

# TXT e-solutions

# NEUTRAL

SECTOR: Industrials

Price (Eu):

9.46

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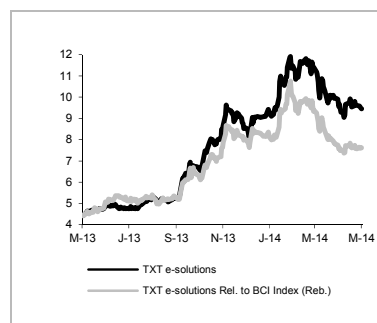
Target Price (Eu):

12.00

## Solid Business Opportunities, We Expect Growth To Accelerate QoQ

- Positive 1Q14 results (preliminary revenues, EBITDA and NFP had already been disclosed) with strong cash generation.** In 1Q14, TXT's revenues came to Eu14.0mn, up 5.9% YoY. Growth was driven by the Perform division (+10.9% YoY) and by the sale of licences and maintenance contracts (+7.2 YoY); the Next division posted a 1.3% decline in revenues. International revenues went up by 18.6% YoY, reaching 57% of total revenues. Gross profit increased by 30bps to 52.8% due to a positive revenue mix. EBITDA stood at Eu1.5mn in 1Q14, up 4.2%; the margin on sales was 10.9%, down 20bps YoY due to higher personnel costs. Pre-tax profit came to Eu1.1mn, 4.6% below our estimate due to higher than expected net financial charges. Net profit increased by 1.7% YoY to Eu1.0mn. Cash generation was particularly strong in the quarter: net cash improved from Eu8.6mn as at December 2013 to Eu11.3mn as at March 2014.
- Key facts.** In 1Q, TXT Perform gained important new customers, including Otto (D), La Halle (F) and The White Company (UK) and important extension of licences to existing customers, including Damartex (F), Cotton On (AUS), Lindex (FIN) and Grencore (UK). A new subsidiary, TXT USA Inc, was incorporated in the United States, with the aim of speeding up commercial development in North America.
- Positive company outlook, estimates unchanged.** The company stated that: *"on-going negotiations for the sale of TXT Perform solutions are good and show a positive trend; however, revenues from licenses are always highly unpredictable and subject to the outcome of negotiations and delays in the decision process of customers. The order book for maintenance and services have a good visibility and allow envisaging a positive development of the business in the current quarter".* We have left our estimates unchanged. 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.
- NEUTRAL reaffirmed, target price kept at Eu12.0.** Although we expect revenue growth to speed up over the course of the year, we reiterate our NEUTRAL recommendation. Our valuation, based on a DCF model and backed by a peer multiples comparison, 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: 1.35 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	-1.1%	-17.5%	114.0%
Relative	0.6%	-26.0%	89.9%
12 months H/L:	11.91/4.45		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	12
Total No. of shares (mn):	12
Mkt Cap Ord (Eu mn):	112
Total Mkt Cap (Eu mn):	112
Mkt Float - ord (Eu mn):	49
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:	3.7
Net Financial Position (Eu mn):	11
Enterprise value (Eu mn):	88

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)	0.887	0.393	0.431	0.501	0.562
DPS (Eu)	0.201	0.249	0.268	0.311	0.349

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	10.7	24.1	22.0	18.9	16.8
Div. Yield	2.1%	2.6%	2.8%	3.3%	3.7%
EV/Ebitda	19.9	14.4	12.4	10.3	8.6
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
	Fiscal year end	12/12/2012	12/12/2013	12/12/2014	12/12/2015	12/12/2016
<b>PROFIT &amp; LOSS (Eu mn)</b>	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	
<b>PER SHARE DATA (Eu)</b>	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%	
<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	2	3	3	
<b>BALANCE SHEET (Eu mn)</b>	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	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	112	112	112	112	112
	Adjustments (associate & minorities)	0	13	13	13	13
	Net financial position	6	9	11	14	16
	Enterprise value	106	90	88	85	82
<b>RATIOS(%)</b>	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	7.6	4.6	4.5	4.3	4.1
	EV/Sales	2.3	1.7	1.6	1.4	1.2
	EV/Ebit	24.8	18.2	14.9	11.8	9.6
Free Cash Flow Yield	3.6%	5.4%	5.0%	5.5%	6.1%	
<b>GROWTH RATES (%)</b>	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					
(Eu mn)	1Q13A	1Q14A	YoY	1Q14E	A vs E
<b>Total revenues</b>	<b>13.2</b>	<b>14.0</b>	5.9%	<b>13.8</b>	<b>1.4%</b>
<i>YoY growth</i>	<i>13.8%</i>	<i>5.9%</i>		<i>4.4%</i>	
<b>Gross Profit</b>	<b>6.9</b>	<b>7.4</b>	6.4%	<b>7.6</b>	<b>-2.2%</b>
gross margin	52.5%	52.8%		54.7%	
<b>EBITDA IFRS</b>	<b>1.5</b>	<b>1.5</b>	4.2%	<b>1.5</b>	<b>1.5%</b>
EBITDA margin	11.1%	10.9%		10.9%	
Depreciation and amortization <i>on revenues</i>	(0.3) -2.3%	(0.3) -2.2%		(0.3) -2.2%	
<b>EBIT IFRS</b>	<b>1.2</b>	<b>1.2</b>	4.7%	<b>1.2</b>	<b>1.1%</b>
<i>EBIT margin</i>	<i>9.3%</i>	<i>9.2%</i>		<i>9.2%</i>	
Financial income and charges	(0.0)	(0.1)		0.0	
<b>Pre-tax profit</b>	<b>1.1</b>	<b>1.1</b>	1.1%	<b>1.2</b>	<b>-4.6%</b>
Income taxes <i>tax rate</i>	(0.2) -13.5%	(0.2) -13.1%		(0.2) -16.7%	
Profit from discontinued operations	0.0	0.0		0.0	
<b>Net profit</b>	<b>1.0</b>	<b>1.0</b>	1.7%	<b>1.0</b>	<b>-0.7%</b>
<i>YoY growth</i>	<i>-38.3%</i>	<i>1.7%</i>		<i>7.6%</i>	

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

## Estimates

TXT - Change in estimates			
(Eu mn)	2014E	2015E	2016E
<b>Sales new</b>	<b>56.2</b>	<b>61.4</b>	<b>66.3</b>
Sales old	56.2	61.4	66.3
% change	0.0%	0.0%	0.0%
<b>EBITDA new</b>	<b>7.1</b>	<b>8.3</b>	<b>9.6</b>
EBITDA old	7.1	8.3	9.6
% change	0.0%	0.0%	0.0%
<b>EBIT new</b>	<b>5.9</b>	<b>7.2</b>	<b>8.6</b>
EBIT old	5.9	7.2	8.6
% change	0.0%	0.0%	0.0%
<b>PBT new</b>	<b>6.0</b>	<b>7.4</b>	<b>8.9</b>
PBT old	6.0	7.4	8.9
% change	0.0%	0.0%	0.0%
<b>Net profit new</b>	<b>5.1</b>	<b>5.9</b>	<b>6.6</b>
Net profit old	5.1	5.9	6.6
% change	0.0%	0.0%	0.0%
<b>Net cash new</b>	<b>10.9</b>	<b>13.6</b>	<b>16.3</b>
Net cash old	10.9	13.6	16.3
% 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>9.5</b>	<b>EUR</b>	<b>111.8</b>	<b>-1.1%</b>	<b>-17.5%</b>	<b>9.3%</b>	<b>4.2%</b>	<b>114.0%</b>	<b>84.1%</b>
AMERICAN SOFTWARE	8.8	USD	246.2	-8.2%	-11.9%	-5.6%	-10.7%	4.0%	3.4%
ATOSS SOFTWARE	29.0	EUR	115.3	1.2%	-1.2%	4.5%	1.6%	16.6%	55.0%
CAPGEMINI	50.2	EUR	8,037.4	-4.2%	-3.8%	4.2%	2.2%	29.1%	75.7%
COMPUTACENTER	6.5	GBP	900.5	-0.2%	-1.4%	13.2%	1.6%	47.3%	62.6%
DESCARTES SYSTEMS	14.2	CAD	904.6	-6.0%	-7.5%	10.2%	0.0%	34.1%	71.2%
DEVOTEAM	18.0	EUR	173.5	-2.9%	18.5%	40.2%	36.1%	90.2%	51.4%
ENGINEERING	49.2	EUR	615.4	-7.0%	5.7%	18.6%	13.2%	68.5%	137.4%
GROUPE STERIA	20.0	EUR	635.0	27.3%	33.2%	39.5%	40.4%	67.0%	38.1%
MANHATTAN ASSOCIATE	29.7	USD	2,250.7	-10.9%	-10.4%	7.8%	1.1%	63.0%	142.3%
MICROS SYSTEMS	51.4	USD	3,845.7	-0.3%	-5.8%	-3.6%	-10.4%	16.8%	-9.0%
ORACLE	40.9	USD	182,234.7	1.6%	9.9%	19.0%	6.8%	22.1%	46.3%
REPLY	65.5	EUR	612.6	3.6%	17.0%	36.3%	15.1%	127.2%	285.3%
SAP	55.5	EUR	66,203.7	-4.7%	-1.1%	-6.0%	-11.0%	-11.7%	17.4%
SOPRA GROUP	82.0	EUR	977.1	-4.8%	-1.0%	21.8%	11.6%	45.3%	94.3%
SQS SOFTWARE	6.7	EUR	203.7	-1.3%	12.9%	26.2%	12.0%	99.4%	166.7%
<b>Mean performance</b>				<b>-1.1%</b>	<b>2.2%</b>	<b>14.7%</b>	<b>7.1%</b>	<b>52.1%</b>	<b>82.6%</b>
<b>Italy Fixed</b>	21,729.6	EUR	277,947	0.3%	10.3%	14.6%	14.6%	25.9%	55.9%

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>9.5</b>	<b>EUR</b>	<b>111.8</b>	<b>1.6</b>	<b>1.4</b>	<b>12.4</b>	<b>10.3</b>	<b>14.9</b>	<b>11.8</b>	<b>22.0</b>	<b>18.9</b>	<b>2.8%</b>	<b>3.3%</b>
AMERICAN SOFTWARE	8.8	USD	246.2	1.5		7.2		8.8		19.6			
ATOSS SOFTWARE	29.0	EUR	115.3	2.7	2.4	10.5	9.1	11.2	9.6	18.4	16.6	2.7%	3.0%
CAPGEMINI	50.2	EUR	8,037.4	0.7	0.6	6.3	5.5	8.5	7.2	14.6	13.0	2.3%	2.5%
COMPUTACENTER	6.5	GBP	900.5	0.3	0.2	6.8	6.1	9.2	8.3	13.6	12.9	2.9%	3.1%
DESCARTES SYSTEMS	14.2	CAD	904.6	4.5	3.8	15.0	12.4	28.8	20.3	20.5	17.6	0.0%	0.0%
DEVOTEAM	18.0	EUR	173.5	0.3	0.3	5.1	3.9	6.2	4.5	19.0	13.4	1.2%	1.5%
ENGINEERING	49.2	EUR	615.4	0.6	0.5	5.1	4.4	6.4	5.6	13.0	12.1	1.5%	1.7%
GROUPE STERIA	20.0	EUR	635.0	0.5	0.5	6.1	5.3	7.7	6.9	12.4	10.0	1.1%	1.6%
MANHATTAN ASSOCIATE	29.7	USD	2,250.7							27.7	24.7		
MICROS SYSTEMS	51.4	USD	3,845.7							20.3	18.3		
ORACLE	40.9	USD	182,234.7	4.0	3.7	7.7	7.3	8.2	7.5	12.8	11.8	1.2%	1.3%
REPLY	65.5	EUR	612.6	1.0	0.8	7.3	5.9	8.0	6.5	14.2	11.9	1.4%	1.7%
SAP	55.5	EUR	66,203.7	3.9	3.6	11.0	9.8	12.1	10.8	16.2	14.9	1.9%	2.0%
SOPRA GROUP	82.0	EUR	977.1	0.8	0.7	7.8	6.7	9.1	7.7	12.3	10.9	2.3%	2.6%
SQS SOFTWARE	6.7	EUR	203.7	0.7	0.7	7.7	6.9	9.8	8.6	14.8	13.3	2.1%	2.3%
<b>Median</b>				<b>0.9</b>	<b>0.7</b>	<b>7.5</b>	<b>6.7</b>	<b>8.9</b>	<b>7.7</b>	<b>15.5</b>	<b>13.3</b>	<b>1.9%</b>	<b>2.0%</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>	56.2	56.1	0.2%	61.4	60.9	0.7%
<b>Ebitda</b>	7.1	6.8	5.0%	8.3	7.9	4.6%
<b>Net Profit</b>	5.1	4.7	8.6%	5.9	5.8	2.4%
<b>EPS</b>	0.4	0.4	-1.4%	0.5	0.5	-5.0%
<b>Net Debt</b>	10.9	10.4	4.8%	13.6	13.1	3.6%

Source: Intermonte SIM estimates and Factset consensus estimates

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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.

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OUTPERFORM: 36.99%

NEUTRAL: 41.10%

UNDERPERFORM: 3.42%

SELL: 0.00%

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OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

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- 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, Cell Therapeutics, Credito Valtellinese, Datalogic, DeA capital, Digital Bros, EL.En, ERG, Ferrovie Nord Milano,Milano, Fiera Milano, Fintel Energia Group, Gefran, GreenItaly1, IGD, Innovatec, Kinexia, Mondo TV, Primi sui Motori, QF Alpha Immobiliare, QF Beta Immobiliare, Recordati, Reno de Medici, Reply, Saes Getters, Servizi Italia, Sesa, Snai, Tamburli Investment Partners, TESMEC, TBS Group, Ternienergia, TXT e-solutions, Vittoria Assicurazioni, VRWay Communication.
- o Intermonte SIM acted as Global Coordinator in the GreenItaly1 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: GreenItaly1.
- o Intermonte SIM SpA acts as Financial Advisor to the following companies: Carraro.

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

Stock NAME	TXT e-solutions		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (€):	12.00	Previous Target (€):	12.00
Current Price (€):	9.46	Previous Price (€):	11.36
Date of report:	09/05/2014	Date of last report:	06/03/2014

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