TXT E-SOLUTIONS OUTPERFORM

SECTOR: Industrials

Price (Eu): 8.34

Target Price (Eu): 11.00

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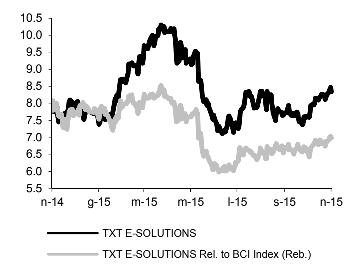
Stock Attractive On Fundamentals: Strong Order Intake Supports Higher Estimates

- **3Q results (preliminary revenues and net debt had already been disclosed): strong revenue growth.** In 3Q15, TXT's total revenues came to Eu14.3mn, up 12.3% YoY and 2.2% above our estimate, with software revenues growing by 15.4% and services by 11.3%. Both divisions contributed to revenue growth: TXT Perform grew by 9.5%, TXT Next by 16.6%. The gross margin stood at 52.5%, down 40bps YoY due to a less profitable revenue mix. EBITDA was Eu1.6mn in 3Q15, up 4.7% and 5.5% below our estimate. The EBITDA margin deteriorated 80bps YoY at 11.4% due to higher R&D and commercial expenses. Net profit came to Eu1.10mn, up 19.3% YoY boosted by a very low tax rate. This figure was 14.2% above our estimate. Finally, net cash was almost unchanged QoQ at Eu9.4mn.
- **Key 9M facts: high order intake.** In 9M15, TXT's revenues grew by 12% (9M14 results were normalized for non-recurring income) to Eu45.4mn, the EBITDA margin fell by 30bps YoY to11.0%, and net profit increased by 25.2% to Eu3.4mn. TXT Perform grew by 11.9% YoY, TXT Next by 14.4%; software revenues grew by 29.4% YoY. In 9M15 new orders were Eu46.9mn, up 18.8% YoY; TXT Perform's orders jumped by 20.2%, while those of TXT Next were up 16.6%. New customers and extension of licenses to existing customers include DFS (HK), Hanna Anderson (USA), Delta Galil (ISR), Swatch (CH), Sonae (P), Safilo (I), Furla (I), Moncler (I), Marni (I), Carpisa (I), Takko (D), Otto (D), Charles Voegele (D), Adidas (D), White Stuff (UK), Louis Vitton (F), Longchamp (F9, Sephora (F), Monoprix (F), Alinea (F), and Kenzo (F). A new subsidiary was incorporated in Singapore in addition to the subsidiary in Hong Kong.
- **Company outlook, estimates revised upwards.** The company stated that: "Final 3Q15 results exceed initial expectations. The acceleration in new orders in 9M15 allows to forecast positive business development in 4Q15". Following these 3Q15 results, we have raised our 2015 estimates slightly, increasing revenues by 1.0%, EBITDA by 5.2%, and net profit by 6.4%. In 2015, we forecast revenues will grow by 12.5% YoY to Eu6mn, EBITDA by 12.5% YoY to Eu6.4mn (we project a flat EBITDA margin YoY at 11.0%), and net profit by 30.8% to Eu4.33mn; net cash will reach Eu11.0mn by year's end. Changes to 2016 and 2017 EPS are +2.1% and +2.1% respectively.
- **OUTPERFORM reaffirmed; target price kept at Eu11.0.** We appreciate TXT Perform's focus on the luxury, fashion and specialist retail sectors, which will provide significant and sustainable growth opportunities, mostly in North America and Asia. We also like TXT Next's ability to generate constant, stable revenues and positive cashflow. A cash-positive balance sheet grants room to ensure high shareholder remuneration and/or pursue further external growth opportunities. Our target price remained unchanged at Eu11.0 per share.

Key Figures	2013A	2014A	2015E	2016E	2017E
Sales (Eu mn)	53	56	61	65	69
Ebitda (Eu mn)	6	7	6	8	9
Net profit (Eu mn)	5	4	4	5	7
EPS - New (Eu)	0.394	0.354	0.367	0.459	0.561
EPS - Old (Eu)	0.394	0.354	0.345	0.449	0.550
DPS (Eu)	0.222	0.227	0.229	0.255	0.280

Ratios & Multiples	2013A	2014A	2015E	2016E	2017E
P/E	21.2	23.6	22.7	18.2	14.9
Div. Yield	2.7%	2.7%	2.7%	3.1%	3.4%
EV/Ebitda	14.3	13.2	13.5	10.9	8.7
ROCE	25.2%	27.4%	26.7%	34.2%	42.0%

TXT E-SOLUTIONS - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): Unchanged

Change in EPS est:	2015E	2016E
	6.4%	2.1%

STOCK DATA

Reuters code:			TXTS.MI
Bloomberg code:			TXT IM
Performance	**1m**	**3m**	**12m**
Absolute	9.7%	-0.1%	3.3%
Relative	6.8%	5.3%	-16.2%
12 months H/L:			10.30/7.11

SHAREHOLDER DATA

No. of Ord. shares (mn):	13
Total No. of shares (mn):	13
Mkt Cap Ord (Eu mn):	108
Total Mkt Cap (Eu mn):	108
Mkt Float - ord (Eu mn):	47
Mkt Float (in %):	*43.6%*
Main shareholder:	
E-Business Consulting	26.4%

BALANCE SHEET DATA	**2015**
Book value (Eu mn):	31
BVPS (Eu):	2.35
P/BV:	3.5
Net Financial Position (Eu mn):	11
Enterprise value (Eu mn):	87

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TXT E-SOLUTIONS - *KEY FIGURES*		2013A	2014A	2015E	2016E	2017E
	Fiscal year end	12/12/2013	12/12/2014	12/12/2015	12/12/2016	12/12/2017
PROFIT & LOSS (Eu mn)	Sales	53	56	61	65	69
	EBITDA	6	7	6	8	9
	EBIT	5	5	5	7	8
	Financial income (charges)	(0)	(0)	(0)	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	5	5	5	7	9
	Taxes	0	(1)	(1)	(1)	(2)
	Tax rate (%)	-2.7%	20.0%	17.5%	20.0%	22.5%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	5	4	4	5	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	6	7	6	8	9
	Ebit excl. extraordinary items	5	5	5	7	8
	Net profit restated	5	4	4	5	7
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	13	13	13	13	13
	EPS stated fd	0.394	0.354	0.367	0.459	0.561
	EPS restated fd	0.394	0.354	0.367	0.459	0.561
	BVPS fd	2.148	2.227	2.354	2.562	2.840
	Dividend per share (ord)	0.222	0.227	0.229	0.255	0.280
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	56.3%	64.2%	62.4%	55.5%	49.9%
CASH FLOW (Eu mn)	Gross cash flow	5	5	4	7	8
	Change in NWC	0	(2)	(1)	(1)	(0)
	Capital expenditure	(0)	(1)	(1)	(1)	(1)
	Other cash items	0	(0)	0	0	0
	Free cash flow (FCF)	5	3	3	5	6
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	(2)	(3)	(3)	(3)	(3)
	Equity financing/Buy-back	(1)	(1)	3	0	0
	Change in Net Financial Position	3	(0)	3	2	3
BALANCE SHEET (Eu mn)	Total fixed assets	18	18	18	17	17
	Net working capital	5	6	7	8	9
	Long term liabilities	(3)	(4)	(5)	(6)	(6)
	Net capital employed	19	21	20	20	20
	Net financial position	9	8	11	13	17
	Group equity	28	29	31	33	37
	Minorities	0	0	0	0	0
	Net equity	28	29	31	33	37
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	108	108	108	108	108
	Adjustments (associate & minorities)	11	11	11	11	11
	Net financial position	9	8	11	13	17
	Enterprise value	89	89	87	84	81
RATIOS(%)	EBITDA margin*	11.9%	12.2%	10.5%	11.9%	13.5%
	EBIT margin*	9.4%	9.8%	8.7%	10.4%	12.2%
	Gearing - Debt/equity	-30.7%	-29.2%	-36.0%	-40.3%	-45.1%
	Interest cover on EBIT	11.4	22.0	53.5	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	25.2%	27.4%	26.7%	34.2%	42.0%
	ROE*	17.2%	14.7%	14.5%	16.9%	18.8%
	EV/CE	4.5	4.5	4.3	4.3	4.0
	EV/Sales	1.7	1.6	1.4	1.3	1.2
	EV/Ebit	18.0	16.4	16.2	12.5	9.6
	Free Cash Flow Yield	5.4%	3.2%	2.6%	5.2%	6.4%
GROWTH RATES (%)	Sales	13.0%	6.3%	9.5%	6.1%	6.2%
	EBITDA*	17.7%	8.4%	-5.1%	20.4%	20.3%
	EBIT*	16.1%	10.3%	-2.2%	26.4%	24.7%
	Net profit	-7.1%	-10.1%	3.7%	24.9%	22.3%
	EPS restated	-55.6%	-10.1%	3.7%	24.9%	22.3%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Results

TXT - Results

(Eu mn)	3Q14A	3Q15A	YoY	3Q15E	A vs E	9M14A	9M14A normalized	9M15A	YoY	YoY normalized
Total revenues	**12.7**	**14.3**	12.3%	**14.0**	**2.2%**	**41.7**	**40.2**	**45.4**	8.9%	12.9%
YoY growth	*-4.8%*	*12.3%*		*9.9%*		*5.2%*	*1.5%*	*8.9%*		
Gross Profit	**6.7**	**7.5**	11.5%	**7.4**	**2.0%**	**22.2**	**21.2**	**23.7**	6.8%	12.2%
gross margin	*52.9%*	*52.5%*		*52.6%*		*53.3%*	*52.6%*	*52.3%*		
EBITDA IFRS	**1.6**	**1.6**	4.7%	**1.7**	**-5.5%**	**5.6**	**4.5**	**5.0**	-10.4%	10.6%
EBITDA margin	*12.2%*	*11.4%*		*12.3%*		*13.4%*	*11.3%*	*11.0%*		
Depreciation and amortization	(0.3)	(0.3)		(0.4)		(1.0)	(1.0)	(0.8)		
on revenues	-2.7%	-2.2%		-2.7%		-2.4%	-2.4%	-1.8%		
EBIT IFRS	**1.2**	**1.3**	8.4%	**1.3**	**-1.6%**	**4.6**	**3.5**	**4.2**	-9.3%	17.9%
EBIT margin	*9.6%*	*9.3%*		*9.6%*		*11.1%*	*8.8%*	*9.2%*		
Financial income and charges	(0.1)	(0.0)		(0.1)		(0.2)	(0.2)	(0.1)		
Pre-tax profit	**1.1**	**1.3**	16.7%	**1.3**	**4.1%**	**4.4**	**3.4**	**4.1**	-8.2%	20.8%
Income taxes	(0.2)	(0.2)		(0.3)		(0.8)	(0.6)	(0.6)		
tax rate	*-17.9%*	*-16.1%*		*-23.5%*		*-18.3%*	*-18.2%*	*-15.2%*		
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0	0.0		
Net profit	**0.92**	**1.10**	19.3%	**0.96**	**14.2%**	**3.61**	**2.74**	**3.44**	-4.8%	25.2%
YoY growth	*26.1%*	*19.3%*		*4.5%*		*25.0%*	*-5.0%*	*-4.8%*		

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

Estimates

TXT - Change in estimates

(Eu mn)	2014A	2015E	2016E	2017E
Total revenues new	**55.9**	**61.2**	**65.0**	**69.0**
Total revenues old		60.6	64.3	68.3
% change		1.0%	1.0%	0.9%
EBITDA new	**6.8**	**6.4**	**7.8**	**9.3**
EBITDA old		6.1	7.6	9.2
% change		5.2%	1.8%	1.9%
EBIT new	**5.5**	**5.3**	**6.8**	**8.4**
EBIT old		5.0	6.6	8.3
% change		6.3%	2.1%	2.1%
PBT new	**5.2**	**5.2**	**6.8**	**8.5**
PBT old		4.9	6.6	8.4
% change		6.4%	2.1%	2.1%
Net profit new	**4.2**	**4.3**	**5.4**	**6.6**
Net profit old		4.1	5.3	6.5
% change		6.4%	2.1%	2.1%
Net cash new	**8.5**	**11.0**	**13.4**	**16.7**
Net cash old		11.7	14.1	17.3
% change		-5.6%	-4.5%	-3.5%

Source: Intermonte SIM estimates

TXT E-SOLUTIONS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT E-SOLUTIONS	**8.3**	**EUR**	**108.5**	**9.7%**	**-0.1%**	**-9.4%**	**6.8%**	**3.3%**	**3.9%**
AMERICAN SOFTWARE	10.4	USD	297.2	6.1%	12.5%	11.6%	13.9%	6.8%	14.1%
ATOSS SOFTWARE	57.5	EUR	228.5	22.2%	26.3%	22.2%	76.8%	91.5%	105.2%
CAPGEMINI	81.9	EUR	14,101.3	1.2%	-6.8%	4.9%	37.7%	57.0%	73.5%
COMPUTACENTER	7.5	GBP	816.6	-1.6%	-1.2%	7.5%	26.7%	19.5%	24.2%
DESCARTES SYSTEMS	23.2	CAD	1,756.9	-4.4%	1.4%	25.5%	34.4%	42.3%	86.0%
DEVOTEAM	31.3	EUR	237.6	6.5%	19.0%	33.8%	106.7%	135.9%	140.4%
ENGINEERING	56.5	EUR	705.6	5.7%	-4.9%	3.2%	50.5%	45.5%	39.7%
MANHATTAN ASSOCIATE	73.5	USD	5,369.5	13.9%	10.8%	42.0%	80.5%	84.3%	174.3%
ORACLE	40.4	USD	172,077.8	7.3%	1.8%	-8.1%	-10.3%	2.7%	20.4%
REPLY	120.0	EUR	1,122.3	16.5%	10.1%	26.4%	97.0%	111.6%	143.7%
SAP	73.8	EUR	90,602.2	24.4%	10.4%	10.5%	26.6%	36.8%	28.0%
SOPRA GROUP	111.6	EUR	2,271.1	12.4%	29.8%	42.7%	75.7%	91.1%	71.7%
SQS SOFTWARE	8.2	EUR	255.8	13.4%	-2.7%	-2.3%	11.9%	10.6%	52.0%
Mean performance				**9.5%**	**7.6%**	**15.0%**	**45.4%**	**52.8%**	**69.8%**
Italy Fixed	22,223.7	EUR	305,745	1.1%	-7.1%	-1.6%	16.9%	14.4%	16.4%

Source: FactSet

TXT E-SOLUTIONS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2015	EV/Sales 2016	EV/Ebitda 2015	EV/Ebitda 2016	EV/Ebit 2015	EV/Ebit 2016	P/E 2015	P/E 2016	Div Yield 2015	Div Yield 2016
TXT E-SOLUTIONS	**8.3**	**EUR**	**108.5**	**1.4**	**1.3**	**13.5**	**10.9**	**16.2**	**12.5**	**22.7**	**18.2**	**2.7%**	**3.1%**
AMERICAN SOFTWARE	10.4	USD	297.2	1.9	1.8	10.0	9.2	13.1	11.8	29.2	26.0		
ATOSS SOFTWARE	57.5	EUR	228.5	4.7	4.2	18.0	15.6	19.0	16.4	29.6	26.4	1.7%	1.9%
CAPGEMINI	81.9	EUR	14,101.3	1.3	1.2	11.3	9.0	13.6	11.0	19.1	15.9	1.6%	1.8%
COMPUTACENTER	7.5	GBP	816.6	0.3	0.3	6.7	6.3	9.5	8.9	14.7	13.9	5.1%	2.9%
DESCARTES SYSTEMS	23.2	CAD	1,756.9	6.7	5.8	20.7	17.3	39.1	30.3	25.5	22.4	0.0%	0.0%
DEVOTEAM	31.3	EUR	237.6	0.5	0.4	5.8	4.8	6.7	5.5	18.4	14.9	1.6%	1.9%
ENGINEERING	56.5	EUR	705.6	0.7	0.6	5.5	5.0	7.5	6.8	15.6	15.4	3.3%	3.5%
MANHATTAN ASSOCIATE	73.5	USD	5,369.5							49.7	44.2		
ORACLE	40.4	USD	172,077.8	4.2	4.0	9.1	8.7	9.7	9.1	15.4	14.1	1.4%	1.5%
REPLY	120.0	EUR	1,122.3	1.6	1.3	11.4	9.5	12.2	10.1	19.8	17.1	1.0%	1.2%
SAP	73.8	EUR	90,602.2	4.7	4.3	14.1	12.5	15.1	13.9	19.9	18.3	1.6%	1.7%
SOPRA GROUP	111.6	EUR	2,271.1	0.8	0.7	10.2	8.5	12.9	10.3	19.3	14.4	1.6%	1.7%
SQS SOFTWARE	8.2	EUR	255.8	0.9	0.8	10.0	8.2	13.3	10.7	18.9	16.2	1.7%	2.0%
Median				**1.4**	**1.3**	**10.2**	**9.0**	**13.1**	**10.7**	**19.5**	**16.7**	**1.6%**	**1.9%**

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

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

Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	11.00	Previous Target (Eu):	11.00
Current Price (Eu):	8.34	Previous Price (Eu):	8.36
Date of report:	06/11/2015	Date of last report:	06/08/2015

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