EDISON

TXT e-solutions

Q3 results

Steady performance

Software & comp services

TXT reported another strong quarter, with Q3 revenue growth of 12% y-o-y and both businesses contributing to growth. Profitability was higher than we forecast, leading to an upgrade to FY15 EPS; we leave our FY16 forecasts unchanged. The company continues to invest in expansion into Asia Pacific; this combined with progress in the North American business should drive growth in the medium term.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/13	52.6	4.8	0.41	0.23	20.3	2.8
12/14	54.4	4.0	0.28	0.23	29.8	2.8
12/15e	60.6	5.5	0.37	0.24	22.5	2.9
12/16e	63.2	6.7	0.45	0.25	18.5	3.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q3 results: Both divisions continue to grow

TXT reported Q315 revenue growth of 12.4% y-o-y, with growth of 10% for TXT Perform and 17% for TXT Next. Licences & maintenance revenues grew 15% y-o-y and Services revenues grew 11%. Gross margins were higher than forecast (52.5% vs 51.2%) resulting in EBITDA of €1.6m (11.4% margin), €0.2m ahead of our forecast. Orders received in the nine months to end September totalled €46.9m, up 19% y-o-y. For Q3, order intake was relatively flat y-o-y. The company set up a subsidiary in Singapore in Q3, following on from the subsidiary set up in Hong Kong earlier in the year, as part of its strategy to expand into Asia Pacific and support the Duty Free Stores contract signed last quarter.

Outlook and changes to forecasts

The strong year-to-date order intake leads the company to expect a positive business development in Q4. Based on slightly stronger than expected results in Q3, we have raised our FY15 revenue and EBITDA forecasts by 0.2% and 4.5% respectively. This results in a 5.4% upgrade to normalised EPS. We leave our FY16 forecasts unchanged.

Valuation: International expansion key to upside

The stock trades on a P/E of 22.5x FY15e and 18.5x FY16e normalised EPS. This is at a 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 and we forecast a dividend yield of at least 2.9% 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, with a focus in expansion into Asia Pacific. Key milestones to assess progress will include a growing order backlog in North America, large licence deals for TXT Perform and further international deals for TXT Next. The company continues to assess acquisition targets in both businesses.

6 November 2015

Price	**€8.34**
Market cap	**€98m**

Net cash (€m) at end Q315	9.4
Shares in issue	11.7m
Free float	43%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	9.7	(0.1)	13.7
Rel (local)	8.1	7.1	(2.6)
52-week high/low		€9.36	€6.64

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

FY15 preliminary revenues	January 2016

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

Exhibit 1: 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	60,614	63,207
Cost of sales	(18,757)	(19,522)	(22,351)	(24,854)	(26,455)	(29,076)	(31,023)
Gross profit	18,701	20,616	24,148	27,706	27,923	31,538	32,184
EBITDA	2,769	4,397	5,322	6,263	5,292	6,498	7,414
Operating Profit (before amort and except)	(776)	843	4,283	5,241	4,296	5,688	6,814
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	(300)	(300)
Operating Profit	(763)	(3,738)	5,222	4,956	5,511	5,103	6,229
Net Interest	(198)	72	(37)	(435)	(249)	(150)	(100)
Profit Before Tax (norm)	(974)	915	4,246	4,806	4,047	5,538	6,714
Profit Before Tax (FRS 3)	(961)	(3,666)	5,185	4,521	5,262	4,953	6,129
Tax	255	(591)	(188)	121	(1,046)	(991)	(1,226)
Profit After Tax (norm)	(719)	324	4,092	4,927	3,243	4,431	5,371
Profit After Tax (FRS 3)	(706)	(4,257)	4,997	4,642	4,216	3,963	4,903
Average Number of Shares Outstanding (m)	11.3	11.1	11.0	11.5	11.5	11.7	11.7
EPS - normalised (c)	(6)	3	37	43	28	38	46
EPS - normalised fully diluted (c)	(6)	3	34	41	28	37	45
EPS - (IFRS) (c)	2	128	45	40	37	34	42
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	52.0	50.9
EBITDA Margin (%)	7.4	11.0	11.4	11.9	9.7	10.7	11.7
Operating Margin (before GW and except) (%)	-2.1	2.1	9.2	10.0	7.9	9.4	10.8
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	38,216	41,646
Stocks	793	661	1,388	1,451	1,820	2,000	2,100
Debtors	21,453	15,083	19,562	18,642	20,768	23,083	23,897
Cash	6,630	14,181	15,819	14,821	12,304	13,133	15,648
Other	0	2,220	0	0	0	0	0
Current Liabilities	(17,719)	(14,049)	(20,651)	(17,864)	(17,451)	(17,988)	(18,710)
Creditors	(15,615)	(12,292)	(15,155)	(14,512)	(15,297)	(17,034)	(17,756)
Short term borrowings	(2,104)	(1,757)	(5,496)	(3,352)	(2,154)	(954)	(954)
Long Term Liabilities	(8,398)	(5,567)	(8,666)	(6,965)	(6,491)	(4,791)	(4,791)
Long term borrowings	(3,870)	(2,155)	(4,301)	(2,896)	(1,685)	15	15
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	32,981	35,422
CASH FLOW							
Operating Cash Flow	9,967	19,265	2,760	7,630	5,404	5,740	7,222
Net Interest	(198)	166	(37)	(435)	(249)	(150)	(100)
Tax	255	390	64	(1,615)	(1,344)	(991)	(1,226)
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)	2,349	0
Dividends	0	(10,292)	0	(2,107)	(2,615)	(2,599)	(2,761)
Net Cash Flow	7,871	9,667	(4,378)	2,254	(16)	3,730	2,515
Opening net debt/(cash)	7,248	(723)	(10,266)	(6,023)	(8,575)	(8,465)	(12,194)
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)	(12,194)	(14,709)

Source: TXT e-solutions, Edison Investment Research

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