

13 January 2021

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ALTium LIMITED (ALU)

Packaged Software

BUY

ALU A\$30.78

TARGET PRICE A\$36.79

Altium Limited (ALU) is engaged in the development and sale of computer software for the design of electronic products. ALU is based in Australia with sales operations in Americas; Europe, Middle East and Africa; Greater China; and Asia Pacific.

Company Data

| | |
|------------------------|---------------|
| Number of shares | 130.966M |
| Market Capitalisation | \$4.03 B |
| Free float | 82.2% |
| 12-month high/low | \$42.63/24.67 |
| Average Daily Turnover | \$12.8M |
| % S&P/ASX200 | 0.22% |
| DDM Ranking | 200 |
| % All Ordinaries | 0.18% |

GICS Industry Group Packaged Software

Source: FactSet, Barclay Pearce Capital

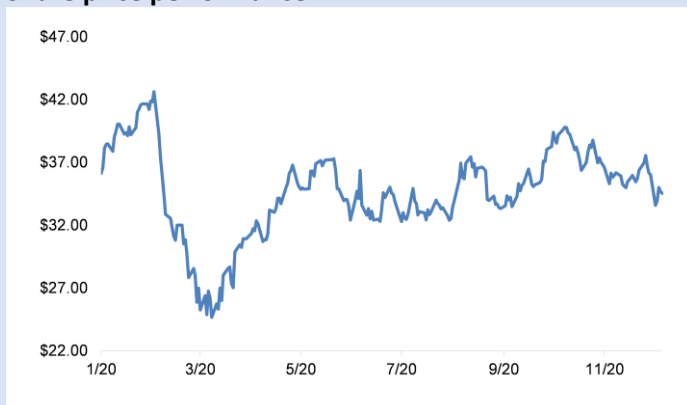
Earnings Summary (AUD)

| Year end June | 2020A | 2021F | 2022F | 2023F |
|-------------------------|-------|--------|-------|-------|
| Revenue (\$M) | 262.5 | 252.3 | 284.6 | 347.8 |
| EBITDA (\$M) | 105.0 | 99.8 | 110.3 | 133.5 |
| Reported NPAT (\$M) | 42.9 | 80.1 | 73.0 | 87.3 |
| Adjusted NPAT (\$M) | 70.6 | 65.2 | 72.5 | 90.1 |
| Reported EPS (c) | 32.7 | 51.1 | 56.7 | 69.1 |
| Adjusted EPS (c - FD) | 58.9 | 50.0 | 58.2 | 70.5 |
| Adjusted EPS growth (%) | -1.1 | (15.1) | 16.4 | 21.0 |
| Adjusted P/E (x) | 52.2 | 61.5 | 52.8 | 43.7 |
| Dividend (c/sh) | 40.3 | 43.0 | 46.7 | 56.1 |
| Gross yield (%) | 1.3 | 1.4 | 1.6 | 1.8 |
| Net yield (%) | 1.3 | 1.4 | 1.6 | 1.8 |
| ROIC (%) | 33.7 | 56.5 | 67.5 | 93.0 |

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Bloomberg and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

H1 FY21 Unaudited Revenue Update

On 12 January 2021, Altium Ltd. (ASX:ALU) announced sales and revenue updates with the following highlights:

Outlook

- Board and Systems revenue was stronger in Q2 relative to Q1;
- Q1 was down 11% but improved to be flat in Q2;
- This is despite significant restructuring in sales organisation in pivoting to cloud;
- Electronic manufacturing has rebounded with Octopart benefiting from recovery and achieving 19% revenue growth for the half;
- Strong growth in Term-Based Licenses occurred over the first half, which was up 166% and resulted in around US\$1M negative revenue impact;
- ALU experienced a decline in first half revenue for fiscal 2021 of 3% to US \$89.9M due to extreme COVID conditions in the US and Europe;
- Americas underperformed with a decline of 10% in revenue for the half as unprecedented levels of COVID impact sales performance;
- NEXUS recorded a decline in growth of 14% for the half due to timing of deal; and.
- China underperformed with a decline of 15% in revenue for the first half as licence compliance activities become more challenging due to economic uncertainty post-COVID in china.

ALU CEO, Aram Mirkazemi stated *"despite a challenging first half, we saw signs of recovery in Q2. This result was achieved despite extreme conditions in the US and the restructuring of our sales organisation."*

I am confident that with our pivot to the cloud and our move to digital sales that the Q2 momentum will continue into the second half."

Earnings changes

ALU reported \$89.6M in revenue for FY21 which was down 3% on pcp. However, the market was expecting \$90.2M in revenue for the first half and flat revenue for the full year FY21. Hence, we expect negative earnings revisions of 3% for FY21 but 0% for future periods.

Valuation

We are initiating on Altium Ltd. with a 12-month price target of \$36.79 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

| | | |
|-----------------|-------|---|
| Buy | 40.2% | (0.0% of stocks with recommendations are Barclay Pearce clients) |
| Speculative Buy | 0.4% | (100.0% of stocks with recommendations are Barclay Pearce clients) |
| Hold | 19.5% | (0.0% of stocks with recommendations are Barclay Pearce clients) |
| Underperform | 40.0% | (0.0% of stocks with recommendations are Barclay Pearce clients) |