TXT e-solutions

FY13 results

Growth plans on track

Software & comp services

In FY13, TXT reported growth from both TXT Perform and TXT Next, with gross and operating margin improvement compared to FY12. The company continues to invest in the North American business, which should support our revenue growth forecasts for TXT Perform in FY14 and FY15. TXT Next has won customers in new target markets and we forecast modest growth in FY14 and FY15. TXT continues to generate cash and is returning some of this to shareholders in the form of increased dividend payouts.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/12	46.5	4.3	0.38	0.20	29.9	1.8
12/13	52.6	4.8	0.45	0.25	25.2	2.2
12/14e	56.3	5.5	0.43	0.26	26.4	2.3
12/15e	60.4	7.1	0.52	0.27	21.8	2.4

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

FY13: Growth from both businesses

TXT reported revenue growth of 13% in FY13, with growth of 20.1% in TXT Perform (mostly acquisition-related) and 3.8% in TXT Next. After a very strong licensing quarter for TXT Perform in Q3, licence growth moderated in Q4. Gross and operating margins expanded year-on-year in 2013, as the mix shifted in favour of higher margin Perform revenues. As a result of an unexpected tax credit, normalised EPS of €0.45 exceeded our €0.38 forecast. The company announced a dividend of €0.25 for the year, substantially higher than our €0.11 forecast.

Outlook and changes to forecasts

The company has strengthened the US side of the TXT Perform business, with several hires in sales and marketing. The aim is to accelerate the growth of the pipeline in North America, which is likely to result in revenues weighted to H214. We have marginally reduced our FY14 revenue forecast (group revenues +7.2% y-o-y) and introduce a 7.1% growth forecast for FY15. We forecast growth in operating profit in FY14, although a small drop in margin to 9.9% due to the costs of investing in the US, and forecast operating margin growth to 11.9% in FY15. We have increased our dividend forecast for FY14 by 73% to take account of the higher than expected dividend announced for FY13.

Valuation: Upgrades to drive upside

The stock has gained nearly 150% in the last year and now trades on a P/E of 26.4x FY14e and 21.8x FY15e normalised EPS. This is in line with 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 evidence that recent investment in North America is driving new business, demand from the European retail market is recovering, and operating profitability is improving.

7 March 2014

Price	**€11.36**
Market cap	**€119m**

Net cash (€m) at end FY13	8.6
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	(0.3)	32.6	145.9
Rel (local)	(6.9)	15.5	87.1
52-week high/low		€11.9	€3.8

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

Q114 results	8 May 2014

Analysts

Katherine Thompson	+44 (0)20 3077 5730
Dan Ridsdale	+44 (0)20 3077 5729

tech@edisongroup.com

Edison profile page

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Review of FY13 results

Exhibit 1: FY13 results highlights

€m	FY13e	FY13	FY12	Change (%)
Revenues	52.5	52.6	46.5	13.0
TXT Perform	31.6	31.7	26.4	20.1
TXT Next	20.9	20.9	20.1	3.8
Gross margin	52.6%	52.7%	51.9%	
EBIT	5.3	5.4	4.3	22.1
EBIT margin	10.1%	10.0%	9.2%	
Normalised net income	4.3	4.9	4.1	20.1
Normalised and fd EPS (€)	0.38	0.45	0.38	20.6
Net cash	8.5	8.6	6.0	42.4

Source: TXT e-solutions, Edison Investment Research

TXT reported revenues marginally higher than our forecast, equating to growth of 13% over 2012. TXT Perform grew 20.1% y-o-y, the majority of which was due to the acquisition of Maple Lake in Q312. TXT Next grew at a modest 3.8% after a year of strong growth (11.4%) in 2012. International revenues made up 54% of the FY13 total, up from 52% in FY12.

The gross margin was marginally higher than our forecast and grew 80bp y-o-y. The slightly higher revenues and gross profit resulted in higher than forecast normalised EBIT. Interest expense was higher than expected, but this was more than offset by a tax credit, resulting in normalised EPS ahead of our forecast. The tax credit arose from the recognition of deferred tax assets relating to tax losses in certain countries.

The company announced a dividend of €0.25, substantially higher than our €0.11 forecast. This is payable on 22 May (record date 21 May, ex-div 19 May).

Business update

TXT Perform

The company won 15 new customers in the year, and won follow-on and upgrade business from a variety of existing clients. The table below shows the spread across sectors.

Exhibit 2: TXT Perform activity during 2013

	Luxury	Brands	Fast Fashion	Multi-category
New customers	HR	Delsey	thirty-one	Value Retail
	Sephora	Lacoste		Modell's Sporting Goods
		Miroglio		
		Samsonite		
Up/cross-selling	Burberry	adidas	Aeropostale	Apollo Optik
	Celine	Camper	asos.com	Damart
	Chloe	Columbia	Besteller	Carphone Warehouse
	Dior	Desigual	Bonita	Game
	dunhill	Geox	Cotton On	LS travel retail
	Dolce & Gabbana	Guess	destination maternity	Manor
	Lancel	North Face	Forever 21	Monoprix
	Loewe	s.Oliver	Jacques Vert	Redcats
	Louis Vuitton	Tods	Kenneth Cole	Safilo
	LVMH	Vans	Ulla Popken	Starboard
	Marc Jacobs	vf		Swatch Group
	Richemont			Tesco

Source: TXT e-solutions

The company's growth strategy in this division is to:

- Increase market share in North America (short to medium term) and expand into Asia in the longer term. TXT Perform currently does some business in Asia-Pacific for its European and North American customers but would ultimately like to target Asian-headquartered retailers.
- Expand into other retail segments and target smaller retailers.
- Cross-sell and up-sell to the existing customer base.
- Extend product features and functionality. In 2013, TXT launched TXT On-Cloud, TXT Mobile and four new mobile PLM and planning modules.

The company has set up a subsidiary in the US, additional to the subsidiary in Toronto (ex-Maple Lake), and has hired several new sales and marketing employees. This includes the hiring in January of Peter Charness as senior vice president of North America who will also take on the role of chief marketing officer. This should help grow the pipeline of new business in the North American market to complement TXT's already strong European customer base and the North American customer base inherited with the Maple Lake acquisition.

TXT Next

The company made progress in the rail industry in 2013, winning contracts with Bombardier Transportation and Alstom. In the banking sector, TXT won Gruppo Banca Carige as a new customer.

The company's growth strategy in this division is to:

- Expand the aeronautics business internationally, with the focus on embedded electronics, simulation and training and digital manufacturing.
- Grow the automotive and rail businesses, initially in Italy.
- Grow the software testing business in the Italian banking sector.

Changes to forecasts

We have made the following changes to forecasts:

- **Revenues:** based on the mix of revenues achieved in FY13, we have trimmed our FY14 estimate, forecasting growth of 8.9% for TXT Perform and 4.6% for TXT Next, resulting in group growth of 7.2%. For FY15 we introduce a revenue growth forecast of 7.1%.
- **Operating expenses:** we leave our FY14 operating expense forecasts unchanged. We introduce a lower R&D forecast for FY15 reflecting the planned reduction in EU-sponsored projects in TXT Next. We have also introduced a lower gross margin forecast for TXT Next in FY15 reflecting a reduction in grants received from the EU.
- **Operating profit:** we forecast a 4.7% increase in operating profit in FY14, equating to an operating margin of 9.9%. The margin is slightly lower than in FY13 mainly due to the growth in commercial costs, predominantly in the US. We forecast operating margin to grow to 11.9% in FY15, as operating cost growth moderates, and partly aided by the winding down of amortisation of development costs that have not been capitalised since the beginning of 2012.
- **Tax:** the company expects it will be able to continue to use tax losses in FY14 and FY15. The precise amount will depend on the mix of profits by country – we understand the company has the majority of losses in Italy, France and Spain. We have reduced our FY14 tax rate from 25% to 15%, and introduce a rate of 20% for FY15.
- **Dividend:** we have increased our FY14 dividend forecast from €0.15 to €0.26 and introduce an FY15 forecast of €0.27.

- **Net cash:** the increase in our dividend forecast results in a lower net cash forecast by the end of FY14, although we still expect the company to have a healthy net cash balance of €10.3m by then.

We note our forecasts and historics have also been revised to reflect the two-for-one share split in January.

Exhibit 3: Changes to forecasts

	FY14 old	FY14 new	Change	FY15e new	FY14 growth	FY15 growth
Revenues (€m)	56.5	56.3	0.4%	60.4	7.2%	7.1%
TXT Perform	34.6	34.5	(0.5%)	37.1	8.9%	7.5%
TXT Next	21.9	21.9	(0.2%)	23.3	4.6%	6.6%
Gross margin	54.0%	53.1%		52.0%		
EBITDA (€m)	7.0	6.6	(6.4%)	7.9	4.7%	21.1%
EBITDA margin	12.4%	11.6%		13.2%		
Normalised EBIT (€m)	6.0	5.6	(7.3%)	7.2	6.0%	29.3%
Normalised EBIT margin	10.6%	9.9%		11.9%		
Normalised net income (€m)	4.4	4.7	5.0%	5.7	(5.9%)	22.2%
Normalised EPS (€)	0.39	0.43	10.1%	0.52		
Net cash (€m)	11.8	10.3	(13.2%)	13.1	19.7%	28.1%
Dividend (€)	0.15	0.26	73.3%	0.27	4.0%	3.8%

Source: Edison Investment Research

Exhibit 4: 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	56,350	60,377
Cost of sales	(18,757)	(19,522)	(22,351)	(24,854)	(26,440)	(28,955)
Gross profit	18,701	20,616	24,148	27,706	29,910	31,421
EBITDA	2,769	4,397	5,345	6,263	6,560	7,941
Operating Profit (before amort and except)	(776)	843	4,306	5,256	5,573	7,204
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	5,273	6,904
Net Interest	(198)	72	(37)	(435)	(100)	(100)
Profit Before Tax (norm)	(974)	915	4,269	4,821	5,473	7,104
Profit Before Tax (FRS 3)	(961)	(3,666)	5,208	4,521	5,173	6,804
Tax	255	(591)	(188)	121	(776)	(1,361)
Profit After Tax (norm)	(719)	324	4,115	4,942	4,652	5,683
Profit After Tax (FRS 3)	(706)	(4,257)	5,020	4,642	4,397	5,443
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	44	54
EPS - normalised fully diluted (c)	(6)	3	38	45	43	52
EPS - (IFRS) (c)	2	140	50	44	42	52
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%	53.1%	52.0%
EBITDA Margin (%)	7.4	11.0	11.5	11.9	11.6	13.2
Operating Margin (before GW and except) (%)	-2.1	2.1	9.3	10.0	9.9	11.9
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	38,550	42,918
Stocks	793	661	1,388	1,451	1,200	1,200
Debtors	21,453	15,083	19,562	18,642	20,842	22,331
Cash	6,630	14,181	15,819	14,821	16,508	19,387
Other	0	2,220	0	0	0	0
Current Liabilities	(17,719)	(14,049)	(20,651)	(17,864)	(19,905)	(22,011)
Creditors	(15,615)	(12,292)	(15,155)	(14,512)	(15,553)	(16,659)
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	29,743	32,468
CASH FLOW						
Operating Cash Flow	9,967	19,265	2,783	7,630	5,652	7,558
Net Interest	(198)	166	(37)	(435)	(100)	(100)
Tax	255	390	64	(1,615)	(776)	(1,361)
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	1,663	2,879
Opening net debt/(cash)	7,248	(723)	(10,266)	(6,046)	(8,598)	(10,260)
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)	(10,260)	(13,139)

Source: TXT e-solutions accounts, Edison Investment Research

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand