

TXT e-solutions

OUTPERFORM

Price (Eu):

16.97

Target Price (Eu):

20.00

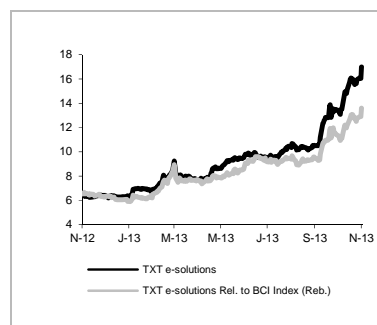
SECTOR: Industrials

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Positive Quarterly Results, Very Solid Growth Opportunities Ahead

- Quarterly revenues and margins well above our estimates.** In 3Q13, TXT's revenues came to Eu13.3mn, up 25.3% YoY (above preliminary figures disclosed). In 9M13, growth was driven by TXT's Perform division (+25.4% YoY) and by the sale of licences and maintenance contracts (+31.9% YoY). International revenues went up by 22.4% YoY, reaching 54% of total revenues. EBITDA came to Eu1.6mn in 3Q13, up 30.6% and 19.5% above our estimate. The margin on sales was 12.0%, up 50bps YoY due to an improved revenue mix and a stronger contribution margin from licences. Net profit fell by 7.3% YoY to Eu0.7mn and came out below our estimate due to higher than expected net financial charges and income tax. Net of the Eu2.8mn provision payable as a maximum earn-out to the sellers of Maple Lake, with no more due, net cash decreased from Eu6.9mn as at June 2013 to Eu6.3mn as at September 2013, penalised by an increase in days receivables outstanding.
- Encouraging company outlook, 2014-16 business plan to be presented in December.** The company stated: "the order book and ongoing negotiations for the sale of TXT Perform solutions and of TXT Next services are good and support a positive development of the business in the last quarter of 2013, despite the persistence of instability and recession in many markets". The BoD also discussed strategies and growth options on the basis of a detailed analysis of market potential and competition, confirming that TXT has opportunities for significant growth in revenues and profitability once the difficult economic climate improves. In our opinion, the major opportunity is in the US where, in 2012, TXT acquired Maple Lake, a leading vendor of integrated retail planning solutions.
- Estimates unchanged: we forecast double-digit growth in revenues and margins.** We forecast that TXT's revenues will increase to Eu61.1mn in 2015, posting a 2012-15 CAGR of 9.6%, driven by TXT Perform. EBITDA is expected to increase faster than revenues; margins should improve by 190bps to 13.3% between 2012 and 2015, benefiting from a more profitable revenues mix (where licences and maintenance will have greater weight) and some economies of scale (on R&D expenses and commercial costs, as Maple Lake has been fully integrated). FCF generation is expected to come to Eu5.4mn on average per year, lifting the net cash position to Eu14.5mn at the end of 2015.
- OUTPERFORM reaffirmed, target price lifted to Eu20.0 per share.** We reiterate our positive view on the stock as: i) the focus on luxury, fashion and specialist retail, among the most dynamic sectors, will provide significant growth opportunities to TXT Perform; ii) the TXT Next business is stable and constantly generates positive cashflow; iii) a cash-positive balance sheet grants room to ensuring shareholder remuneration through dividends and share buybacks. Our updated valuation, based on a DCF model and backed by a peer multiples comparison, yields a fair value of Eu20.0 per share.

TXT e-solutions - 12m Performance


 Eu/USD: 1.33 2013; 1.35 2014 1.33
 2015

RATING: Unchanged

TARGET PRICE (Eu): from 15.00 to 20.00

 Change in EPS est: 2013E 2014E
 -0.7% 0.8%

STOCK DATA

 Reuters code: TXTS.MI
 Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	26.1%	63.8%	159.7%
Relative	20.1%	50.6%	134.8%
12 months H/L:	16.97/6.20		

SHAREHOLDER DATA

No. of Ord. shares (mn):	6
Total No. of shares (mn):	6
Mkt Cap Ord (Eu mn):	100
Total Mkt Cap (Eu mn):	100
Mkt Float - ord (Eu mn):	44
Mkt Float (in %):	43.6%
Main shareholder:	
E-Business Consulting	26.4%

BALANCE SHEET DATA

	2013
Book value (Eu mn):	30
BVPS (Eu):	5.14
P/BV:	3.3
Net Financial Position (Eu mn):	7
Enterprise value (Eu mn):	93

Key Figures	2011A	2012A	2013E	2014E	2015E
Sales (Eu mn)	40	46	52	56	61
Ebitda (Eu mn)	2	5	6	7	8
Net profit (Eu mn)	14	5	4	5	6
EPS - New (Eu)	-0.834	0.916	0.715	0.775	0.931
EPS - Old (Eu)	-0.834	0.916	0.719	0.769	0.926
DPS (Eu)	0.000	0.356	0.236	0.256	0.307
Ratios & Multiples	2011A	2012A	2013E	2014E	2015E
P/E	nm	18.5	23.7	21.9	18.2
Div. Yield	0.0%	2.1%	1.4%	1.5%	1.8%
EV/Ebitda	35.4	18.3	15.1	12.6	10.6
ROCE	-8.9%	27.7%	21.5%	26.1%	31.2%

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TXT e-solutions - KEY FIGURES

	2011A	2012A	2013E	2014E	2015E	
	12/12/2011	12/12/2012	12/12/2013	12/12/2014	12/12/2015	
Fiscal year end						
PROFIT & LOSS (Eu mn)	Sales	40	46	52	56	61
	EBITDA	2	5	6	7	8
	EBIT	(1)	4	5	6	7
	Financial income (charges)	(3)	1	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(4)	5	5	6	7
	Taxes	(1)	(0)	(1)	(2)	(2)
	Tax rate (%)	-16.1%	3.7%	15.0%	25.0%	25.0%
	Minorities & discontinue activities	18	1	0	0	0
	Net profit	14	5	4	5	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	2	5	6	7	8
	Ebit excl. extraordinary items	(1)	4	5	6	7
	Net profit restated	(4)	5	4	5	6
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	3	6	6	6	6
	EPS stated fd	5.116	0.869	0.715	0.775	0.931
	EPS restated fd	-0.834	0.916	0.715	0.775	0.931
	BVPS fd	3.972	5.225	5.140	5.679	6.354
	Dividend per share (ord)	0.000	0.356	0.236	0.256	0.307
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	41.0%	33.0%	33.0%	33.0%
CASH FLOW (Eu mn)	Gross cash flow	15	5	5	6	7
	Change in NWC	3	(1)	(1)	0	(1)
	Capital expenditure	(2)	(1)	(1)	(1)	(1)
	Other cash items	(2)	(3)	3	0	0
	Free cash flow (FCF)	13	0	6	5	5
	Acquisitions, divestments & others	0	(11)	0	0	0
	Dividend	0	0	(2)	(1)	(2)
	Equity financing/Buy-back	(0)	1	(0)	0	0
	Change in Net Financial Position	13	(9)	4	4	4
BALANCE SHEET (Eu mn)	Total fixed assets	8	22	21	21	21
	Net working capital	3	5	5	5	6
	Long term liabilities	(3)	(3)	(3)	(4)	(4)
	Net capital employed	8	23	23	23	23
	Net financial position	12	3	7	11	14
	Group equity	20	26	30	34	38
	Minorities	0	0	0	0	0
	Net equity	20	26	30	34	38
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	100	100	100	100	100
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	12	3	7	11	14
	Enterprise value	88	97	93	89	86
RATIOS(%)	EBITDA margin*	6.2%	11.4%	11.8%	12.7%	13.3%
	EBIT margin*	nm	9.1%	9.5%	10.7%	11.7%
	Gearing - Debt/equity	-61.6%	-12.4%	-23.0%	-32.5%	-38.5%
	Interest cover on EBIT	nm	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	-8.9%	27.7%	21.5%	26.1%	31.2%
	ROE*	76.0%	22.1%	14.9%	14.3%	15.5%
	EV/CE	7.3	6.3	4.0	3.9	3.8
	EV/Sales	2.2	2.1	1.8	1.6	1.4
	EV/Ebit	nm	22.9	18.8	14.9	12.0
	Free Cash Flow Yield	13.2%	0.5%	6.0%	5.3%	5.0%
GROWTH RATES (%)	Sales	7.2%	15.8%	12.5%	7.0%	9.2%
	EBITDA*	-10.8%	114.0%	16.2%	15.2%	14.5%
	EBIT*	nm	nm	17.1%	20.8%	18.8%
	Net profit	7101.0%	-63.8%	-17.8%	8.4%	20.1%
	EPS restated	nm	nm	-22.0%	8.4%	20.1%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

TXT - Quarterly results preview

(Eu mn)	3Q12A	3Q13A	YoY	3Q13E	A vs E	9M12A	9M13A	YoY	2012A	2013A	YoY
Total revenues	10.6	13.3		12.7	4.8%	34.1	39.6	16.2%	46.7	52.4	12.2%
<i>YoY growth</i>	15.6%	25.3%		19.6%		13.1%	16.2%		20.2%	12.2%	
Gross Profit	5.7	7.0	21.7%	7.1	-2.1%	18.0	20.8	15.8%	24.1	27.3	13.2%
gross margin	53.8%	52.3%		56.0%		52.8%	52.6%		51.9%	52.3%	
EBITDA IFRS	1.2	1.6	30.6%	1.4	19.5%	4.4	4.8	9.2%	5.3	6.2	16.2%
EBITDA margin	11.5%	12.0%		11.4%		13.5%	12.3%		11.7%	12.1%	
Depreciation and amortization <i>on revenues</i>	(0.3)	(0.4)		(0.3)		(0.7)	(0.9)		(1.1)	(1.2)	
	-2.5%	-2.7%		-2.4%		-2.2%	-2.4%		2.3%	2.4%	
EBIT IFRS	1.0	1.3	28.8%	1.1	19.6%	3.6	3.8	5.5%	4.2	5.0	17.1%
EBIT margin	9.0%	9.4%		8.8%		11.2%	9.8%		9.4%	9.8%	
Financial income and charges	0.1	(0.2)		(0.0)		0.2	(0.3)		0.5	0.0	
Pre-tax profit	1.0	1.0	-0.7%	1.0	2.3%	3.9	3.5	-9.3%	4.8	5.0	4.4%
Income taxes	(0.3)	(0.3)		(0.2)		(0.8)	(0.6)		(0.2)	(0.7)	
<i>tax rate</i>	-24.5%	-29.4%		-22.2%		-20.3%	-17.6%		-3.7%	-15.0%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0		0.6	0.0	
Net profit	0.8	0.7	-7.3%	0.8	-7.3%	3.1	2.9	-6.2%	5.1	4.2	-17.8%
<i>YoY growth</i>	-127.6%	-7.3%		6.6%		-81.4%	-6.2%		-63.8%	-17.8%	

Source: Company data (A) and Intermonte SIM estimates (E)

Estimates

TXT - Change in estimates

(Eu mn)	2012A	2013E	2014E	2015E
Sales new	45.2	50.8	54.4	59.4
Sales old		49.7	54.3	59.3
% change		2.1%	0.2%	0.3%
EBITDA new	5.3	6.2	7.1	8.1
EBITDA old		6.2	7.1	8.1
% change		-0.5%	0.7%	0.4%
EBIT new	4.2	5.0	6.0	7.1
EBIT old		5.0	6.0	7.1
% change		-0.7%	0.8%	0.5%
PBT new	4.8	5.0	6.1	7.3
PBT old		5.0	6.1	7.3
% change		-0.7%	0.8%	0.5%
Net profit new	5.1	4.2	4.6	5.5
Net profit old		4.3	4.5	5.5
% change		-0.7%	0.8%	0.5%
Net cash new	3.2	7.0	10.9	14.5
Net cash old		5.1	8.6	12.2
% change		37.2%	26.1%	18.6%

Source: Intermonte SIM estimates

Valuation

Our valuation is based on a discounted cash flow (DCF) model; as a sanity check we have also done a comparison with peer multiples.

TXT is showing potential upside of 19.8% from the current share price of Eu16.7. At our target (Eu20.0 per share), the stock would be trading at 21.5x P/E, 13.2x EV/EBITDA and 1.8x EV/sales based on our 2015 estimates.

Further upside to our valuation might come from higher than forecast growth in revenues from licences and maintenance, quicker than expected improvements in profitability, or re-leverage of the balance sheet.

TXT - DCF model

(Eu mn)	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	TV
Sales	37.6	45.2	50.8	54.4	59.4	63.6	68.1	72.8	75.0
EBITDA	2.5	5.3	6.2	7.1	8.1	8.8	9.5	10.2	10.6
DA	(3.6)	(1.1)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	(1.1)	4.2	5.0	6.0	7.1	7.8	8.5	9.2	9.5
Taxes	(0.2)	(0.2)	(0.7)	(1.5)	(1.8)	(1.9)	(2.1)	(2.3)	(2.4)
tax rate	16.1%	-3.7%	-15.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Change in WC	2.7	(1.3)	(0.9)	0.4	(0.5)	(0.6)	(0.7)	(0.7)	(0.3)
Capex	(2.2)	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)	(1.2)	(1.3)
Capex/Sales	-5.7%	-1.5%	-1.6%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%
FCF	2.9	3.2	3.7	5.1	4.8	5.1	5.6	6.0	6.6
TV									109.6
year	0	0	0	1	2	3	4	5	6
Discounted WACC	1.00	1.00	1.00	0.92	0.84	0.77	0.71	0.65	0.60
Discounted Free cash flow	2.9	3.2	3.7	4.7	4.1	4.0	3.9	3.9	65.3

Discounted Free Cash Flows	20.6
Terminal value	65.3
Total EV	85.9
Net cash	7.0
Treasury shares	10.9
Excess cash	15.6
Total EQUITY	119.4
N. of shares (mn)	5.9
TARGET PRICE (Eu)	20.2

TV / Total EV	76.1%
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WACC	9.0%
Terminal growth	3.0%

Peer Multiples Comparison

TXT is trading at a premium to a panel of European IT service providers and systems integration companies (such as Capgemini, Atos, Altron Technologies, Groupe Steria, Sopra Group, Indra Sistemas, Reply and Engineering), and at a discount to specialist software developers (such as Oracle, SAP and MICROS Systems).

If we associate TXT Perform's business with software developers and TXT Next's with providers of IT services and systems integration companies, TXT's fair equity value per share should be Eu12.6 based on 2014, and 2015 EV/EBITDA, and Eu26.7 based on 2014, and 2015 EV/sales.

Given that, in our view, the read-across from a comparison based on EBITDA is highly influenced by the allocation of costs between one division and another, and a comparison on sales is too approximate, we prefer to use the multiple comparison simply as a sanity check on our predominant valuation method.

TXT - Valuation based on peer group EV/EBITDA

(Eu mn)	2013E	2014E	2015E
PERFORM EBITDA	4.7	5.4	6.3
EV/EBITDA peer group	9.3 x	8.1 x	6.9 x
EV PERFORM	43.8	43.7	43.2
NEXT EBITDA	1.5	1.7	1.8
EV/EBITDA peer group	6.2 x	5.0 x	3.8 x
EV NEXT	9.1	8.4	6.9
EV based on multiples	52.9	52.1	50.2
Net cash	7.0	10.9	14.5
Treasury shares	10.9	10.9	10.9
Equity Value	70.8	73.9	75.5
N. of shares	5.9	5.9	5.9
Equity Value p.s.	12.0	12.5	12.8
Average Equity Value p.s.			12.6

Source: Factset data & Intermonte estimates

TXT - Valuation based on peer group EV/Sales

(Eu mn)	2013E	2014E	2015E
PERFORM Sales	31.4	35.0	39.4
EV/Sales peer group	3.9 x	3.5 x	3.1 x
EV PERFORM	122.4	122.5	122.3
NEXT Sales	20.9	21.0	21.7
EV/Sales peer group	0.7 x	0.6 x	0.5 x
EV NEXT	14.6	12.6	10.9
EV based on multiples	137.0	135.1	133.1
Net cash	7.0	10.9	14.5
Treasury shares	10.9	10.9	10.9
Equity Value	154.9	156.9	158.5
N. of shares	5.9	5.9	5.9
Equity Value p.s.	26.2	26.5	26.8
Average Equity Value p.s.			26.7

Source: Factset data & Intermonte estimates

TXT e-solutions Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT e-solutions	17.0	EUR	100.3	26.1%	63.8%	96.8%	169.4%	159.7%	51.0%
AMERICAN SOFTWARE	9.2	USD	250.9	6.3%	3.0%	9.3%	17.9%	10.4%	12.5%
ATOSS SOFTWARE	27.9	EUR	110.7	12.0%	-0.5%	12.8%	47.1%	53.0%	79.8%
CAPGEMINI	46.2	EUR	7,349.4	5.2%	6.8%	21.5%	40.6%	40.0%	71.1%
COMPUTACENTER	5.9	GBP	816.7	13.3%	16.4%	36.0%	40.4%	71.3%	53.1%
DESCARTES SYSTEMS	12.4	CAD	780.3	5.3%	-0.1%	18.8%	34.3%	46.4%	69.0%
DEVOTEAM	12.8	EUR	117.7	14.9%	35.6%	31.8%	35.3%	41.9%	7.9%
ENGINEERING	41.6	EUR	520.3	15.6%	38.8%	34.4%	65.0%	56.3%	75.8%
GROUPE STERIA	15.2	EUR	462.1	17.3%	41.7%	32.1%	7.2%	19.6%	5.6%
MANHATTAN ASSOCIATE	108.0	USD	2,086.3	12.8%	20.5%	48.4%	79.0%	72.6%	148.7%
MICROS SYSTEMS	53.8	USD	4,049.5	9.3%	11.6%	22.3%	26.7%	16.9%	8.8%
ORACLE	34.1	USD	155,272.6	2.6%	3.2%	1.7%	2.3%	7.7%	4.7%
REPLY	49.0	EUR	455.4	10.0%	34.5%	69.5%	133.9%	141.3%	198.3%
SAP	58.6	EUR	69,963.2	8.3%	2.7%	-5.5%	-3.4%	2.2%	33.0%
SOPRA GROUP	67.0	EUR	796.1	4.9%	18.1%	18.0%	37.1%	80.6%	48.7%
SQS SOFTWARE	5.1	EUR	141.8	0.4%	35.7%	47.4%	72.3%	86.8%	167.6%
Mean performance				10.3%	20.7%	31.0%	50.3%	56.7%	64.7%
Italy Fixed	19,262.5	EUR	229,234	5.2%	15.5%	14.2%	18.4%	22.8%	25.5%

Source: FactSet

TXT e-solutions Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
TXT e-solutions	17.0	EUR	100.3	1.8	1.6	15.1	12.6	18.8	14.9	23.7	21.9	1.4%	1.5%
AMERICAN SOFTWARE	9.2	USD	250.9	1.8	1.6	9.9	8.3	12.4	10.1	26.1	22.3		
ATOSS SOFTWARE	27.9	EUR	110.7	2.8	2.4	11.0	9.6	12.1	10.5	36.2	17.6	1.4%	2.8%
CAPGEMINI	46.2	EUR	7,349.4	0.7	0.6	6.5	5.9	8.0	7.4	15.2	13.4	2.2%	2.4%
COMPUTACENTER	5.9	GBP	816.7	0.2	0.2	6.8	6.2	9.4	8.5	14.5	13.0	2.8%	3.2%
DESCARTES SYSTEMS	12.4	CAD	780.3							18.8	18.5		
DEVOTEAM	12.8	EUR	117.7	0.3	0.2	5.5	4.2	7.8	5.4	17.3	14.4	1.7%	2.0%
ENGINEERING	41.6	EUR	520.3	0.6	0.5	4.8	4.1	6.9	5.5	8.1	11.7	1.4%	1.7%
GROUPE STERIA	15.2	EUR	462.1	0.4	0.4	5.4	4.5	6.8	5.5	9.4	7.2	1.9%	2.0%
MANHATTAN ASSOCIATE	108.0	USD	2,086.3							29.7	27.1		
MICROS SYSTEMS	53.8	USD	4,049.5							22.6	21.8		
ORACLE	34.1	USD	155,272.6	3.6	3.3	7.1	6.3	7.5	6.7	11.7	10.7	1.3%	1.4%
REPLY	49.0	EUR	455.4	0.8	0.7	6.1	5.2	6.9	5.8	12.8	10.9	1.6%	1.8%
SAP	58.6	EUR	69,963.2	4.3	3.8	11.7	10.0	13.4	11.5	17.8	16.0	1.6%	1.8%
SOPRA GROUP	67.0	EUR	796.1	0.7	0.6	8.3	6.7	9.6	7.7	11.9	10.4	2.8%	3.0%
SQS SOFTWARE	5.1	EUR	141.8	0.7	0.6	8.2	6.7	11.5	8.9	17.0	13.0	1.8%	2.4%
Median				0.7	0.6	7.1	6.3	9.4	7.7	17.2	13.9	1.7%	2.0%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

TXT e-solutions - Estimates Comparison with Consensus

(Eu mn)	2013			2014		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	52.3	51.9	0.8%	56.0	56.9	-1.5%
Ebitda	6.2	6.2	-0.5%	7.1	7.6	-6.1%
Net Profit	4.2	3.9	7.9%	4.6	4.8	-4.4%
EPS	0.7	0.7	-2.5%	0.8	0.8	-8.4%
Net Debt	7.0	6.4	8.7%	10.9	10.3	5.5%

Source: Intermonte SIM estimates and Factset consensus estimates

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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OUTPERFORM: 36.73%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TXT e-solutions		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (€):	20.00	Previous Target (€):	15.00
Current Price (€):	16.97	Previous Price (€):	12.69
Date of report:	07/11/2013	Date of last report:	19/09/2013

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