

TXT e-solutions

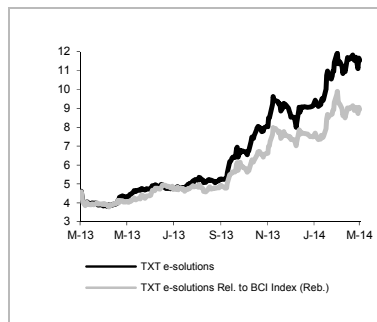
NEUTRAL

Price (Eu):
11.52
Target Price (Eu):
12.00
SECTOR: Industrials
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Solid Growth Opportunities, But We're Downgrading to Neutral After the Climb

- Positive FY13 results, slightly above our estimates.** In FY13, TXT's revenues came to Eu52.6mn, up 13.0% YoY. Growth was driven by the Perform division (+20.1% YoY thanks to the consolidation of Maple Lake) and by the sale of licences and maintenance contracts (+24.8% YoY). International revenues went up by 15.7% YoY, reaching 54% of total revenues. EBITDA came to Eu6.3mn in FY13, up 17.7% and in line with our estimate. The margin on sales was 12.2%, up 40bps YoY due to an improved revenue mix and a stronger contribution margin from licences. Net profit fell by 7.1% YoY to Eu4.6mn (FY12 net profit was boosted by a non-operating gain of Eu0.4mn) but came out 9.9% above our estimate due to positive income taxes. Free cash flow was Eu4.7mn in FY13. The BoD proposed to distribute a DPS of Eu0.25 (up from Eu0.20 in 2012), well above our estimate.
- Strong cash generation in 4Q13.** Revenues grew by 4.5% YoY in 4Q13: both divisions reported positive performances (Perform revenues grew by 6.2% at constant consolidation base, while Next grew by 1.9%). The EBITDA margin was 11.6% in 4Q13. Net cash improved from Eu6.3mn as at September 2013 to Eu8.6mn as at December.
- Good visibility on 1Q14.** The company stated that: *"the portfolio of ongoing negotiations for the sale of new TXT Perform solutions is good and shows a positive trend: however, revenues from licenses are always highly unpredictable and subject to the uncertainty over the outcome of negotiations with new customers. The outlook for orders for services and projects is favorable and allows to expect a positive performance by both divisions in 1Q14"*.
- Estimates fine-tuned: lower tax rate lifts EPS.** We forecast that TXT's revenues will increase to Eu66.3mn in FY16, posting a 2013-16 CAGR of 8.0%, driven by TXT Perform. EBITDA is expected to increase faster than revenues; margins should improve by 260bps to 14.8% between FY13 and FY16, benefiting from a more profitable revenues mix (where licences and maintenance will have greater weight) and some economies of scale. The net cash position is expected to reach Eu16.3mn at the end of 2016. We have left our estimates basically unchanged from revenues down to pretax profit. On the other hand, our net profit estimate has been increased by 11.2% in FY14 and by 7.6% in FY15 to incorporate a lower tax rate.
- Downgrade to NEUTRAL, target price lifted to Eu12.0 per share.** We have downgraded the stock to NEUTRAL in light of the strong share price performance (+86% since we started coverage with a positive view in September 2013). Our updated valuation yields a fair value of Eu12.0 per share. We continue to appreciate: 1) TXT Perform's focus on luxury, fashion and specialist retail sectors, which will provide significant growth opportunities, and 2) 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.

TXT e-solutions - 12m Performance



Eu/USD: 1.33 2014; 1.30 2015

RATING: from OUTPERFORM to NEUTRAL
TARGET PRICE (Eu): from 10.00 to 12.00
Change in EPS est:

	2014E	2015E
	11.2%	7.6%

STOCK DATA

 Reuters code: TXTS.MI
 Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	1.4%	35.1%	157.4%
Relative	-4.8%	24.2%	128.6%
12 months H/L:	11.91/3.81		

SHAREHOLDER DATA

No. of Ord. shares (mn):	12
Total No. of shares (mn):	12
Mkt Cap Ord (Eu mn):	136
Total Mkt Cap (Eu mn):	136
Mkt Float - ord (Eu mn):	59
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:	4.5
Net Financial Position (Eu mn):	11
Enterprise value (Eu mn):	110

Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	46	53	56	61	66
Ebitda (Eu mn)	5	6	7	8	10
Net profit (Eu mn)	5	5	5	6	7
EPS - New (Eu)	0.887	0.393	0.431	0.501	0.562
EPS - Old (Eu)	0.458	0.357	0.387	0.465	
DPS (Eu)	0.201	0.249	0.268	0.311	0.349
Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	13.0	29.3	26.7	23.0	20.5
Div. Yield	1.7%	2.2%	2.3%	2.7%	3.0%
EV/Ebitda	24.5	17.9	15.4	12.9	10.9
ROCE	30.7%	25.2%	30.3%	36.5%	42.2%

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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						
PROFIT & LOSS (Eu mn)	Sales	46	53	56	61	66
	EBITDA	5	6	7	8	10
	EBIT	4	5	6	7	9
	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	10
	Ebit excl. extraordinary items	4	5	6	7	9
	Net profit restated	4	5	5	6	7
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	12	12	12	12	12
	EPS stated fd	0.423	0.393	0.431	0.501	0.562
	EPS restated fd	0.887	0.393	0.431	0.501	0.562
	BVPS fd	5.197	2.363	2.573	2.837	3.123
	Dividend per share (ord)	0.201	0.249	0.268	0.311	0.349
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	42.1%	56.0%	55.0%	55.0%	55.0%
CASH FLOW (Eu mn)	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	2	3	3
BALANCE SHEET (Eu mn)	Total fixed assets	19	18	17	17	17
	Net working capital	5	5	6	7	8
	Long term liabilities	(3)	(3)	(3)	(4)	(4)
	Net capital employed	20	19	19	20	21
	Net financial position	6	9	11	14	16
	Group equity	26	28	30	34	37
	Minorities	0	0	0	0	0
	Net equity	26	28	30	34	37
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	136	136	136	136	136
	Adjustments (associate & minorities)	0	16	16	16	16
	Net financial position	6	9	11	14	16
	Enterprise value	130	112	110	107	104
RATIOS(%)	EBITDA margin*	11.4%	11.9%	12.6%	13.5%	14.4%
	EBIT margin*	9.2%	9.4%	10.5%	11.7%	12.9%
	Gearing - Debt/equity	-23.1%	-30.7%	-35.9%	-40.5%	-44.2%
	Interest cover on EBIT	nm	11.4	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	30.7%	25.2%	30.3%	36.5%	42.2%
	ROE*	21.6%	17.2%	17.5%	18.5%	18.8%
	EV/CE	9.4	5.7	5.6	5.4	5.1
	EV/Sales	2.8	2.1	1.9	1.7	1.6
	EV/Ebit	30.5	22.6	18.6	14.8	12.2
	Free Cash Flow Yield	3.0%	4.4%	4.1%	4.5%	5.0%
GROWTH RATES (%)	Sales	15.8%	13.0%	7.0%	9.2%	8.0%
	EBITDA*	114.5%	17.7%	13.2%	17.1%	15.1%
	EBIT*	nm	16.0%	18.9%	22.2%	18.8%
	Net profit	-64.8%	-7.1%	9.7%	16.3%	12.1%
	EPS restated	nm	-55.8%	9.7%	16.3%	12.1%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

TXT - Quarterly results preview

(Eu mn)	4Q12A	4Q13A	YoY	4Q13E	A vs E	2012A	2013A	YoY	2013E	A vs E
Total revenues	12.4	12.9	4.5%	12.8	1.2%	46.5	52.6	13.0%	52.3	0.5%
<i>YoY growth</i>	42.4%	4.5%		1.4%		19.6%	13.0%		12.5%	
Gross Profit	6.1	6.9	11.7%	6.6	4.2%	24.1	27.7	14.7%	27.3	1.4%
<i>gross margin</i>	49.5%	53.0%		51.4%		51.9%	52.7%		52.3%	
EBITDA IFRS	1.0	1.5	56.0%	1.4	6.5%	5.3	6.3	17.7%	6.2	1.5%
<i>EBITDA margin</i>	7.5%	11.9%		11.7%		11.8%	12.2%		12.1%	
Depreciation and amortization <i>on revenues</i>	(0.3) -2.5%	(0.4) -2.8%		(0.3) -2.0%		(1.1) 2.3%	(1.3) 2.5%		(1.2) 2.4%	
EBIT IFRS	0.6	1.1	75.0%	1.2	-1.4%	4.3	5.0	16.0%	5.0	-0.3%
<i>EBIT margin</i>	5.1%	9.0%		9.6%		9.4%	9.6%		9.8%	
Financial income and charges	0.1	(0.1)		0.3		0.3	(0.4)		0.0	
Pre-tax profit	0.8	1.0	34.7%	1.5	-30.7%	4.6	4.5	-2.1%	5.0	-9.1%
<i>Income taxes tax rate</i>	0.6 80.6%	0.7 72.2%		(0.1) -8.9%		(0.2) -3.8%	0.1 2.7%		(0.7) -15.0%	
Profit from discontinued operations	0.0	0.0		0.0		0.6	0.0		0.0	
Net profit	1.4	1.8	28.4%	1.3	31.0%	5.0	4.6	-7.1%	4.2	9.9%
<i>YoY growth</i>	-166.9%	28.4%		-11.2%		-64.8%	-7.1%		-17.8%	

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

Estimates

TXT - Change in estimates

(Eu mn)	2014E	2015E	2016E
Sales new	56.2	61.4	66.3
Sales old	56.0	61.1	
% change	0.4%	0.4%	
EBITDA new	7.1	8.3	9.6
EBITDA old	7.1	8.1	
% change	-0.2%	2.0%	
EBIT new	5.9	7.2	8.6
EBIT old	6.0	7.1	
% change	-1.9%	0.9%	
PBT new	6.0	7.4	8.9
PBT old	6.1	7.3	
% change	-1.9%	0.9%	
Net profit new	5.1	5.9	6.6
Net profit old	4.6	5.5	
% change	11.2%	7.6%	
Net cash new	10.9	13.6	16.3
Net cash old	10.9	14.5	
% change	0.2%	-6.0%	

Source: Intermonete SIM estimates

Valuation

Our valuation is based on a discounted cash flow (DCF) model; as a sanity check we have also compared TXT's multiples with those of its peers.

TXT is showing potential upside of 4.2% from the current share price of Eu11.52. At our target (Eu12.0 per share), the stock would be trading at 19.0x P/E (net of treasury shares), 11.9x EV/EBITDA and 1.7x EV/sales based on our 2016 estimates.

Further upside to our valuation might come from higher than forecast growth in revenues from licences and maintenance contracts, quicker than expected improvements in profitability, or balance sheet re-leverage (through external growth or cash paybacks to shareholders).

DCF

TXT - DCF model									
(Eu mn)	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E	TV
Sales	37.6	45.2	51.4	54.9	60.0	64.8	69.3	74.1	76.4
EBITDA	2.5	5.3	6.3	7.1	8.3	9.6	10.3	11.1	11.5
DA	(3.6)	(1.1)	(1.3)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	(1.1)	4.3	5.0	5.9	7.2	8.6	9.3	10.2	10.5
Taxes	(0.2)	(0.2)	0.1	(0.9)	(1.4)	(2.1)	(2.3)	(2.5)	(2.6)
<i>tax rate</i>	16.1%	-3.8%	2.7%	-15.0%	-20.0%	-25.0%	-25.0%	-25.0%	-25.0%
Change in WC	2.7	(1.6)	0.0	(0.7)	(1.2)	(1.2)	(0.5)	(0.5)	(0.2)
Capex	(2.2)	(0.6)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)
<i>Capex/Sales</i>	-5.7%	-1.4%	-0.9%	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
FCF	2.9	2.9	6.0	4.9	4.9	5.5	6.7	7.2	7.7
TV									134.3
year	0	0	0	1	2	3	4	5	6
WACC				8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Discounted WACC	1.00	1.00	1.00	0.92	0.85	0.78	0.72	0.66	0.61
Discounted free cash flow	2.9	2.9	6.0	4.5	4.2	4.2	4.8	4.7	81.3
Discounted Free Cash Flows	22.4								
Terminal value	81.3								
Total EV	103.7								
Net cash	8.6								
Treasury shares	15.7								
Excess cash	14.0								
Total EQUITY	142.0								
N. of shares (mn)	11.8								
TARGET PRICE (Eu)	12.0								
<i>WACC</i>	8.7%								
<i>Terminal growth</i>	3.0%								

TV / Total EV	78.4%
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Peer Multiples Comparison

TXT is trading at a premium to a panel of European IT service providers and systems integration companies (such as Capgemini, Atos, Altron Technologies, Groupe Steria, Sopra Group, Indra Sistemas, Reply and Engineering), and at a discount to specialist software developers (such as Oracle, SAP and MICROS Systems).

If we associate TXT Perform's business with software developers and TXT Next's with providers of IT services and systems integration companies, TXT's fair equity value per share should be Eu7.9 based on average 2014, 2015, and 2016 EV/EBITDA, and Eu15.5 based on average 2014, 2015, and 2016 EV/sales.

Given that, in our view, the read-across from a comparison based on EBITDA is highly influenced by the allocation of costs between one division and another, and a comparison on sales is too approximate, we prefer to use the multiple comparison simply as a sanity check on our predominant valuation method.

TXT - Valuation based on peer group EV/EBITDA

(Eu mn)	2014E	2015E	2016E
PERFORM EBITDA	5.4	6.3	7.3
EV/EBITDA peer group	9.1 x	8.3 x	7.9 x
EV PERFORM	49.3	52.2	57.4
NEXT EBITDA	1.6	2.0	2.3
EV/EBITDA peer group	6.1 x	5.4 x	5.1 x
EV NEXT	10.0	10.6	11.6
EV based on multiples	59.3	62.9	69.1
Net cash	10.9	13.6	16.3
Treasury shares	15.7	15.7	15.7
Equity Value	86.0	92.2	101.1
N. of shares	11.8	11.8	11.8
Equity Value p.s.	7.3	7.8	8.6
Average Equity Value p.s.		7.9	

Source: Factset data & Intermonte estimates

TXT - Valuation based on peer group EV/Sales

(Eu mn)	2014E	2015E	2016E
PERFORM Sales	35.1	39.6	44.1
EV/Sales peer group	3.9 x	3.5 x	3.3 x
EV PERFORM	137.0	138.5	145.4
NEXT Sales	21.1	21.8	22.2
EV/Sales peer group	0.7 x	0.6 x	0.6 x
EV NEXT	14.8	13.1	12.2
EV based on multiples	151.8	151.6	157.6
Net cash	10.9	13.6	16.3
Treasury shares	15.7	15.7	15.7
Equity Value	178.4	180.9	189.7
N. of shares	11.8	11.8	11.8
Equity Value p.s.	15.1	15.3	16.0
Average Equity Value p.s.		15.5	

Source: Factset data & Intermonte estimates

TXT e-solutions Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT e-solutions	11.5	EUR	136.2	1.4%	35.1%	118.6%	27.0%	157.4%	154.3%
AMERICAN SOFTWARE	10.3	USD	282.5	2.8%	1.1%	28.4%	4.1%	23.1%	8.1%
ATOSS SOFTWARE	29.5	EUR	117.3	0.7%	4.4%	18.3%	3.3%	23.5%	73.3%
CAPGEMINI	56.4	EUR	8,966.6	11.5%	22.5%	34.3%	14.9%	48.0%	69.7%
COMPUTACENTER	6.9	GBP	958.6	6.9%	6.9%	28.3%	8.2%	44.5%	74.3%
DESCARTES SYSTEMS	15.9	CAD	997.4	4.5%	11.6%	33.2%	11.8%	69.9%	100.6%
DEVOTEAM	17.7	EUR	129.0	18.2%	41.2%	76.9%	34.0%	76.0%	34.5%
ENGINEERING	52.5	EUR	655.6	14.2%	28.4%	59.1%	20.6%	69.4%	134.0%
GROUPE STERIA	14.4	EUR	454.7	-2.9%	2.7%	21.8%	0.7%	18.7%	-10.9%
MANHATTAN ASSOCIATE	38.7	USD	2,954.6	17.0%	30.8%	74.3%	31.6%	111.8%	215.8%
MICROS SYSTEMS	56.3	USD	4,235.7	5.0%	5.3%	12.9%	-1.9%	33.4%	9.2%
ORACLE	39.5	USD	177,647.7	9.9%	13.3%	22.4%	3.2%	11.4%	30.6%
REPLY	64.8	EUR	601.7	17.1%	24.6%	50.7%	13.8%	140.4%	291.2%
SAP	57.1	EUR	70,184.4	3.3%	-3.8%	6.9%	-8.3%	-8.7%	11.2%
SOPRA GROUP	90.4	EUR	1,074.1	12.6%	25.1%	38.5%	23.0%	42.3%	92.7%
SQS SOFTWARE	6.7	EUR	204.2	13.2%	12.7%	45.6%	12.3%	138.5%	223.5%
Mean performance				8.5%	16.4%	41.9%	12.4%	62.5%	94.5%
Italy Fixed	20,757.0	EUR	256,344	8.8%	15.4%	23.2%	9.4%	29.9%	23.6%

Source: FactSet

TXT e-solutions Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
TXT e-solutions	11.5	EUR	136.2	1.9	1.7	15.4	12.9	18.6	14.8	26.7	23.0	2.3%	2.7%
AMERICAN SOFTWARE	10.3	USD	282.5	1.9		8.8		12.0		22.8			
ATOSS SOFTWARE	29.5	EUR	117.3	2.7	2.5	10.7	9.8	11.4	10.4	18.7	17.9	2.7%	2.8%
CAPGEMINI	56.4	EUR	8,966.6	0.8	0.7	7.2	6.4	9.3	8.1	16.2	14.5	2.0%	2.1%
COMPUTACENTER	6.9	GBP	958.6	0.3	0.3	7.3	6.6	10.0	9.0	14.7	13.8	2.7%	3.0%
DESCARTES SYSTEMS	15.9	CAD	997.4	5.1	4.4	16.9	14.2	31.7	23.3	23.3	21.6		
DEVOTEAM	17.7	EUR	129.0	0.3	0.3	5.6	4.0	6.9	4.7	21.6	13.9	1.2%	1.6%
ENGINEERING	52.5	EUR	655.6	0.7	0.6	5.4	4.6	7.3	6.0	14.7	12.9	1.4%	1.6%
GROUPE STERIA	14.4	EUR	454.7	0.4	0.4	4.7	4.3	6.1	5.6	7.6	6.5	2.0%	2.4%
MANHATTAN ASSOCIATE	38.7	USD	2,954.6							37.9	34.2		
MICROS SYSTEMS	56.3	USD	4,235.7							22.7	20.3		
ORACLE	39.5	USD	177,647.7	3.9	3.5	7.5	7.0	8.0	7.3	12.4	11.5	1.2%	1.3%
REPLY	64.8	EUR	601.7	1.0	0.8	6.9	5.8	7.7	6.3	14.1	12.0	1.4%	1.7%
SAP	57.1	EUR	70,184.4	3.9	3.5	10.6	9.5	11.7	10.4	16.3	14.9	1.8%	2.0%
SOPRA GROUP	90.4	EUR	1,074.1	0.8	0.7	8.5	7.2	9.8	8.3	13.6	12.0	2.1%	2.3%
SQS SOFTWARE	6.7	EUR	204.2	0.8	0.7	8.1	6.8	11.2	9.0	16.0	13.3	1.9%	2.3%
Median				0.9	0.7	7.8	6.8	9.9	8.3	16.3	13.9	2.0%	2.2%

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

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

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OUTPERFORM: 38.93%

NEUTRAL: 42.27%

UNDERPERFORM: 3.36%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TXT e-solutions		
Current Recomm:	NEUTRAL	Previous Recomm:	OUTPERFORM
Current Target (Eu):	12.00	Previous Target (Eu):	10.00
Current Price (Eu):	11.52	Previous Price (Eu):	8.50
Date of report:	06/03/2014	Date of last report:	07/11/2013

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