

TXT e-solutions

Q114 results

Strong start to the year

Strong licence and services sales in TXT Perform helped drive 5.9% growth in Q114 revenues. EBITDA grew 4.2% y-o-y despite continued investment in the US. We have revised our forecasts to reflect a higher proportion of TXT Perform sales, resulting in small increases in EPS (+0.1% FY14, +1.2% FY15).

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/12	46.5	4.3	0.38	0.20	24.1	2.2
12/13	52.6	4.8	0.45	0.25	20.0	2.8
12/14e	56.4	5.5	0.43	0.26	21.2	2.9
12/15e	60.4	7.2	0.53	0.27	17.2	3.0

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

Q114 saw strong licence sales

TXT reported 5.9% y-o-y revenue growth for Q114 to €14.0m, with 10.9% growth for TXT Perform (62% of revenues) and a small 1.3% decline in TXT Next (38% of revenues). TXT Perform benefited from strong licence and maintenance sales (+9.4%), and also saw stronger service revenues (+12.0%). New customers in the quarter included Otto in Germany, La Halle in France and The White Company in the UK. TXT Next revenues were affected by the delay in the start-up of new projects at one customer which should be recovered in Q3 and Q4. With a gross margin of 52.8%, TXT generated EBITDA of €1.52m (+4.2% y-o-y, 10.9% margin) and EBIT of €1.21m (8.7% margin). The company finished the quarter with net cash of €11.3m, up from €8.6m at the end of FY13.

Outlook and changes to forecasts

The company is in ongoing sales negotiations for TXT Perform solutions (although it is difficult to predict when they will be signed) and has good visibility on the maintenance and services order book. In May, the company will hold its first Thinking Retail conference in the US, which could potentially drive demand for the US subsidiary that was opened in February. As TXT Perform reported a strong licensing quarter in Q1, we cautiously assume lower licence sales in Q2, rising through H214. We assume that TXT Next revenues are weaker in Q2 before starting to recover in H214. We leave our FY14 and FY15 revenues substantially unchanged, but with the mix more in favour of higher margin TXT Perform, this results in increases in EPS of 0.1% in FY14 and 1.2% in FY15.

Valuation: Upgrades to drive upside

The stock trades on a P/E of 21.2x FY14e and 17.2x FY15e normalised EPS. This is at a discount to global supply chain software vendors and at a premium to European IT services companies. The company has a strong cash position and we forecast a dividend yield of at least 2% for FY14 and FY15. To see upside from this point, we would need to see that recent investment in North America is driving new business, demand from the European retail market is recovering, operating profitability is improving and TXT Next is returning to growth.

Software & comp services

14 May 2014

Price €9.07

Market cap €95m

Net cash (€m) at end Q114 11.3

Shares in issue 10.5m

Free float 64%

Code TXT

Primary exchange Borsa Italiana (STAR)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.4) (17.6) 98.7

Rel (local) (2.4) (22.2) 60.1

52-week high/low €11.9 €4.6

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

H114 results 5 August 2014

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[Edison profile page](#)

Exhibit 1: Financial summary

	€'000s	2010	2011	2012	2013	2014e	2015e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		37,458	40,138	46,499	52,560	56,437	60,363
Cost of sales		(18,757)	(19,522)	(22,351)	(24,854)	(26,277)	(28,859)
Gross profit		18,701	20,616	24,148	27,706	30,160	31,504
EBITDA		2,769	4,397	5,345	6,263	6,563	8,024
Operating Profit (before amort and except)		(776)	843	4,306	5,256	5,576	7,287
Amortisation of acquired intangibles		0	0	0	(300)	(300)	(300)
Exceptionals and other income		13	(4,581)	939	0	0	0
Other income		0	0	0	0	0	0
Operating Profit		(763)	(3,738)	5,245	4,956	5,276	6,987
Net Interest		(198)	72	(37)	(435)	(100)	(100)
Profit Before Tax (norm)		(974)	915	4,269	4,821	5,476	7,187
Profit Before Tax (FRS 3)		(961)	(3,666)	5,208	4,521	5,176	6,887
Tax		255	(591)	(188)	121	(776)	(1,377)
Profit After Tax (norm)		(719)	324	4,115	4,942	4,655	5,749
Profit After Tax (FRS 3)		(706)	(4,257)	5,020	4,642	4,400	5,509
Average Number of Shares Outstanding (m)		10.3	10.1	10.0	10.5	10.5	10.5
EPS - normalised (c)		(7)	3	41	47	45	55
EPS - normalised fully diluted (c)		(6)	3	38	45	43	53
EPS - (IFRS) (c)		2	140	50	44	42	53
Dividend per share (c)		0.0	100.0	20.0	25.0	26.0	27.0
Gross margin (%)		49.9%	51.4%	51.9%	52.7%	53.4%	52.2%
EBITDA Margin (%)		7.4	11.0	11.5	11.9	11.6	13.3
Operating Margin (before GW and except) (%)		-2.1	2.1	9.3	10.0	9.9	12.1
BALANCE SHEET							
Fixed Assets		14,328	7,735	18,570	17,850	17,063	16,526
Intangible Assets		11,526	6,561	16,621	15,370	14,570	14,020
Tangible Assets		1,528	819	1,154	1,118	1,131	1,144
Other		1,274	355	795	1,362	1,362	1,362
Current Assets		28,876	32,145	36,769	34,914	38,577	42,984
Stocks		793	661	1,388	1,451	1,200	1,200
Debtors		21,453	15,083	19,562	18,642	20,874	22,326
Cash		6,630	14,181	15,819	14,821	16,503	19,458
Other		0	2,220	0	0	0	0
Current Liabilities		(17,719)	(14,049)	(20,651)	(17,864)	(19,929)	(22,008)
Creditors		(15,615)	(12,292)	(15,155)	(14,512)	(15,577)	(16,656)
Short term borrowings		(2,104)	(1,757)	(5,496)	(3,352)	(4,352)	(5,352)
Long Term Liabilities		(8,398)	(5,567)	(8,666)	(6,965)	(5,965)	(4,965)
Long term borrowings		(3,870)	(2,155)	(4,301)	(2,896)	(1,896)	(896)
Other long term liabilities		(4,528)	(3,412)	(4,365)	(4,069)	(4,069)	(4,069)
Net Assets		17,087	20,264	26,022	27,935	29,746	32,537
CASH FLOW							
Operating Cash Flow		9,967	19,265	2,783	7,630	5,647	7,650
Net Interest		(198)	166	(37)	(435)	(100)	(100)
Tax		255	390	64	(1,615)	(776)	(1,377)
Capex		(2,340)	(2,159)	(405)	(483)	(500)	(500)
Acquisitions/disposals		(137)	2,403	(8,450)	19	0	0
Financing		324	(106)	1,690	(755)	0	0
Dividends		0	(10,292)	0	(2,107)	(2,614)	(2,718)
Net Cash Flow		7,871	9,667	(4,355)	2,254	1,657	2,955
Opening net debt/(cash)		7,248	(723)	(10,266)	(6,046)	(8,598)	(10,255)
HP finance leases initiated		0	0	0	0	0	0
Other		100	(124)	135	298	0	(0)
Closing net debt/(cash)		(723)	(10,266)	(6,046)	(8,598)	(10,255)	(13,210)

Source: TXT e-solutions, Edison Investment Research

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