

TXT e-solutions

Q117 results

Making progress in North America and Asia

TXT reported strong organic revenue growth in Q117, with 14% growth for TXT Retail and 8% growth for TXT Next. Our forecasts are substantially unchanged. TXT continues to internationalise both businesses and we believe it could make further bolt-on acquisitions in the TXT Next business. In Italy, the recently introduced individual savings account scheme (PIR) is driving up demand for TXT's shares, and in our view this is the main driver of the share price outperformance year-to-date.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	61.5	5.7	0.40	0.25	32.5	1.9
12/16	69.2	8.1	0.55	0.30	23.6	2.3
12/17e	75.2	8.0	0.53	0.32	24.5	2.5
12/18e	78.5	8.8	0.59	0.33	22.0	2.5

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

Q1 results show good organic growth

TXT reported Q1 revenue growth of 25% y-o-y, of which 11% was organic. TXT Retail grew 14% y-o-y, with software revenues +20% and services revenues +11%. TXT Next grew 38% or 8% excluding the €1.9m contributed by PACE. International revenues made up 59.0% of the total, up from 51.5% a year ago and flat versus Q416. Adjusted EBITDA of €1.6m was 11.5% higher than a year ago, with a margin of 8.8%. The company ended Q117 with net cash of €8.8m (end FY16 €5.4m). TXT Retail continues to make good progress in North America and Asia, with a significant licence sale in the US to The Finish Line (a sports retailer) and a contract with a Hong Kong retailer.

Positive outlook; forecasts substantially unchanged

For Q217, the company expects a positive development in revenues and profits. We have revised our revenue forecasts up marginally in FY17 and FY18 to reflect the Q1 performance. With a slight mix shift toward services, this results in substantially unchanged gross profits and EPS.

Valuation: Technical issues drive share price

The stock has performed exceptionally well in recent months, up 72% year-to-date and 28% in the last month. The recent introduction of the PIR individual savings scheme in Italy, which allows mutual funds held for five years to earn returns tax free, has boosted investment in Italian small and mid-cap stocks. We believe that the combination of growth, profitability, dividend payout and strong cash position has made TXT an attractive proposition, boosting liquidity in the stock and driving up the share price. The stock is now trading more in line with its software peers, despite the significant services business in both divisions. To bring the stock price more in line with fundamentals, we would need to see strong growth in licensing in North America and Asia for TXT Retail and good cross-selling to PACE's customer base within in TXT Next.

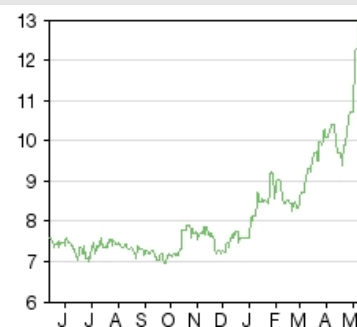
Software & comp services

11 May 2017

Price €12.99
Market cap €152m

Net cash (€m) at end Q117	8.8
Shares in issue	11.7m
Free float	45.5%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	26.1	54.1	70.5
Rel (local)	18.4	33.7	40.5
52-week high/low		€13.0	€7.0

Business description

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

Next events

H117 results	3 August
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TXT e-solutions is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	€'000s	2012	2013	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		46,499	52,560	54,410	61,540	69,152	75,206	78,462
Cost of sales		(22,351)	(24,854)	(26,455)	(29,189)	(32,039)	(34,637)	(36,162)
Gross profit		24,148	27,706	27,955	32,351	37,113	40,569	42,300
EBITDA		5,322	6,263	5,324	6,659	8,715	8,601	9,460
Operating Profit (before amort and except)		4,283	5,241	4,284	5,820	7,955	7,862	8,721
Amortisation of acquired intangibles		0	(285)	(285)	(285)	(549)	(637)	(637)
Exceptionals and other income		939	0	1,468	0	(500)	0	0
Other income		0	0	0	(740)	0	(500)	(500)
Operating Profit		5,222	4,956	5,467	4,795	6,906	6,725	7,584
Net Interest		(37)	(435)	(249)	(151)	105	100	100
Profit Before Tax (norm)		4,246	4,806	4,035	5,669	8,060	7,962	8,821
Profit Before Tax (FRS 3)		5,185	4,521	5,218	4,644	7,011	6,825	7,684
Tax		(188)	121	(1,046)	(762)	(1,456)	(1,501)	(1,690)
Profit After Tax (norm)		4,092	4,927	3,226	4,739	6,386	6,210	6,880
Profit After Tax (FRS 3)		4,997	4,642	4,172	3,882	5,555	5,323	5,993
Average Number of Shares Outstanding (m)		11.0	11.5	11.5	11.7	11.7	11.7	11.7
EPS - normalised (c)		37	43	28	41	55	53	59
EPS - normalised fully diluted (c)		34	41	28	40	55	53	59
EPS - (IFRS) (c)		45	40	36	33	48	46	51
Dividend per share (c)		18.2	22.7	22.7	25.0	30.0	32.0	33.0
Gross margin (%)		51.9	52.7	51.4	52.6	53.7	53.9	53.9
EBITDA Margin (%)		11.4	11.9	9.8	10.8	12.6	11.4	12.1
Operating Margin (before GW and except) (%)		9.2	10.0	7.9	9.5	11.5	10.5	11.1
BALANCE SHEET								
Fixed Assets		18,570	17,850	18,019	18,132	25,428	24,672	23,916
Intangible Assets		16,621	15,370	15,078	14,692	21,296	20,590	19,884
Tangible Assets		1,154	1,118	1,249	1,361	1,598	1,548	1,498
Other		795	1,362	1,692	2,079	2,534	2,534	2,534
Current Assets		36,769	34,914	34,892	38,946	37,085	41,464	47,070
Stocks		1,388	1,451	1,820	2,075	3,146	3,246	3,346
Debtors		19,562	18,642	20,768	27,791	26,369	28,846	30,095
Cash		15,819	14,821	12,304	9,080	7,570	9,372	13,628
Other		0	0	0	0	0	0	0
Current Liabilities		(20,651)	(17,864)	(17,451)	(18,349)	(21,051)	(22,347)	(24,432)
Creditors		(15,155)	(14,512)	(15,297)	(17,528)	(20,243)	(21,539)	(23,624)
Short term borrowings		(5,496)	(3,352)	(2,154)	(821)	(808)	(808)	(808)
Long Term Liabilities		(8,666)	(6,965)	(6,491)	(5,105)	(7,180)	(7,180)	(7,180)
Long term borrowings		(4,301)	(2,896)	(1,685)	0	(1,391)	(1,391)	(1,391)
Other long term liabilities		(4,365)	(4,069)	(4,806)	(5,105)	(5,789)	(5,789)	(5,789)
Net Assets		26,022	27,935	28,969	33,624	34,282	36,609	39,374
CASH FLOW								
Operating Cash Flow		2,760	7,630	5,404	2,412	10,676	7,919	10,196
Net Interest		(37)	(435)	(249)	(151)	105	100	100
Tax		64	(1,615)	(1,344)	(1,461)	(2,022)	(1,501)	(1,690)
Capex		(405)	(483)	(615)	(763)	(738)	(620)	(620)
Acquisitions/disposals		(8,450)	19	0	0	(5,403)	(600)	0
Financing		1,690	(755)	(597)	2,215	(828)	0	0
Dividends		0	(2,107)	(2,615)	(2,678)	(2,931)	(3,496)	(3,729)
Net Cash Flow		(4,378)	2,254	(16)	(426)	(1,141)	1,802	4,257
Opening net debt/(cash)		(10,266)	(6,023)	(8,575)	(8,465)	(8,259)	(5,371)	(7,173)
HP finance leases initiated		0	0	0	0	0	0	0
Other		135	298	(94)	220	(1,747)	0	0
Closing net debt/(cash)		(6,023)	(8,575)	(8,465)	(8,259)	(5,371)	(7,173)	(11,429)

Source: TXT e-solutions, Edison Investment Research

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