

TXT e-solutions

Q3 results

Moderating our growth estimates

TXT reported a 4.8% year-on-year revenue decline in Q314, as TXT Perform experienced a weak quarter for licence wins. However, on a nine-month basis, both divisions achieved revenue growth. We have revised our revenue forecasts to reflect a more uncertain economic environment, resulting in cuts to FY14 EPS of 10% and FY15 EPS of 9%. With a strong balance sheet, TXT has funds available to support its acquisition strategy.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/12	46.5	4.2	0.37	0.20	20.7	2.6
12/13	52.6	4.8	0.45	0.25	17.1	3.2
12/14e	54.0	4.3	0.33	0.26	23.2	3.4
12/15e	58.8	6.2	0.46	0.27	16.9	3.5

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

Q314 results reflect weaker licensing demand

TXT reported a y-o-y revenue decline of 4.8% in Q314. TXT Perform (61% of Q314 revenues) declined 9.3%, with lower licence order intake than a year ago. Conversely, TXT Next (39% of Q314 revenues) grew revenues 3.1% y-o-y. Good operating cost control limited the impact at the EBITDA level, with EBITDA down 4% (margin 12.2%) and normalised EBIT down 3% y-o-y (margin 9.6%). With net cash of €7.1m at the end of Q314, the company continues to consider acquisitions, particularly in TXT Next.

Outlook and changes to forecasts

With the uncertain economic environment weighing on decision-making in the fashion and luxury sector, the timing of TXT Perform licence wins is difficult to predict. However, the company is seeing some recovery in demand from manufacturing customers, and has better visibility over its services pipeline. Management expects the business to develop in line with Q413. We have revised down our FY14 revenue forecast by 1.6% to reflect a weaker licensing environment for TXT Perform. In FY15, we take a more cautious approach in both divisions, reducing group revenue by 2.5%. This results in a reduction in normalised EPS of 10.2% in FY14 and 8.9% in FY15.

Valuation: Licensing pick-up key to upside

The stock trades on a P/E of 23.2x FY14e and 16.9x FY15e normalised EPS. This is at a discount to global supply chain software vendors and at a premium to European IT services companies, which is reasonable considering the split of the business. The company has a strong cash position and we forecast a dividend yield of at least 3% 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, or operating profitability is improving.

Software & comp services

10 November 2014

Price €7.75
Market cap €81m

Net cash (€m) as at end Q314	7.1
Shares in issue	10.4m
Free float	65%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.6)	2.6	(8.8)
Rel (local)	3.1	3.3	(9.2)
52-week high/low	€11.91	€6.89	

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

FY14 trading update January 2015

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Review of Q3 results

TXT reported a decline in Q3 revenues of 4.8% y-o-y. On a nine-month basis, group revenue grew 1.5% y-o-y, excluding the €1.5m exceptional income reported in Q214.

While TXT Next saw 3.1% growth in Q314, TXT Perform declined 9.3% as fewer licences were signed compared to last year: Q314 licence revenues totalled €1.3m compared to €2.4m in Q313. On a nine-month basis, both divisions grew y-o-y: TXT Perform +1.9% (excluding the €1.5m one-off) and TXT Next +0.9%.

For Q314, despite the €0.3m drop in gross profit, EBITDA only declined €0.1m or 4%, with normalised EBIT down 3%. The company increased its net cash position over the quarter, up to €7.1m from €6.6m at the end of H114.

Exhibit 1: Q3 financial highlights			
	Q313a	Q314a	Change
Revenues	13.3	12.7	-4.8%
TXT Perform	8.5	7.7	-9.3%
TXT Next	4.8	5.0	3.1%
Gross margin	52.3%	52.9%	0.6%
EBITDA	1.6	1.6	-4.0%
EBITDA margin	12.1%	12.2%	0.1%
Normalised EBIT	1.3	1.3	-3.2%
Normalised EBIT margin	10.0%	10.2%	0.2%
Reported EBIT	1.3	1.2	-3.3%
Reported EBIT margin	9.4%	9.6%	0.1%
Net cash	6.3	7.1	13.1%

Source: TXT e-solutions

TXT Perform

While licence income was lower than a year ago, TXT signed new contracts with Constellium (Germany), Ellos (Sweden), PAS Group (Australia), and Build-a-Bear Workshop (US). Constellium is an aluminium manufacturer, which highlights that TXT Perform's planning products are used not only by fashion and luxury goods companies, but also by manufacturers and CPG companies. The company noted that it is seeing the gradual re-emergence of manufacturing customers in certain countries as the sector starts to recover.

In the quarter, the division used its new AgileFit methodology to launch solutions for Miroglio and Bata. The division also successfully completed projects with Sephora France and Pandora (Denmark) and is working on a follow-on project with Sephora USA.

Outlook and changes to forecasts

The company commented that it is pursuing commercial opportunities in Asia Pacific as well as areas where it is well-established (ie North America and Europe). Management believes it can outperform the market due to its installed base of customers with wide geographic coverage and its strengthened presence in North America. Visibility over the signing of new TXT Perform licences is poor, but the services pipeline has better visibility, supporting development of the business in Q414 in line with Q413.

Management continues to look for acquisition opportunities, highlighting potential bolt-on deals for TXT Next. With €7.1m net cash on the balance sheet, it has funds available if suitable targets are identified.

We have reduced our revenue forecasts for TXT Perform in FY14 and FY15 to reflect the weaker licensing environment. This also has a follow-on impact on future Projects and Other Income revenues. We have also taken a slightly more cautious approach to our TXT Next FY15 revenue forecast. Overall this drives a 10.2% cut in FY15e EPS and an 8.9% cut to FY16e EPS.

Exhibit 2: Changes to forecasts

	FY14 old	FY14 new	change	FY15e old	FY15e new	change
Revenues (€m)	54.9	54.0	-1.6%	60.3	58.8	-2.5%
TXT Perform	33.8	32.8	-2.9%	37.6	36.5	-2.9%
TXT Next	21.1	21.2	0.6%	22.7	22.3	-1.8%
Gross margin	52.0%	51.6%		51.7%	51.7%	
Gross profit	28.6	27.9	-2.3%	31.2	30.4	-2.6%
EBITDA (€m)	6.0	5.5	-7.3%	7.7	7.1	-8.0%
EBITDA margin	10.9%	10.3%		12.8%	12.0%	
Normalised EBIT (€m)	5.0	4.5	-8.8%	6.9	6.3	-8.9%
Normalised EBIT margin	9.0%	8.4%		11.5%	10.7%	
Normalised net income (€m)	4.0	3.6	-10.3%	5.5	5.0	-9.1%
Normalised EPS (€)	0.37	0.33	-10.2%	0.50	0.46	-8.9%
Net cash (€m)	10.8	9.8	-9.5%	13.3	11.9	-10.9%
Dividend (€)	0.26	0.26	0.0%	0.27	0.27	0.0%

Source: Edison Investment Research

Exhibit 3: 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	54,044	58,816
Cost of sales		(18,757)	(19,522)	(22,351)	(24,854)	(26,156)	(28,431)
Gross profit		18,701	20,616	24,148	27,706	27,888	30,384
EBITDA		2,769	4,397	5,322	6,263	5,544	7,084
Operating Profit (before amort and except)		(776)	843	4,283	5,256	4,522	6,312
Amortisation of acquired intangibles		0	0	0	(300)	(285)	(285)
Exceptionals and other income		13	(4,581)	939	0	1,500	0
Other income		0	0	0	0	0	0
Operating Profit		(763)	(3,738)	5,222	4,956	5,737	6,027
Net Interest		(198)	72	(37)	(435)	(250)	(100)
Profit Before Tax (norm)		(974)	915	4,246	4,821	4,272	6,212
Profit Before Tax (FRS 3)		(961)	(3,666)	5,185	4,521	5,487	5,927
Tax		255	(591)	(188)	121	(823)	(1,185)
Profit After Tax (norm)		(719)	324	4,092	4,942	3,631	4,970
Profit After Tax (FRS 3)		(706)	(4,257)	4,997	4,642	4,664	4,742
Average Number of Shares Outstanding (m)		10.3	10.1	10.0	10.5	10.4	10.4
EPS - normalised (c)		(7)	3	41	47	35	48
EPS - normalised fully diluted (c)		(6)	3	37	45	33	46
EPS - (IFRS) (c)		2	140	50	44	45	46
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%	51.6%	51.7%
EBITDA Margin (%)		7.4	11.0	11.4	11.9	10.3	12.0
Operating Margin (before GW and except) (%)		-2.1	2.1	9.2	10.0	8.4	10.7
BALANCE SHEET							
Fixed Assets		14,328	7,735	18,570	17,850	17,163	16,626
Intangible Assets		11,526	6,561	16,621	15,370	14,570	14,020
Tangible Assets		1,528	819	1,154	1,118	1,231	1,244
Other		1,274	355	795	1,362	1,362	1,362
Current Assets		28,876	32,145	36,769	34,914	36,595	39,477
Stocks		793	661	1,388	1,451	1,600	1,600
Debtors		21,453	15,083	19,562	18,642	19,989	21,754
Cash		6,630	14,181	15,819	14,821	15,006	16,124
Other		0	2,220	0	0	0	0
Current Liabilities		(17,719)	(14,049)	(20,651)	(17,864)	(18,272)	(19,583)
Creditors		(15,615)	(12,292)	(15,155)	(14,512)	(14,920)	(16,231)
Short term borrowings		(2,104)	(1,757)	(5,496)	(3,352)	(3,352)	(3,352)
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	29,522	31,556
CASH FLOW							
Operating Cash Flow		9,967	19,265	2,760	7,630	5,956	6,630
Net Interest		(198)	166	(37)	(435)	(250)	(100)
Tax		255	390	64	(1,615)	(823)	(1,185)
Capex		(2,340)	(2,159)	(405)	(483)	(620)	(520)
Acquisitions/disposals		(137)	2,403	(8,450)	19	0	0
Financing		324	(106)	1,690	(755)	(464)	0
Dividends		0	(10,292)	0	(2,107)	(2,615)	(2,707)
Net Cash Flow		7,871	9,667	(4,378)	2,254	1,184	2,117
Opening net debt/(cash)		7,248	(723)	(10,266)	(6,023)	(8,575)	(9,758)
HP finance leases initiated		0	0	0	0	0	0
Other		100	(124)	135	298	(0)	0
Closing net debt/(cash)		(723)	(10,266)	(6,023)	(8,575)	(9,758)	(11,876)

Source: TXT e-solutions and Edison Investment Research

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