44% of FY20 revenues) to 60% of total revenues in the medium term.

Despite the short-term pain the SaaS transition has entailed, we believe it is a necessary and beneficial step for the business to take and the recurring revenues, increased visibility, higher margins and better client retention will improve the quality of CREALOGIX's business and earnings in the medium term. In H221, we anticipate a reduction in the level of drag from the business transition to a SaaS model (management highlighted a CHF6.9m impact on sales and EBITDA in FY20), with a first full year post-transition in FY22 and double-digit EBITDA in the medium term.

The impact of COVID-19 in FY21 remains uncertain, on the one hand driving the adoption of digital banking solutions, but with the potential for continuing economic disruption. Although we believe we have taken a balanced view, the risk to our estimates is on the downside.

Valuation: Looking ahead to completion of the transformation

CFREALOGIX stock trades on 1.3x EV/sales in FY21e, falling to 1.2x in FY23e with an FY23e EV/EBITDA multiple of 11.4x and an FY23e P/E of 20.5x. For patient investors prepared to consider a medium-term time horizon, CREALOGIX offers an attractive valuation proposition as it emerges from the SaaS transition, as highlighted by the valuations of its quoted peer group (closest peers, Temenos and Q2 Software). In terms of valuation, looking at CREALOGIX's trading peers (see Exhibit 9) suggests that a valuation of c 3–5x revenues and c 15x EBITDA (32% upside) could be achieved once the group transformation completes, although this level of valuation would require strong double-digit growth and sustained double-digit margins. We also recognise the wide variations in business models and valuation multiples across the peer selection.

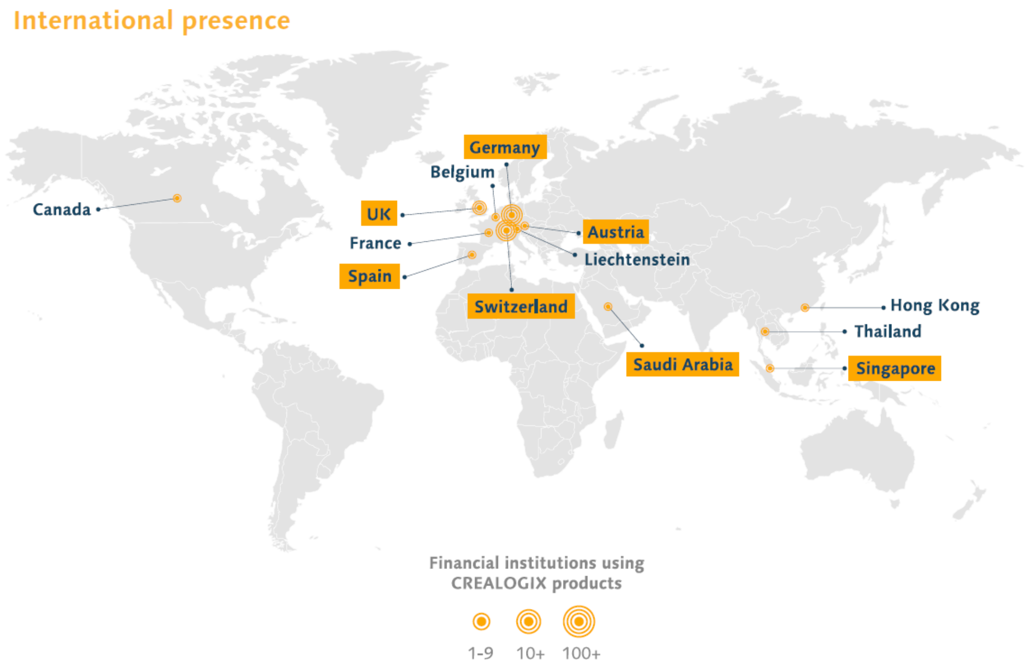
Business description

Global digital banking enabler

CREALOGIX is an international leader in digital banking solutions. Based in Zurich, it was founded in 1996 by Bruno Richle, Richard Dratva, Daniel Hiltebrand and Peter Süsstrunk. Richle, Dratva and Süsstrunk continue to work with the company and together own c 37% of the share capital. With c 700 employees, CREALOGIX provides front-end banking software solutions for mobile and PC banking. It has implemented projects for more than 550 customers, ranging from online banking and robo-advisory to mobile-first solutions. The company ranks in IDC's global fintech top 100, having moved up to 70th position in the latest 2019 ranking after improving its position every year since its initial inclusion in 2016.

The company has a leading position in the Swiss market, where 19 of the 30 largest Swiss banks use its digital online/mobile applications. Outside Europe, CREALOGIX now has offices in Saudi Arabia and Singapore, together with representation in Canada and a number of other countries in Asia. In FY20 revenues from Asia and the Middle East grew 54% y-o-y, now representing 13% of overall revenues, and the company has plans to extend operations in these regions. In FY20, 62% of sales were international (ie outside Switzerland), representing a small fall from 64% in FY19 reflecting the underlying strength of the Swiss market as well as domestic regulatory changes. Nevertheless, the direction of travel is clear and management expects the proportion of international sales to continue to rise to 70% or more in the medium term.

Exhibit 1: CREALOGIX – expanding eastwards



Source: CREALOGIX

Digital banking software: A $60bn global market

The total addressable global market for digital banking software is estimated to be worth $60bn, of which third-party spending represents an estimated $14bn. Of this third-party figure, approximately 40% of the market, or $5.9bn, is for digital front office solutions, forecast to grow at 8% between 2020–22 (source: Temenos, February 2020). The US is the largest market, representing c $25bn. The digital banking software market remains a fragmented competitive landscape, with competition varying by country and region, including incumbent banking software vendors, specialist front office providers and leading fintech companies.

Product development: Enhancing the hub

CREALOGIX has continued to modularise and consolidate its Digital Banking Hub, investing in new product development as well as ‘sunsetting’ peripheral and legacy features. New developments include a Conversational Engagement App, a cloud-based offering that allows banks to communicate securely with their customer base, enabling delivery of, for example, chat or video-based investment advice. Management has also introduced an enhanced multi-banking solution to support open banking, targeted at the Swiss and German markets. This solution offers a one-stop shop to both corporate and retail customers, allowing them to monitor and manage their liquidity across banks and bank accounts.

Tender award for seven state development banks

As proof of the competitiveness of its Digital Banking Hub, in September 2020 CREALOGIX won a Europe-wide competitive tender to develop a customer portal for a consortium of seven state development banks in Germany. The contract is for the implementation, maintenance and optimisation of a common customer portal, enabling fully digital processing of loan submissions for the consortium over 10 years. A sliding subscription fee will apply for use of the platform.

The seven institutions are Investitions-und Förderbank Niedersachsen (NBank), Hamburgische Investitions-und Förderbank (IFB HH), Investitions-und Strukturbank Rheinland-Pfalz (ISB), Investitionsbank des Landes Brandenburg (ILB), Investitionsbank Schleswig-Holstein (IB.SH) and Wirtschafts-und Infrastrukturbank Hessen (WIBank), with a partnership option for Bremer Aufbau-Bank (BAB).

The mechanics of the SaaS transition

Historically, CREALOGIX has offered a range of revenue models to its customers, predominantly a perpetual licence model, with additional annual support and maintenance fees, as well as services income. The new default delivery will be a hosted cloud or rental offering, which involves a recurring annual subscription fee. Clients upgrading their contracts are being encouraged to switch to rental although there will always be some that continue to prefer the perpetual licence model.

The move to SaaS affects organic revenue growth and margins because, in its first year, as an example, a CHF1m traditional (one-off) perpetual licence deal would typically generate CHF1m, together with an additional 20% of maintenance revenues. However, on a SaaS basis, an equivalent contract might be only c CHF0.45m pa (ie CHF1.8m over four years). Additionally, SaaS revenues are recognised pro-rata, so if the contract above was signed in the last month of the period, it would only generate CHF38k of revenue in that period. However, the SaaS model is more lucrative and 'stickier' over the long term, breaking even after four years and generating significant revenue upside thereafter (ie CHF0.45m vs CHF0.2m annually for the perpetual licence model).

Exhibit 2: SaaS transition – the end is in sight

Source: CREALOGIX

Management has indicated that the initial impact from the SaaS transition was seen in FY18, with revenues and EBITDA CHF4m lower (part-year effect) than under a licence/maintenance model. The impact increased to approximately CHF7m in FY19 and CHF6.9m in FY20. Assuming a three-year transition period, we forecast a drag of CHF4m (part-year effect) in FY21, before a full-year post-transition with double-digit EBITDA in FY22 and double-digit EBITDA margins in FY23.

Sensitivities: Competitive and economic environments

The impact of the COVID-19 pandemic remains difficult to predict and has the potential to lead to a global economic downturn. Despite this prospect, in the short term at least, there have been positives for CREALOGIX, as institutions have been forced to digitise their services, driving demand for digital banking. This is borne out by a recent Deloitte report, highlighting a 39% rise in the adoption of digital banking services between Q120 and Q220. In Asia, the impact of a growing middle class and younger generations who expect accessible banking solutions is driving demand for mobile-led solutions. Wealth management solutions are also set to follow a mobile-first path.

As we have highlighted in previous notes, economic and regulatory uncertainties, including Brexit, have the potential to affect decision-making by CREALOGIX's customers. There is also a competitive risk that fintechs and challenger banks could make significant inroads into the traditional banking sector, leading to consolidation that would reduce CREALOGIX's addressable customer base. Major back-end software vendors and ERP software providers could also become more active in the front end, while specialist direct competitors could develop stronger solutions (eg Temenos).

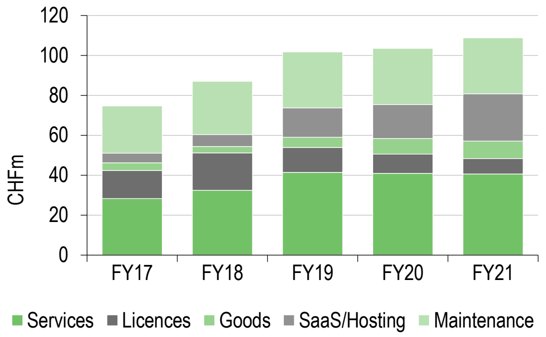
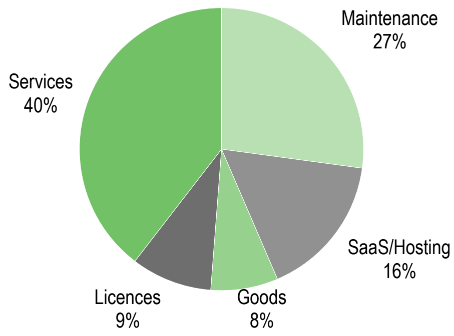
FY20 financial results

H220 13.2% revenue growth

FY20 net sales increased by 1.7% to CHF103.7m (FY19: CHF101.9m). Despite the onset of the COVID-19 pandemic, net sales in H220 were 13.2% higher than H120. The performance in Switzerland was driven by a clear focus on a new product (the digital banking platform) and the introduction of QR-bills in Q420. Recurring revenues rose to 44% (FY19: 42%) of the overall mix, with SaaS revenues rising by 15% to 16.4% of total revenues. Management quantified the impact of the SaaS transition on the FY20 results at CHF6.9m to both sales and EBITDA but continue to believe that short-term costs are more than outweighed by the long-term benefit to the business.

CREALOGIX reported adjusted EBITDA of CHF2.4m (FY19: CHF1.9m), excluding CHF7.0m of one-off reorganisation costs, with a reported EBITDA loss of CHF4.6m. The reorganisation costs were announced in July 2020 to accelerate the SaaS transition and return the business to medium-term growth and profitability. The group reported a net loss of CHF12.4m (including goodwill amortisation of CHF4.9m) (FY19 loss of CHF6.3m) and an adjusted net loss per share of CHF0.15 (FY19: CHF0.94).

FY20 adjusted free cash flow was CHF7.9m (including CHF0.9m of reorganisation costs), up by CHF10.4m from a negative free cash flow of CHF2.5m in FY19. Following the CHF25m refinancing of its convertible bond in November 2019 (five-year term, 1.5% coupon), CREALOGIX had FY20 gross cash of CHF 36.0m and net cash of CHF5.1m (FY19: net debt of CHF2.1m).

Exhibit 3: Revenue mix by category	Exhibit 4: FY20 revenue by category
	
Source: CREALOGIX, Edison Investment Research	Source: CREALOGIX, Edison Investment Research

Despite COVID-19, FY20 only marginally below our estimates

Despite concerns at the time of the interims around the impact of the COVID-19 pandemic, CREALOGIX produced a strong H220 performance (13.2% revenue growth vs H120) to largely deliver on expectations for FY20. FY20 revenue of CHF103.7m was 1.8% below our FY20 estimate of CHF105.5m, with adjusted EBITDA of CHF2.4m approximately CHF0.15m below our estimate of CHF2.6m. We had forecast a normalised EPS loss of CHF0.27 versus an actual loss of CHF0.15.

Strategy: Investment underpins global ambitions

CREALOGIX has established a strong track record of delivering software solutions to the banking industry in Switzerland and over the past few years has focused on expanding its international footprint. The company intends to be at the forefront in providing solutions to meet the needs of the dynamic and fast-changing global digital banking markets, scaling its platform to serve a larger, more international customer base.

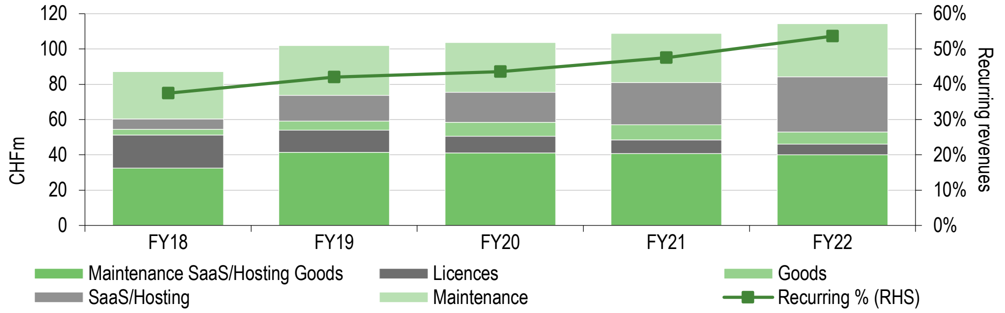
To achieve this, the group has invested heavily in the development of its software platform to address the competitive challenges to the banking sector, spending 21% of sales on R&D in FY18 and 20% in FY19 (costs expensed). These heightened levels of R&D will continue in FY20 and FY21 as CREALOGIX continues to invest in its Digital Banking Hub, in line with its transformation programme. This should ensure market-leading speed to market and scalability to position CREALOGIX for strong sales growth in the medium to long term.

Historically, operational investment has been supplemented by strategic acquisitions, with Elaxy in FY16 and Innofis in 2018. Although management's focus is internal, reorganising and streamlining the business, management has previously indicated that part of the proceeds from the CHF25m convertible bond refinancing might be used for future M&A. We do not expect any deals in 2020, but M&A may move back up the agenda in 2021/22.

Target: Focused on 60%+ recurring revenues

Recurring revenues consist of support and maintenance (CHF28.1m or 27% of FY20 revenues vs 28% in FY19), along with hosting SaaS services, up by 15% from CHF14.7m in FY19 (14% of revenues) to CHF17.0m in FY20 (16% of revenues). In total, these two segments represented 44% of FY20 revenues (vs 42% in FY19). We expect the proportion of recurring revenues to continue to rise on the back of hosted/SaaS growth, with management targeting 60% recurring revenues in the medium term.

Exhibit 5: Evolution to a SaaS/recurring revenue model



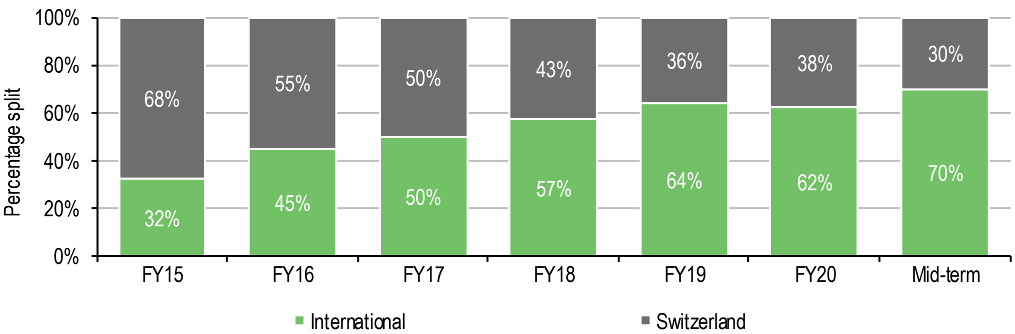
Source: CREALOGIX, Edison Investment Research

Continuing internationalisation

in FY20 62% of CREALOGIX sales (64% in FY19, 57% in FY18) arose from outside Switzerland (see Exhibit 6), with the group targeting 70%+ in the medium term. Currently, clients are served mainly from offices in its core hubs of Switzerland and Germany (with six offices), although CREALOGIX has 11 offices in total, including Singapore in the Far East. As fast-growing, but less well served markets management is focused on opportunities in Asia and the Middle East and for the moment at least, the competitive North American market remains a lower priority. As part of its business reorganisation, CREALOGIX expects to consolidate its number of offices from 11 in FY20 to nine in FY21.

CREALOGIX continues to build its partner ecosystem to allow it to serve customers around the world. This approach frees up resources to allow CREALOGIX to concentrate on its core business, the development and sale of digital banking software products.

Exhibit 6: CREALOGIX – expanding international footprint



Source: CREALOGIX

Market environment

CREALOGIX is recognised in IDC's top 100 global fintech list and a leader in the digital banking space, particularly for mobile banking software solutions.

An Economist Intelligence Unit survey highlighted some of the major factors affecting digital banking today as well as the major trends expected over the next few years; with new technologies, changing consumer expectations, increasing competition, regulatory considerations and the macroeconomic cycle all driving change in the market.

Digital banking: A global growth story

Digital banking continues its major growth, with increasing use of smartphone and mobile devices around the world. Investment in digital banking has overtaken compliance as the priority area for banking sector IT budgets as customer expectations and increasing competition, as well as regulatory change (eg Payment Services Directive 2 (PSD2) put pressure on banks to upgrade their front-end systems. The transformation process to digital banking remains in its early stages, with traditional banks still dominating despite the proliferation of specialist digital banks now emerging.

In a white paper published by CREALOGIX, the company cites a Visa Digital Payment study, which shows that number of Europeans who regularly use a mobile device (eg a smartphone, tablet or wearable device) to make payments tripled in 2017 to 54% of respondents compared with 18% in 2016. Smartphones are expected to take 80% of the online banking market by 2020 (source: AT Kearney). Although the data are not yet available, we expect to see another major step forward in digital adoption in 2020, as lockdown has prompted largescale investment and adoption of digital technologies.

According to Deloitte, the EMEA retail banking market shows a range of digital maturity, highly correlated with internet penetration in each territory. However, feedback from its EMEA Digital Banking Maturity Study revealed the real driver of digital banking maturity in different jurisdictions was from market pressure – both from customers (ie expectations regarding service levels) and from competitors (ie a banking digital ‘arms race’).

The changing backdrop is driving increasing spend by banks and financial providers on front-end systems and Gartner forecasts that front-end system spend will rise to c 50% of banks’ total IT spend by 2020, from c 10% in 2010. The front-end solutions in this space need to be more agile than the back-end core banking systems and must offer a seamless experience. Innovation is clearly much more prevalent in the front end than at the back end.

Competitive environment

In our research, we have identified five primary areas of competition for front-end solutions provided to the financial services industry, with many of CREALOGIX’s closest competitors either privately owned, or part of larger software groups.

- **In-house IT departments of banks**, a declining proportion of the market, as they suffer cost and flexibility disadvantages against SaaS software vendors.
- **Specialist software providers**, for example, Backbase (Dutch private company), Finastra (UK private company), Intelligent Environments (UK private company) and Sopra Banking Software (part of Sopra Steria, EPA:SOP).
- **Core banking software providers**, for example, Temenos (recently acquired Kony, SWX:TEMN), FIS Global (NYSE:FIS), Infosys (owner of EdgeVerve, Mumbai listed, NSE:INFY) and Avaloq (Swiss private), which are focused on back-end systems and typically have a small presence in front-end systems or less sophisticated solutions.
- **ERP giants** SAP (ETR:SAP) or Oracle (NYSE:ORCL) can offer solutions.
- **Systems integrators** such as IBM (NYSE:IBM) (now a global partner to CREALOGIX for the IBM Financial Service Cloud) that work on a time and materials basis and typically partner with specialist software vendors.

Specialist software providers such as CREALOGIX have a particular advantage with front-end systems (as opposed to non-consumer facing software). Differentiation in digital is through superior design of the customer experience, understanding the user journey through continuous customer feedback loops and applying design thinking and intensive research of demographic shifts.

Solutions need to be very client centric and winning propositions are based on building the best user interface, tailored to each client.

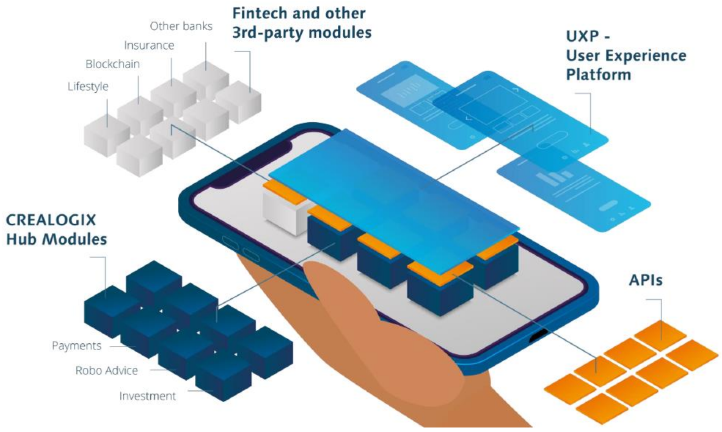
In our view, CREALOGIX has a number of advantages over other specialist software providers, including the breadth of its platform, its focus on front-end solutions, its track record and proven position in the Swiss market, its growing international footprint and the transparency associated with being a public company.

Unrelenting pressure on the banking sector

The global banking sector is facing unprecedented challenges. Increased regulation in the wake of the global financial crisis means banks must hold increasingly higher levels of capital against their assets, putting pressure on profitability. The implementation of MiFID II and PSD2 in January 2018 has added further complexity. Under PSD2, EU banks are required to provide legitimate third parties with access to their customers' account data, enabling them to aggregate data and initiate payments.

Open banking APIs are enabling an array of market opportunities, encouraging new business models, innovation, new financial services ecosystems and digital customer connectivity.

Exhibit 7: The open banking API



Source: CREALOGIX

This means credit institutions and banks will need to have the requisite IT interfaces in the form of APIs (as provided by CREALOGIX software solutions). At the same time, their customer bases are being targeted by challenger banks, as well as a range new fintechs offering alternative products (such as peer-to-peer lending, crowd funding, bitcoin and other alternative investment solutions). To maintain competitiveness, traditional banks regularly need to update their propositions. While the large global banks have the financial resources to develop their own solutions in house, smaller institutions have no choice but to purchase technology.

This investment requirement has polarised markets, with the consolidation of banks holding unproductive assets, or unwilling or unable to maintain this high level of investment. This can be seen in the number of banks in long-term structural decline across the globe, for example, in Switzerland, according to a recent report by Ernst & Young, the number of banks fell by 33% between 2000 and 2017, while the number of branches was down by 23% and the number of employees down by 12%. Traditional banks have costly branch networks that can be streamlined with the help of digital banking.

A 2017 report from Autonomous pointed out that Germany has over 32,000 bank branches compared with 7,370 supermarkets, and this number is expected to fall dramatically in the coming years. Data compiled by the consumer charity Which? show the UK has lost nearly two-thirds of its bank and building society branches over the past 30 years, with the number of branches falling from 20,583 in 1988 to 7,586 in 2018.

Technology: CREALOGIX's Digital Banking Hub

The group launched its Digital Banking Hub in 2015, with subsequent ongoing development and refinement to reflect changing customer requirements. The hub gives small and mid-sized banks the opportunity to offer highly competitive digital banking offerings. The hub is a modular system that has been tailored for customers, having been developed in conjunction with them. It has a modern interface, with APIs and includes pre-built, out-of-the box modules with certain key characteristics offering a comprehensive platform for online banking across all channels (Exhibit 6). The APIs enable the hub to integrate fintechs, third-party modules and in-house widgets.

The hub enables financial institutions to integrate specific product offerings from fintechs into their complex IT landscape and connect them with existing solutions. Consequently, financial institutions can achieve significant improvements in the banking experience for their customers.

The platform's primary verticals are Transaction & API Banking, Mobile Banking and Digital Payment. Customers will take both the flagship online Transaction & API Banking and Mobile Banking solutions to create a multi-channel offering. Additionally, CREALOGIX offers a range of online and mobile security products and has a strategic alliance with Entersekt, a provider of advanced transaction authentication and mobile app security software.

The Digital Banking Hub is open and can be integrated into all systems; a user-friendly navigation concept can link from various CREALOGIX modules to third-party applications. The product is white labelled, with each client bank adapting the style to suit its existing design. It is cost effective, because the system is based on a lean and open architecture and is perfectly compatible with all standard devices. The group uses Java and HTML5 programme languages, with Java in the back end and HTML5 upfront. The product uses modern concepts including responsive design (resizes with different devices) and zero footprint (no software installation required on the device). The product offering has a six-month upgrade cycle.

The implementation of the group's solutions helps bank IT departments shift their focus from development to business support. This is an attractive proposition because banks need ever-more flexibility to cope with regulatory changes and to compete for new customers with challenger banks.

Business model: Perpetual licences and SaaS

Despite increasing take-up of the SaaS model, CREALOGIX offers a range of revenue models to its customers. The group's traditional Swiss client base still prefers the perpetual licence model plus implementation, along with annual support and maintenance fees (in the range of 18–21% depending on the overall solution). Many banks in continental Europe prefer onsite cloud implementation, due to attitudes towards security risk and regulation. However, attitudes towards SaaS are now starting to change in Europe and most new customers are signing up to SaaS solutions in the cloud.

The group's UK clients (c 30 customers acquired via MBA Systems) operate on a hosted SaaS basis, initially committing for five years before moving on to annual rolling contracts. CREALOGIX also offers a SaaS licence for five to seven years, while onsite rental remains an option. CREALOGIX regularly receives change requests from clients (eg adding functionality, acquiring a hub or other changes), which generates additional licence and services revenues.

CREALOGIX also uses systems integration resellers as a route to market, which enables it to cover the entire value chain, through consultancy, conceptualisation, integration and operation. CREALOGIX's systems integrator partners include, as well as privately-owned companies, Hewlett-Packard Enterprise (NYSE:HPE), CGI (TSE:GIB.A), Cognizant (NASDAQ:CTSH) and Adesso

(ETR:ADN1) and, as recently announced, IBM. The systems integrators provide any services required.

It is worth noting that although increasing partner business over the next two to three years should drive an increase in recurring revenue, it may also have a negative impact on top-line growth as partners sign contracts directly with CREALOGIX's customers, with the revenue recognised on their books.

The company sells to both the business side and the IT department. However, the position of chief digital officer is becoming much more common in banks and is usually the best point of contact. The sales cycle is normally six to 18 months, with 12 months on average. CREALOGIX will typically be required to develop a proof of concept, but the scale of this will depend on the customer's requirements. For example, the customer might be concerned with the look or feel of the solution for the end customer. Alternatively, clients may wish to integrate third-party software or in-house widgets or customise the hub so that it looks and functions like the customer's other corporate websites. Ultimately, the customer needs to make the decision on whether to invest in-house or in new front-end software.

Forecasts: Slight downward revision

With a new CEO at the helm who has a background in business transformation, CREALOGIX has already taken steps to reorganise the business, setting aside a CHF7.0m provision in FY20 to accelerate the ongoing business transformation. As set out earlier in the note, we expect a residual impact from the SaaS transition on our FY21 estimates, before a full-year post-transition in FY22.

Following the FY20 results, we have taken the opportunity to reassess the impact of CREALOGIX's transition to a SaaS-led business model and revised our forecasts accordingly.

On this basis, we conservatively forecast year-on-year revenue growth of 5% in FY21–23, reflecting the uncertain economic climate, with an improved EBITDA contribution in FY21 of CHF5.9m (a margin of 5.4%), climbing to CHF10.3m in FY22 (9.0% margin, with the full benefit of the reorganisation and cost cutting launched over the summer) and double-digit EBITDA margins showing through in FY23.

Underlying the top-line revenue numbers, we expect growth to be led by the maintenance and hosting/SaaS segments, with recurring revenues constituting 47% of total revenues in FY21 and 54% in FY22 (FY19: 44%). Meanwhile, goods and licensing revenues decline materially, both in absolute and relative terms, with services revenues treading water as the focus remains on building the recurring revenue base.

Exhibit 8: Summary of changes to Edison forecasts

CHF'000 Year end 30 June, Swiss GAAP	2020	Old 2021e	New 2021e	Change	Y-o-y growth	Old 2022e	New 2022e	Change	Y-o-y growth	New 2023e	Y-o-y growth
Revenue	103,659	111,051	108,845	-2%	5%	115,922	114,277	-1%	5%	120,502	5%
Adjusted EBITDA	2,428	4,657	5,894	27%	143%	13,050	10,325	-21%	75%	12,462	21%
Operating profit (before amort. and except.)	(71)	1,991	3,395	70%		10,188	7,826	-23%	131%	9,963	27%
Profit Before Tax (norm)	(939)	1,616	3,020	87%		9,813	7,451	-24%	147%	9,963	34%
EPS - normalised (CHF)	(0.15)	0.83	1.56	87%		6.08	3.84	-37%		5.13	
Dividend per share (CHF)	0.00	0.25	0.00	-100%		1.00	0.50	-50%		1.00	
Margins											
EBITDA margin	2.3%	4.2%	5.4%			11.3%	9.0%			10.3%	
Pre-tax margin	-0.9%	1.5%	2.8%			8.5%	6.5%			8.3%	

Source: Edison Investment Research

In line with its transformation programme, we anticipate capex of CHF2.4m in FY21, CHF2.5m in FY21 and CHF2.7m in FY22.

Absent any significant acquisitions, we expect CREALOGIX to show strongly increasing cash generation in line with management's revised medium-term guidance (double-digit EBITDA margins, strong cash flow generation), with CHF10.9m in FY22 and CHF13.2m in FY23.

Valuation: Peer group comparison

Beyond a small number of immediate peers, it is hard to identify truly comparable quoted companies to CREALOGIX. There are a range of pure SaaS businesses listed in the US where the SaaS rental model is most advanced, but in the UK, where the SaaS rental model is increasingly the norm, and in Europe (where, for example, German companies are switching to rental, and Switzerland, which has been slower to switch) there are few listed pure SaaS businesses. Given this, we focus on financial software providers which, as CREALOGIX, have a partial but increasing exposure to SaaS revenues.

Based on our universe (Exhibit 9), we include a number of software companies that include a digital banking engagement platform as part of their offering, while there is also a rationale to look at UK/European financial software businesses of a similar size to CREALOGIX. Finally, we include a selection of North American SaaS businesses, which highlight the potential valuation to which CREALOGIX can aspire as it transitions to SaaS.

Although it is substantially larger in size, Temenos (Swiss – low growth, high margin) is the closest domestic comparator to CREALOGIX – particularly after its acquisition of Kony. Q2 Software (US – high growth, low margin) is also a close comparable, although both companies are substantially larger and more highly rated than CREALOGIX. Of the other two identified digital banking engagement platform providers, Backbase (NL) is a private company and EdgeVerve (India) is part of the Infosys group.

In terms of valuation, looking at CREALOGIX's trading peers suggests that a valuation of c 3–5x revenues and c 15x EBITDA could be achievable as CREALOGIX emerges from its SaaS transition (although we recognise the wide variations in business models and valuation multiples across the group). If we apply the peer group EBITDA multiple to our estimates for CREALOGIX, this would suggest an EV of CHF155m in FY22 and CHF187m in FY23, a premium of c 32% to today's EV and a 27% uplift in share price. A multiple of 3x revenues would imply an EV target of CHF350m+ in the medium term.

We recognise that these levels of multiple would require a recovery in EBITDA margins to a sustainable double-digit level and assume continuing strong revenue growth. However, for investors willing to take a medium-term view, CREALOGIX's valuation at 1.2x FY22e sales is compelling, particularly when compared to its closest peers. However, we would note that liquidity continues to limit exit opportunities in the short term.

Exhibit 9: Peer analysis

	Year end	Current price (local ccy)	Local Ccy	EV ($m)	Sales growth 1FY (%)	EV/ sales 1FY (x)	EV/ sales 2FY (x)	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
CREALOGIX Group	**Jun-21**	**105.0**	**CHF**	**141.7**	**5.0**	**1.30**	**1.24**	**5.4**	**9.0**	**24.0**	**13.7**	**67.5**	**27.4**
UK/European (non-US) Software													
Temenos AG	Dec-20	134.9	CHF	12,005	-2.6	12.7	11.2	45.0	44.3	28.2	25.4	40.7	36.9
Sopra Steria Group SA	Dec-20	139.4	€	4,430	-1.6	0.9	0.8	9.9	10.8	8.6	7.6	17.6	13.8
Flatex AG	Dec-20	42.6	€	1,770	72.7	6.6	5.2	37.9	40.2	17.3	12.9	22.4	17.2
First Derivatives PLC	Feb-21	3280.0	GBp	1,270	-1.9	4.2	3.9	17.2	18.1	24.6	21.6	52.5	43.0
Intellect Design Arena Ltd	Mar-21	12.3	€	496	3.0	0.9	0.9	9.7	10.6	9.7	8.4	21.5	14.9
GFT Technologies SE	Dec-20	213.4	INR	407	3.3	2.2	1.9	17.3	18.7	12.5	10.4	26.5	20.3
Gresham Technologies	Dec-20	110.0	GBp	89	-0.6	2.8	2.7	16.5	16.5	16.7	16.3	47.8	55.0
Beeks Financial Cloud	Jun-20	91.0	GBp	63	30.0	4.0	3.3	32.6	34.2	12.3	9.5	32.3	24.6
Mean					**12.8**	**4.3**	**3.7**	**23.3**	**24.2**	**16.2**	**14.0**	**32.7**	**28.2**
Median					**1.2**	**3.4**	**3.0**	**17.2**	**18.4**	**14.6**	**11.6**	**29.4**	**22.5**
North American Software													
Fidelity Nat Info Services	Dec-20	146.7	US$	107,043	22.2	8.5	7.8	41.9	45.2	20.2	17.3	26.7	21.9
SS&C Technologies	Dec-20	131.5	US$	16,456	3.0	3.5	3.4	22.3	22.2	15.8	15.1	24.0	22.0
Broadridge Fin Solutions	Jun-21	60.8	US$	22,296	-1.2	4.8	4.7	39.2	39.6	12.3	11.9	14.9	14.0
Q2 Holdings	Dec-20	89.6	US$	4,837	27.4	12.0	9.9	5.6	6.9	NM	NM	NM	NM
Envestnet	Dec-20	76.9	US$	4,624	7.7	4.7	4.2	22.7	23.1	20.8	18.4	33.2	29.4
Tecsys	Apr-21	27.9	C$	292	12.0	3.3	2.9	11.1	13.3	29.6	21.9	NM	NM
Mean					**11.9**	**6.1**	**5.5**	**23.8**	**25.1**	**19.8**	**16.9**	**24.7**	**21.8**
Median					**9.9**	**4.8**	**4.5**	**22.5**	**22.7**	**20.2**	**17.3**	**25.4**	**21.9**

Source: Refinitiv consensus data (except CREALOGIX). Note: Prices at 21 September 2020.

Sensitivities

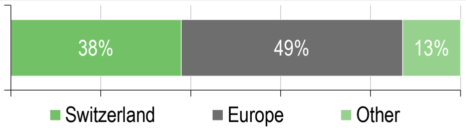
In assessing the investment case for CREALOGIX, we highlight the following sensitivities:

- **SaaS transition:** CREALOGIX is partway through its transition from a traditional licence-based business model to a recurring revenue SaaS model. This is expected to offer greater revenue and profit visibility in the medium term but has required increased investment and affected profitability in the short term. Margin recovery is only expected in the medium term.
- **Economic slowdown:** economic and regulatory uncertainties, including a global economic slowdown, the continuing impact of the COVID-19 pandemic, Brexit and a US/China trade war could deter potential customers, slowing new customer growth.
- **Competitive environment:** there is a risk that fintechs and challenger banks could make increasing inroads into the traditional banking sector over the longer term, leading to market consolidation and a reduction in CREALOGIX's addressable customer base in the traditional banking sector. Major back-end software vendors and ERP providers could take a more active approach in front-end solutions, while specialist direct competitors could enhance existing solutions (eg Temenos/Kony).
- **Customer/currency concentration:** the group has a high exposure to Swiss-based banks (38% of FY20 revenues) and the Swiss franc, although this exposure is expected to reduce as the group internationalises. Other than this, CREALOGIX is not overly exposed to any one client or single jurisdiction.
- **Restricted free float:** CREALOGIX's free float is c 42%. This means there is liquidity risk for investors, which may make it difficult to invest and exit at size close to the market price.

Exhibit 10: Financial summary

CHF'000s	2018	2019	2020	2021e	2022e	2023e
Year end 30 June	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP	Swiss GAAP
PROFIT & LOSS						
Revenue	87,144	101,913	103,659	108,845	114,277	120,502
Gross Profit	67,277	77,161	78,015	83,395	91,826	98,163
Adjusted EBITDA	7,031	1,860	2,428	5,894	10,325	12,462
Operating Profit (before amort. and except.)	5,441	(806)	(71)	3,395	7,826	9,963
Amortisation of acquired intangibles	(2,944)	(5,109)	(4,916)	(5,000)	(5,000)	(5,000)
Exceptionals	0	0	(7,008)	0	0	0
Operating Profit	2,497	(5,915)	(11,995)	(1,605)	2,826	4,963
Associates	(20)	(274)	0	0	0	0
Net Interest	(429)	(571)	(868)	(375)	(375)	
Profit Before Tax (norm)	4,992	(1,651)	(939)	3,020	7,451	9,963
Profit Before Tax (Statutory)	2,048	(6,760)	(12,863)	(1,980)	2,451	4,963
Tax	(1,350)	436	418	(846)	(2,086)	(2,790)
Profit After Tax (norm)	3,642	(1,215)	(521)	2,174	5,365	7,173
Profit After Tax (Statutory)	698	(6,324)	(12,445)	(2,826)	365	2,173
Minority interest	(681)	(73)	316	0	0	0
Net income (norm)	2,944	(1,288)	(205)	2,174	5,365	7,173
Net income (Statutory)	17	(6,397)	(12,129)	(2,826)	365	2,173
Average Number of Shares Outstanding (m)	1.23	1.38	1.39	1.40	1.40	1.40
EPS - normalised (CHF)	2.39	(0.94)	(0.15)	1.56	3.84	5.13
EPS - Statutory (CHF)	0.01	(4.65)	(8.75)	(2.02)	0.26	1.55
Dividend per share (CHF)	0.25	0.00	0.00	0.00	0.50	1.00
Gross Margin (%)	77.20	75.71	75.26	76.62	80.35	81.46
EBITDA Margin (%)	8.07	1.83	2.34	5.41	9.03	10.34
Op Margin (before GW and except.) (%)	6.24	(0.79)	(0.07)	3.12	6.85	8.27
BALANCE SHEET						
Fixed Assets	62,506	62,373	54,401	49,297	44,312	39,464
Intangible assets and deferred tax	54,330	58,465	51,004	46,004	41,004	36,004
Tangible Assets	1,363	2,351	1,767	1,663	1,678	1,830
Investments & pensions	6,813	1,557	1,630	1,630	1,630	1,630
Current Assets	49,576	42,452	60,180	65,484	73,988	83,251
Stocks	5,950	3,580	5,379	5,648	5,930	6,253
Debtors	22,934	26,028	18,842	19,785	20,772	21,904
Cash	20,692	12,844	35,959	40,051	47,286	55,094
Current Liabilities	(29,704)	(43,012)	(41,275)	(43,090)	(44,991)	(47,169)
Creditors	(29,704)	(29,571)	(36,275)	(38,090)	(39,991)	(42,169)
Short term borrowings	0	(13,441)	(5,000)	(5,000)	(5,000)	(5,000)
Long Term Liabilities	(11,325)	(2,564)	(27,605)	(27,605)	(27,605)	(27,605)
Long term borrowings	(9,291)	(1,459)	(25,885)	(25,885)	(25,885)	(25,885)
Other long term liabilities	(2,034)	(1,105)	(1,720)	(1,720)	(1,720)	(1,720)
Net Assets	71,053	59,249	45,701	44,086	45,704	47,940
CASH FLOW						
Operating Cash Flow	3,388	499	9,739	6,480	10,939	13,166
Net Interest	(455)	(431)	(645)	(375)	(375)	0
Tax	(421)	(28)	(855)	382	(815)	(2,012)
Capex	(1,117)	(2,584)	(1,227)	(2,395)	(2,514)	(2,651)
Acquisitions/disposals	(11,814)	(8,892)	0	0	0	1
Financing	(2,447)	(273)	88	0	0	2
Dividends	(559)	(342)	30	0	0	(699)
Net Cash Flow	(13,425)	(12,051)	7,130	4,092	7,234	7,807
Opening net debt/(cash)	(10,621)	(11,401)	2,056	(5,074)	(9,166)	(16,401)
Other	14,205	(1,406)	0	0	0	1
Closing net debt/(cash)	(11,401)	2,056	(5,074)	(9,166)	(16,401)	(24,209)

Source: CREALOGIX, Edison Investment Research

Contact details	Revenue by geography
Badenerstrasse 694 8048 Zurich Switzerland +41 58 404 8000 www.crealogix.com	

Management team

CEO: Oliver Weber

Mr Weber joined CREALOGIX in September 2018 as an Executive Vice President of CREALOGIX Switzerland and has been a member of the Executive Management since January 2019 before being appointed CEO in January 2020. Mr Weber is a business transformation expert with over 25 years of experience in strategy, general management, finance and operations of international IT companies. He held various senior and executive management positions at Wincor Nixdorf in Germany, USA and the Netherlands. Most recently, he was the COO at Arcplace, Zurich where he successfully led strategic initiatives to promote growth and operational performance. He studied economics at the University Kassel, Germany, holds a master's degree in finance from INSEEC, Paris and a diploma in marketing from the Université Claude Bernard, Lyon.

Chief strategy officer: Richard Dratva

Mr Dratva is a founding member of CREALOGIX. Prior to CREALOGIX, he worked as a consultant with Teleinform. From 1992 to 1994, he was engaged as a research associate at the Institute of Information Management at the University of St Gallen. From 1987 to 1991 Mr Dratva was employed as an internal consultant with the Swiss Bank Corporation (now UBS).

CFO: Daniel Bader

Mr Bader joined CREALOGIX as CFO in August 2019, with a career spanning more than 20 years in finance and business processes. Daniel worked for the audit teams at Ernst & Young and PricewaterhouseCoopers for eight years, before joining the logistics business, Swisslog Group. He held a number of senior finance roles at Swisslog from 2007, before becoming CFO in 2015. As an experienced financial specialist, he helped integrate companies after complex mergers and acquisitions (M&A), successfully transformed business models and streamlined processes to improve business performance. He was also responsible for the implementation of financial controlling tools.

Chairman: Bruno Richle

Mr Richle was a founding member of CREALOGIX in 1996 and led the group though its IPO on the Swiss Exchange SWX in 2000. He retired as CEO at the end of 2015. From 1990 to 1996, he was a member of the executive management and technical director with Teleinform, which at that time was the leading Swiss telematics company. From 1985 to 1989, he worked for Bührle Group, and from 1986 was head of the department of electronic engineering at Oerlikon Aerospace (then part of Bührle Group) in Montreal, Canada. He is also a director of Yachtwerft Portier and Elektrizitätswerk Jona-Rapperswil. He holds board mandates at Foundation FUTUR and Innovation Foundation of the Bank of Canton Schwyz, and is a member of the Hochschulrat der Hochschule für Technik in Rapperswil.

Principal shareholders	(%)
Richard Dratva	17.7
Bruno Richle	16.4
David Moreno (Mayfin Management Services)	11.7
Daniel Hiltebrand	9.8
Noser Management	3.1
Credit Suisse Asset Management	2.0