

TXT e-solutions

Q3 results

Good performance

In Q313, TXT reported a strong licensing quarter for TXT Perform (with new customers signed in North America and Europe) and a respectable performance from TXT Next. We have revised our FY13 forecasts to reflect the strong Q3, driving an EPS uplift of 5.4%. For FY14, on lower gross margin assumptions, we reduce EPS by 9.6%. Recent strong share price performance means TXT is trading closer to its peers; upside from here will depend on increased licensing momentum and improving margins.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/11	40.1	0.9	0.06	2.00**	288.3	11.6
12/12	46.5	4.4	0.77	0.40	22.5	2.3
12/13e	52.5	5.1	0.76	0.22	22.8	1.3
12/14e	56.5	5.9	0.78	0.30	22.2	1.7

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

Q313: Strong licence sales in TXT Perform

TXT reported strong Q313 revenue growth of 25.3% y-o-y: 36.4% growth in TXT Perform (some attributable to last year's Maple Lake acquisition) and 9.8% growth in TXT Next. The TXT Perform business benefited from the signing of several major licence deals: two in the US (Thirty-One Gifts, Samsonite), one in Canada (Holt Renfrew) and two in Europe (Sephora, Delsey), despite the weak retail market in Europe and economic uncertainty in the US. This should drive higher maintenance and service revenues in the following quarters as the software is implemented. EBITDA of €1.6m grew 30% y-o-y to a margin of 12.1% (+48bp y-o-y). Normalised net income of €0.7m fell 7% y-o-y due to higher interest expense. The company is calling an EGM on 17 December to approve a one-for-one stock split.

Changes to estimates

We have raised our FY13 revenue forecast by 1.1% to reflect stronger TXT Perform licensing in Q3, driving a 4.9% increase in EBIT and a 5.4% increase in EPS. Our FY14 revenue forecast is substantially unchanged, but we have revised down our gross margin assumptions based on margins achieved ytd – this drives a 9.7% reduction in EBIT and a 9.6% reduction in EPS. We have revised our cash flow assumptions to reflect the fact that TXT no longer expects to pay the previously recorded €2.8m in contingent consideration relating to the Maple Lake acquisition. We forecast net cash of €8.5m by end FY13 rising to €11.8m by end FY14.

Valuation: Closing the gap

After gaining 170% year to date, TXT trades on a P/E of 22.8x FY13e and 22.2x FY14e normalised EPS. This is at a small discount to supply chain software vendors and at a premium to European IT services companies. To see upside from this point, we would need to see evidence that the Maple Lake acquisition is leading to enhanced sales opportunities in both Europe and North America, that demand from the European retail market is recovering, and that operating profitability is improving.

Software & comp services

11 November 2013

Price €17.3

Market cap €92m

Net cash at end H113 (€m) 6.8

Shares in issue 5.3m

Free float 77%

Code TXT

Primary exchange Borsa Italiana (STAR)

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	30.6	61.5	165.0
Rel (local)	25.8	46.0	111.8
52-week high/low		€17.32	€6.2

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

EGM 17 December 2013

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Exhibit 1: Financial summary

	€'000s	2010	2011	2012	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		37,458	40,138	46,499	52,535	56,549
Cost of sales		(18,757)	(19,522)	(22,366)	(24,899)	(25,991)
Gross profit		18,701	20,616	24,133	27,636	30,558
EBITDA		2,769	4,397	5,320	6,313	7,008
Operating Profit (before amort and except)		(776)	843	4,258	5,313	6,008
Amortisation of acquired intangibles		0	0	0	(400)	(400)
Exceptionals and other income		13	(4,581)	924	0	0
Other income		0	0	0	0	0
Operating Profit		(763)	(3,738)	5,182	4,913	5,608
Net Interest		(198)	72	130	(200)	(100)
Profit Before Tax (norm)		(974)	915	4,388	5,113	5,908
Profit Before Tax (FRS 3)		(961)	(3,666)	5,312	4,713	5,508
Tax		255	(591)	(176)	(707)	(1,377)
Profit After Tax (norm)		(719)	324	4,243	4,346	4,431
Profit After Tax (FRS 3)		(706)	(4,257)	5,136	4,006	4,131
Average Number of Shares Outstanding (m)		5.1	5.1	5.0	5.2	5.2
EPS - normalised (c)		(14)	6	85	83	85
EPS - normalised fully diluted (c)		(13)	6	77	76	78
EPS - (IFRS) (c)		4	281	103	76	79
Dividend per share (c)		0.00	200.00	40.00	22.00	30.00
Gross margin (%)		49.9%	51.4%	51.9%	52.6%	54.0%
EBITDA Margin (%)		7.4	11.0	11.4	12.0	12.4
Operating Margin (before GW and except) (%)		-2.1	2.1	9.2	10.1	10.6
BALANCE SHEET						
Fixed Assets		14,328	7,735	21,815	18,689	17,789
Intangible Assets		11,526	6,561	19,866	16,640	15,640
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	37,090	42,051
Stocks		793	661	1,388	1,200	1,200
Debtors		21,453	15,083	19,562	21,590	23,239
Cash		6,630	14,181	15,819	14,301	17,611
Other		0	2,220	0	0	0
Current Liabilities		(17,719)	(14,049)	(20,631)	(19,480)	(21,710)
Creditors		(15,615)	(12,292)	(15,135)	(16,984)	(18,214)
Short term borrowings		(2,104)	(1,757)	(5,496)	(2,496)	(3,496)
Long Term Liabilities		(8,398)	(5,567)	(8,986)	(7,986)	(6,986)
Long term borrowings		(3,870)	(2,155)	(4,301)	(3,301)	(2,301)
Other long term liabilities		(4,528)	(3,412)	(4,685)	(4,685)	(4,685)
Net Assets		17,087	20,264	28,967	28,313	31,144
CASH FLOW						
Operating Cash Flow		9,967	19,265	3,734	6,323	6,588
Net Interest		(198)	166	188	(200)	(100)
Tax		255	390	(176)	(707)	(1,377)
Capex		(2,340)	(2,159)	(822)	(500)	(500)
Acquisitions/disposals		(137)	2,403	(8,700)	0	0
Financing		324	(106)	1,501	(315)	0
Dividends		0	(10,292)	0	(2,120)	(1,301)
Net Cash Flow		7,871	9,667	(4,275)	2,481	3,311
Opening net debt/(cash)		7,248	(723)	(10,266)	(6,023)	(8,504)
HP finance leases initiated		0	0	0	0	0
Other		100	(124)	32	0	0
Closing net debt/(cash)		(723)	(10,266)	(6,023)	(8,504)	(11,814)

Source: TXT e-Solutions and Edison Investment Research

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