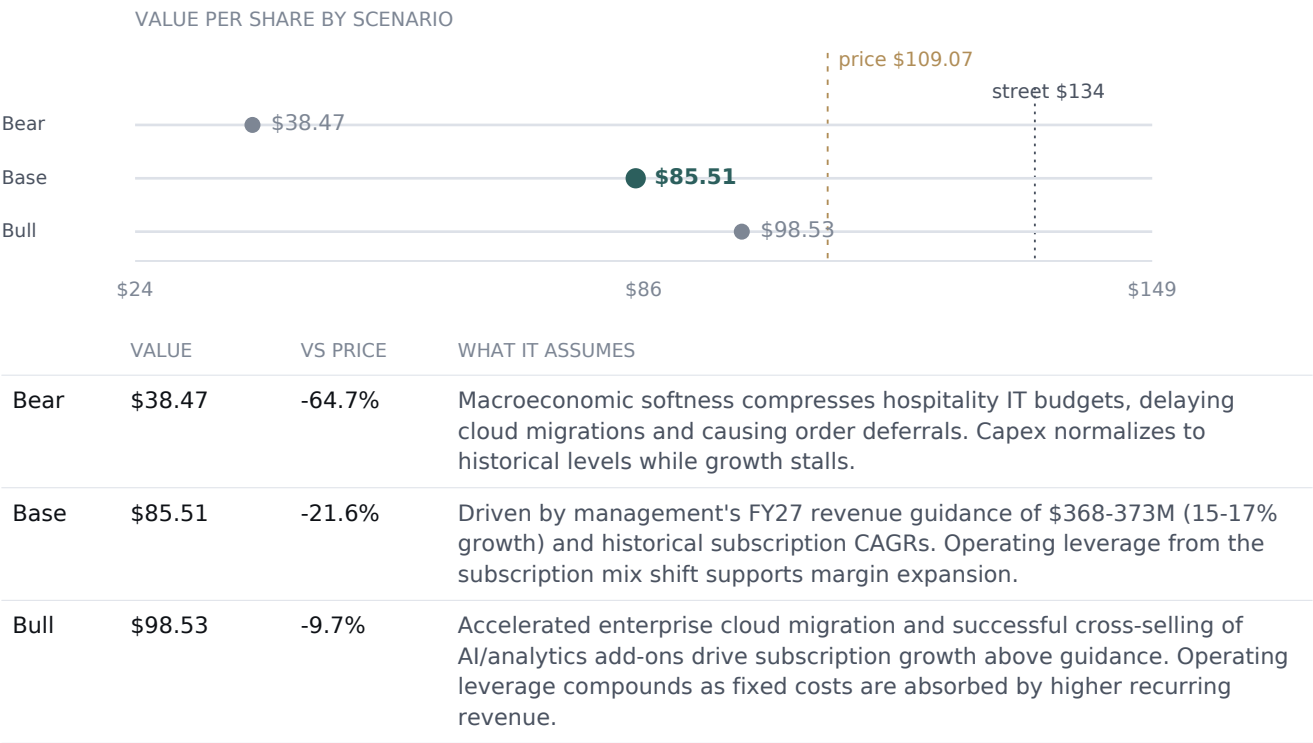


EQUITY RESEARCH / AGYS

Agilysys Inc

SHORT CANDIDATE · historical study through 2026-09-14 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$109.07	\$85.51	-21.6%	\$74.00	\$3.08B	71.8x



STREET CHECK

Street target **\$134** (+23.3% vs price) · 5 buy / 0 hold / 0 sell · forward P/E 46.9x · EPS estimates \$1.65 this year, \$2.17 next

Our base case is **0.64x** the Street target: clearly away from the Street.

Consensus is shown for calibration only. The model never receives it.

Thesis

AGYS is overvalued as the current price of \$109.07 embeds a 71.76x trailing P/E that assumes sustained hypergrowth and structural margin expansion, despite the company's TTM FCF margin of 24.4% being artificially elevated by a temporary capex cycle low. Reversion to the lower half of AGYS's own five-year P/E range (26.6x-221.6x), normalization of capital spending, and inherent cyclicity in hospitality IT budgets imply a fair value well below the current market price.

What the market may be missing

The price reflects a narrative of uninterrupted cloud migration, AI-driven cross-selling, and persistent margin expansion that discounts the cyclical nature of hospitality IT spend, rising AI infrastructure and compliance costs, and the temporary nature of current free cash flow generation relative to the company's historical baseline.

Why the opportunity exists

A narrative overshoot. The market is pricing in a sustained hypergrowth trajectory and structural margin expansion that ignores the temporary nature of the current FCFF margin, which is inflated by an anomalously low capex cycle. The high multiple assumes uninterrupted cloud migration and AI monetization despite inherent cyclical nature in hospitality IT spend and rising compliance costs. Evidence: Trailing P/E of 71.76x and EV/Revenue of 8.96x command a significant premium to peer medians (e.g., SPSC 33.8x, BSY 37.3x), while the TTM FCFF margin of 24.4% exceeds the five-year historical maximum of 19.7% solely due to TTM capex of \$1.7M versus historical \$7.2M-\$8.1M.

The business

Agilysys is a global software solutions provider focused exclusively on the hospitality industry, delivering cloud-native SaaS and on-premise point-of-sale, property management, and inventory/procurement solutions to hotels, casinos, resorts, cruise lines, and foodservice operators.

What it sells

Cloud-native SaaS and on-premise hospitality software solutions, including point-of-sale (POS), property management (PMS), inventory and procurement, payments, digital marketing, loyalty, and analytics. The company also sells third-party hardware and operating systems, subscription and maintenance services, and professional services (implementation, integration, training). Products are deployed across food & beverage, hospitality & leisure, and inventory ecosystems, often sold as integrated bundles. Delivering innovative cloud-native SaaS and on-premise solutions for hotels, multi-amenity resorts, cruise lines, casinos, corporate foodservice management, restaurants, universities, stadiums, and healthcare facilities. Solutions include point-of-sale (POS), property management (PMS), inventory and procurement, payments, and related applications that manage and enhance the entire guest journey. The company also sells proprietary software licenses, third-party hardware, and professional implementation/services. Cloud-native SaaS and on-premise solutions for the hospitality industry, including point-of-sale (POS), property management (PMS), inventory and procurement, payments, and guest journey applications. The company also provides professional services for implementation and integration, and sells perpetual software licenses and third-party hardware.

Customers and channels

Highly fragmented customer base including large, medium-sized, and boutique hospitality providers (hotels, multi-amenity resorts, casinos, cruise lines, managed foodservice, universities, stadiums, healthcare). Clients include Boyd Gaming, Caesars Entertainment, Hilton Worldwide, Marriott International, MGM, and Royal Caribbean Group. Sales operate globally across the Americas, EMEA, APAC, and India. Serves the global hospitality industry with one reportable segment. Operates across the Americas, Europe, the Middle East, Africa, Asia-Pacific, and India. Many top hospitality companies use the solutions. Contracts are governed by master service or universal agreements supplemented by customer orders specifying goods, services, prices, and terms. Customer preference is shifting toward subscription-based software licenses and consumer-grade devices sourced elsewhere. Serves a 100% hospitality customer base including hotels, resorts, casinos, cruise lines, corporate and campus dining, healthcare, senior living, and entertainment venues worldwide. Operates across the Americas, Europe, the Middle East, Africa, Asia-Pacific, and India with headquarters in Alpharetta, GA.

Unit economics and costs

Subscription and maintenance services typically generate higher profit margins than products revenue. Products revenue includes third-party hardware costs which carry lower margins. Professional services are labor-intensive. The company employs approximately 2,413 people globally as of March 31, 2026, with ~70% in India, reflecting a lower-cost development base. Gross margins may face pressure from reliance on concentrated suppliers for hardware/software without long-term agreements, and from rising AI infrastructure costs. Total gross profit margin increased to 62.6% (from 62.4%) driven by revenue mix shift. Subscription and maintenance gross margin improved to 79.4% (from 78.0%) as revenue growth outpaced variable costs due to cost optimization. Products gross margin decreased to 40.9% (from 46.6%) due to hardware and proprietary software mix. Professional services gross margin decreased to 27.3% (from 31.3%) reflecting lower utilization rates from hiring and training. Operating expenses as a percent of revenue decreased 0.8% to 49.5%. Total gross margin expanded to 63.5% from 61.7%. Subscription gross margin declined to 78.0% from 79.5% as variable costs increased ahead of related subscription revenue. Professional services gross margin improved to 35.4% from 27.1% due to implementation efficiency and utilization rates. Products gross margin fell to 35.9% from 37.7% due to hardware and software mix. Operating expenses rose 8.0% primarily from hiring and compensation increases. Adjusted EBITDA margin was 20.8% in Q1.

Segments

- **Products** - Revenue from perpetual software licensing and third-party hardware/OS.
- **Subscription and maintenance** - SaaS subscriptions and ongoing support/maintenance; generates higher margins.
- **Professional services** - Implementation, integration, configuration, and training services.
- **Global Hospitality Software** - One reportable segment serving the global hospitality industry, including hotels, resorts, cruise lines, casinos, foodservice, and healthcare.
- **Global Hospitality** - One reportable segment serving the global hospitality industry.

Revenue drivers

- Growth in subscription and maintenance revenue driven by cloud migration and end-to-end solution adoption.
- New customer wins and existing customer hardware refresh purchases.
- Implementation and integration of customized solutions for large rollouts.
- Cross-selling and upselling modular add-ons (spas, golf, loyalty, payments) to core PMS/POS.
- Increasing deployment of AI and analytics capabilities to enhance product value.
- Increasing customer preference for subscription-based software licenses instead of perpetual software licenses
- Acquisition of Book4Time adding global spa management SaaS
- Higher sales and service activity as customers implement technology to improve operations

Competitive position

Faces a highly competitive market with full-service providers and in-house PMS systems. Major competitors include Oracle Corp., Shiji, Infor, and Maestro. Differentiates through an integrated, cloud-based platform spanning F&B, H&L, and inventory on a shared data foundation, extensive third-party integrations, and a reputation for customer-centric service. Strategy focuses on increasing the proportion of revenue from subscriptions and cloud applications. Agilysys has been a leader in hospitality software for more than 45 years. The company is known for its world-class customer-centric service and is used by many top hospitality companies globally. Strategic plan focuses on putting the customer first, product innovation, and sharpening investments to concentrate on growth opportunities offering the highest returns to strengthen competitive position. Agilysys is a 45-year leader in hospitality software achieving its 18th consecutive record revenue quarter and best-ever Q1 sales period. The company leverages a unified ecosystem of software solutions and embedded artificial intelligence to accelerate innovation, improve guest loyalty, and drive revenue growth for top hospitality companies worldwide.

Industry direction

Market is shifting from fragmented, product-centric solutions to integrated, cloud-based platforms. There is growing adoption of AI, machine learning, and automation for guest personalization, operational efficiency, and pricing optimization. Increased demand for mobility, self-service kiosks, mobile check-in/out, and contactless experiences. Evolving regulatory landscape for AI and data privacy (e.g., EU AI Act) is impacting compliance costs and product deployment. Shift from perpetual software licenses and dedicated hardware toward subscription-based models and consumer-grade devices. Global macroeconomic conditions, including political unrest, armed conflicts, tariff changes, labor shortages, and natural disasters, are impacting customer spending, provider pricing, demand, and margins, particularly outside the US. The hospitality industry continues to exhibit high appetite for modern technology solutions. However, macroeconomic and geopolitical conditions, including changes in global tariff policies, regulations, armed conflicts, foreign currency fluctuations, labor shortages, and natural disasters, are negatively influencing customer spending and provider pricing decisions, resulting in decreased demand, increased costs, and reduced margins.

Recent developments

- Q1 FY2027 total revenue reached record \$87.7 million, an increase of 14.3% year-over-year
- Subscription and maintenance revenue grew to a record \$57.7 million, representing 65.9% of total net revenue
- Operating cash flow turned positive at \$7.8 million versus \$(4.3) million in the prior year
- Free cash flow improved to \$7.3 million from \$(5.0) million prior year
- Cash balance increased to \$123.7 million from \$116.9 million at fiscal year-end
- No business combinations were completed during the quarter
- Legal settlements decreased to \$0 from \$0.1 million in the prior year
- Credit facility remains undrawn with no principal balance outstanding

Management outlook

Management raised full fiscal year 2027 total revenue guidance to \$368 million to \$373 million (from \$365M-\$370M) and subscription revenue growth guidance to at least 32% year-over-year (from at least 30%). Full year Adjusted EBITDA guidance remains at 24% of revenue. Management attributes the raise to sales velocity, project implementation progress, and record backlog, stating business execution is slightly ahead of target. Our top priority is increasing shareholder value by improving operating and financial performance and profitably growing the business through superior products and services. We expect to invest a certain portion of our cash on hand to fund enhancements to existing software products, to develop and market new software products, and to expand our customer breadth, both vertically and geographically. Profitability and industry-leading growth will be achieved through tighter management of operating expenses and sharpening the focus of our investments to concentrate on growth opportunities that offer the highest returns. Strategy is to increase the proportion of revenue derived from subscription services, cloud applications, ongoing support/maintenance, and professional services. Estimates total addressable market at approximately \$16 billion in annual recurring revenue and believes well positioned to win market share. Plans to continue investing in R&D, infrastructure, and geographic expansion. Acknowledges need to adjust product pricing to accommodate rising AI costs and manage evolving regulatory compliance. Expects macroeconomic conditions and travel disruptions to impact customer IT budgets.

Accounting flags

- No material changes in significant accounting policies and estimates since March 31, 2026
- Income tax provision driven by share-based compensation, Net Controlled Foreign Corporation Tested Income, and geographic earnings mix
- Maintains valuation allowances for deferred tax assets in certain U.S. states and foreign jurisdictions
- \$3.0 million of employee retention credits receivable recorded as other current assets
- Professional services revenue for fixed-price contracts is recognized over time using an input method based on labor hours expended relative to total expected labor hours.
- Subscription revenue is recognized over monthly periods based on typical service, invoicing, and renewal cycles.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2026	
Revenue	\$330.3M	\$319.3M	+15.8% y/y
Gross margin	63.1%		
Operating income	\$48.2M	\$43.0M	14.6% margin
Net income	\$42.9M	\$38.8M	
Diluted EPS	\$1.52	\$1.37	71.8x trailing P/E
Operating cash flow	\$82.2M	\$70.0M	+27.0% y/y
Capital spending	\$1.7M	\$1.8M	0.5% of revenue
Unlevered FCFF	\$80.7M		2.6% yield
Cash and short-term investments	\$123.7M	\$116.9M	
Net debt	\$-116.9M		-2.2x EBITDA
Market capitalisation	\$3.08B		61.4x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Depreciation and amortisation were reported separately and are summed. Flows are trailing twelve months to 2026-06-30 (fiscal year 2026 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-27). Balance-sheet items are as of 2026-06-30 from the quarterly report. No debt rows on the 2026-06-30 quarterly balance sheet; net debt, cash and shares-at-period-end use the 2026-03-31 annual balance sheet. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. WACC anchor 9.0%; cost of equity 9.0% (risk-free 4.96%, beta 0.80 relevered from t

The counter-case

AGYS's raised FY2027 revenue guidance to \$368M-\$373M and record subscription revenue growth of 26.1% demonstrate strong sales velocity and backlog execution. The high trailing P/E may be justified by the accelerating revenue mix shift to high-margin subscription services (now 65.9% of revenue) and industry-leading profitability metrics that differentiate it from lower-growth software peers. Accelerated enterprise cloud migration and successful cross-selling of AI/analytics add-ons drive subscription growth significantly above the raised guidance of 32%, allowing fixed costs to be absorbed by higher recurring revenue and justifying a sustained premium multiple despite the cyclical end market.

Valuation

The company generates strong, predictable unlevered free cash flow driven by a high-margin, recurring subscription business model. Both DCF and an earnings multiple are appropriate; the DCF captures the cash flow dynamics and low capital intensity, while the P/E multiple reflects the market's pricing of its SaaS growth and margin expansion.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -18%, -5%, +3%, +6%, +8%; WACC 9.0%; terminal growth 2.0%	\$38.47	-64.7%
Base	FCFF growth +22%, +20%, +17%, +13%, +10%; WACC 9.0%; terminal growth 2.5%	\$85.51	-21.6%
Bull	FCFF growth +28%, +25%, +20%, +16%, +12%; WACC 9.0%; terminal growth 2.5%	\$98.53	-9.7%
Bear (P/E)	26.0x forward EPS \$1.75 (reported diluted, growth +15.0%)	\$45.45	-58.3%
Base (P/E)	38.0x forward EPS \$1.75 (reported diluted, growth +15.0%)	\$66.42	-39.1%
Bull (P/E)	52.0x forward EPS \$1.75 (reported diluted, growth +15.0%)	\$90.90	-16.7%

- Discount rate: the model used 9.0% against an anchor of 9.0% (risk-free 4.96%, beta 0.80, equity risk premium 5.0%, cost of equity 9.0%).
- The price implies constant five-year FCFF growth of +23.2% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band +15.8% to +27.0% a year; worst revenue decline -15% (2020-2021); own trailing P/E 26.58-221.56x (median 88.46x) over the last five fiscal year ends.
- Sensitivity to discount rate: 7.0% gives \$124, 8.0% gives \$101, 9.0% gives \$86, 10.0% gives \$74, 11.0% gives \$65.
- Sensitivity to terminal growth: 1.5% gives \$77, 2.0% gives \$81, 2.5% gives \$86, 3.0% gives \$91, 3.5% gives \$98.
- Per-share values use 28,205,788 shares as of 2026-07-17; the fiscal-year diluted average differs by +0.6%.
- Probability-weighted value \$74.00 (-32.2% vs price) at 30%/50%/20% weights.

Bear: Hospitality IT budgets contract due to macro weakness, delaying cloud migrations and capping growth, while capex returns to historical norms, crushing FCFF and forcing a multiple contraction. Base: Management's raised guidance (\$368M-\$373M) is met with 15-17% revenue growth and margin expansion from the subscription mix shift, but the stock reverts to a mid-30x P/E multiple as capex normalizes and growth decelerates from hypergrowth levels. Bull: Accelerated cloud adoption and successful AI analytics cross-selling push subscription growth above 32%, sustaining high margins and justifying a 50x+ multiple, though even this case values the stock below the current price.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$85.51	-21.6%
WACC 100bp higher	\$74.12	-32.0%
Every year's FCFF growth 5 points lower	\$70.80	-35.1%
Every year's FCFF growth 5 points higher	\$102.83	-5.7%
Starting FCFF 10% lower	\$77.37	-29.1%
Starting FCFF 10% higher	\$93.65	-14.1%

The base case equals the price at a 7.6% WACC or if every annual FCFF growth rate were +6.6% points different. These are thresholds, not forecasts.

Comparable companies

COMPANY	CORRELATION	REVENUE GROWTH	OPERATING MARGIN	FCF MARGIN	TRAILING P/E
AGYS (this company)		15.8%	13.5%	21.3%	79.6x
SPSC SPS Commerce Inc	0.38	17.8%	15.7%	20.3%	33.8x
QLYS Qualys Inc	0.35	10.1%	33.2%	45.5%	31.8x
PRGS Progress Software Corporation	0.34	29.8%	15.7%	23.5%	26.0x
ACIW ACI Worldwide Inc	0.34	10.4%	18.8%	17.6%	24.1x
BSY Bentley Systems Inc	0.33	11.0%	24.1%	34.6%	37.3x
EXLS ExlService Holdings Inc	0.33	13.6%	15.0%	14.3%	23.7x
FIVN Five9 Inc	0.33	10.3%	2.5%	17.5%	70.6x
BLKB Blackbaud Inc	0.33	-2.3%	16.9%	22.9%	19.3x
Q TWO Q2 Holdings	0.39	14.1%	5.0%	24.5%	77.4x
CXM Sprinklr Inc	0.34	7.6%	4.7%	18.4%	64.3x

Comparables' trailing P/E 19.3-77.4x, median 32.8x from 10 with positive earnings.

Judged not comparable: MANH, NOW, ROP, INTU, ACN, TRMB, CR, TENB, ADSK.

AGYS trades at a trailing P/E of 71.8x, commanding a premium to the comparable SaaS set (e.g., SPSC 33.8x, QLYS 31.8x, BSY 37.3x, PRGS 26.0x, EXLS 23.7x). This premium is supported by superior recent revenue growth (15.9% vs peer median ~10-12%) and an accelerating subscription mix (~66% of sales). However, the multiple is stretched relative to peers due to the hospitality sector's cyclicity and macro sensitivity, which introduces higher downside risk to growth and margins.

Profiles are computed identically for every company from its own annual reports and latest close; they are not adjusted for one-off items or fiscal-year timing.

What would change the view

Key debates

- Subscription revenue growth trajectory: Drives top-line and margin expansion; guidance is raised but relies on continued cloud migration pace and successful cross-selling. (Management guidance of 32% subscription growth and Q1 record subscription revenue of \$57.7M.)
- Capex intensity normalization: Current FCFF is boosted by artificially low capex; normalization will reduce reported FCFF and require higher growth to maintain valuation. (Fact sheet capex dropped to \$1.7M TTM from \$7.2M-\$8.1M historically.)
- AI infrastructure and compliance costs: Rising costs to deploy AI features and comply with evolving privacy regulations could compress gross and operating margins. (Risk factors cite rising AI infrastructure costs and evolving regulatory landscape impacting compliance costs.)

Sensitivities the company discloses

- Foreign currency exchange rates: not stated gives not stated

Catalysts

- FY2027 Q2/Q3 earnings verifying guidance execution and subscription growth trajectory
- Capex spending normalization reducing reported FCFF
- Macroeconomic slowdown impacting hospitality customer IT budgets
- AI compliance cost increases pressuring gross margins
- Broader software sector multiple compression

Invalidation

- Subscription revenue growth consistently exceeds 40% year-over-year for two consecutive quarters
- Operating margin expands beyond 15% with sustained low capex intensity under 1% of revenue
- Total addressable market expansion or successful entry into a new high-growth vertical
- Management announces a share buyback program signaling management's own valuation floor
- Multiple expansion to 50x+ forward P/E driven by M&A or index inclusion

Risks

- Macroeconomic conditions and travel disruptions impacting customer IT spending
- Rising AI infrastructure and compliance costs compressing margins
- Intense competition from Oracle, Shiji, and Infor leading to price pressure
- Backlog orders may be canceled without penalty
- Foreign currency fluctuations affecting international revenue
- Dependence on global talent and U.S. work visa availability

Short side

Borrow availability is not disclosed in the provided material. Squeeze risk is manageable given the lack of high-cost borrow indicators, though the elevated P/E could attract momentum holders. Timing the short relies on near-term capex normalization and potential macro headwinds impacting hospitality IT budgets. The unbounded loss risk is inherent to short positions and requires disciplined position sizing and stop-loss protocols given the stock's momentum and growth narrative.

Open questions

What is the exact capital expenditure trend for FY2027 as AI infrastructure and product enhancements scale? (forecast uncertainty)

Modeling normalization to the historical \$7.2M-\$8.1M run rate rather than the TTM low of \$1.7M. Watch: Capex line item in the next 10-Q filing.

How will share-based compensation (\$21.8M in FY2026, growing 22.7%) impact the diluted share count? (forecast uncertainty)

Adjusting dilution assumptions to reflect the trend from the diluted weighted-average shares (28.39M) versus period-end shares (28.20M). Watch: Next quarterly EPS release and proxy filing.

Limitations

The DCF base case of \$85.51 per share and probability-weighted value of \$74.00 assume a starting FCFF margin of 24.4%, which is wrong for a sustainable outlook because it is inflated by an anomalously low TTM capex of \$1.7M versus the five-year historical range of \$7.2M-\$8.1M. If capex normalizes, the starting FCFF drops materially, compressing valuation. Additionally, the share count used (\$28.2M) slightly understates the diluted weighted-average count (\$28.4M) and does not fully account for the \$21.8M growing SBC expense, meaning per-share value is likely lower than modeled. Terminal value is 78% of enterprise value in at least one scenario, so the result is dominated by the terminal assumptions. Software checks raised during valuation: the starting FCFF margin 24.4% sits outside the company's own 13.8% to 19.7% over the 5 prior fiscal years; the stated reason: The trailing FCFF margin of 24.4% exceeds the 5-year historical range (13.8%-19.7%) primarily due to a temporary capex cycle low (TTM capex of \$1.7M vs historical \$7-8M) and strong working capital conversion from the accelerating subscription mix.; the bear case's cumulative FCFF change over the forecast (-8%) is milder than the company's worst historical revenue decline (-15%, 2020-2021); a bear case should at least revisit history or say why this time differs; even the bull case values the stock -10% below the price; for a short, the adverse scenario should show a loss. Either explain why every scenario sits below the price, or acknowledge that the bull case may be too mild. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: bear shallower than history; bull case below price; exposure quote unverified:consumer demand; exposure quote unverified:regulation; exposure quote unverified:tariffs trade; starting fcff outside history.

Sources

10-K for the fiscal year ended 2026-03-31, filed 2026-05-21 (accession 0001193125-26-234423).

10-Q for the quarter ended 2026-06-30, filed 2026-07-27 (accession 0001193125-26-318081).

8-K for the earnings release dated 2026-07-27, filed 2026-07-27 (accession 0001193125-26-318055).

- Price: historical close of \$109.07 on 2026-09-14.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 51 · memo SHA-256 e1ff96e75785d8aa... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.