

Current Market Price (USD)	Target Price (USD)	%age Growth	Recommendation
45.99	52.3	(12.07%)	Buy

Bentley Systems Inc.	BSY
Investment Type	Large-Cap
Risk Level	Low
Average Volume	648.27 K
Shares Outstanding	273.22 M
Free Float	155.03 M
Market Cap	12.56 B USD
EPS (TTM)	-
Div	0.12 USD
Current Yield	0.26%
Div ex-date	09-Mar-21
Div pay-date	24-Apr-21
ROE	37.40%

Company Overview:

Bentley Systems, Incorporated (NASDAQ: BSY) is engaged in offering software solutions to engineers, architects, constructors, geospatial professionals and owner- operators for the design of roads and bridges. The company's industry-leading offerings include MicroStation-based applications, ProjectWise, AssetWise, and the iTwin platform. The company has over 4,000 employees in around 172 countries. Notably, the company generates over \$800 million in annual revenues.

BSY Details:

Key Positives:

Higher EBITDA Margins (27.7% in FY20 Vs Industry Median of 10.5%), Higher Net Margins (16.1% in FY20 Vs Industry Median of -4.1%)

Key Negatives:

High Asset to Equity Ratio (3.30x in FY20 Vs 2.97x in FY19), Decline in Gross Margins (79.1% in FY20 Vs 80.4% in FY19)

Key Investment Risks:

COVID-19 Led Uncertainties, Vigorous Competition, Higher expenditure, Foreign Exchange Fluctuation Risks

Investment Summary:

- **Decent Top-line Performance:** In 4QFY20, the company reported total revenues of \$219.6 million, depicting a rise of 8.2% on pcp. BSY delivered a CAGR of ~7.6% in revenues over the period of FY18 to FY20.
- **Encouraging Outlook:** For FY21, BSY anticipates revenues to be in the range of \$895 million and \$920 million, depicting a rise of 11.7% to 14.8% year over year.
- **Acquisition Synergies:** Acquisition of Seequent is expected to be accretive to Bentley's organic growth rate.
- **Valuation Upside:** The stock of BSY is trading at an attractive level and depicts an upside of lower double-digit (in % terms) using a P/E multiple based relative valuation. We have a 'Buy' recommendation on the stock.

- **BSY Rides on Diversified Account Base & Higher Investments:** Bentley Systems, Incorporated (NASDAQ: BSY) is involved in providing software-based solution globally for infrastructure engineering, thus aiding the work of civil, geotechnical, structural, and plant engineering as well as owner-operators of infrastructure assets. The company remains on track to invest higher in research and development to leverage the compelling prospects for the application of new technologies that improve BSY's current solutions. **These investments in R&D aid the company to balance its technology advancements with new offerings along with continuous enhancements to its existing offerings. The company markets it's offering through direct sales channels, which accounted for ~92% of its 2020 revenues.**

The company has a highly-diversified account base, with its largest account demonstrating not more than 2.5% of total revenues in FY20. Further, the company's FY20 revenues are also differentiated by account type, size, and geography. The company opines that with a loyal account base, it generated around 80% of its FY20 revenues from organizations, which has been linked to the company's account for more than ten years.

Looking at the past performance, BSY delivered a CAGR of ~7.6% in revenues over the period of FY18 to FY20. Gross profit over the same time posted a CAGR of 6.4%.

Total assets increased from \$923.59 million at the end of FY18 to \$1,126.04 at the end of FY20. The company remained on track to enhance shareholders value by declaring a dividend of \$0.03 per share for 1QFY21, payable on March 24, 2021. The company has also reduced its total debt from

\$258.75 million at the end of FY18 to \$246 million at the end of FY20. Looking forward, the company continues to see robust demand for BSY software solutions in the markets it serves.

Despite the pandemic-induced uncertainties, the company expects a robust sales pipeline in FY21 and beyond.

Consolidated Statements of Operations Data (in thousands, except per share data):				
	Year Ended December 31,			
	2020	2019	2018	
Total revenues	\$ 801,544	\$ 736,654	\$ 691,710	
Gross profit	634,389	592,504	560,386	
Income from operations	150,150	141,865	121,391	
Provision (benefit) for income taxes	38,625	23,738	(29,250)	
Net income	\$ 126,521	\$ 103,096	\$ 142,112	
Net income per share, basic	\$ 0.44	\$ 0.36	\$ 0.50	
Net income per share, diluted	\$ 0.42	\$ 0.35	\$ 0.49	

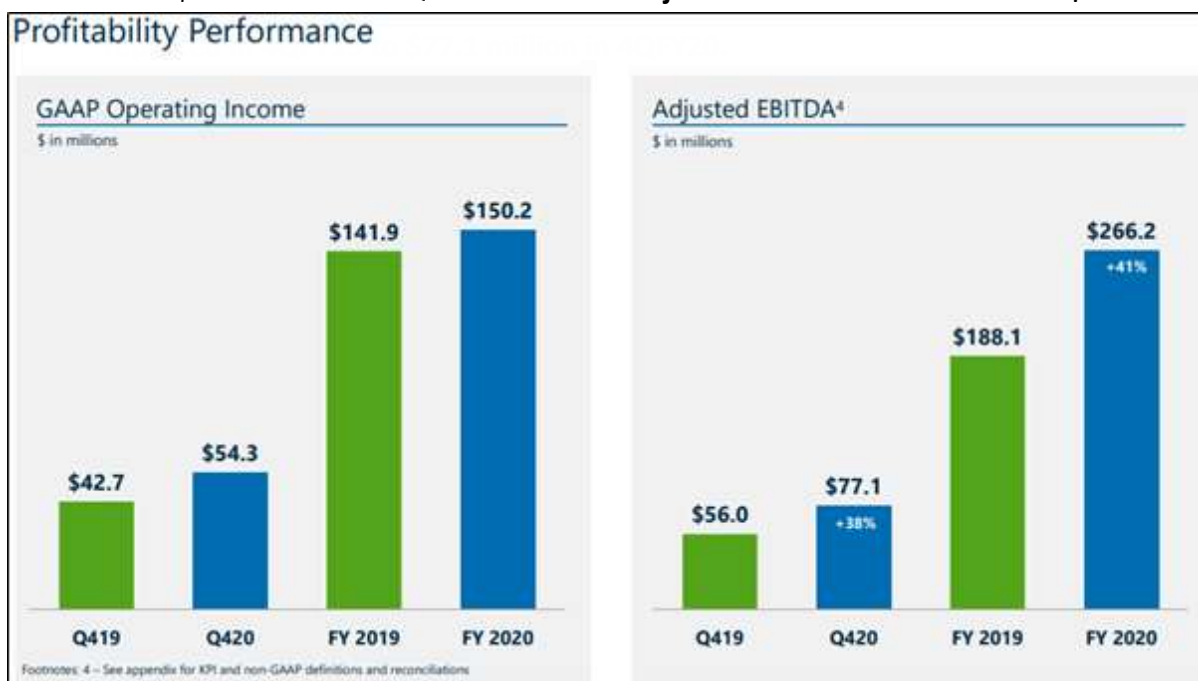
Consolidated Balance Sheets Data (in thousands):				
	December 31,			
	2020	2019	2018	
Cash and cash equivalents	\$ 122,006	\$ 121,101	\$ 81,183	
Working capital, excluding deferred revenues	76,997	166,136	135,163	
Total assets	1,126,035	994,599	923,596	
Deferred revenues, current and long-term	209,314	213,145	337,451	
Total debt	246,000	233,750	258,750	
Total stockholders' equity	341,599	334,619	147,431	

Key Trends (Source: company reports)

Recently, the company has inked a deal with investors controlled by Accel-KKR to buy Sequent for a purchase consideration of \$900 million in cash and 3,141,361 BSY Class B shares. Sequent is engaged in providing software solutions for geological and geophysical modelling. The purchase of Sequent is likely to add ~10% to each of Bentley Systems' annual recurring revenue, annual revenue, and EBITDA. Also, the acquisition is expected to be accretive to Bentley's organic growth rate. **The move is in-line with the company's strategy to strengthen the ability of its infrastructure digital twins, thus addressing the environmental risks, enhancing resilience and sustainability. Notably, subject to the customary closing condition, the deal is expected to close in Q2FY21.**

- 4QFY20 Key Highlights:** During the quarter, the company reported total revenues of \$219.6 million, depicting a rise of 8.2% on pcp. The year over year increase can primarily be attributed to higher subscriptions revenues, which went up by 9.4% year-over-year. Recurring revenues for the last twelve months increased 10.4% on pcp and came in at \$696.7 million. The account retention rate for the last twelve-month stood at 98%, flat year over year. Annualized Recurring Revenue ("ARR") at the end of 31 December 2020, came in at \$752.7 million, depicting a growth of 8% on a constant currency basis from last year end. During the quarter, the company reported GAAP operating income of \$54.3 million, up from \$42.7 million reported in the prior

corresponding period. Adjusted net income in 4QFY20 came in at \$52.1 million, up from \$35.8 million in 4QFY19. **Whereas adjusted EBITDA increased from \$56 million**



Key Highlights (Source: Company Reports)

Top-10 Shareholders

The top 10 shareholders together form around 39.52% of the total shareholdings, while the Top 4 constitutes the maximum holding. SPT Invest Management SARL and Bentley (Raymond B) are holding a maximum stake in the company at 13.6% and 6.96%, respectively, as also highlighted in the chart below:



Data Source: Refinitiv, Thomson Reuters, Chart Created by ETimes Media

Key Metrics & Decent Liquidity Position: The Company generated \$82.3 million of operating cash flow in 4QFY20, up from \$52.5 million reported in the year-ago period. It had \$122 million of cash and cash equivalents as of December 31, 2020. Notably, long-term debt at the

end of the quarter amounted to \$246 million. The available cash can be utilized for investment in growth initiatives, engaging in planned acquisitions, and enhancing shareholders' value. In January 2021, the company entered into a revised and reaffirmed credit agreement. Under the New Credit Facility, BSY obtained an \$850.0 million senior secured revolving facility, due to mature on November 15, 2025.

In FY20, the company's EBITDA margin stood at 27.7%, higher than the industry median of 10.5%, indicating higher profitability. In the same time span, net margin and operating margin of the company stood at 16.1% and 18.7%, higher than the industry median of -4.1% and 1.1%, respectively. During the period, ROE of the company stood at 37.4% as compared to the industry median of -2.8%. The cash cycle days of the company stood at 52.7 as compared to 63.3 days in FY19.



Growth and Profitability Profile (Source: Refinitiv, Thomson Reuters), Analysis by ETimes Media

Key Risks: Stiff competition, adverse currency translations and a volatile macroeconomic environment pose threat to the company's financial position. A significant portion of the company's revenue and a growing percentage of BSY's operations come from outside the United States. This implies that any changes in the legal, regulatory, social, political, and economic culture may impact the company's financial operations. **Further, the company's financial performance can be battered by increasing headcounts and personnel costs. This, in turn, may weigh on margin expansion, going forward.**

Outlook: For FY21, BSY anticipates revenues to be in the range of \$895 million and \$920 million, depicting a rise of 11.7% to 14.8% year over year. The company expects ARR growth on a constant currency basis to be in the ambit of 8% to 10%. Adjusted EBITDA is expected to be between \$285 million and \$295 million in FY21. For the long-term perspective, the company targets total revenues growth of ~10% per year. Further, it targets a dividend yield

between 0.5% and 1% in the long run. The company opines that its growth initiatives place it well to sail through the COVID-19 led turmoil and keep leveraging its growth opportunities.

Financial Metrics	Guidance
Total Revenues	\$895 million to \$920 million increase of 11.7% to 14.8%
ARR Growth (constant currency)	8% to 10%
Adjusted EBITDA ⁴	\$285 million to \$295 million approximately 32% Margin ⁵

Full Year 2021 Financial Outlook (Source: Company Reports)

Valuation Methodology (Illustrative): P/E Multiple Based Relative Valuation.

Relative Valuation Based on Price/Earnings Per Share	
Bentley Systems, Incorporated	BSY
Earnings Per Share (FY21E US\$)	0.64
Price/EPS Multiple (NTM) (Peer Average) (approx)	73.0x
% Premium / (Discount)*	12.0%
Implied Price/EPS Multiple	81.7x
Target Share Price (US\$)	52.3
Closing Price (US\$) (15 March 2021)	45.99
Recommendation	Buy

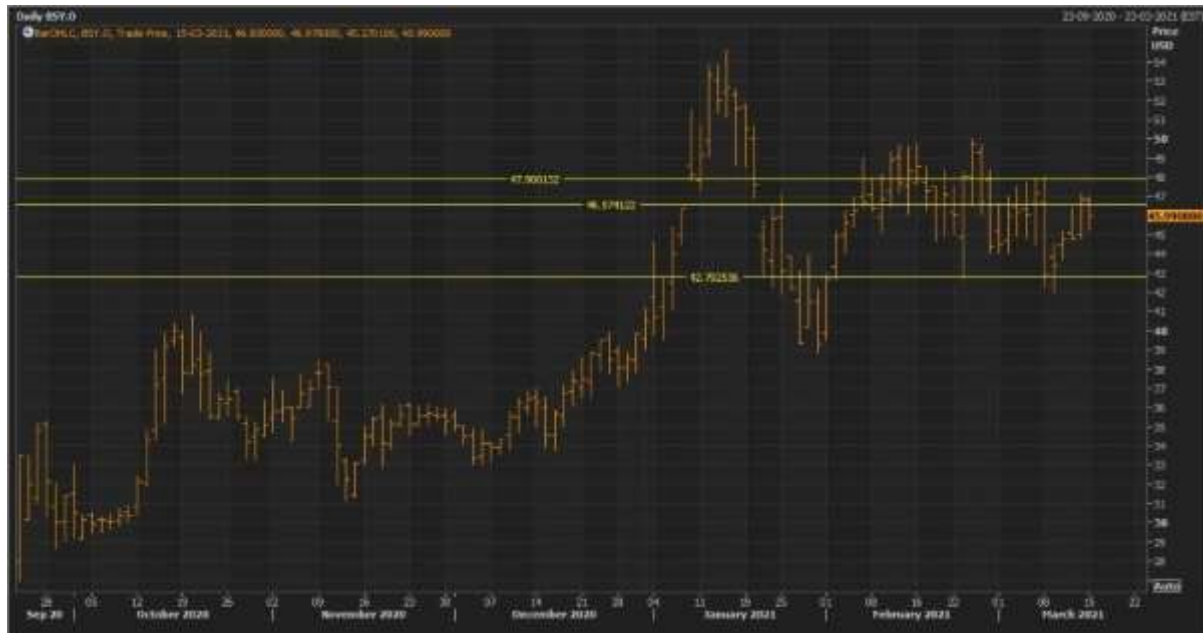
Data Source: Refinitiv, Thomson Reuters, Analysis by ETimes Media

*% Premium/(Discount) is based on our assessment of the company's NTM trading multiple after considering its key growth drivers, economic moat, stock's historical trading multiples versus peer average/median, and investment risks.

Stock Recommendation:

Over the last one month, the stock went down by ~4.7%. The stock made a 52-week low and high of \$27 and \$54.62, respectively. On the technical analysis front, the stock has a support level of ~\$42.79 and a resistance level of ~\$47.9. We have valued the stock using the P/E multiple based illustrative relative valuation method and arrived at a target price of an upside of low double-digit (in percentage terms). We believe that the company can trade at some premium as compared to its peer average, considering its diversified account base, robust 4QFY20 results, and acquisition synergies and encouraging outlook. For the purpose, we have taken peers like Altair Engineering Inc. (NASDAQ: ALTR), Autodesk Inc. (NASDAQ: ADSK), and ANSYS Inc. (NASDAQ: ANSS). **Considering the company's track record of generating positive cash flow from operations, decent 4QFY20 and FY20 performance, promising outlook, and**

valuation, we give a “Buy” recommendation on the stock at the closing price of \$45.99, down by 1.79% on 15 March 2021.



BSY Daily Technical Chart (Source: Refinitiv, Thomson Reuters).