

Sapiens International Corporation N.V.

July 9, 2025

Rating Affirmation 'iIAA-' Rating Affirmed; Outlook Stable

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Overview

| Key Strengths | Key Risks |
|--|---|
| <ul style="list-style-type: none"> • International geographic diversification. • Growth and modernization trends in software solutions for the insurance market. • High barriers to entry underpinned by high software replacement costs and long-term relationships with clients. • Strong liquidity. | <ul style="list-style-type: none"> • Limited intellectual property rights and R&D capabilities. • Small revenue base and EBITDA compared with global peers. • Exposure to cyber risks. |

Sapiens International Corporation N.V. (“Sapiens” or “the Company”) continues to post good results in Q1 2025. Following its growth in 2024, Sapiens' quarterly revenue grew to about \$136.1 million from about \$134.2 million in the corresponding quarter last year. Gross profit (Non GAAP) increased by about 3.5% to about \$63 million, and gross margin increased to about 46.3% from about 45.4%. Revenue growth was mainly due to an increase of about 3% in operations in North America and a sharp increase in the operations of the Nordic companies, especially in the life insurance and pensions, as a result of increased demand for software solutions in these fields and strategic investments made by the Company.

In April 2025, Sapiens announced the acquisition of Automated Workflow Pvt. Ltd., a provider of life insurance automation solutions, and Coforge AdvantageGo, a British company specializing in insurance underwriting solutions. We estimate that in 2025 the Company will integrate these acquisitions into its operations, and therefore expect its sales to grow by about 5%-7%, in particular in North America and Asia-Pacific in life, elementary and pension insurance. On the other hand, we expect a decrease in the adjusted EBITDA margin to about 17%-18% from about 19.5% due to integration costs, and an adjusted EBITDA of about \$100 million, similar to 2024.

In our base case scenario, we assume that the acquisitions will be financed with cash and debt, such that in 2025 the Company is expected to post an adjusted debt-to-EBITDA ratio of 1.0x-1.5x and an FFO (funds from operations) to debt ratio of 60%-70%, both commensurate with the rating.

Outlook

The stable outlook reflects our assessment that Sapiens will maintain its position in the software solutions market in North America, EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific). We also expect the Company to maintain organic growth, alongside acquisitions of companies in similar or tangent areas, while maintaining stable operating performance. The outlook also reflects our

assessment that in the next 12 months the Company will maintain adjusted debt to EBITDA of about 1.0x-1.5x and adjusted FFO to debt of about 60%-70%, both commensurate with the rating.

Downside scenario

We may lower the rating if Sapiens's competitive position is undermined. This could happen if market conditions worsen, leading to a deterioration in the Company's operating performance and to continued or material decline in profitability. The rating will also come under pressure if Sapiens materially increases its financial debt in order to finance acquisitions or large dividend distributions to shareholders, such that it fails to consistently post an adjusted debt to EBITDA ratio of up to 2.0x.

Upside scenario

We may consider a positive rating action if Sapien's business risk profile materially improves, as reflected, inter alia, by a higher market share in its regions of operation, materially improved profitability and a wider client base and product variety compared with peers.

Company Description

Sapiens International Corporation N.V. ("Sapiens") is engaged in the development and marketing of global software solutions for financial markets and in particular for insurance companies, adapted to the segments of general insurance, life insurance and pension, reinsurance, etc. Sapiens has been working with international insurance companies and banks for years, and serves more than 600 insurance companies in North America, Europe, Israel and Asia.

The controlling shareholder (43.5%) in Sapiens is Formula Systems (1985) Ltd. ("Formula", iIAA-/Stable) which, through subsidiaries, is engaged in the development, marketing and distribution of software and software tools and the provision of software services for IT systems. The remaining shares are held by the public. The Company's shares are traded on the Tel Aviv Stock Exchange and on NASDAQ.

Base case

Key Assumptions

- About 5%-7% sales growth in 2025, due to contributions from acquisitions and organic growth, in particular in North America and Asia-Pacific, in life, elementary and pension insurance.
- R&D expenditures of 12%-13% of total expenses in 2025-2026.
- Adjusted EBITDA margin of about 17%-18% in 2025-2026.
- About \$140 million - \$145 million in acquisitions in 2025 and several tens of millions of dollars in 2026.

- Dividend distribution of about \$50 million - \$60 million in 2025 and about \$25 million - \$35 million in 2026 in two semi-annual installments, in accordance with the Company's dividend distribution policy (about 40% of its non-GAAP net profit).

Key Metrics

| Financial Ratio | 2024A | 2025E | 2026E |
|-----------------|--------|-----------|-----------|
| Debt/EBITDA | 0.6x | 1.0x-1.5x | 0.8x-1.2x |
| FFO/debt | 112.9% | 60%-70% | 75%-85% |

A - actual. E – Estimate.

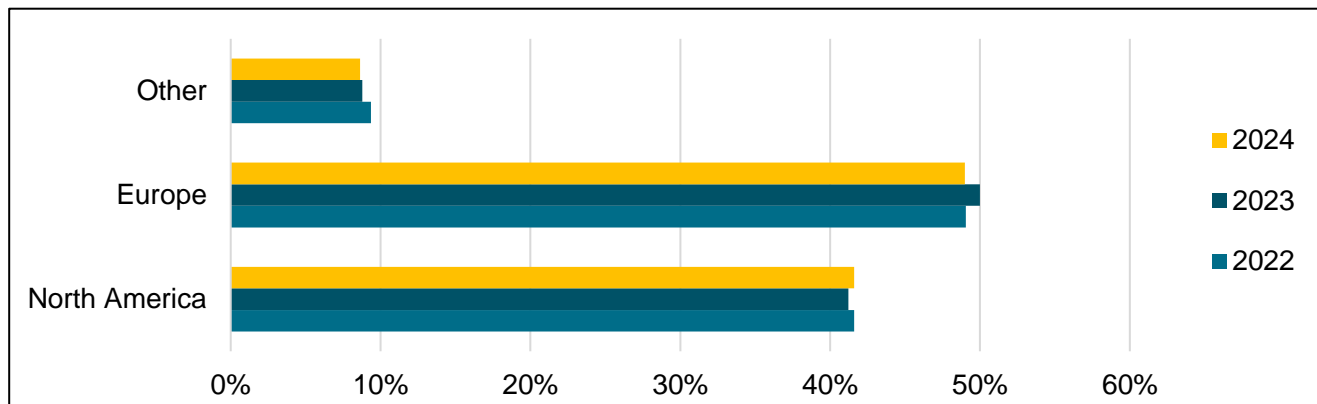
Business Risk

Sapiens's business risk assessment is supported by the geographical spread of its operations. Sapiens operates in North America, EMEA and APAC. The Company's markets of operation are characterized by high barriers to entry, underpinned by long-term relationships with clients and by high replacement costs when changing software suppliers.

In the past year, Sapiens's organic growth stood out against the backdrop of significant acquisitions it has made in recent years, in particular growth for the deployment of global operations. The Company's North American and European operations are currently generating most of its sales, following the acquisition of U.S.-based Delphi Technology, which provides software solutions for the insurance market with an emphasis on medical malpractice, Nordic Tia Technology, which provides digital software solutions, and Sum.Cumo which provides a foothold in the German market.

In April 2025, Sapiens made two additional material acquisitions: Automated Workflow Pvt. Ltd., a provider of life insurance automation solutions, and Coforge AdvantageGo, a British company specializing in insurance underwriting solutions.

Figure 1: Geographical distribution (% of revenue)



On the other hand, we believe Sapiens's revenues and EBITDA to be small compared with global peers. Global competitors benefit from economies of scale allowing them to bear high R&D costs and to make substantial capital investments. Furthermore, the Company has relatively limited intellectual property rights and R&D capabilities compared with global peers. Intellectual property rights and R&D capabilities are critical to creating barriers to entry and a leading market position. In the context of intellectual property, the Company is exposed to cyber risks, including the disclosure of confidential information, system failures, etc., which may affect its activities and reputation. However, the Company has been investing in information security, and has insurance policies to cover certain types of damages of this kind.

Financial Risk

Sapiens's financial risk profile is based on low leverage and maintaining a cash cushion (which includes short-term bank deposits) amounting to about \$206 million as of March 31, 2025. In 2024, its adjusted debt to EBITDA was about 0.6x, compared with about 0.9x in 2023.

The Company's sales increased by about 1.4% in Q1 2025 compared to the corresponding quarter last year, totaling about \$136.1 million. This was mainly due to organic growth in North America and Asia Pacific, where sales grew by about 3% compared to Q1 2024. In addition, Gross profit (Non GAAP) increased by about 3.5% to about \$63 million, and gross margin increased to about 46.3% from about 45.4%. This was the result of increased demand for software solutions and strategic investments made by the Company.

In our base case scenario, we assume that 2025 will be the year of integration of Sapiens' recent acquisitions. We consequently expect about 5%-7% sales growth, in particular in North America and Asia-Pacific, in life, elementary and pension insurance. We expect adjusted EBITDA to be about \$100 million, albeit with a decrease in adjusted EBITDA margin to about 17%-18% from about 19.5% due to integration costs. We assume that the acquisitions will be financed with cash and debt, such that the Company will post an adjusted debt-to-EBITDA ratio of 1.0x-1.5x and an FFO to debt ratio of 60%-70%, both commensurate with the rating. In 2026, we expect growth in financial results due to synergy between the acquired companies and existing products.

We expect Sapiens to distribute a dividend of \$50 million - \$60 million in 2025 and \$25 million - \$35 million in 2026. This is in accordance with the Company's dividend distribution policy, according to which it distributes up to 40% of its net income (Non-GAAP) in two semi-annual installments.

Table 1.

Sapiens International Corp. N.V. -- Financial Summary (Mil. \$)**Industry Sector: Software & Services**

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 542.4 | 514.6 | 474.7 | 461.0 | 382.9 |
| EBITDA | 106.0 | 102.4 | 92.5 | 90.9 | 74.7 |
| Funds from operations (FFO) | 77.6 | 69.7 | 78.8 | 78.4 | 50.5 |
| Interest expense | 1.7 | 2.1 | 3.6 | 6.4 | 6.8 |
| Cash interest paid | 2.8 | 2.8 | 3.1 | 5.8 | 7.9 |
| Cash flow from operations | 77.6 | 75.8 | 41.5 | 78.0 | 58.1 |
| Capital expenditure | 2.9 | 2.8 | 3.0 | 3.9 | 5.4 |
| Free operating cash flow (FOCF) | 74.7 | 73.1 | 38.5 | 74.1 | 52.7 |
| Dividends paid | 31.8 | 28.2 | 38.6 | 20.3 | 7.0 |
| Discretionary cash flow (DCF) | 42.9 | 44.9 | (0.0) | 53.8 | 45.7 |
| Cash and short-term investments | 216.2 | 202.1 | 180.3 | 210.2 | 182.6 |
| Gross available cash | 216.2 | 202.1 | 180.3 | 210.2 | 182.6 |
| Debt | 68.3 | 91.6 | 116.6 | 151.6 | 180.2 |
| Equity | 479.6 | 449.9 | 402.9 | 408.7 | 383.7 |
| Adjusted ratios | | | | | |
| Annual revenue growth (%) | 5.4 | 8.4 | 3.0 | 20.4 | 17.6 |
| EBITDA margin (%) | 19.5 | 19.9 | 19.5 | 19.7 | 19.5 |
| Return on capital (%) | 16.9 | 15.7 | 12.7 | 10.8 | 10.7 |
| EBITDA interest coverage (x) | 61.9 | 48.9 | 25.4 | 14.3 | 11.1 |
| FFO cash interest coverage (x) | 29.2 | 25.5 | 26.7 | 14.5 | 7.4 |
| Debt/EBITDA (x) | 0.6 | 0.9 | 1.3 | 1.7 | 2.4 |
| FFO/debt (%) | 112.9 | 76.1 | 67.6 | 51.7 | 28.0 |
| Cash flow from operations/debt (%) | 112.9 | 82.8 | 35.6 | 51.4 | 32.3 |
| FOCF/debt (%) | 108.7 | 79.8 | 33.1 | 48.8 | 29.3 |
| DCF/debt (%) | 62.4 | 49.0 | (0.0) | 35.5 | 25.3 |

Liquidity

We assess Sapiens's liquidity as strong, supported by a robust free operating cash flow. We expect the ratio between the Company's sources and uses to exceed 1.5x in the 12 months starting April 1, 2025. This assessment reflects the Company's cash balance, operating cash flow, debt maturities, maturities, limited capital expenditure and dividend distributions.

Following are the Company's main sources and uses for the 12 months starting April 1, 2025:

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| <ul style="list-style-type: none"> About \$206 million in cash and cash equivalents (including short-term bank deposits). Undrawn short-term bank lines of about \$7 million. Cash FFO of about \$80 million - \$90 million. Bank loan of about \$80 million. | <ul style="list-style-type: none"> Debt maturities of about \$20 million. Capital expenditure (capex) of about \$10 million. Working capital requirements of about \$7 million. Acquisitions of about \$145 million. Dividend distribution of about \$50 million - \$60 million. |

Covenant Analysis

Compliance expectations

As of March 31, 2025, the Company has adequate headroom on its financial covenants, and we estimate that it will maintain this headroom in the medium term.

Requirements

Under the terms of its bonds, the Company must maintain consolidated equity attributable to its shareholders (excluding minority interests) of at least \$120 million. It must also maintain a ratio not exceeding 65% between net financial debt and net CAP on a consolidated basis, and a net financial debt to EBITDA ratio not exceeding 5.5x.

Modifiers

Diversification/portfolio effect: Neutral (no impact)

Capital structure: Neutral (no impact)

Liquidity: Strong (no impact)

Financial policy: Neutral (no impact)

Management and governance: Neutral (no impact)

Comparative analysis assessment: Neutral (no impact)

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit analysis of Sapiens International Corporation N.V.

Recovery Analysis

Key analytical factors

- We are affirming our 'iIAA-' rating, identical to the issuer rating, on Sapiens International Corporation N.V.'s unsecured bond series (Series B). The recovery rating for this series is '3', reflecting our assessment that in the case of a hypothetical default, the recovery rate would be 50%-70%.
- Our recovery prospects assessment is constrained to the 50%-70% range despite the simplified waterfall, according to which the value available for unsecured debtors exceeds total unsecured debt, due to our assessment that on the path to default the Company will replace unsecured debt by secured or senior debt.

Simulated default assumptions

- Simulated year of default: 2030
- A deep recession in the countries of operation, alongside failed M&A activity and the loss of several significant customers, will significantly hurt the Company's operating performance.
- The Company will continue operating as a going concern, an assessment supported by its long-term signed contracts with clients and by the high costs of replacing existing chip suppliers.

Simplified Waterfall

- EBITDA on emergence: about \$20 million
- Industry EBITDA multiple: 6.5x
- Gross enterprise value as going concern: about \$130 million
- Administrative and operating costs: 5%
- Available value to cover secured debt: about \$125 million.
- Secured debt claims: about \$82 million
- Net value available for unsecured debt: about \$43 million
- Unsecured debt claims: about \$24 million
- Recovery expectations for unsecured debt: 50%-70% (constrained as noted above)
- Unsecured recovery rating (1 to 6): 3

All debt amounts include six months' prepetition interest.

Mapping Recovery Percentages To Recovery Ratings

| Recovery expectations (%) | Description | Recovery rating | Notching above/below issuer rating |
|---------------------------|----------------------|-----------------|------------------------------------|
| 100% | Full recovery | 1+ | +3 notches |
| 90%-100% | Very high recovery | 1 | +2 notches |
| 70%-90% | Substantial recovery | 2 | +1 notch |
| 50%-70% | Meaningful recovery | 3 | 0 notches |
| 30%-50% | Average recovery | 4 | 0 notches |
| 10%-30% | Modest recovery | 5 | -1 notch |
| 0%-10% | Negligible recovery | 6 | -2 notches |

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016, for further detail). ICR--Issuer credit rating.

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the financial statements which we use to calculate financial ratios. The main adjustment to Sapiens International Corporation N.V.'s consolidated data for 2024 is the discounting of R&D expenses and their deduction from EBITDA, operating cash flow and capex. Cash was not deducted from debt.

Table 2.

Sapiens International Corp. N.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. \$) for the Fiscal Year Ended Dec 31, 2024

| | Debt | EBITDA | Interest expense | S&P Global Ratings' adjusted EBITDA | Cash flow from operations | Capital expenditure |
|---|-------------|--------------|------------------|-------------------------------------|---------------------------|---------------------|
| Reported Amounts | 39.6 | 105.9 | -- | 106.0 | 82.2 | 10.0 |
| S&P Global Ratings adjustments | | | | | | |
| Cash taxes paid | -- | -- | -- | (25.6) | -- | -- |
| Cash interest paid | -- | -- | -- | (1.0) | -- | -- |
| Reported lease liabilities | 24.2 | -- | -- | -- | -- | -- |
| Operating leases | -- | 4.2 | 1.7 | (1.7) | 2.5 | -- |
| Postretirement benefit obligations/deferred compensation | 3.5 | -- | -- | -- | -- | -- |
| Capitalized development costs | -- | (7.1) | -- | -- | (7.1) | (7.1) |
| Share-based compensation expense | -- | 3.0 | -- | -- | -- | -- |
| Nonoperating income (expense) | -- | -- | -- | -- | -- | -- |
| Debt: Earnouts and deferred consideration for business acquisitions | 1.0 | -- | -- | -- | -- | -- |

| | Debt | EBITDA | Interest expense | S&P Global Ratings' adjusted EBITDA | Cash flow from operations | Capital expenditure |
|--|------|--------|------------------|-------------------------------------|---------------------------|---------------------|
| Total adjustments | 28.7 | 0.0 | 1.7 | (28.4) | (4.6) | (7.1) |
| S&P Global Ratings adjusted amounts | | | | | | |
| | Debt | EBITDA | Interest expense | Funds from operations | Cash flow from operations | Capital expenditure |
| Adjusted | 68.3 | 106.0 | 1.7 | 77.6 | 77.6 | 2.9 |

Related Criteria And Research

- [Principles Of Credit Ratings](#), February 16, 2011
- [Methodology: Industry Risk](#), November 19, 2013
- [Country Risk Assessment Methodology And Assumptions](#), November 19, 2013
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), December 16, 2014
- [Recovery Rating Criteria For Speculative-Grade Corporate Issuers](#), December 7, 2016
- [Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Group Rating Methodology](#), July 1, 2019
- [Environmental, Social, And Governance Principles In Credit Ratings](#), October 10, 2021
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023
- [Corporate Methodology](#), January 7, 2024
- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), January 7, 2024
- [Sector-Specific Corporate Methodology](#), April 4, 2024
- [S&P Global Ratings Definitions](#), December 2, 2024

Ratings List

| Sapiens International Corporation N.V. | Rating | Date when the rating was first published | Date when the rating was last updated |
|--|--------------|--|---------------------------------------|
| Issuer rating(s) | | | |
| Long term | ilAA-/Stable | 13/08/2017 | 09/07/2024 |
| Issue rating(s) | | | |
| <u>Senior Unsecured Debt</u> | | | |
| Series B | ilAA- | 12/09/2017 | 09/07/2024 |
| Issuer Credit Rating history | | | |
| <u>Long term</u> | | | |
| June 28, 2022 | ilAA-/Stable | | |
| August 13, 2017 | ilA+/Stable | | |

Additional details

| | |
|------------------------------------|------------------|
| Time of the event | 09/07/2025 10:18 |
| Time when the event was learned of | 09/07/2025 10:18 |
| Rating requested by | Issuer |

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