

Sim Corp A/S

Recommendation: Long

Simcorp – quality compounder on sale after 50% stock price decline

EXPECTED RETURN	TIMEFRAME	POSTED
N/A	2 Years To 5 Years	5/24/2022



Author: Ole S eberg

Posted While At: Nordic Investment Partners

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About Ole S eberg



One of the main investors and sole manager of AC Vision Fund. The strategy is GARP investing in growth clusters of the future. Absolute return focus, 25 stocks and 0.5% fixed fee and 10% performance fee after 3% return. High water mark obviously. The fund will be a listed fund on Copenhagen Stock Exchange in 2022. Global equities since 1985. Roles as analyst, asset manager, Investor Relations Officer, CIO and board member. Employers include Carnegie, Alfred Berg, TDC, Tryg and Skagenfunds in Norway

Sim Corp A/S

Asset Class: **Equity** Symbol: **SIM:LI** Updated: **5/24/2022** Posted: **5/24/2022**



BY:
Ole S eberg

CURRENTLY AT
Nordic Investment Partners

CURRENT RANKING:
★ **#13 Western Europe - May '22**

Return Performance	
RETURN TO DATE:	<i>Pending...</i>
EXPECTED RETURN:	N/A
IRR:	N/A
RETURN VS. BENCHMARK: <i>(SPDR EURO STOXX 50 ETF)</i>	N/A

COMMUNITY RATING: *4 votes needed*

PERCENTILE: **N/A**

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Pricing Details	
RECENT PRICE:	506.55 DKK <i>5/24/22 at 12:00AM</i>
TARGET PRICE:	750.00 DKK
INITIAL PRICE:	<i>Pending...</i> <i>5/24/22 at 08:01AM</i>
CLOSING PRICE:	N/A



ASSET CLASS:
Equity



SITUATION:
GARP



TARGET ALLOCATION:
5% - 10%



CATALYSTS:
N/A



TIMEFRAME:
2-5 Years

Fundamentals

CURRENCY	Danish Krone
52 WK. RANGE	N/A
MARKET CAP	USD
EV	2.97 Billion
TOTAL CASH	N/A
TOTAL DEBT	N/A
BOOK VALUE PER SHARE	9.32
THREE MO. AVG. DAILY VOLUME (USD)	0
SELLSIDE CONSENSUS	1.78

Multiples/Ratios

LTM P/E	N/A
FORWARD P/E	N/A
EV/EBITDA	17.06
EV FCF	28.01
EV SALES	N/A
PRICE BOOK	N/A
FCF YIELD	0.04
DEBT BOOK	N/A
DIV YIELD	1.05

Additional Data

SECTOR	Information Technology
INDUSTRY	
COUNTRY	Denmark
REGION	Western Europe

Thesis

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Simcorp – quality compounder on sale after 50% stock price decline

Simcorp is a world leader in software solutions for investment management with 16% global market share in the segment for large asset managers such as banks, mutual funds, mortgage institutions, pension funds and sovereign wealth funds.

The stock price has fallen almost 50% from its 2021 peak and it's a rare opportunity to get into this quality compounder at a reasonable valuation.

Simcorp together with BlackRock's Aladdin are setting the global standard for portfolio management software systems. Simcorp spend significant amounts for improvement and development of better system features and glue the high loyalty customer base even closer to their software services.

Simcorp has defined their market as the global top 1.300 asset managers and they have 209 of these as customers, so there is a good runway ahead for Simcorp.

The stock price decline of 50% is caused by two factors;

1. 30% due to lower valuation caused by higher interest rates
2. 20% from fundamental factors such as going through lower profitability period due to increased investments for higher future revenue growth, less new contracts due to Covid-19 restricted interaction with customers and 300 employees in Ukraine had to be moved to Poland

On normalized revenue growth, profitability, and valuation metrics it's a 700-800 DKK stock and it's now trading at 500 DKK level

Background

Simcorp was founded in 1971 in Copenhagen, Denmark and IPO'ed in April 2000. It develops and markets software solutions for large asset management companies. The key product, Simcorp Dimension, is a customizable, modular investment management software solution for professional investment managers, which supports all elements of the investment management process.

The key product, Simcorp Dimension, is a customizable, modular investment management software solution that includes Asset Manager, Client Manager, Data Warehouse Manager, Order Manager and Settlement Manager, among others. Simcorp also provides services such as business consulting, implementation, and maintenance of their software solutions.

Simcorp have 1.900 employees and 600 or 35% of these are in R&D, which emphasize the high priority of constant improvement of their software and services. 42% of employees are professional services i.e customer backup and support, 8% is in sales and sales planning and the rest is admin and headquarter functions

Simcorp revenue streams in 2021:

36% from software updates and support to existing customers

34% from professional services assisting clients in getting most out of their software

18% from additional license sales

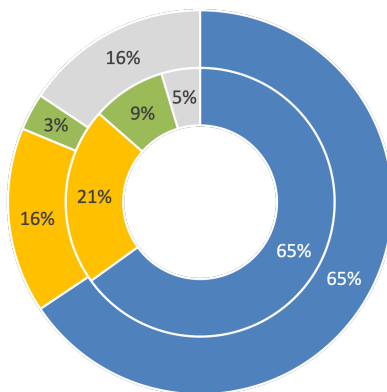
7% from hosting fee for cloud-based customers

4% from new license sales

Simcorp geographical segments 2021: sales 496m € and EBIT 124m €

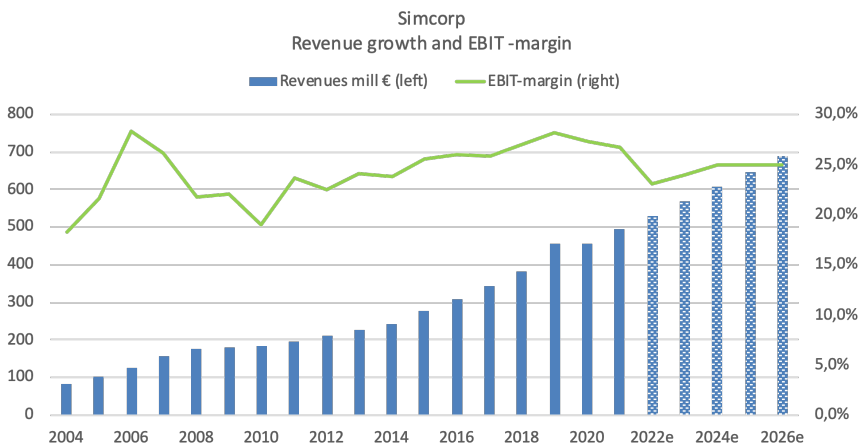
Simcorp sales and EBIT per region

■ EMEA ■ America ■ AsiaPac ■ Simcorp Sofia



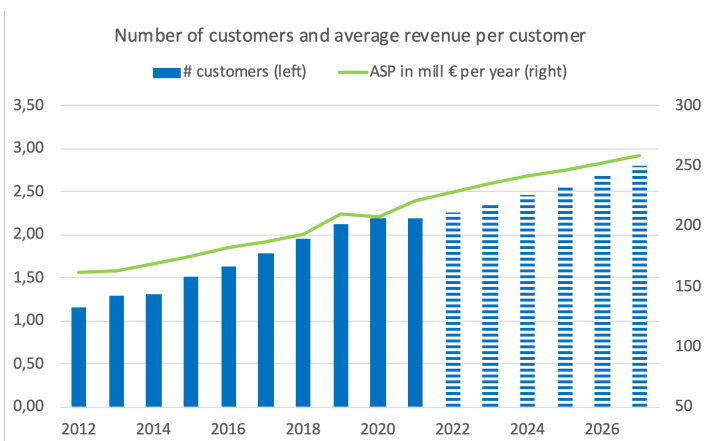
A 11% revenue grower with stable profitability

Simcorp has grown revenues a 11% per year from 2004 to 2021 and with good profitability and EBIT-margin in the 20-27% range



The key drivers for the historical revenue growth have been the number of clients and average revenue stream per client. The modularized approach gradually increases the revenue per customer from the entry level. The company do not disclose the revenue stream from an 'all-in' customers, but I assume it's 4-5 mill € per year. Also, in 2018 Simcorp mentioned that they have 16.000 unique users of their modules and I assume it's around 20.000 users in 2022.

Simcorp is moving the business into the Cloud and the revenue stream will gradually migrate from 'on-premise' software and support to 'SaaS' subscription per user. In 2019 there was 20 clients on SaaS model and the latest update its 34 clients i.e. 16% of the customer base



The slowdown in revenue growth in the 2008 to 2011 period was the last time investors could pick up Simcorp shares at an attractive valuation. With Covid-19 restrictions to customer access Simcorp only gained one new account in 2021 while at the same time increasing spending for Cloud based



Assets and resources for the journey forward

Simcorp's core assets are the installed software platform with 209 large asset managers. In the illustration below from Simcorp they provide good transparency of their market opportunity

Asset managers see the IT infrastructure as mission critical and most of the 209 current clients have the software solution on-premises. However, Simcorp is moving the business into the Cloud and during 2021 eight clients moved to the Cloud and now 34 clients or 16% of total is Cloud-hosted. A few clients use AWS for Cloud data, however most of the clients use private Cloud based solutions Azure from Microsoft or IBM Private Cloud.

The Cloud version have higher agility for service, upgrades, and implementation of new features, regulatory changes etc. The revenue stream to Simcorp can be 2-3 times the on-premises revenue stream per customer.

Transition from on-premises to SaaS in the Cloud will positively impact on gross margin and overall profitability in the outer years 2025-30

The market and competition

The global asset management industry is huge and with thousands of players. A Simcorp asset management software solution costs 2.5 million € per year for the average customer and with entry level customers estimated to spend 1 million € per year plus data wash and data transfer costs. It's obviously not for all asset managers so Simcorp has defined their piece of the pie to the top 1.300 asset managers and of which they have 209 or 16% market share.

This implies that the total market for investment management software in Simcorp's niche is 3.1 billion €

The main competitors are Aladdin (Blackrock) with 20% market share. Aladdin is concentrated in the US market. Their offerings for institutional investors and wealth managers is promoted as bringing clarity and connectivity to the financial ecosystem

State Street acquired Charles River Development in 2018 and offers investment management systems that automate and simplify portfolio management, risk analysis, settlement, compliance etc. Charles River Development has an estimated market share of 8%

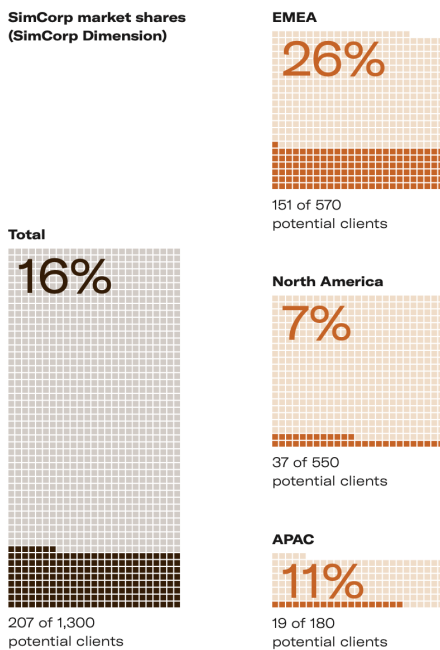
The rest of the market is a mix of internally developed legacy systems, Advent and other smaller players in the financial industry software market.

Lower fees in investment management, higher compliance burden, increased risk of cyber-attacks and globalization of products encourage large asset managers to consolidation to get scale benefits. Also, leading investment managers are sharpening their focus on directly alpha-generating activities through increasing digitalization and cloud-transformation as well as outsourcing of operational responsibility. This focus on simplicity is expected to lead buy-side companies to significantly increase IT/software spend to

optimize their business models

According to Simcorp the average client relationship lasts at least 7 years but given the quite considerable costs of moving historical data from one platform to another I assume churn is only 7% per year, which implies around 100 potential pitches per year in the 1.300 client pool. To maintain its growth ambition Simcorp need to catch 15-20 new clients per year and always be ready at the frontlines when the potential clients start to move.

Simcorp annual report 2021 on market share and market potential per region



Operational performance and forward projections

The illustration with revenues and EBIT margin provides at good sense of direction.

Based on Simcorp outlook, own estimates for the forward roadmap and assuming a gradual roll-out of Simcorp Dimension SaaS I get to a financial model that looks like this:

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Number of customers	190	202	206	207	218	232	246	260	274
growth	7%	6%	2%	0%	5%	6%	6%	6%	5%
ASP mill €	2,01	2,25	2,21	2,40	2,50	2,60	2,68	2,76	2,84
growth	4%	12%	-2%	8%	4%	4%	3%	3%	3%
Revenues in mill €	383	455	456	496	545	603	659	718	778
growth	11%	19%	0%	9%	10%	11%	9%	9%	8%
EBIT in mill €	103	128	124	132	125	145	165	179	195
margin	27,0%	28,1%	27,3%	26,7%	23,0%	24,0%	25,0%	25,0%	25,0%
Net income in mill €	77	97	88	110	98	113	129	141	153
growth		26%	-9%	25%	-11%	16%	14%	9%	9%
EPS in DKK	14,48	18,18	16,56	20,54	18,39	21,48	24,67	27,10	29,67
growth	15%	26%	-9%	24%	-10%	17%	15%	10%	9%
Dividend in DKK	6,50	6,75	7,50	7,50	7,36	8,59	9,87	10,84	11,87
Net cash in mill €	33	32	9	7	56	101	151	219	303
ROE	66%	57%	38%	40%	30%	31%	32%	31%	30%

The forward projections are pretty linear but one has to outline the future cash flow profile somehow. 2022 opex is higher than normal due to investment in SaaS platform and additional features and regulatory adjustments on the modules. In Simcorp guidance for 2022 they say it's 2%-point headwind.

For the longer perspective I prefer to stay a bit low on EBIT-margin vs historical standards just to be on the safe side.

As we move through the soft patch 2021-22 the cash pile starts getting bigger and bigger and if things go are forecasted 10% of the current market cap will be cash in 2026.

Capital discipline and buy backs

Simcorp has historically had a very safe and solid use of cash. Dividends and buy-backs are systematically used for returning cash to shareholders. And the buybacks are cancelled and the share count gradually decline. Adjusting for stock split the share count has been reduced by 10% over the past 10 years. In February 2022 Simcorp initiated a new 20m € program that runs until August 2022 and will reduce the share count by approximately 300.000 share or 0.8% of outstanding

Simcorp occasionally acquire assets. The most recent one of size was the 35 million € purchase of Italian software company APL Italiana in 2017. That add on strengthened Simcorp distribution position too in Italy

Leadership

Simcorp is known for steady and long duration leadership. Klaus Hulse (Former Microsoft) was CEO from 2012 to 2021 and with Jesper Brandgaard (NovoNordisk CFO) as Chair from 2008 to 2019. Jesper resigned in 2019 due to governance rules as a long tenure removes the 'independent' tag after 11 years service. The new and independent Chairman is Peter Schütze, former CEO of Nordea Denmark. He is 73 years old and will likely pass on the baton to Morten Hübbe, current Vice Chair within a foreseeable future. Morten is 50 years old and currently CEO of Tryg Insurance

After Klaus Hulse resigned in 2021 daily management is run by Christian Kromann that ran parallel with Klaus Hulse for 2 years as COO. According to Klaus he pitched Christian for several years before he joined in 2019 from Tia technology, a software solution provider for the insurance industry.

The new leadership team have been caught up in Covid-19 and hence less facetime in front of clients and new pitches. Management have also accelerated the Cloud and subscription transition to take on additional costs for a while. Hence the performance is not as expected when one stood in end 2019 and looked a few years forward.

It's hard to decompose reasons for a stock price decline, but somewhere in the 50% stock price decline soup there's probably an element of new management discount as they have not yet proven themselves as Klaus and Jesper did.

Shareholder structure and IR

Simcorp is owned by institutional investors. The largest holders are Mawer IM and Columbia Threadneedle with above 5% each, followed by Comgest, Handelsbanken AM and Vanguard with 3% each. Institutional investors combined control 82%, retail investors 11% and employees and management 5%. The last 3% is treasury share waiting to be cancelled for most part.

There's 39.3 million shares in circulation and no voting restrictions, so Simcorp's main defense for unwanted takeover offers is a highly valued share price.

IR availability and disclosure is good and a new investor can within 1 hour get a pretty good sense of the company and where they are going.

Good IR, good disclosure and most importantly very good financial performance are the key ingredients to get a high valuation that discourage unsolicited offers.

Valuation and target price

Based on my model and partly looking at consensus numbers I get to a fair value of 700-800 DKK a few years out.

The current 12 month forward P/E is 25x earnings and in the low end of the last 10-years valuation interval. On 2024 consensus EPS Simcorp is valued at 19x, which in the past turned out to be very attractive entry levels



The current 12 month forward EV/EBIT is 20x and given the massive cash hoarding you can estimate for the next 5 years the valuation grind should start to work.



The NPV matrix suggest various fair value levels. Given the history and Simcorp's attractive return on capital I would not be surprised if stock process moves back to the 700-800 DKK level within the next two years. That's a 50% return profile and significantly better than my overall market return potential of 5-8% per year

		EPS growth rate					
		4%	6%	8%	10%	12%	14%
Discounting rate	2%	623	708	810	934	1.082	1.261
	3%	555	628	715	819	944	1.095
	4%	497	559	633	721	828	955
	5%	447	500	563	638	728	837
	6%	404	449	503	567	644	736
	7%	366	405	451	506	572	650

Using EPS for 2022-26 and then annual EPS growth to 2042. No terminal value

Triggers

Simcorp 1Q 2022 report was released on 19 May 2022. The performance was mixed with strong order intake, ARR up 10%, revenues up 4% and an EBIT margin of below standard of 13.5%. Guidance for 2022 was

confirmed at 7-12% revenue growth and EBIT margin of 23-26%. Due to investments in the future there 2%-point headwind on margin in 2022

The upcoming scheduled events are 12 August (2Q report), 15 November (3Q report) as well as an capital markets day scheduled for 6 October 2022

News flow of new orders tend to be concentrated in 4Q, so don't expect to much on that front in the next couple of months

Recently there was rumors that Temenos, a Swiss financial software company used as Simcorp peer was to be acquired. Simcorp shareholder structure and no voting restrictions leaves quite open as a takeout target, but do not take that in as a trigger unless valuation declines further

If Simcorp somehow is not able to deliver on 2022 guidance that would obviously trigger a set-back

Risks to keep in mind

The risk map for Simcorp has been unchanged for years. It's the competitive landscape, consolidation among the large asset managers that reduce the 1.300 potential pool, but then again makes larger single accounts and new software platforms coming up.

Aladdin have front-end to back-end solution, whereas Simcorp is focused on mid-to back-end. A Simcorp /Bloomberg (or similar) partnership could mitigate that. Large asset managers do not have all things in one system, so in my view that's not a big risk for Simcorp but obviously something to keep an eye on

Idea Updates

The author has not yet posted any updates for this idea.

Comments

There are no comments yet on this idea.

Visit <https://sumzero.com/pro/research/ideas/20712> and start the discussion.

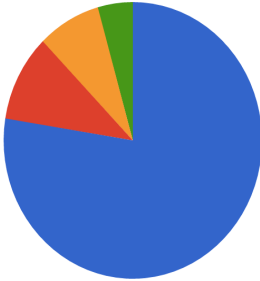
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REGION



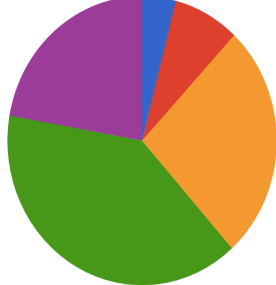
- North America - 77.5%
- Western Europe - 10.2%
- East and South Asia - 7.9%
- Other - 4.4%

MARKET CAP

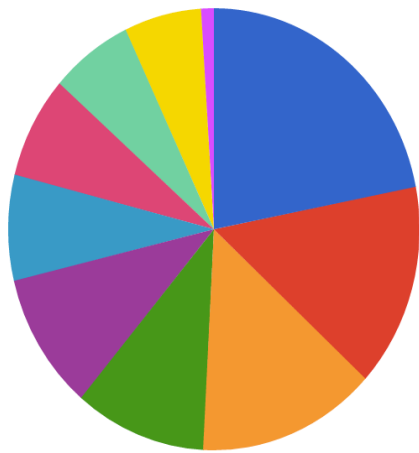


- Small Cap - 25.2%
- Mid Cap - 21.6%
- Mega Cap - 14.4%
- Micro Cap - 14.0%
- Large Cap - 13.4%
- Nano Cap - 11.5%

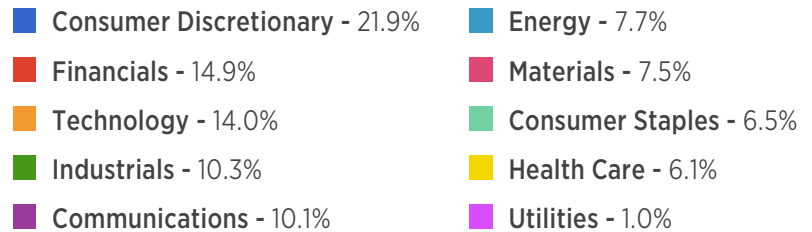
TIMEFRAME



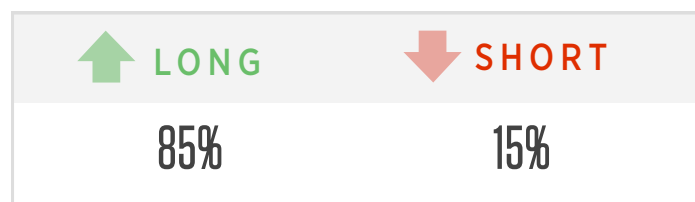
- Less than 3 months - 4.0%
- 3-6 months - 8.0%
- 6 mo. - 1 Year - 26.4%
- 1-2 Years - 39.4%
- 2-5 Years - 22.2%



IDEA BREAKDOWN BY SECTOR



IDEA BREAKDOWN BY DIRECTION



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