



Omri Velvart

Managing Partner, Legacy Value Partners



**MOI
GLOBAL**



Legacy Value Partners

Best Ideas 2020, Hosted by MOI Global

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Formula Systems Ltd.

Nasdaq: FORTY; TLV: FORTY

Legacy Value Partners - at a Glance



Legacy Value Partners

- Limited Investments Partnership, *Est. 2016*
- Previous session on a MOI Global conference (Jun 2018) returned a ~90% IRR (TLV: ADO Group)
- Israeli based. *Israel, U.S and U.K focused*
- We look for *Unmatched Business Footprints at reasonable valuations*
 - Looks for Superb Managements, mainly in Entertainment, The Internet Economy & Enterprise Software
- The Fund employs *a Highly Aligned Compensation Model*
- *Omri Velvart, Managing Partner*, has a strong and diverse Management Consulting & Research background



Formula Systems - An Attractive Setup

 Formula Systems

- Formula is an Israeli Holding Company with a ~\$1B Market Cap
- It controls *Three profitable, public, software businesses - MTRX.TA, SPNS, MGIC*
- Each one of the Three is growing steadily at Double-Digits rates with large TAMs and trades at a reasonable valuation
- Current discount to the public NAV is ~25%
- *In addition*, Formula controls Three privately held software businesses, *also profitable and growing*



Not your everyday Holding Company

 Formula Systems



- Formula is *focused* on the Enterprise Software sector
- Management is *highly aligned* and G&C expenses are reasonable
- It Employs shared *Data, “Know-How” and Market insights* across the Portfolio
- Over 110 M&A deals across the Portfolio in the past 20 years
- *Excellent Capital Allocators* – reasonable utilization of debt, accretive reinvestments and strategic investments



Strong Market Position across the Public Portfolio

 Formula Systems



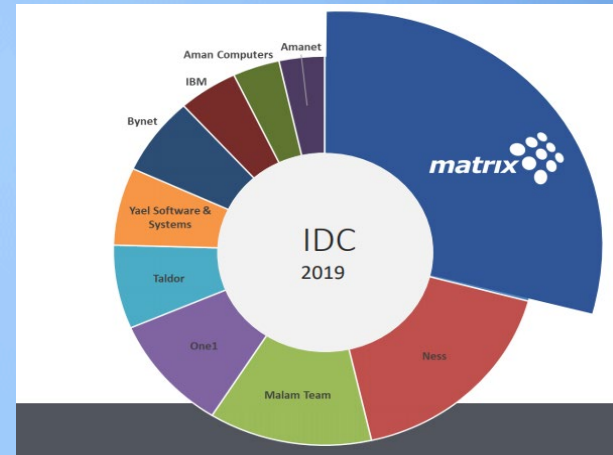
- Matrix (42% of NAV). is the largest IT services provider in Israel and an *Effective Oligopoly*
- Sapiens (40% of NAV) is a global leader in Software Platforms for Insurance companies with ~460 unique customers and *Multi-Decades business relationships*
- Magic (18% of NAV) combines proprietary software with High End value added services in Billings, Low-Code solutions and Cloud Integration (A golden Azure Partner)



Matrix – a World-Class level Execution



- ***Strong Israeli Market position – An Effective Oligopoly with over 30% market share***



- ***A uniquely integrated model – from training to recruitment to strong vertical capabilities***
- ***A superb M&A Platform with over 80 deals in the past 20 years***



Matrix – Scale & Reach



- *Constantly adding vertical offerings at scale*
- Recent success cases:



- ERP software Integration – Acq. 2018
- Offshore services to the Israeli Tech Ecosystem

Revenues per Employee 2013-2019 CAGR: 4.3%



Matrix - Sound KPIs



- Successful International penetration – 27% of Operating profit is US/EU based
- Steady double digits growth, and steady margins:
- Current valuation is ~14X 2019E EBITDA

REVENUE NIS 3.2B	→	CAGR 2013-2018 10.4%
EBITDA 2018 NIS 251.3M	→	CAGR 2013-2018 9.9%
EMPLOYEES 9,250		CASH FLOW 2017-2018 ~70%

FINANCIAL HIGHLIGHTS					
NIS million	2018	2017	18Vs17	2016	17Vs16
Revenue	3,168.0	2,857.0	11%	2,545.0	12%
Gross Profit	465.1	420.3	11%	392.5	7%
Gross margin	14.7%	14.7%		15.4%	
Operating Income	220.6	198.0	11%	187.3	6%
EBITDA	251.3	222.7	13%	212.3	5%
Operating margin	7.9%	7.8%		8.3%	
Operating Cash Flow	124.6	180.8	(31%)	114.6	58%



Sapiens – a Global Core Insurance Software Champion



- Sapiens is a global disruptor at a highly lucrative Enterprise Software niche
- Current Global Market Share: ~1%

Large and Growing Global Insurance IT Market

Sapiens' Total Addressable Market:

\$40B



“ It’s about a **\$2 Trillion** industry in terms of total revenues and they pay out about 60 or 70% of that every year in claims. That’s what they do. They intermediate risk and then they pay out to claimants. **There’s an asymmetry between the fact that the average claims worker is paid maybe \$40,000 a year, but is writing out checks for \$2 or \$3 million a year and doing it in 1980s COBOL mainframe systems and buried in paper with all kinds of manual processes** “



Marcus Ryu, Guidewire Founder & CEO
July 2019 interview



Sapiens – a Wide Moat Global Business

- Strong IP embedded on Three Vertical Offerings: *P&C, Life & Annuity, Digital Transformation*
- Long selling processes of *Mission Critical Software* at a conservative End Market – *and then 1-3 decades of revenues streams*
- Being the *Core Platform* for customers' operations enables the development of a Robust Platform Partners Network with a *High Margin shared revenue model*



Sapiens – Execution & Scale

- Since 2015, Cashflows are being deployed to *accretive* M&A on a *globally Fragmented market*



- The largest deal to date is the 2017 Acquisition of StoneRiver inc. in the U.S – starting 2019, *Sapiens’ highest growth market with ~20% growth rates*

Non-GAAP Revenues by Geographic Breakdown
U.S. dollars in thousands

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
North America	38,149	34,974	36,734	34,606	31,035
Europe	32,193	30,839	30,811	32,918	34,918
Asia Pacific	3,670	3,140	3,480	3,305	3,439
South Africa	2,775	4,469	2,412	2,113	2,132
Total	76,787	73,433	73,237	72,542	71,085



Sapiens – a Formula’s Value Creation Case Study

- In 2015, Formula led Sapiens to buy Insecco in Poland, *a critical move towards improved operating margins* through Offshore software development in Eastern Europe
- Over the Past 48 Months *Sapiens has doubled its Indian Offshore operations*
- It is now employing over 1100 people in India, most of them are Developers and Engineers

Operational Margin



	2016	2017	2018
% Off-shore from Delivery & R&D	20%	28%	37%

Sapiens – An Attractive Growth & Margins Business at Scale

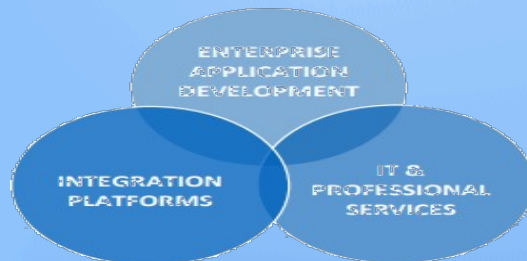
- **~16% 2013-2019E CAGR**
- **Strong Cash Flows**
- **Large global TAM & M&A pool**
- **Diverse Global Presence**
- **Long Term Clients' relationships and a High Quality of revenues forecasts**
- **Management guides to a 300-400 bps margins improvement over the next 3 years**
- **Current Valuation: 18X 2019E OCF**



Magic – The Digital & Cloud Transformation Enabler



- Magic was Founded in 1985 as a IT services and Billing software company
- Over the past decade the business was re-designed around *Digital Transformation* software solutions for Mid-Tech and Low-Tech clients
- Magic has achieved a Golden Israel Azure partner in 2018
- Magic and Formula share **Guy Bernstein** as their CEO

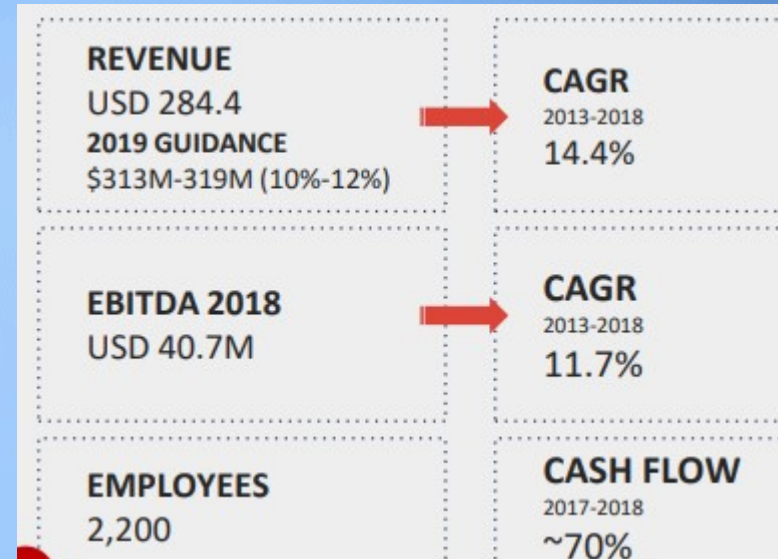


Robust application development and integration platforms that enable enterprises and ISVs to go digital



Magic – an Attractive Financial Profile

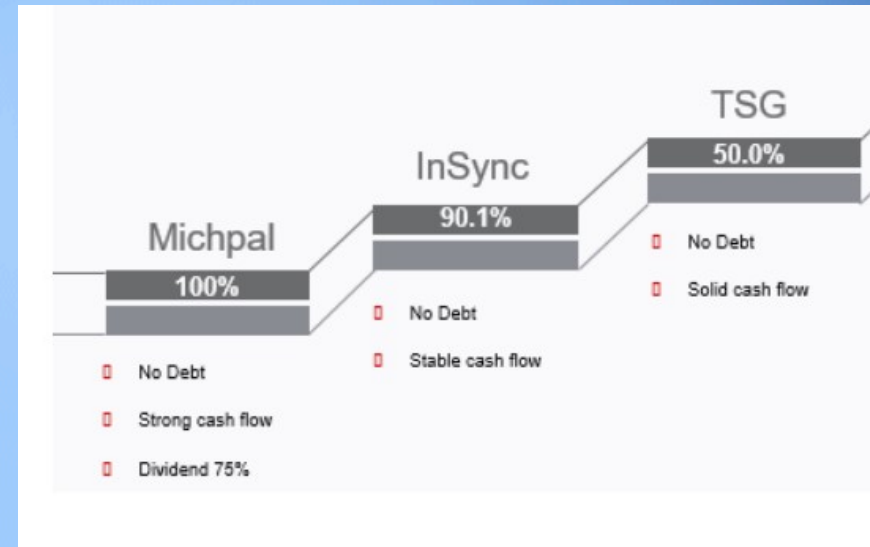
- Double Digits growth
- Robust M&A activity
- Steady Margins
- Dividend Policy: 75% of Net Profits
- Current Valuation: 10X 2019E EBITDA



80% of Revenues are repeat business

The Stub – Profitable & Growing

- Formula “Other” businesses are Three privately held companies
- Michpal is a highly profitable Israeli Salary & Benefits Software business
- TSG is a Security & Defense Tech provider Which grew ~25% in 2019



The Stub – Reinvestments at attractive IRRs

- Formula Net Debt position is less than \$60M, or less than 5% of the Public NAV
- The company notes at TLV stock exchange has a YTM of 0.6-1.6%
- Michpal has acquired Two businesses over the past 18 months
- A simple exercise that compares our Estimated “Stub” EBITDA of \$11M to a current Stub Fair Value of 9X EBITDA (~\$100M) and connects the Net Debt to it, *implies an over 25% cash IRR on these private investments, and growing*



Formula – Multiple Catalysts

- *Current discount to Public + Private NAV is 30-35%*
- *Michpal* is now large enough for an Israeli IPO – possibly by 2022
- Formula has a current cash position of ~\$100M that we believe would be deployed towards additional M&A through its unique Data & Insights position
- Sapiens has a clear path to doubling its share price over the next 3-4 years, possibly making a secondary offering to finance a large acquisition
- Sapiens (1% global Market Share) is also an M&A target that could be worth a major piece of Formula's current Market Cap



Thank You

Omri Velvart – Managing Partner

lr.legacy@gmail.com

Tel Aviv, Israel

