

# TXT e-Solutions

Q113 results

## Targeting North American growth

**TXT reported Q113 results broadly in line with our expectations. Revenues grew on an organic basis for both businesses and were further boosted by the addition of Maple Lake. While the market environment remains tough in Europe, North American growth prospects are more promising, and the company has strengthened its sales team in the region. The outlook points to continued growth in Q2 and we leave our forecasts unchanged. The stock continues to trade at a discount to peers.**

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/11	40.1	0.9	0.06	2.00**	148.3	22.5
12/12	46.5	4.4	0.77	0.40	11.6	4.5
12/13e	56.0	5.4	0.73	0.22	12.2	2.5
12/14e	60.9	7.5	1.01	0.30	8.8	3.4

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

## Q113 results: Organic and acquisition growth

TXT grew Q1 revenues 13.8% y-o-y, with organic growth of 2.2%. Both businesses grew organically (Perform +1.4%, Next +3.1%), with Maple Lake driving total TXT Perform growth to 22.7% y-o-y. The higher mix of software boosted gross margins (52.5% vs 51.3% in Q112 and 49.5% in Q412). As expected, TXT increased investment in R&D and sales and marketing, with a particular focus on driving growth in North America, resulting in an operating margin of 8.5% (vs 10.7% in Q112). Net cash increased to €10.3m by the end of Q113.

## Investing in product development and sales capacity

During Q113, the company launched several new products, including TXT on Cloud, which enables customers to deploy TXT software on Microsoft and Amazon cloud platforms. To accelerate growth in North America, the company hired a sales director and business development manager. The sales pipeline has improved over the quarter, although Europe remains a tough market. While the timing of new license deals continues to be uncertain, the order backlog for maintenance and services supports growth in Q2. We leave our forecasts unchanged.

## Valuation: Discount to peers

TXT trades on a P/E of 12.2x FY13e and 8.8x FY14e normalised EPS, which is at a discount to peers. In our view, this is not justified based on the company's growth, profitability and dividend yield prospects, and we see scope for upside to at least 10x FY14e EPS (€10.1). Triggers for share price appreciation include continued strong contract wins in TXT Perform and TXT Next, evidence of improving operating profitability, smooth integration of Maple Lake and that the Maple Lake acquisition is leading to enhanced sales opportunities in both Europe and North America.

## Software & comp services

10 May 2013

**Price** €8.9

**Market cap** €53m

Net cash as at end FY12 €6.0m

Shares in issue 5.9m

Free float 71%

Code TXT

Primary exchange Borsa Italiana (STAR)

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 16.7 28.0 75.1

Rel (local) 6.1 23.9 42.8

52-week high/low 9.2p 4.7p

## 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 events

H113 results August 2013

## Analysts

Katherine Thompson +44 (0)20 3077 5730

Dan Ridsdale +44 (0)20 3077 5729

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

## Review of Q113 results

TXT grew Q113 revenues 13.8% y-o-y, with 22.7% growth in TXT Perform and 3.1% growth in TXT Next. Excluding the Maple Lake acquisition, TXT Perform grew 2.2% y-o-y. On a sequential basis, TXT Perform grew 6.5% and TXT Next 6.8%. The original TXT Perform business grew 8.4% q-o-q and the Maple Lake business grew 1% q-o-q. With licences and maintenance revenues making up a slightly higher proportion of revenues versus Q112, gross margins increased by 127bp y-o-y. Operating expenses reflected higher investment in R&D (which is all expensed) and investment in sales and marketing to capitalise on the Maple Lake acquisition. Good working capital management resulted in a net cash position of €10.3m at the end of Q1, up from €6.0m at the end of FY12. Available net cash is €7.5m taking into account the €2.8m contingent consideration for Maple Lake.

### Exhibit 1: Q1 results highlights

€m	Q113	Q112	Change
Revenues	13.2	11.6	13.8%
TXT Perform	7.8	6.4	22.7%
TXT Next	5.4	5.2	3.1%
Gross margin	52.5%	51.3%	1.3%
EBITDA	1.5	1.5	0.2%
EBITDA margin	11.0%	12.5%	-1.5%
EBIT	1.1	1.2	-9.8%
EBIT margin	8.5%	10.7%	-2.2%
Net cash	10.3	14.8	-30.4%

Source: TXT e-Solutions

## Business update

### Product launches

At the National Retail Federation's conference in New York in January, TXT launched the latest version of its integrating planning solution, TXTPlanning 5.0. This includes TXTPlanning Lite Client, which provides integrated online/offline working for mobile workers.

At TXT's Thinking Retail conference, held in London in March, the TXT Perform business announced the launch of TXT on Cloud: both TXTPlanning and TXTPLM can now be deployed on Microsoft's Azure platform or Amazon's AWS platform. This reduces the customer's need for hardware investment, increases scalability, and helps customers interact across different geographies.

### Strengthening the North American salesforce

In March, TXT hired a new sales director for North America and a head of Business Development for the region. They both have experience from retail-focused supply chain software companies.

**Exhibit 2: Financial summary**

	€'000s	2010	2011	2012	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		37,458	40,138	46,499	55,952	60,914
Cost of sales		(18,757)	(19,522)	(22,366)	(25,584)	(26,995)
Gross profit		18,701	20,616	24,133	30,367	33,919
EBITDA		2,769	4,397	5,320	6,525	8,519
Operating Profit (before amort and except)		(776)	843	4,258	5,525	7,519
Amortisation of acquired intangibles		0	0	0	(500)	(500)
Exceptionals and other income		13	(4,581)	924	0	0
Other income		0	0	0	0	0
Operating Profit		(763)	(3,738)	5,182	5,025	7,019
Net Interest		(198)	72	130	(100)	0
Profit Before Tax (norm)		(974)	915	4,388	5,425	7,519
Profit Before Tax (FRS 3)		(961)	(3,666)	5,312	4,925	7,019
Tax		255	(591)	(176)	(1,231)	(1,755)
Profit After Tax (norm)		(719)	324	4,243	4,069	5,639
Profit After Tax (FRS 3)		(706)	(4,257)	5,136	3,694	5,264
Average Number of Shares Outstanding (m)		5.1	5.1	5.0	5.1	5.1
EPS - normalised (c)		(14)	6	85	79	110
EPS - normalised fully diluted (c)		(13)	6	77	73	101
EPS - (IFRS) (c)		4	281	103	72	103
Dividend per share (c)		0.00	200.00	40.00	22.00	30.00
Gross margin (%)		49.9%	51.4%	51.9%	54.3%	55.7%
EBITDA Margin (%)		7.4	11.0	11.4	11.7	14.0
Operating Margin (before GW and except) (%)		-2.1	2.1	9.2	9.9	12.3
<b>BALANCE SHEET</b>						
Fixed Assets		14,328	7,735	21,815	20,816	19,816
Intangible Assets		11,526	6,561	19,866	18,767	17,667
Tangible Assets		1,528	819	1,154	1,254	1,354
Other		1,274	355	795	795	795
Current Assets		28,876	32,145	36,769	42,240	47,479
Stocks		793	661	1,388	1,200	1,200
Debtors		21,453	15,083	19,562	22,994	25,033
Cash		6,630	14,181	15,819	18,046	21,246
Other		0	2,220	0	0	0
Current Liabilities		(17,719)	(14,049)	(20,631)	(24,927)	(26,571)
Creditors		(15,615)	(12,292)	(15,135)	(19,431)	(21,075)
Short term borrowings		(2,104)	(1,757)	(5,496)	(5,496)	(5,496)
Long Term Liabilities		(8,398)	(5,567)	(11,770)	(10,370)	(8,970)
Long term borrowings		(3,870)	(2,155)	(4,301)	(4,301)	(4,301)
Other long term liabilities		(4,528)	(3,412)	(7,469)	(6,069)	(4,669)
Net Assets		17,087	20,264	26,183	27,759	31,754
<b>CASH FLOW</b>						
Operating Cash Flow		9,967	19,265	3,734	6,177	8,124
Net Interest		(198)	166	188	(100)	0
Tax		255	390	(176)	(1,231)	(1,755)
Capex		(2,340)	(2,159)	(822)	(500)	(500)
Acquisitions/disposals		(137)	2,403	(8,700)	0	(1,400)
Financing		324	(106)	1,501	0	0
Dividends		0	(10,292)	0	(2,120)	(1,269)
Net Cash Flow		7,871	9,667	(4,275)	2,226	3,200
Opening net debt/(cash)		7,248	(723)	(10,266)	(6,023)	(8,249)
HP finance leases initiated		0	0	0	0	0
Other		100	(124)	32	(0)	0
Closing net debt/(cash)		(723)	(10,266)	(6,023)	(8,249)	(11,449)

Source: TXT e-Solutions, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Berlin, Sydney and Wellington. Edison is authorised and regulated by the Financial Services Authority ([www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584](http://www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is not regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2013 Edison Investment Research Limited. All rights reserved. This report has been commissioned by TXT e-Solutions and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is not registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE [2013]. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.