

# TXT e-solutions

# OUTPERFORM

Price (Eu): **8.07**  
 Target Price (Eu): **11.50**

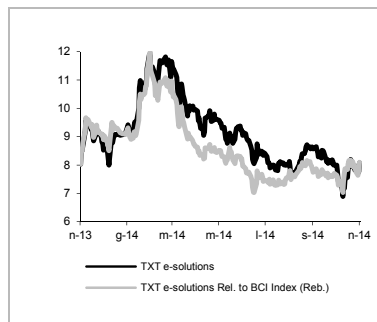
SECTOR: Industrials

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## Quarterly Results In Line, Stock Attractive Both On Fundamentals and Valuation

- 3Q results broadly in line (preliminary revenues and net cash had already been disclosed).** In 3Q14, TXT's revenues came to Eu12.7mn, down 4.8% YoY due to a tough comparison base for TXT Perform (it held important licences in 3Q13). EBITDA stood at Eu1.6mn, down 3.9% YoY and in line with our forecast. The margin on sales increased by 50bps to 12.5% mostly due to lower direct costs. Net profit increased by 25.9% YoY to Eu0.92mn due to marginally lower depreciation, net financial charges and taxes, beating our estimate by 5.9%. Net cash went up from Eu6.6mn as at June 2014 to Eu7.1mn as at September 2014: quarterly cash generation was hit by higher working capital at TXT Next.
- 9M key business facts.** In 9M, TXT's Perform and Next divisions posted 8.1% YoY and 0.9% YoY growth in revenues respectively; the sale of licences and maintenance contracts went down 8.2% YoY on a tough comparison base. Finally, international revenues went up 11.2% YoY, reaching 57% of total revenues. The main new contracts for TXT Perform in 3Q include Constellium (D), Ellos (SE), PAS Group (AUS), and Build-a-Bear Workshop (USA). Year-to-date TXT solutions became operational at about 25 customers, including Thirty-One Gifts (USA), Damartex (F), Lacoste (F), Fat Face (UK), Hamm Reno (D), Yamamay (I), six projects for Louis Vuitton (F) and a "roll out" in Europe, America and Asia for Burberry's (UK).
- Cautious company outlook, estimates unchanged.** The company stated that: *"The third quarter opened with increasing risk due to the uncertain economic scenario...The company believes it will be able to outperform the market...Ongoing negotiations for the sale of TXT Perform solutions are at a fair level but there is high uncertainty about timing of customers' decisions, which may influence licence revenues. The order book for services has good visibility and allows development of business in the current quarter in line with 4Q13"*. We have left our FY14 estimates unchanged. Looking forward (to FY15 and FY16), we forecast that TXT's revenues will increase to Eu65.3mn in FY16, posting a 2013-16 CAGR of 7.5%, driven by TXT Perform. EBITDA is expected to increase faster than revenues; margins should improve by 250bps to 14.7% from FY13 to FY16, benefiting from a more profitable revenue mix (where licences and maintenance will have greater weight) and some economies of scale. The net cash position is expected to reach Eu16.4mn at the end of 2016.
- OUTPERFORM confirmed; target price Eu11.5.** We reaffirm our positive recommendation based on both fundamental grounds and appealing multiples. We appreciate TXT Perform's focus on the luxury, fashion and specialist retail sectors, which will provide significant and sustainable growth opportunities. We also like TXT Next's ability to generate constant, stable revenues and positive cashflow. A cash-positive balance sheet grants room to ensure high shareholder remuneration and/or to pursue further external growth opportunities. Our target price remains unchanged at Eu11.5 per share.

### TXT e-solutions - 12m Performance



Eu/USD: 1.33 2014; 1.25 2014/15

RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2014E	2015E
	0.0%	0.0%

#### STOCK DATA

Reuters code: TXTS.MI  
 Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	0.9%	-0.7%	0.6%
Relative	4.9%	4.1%	0.8%
12 months H/L:	11.91/6.89		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	12
Total No. of shares (mn):	12
Mkt Cap Ord (Eu mn):	95
Total Mkt Cap (Eu mn):	95
Mkt Float - ord (Eu mn):	42
Mkt Float (in %):	43.6%
Main shareholder:	
E-Business Consulting	26.4%

#### BALANCE SHEET DATA

	2014
Book value (Eu mn):	30
BVPS (Eu):	2.57
P/BV:	3.1
Net Financial Position (Eu mn):	11
Enterprise value (Eu mn):	73

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Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	46	53	55	60	65
Ebitda (Eu mn)	5	6	7	8	9
Net profit (Eu mn)	5	5	5	6	7
EPS - New (Eu)	0.887	0.446	0.490	0.553	0.625
EPS - Old (Eu)	0.887	0.446	0.490	0.553	0.625
DPS (Eu)	0.202	0.251	0.269	0.304	0.344

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	9.1	18.1	16.5	14.6	12.9
Div. Yield	2.5%	3.1%	3.3%	3.8%	4.3%
EV/Ebitda	16.8	12.1	10.3	8.7	7.2
ROCE	30.7%	25.2%	30.5%	35.9%	41.9%

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**TXT e-solutions - KEY FIGURES**

	2012A	2013A	2014E	2015E	2016E	
	12/12/2012	12/12/2013	12/12/2014	12/12/2015	12/12/2016	
Fiscal year end						
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	46	53	55	60	65
	EBITDA	5	6	7	8	9
	EBIT	4	5	6	7	8
	Financial income (charges)	0	(0)	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	5	5	6	7	9
	Taxes	(0)	0	(1)	(1)	(2)
	Tax rate (%)	3.8%	-2.7%	15.0%	20.0%	25.0%
	Minorities & discontinue activities	1	0	0	0	0
	Net profit	5	5	5	6	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	5	6	7	8	9
	Ebit excl. extraordinary items	4	5	6	7	8
	Net profit restated	4	5	5	6	7
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	12	12	12	12	12
	EPS stated fd	0.480	0.446	0.490	0.553	0.625
	EPS restated fd	0.887	0.446	0.490	0.553	0.625
	BVPS fd	5.197	2.363	2.572	2.822	3.105
	Dividend per share (ord)	0.202	0.251	0.269	0.304	0.344
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	42.1%	56.3%	55.0%	55.0%	55.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	5	5	6	7	8
	Change in NWC	(2)	0	(1)	(1)	(1)
	Capital expenditure	(1)	(0)	(1)	(1)	(1)
	Other cash items	1	0	(0)	0	0
	Free cash flow (FCF)	4	5	5	5	6
	Acquisitions, divestments & others	(11)	0	0	0	0
	Dividend	0	(2)	(3)	(3)	(3)
	Equity financing/Buy-back	0	(1)	0	0	0
	Change in Net Financial Position	(6)	3	3	3	3
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	19	18	17	17	17
	Net working capital	5	5	5	7	8
	Long term liabilities	(3)	(3)	(3)	(4)	(4)
	Net capital employed	20	19	19	20	20
	Net financial position	6	9	11	14	16
	Group equity	26	28	30	33	37
	Minorities	0	0	0	0	0
	Net equity	26	28	30	33	37
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	95	95	95	95	95
	Adjustments (associate & minorities)	0	11	11	11	11
	Net financial position	6	9	11	14	16
	Enterprise value	89	76	73	70	68
<b>RATIOS(%)</b>	EBITDA margin*	11.4%	11.9%	12.8%	13.4%	14.4%
	EBIT margin*	9.2%	9.4%	10.6%	11.6%	12.8%
	Gearing - Debt/equity	-23.1%	-30.7%	-36.6%	-41.0%	-44.7%
	Interest cover on EBIT	nm	11.4	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	30.7%	25.2%	30.5%	35.9%	41.9%
	ROE*	21.6%	17.2%	17.5%	18.0%	18.6%
	EV/CE	6.4	3.8	3.8	3.6	3.4
	EV/Sales	1.9	1.4	1.3	1.2	1.0
	EV/Ebit	20.9	15.3	12.4	10.1	8.1
	Free Cash Flow Yield	4.3%	6.3%	6.2%	6.4%	7.0%
<b>GROWTH RATES (%)</b>	Sales	15.8%	13.0%	5.5%	9.1%	7.9%
	EBITDA*	114.5%	17.7%	13.3%	14.1%	15.9%
	EBIT*	nm	16.0%	18.9%	18.7%	19.8%
	Net profit	-64.8%	-7.1%	9.7%	13.0%	13.1%
	EPS restated	nm	-49.7%	9.7%	12.9%	13.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## Results

TXT - Results											
(Eu mn)	3Q13A	3Q14A	YoY	3Q14E	A vs E	9M13A	9M14A	YoY	2013A	2014E	YoY
<b>Total revenues</b>	<b>13.3</b>	<b>12.7</b>	-4.8%	<b>12.8</b>	<b>-0.9%</b>	<b>39.6</b>	<b>41.7</b>	5.2%	<b>52.6</b>	<b>55.4</b>	5.5%
<i>YoY growth</i>	<i>25.3%</i>	<i>-4.8%</i>		<i>-4.9%</i>		<i>16.2%</i>	<i>5.2%</i>		<i>13.0%</i>	<i>5.5%</i>	
<b>Gross Profit</b>	<b>7.0</b>	<b>6.7</b>	-3.7%	<b>6.6</b>	<b>2.0%</b>	<b>20.8</b>	<b>22.2</b>	6.6%	<b>27.7</b>	<b>30.4</b>	9.6%
gross margin	52.3%	52.9%		51.4%		52.6%	53.3%		52.7%	54.8%	
<b>EBITDA IFRS</b>	<b>1.6</b>	<b>1.6</b>	-3.9%	<b>1.6</b>	<b>-0.8%</b>	<b>4.8</b>	<b>5.6</b>	17.3%	<b>6.3</b>	<b>7.1</b>	13.3%
EBITDA margin	12.0%	12.5%		12.3%		12.3%	14.6%		12.2%	13.7%	
Depreciation and amortization <i>on revenues</i>	(0.4)	(0.3)		(0.3)		(0.9)	(1.0)		(1.3)	(1.2)	
	-2.7%	-2.7%		-2.0%		-2.4%	-2.4%		2.5%	2.3%	
<b>EBIT IFRS</b>	<b>1.3</b>	<b>1.2</b>	-3.4%	<b>1.3</b>	<b>-7.1%</b>	<b>3.8</b>	<b>4.6</b>	20.6%	<b>5.0</b>	<b>5.9</b>	18.9%
<i>EBIT margin</i>	<i>9.4%</i>	<i>9.7%</i>		<i>10.3%</i>		<i>9.8%</i>	<i>12.1%</i>		<i>9.6%</i>	<i>11.4%</i>	
Financial income and charges	(0.2)	(0.1)		(0.1)		(0.3)	(0.2)		(0.4)	0.1	
<b>Pre-tax profit</b>	<b>1.0</b>	<b>1.1</b>	8.2%	<b>1.2</b>	<b>-7.7%</b>	<b>3.5</b>	<b>4.4</b>	26.0%	<b>4.5</b>	<b>6.0</b>	32.6%
									0.0%	0.0%	
Income taxes <i>tax rate</i>	(0.3)	(0.2)		(0.3)		(0.6)	(0.8)		0.1	(0.9)	
	-29.4%	-17.9%		-28.4%		-17.6%	-18.3%		2.7%	-15.0%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0		0.0	0.0	
<b>Net profit</b>	<b>0.73</b>	<b>0.92</b>	25.9%	<b>0.87</b>	<b>5.9%</b>	<b>2.89</b>	<b>3.61</b>	25.0%	<b>4.64</b>	<b>5.09</b>	9.7%
<i>YoY growth</i>	<i>-7.3%</i>	<i>25.9%</i>		<i>18.9%</i>		<i>-6.2%</i>	<i>25.0%</i>		<i>-7.1%</i>	<i>9.7%</i>	

Source: Company data (A) and Intermonte SIM estimates (E)

## Estimates

### TXT - Change in estimates

(Eu mn)	2014E	2015E	2016E
<b>Total revenues new</b>	<b>55.4</b>	<b>60.5</b>	<b>65.3</b>
Total revenues old	55.4	60.5	65.3
% change	0.0%	0.0%	0.0%
<b>EBITDA new</b>	<b>7.1</b>	<b>8.1</b>	<b>9.4</b>
EBITDA old	7.1	8.1	9.4
% change	0.0%	0.0%	0.0%
<b>EBIT new</b>	<b>5.9</b>	<b>7.0</b>	<b>8.4</b>
EBIT old	5.9	7.0	8.4
% change	0.0%	0.0%	0.0%
<b>PBT new</b>	<b>6.0</b>	<b>7.2</b>	<b>8.7</b>
PBT old	6.0	7.2	8.7
% change	0.0%	0.0%	0.0%
<b>Net profit new</b>	<b>5.1</b>	<b>5.8</b>	<b>6.5</b>
Net profit old	5.1	5.8	6.5
% change	0.0%	0.0%	0.0%
<b>Net cash new</b>	<b>11.1</b>	<b>13.7</b>	<b>16.4</b>
Net cash old	11.1	13.7	16.4
% change	0.0%	0.0%	0.0%

Source: Intermonte SIM estimates

**TXT e-solutions Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>TXT e-solutions</b>	<b>8.1</b>	<b>EUR</b>	<b>95.4</b>	<b>0.9%</b>	<b>-0.7%</b>	<b>-15.8%</b>	<b>-11.0%</b>	<b>0.6%</b>	<b>148.7%</b>
AMERICAN SOFTWARE	9.7	USD	274.8	7.3%	2.7%	3.4%	-1.5%	6.8%	18.0%
ATOSS SOFTWARE	30.0	EUR	119.3	0.7%	1.7%	1.4%	5.0%	7.1%	63.3%
CAPGEMINI	52.2	EUR	8,301.5	-4.4%	-2.2%	2.0%	6.2%	10.6%	60.6%
COMPUTACENTER	6.2	GBP	864.7	-4.0%	3.2%	-4.3%	-2.5%	3.9%	78.7%
DESCARTES SYSTEMS	16.3	CAD	1,227.6	4.9%	12.0%	11.3%	14.7%	30.7%	91.1%
DEVOTEAM	13.3	EUR	99.6	-10.5%	-25.4%	-25.4%	0.5%	1.9%	47.4%
ENGINEERING	38.8	EUR	485.0	-2.6%	-3.0%	-22.4%	-10.8%	-4.0%	44.3%
GROUPE STERIA	14.2	EUR	450.2	-19.3%	-29.8%	-29.5%	-0.6%	-4.4%	11.5%
MANHATTAN ASSOCIATE	39.9	USD	2,976.8	17.0%	31.7%	27.2%	35.8%	48.9%	162.1%
MICROS SYSTEMS	---	USD	---	---	---	---	---	---	---
ORACLE	39.3	USD	174,106.0	1.0%	-1.7%	-4.7%	2.7%	17.3%	25.7%
REPLY	56.7	EUR	530.3	-9.5%	-0.5%	-12.8%	-0.4%	15.1%	178.6%
SAP	53.9	EUR	64,437.7	-3.7%	-7.4%	-5.0%	-13.5%	-6.4%	-5.0%
SOPRA GROUP	58.4	EUR	1,142.5	-17.2%	-27.4%	-29.5%	-20.5%	-10.2%	57.9%
SQS SOFTWARE	7.4	EUR	225.8	0.8%	8.2%	10.3%	24.2%	37.4%	171.6%
<b>Mean performance</b>				<b>-2.6%</b>	<b>-2.6%</b>	<b>-6.3%</b>	<b>1.9%</b>	<b>10.4%</b>	<b>77.0%</b>
<b>Italy Fixed</b>	19,427.9	EUR	253,949	-3.8%	-3.1%	-10.2%	2.4%	1.8%	25.0%

Source: FactSet

**TXT e-solutions Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
<b>TXT e-solutions</b>	<b>8.1</b>	<b>EUR</b>	<b>95.4</b>	<b>1.3</b>	<b>1.2</b>	<b>10.3</b>	<b>8.7</b>	<b>12.4</b>	<b>10.1</b>	<b>16.5</b>	<b>14.6</b>	<b>3.3%</b>	<b>3.8%</b>
AMERICAN SOFTWARE	9.7	USD	274.8	1.8	1.6	9.5	7.6	12.5	9.6	26.3	20.5		
ATOSS SOFTWARE	30.0	EUR	119.3	2.7	2.4	10.6	9.0	11.3	9.6	18.5	16.4	2.7%	3.1%
CAPGEMINI	52.2	EUR	8,301.5	0.7	0.6	6.6	5.7	8.2	7.0	14.8	13.3	2.3%	2.5%
COMPUTACENTER	6.2	GBP	864.7	0.2	0.2	6.4	5.7	8.9	7.9	13.3	12.5	3.0%	3.2%
DESCARTES SYSTEMS	16.3	CAD	1,227.6	5.6	4.7	18.6	15.2	39.4	28.3	28.7	25.8	0.0%	0.0%
DEVOTEAM	13.3	EUR	99.6	0.2	0.2	4.1	3.5	5.1	4.2	19.0	11.1	2.3%	3.0%
ENGINEERING	38.8	EUR	485.0	0.5	0.4	3.8	3.2	4.9	4.1	10.2	9.5	2.0%	2.2%
GROUPE STERIA	14.2	EUR	450.2	0.4	0.4	4.6	4.2	5.9	5.8	11.5	8.3	1.4%	1.9%
MANHATTAN ASSOCIATE	39.9	USD	2,976.8	5.9	5.2	19.9	17.2	20.7	18.0	34.8	31.5		
MICROS SYSTEMS		USD											
ORACLE	39.3	USD	174,106.0	3.9	3.5	7.2	6.9	8.2	7.4	12.9	12.0	1.2%	1.2%
REPLY	56.7	EUR	530.3	0.8	0.7	6.3	5.0	6.9	5.5	12.2	10.3	1.6%	2.0%
SAP	53.9	EUR	64,437.7	3.8	3.5	10.7	9.6	11.9	10.7	15.6	14.6	1.9%	2.1%
SOPRA GROUP	58.4	EUR	1,142.5	1.0	0.9	9.4	8.6	12.1	9.0	9.7	8.0	3.0%	3.1%
SQS SOFTWARE	7.4	EUR	225.8	0.9	0.8	9.1	8.0	14.4	12.0	17.4	15.0	1.8%	2.1%
<b>Median</b>				<b>1.0</b>	<b>0.9</b>	<b>9.1</b>	<b>7.6</b>	<b>11.3</b>	<b>9.0</b>	<b>15.6</b>	<b>13.3</b>	<b>2.0%</b>	<b>2.2%</b>

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

**TXT e-solutions - Estimates Comparison with Consensus**

(Eu mn)	2014			2015		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	55.4	54.9	0.9%	60.5	60.2	0.6%
<b>Ebitda</b>	7.1	6.5	9.3%	8.1	7.9	3.0%
<b>Net Profit</b>	5.1	5.0	1.1%	5.8	5.6	2.4%
<b>EPS</b>	0.5	0.4	22.3%	0.6	0.5	12.1%
<b>Net Debt</b>	11.1	10.9	2.3%	13.7	13.7	0.2%

Source: Intermonte SIM estimates and Factset consensus estimates

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

The stock price indicated is the reference price on the day prior to the publication of the report.

#### **CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS**

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at September 30th 2014 Intermonte's Research Department covered 159 companies.

Intermonte's distribution of stock ratings is as follows:

BUY: 22.01%

OUTPERFORM: 35.22%

NEUTRAL: 39.88%

UNDERPERFORM: 1.89%

SELL: 0.63%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (31 in total) is as follows:

BUY: 21.88%

OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

SELL: 0.00%

#### **CONFLICT OF INTEREST**

In order to disclose its possible conflicts of interest Intermonte SIM states that:

- o within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an Institutional Offering and/or , managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an offering with firm commitment underwriting of the securities of the following Companies: Ascopiave, Banca Ifis, Banca Carige, Banca Popolare di Sondrio, Creval, Fincantieri, Greentitaly1, MPS, Poltrona Frau, Salini Impreglio, Tecnoinvestimenti, Triboo Media.
- o Intermonte SIM is Specialist and/or Corporate Broker and/or Broker in charge of the share buy back activity of the following Companies: Banca Etruria, Banca Ifis, Be, Biancamano, B&C Speakers, Bolzoni, Carraro, Cattolica Assicurazioni, Credito Valtellinese, Datalogic, DeA capital, Digital bros, EL.En, Emak, ERG, Ferrovie Nord Milano,Milano, Fiera Milano, Fintel Energia Group, Gefran, Greentitaly1, IGD, Innovatec, Kinexia, Lucisano, Mondo TV, Primi sui Motori, QF Alpha Immobiliare, QF Beta Immobiliare, Recordati, Reno de Medici, Reply, Saes Getters, Servizi Italia, Sesa, Snai, Tamburi Investment Partners, Tecnoinvestimenti, IESMEC, TBS Group, Ternienergia, TXT e-solutions, Vittoria Assicurazioni, VRWay Communication.
- o Intermonte SIM acted as Global Coordinator in the Greentitaly1 IPO on the AIM Italia market and will receive a success fee if a business combination is approved by the shareholders.
- o Intermonte SIM SpA and its subsidiaries do not hold a stake equal to or over 1% of common equity securities and/or warrants of any of the aforementioned subject companies, with the exception of: Greentitaly1.
- o Intermonte SIM SpA has provided in the last 12 months / provides / may provide investment banking services to the following companies: Atlantia, Carraro, Cattolica Assicurazioni, Kinexia, RCS Media, Saes Getters

#### **DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	TXT e-solutions		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	11.50	Previous Target (Eu):	11.50
Current Price (Eu):	8.07	Previous Price (Eu):	7.95
Date of report:	06/11/2014	Date of last report:	06/08/2014

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