

Software Champions

Changing the world for the better

March 7, 2019

Software Champions

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COMPANIES	WEIGHTING	M-CAP (BN.USD)	UPSIDE POTENTIAL
Microsoft	11%	851.4	13.7%
Adobe Systems	11%	71.1	-4.0%
Salesforce.com	11%	21.8	8.1%
VMWare	9%	3.8	9.8%
Dassault Systemes	9%	126.3	12.3%
Palo Alto Networks	7%	123.4	7.4%
CyberArk Software	7%	33.7	-2.5%
Synopsys	7%	15.5	17.9%
Tableau Software	7%	11.4	2.1%
Temenos	7%	10.1	-10.3%
HubSpot	7%	7.0	6.4%
New Relic	7%	6.0	15.8%

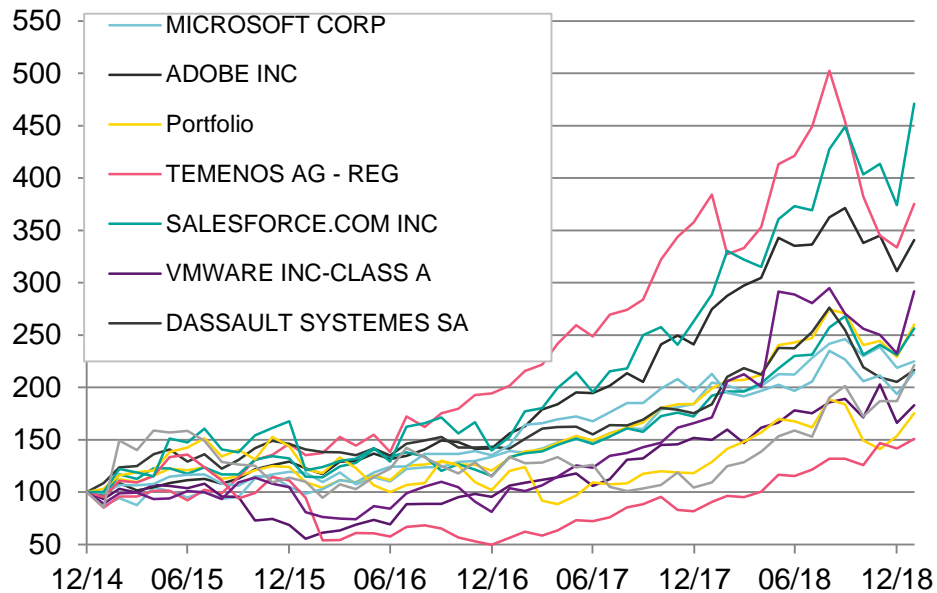
Source: Bloomberg, Bloomberg Consensus

Software Champions – Performance since 2014

Backtesting against benchmarks

March 7, 2019

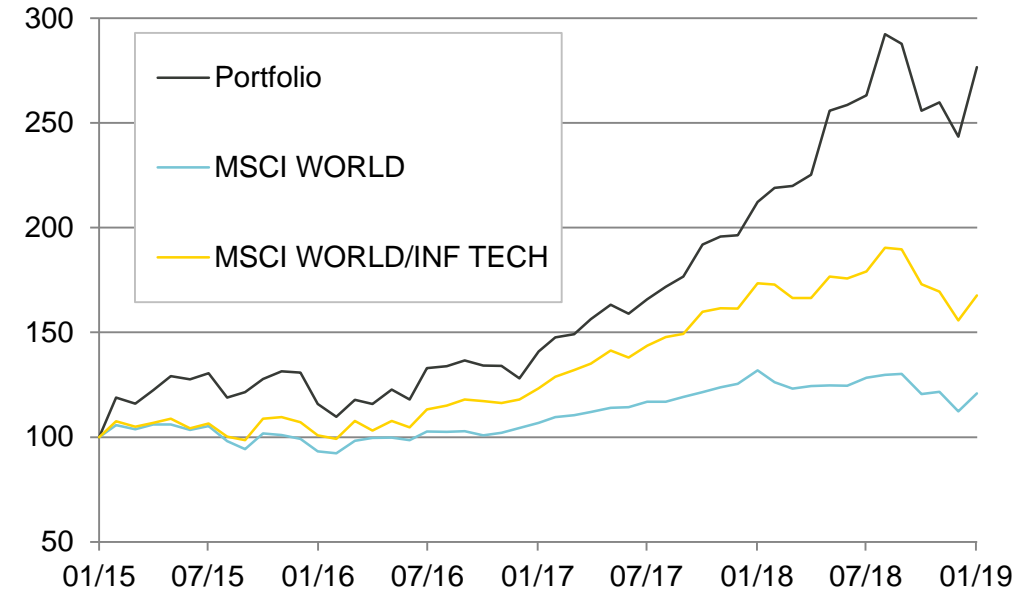
Hypothetical performance since 2014*



12 Software Champions equally weighted (8.3%)

Return since 2014: 25.9%

Benchmark outperformance since 2015*



Outperformance vs. MSCI World/ Inf. Technology: 13.5%

Outperformance vs. MSCI World: 21.7

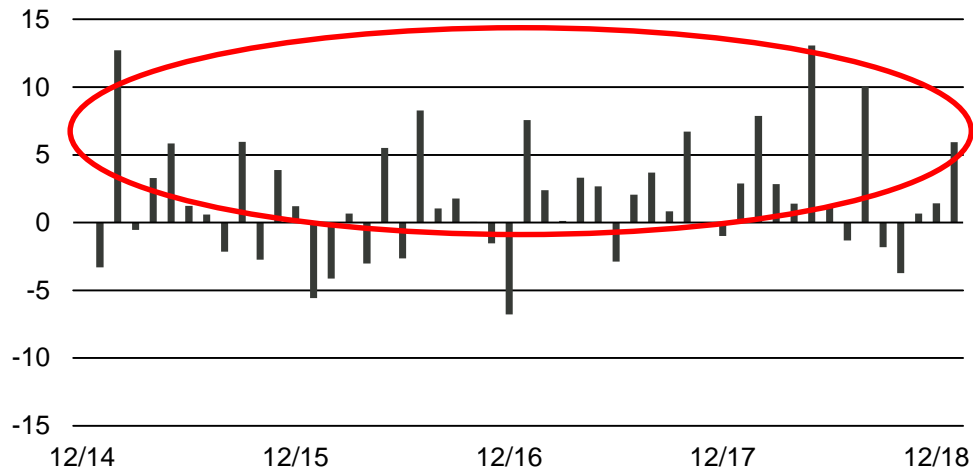
* Please note: Past performance must not be taken as an indication or guarantee of future performance.

Software Champions - Backtest since 2015

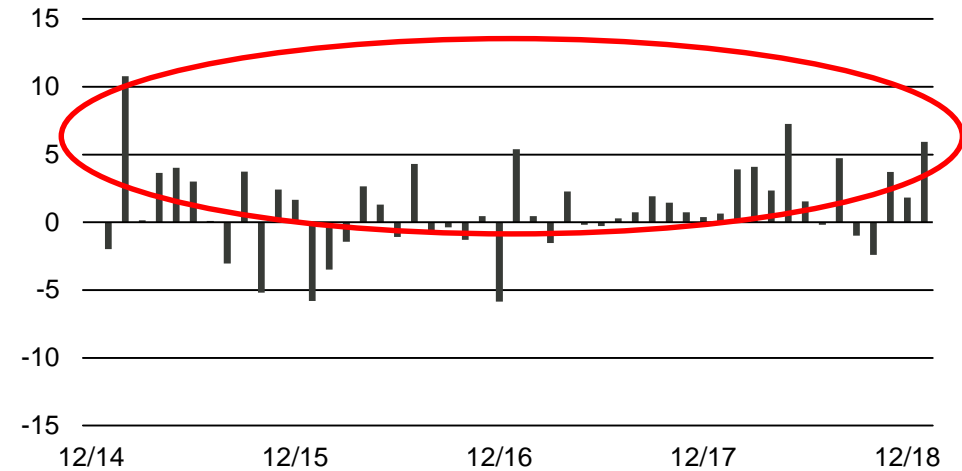
Monthly performance data

March 7, 2019

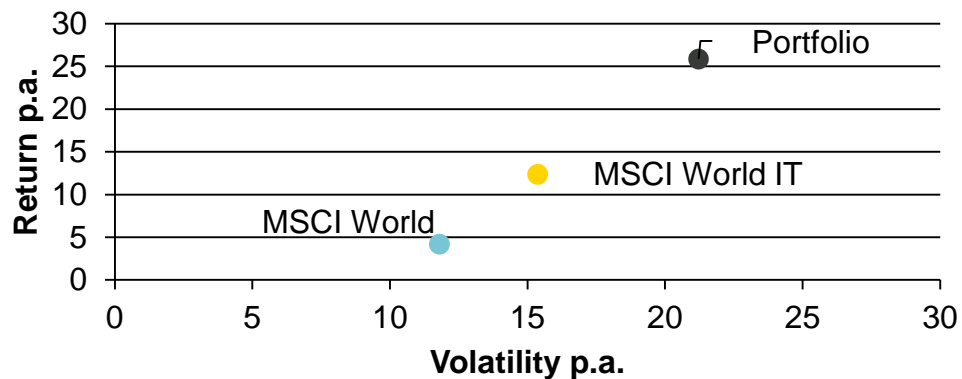
Outperformance Portfolio - MSCI World



Outperformance Portfolio – MSCI World IT



Risk/Return



Risk/ Return in numbers

	PORTFOLIO	MSCI WORLD	MSCI WORLD IT
Annual Return	25.9%	4.2%	12.4%
Annualized Volatility	21.2%	11.8%	15.4%

* Please note: Past performance must not be taken as an indication or guarantee of future performance.

Product details

Voncert on a Software Champions Basket


[Index Guidelines](#)


PRODUKT DETAILS

In subscription until
4pm CET on 15 March 2019



SSPA product type	Tracker Certificate (1300)
Underlying	Software Champions Basket
Initial fixing / payment date	18 March 2019 / 25 March 2019
Maturity	19 March 2021, closing prices
Management fee	2.0% p.a.
Issuer	Vontobel Financial Products Ltd., DIFC Dubai (is not subject to any prudential supervision and has no rating)
Guarantor	Vontobel Holding AG, Zurich (Moody's A3)

Currency	 CHF
ISIN / symbol	CH0464674479/ ZSOFTV
Issue price	CHF 101.00 (CHF 1.00 front-load fee included)
Spot reference price (index level)	USD 99.00

[Details page](#)

[Term sheet](#)


Software Champions



Companies

Microsoft

Microsoft is well positioned with a cloud-first mindset, benefiting from Azure and Office 365, and new leadership has embraced third-party and open-source developer tools, aiding Microsoft's developer ecosystem. Azure, Microsoft's public cloud service, has established itself as the number two player behind Amazon Web Services. Windows 10 is the fastest-growing OS for Microsoft to date. Microsoft is well positioned for new megatrends, as Azure has the ability to power IoT (Internet of Things) devices and the firm is investing in AR (augmented reality) VR (virtual reality), and quantum computing. - Azure is the second-largest public cloud vendor, aided by secular growth in SaaS (Software as a service), PaaS (Platform as a service) and IaaS (Infrastructure as a service). We think that these services represent colossal opportunities for Microsoft and we anticipate that the firm's investments in cloud offerings will offset declines in legacy businesses like Windows Server. We see Microsoft's future as oriented around Office 365, Azure, and LinkedIn, while seeing broad-based contributions from smaller segments such as Xbox and gaming, Surface, and Dynamics. Microsoft has a strong financial health

Salesforce.com

Aggregate CRM spending is expected to outpace other types of application software and SaaS is among the fastest methods for enterprises to cut costs from their IT infrastructure. Salesforce.com remains the largest pure-play SaaS vendor. Salesforce.com SaaS helps clients connect with their customers which appeals to large enterprises. It's total addressable market is currently seen at \$100bln. Even with over \$10 billion in revenue, Salesforce has continued to grow at 20%-plus, and we don't foresee the firm's high growth slowing anytime soon.

Adobe

Creative Cloud (Software as a service) is the gold standard for content creators globally, with the segment possessing monopolistic qualities and protection from both a network effect and switching costs. The shift to a subscription business model has allowed Adobe to eliminate customer price sensitivity, quell piracy, and expand margins, all of which has given the firm a runway to durable top- and bottom-line growth. Experience Cloud products are regarded as having the best in end-to-end functionality. Marketing Cloud, Analytics Cloud, and Experience Cloud each offer mission-critical products. Customers can increasingly pick applications to suit their needs, and a subscription model removes the large, up-front costs that existed with Creative Cloud's predecessor.

VMWare

The company develops software used to create and manage virtual machines -- computer functions spread across multiple systems. Companies use its applications to more efficiently integrate and manage server, storage, and networking functions in order to lower the cost of operating their IT systems. VMware also provides an extensive range of consulting, technical support, training, and certification services that accounts for more than half of sales. The company has marketing relationships with top computer hardware vendors, including Hewlett Packard Enterprise, IBM, and Cisco Systems. Dell Technologies holds a controlling stake in VMware through its acquisition of EMC. VMware derives about 60% of its revenue from services, which include software maintenance, professional services, and software as service subscriptions, and about 40% from licensing of software. VMware should realize continued strong revenue growth as customers update IT infrastructures and move workloads to the cloud. Double-digit bookings in newer and legacy products indicate traction, which should drive sales. Growth will come from existing and new offerings that focus on network and storage virtualization. Gross margins have been stable over the years around 65%, revenue growth is estimated at around 10-12% for the coming two years.

Companies

Palo Alto Networks

Palo Alto Networks, Inc. provides network security solutions. The Company offers firewalls that identify and control applications, scan content to stop threats, prevent data leakage, integrated application, user and content visibility. Recently, Palo Alto Networks' increased focus on cloud and service providers aims to solidify its dominant position in the enterprise-security market with a holistic product suite. Traction with its cloud and endpoint security, after its recent acquisitions of RedLock, Secdo and Evident.io, will spur sales growth, which is about 3x that of the overall security market. The company continues to take share from legacy security peers such as Cisco, Juniper, Symantec and Check Point.

Gross margin of approx. 80% were stable over the years, while the operating margin is at around 20% (as well stable over the years). Revenue growth is estimated +25% for 2019 and 18% for 2020.

CyberArk Software

The company offers services which protect organizational privileged accounts from cyber attacks.

CyberArk was founded in 1999 (Israel) and focused on digital vault technology, also known as network vault. IPOed in 2014 CyberArk is the global leader in privileged access security, a critical layer of IT security to protect data, infrastructure and assets across the enterprise, in the cloud and throughout the DevOps pipeline. We deliver the industry's most complete solution to reduce risk created by privileged credentials and secrets. 2017 revenue growth was at 21%, non-GAAP operating margin stood at 20% while operating margin was at 31%. Similar revenue growth is seen going forward. FCF doubled from 2016 into 2018 and is seen to further improve.

Dassault Systemes

The company provides software applications services designed to support client company's innovation processes. The company's line of business includes provision of 3D design software, 3D digital mock up and product lifecycle Management. Dassault Systemes also provides several software brands.

Dassault Systèmes sorts its revenue into the categories of renewed software licenses and maintenance, 63%, new software licenses, 25%, and services, 12%. The Americas accounts for about 42% of revenue with Europe 35% and Asia 23%. Government and large companies account for about 60% of revenue (direct channel) while the indirect channel (small and mid-sized companies) account for 20%, the balance of 20% goes through resellers.

Revenue growth has been stable at around 10% in recent years, so was the gross margin with ca. 80%. The company is to increased investments in areas such as smart cities, electric vehicles and autonomous cars, which drive its 9-10%sales-growth view through 2023.

Synopsys

Synopsys is a leading provider of electronic design automation (EDA) software and services. Its products are used by designers of integrated circuits (ICs) to develop, simulate, and test the physical design of ICs before production, and then to test finished products for bugs and security vulnerabilities. The company also provides intellectual property (IP) products, or pre-designed circuits used as part of larger chips. Synopsys markets its products primarily to semiconductor and electronics systems companies through direct sales efforts in the US and in select international markets. Intel accounts for nearly 20% of revenue while other customers have included Samsung, TSMC, Toshiba, ARM, Renesas, Imagination Technologies, and LSI Corporation.

50% of its sales are outside the US. Revenues are broken down among "time-based", "upfront" and "maintenance and service". "Time-based" is by far the biggest revenue contributor (75%).

Companies

Tableau Software

Tableau Software, Inc. offers analytics software. Tableau Software sets the table with pretty and informative pictures of data that help businesses understand what it means. The company develops software designed to retrieve large volumes of data and quickly generate dashboards, reports, and other data visualization tools. Tableau's enterprise strategy and expanding product range are fueling a quicker-than-anticipated shift of existing license users to subscriptions, underscoring the view that the company's sales gains will accelerate as clients embrace subscriptions. Tableau's exposure to a large and expanding market, coupled with its product lead over peers and room to expand internationally, should support its steady top-line growth. The company is already the leading vendor in the \$11.3 billion business reporting and analytics segment, with 8% market share. Currently revenues split is 50/50 between software and maintenance/services.

Temenos

Temenos has several drivers to help it increase sales by 10-15% over the medium term, with the highest growth to come from new software licenses. It's aided by new customer wins, cross-selling with existing customers, new products and geographic expansion on increasing demand for packaged software from financial institutions. Banks and other financial institutions are slowly replacing legacy, purpose-built software with off-the-shelf products to lower costs, improve their quality of service, drive higher return on equity and compete with digital disruptors. Temenos is well-positioned to sustain organic growth and improve operating margin as it benefits from a slow but steady shift in spending by financial institutions to packaged software.

Highest growth is seen in software licenses. Operating margin should expand by 100-150bps a year through economies of scale. Temenos estimates the market for third-party software for financial institutions at \$10 billion, growing at about an 8% average annual rate. That compares with about \$48 billion it projects banks spend on building and maintaining software each year.

HubSpot

HubSpot, Inc. provides a cloud-based marketing and sales software platform. The Company offers integrated applications that helps in lead generation and social marketing. HubSpot is set up to continue exceeding consensus revenue estimates as it transforms itself into a go-to provider of CRM software for small businesses. The company is quickly evolving from a seller of a single marketing-automation product to one offering an end-to-end platform. HubSpot is well-positioned to maintain growth in marketing, sales and customer-service software for small businesses. Only 40% of its clients use a customer-relations-management system, highlighting the opportunities. There are few near-term risks for HubSpot in a fragmented market that draws limited attention from major CRM players and includes incomplete offerings from smaller peers. HubSpot margins should continue to widen with leverage on operating costs. The company anticipates limited headroom for gross margin and targets 20-25% operating margin over the long term.

New Relic

New Relic, Inc. provides cloud based application performance management solutions for cloud and data center applications. The Company offers a solution including real user, application, and availability monitoring features that enable developers and operations teams to manage web application performance in real-time. New Relic serves customers in the United States.

The technology is delivered as SaaS (software as a service). Geographically the US has a dominant role with almost 70% of revenues, followed by EMA and Asia Pacific.

Annex

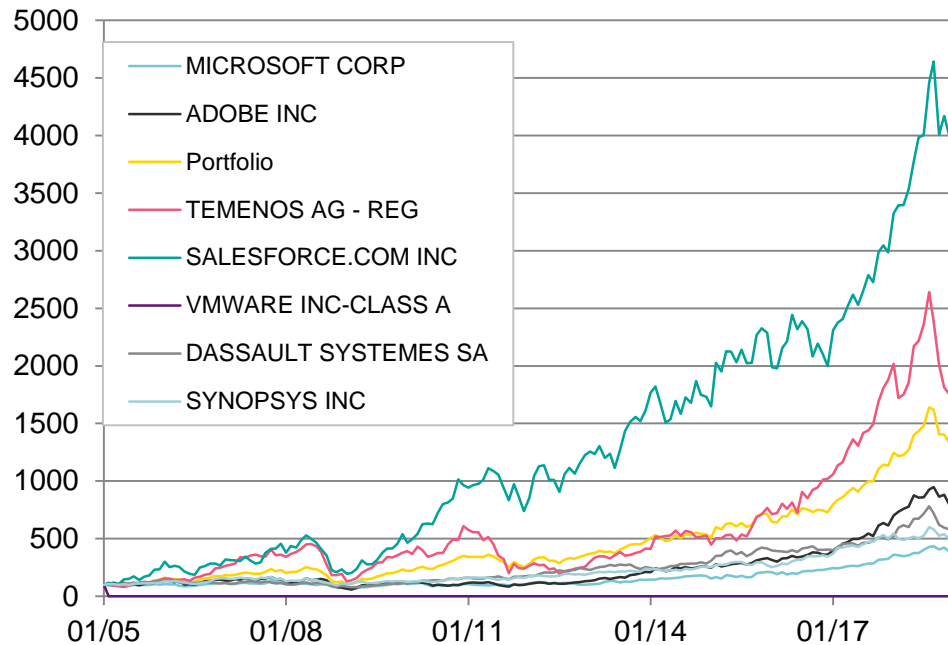


Software Champions - Backtest since 2005

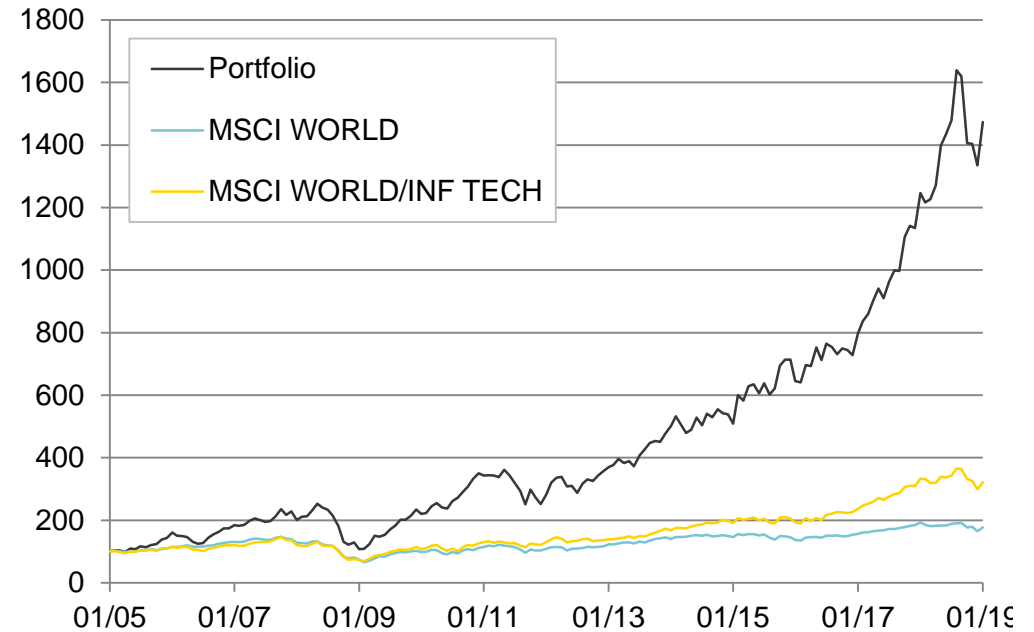
Long-term backtesting against benchmarks

March 7, 2019

Hypothetical performance since 2005



Benchmark outperformance since 2005



7 Software Champions equally weighted (17%)

Return since 2005: 20.9%

Outperformance vs. MSCI World/ Inf. Technology: 12.3%

Outperformance vs. MSCI World: 16.8%

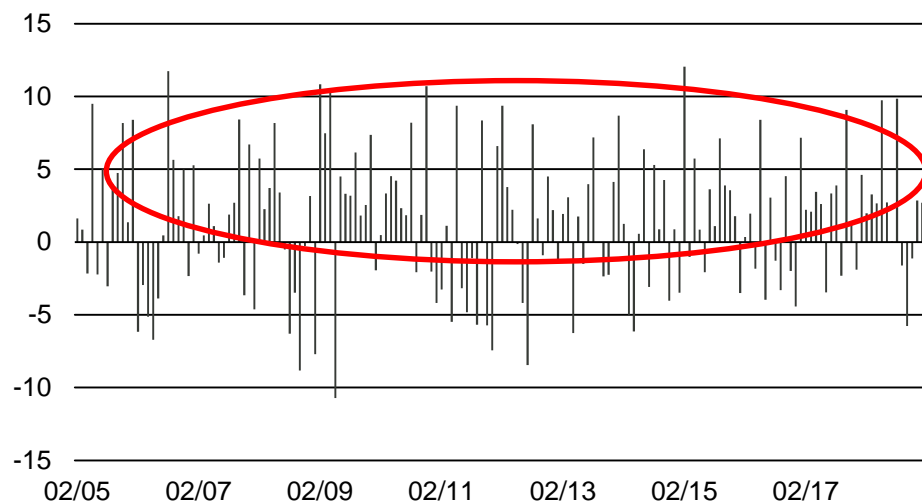
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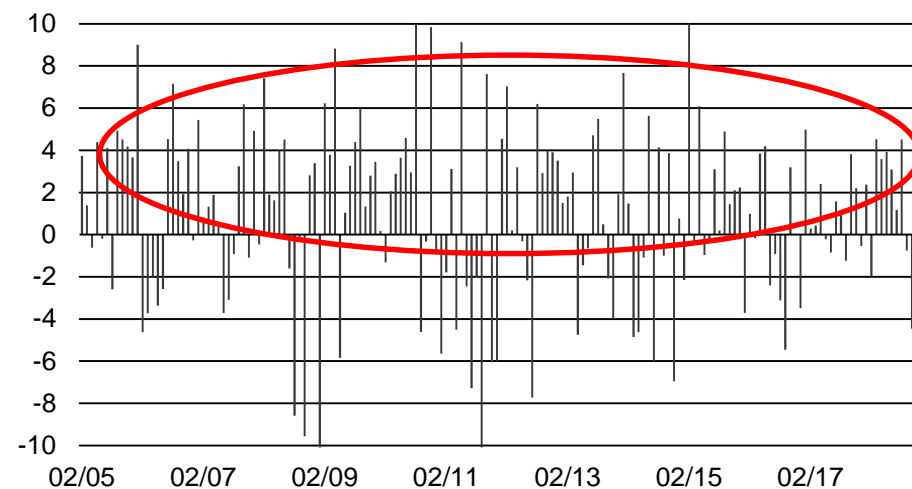
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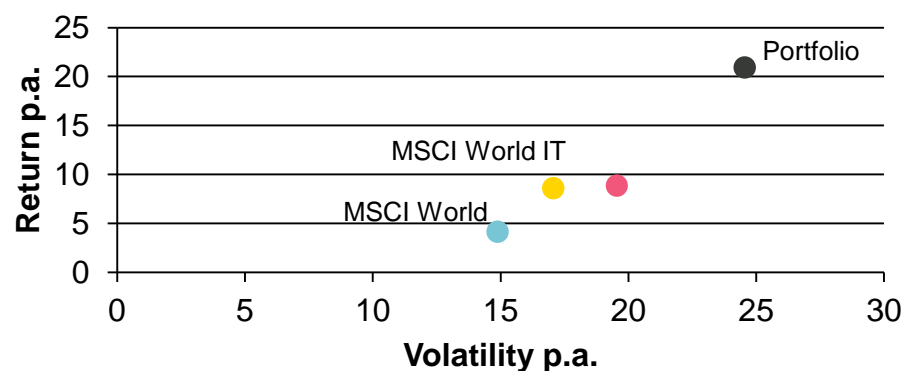
Outperformance Portfolio - MSCI World



Outperformance Portfolio – MSCI World IT



Risk/Return



Risk/Return in numbers

	PORTFOLIO	MSCI WORLD	MSCI WORLD IT
Return p.a.	20.9%	4.1%	8.6%
Annualized volatility	24.5%	14.8%	17.1%

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