EDISON

# TXT e-solutions

Q115 results

## Positive start to the year

Software & comp services

**TXT saw a good performance from both divisions in Q115, with a strong licensing quarter for TXT Perform and continued good demand for TXT Next's services. The outlook for both divisions is positive, and despite increased investment in R&D and setting up a Hong Kong office, we forecast margin expansion in FY15 and FY16. TXT's cash position has been strengthened by the sale of treasury shares to an investor, providing funding for the company's international expansion plans.**

| Year end | Revenue (€m) | PBT* (€m) | EPS* (€) | DPS (€) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/13** | 52.6 | 4.8 | 0.41 | 0.23 | 21.2 | 2.6 |
| 12/14** | 54.4 | 4.0 | 0.28 | 0.23 | 31.1 | 2.6 |
| 12/15e** | 59.2 | 5.1 | 0.34 | 0.24 | 25.6 | 2.8 |
| 12/16e** | 60.9 | 6.3 | 0.42 | 0.25 | 20.7 | 2.9 |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Restated to reflect bonus share issue on 18 May 2015.

## Q115 results: Strength in both divisions

TXT reported revenue growth of 4.9% y-o-y to €14.7m. TXT Perform revenues were essentially flat, although licence and maintenance revenues saw year-on-year and sequential growth. TXT Next saw strong growth of 13.6% y-o-y, with good demand from both the aerospace and banking sectors. Operating expenses were €0.2m higher than a year ago, reflecting increased R&D spending and investment in the new Hong Kong office. This resulted in EBITDA of €1.5m (10.2% margin), in line with Q114.

## Outlook and changes to forecasts

The company expects to report Q215 results in line with Q214 (ie EBITDA of c €1.4m). Based on better than expected revenues in Q115, we have raised our FY15 and FY16 revenue forecasts, although the impact is minimal at the net income level. Our EPS and DPS forecasts reflect the bonus share issue (one share for every 10 shares held) and we have also factored in the proceeds from the issue of treasury shares to Kabouter.

## Valuation: Licensing growth key to upside

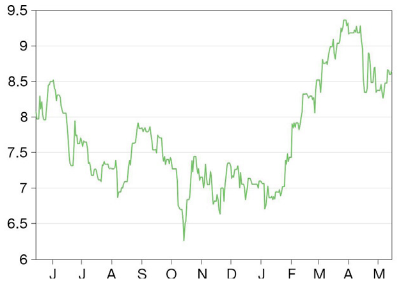
The stock trades on a P/E of 25.6x FY15e and 20.7x FY16e normalised EPS. This is a small discount to global supply chain software vendors and at a premium to European IT services companies, which is reasonable considering the split of the business. TXT has a strong cash position (bolstered by the recent sale of treasury shares) and we forecast a dividend yield of at least 2.8% for FY15 and FY16. We view FY15 as an investment year as TXT puts in place the building blocks to support growth in the medium term. Key milestones to assess progress will include a growing order backlog in North America, hiring key staff in the Hong Kong office and signing the first local customer in Asia Pacific. The company continues to assess acquisitions in the TXT Next business.

**18 May 2015**

| | |
|---|---|
| **Price** | **€8.7** |
| **Market cap** | **€103m** |

| | |
|---|---|
| Net cash (€m) at end Q115 | 12.1 |
| Shares in issue | 11.8m |
| Free float | 65% |
| Code | TXT |
| Primary exchange | Borsa Italiana (STAR) |
| Secondary exchange | N/A |

### Share price performance




| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | (3.5) | 3.9 | 7.1 |
| Rel (local) | (1.0) | (6.4) | (7.0) |
| 52-week high/low | | €9.4 | €6.3 |

### Business description

TXT e-solutions has two divisions: TXT Perform provides software solutions for supply chain management in the international retail and consumer-driven industrial sectors; and TXT Next provides IT, consulting and R&D services to Italian aerospace, high-tech manufacturing, banking and finance customers.

### Next event

| | |
|---|---|
| H115 results | 4 August 2015 |

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*TXT e-solutions is a research client of Edison Investment Research Limited*

## Review of Q115 results

**Exhibit 1: Quarterly results highlights**

| | Q114a | Q115a | Change |
|---|---|---|---|
| Revenues | 14.0 | 14.7 | 4.9% |
| TXT Perform | 8.7 | 8.6 | -0.4% |
| TXT Next | 5.3 | 6.0 | 13.6% |
| Gross margin | 52.8% | 51.6% | -1.2% |
| EBITDA | 1.5 | 1.5 | -1.9% |
| EBITDA margin | 10.9% | 10.2% | -0.7% |
| EBIT | 1.2 | 1.2 | 2.4% |
| EBIT margin | 8.7% | 8.4% | -0.2% |
| Net cash | 11.3 | 12.1 | 6.9% |

Source: TXT e-solutions

TXT saw a strong licensing quarter for TXT Perform, with licence and maintenance revenues up 6% y-o-y and up 10% q-o-q. TXT Perform service revenues were flat q-o-q and down 4% y-o-y – some large projects were completed last year and we would expect service revenues to increase from Q2 as the new licences that were signed in Q1 are implemented. TXT Next saw 13.6% revenue growth y-o-y, with continued strong demand from aerospace and banking customers. The higher mix of service revenues resulted in a lower gross margin than a year ago. Operating expenses were €0.2m higher than a year ago, mainly as a result of higher R&D spending, resulting in relatively flat EBITDA y-o-y.

## Outlook and changes to forecasts

Despite the uncertain economic environment, management expects to outgrow the market, through a combination of its stronger presence in North America and selling to its geographically diversified customer base. The company's recent marketing push in North America, (exhibiting at the NRF conference in New York in January, and hosting its own Thinking Retail summit in New York in May), is leading to increasing interest in TXT Perform's solutions from North American customers. Although none signed contracts in Q115, the company sees a strong pipeline. TXT is increasing its presence in international manufacturing (for sales and operations planning) and is in the process of opening its new Asian subsidiary in Hong Kong, all of which should help drive international sales.

Management expects to achieve similar financial results in Q215 as in Q214. This implies EBITDA in the region of €1.4m once exceptional items (€1.5m earn-out clawback and €0.4m non-recurring expenses) are excluded from Q214 results.

### Issue of bonus shares

On 18 May, TXT issued shareholders with one share for every 10 shares held. We have adjusted our historic and forecast EPS and DPS numbers to reflect the new share count.

### Shareholder investment improves net cash position

In March, an existing shareholder, Kabouter, acquired 319,000 treasury shares at €9.93 per share, resulting in proceeds of €3.2m for TXT. Kabouter held 591,000 shares (a 5.0% stake) prior to this acquisition and now holds a 7.7% stake in TXT.

## Changes to forecasts

We have reflected the higher than expected Q115 revenues and slightly increased our assumptions for Q215 revenues. Overall this leads to a 1.6% increase in FY15 revenues and 0.4% increase in FY16. Taking into account the higher mix of services (which have a lower gross margin) and the costs of setting up the Hong Kong office, estimates are broadly unchanged at the net income level. The higher share count (due to the bonus share issue) results in a cut to EPS of 8.7% in FY15 and 13.2% in FY16. Our underlying dividend per share forecast is unchanged, but has been adjusted to reflect the bonus share issue. Our net cash forecast increases to reflect the €3.2m proceeds from the sale of shares to Kabouter.

**Exhibit 2: Changes to forecasts**

| | FY15e old | FY15e new | change | y-o-y | FY16e old | FY16e new | change | y-o-y |
|---|---|---|---|---|---|---|---|---|
| Revenues (€m) | 58.3 | 59.2 | 1.6% | 8.9% | 60.7 | 60.9 | 0.4% | 2.9% |
| TXT Perform | 35.9 | 35.6 | -0.7% | 9.3% | 37.5 | 37.5 | 0.0% | 5.1% |
| TXT Next | 22.4 | 23.6 | 5.3% | 8.3% | 23.3 | 23.5 | 0.9% | -0.4% |
| Gross margin | 51.7% | 51.5% | -0.2% | | 51.7% | 51.6% | -0.1% | |
| Gross profit | 30.2 | 30.5 | 1.1% | 9.2% | 31.4 | 31.4 | 0.2% | 3.1% |
| EBITDA (€m) | 6.0 | 6.0 | 0.5% | 13.5% | 7.0 | 7.0 | 0.1% | 17.2% |
| EBITDA margin | 10.3% | 10.1% | -0.1% | | 11.6% | 11.6% | 0.0% | |
| Normalised EBIT (€m) | 5.2 | 5.2 | 0.6% | 21.0% | 6.4 | 6.4 | 0.1% | 23.9% |
| Normalised EBIT margin | 8.9% | 8.8% | -0.1% | | 10.6% | 10.6% | 0.0% | |
| Normalised net income (€m) | 4.1 | 4.1 | 0.6% | 25.8% | 5.1 | 5.1 | 0.1% | 24.3% |
| Normalised EPS (€) | 0.37 | 0.34 | -8.7% | 23.0% | 0.49 | 0.42 | -13.2% | 23.9% |
| Net cash (€m) | 10.5 | 13.6 | 29.7% | 60.3% | 12.6 | 15.7 | 24.5% | 16.0% |
| Dividend (€) | 0.26 | 0.24 | -9.1% | 4.0% | 0.27 | 0.25 | -9.1% | 3.8% |

Source: Edison Investment Research

Exhibit 3: Financial summary

| €000s | 2010 | 2011 | 2012 | 2013 | 2014 | 2015e | 2016e |
|---|---|---|---|---|---|---|---|
| Year end 31 December | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| **PROFIT & LOSS** | | | | | | | |
| Revenue | 37,458 | 40,138 | 46,499 | 52,560 | 54,378 | 59,217 | 60,933 |
| Cost of sales | (18,757) | (19,522) | (22,351) | (24,854) | (26,455) | (28,724) | (29,485) |
| Gross profit | 18,701 | 20,616 | 24,148 | 27,706 | 27,923 | 30,493 | 31,448 |
| EBITDA | 2,769 | 4,397 | 5,322 | 6,263 | 5,292 | 6,008 | 7,038 |
| Operating Profit (before amort and except) | (776) | 843 | 4,283 | 5,241 | 4,296 | 5,198 | 6,438 |
| Amortisation of acquired intangibles | 0 | 0 | 0 | (285) | (285) | (285) | (285) |
| Exceptionals and other income | 13 | (4,581) | 939 | 0 | 1,500 | 0 | 0 |
| Other income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Profit | (763) | (3,738) | 5,222 | 4,956 | 5,511 | 4,913 | 6,153 |
| Net Interest | (198) | 72 | (37) | (435) | (249) | (100) | (100) |
| Profit Before Tax (norm) | (974) | 915 | 4,246 | 4,806 | 4,047 | 5,098 | 6,338 |
| Profit Before Tax (FRS 3) | (961) | (3,666) | 5,185 | 4,521 | 5,262 | 4,813 | 6,053 |
| Tax | 255 | (591) | (188) | 121 | (1,046) | (963) | (1,211) |
| Profit After Tax (norm) | (719) | 324 | 4,092 | 4,927 | 3,243 | 4,078 | 5,071 |
| Profit After Tax (FRS 3) | (706) | (4,257) | 4,997 | 4,642 | 4,216 | 3,850 | 4,843 |
| Average Number of Shares Outstanding (m) | 11.3 | 11.1 | 11.0 | 11.5 | 11.5 | 11.7 | 11.8 |
| EPS - normalised (c) | (6) | 3 | 37 | 43 | 28 | 35 | 43 |
| EPS - normalised fully diluted (c) | (6) | 3 | 34 | 41 | 28 | 34 | 42 |
| EPS - (IFRS) (c) | 2 | 128 | 45 | 40 | 37 | 33 | 41 |
| Dividend per share (c) | 0.0 | 90.9 | 18.2 | 22.7 | 22.7 | 23.6 | 24.5 |
| Gross margin (%) | 49.9 | 51.4 | 51.9 | 52.7 | 51.3 | 51.5 | 51.6 |
| EBITDA Margin (%) | 7.4 | 11.0 | 11.4 | 11.9 | 9.7 | 10.1 | 11.6 |
| Operating Margin (before GW and except) (%) | -2.1 | 2.1 | 9.2 | 10.0 | 7.9 | 8.8 | 10.6 |
| **BALANCE SHEET** | | | | | | | |
| Fixed Assets | 14,328 | 7,735 | 18,570 | 17,850 | 18,019 | 17,543 | 17,278 |
| Intangible Assets | 11,526 | 6,561 | 16,621 | 15,370 | 15,078 | 14,583 | 14,318 |
| Tangible Assets | 1,528 | 819 | 1,154 | 1,118 | 1,249 | 1,268 | 1,268 |
| Other | 1,274 | 355 | 795 | 1,362 | 1,692 | 1,692 | 1,692 |
| Current Assets | 28,876 | 32,145 | 36,769 | 34,914 | 34,892 | 40,133 | 42,434 |
| Stocks | 793 | 661 | 1,388 | 1,451 | 1,820 | 1,820 | 1,820 |
| Debtors | 21,453 | 15,083 | 19,562 | 18,642 | 20,768 | 21,902 | 22,537 |
| Cash | 6,630 | 14,181 | 15,819 | 14,821 | 12,304 | 16,411 | 18,077 |
| Other | 0 | 2,220 | 0 | 0 | 0 | 0 | 0 |
| Current Liabilities | (17,719) | (14,049) | (20,651) | (17,864) | (17,451) | (18,799) | (19,277) |
| Creditors | (15,615) | (12,292) | (15,155) | (14,512) | (15,297) | (16,645) | (17,123) |
| Short term borrowings | (2,104) | (1,757) | (5,496) | (3,352) | (2,154) | (2,154) | (2,154) |
| Long Term Liabilities | (8,398) | (5,567) | (8,666) | (6,965) | (6,491) | (5,491) | (4,991) |
| Long term borrowings | (3,870) | (2,155) | (4,301) | (2,896) | (1,685) | (685) | (185) |
| Other long term liabilities | (4,528) | (3,412) | (4,365) | (4,069) | (4,806) | (4,806) | (4,806) |
| Net Assets | 17,087 | 20,264 | 26,022 | 27,935 | 28,969 | 33,387 | 35,444 |
| **CASH FLOW** | | | | | | | |
| Operating Cash Flow | 9,967 | 19,265 | 2,760 | 7,630 | 5,404 | 6,222 | 6,882 |
| Net Interest | (198) | 166 | (37) | (435) | (249) | (100) | (100) |
| Tax | 255 | 390 | 64 | (1,615) | (1,344) | (963) | (1,211) |
| Capex | (2,340) | (2,159) | (405) | (483) | (615) | (620) | (620) |
| Acquisitions/disposals | (137) | 2,403 | (8,450) | 19 | 0 | 0 | 0 |
| Financing | 324 | (106) | 1,690 | (755) | (597) | 3,168 | 0 |
| Dividends | 0 | (10,292) | 0 | (2,107) | (2,615) | (2,599) | (2,785) |
| Net Cash Flow | 7,871 | 9,667 | (4,378) | 2,254 | (16) | 5,108 | 2,166 |
| Opening net debt/(cash) | 7,248 | (723) | (10,266) | (6,023) | (8,575) | (8,465) | (13,572) |
| HP finance leases initiated | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 100 | (124) | 135 | 298 | (94) | 0 | 0 |
| Closing net debt/(cash) | (723) | (10,266) | (6,023) | (8,575) | (8,465) | (13,572) | (15,738) |

Source: TXT e-solutions, Edison Investment Research

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