EDISON

TXT e-solutions

H115 results

International wins drive growth

Software & comp services

TXT experienced strong growth in H115, with both divisions reporting y-o-y growth of 13%. The international expansion strategy is paying off – both TXT Perform and TXT Next won new customers in target overseas markets during H1. To reflect the stronger first half, we have raised our revenue and earnings estimates in FY15 and FY16. The company continues to seek acquisitions to accelerate growth in both divisions and has a strong balance sheet to support its growth strategy.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/13	52.6	4.8	0.41	0.23	20.0	2.8
12/14	54.4	4.0	0.28	0.23	29.4	2.8
12/15e	60.5	5.3	0.35	0.24	23.5	2.9
12/16e	63.2	6.7	0.45	0.25	18.3	3.0

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

H115: strong trading for both divisions

TXT reported revenue growth of 13% y-o-y in H115, with similar growth from both TXT Perform and TXT Next. TXT Perform benefited from a large licence deal in Q215, the first for the newly opened Hong Kong office. TXT Next has seen sustained demand over the last three quarters, from both aeronautical and banking & finance customers. Normalised EBIT margins expanded by 220bp y-o-y to 9.6% despite increased investment in international expansion and product development.

Upgrading estimates for FY15 and FY16

To reflect the stronger performance of both divisions in H115, we have raised our revenue forecast by 2.1% in FY15 and 3.7% in FY16. This drives upgrades to our normalised EPS forecasts of 3.5% in FY15 and 6.6% in FY16. The company continues to focus on growing international revenues in both divisions and investing in product development and technical expertise.

Valuation: International expansion key to upside

The stock trades on a P/E of 23.5x FY15e and 18.3x FY16e 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. TXT has a strong cash position (bolstered by the recent sale of treasury shares) and we forecast a dividend yield of at least 2.9% for FY15 and FY16. We view FY15 as an investment year as TXT puts in place the building blocks to support growth in the medium term. Key milestones to assess progress will include a growing order backlog in North America, large licence deals for TXT Perform and further international deals for TXT Next. The company continues to assess acquisition targets in both businesses.

10 August 2015

Price	**€8.22**
Market cap	**€96m**

Net cash (€m) at end H115	9.5
Shares in issue (net of 1.3m treasury shares)	11.7m
Free float	43%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	12.6	(1.3)	19.6
Rel (local)	(0.5)	(5.2)	(4.3)
52-week high/low		€9.36	€6.26

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.

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Edison profile page

TXT e-solutions is a research client of Edison Investment Research Limited

Investment summary

Company description: Specialist software solutions

TXT e-solutions is an Italy-headquartered software and services company. TXT operates through two divisions: TXT Perform (60% of FY14 revenues) and TXT Next (40% of FY14 revenues). TXT Perform develops, supplies and installs supply chain management software, specialising in fashion, luxury and retail. TXT Next is a software solutions and services business, focused on the aerospace and defence, high-tech manufacturing and banking and finance segments, primarily in Italy. The group plans to drive growth through greater internationalisation (currently more than 50% of revenues are generated outside Italy), cross-selling and product development, and may make bolt-on acquisitions in both divisions.

Financials: Upgrades after strong H115

TXT had a strong Q2, winning its first large licence deal out of the new Hong Kong office. We have revised up our forecasts to take into account the stronger results for both TXT Perform and TXT Next in H115, resulting in EPS upgrades of 3.5% in FY15e and 6.6% in FY16e. The company's net cash position continues to grow – we forecast it will reach €14.7m by the end of FY16.

Exhibit 1: Changes to forecasts

	EPS (€)			EBIT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	0.34	0.35	3.5	5.2	5.4	4.1	6.0	6.2	3.5
2016e	0.42	0.45	6.6	6.4	6.8	5.9	7.0	7.4	5.4

Source: Edison Investment Research

Valuation: International expansion key to upside

On our revised earnings forecasts, TXT trades at an EV/Sales and P/E premium to European IT services companies, but at a discount to specialist SCP software suppliers. Based on the growth and profitability profiles of both groups, we would expect TXT to trade somewhere in the middle of the two groups. The mix of revenues is shifting in favour of the higher-margin TXT Perform, which should drive up multiples over time. We note a forecast dividend yield of approaching 3%, supported by TXT's strong cash position. Triggers for share price appreciation include large licence wins in TXT Perform, evidence of growing North American market share and further international wins in TXT Next. TXT continues to seek out acquisitions for both divisions, and has a strong cash position to fund this.

Sensitivities: Demand, competition, currency

- **General economic activity:** sales in both divisions will be influenced by the health of the economy. The TXT Next business has more exposure to the Italian economy, although the international customer base of many of its customers reduces this exposure.
- **Competition:** TXT Perform competes against larger software companies with greater resources for R&D and sales. There is also the risk that TXT Perform could lose business to ERP vendors that include SCP software in their solutions, although the specialist nature of TXT's solutions should reduce this risk.
- **Acquisition risk:** TXT plans to make further acquisitions, adding potential integration risk.
- **Currency:** the majority of TXT's revenues and costs are incurred in euros. There is some exposure to sterling, US dollar and Canadian dollar. The impact is mitigated by the costs of staffing local offices in the same currency as revenues.

Company description: Specialist software solutions

Company background

TXT e-solutions was formed in 1989 as a software and solutions vendor and listed on the STAR segment of the Borsa Italiana in 2000. The company operates through two divisions: TXT Perform (60% of FY14 revenues) and TXT Next (40% of FY14 revenues). TXT Perform develops, supplies and installs supply chain management software, specialising in fashion, luxury and retail. The business has grown organically and via acquisitions in Germany (2004), the UK (2008) and North America (Maple Lake acquisition in 2012). TXT Next is a software solutions and services business, focused on the aerospace and defence, high-tech manufacturing, and banking and finance segments, primarily in Italy. This business has grown organically.

Group strategy

Group strategy is to continue to drive revenue growth in the two businesses via greater internationalisation (in H115 56% of revenues were generated outside Italy), cross-selling and product development. The company continues to consider acquisitions in the TXT Perform business and in TXT Next's aeronautics business. We discuss the individual divisional strategies in more depth later in the report.

Management

TXT is run by a long-established team: the chairman is the original founder of the company and the CEO joined TXT in 1994. Divisional heads have many years' experience with the company. Key managers in TXT Perform are Simone Pozzi (who joined TXT in 2009 after many years in a variety of sales and consulting roles for software companies, with a focus on fashion and retail) and Andrea Cencini (who joined TXT in 1989 and has performed various roles in the business). TXT Next is headed by Paolo Colombo, who has been with TXT since it was founded and has built the division into its current structure.

TXT Perform: Supply chain solutions for retail

TXT Perform develops, sells and installs supply chain planning software. The division has more than 300 employees operating out of 17 sales and delivery offices across Europe (France, Germany, Italy, Spain and the UK), Canada, the US, Hong Kong and Australia.

Product offering

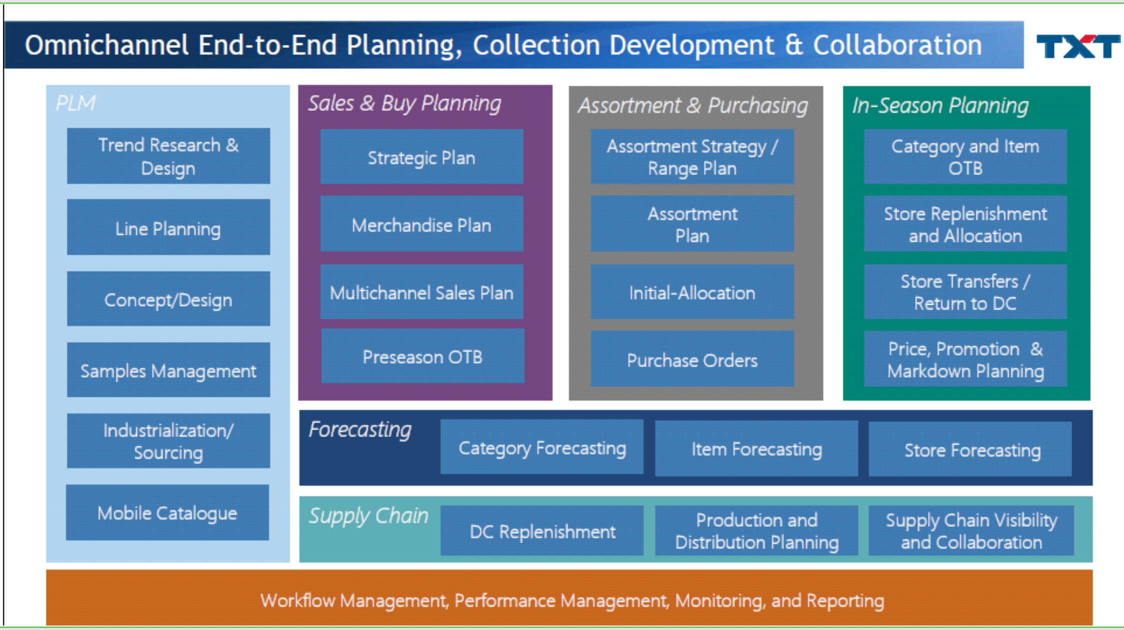
TXT's software solutions are based on its TXT PERFORM platform, developed to work with Microsoft SQL, Excel and Sharepoint. TXT Perform offers a suite of products across three main functional areas:

- Integrated retail planning solutions (c 65% of divisional revenues).
- Product Lifecycle Management (PLM) for retail (c 15% of divisional revenues).
- Sales and operations planning (c 20% of divisional revenues).

TXT Retail – integrated planning solutions & PLM

TXT Perform's roots are in the retail sector, with many years' experience in this area and a product range that has been tailored to the industry's specific needs. Exhibit 2 shows TXT's comprehensive solution, although customers can choose to buy modules within it, such as Sales Planning or Merchandise & Assortment Planning. The software is designed to enable users to see the implications of each decision they make on both operational and financial KPIs, with 'what-if' analyses possible for a variety of factors such as channel, product, geography and brand. In the retail sector, PLM software is used to bring order to the collection-development process. The software is designed to align all stakeholders, eg merchandisers, designers, buyers, suppliers, product managers and developers, to reduce the time and cost involved in developing a new collection. TXT's solution (see Exhibit 2) operates in a single web environment, and is Sharepoint-based, enabling all stakeholders to participate in and/or review the process wherever they are. The software is integrated with TXT's integrated retail planning solution.

Exhibit 2: Integrated planning and PLM software solutions

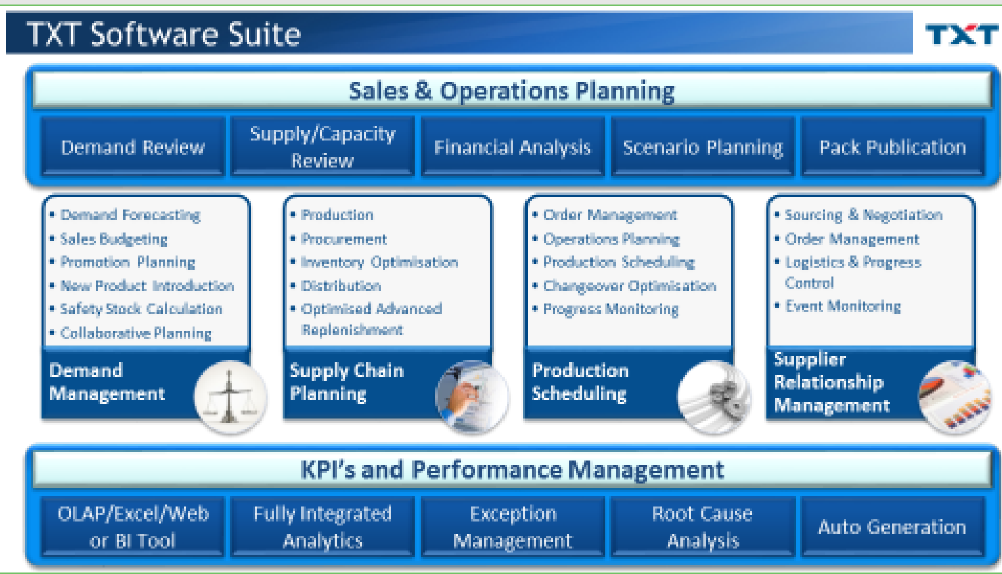


Source: TXT e-solutions

CPG & Manufacturing – sales and operations planning

TXT's market focus is consumer packaged goods (CPG) and consumer-facing industrials such as Kraft, Eckes-Granini, Lavazza and Toyota. Exhibit 3 shows the functionality of TXT's sales and operations planning solution.

Exhibit 3: Sales and operations planning functionality



Source: TXT e-solutions

Blue-chip customer base

Exhibit 4 demonstrates the strength of TXT's customer base in its chosen markets. TXT Perform has more than 350 customers. The company targets tier 1 customers, ie those with annual revenues of more than €250m, with the sweet spot being those over €500m. Overall, roughly two-thirds of annual revenues come from existing customers (one-third of licence sales and two-thirds of services revenues), highlighting the company's ability to cross- and up-sell. The division won 15 new customers over the last 12 months and customers won year to date include DFS (Hong Kong), Delta Galil (Israel), Hanna Anderson (US), Alinea (France), Marni (Italy), Moncler (Italy), Carpisa (Italy), White Stuff (UK) and Takko (Germany). The company has also won licence extensions this year with existing customers including Swatch (Switzerland), Otto (Germany), Charles Voegele (Germany), Adidas (Germany) and Kenzo (France).

Exhibit 4: Selected customers

Luxury		Global Brands		Fast Fashion		Mixed Goods	
Burberry	Gucci	Adidas	Ecco	Aéropostale	Kenneth Cole	Anthropologie	Monoprix
Céline	Loewe	Camper	Lacoste	Asos	Lindex	Apollo Optik	Pandora
Dior	LVMH	Columbia	Levi's	Cotton On	Steve Madden	Auchan	Safilo
Donna Karan	Marc Jacobs	Desigual	North Face	Fat Face	Topshop	Damart	Sephora
Dunhill	Prada	Diesel	Ted Baker	Hobbs	White Stuff	Game	The White Company

Source: TXT e-solutions

Growth strategy

The division is seeking to grow through several routes:

- extend product features and functionality (see below);
- internationalisation (see below);
- expand into other retail segments and target smaller retailers;
- build up the CPG & Manufacturing business. Management has decided to give this part of the business more autonomy, including the ability to develop software specialisms for the verticals served; and
- cross-selling/up-selling. TXT Perform seeks to sell PLM to its retail customers – around 30% of customers buying integrated planning software for fashion also buy the PLM solution. TXT Perform will also require licence extensions when the customer increases the number of users, processes, product categories or geographies. The products can be used for one or more channels (retail, wholesale, online) and inreasingly customers are using across all channels.

Product development

The company has recently restructured its technical staff into two teams:

- the core R&D team, which makes up the Solution Centre based in Milan; and
- the business consultants responsible for the delivery of projects at customer sites.

The core R&D team has previously developed and launched TXT On-Cloud, TXT Mobile and mobile PLM and planning modules, and is currently developing in-memory processing capability and social media-related solutions. In-memory processing is already available for some modules and the plan is to make it available for all processes. The team also recently introduced AgileFit methodology, which provides standardised implementation models for selected verticals. This is designed to be used by the delivery teams to accelerate the implementation process and potentially enhance margins

International expansion strategy

Business is generated across the main geographies in which TXT Perform is based, with Italy making up only 13% of FY14 revenues (UK & Nordics 20%, France 20%, Germany 18%, North

America 13%, Spain 2% and other countries 14%). The focus of expansion is North America and Asia Pacific. The acquisition of Maple Lake in 2012 accelerated TXT's penetration of the North American market, adding a customer base of around 50 retailers. Progress in winning business in this region has been slower than originally expected and management has undertaken several initiatives to accelerate growth. The company has strengthened the sales and marketing operation, including adding a chief marketing office, and appointed a COO of North American operations (based in Toronto). At the beginning of last year, the company also established a US subsidiary, additional to the subsidiary in Toronto (ex-Maple Lake). The company is seeing the launch of larger new projects from existing customers and the pipeline has improved over the year.

In Q215, the company created a new Asia Pacific subsidiary and opened an office in Hong Kong from where it will service existing international clients with operations in Asia Pacific and will also market to local companies. TXT had not previously targeted local companies, as the view was that these companies were focused on growing the number of branches across China and were not in a position to pay for planning software. Management has observed that many of these companies are maturing, and shifting their focus from revenue growth to profit growth, with the goal of improving profitability to levels similar to Western competitors. Management sees more willingness from these local companies to adopt end-to-end planning tools and is now aiming to build up its sales and delivery capability in the region, with a mix of corporate and local staff. TXT Perform software already has the capability to deal with Chinese characters, although the companies that TXT will initially target are likely to operate in English. There may be some scope for localisation of the software, but there is no plan to do so in the near term. In June, the company announced a partnership with ebp consulting, which will provide implementation support for TXT Retail in the region. The Hong Kong office has had an early win, signing a contract for a licence worth more than €1m in Q215. The contract is to support 40 DFS and Galleria stores in airport hubs and tourist locations worldwide.

Supply chain management software market

The supply chain management software market was worth $9.9bn in 2014 (source: Gartner) and grew 10.8% y-o-y. Gartner expects the market (ex-procurement software) to continue to grow at a CAGR of 10% from 2014 to 2019. The top five vendors (SAP, Oracle, JDA Software, Manhattan Associates and Epicor) made up close to 50% of the market. The remainder was made up of a large number of small and medium-sized vendors, including TXT. The market splits into two broad areas: supply chain planning and supply chain execution software. TXT specialises in supply chain planning (SCP) software. Gartner estimates that the SCP software market was worth $3.66bn in 2014 (+8.7% y-o-y).

SAP and Oracle dominate this market and the other major player is JDA Software, acquired by RedPrairie at the end of 2012. TXT is focused on specific areas of the SCP market: fashion, luxury and retail integrated planning solutions, and sales and operations planning (S&OP) software for the CPG and industrial sectors. Based on the countries and niche segments in which TXT operates, the company estimates that it has an addressable software licence market of c €300m and a market share of c 5%.

The retail market has a number of characteristics that drive the need for specialised SCP solutions:

- In fashion, the speed at which new collections are required is increasing. Customers of high-fashion stores expect multiple collections each year, with new lines expected on an ongoing basis.
- Outsourced manufacturing of apparel and footwear, particularly to China and Vietnam, makes it harder to have visibility and control over suppliers.
- The market is highly price competitive, so any advantage that can be gained at the cost-of-goods level is crucial.

- Retailers want to provide high levels of customer service and to do so need to be able to have the right product in the right place at the right price.
- The ability to sell products through different channels (multi-channel) is becoming a necessity.

Competitors include companies that develop standalone supply chain software that can be integrated with a customer's existing ERP software, or companies that develop supply chain modules as part of their ERP offering. TXT software is designed to integrate with the main ERP vendors' software, including SAP and Microsoft. For markets such as retail, often the supply chain functionality within an ERP system is not sufficiently deep to maximise the benefits of the software. For all products, TXT also competes with inertia, ie the customer continues to use their own spreadsheets and other manual processes.

In recent Gartner Magic Quadrant reports, TXT has achieved challenger status for supply chain planning (high ability to execute) and visionary status for retail assortment management applications (high level of innovation). For S&OP, Gartner has given TXT a 'positive' rating, alongside Oracle, JDA Software and a small specialist provider, Steelwedge Software.

TXT Next: Systems engineering specialist

TXT Next is the engineering division of TXT, which provides specialised software solutions and services to four end-markets: aerospace & defence, automotive, high tech and banking & finance. The first three sectors are served through the Aerospace & High Tech Manufacturing (A&HT) division (72% of TXT Next FY14 revenues), and the Banking & Finance (B&F) division generated 28% of TXT Next FY14 revenues. Exhibit 5 shows the key areas supported in each end-market.

Exhibit 5: TXT Next business activities

	Aerospace & defence	Automotive	High tech	Banking & finance
Mission-critical systems software development	x	x	x	
Simulation and modelling	x			
Complex manufacturing	x	x		
Business intelligence & business process management	x	x	x	x
Independent verification & validation (IV&V)	x	x	x	x
IT governance and quality	x	x	x	x
Enterprise applications				x

Source: TXT e-solutions

The division has a customer base of more than 30 companies. Although most of the work is project based and therefore not recurring in nature, TXT has a very loyal customer base that provides repeat work. The A&HT division's revenues are generated from simulation and training (c 40%), embedded software (c 40%) and digital manufacturing (c 20%). The B&F division generates c 70% of revenue from IT governance (testing and software quality), c 20% from analysis and design (intranet and software innovation) and c 10% from application maintenance. B&F's target market is the Italian banking market, which is made up of c 45 medium-sized to large banks, of which five to six are top tier. Exhibit 6 gives examples of the type of work undertaken by both divisions.

Exhibit 6: Examples of work undertaken

A&HT division Client	Project	B&F division Client	Project
AgustaWestland	Bespoke on-board software for EH101 helicopter	ING Direct	Software testing
	Software for helicopter flight simulator	Banco Popolare	Intranet development & application maintenance
Aircraft manufacturers	Digital manufacturing	Credito Valtellinese	Intranet development & application maintenance
Magneti Marelli	In-car multimedia devices	Banca Mediolanum	Software IV&V
bticino	IT governance for door entry systems	Webank.it	Analysis and design of front-end applications
Siemens	Customised automation software	Banca Popolare di Milano	Analysis and design for systems compliance

Source: TXT e-solutions

Competitive environment

The division's competition is from customers' in-house R&D and IT departments, as well as from other local system integrators. The company estimates it has a 5-7% market share in system engineering in Italy. TXT Next has been a beneficiary of the trend to outsource, which gives the customer greater flexibility on cost and better access to specialist skills. Once a customer has outsourced a specialist area of R&D or IT, it is usually very difficult to bring it back in house, as the in-house knowledge and expertise will have diminished. TXT Next has worked closely with the majority of its customer base for many years, creating a strong partnership and demonstrating its specialist expertise.

Growth strategy

TXT Next is based in Italy and c 10% of FY14 revenues were generated outside Italy, generally arising from a 'follow-my-customer' strategy. The division continues to develop new solutions and expertise and is looking to expand the aeronautics business internationally (with the focus on embedded electronics, simulation and training and digital manufacturing), to grow the automotive and rail businesses (initially in Italy) and to grow the software testing business in the Italian banking sector. TXT has been making progress with this strategy, recently winning a contract with an international aerospace customer to provide simulation software and training, and seeing increasing demand from Italian banks as the Banca d'Italia tightens up regulations. The division will expand internationally where customers demand it, and is considering acquisitions within Europe to diversify the customer base and add local presence.

Sensitivities

Our forecasts and TXT's share price will be sensitive to the following factors:

- **General economic activity:** sales in both divisions will be influenced by the health of the economy. The TXT Next business has more exposure to the Italian economy, although the international customer base of many of its customers reduces this exposure.
- **Competition:** TXT Perform competes against larger software companies with greater resources for R&D and sales. There is also the risk that TXT Perform could lose business to ERP vendors that include SCP software in their solutions, although the specialist nature of TXT's solutions should reduce this risk.
- **Acquisition risk:** TXT plans to make further acquisitions, adding potential integration risk.
- **Currency:** the majority of TXT's revenues and costs are incurred in euros. There is some exposure to sterling, US dollar and Canadian dollar. The impact is mitigated by the costs of staffing local offices in the same currency as revenues.

Financials

Review of H115 results

For H115, TXT reported revenue growth of 13.2% y-o-y and expanded gross margins by 1.2%. We have excluded one-off income of €1.5m from H114 revenues, gross profit and EBITDA. EBITDA grew 32.8% y-o-y (+13.7% when excluding non-recurring costs of €0.4m in H114), expanding the EBITDA margin to 10.8%. The net cash position improved by €2.9m compared to H114, helped by the €3.2m proceeds from Kabouter's investment in treasury shares in Q215. The company continues to buy back shares, spending €0.5m to buy back c 65k shares in H115.

Exhibit 7: Half-yearly results

	H114	H115	Change
Revenues	27.5	31.1	13.2%
TXT Perform	16.6*	18.8	13.1%
TXT Next	10.9	12.3	13.4%
Gross margin	51.0%*	52.2%	1.2%
EBITDA	2.5*	3.4	32.8%
EBITDA margin	9.2%*	10.8%	1.6%
Normalised EBIT	2.0*	3.0	46.9%
Normalised EBIT margin	7.4%*	9.6%	2.2%
Reported EBIT	3.4	2.9	-15.7%
Reported EBIT margin	12.3%	9.2%	-3.1%
Net cash	6.6	9.5	42.7%

Source: TXT e-solutions. Note: *Excludes one-off income of €1.5m.

TXT Perform revenues grew 13.1% y-o-y (Q115 -0.4%, Q215 +27.8%). The recently opened Asia Pacific office in Hong Kong signed its first licence deal in Q2, boosting licence revenues by more than €1m. Project implementation has not yet kicked off, so this deal did not have an impact on Q2 project revenues, and is likely to ramp up slowly over the coming quarters.

TXT Next revenues grew 13.4% y-o-y (Q115 13.6%, Q215 13.3%). The business has seen strong demand from aerospace customers, as well as for its testing services in the Banking & Finance division.

Changes to forecasts

We have revised our forecasts to take into account the large TXT Perform licence deal in Q2, as well as continued strong demand within TXT Next. We assume that TXT Perform licence revenues fall back to the €3.6m level in Q3 (from €4.7m in Q2), and do not factor in any major deals in Asia Pacific for the remainder of this year. Gross margin in FY16 falls as lower-margin services revenues make up a larger proportion of the mix. Although FY15e net income is revised upwards, our net cash forecast is reduced to reflect higher working capital and the impact of share buybacks in H1. Overall, we have upgraded our EPS forecasts by 3.5% in FY15 and 6.6% in FY16.

Exhibit 8: Changes to forecasts

	FY15e old	FY15e new	change	y-o-y	FY16e old	FY16e new	change	y-o-y
Revenues (€m)	59.2	60.5	2.1%	11.2%	60.9	63.2	3.7%	4.5%
TXT Perform	35.6	36.2	1.6%	11.0%	37.5	37.8	0.8%	4.3%
TXT Next	23.6	24.3	3.0%	11.5%	23.5	25.5	8.4%	4.9%
Gross margin	51.5%	51.7%	0.3%		51.6%	50.9%	-0.7%	
Gross profit	30.5	31.3	2.6%	12.1%	31.4	32.2	2.4%	2.9%
EBITDA (€m)	6.0	6.2	3.5%	17.5%	7.0	7.4	5.4%	19.3%
EBITDA margin	10.1%	10.3%	0.1%		11.6%	11.7%	0.2%	
Normalised EBIT (€m)	5.2	5.4	4.1%	25.9%	6.4	6.8	5.9%	26.1%
Normalised EBIT margin	8.8%	8.9%	0.2%		10.6%	10.8%	0.2%	
Normalised net income (€m)	4.1	4.2	3.2%	29.8%	5.1	5.4	6.0%	27.8%
Normalised EPS (€)	0.34	0.35	3.5%	27.3%	0.42	0.45	6.6%	27.6%
Net cash (€m)	13.6	12.2	-9.9%	44.5%	15.7	14.7	-6.8%	19.9%
Dividend (€)	0.24	0.24	0.0%	4.0%	0.25	0.25	0.0%	3.8%

Source: Edison Investment Research

Valuation

On our revised earnings forecasts, TXT trades at an EV/Sales and P/E premium to European IT services companies, but at a discount to specialist SCP software suppliers. Based on the growth and profitability profiles of both groups, we would expect TXT to trade somewhere in the middle of the two groups. The mix of revenues is shifting in favour of the higher-margin TXT Perform, which should drive up multiples over time. We note a forecast dividend yield of approaching 3%, supported by TXT's strong cash position. Triggers for share price appreciation include large licence wins in TXT Perform, evidence of growing North American market share and further international wins in TXT Next. TXT continues to seek out acquisitions for both divisions, and has a strong cash position to fund this.

Multiples-based valuation

As the business is a combination of software and IT services, we include the valuation multiples for international SCP software companies, as well as European IT services providers.

Exhibit 9: Peer group valuation table

Company	Share price	Market cap	Rev growth	EBIT margin			EBITDA margin		EV/Sales		P/E	
		m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
TXT	**€ 8.36**	**€ 98**	**11.2%**	**4.5%**	**8.9%**	**10.8%**	**10.3%**	**11.7%**	**1.5**	**1.4**	**23.6**	**18.3**
Software companies with SCM software offerings												
American Software	$9.28	$267	8.7%	6.3%	12.9%	13.4%	19.9%	20.0%	1.8	1.7	29.0	24.4
Descartes	$17.13	$1,294	8.0%	12.2%	17.3%	18.8%	31.9%	32.8%	6.4	5.7	61.2	47.6
Kinaxis	C$ 33.13	C$ 791	23.5%	22.9%	20.6%	20.6%	25.0%	24.7%	8.5	6.9	59.2	49.4
Manhattan Associates	$64.83	$4,760	13.2%	10.1%	29.9%	31.1%	31.2%	32.2%	8.3	7.6	46.0	39.8
Oracle	$39.38	$170,755	1.1%	3.7%	43.7%	44.3%	47.7%	47.9%	4.1	4.0	14.6	13.3
SAP	€ 66.54	€ 81,745	15.3%	5.6%	30.5%	30.1%	33.2%	33.9%	4.4	4.2	18.1	16.6
Totvs	R 34.80	R 5,689	5.4%	7.3%	20.5%	21.2%	24.8%	24.9%	2.9	2.7	18.7	17.2
Average			**9.0%**	**10.7%**	**25.1%**	**25.6%**	**30.5%**	**30.9%**	**5.2**	**4.7**	**35.2**	**29.8**
European IT services companies												
AtoS	€ 70.91	€ 7,295	18.6%	6.4%	7.9%	8.4%	11.4%	11.9%	0.6	0.6	13.5	11.6
Cap Gemini	€ 86.75	€ 14,936	10.5%	9.6%	9.4%	10.3%	11.8%	12.8%	1.3	1.2	20.2	17.0
Computacenter	£7.67	£941	-2.5%	2.4%	2.8%	2.9%	3.9%	4.0%	0.3	0.3	15.3	14.1
Devoteam	€ 26.11	€ 213	2.8%	2.0%	6.6%	6.9%	7.5%	7.8%	0.4	0.4	17.8	15.1
Engineering II	€ 58.75	€ 734	1.7%	3.2%	10.1%	10.2%	13.1%	13.3%	0.7	0.7	14.6	14.1
Sopra Steria	€ 97.04	€ 1,980	55.0%	3.7%	5.3%	6.5%	7.3%	8.4%	0.7	0.7	17.9	13.3
SQS	£5.92	£185	13.6%	12.2%	7.4%	7.9%	9.6%	10.5%	0.7	0.6	14.5	12.7
Average			**14.2%**	**5.6%**	**7.1%**	**7.6%**	**9.2%**	**9.8%**	**0.7**	**0.6**	**16.3**	**14.0**

Source: Thomson. Note: Prices as at 6 August 2015.

Reverse DCF

We have performed a reverse 10-year DCF to calculate what we believe the market is factoring into the current share price. Using a WACC of 9%, long-term growth of 2%, working capital/sales of 0.5% and capex/sales of 1%, a revenue CAGR of 4.1% for 2017-24 and average EBITDA margins of 12.8% from FY17-24 are required to reach the current share price. Based on forecast market growth for SCP software and IT services, this appears conservative.

Exhibit 10: Financial summary

€'000s	2010	2011	2012	2013	2014	2015e	2016e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	37,458	40,138	46,499	52,560	54,378	60,473	63,206
Cost of sales	(18,757)	(19,522)	(22,351)	(24,854)	(26,455)	(29,182)	(31,016)
Gross profit	18,701	20,616	24,148	27,706	27,923	31,291	32,190
EBITDA	2,769	4,397	5,322	6,263	5,292	6,219	7,420
Operating Profit (before amort and except)	(776)	843	4,283	5,241	4,296	5,409	6,820
Amortisation of acquired intangibles	0	0	0	(285)	(285)	(285)	(285)
Exceptionals and other income	13	(4,581)	939	0	1,500	0	0
Other income	0	0	0	0	0	0	0
Operating Profit	(763)	(3,738)	5,222	4,956	5,511	5,124	6,535
Net Interest	(198)	72	(37)	(435)	(249)	(150)	(100)
Profit Before Tax (norm)	(974)	915	4,246	4,806	4,047	5,259	6,720
Profit Before Tax (FRS 3)	(961)	(3,666)	5,185	4,521	5,262	4,974	6,435
Tax	255	(591)	(188)	121	(1,046)	(995)	(1,287)
Profit After Tax (norm)	(719)	324	4,092	4,927	3,243	4,207	5,376
Profit After Tax (FRS 3)	(706)	(4,257)	4,997	4,642	4,216	3,979	5,148
Average Number of Shares Outstanding (m)	11.3	11.1	11.0	11.5	11.5	11.7	11.7
EPS - normalised (c)	(6)	3	37	43	28	36	46
EPS - normalised fully diluted (c)	(6)	3	34	41	28	35	45
EPS - (IFRS) (c)	2	128	45	40	37	34	44
Dividend per share (c)	0.0	90.9	18.2	22.7	22.7	23.6	24.5
Gross margin (%)	49.9	51.4	51.9	52.7	51.3	51.7	50.9
EBITDA Margin (%)	7.4	11.0	11.4	11.9	9.7	10.3	11.7
Operating Margin (before GW and except) (%)	-2.1	2.1	9.2	10.0	7.9	8.9	10.8
BALANCE SHEET							
Fixed Assets	14,328	7,735	18,570	17,850	18,019	17,543	17,278
Intangible Assets	11,526	6,561	16,621	15,370	15,078	14,583	14,318
Tangible Assets	1,528	819	1,154	1,118	1,249	1,268	1,268
Other	1,274	355	795	1,362	1,692	1,692	1,692
Current Assets	28,876	32,145	36,769	34,914	34,892	38,198	41,602
Stocks	793	661	1,388	1,451	1,820	2,000	2,100
Debtors	21,453	15,083	19,562	18,642	20,768	23,029	23,897
Cash	6,630	14,181	15,819	14,821	12,304	13,168	15,605
Other	0	2,220	0	0	0	0	0
Current Liabilities	(17,719)	(14,049)	(20,651)	(17,864)	(17,451)	(17,949)	(18,710)
Creditors	(15,615)	(12,292)	(15,155)	(14,512)	(15,297)	(16,995)	(17,756)
Short term borrowings	(2,104)	(1,757)	(5,496)	(3,352)	(2,154)	(954)	(954)
Long Term Liabilities	(8,398)	(5,567)	(8,666)	(6,965)	(6,491)	(4,791)	(4,791)
Long term borrowings	(3,870)	(2,155)	(4,301)	(2,896)	(1,685)	15	15
Other long term liabilities	(4,528)	(3,412)	(4,365)	(4,069)	(4,806)	(4,806)	(4,806)
Net Assets	17,087	20,264	26,022	27,935	28,969	33,001	35,379
CASH FLOW							
Operating Cash Flow	9,967	19,265	2,760	7,630	5,404	5,475	7,213
Net Interest	(198)	166	(37)	(435)	(249)	(150)	(100)
Tax	255	390	64	(1,615)	(1,344)	(995)	(1,287)
Capex	(2,340)	(2,159)	(405)	(483)	(615)	(620)	(620)
Acquisitions/disposals	(137)	2,403	(8,450)	19	0	0	0
Financing	324	(106)	1,690	(755)	(597)	2,653	0
Dividends	0	(10,292)	0	(2,107)	(2,615)	(2,599)	(2,770)
Net Cash Flow	7,871	9,667	(4,378)	2,254	(16)	3,765	2,436
Opening net debt/(cash)	7,248	(723)	(10,266)	(6,023)	(8,575)	(8,465)	(12,229)
HP finance leases initiated	0	0	0	0	0	0	0
Other	100	(124)	135	298	(94)	0	(0)
Closing net debt/(cash)	(723)	(10,266)	(6,023)	(8,575)	(8,465)	(12,229)	(14,666)

Source: TXT e-solutions, Edison Investment Research

Contact details	Revenue by geography
Via Frigia, 27 20126 Milano Italy +39 02 257711 www.txtgroup.com	N/A

Management team	
CEO: Marco Guida	**CFO: Paolo Matarazzo**
Mr Guida joined TXT e-solutions from Pirelli Group in 1994. As director of international operations, he successfully led the transformation of TXT e-solutions from an Italian organisation to an international one. In 2006, he became the general manager of TXT e-solutions and was appointed CEO of TXT Group in 2009.	Before joining TXT in 2007, Mr Matarazzo spent seven years as head of finance, administration and control in Europe for Eurand, a company listed on NASDAQ in 2007. Before that, he worked for the Recordati Group for seven years, with responsibility for treasury management. He spent three years as an analyst in London.
Chairman: Alvise Braga Illa	
Mr Braga Illa led the optical communications group and the network systems at the Massachusetts Institute of Technology. He directed the R&D Labs at Italtel, founded Zeltron and managed the restructuring of Ducati Energia. He founded TXT Automation Systems, sold to ABB in 1997, and TXT e-solutions in 1989.	

Principal shareholders	(%)
E-business Consulting	25.1
Alvise Braga Illa (chairman)	13.0
Treasury shares	9.9
Kabouter	7.7
Marco Guida	2.1
Lazard Frères Gestions SAS	1.1
AXA Investment Managers Paris	0.8
Fideuram Investimenti SGR SpA	0.4

Companies named in this report

American Software (AMSWA), Manhattan Associates (MANH), Oracle (ORCL), SAP (SAP), Totvs (TOTS3)

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