EDISON

TXT e-solutions

H116 results

International expansion

Software & comp services

TXT's H1 results confirm that TXT Retail has seen a recovery in licensing after a weak Q1 and TXT Next continues to experience strong organic growth. With the inclusion of the PACE acquisition from April, TXT Next is now more internationally focused and has a comprehensive solution suite to address the aerospace market. Key drivers of growth for the group are expansion into Asia Pacific in TXT Retail and growth of the aerospace business in TXT Next. Our forecasts are substantially unchanged.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	54.4	4.0	0.28	0.23	26.4	3.1
12/15	61.5	5.7	0.40	0.25	18.2	3.4
12/16e	70.2	7.0	0.47	0.26	15.5	3.6
12/17e	74.5	7.6	0.51	0.27	14.4	3.7

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

H116 – integration of PACE from Q216

TXT reported H116 revenue growth of 6.6%, or 0.2% once the €2m contributed by the PACE acquisition is excluded. While TXT Retail revenues declined 5.5% y-o-y in H116, this masks the recovery in licensing revenues in Q216 (+41% q-o-q) as contracts delayed from Q1 were closed. We highlight the progress made by the division's Asia Pacific business, which signed two contracts in the region during Q2 (one in India, one in China). TXT Next grew 25% in H116, with strong organic growth of 9% in the period, as previous internationalisation efforts have paid off.

Outlook and changes to forecasts

The retail market has been tough in H116, although the company started seeing a pick-up in demand for its solutions in Q2. Management expects to see a positive development for both divisions in Q316. We have left our forecasts substantially unchanged, although there is a small positive impact on diluted EPS now that all options have either been exercised or cancelled. TXT's net cash position declined to €0.5m at the end of H116 after paying for the FY15 dividend and the PACE acquisition. We forecast that the company will start generating cash again in H216, with net cash forecast to reach €2.3m by the end of FY16 and €4.2m by end FY17.

Valuation: International expansion to drive upside

On our slightly revised earnings forecasts, TXT trades at an EV/Sales and P/E premium to European IT services companies, but at a discount to specialist supply chain planning (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. With the addition of PACE, the mix of revenues is shifting in favour of higher-margin licence sales, which should drive up multiples over time. We note a forecast dividend yield of more than 3%. Triggers for share price appreciation include large licence wins in TXT Retail, evidence of growing North American and Asia Pacific market share and further international wins in TXT Next.

15 August 2016

Price	**€7.31**
Market cap	**€86m**
	$1.11:€1
Net cash (€m) at end H116	0.5
Shares in issue	11.7m
Free float	45.5%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.4)	(3.8)	(6.5)
Rel (local)	(5.3)	(0.4)	23.6
52-week high/low		€8.50	€6.99

Business description

TXT e-solutions has two divisions: TXT Retail, which provides software solutions for supply chain management in the international retail and consumer-driven industrial sectors; and TXT Next, which provides IT, consulting and R&D services to Italian aerospace, high-tech manufacturing, banking and finance customers.

Next events

Q316 results	8 November 2016

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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 Retail (53.5% of H116 revenues) and TXT Next (46.5% of H116 revenues). TXT Retail 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. 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.

Financials: PACE integration from Q216

TXT reported growth of 6.6% in H116, including a €2m contribution from the PACE acquisition, which was integrated from 1 April. TXT Retail revenues declined in H116 (-5.5% y-o-y), although this masks the pick-up in licensing in Q2, as customers finally closed contracts that had been delayed from Q1. TXT Next saw strong organic growth of 9% in H116, as it continues to develop its international business. The PACE acquisition added a further 16% to growth. Profitability was flat y-o-y, excluding the €0.3m of acquisition-related expenses. Net cash declined to €0.5m at the end of H116 from €8.3m at the end of FY15, reflecting payment for PACE and the dividend. We forecast net cash will increase to €2.3m by the end of FY16 and €4.2m by end FY17.

Exhibit 1: Changes to forecasts

	EPS (€)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2016e	0.46	0.47	1.9	7.07	7.05	(0.3)	7.92	7.90	(0.3)
2017e	0.50	0.51	1.4	7.68	7.61	(0.9)	8.53	8.51	(0.2)

Source: Edison Investment Research

Valuation: International expansion to drive 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. With the addition of PACE, the mix of revenues is shifting in favour of higher-margin licence sales, which should drive up multiples over time. We note a forecast dividend yield of c 3%. Triggers for share price appreciation include large licence wins in TXT Retail, evidence of growing North American and Asia Pacific market share and further international wins in TXT Next.

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 Retail competes against larger software companies with greater resources for R&D and sales. There is also the risk that TXT Retail 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, the 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 Retail (53.5% of H116 revenues) and TXT Next (46.5% of H116 revenues). TXT Retail 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, and via the acquisition of PACE in April.

Group strategy

Group strategy is to continue to drive revenue growth in the two businesses via greater internationalisation (in H116 57% of revenues were generated outside Italy), cross-selling and product development. The company continues to consider acquisitions in the TXT Next business. We discuss the individual divisional strategies in more depth later in this report.

Management

TXT is run by a long-established team: the chairman is the original founder of the company and the group CEO, Marco Guida, joined TXT in 1994. Divisional heads have many years' experience with the company. Key managers in TXT Retail are the divisional CEO, 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 the divisional COO, 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 Retail: Supply chain solutions for retail

TXT Retail 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, Singapore and Australia.

Demand drivers for retail planning software

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

- The digitisation of the retail sector has increased the requirement to sell products through different channels, with omni-channel retailing becoming a necessity.
- The speed at which new fashion collections are required is increasing. Customers of high-fashion stores expect multiple collections each year, with new lines frequently introduced.
- 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.

Product offering

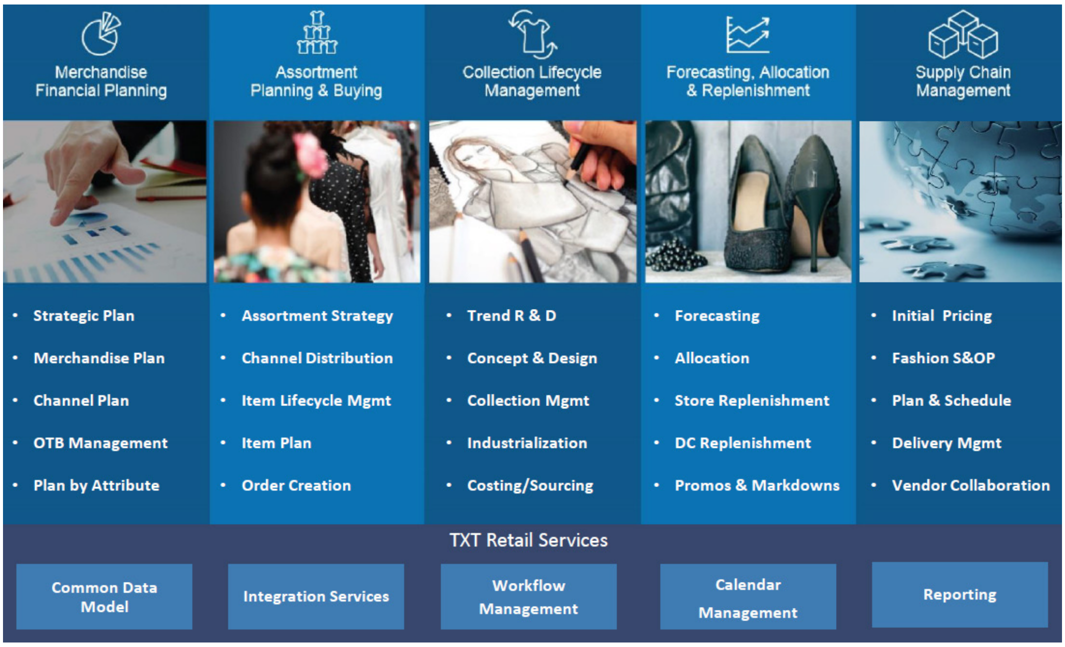
TXT's software solutions are based on its TXT Retail platform, developed to work with Microsoft SQL, Excel and Sharepoint. TXT Retail offers a suite of products across two main functional areas:

- End-to-end merchandise lifecycle management – c 80% of divisional revenues. The latest version of the software is TXT Retail 7.0, which is a customer-focused solution to plan a collection from concept to the shelves.
- Sales and operations planning – c 20% of divisional revenues.

End-to-end merchandise lifecycle management

TXT Retail has many years' experience in the retail sector 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. The lifecycle management module 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 operates in a single web environment and is Sharepoint-based, enabling all stakeholders to participate in and/or review the process wherever they are.

Exhibit 2: TXT's end-to-end retail solution



Source: TXT e-solutions

Sales and operations planning for CPG & Manufacturing

TXT's market focus is consumer packaged goods (CPG) and consumer-facing industrials such as Eckes-Granini, Hotel Chocolat, Lavazza, Liz Earle and Toyota. The company has c 100 customers for this solution.

TXT Retail customer base

Exhibit 3 demonstrates the strength of TXT's customer base in its chosen markets – TXT Retail has more than 350 customers. Customers won year to date include Arcadia Group (UK), Auchan China, Future Group (India), ECG (TXT's first customer in Belgium), REI – Recreational Equipment Inc (US) and Zalando (Germany). The company has also won licence extensions and follow-on work this year with existing customers including Adidas (Germany), Delta Galil (Israel), Groupe Dynamite (US), Missoni (Italy), Pandora (Denmark), Peek & Cloppenburg (Germany) and Takko (Germany).

Exhibit 3: Selected customers

Luxury		Global Brands		Fast Fashion		Specialty		Department Stores	
Boucheron	Loewe	Adidas	Furla	Aéropostale	Kenneth Cole	Apollo Optik	Safilo	Auchan	Sonae
Burberry	Louis Vuitton	Camper	Lacoste	Cotton On	Lindex	Delsey	Samsonite	Damart	Tesco
Céline	Moncler	Columbia	Levi's	Delta	Steve Madden	Game	Sephora	DFS	The White Company
Dior	Tag Heuer	Desigual	North Face	Fat Face	Topshop	Orange	Swatch	Hobbs	
Donna Karan	Tod's	Ecco	Ted Baker	Forever 21	White Stuff	Pandora	Ubisoft	Monoprix	

Source: TXT e-solutions

Growth strategy

The company traditionally targeted tier one customers, ie those with annual revenues of more than €250m, with the sweet spot being those over €500m. In recent years, the company has widened its addressable market to mid-tier retailers and has had success signing up multi-channel and online retailers. Department stores are a newer target market, as are smaller retailers. Other growth areas include:

- extension of product features and functionality (see below);
- geographic expansions: consolidate position in Europe, expand in North America, move from start-up position in Asia Pacific (see below);
- cross-selling/up-selling. 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. TXT Retail requires 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 increasingly customers are using across all channels; and
- CPG & Manufacturing business. Management has given this part of the business more autonomy, including the ability to develop software specialisms for the verticals served.

Product development

The company's technical staff is made up of 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, social media-related solutions and customer analytics. In-memory processing is already available for some modules and the plan is to make it available for all processes; this should enable faster processing of data, particularly for retailers with a high volume of product lines. Customer analytics aims to take advantage of customer data, such as that gathered from loyalty cards, to improve assortment planning. The team also developed the 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 Retail is based, with Italy making up only 11% of FY15 revenues (UK & Nordics 21%, France 21%, Germany 21%, North America 16%, Spain 2% and Asia Pac 8%). 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.

In 2015, the company created a new Asia Pacific subsidiary and opened offices in Hong Kong and Singapore from where it can service existing international clients with operations in Asia Pacific and also market to local companies. Last year, the company entered into a partnership with ebp consulting, which will provide implementation support for TXT Retail in the region. The Hong Kong office signed a contract for a licence worth more than €1m in H115, to support 40 DFS and Galleria stores in airport hubs and tourist locations worldwide. So far in 2016, the Hong Kong office has won two major contracts in Asia: Future Group in India (operates 18.5m square feet of retail space across more than 250 cities and towns) and Auchan China (230 hypermarkets and 45 shopping centres).

Supply chain management software market

The supply chain management software market was worth $10.1bn in 2015 (source: Gartner) and grew 2.8% y-o-y (11% in constant currency). Gartner expects the market (ex-procurement software) to continue to grow at a CAGR of 9.5% from 2015 to 2020. The top five vendors (SAP, Oracle, JDA Software, Manhattan Associates and Epicor) make up close to 50% of the market. The remainder is 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 $3.79bn in 2015 (+3% y-o-y or +11.3% in constant currency).

SAP and Oracle dominate this market and the other major player is JDA Software (owned by RedPrairie). 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. 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.

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 15%.

In recent Gartner Magic Quadrant reports, TXT has achieved leader status for merchandise assortment management applications (high level of innovation and ability to execute), challenger status for supply chain planning (high ability to execute) and niche status for S&OP.

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 (c 75% of TXT Next FY15 revenues) with the Banking & Finance (B&F) division generating the remaining revenues. In April, TXT Next acquired PACE, a German aerospace software business, which should increase the proportion of A&HT revenues.

Until relatively recently, the business was mainly staffed out of Italy. Partly through a "follow-my-customer" strategy and partly as a concerted effort to expand internationally (organically and via the PACE acquisition), the division now has more than 350 consultants based in Italy, Germany, France, the UK, the Netherlands and the US.

The division now has a customer base of more than 70 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. Exhibit 4 shows the key areas supported in each end-market.

Exhibit 4: TXT Next business activities

	Aerospace & Defence	Automotive	High Tech	Banking & Finance
Preliminary aircraft & aircraft systems design	**x**			
Aircraft evaluation & analysis	**x**			
Product configuration	**x**			
Fuel & operational efficiency management	**x**			
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		x	x	x
IT governance and quality		x	x	x
Enterprise applications				x

Source: TXT e-solutions. Note: Solutions in bold provided by PACE.

Expansion of the aerospace business

TXT Next already had a significant aerospace-focused business, providing IT, consulting and R&D services to mainly Italy-based business such as Finmeccanica (now renamed Leonardo). The addition of PACE brings specialist aerospace software as well as a larger international customer base. Customers include more than 50 companies covering aircraft and engine manufacturing, airlines, civil and defence operators, and maintenance, repair and overhaul (MRO), including Airbus, Air France & KLM Engineering, Boeing, COMAC, Delta Airlines, Embraer, GE Aviation, Lufthansa, Rolls-Royce, Safran Group and Sukhoi. Until the acquisition, TXT Next had predominantly generated revenues from services – PACE adds higher-margin software revenues, which over time should drive higher recurring revenues.

From PACE's perspective, TXT Next has a large number of qualified consultants who are able to provide services to PACE's client base. The business will continue to trade under the PACE brand, with the three founders continuing as managing directors.

TXT paid initial cash consideration of €5.6m for 79% of the company. There is also a put/call option for the remaining 21% stake (owned by the three founders) exercisable from 1 January 2020 to 31 December 2021 and contingent consideration payable subject to meeting targets for FY15 and FY16. Total consideration for the business, net of cash acquired, is €6.8m.

Competitive environment

The division's competition is from customers' in-house R&D and IT departments, as well as from other system integrators. 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

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) and to grow the automotive and rail businesses. TXT has been making progress with this strategy, recently winning contracts with Pilatus Aircraft (Switzerland), Reiser Simulation & Training (Germany) and Goodrich Control Systems (UK). At the end of June an office was opened in Switzerland to help support international growth. The division will expand internationally where customers demand it and continues to consider further acquisitions.

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 Retail competes against larger software companies with greater resources for R&D and sales. There is also the risk that TXT Retail 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 may 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, the 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 H116 results

TXT reported 6.6% y-o-y revenue growth in H116, with 14.2% growth in Q216. The PACE acquisition was integrated from 1 April; excluding the €2m revenues from PACE, revenues for H116 grew 0.2% and for Q216 grew 2.4% y-o-y.

TXT Retail declined 5.5% in H116 and 3.1% in Q216, reflecting the large software sale reported in Q215. We note that some of the delayed contracts from Q1 were closed in Q2, with divisional revenues up 24% q-o-q and licence & maintenance revenues up 41% q-o-q.

TXT Next grew 25.1% in H116 and 42.1% in Q216. Excluding PACE, the division still grew 8.9% in H116 and 9.5% in Q216.

We have excluded €0.3m of acquisition-related costs from operating expenses – normalised EBIT and EBITDA were slightly higher than a year ago and flat in margin terms. Net cash has reduced as a result of the upfront cash payment for PACE and payment of the FY15 dividend.

Exhibit 5: H1 financial highlights

€m	H116a	H115a	Change
Revenues	33.2	31.1	6.6%
TXT Retail	17.8	18.8	-5.5%
TXT Next	15.4	12.3	25.1%
Gross margin	52.2%	52.2%	0.1%
EBITDA	3.6	3.4	7.1%
EBITDA margin	10.9%	10.8%	0.0%
Normalised EBIT	3.2	3.0	5.2%
Normalised EBIT margin	9.5%	9.6%	-0.1%
Reported EBIT	2.8	2.9	-2.6%
Reported EBIT margin	8.4%	9.2%	-0.8%
Net cash	0.5	9.5	-95.1%

Source: TXT e-solutions, Edison Investment Research

Outlook and changes to forecasts

Management expects to see a positive development in Q3 for both divisions. We have made small changes to the divisional revenue split, which overall have no impact on group revenues but a small impact on gross margins. At the earnings level, we have reduced our dilutive share count forecasts now that there are no share options outstanding. This results in a small increase in normalised EPS in both years.

Exhibit 6: Estimate changes

	FY16e old	FY16e new	change	y-o-y	FY17e old	FY17e new	change	y-o-y
Revenues (€m)	70.3	70.2	0.0%	14.1%	74.5	74.5	0.0%	6.1%
TXT Retail	38.2	37.5	-2.0%	2.1%	39.8	39.0	-2.0%	4.1%
TXT Next	32.1	32.8	2.3%	31.9%	34.7	35.5	2.4%	8.3%
Gross margin	53.0%	53.1%	0.1%		53.7%	53.6%	-0.1%	
Gross profit	37.3	37.3	0.2%	15.4%	40.0	39.9	-0.1%	6.9%
EBITDA (€m)	7.9	7.9	-0.3%	18.6%	8.5	8.5	-0.2%	7.7%
EBITDA margin	11.3%	11.2%	0.0%		11.4%	11.4%	0.0%	
Normalised EBIT (€m)	7.2	7.1	-0.3%	22.8%	7.8	7.7	-0.9%	7.9%
Normalised EBIT margin	10.2%	10.2%	0.0%		10.4%	10.3%	-0.1%	
Normalised net income (€m)	5.6	5.5	-0.3%	16.9%	6.0	6.0	-0.9%	7.8%
Normalised EPS (€)	0.46	0.47	1.9%	17.4%	0.50	0.51	1.4%	7.7%
Reported basic EPS (€)	0.43	0.39	-8.8%	16.5%	0.46	0.43	-5.6%	11.3%
Net cash (€m)	2.4	2.3	-6.9%	-72.7%	4.4	4.2	-4.6%	84.7%
Dividend (€)	0.26	0.26	0.0%	4.0%	0.27	0.27	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. With the addition of PACE, the mix of revenues is shifting in favour of higher-margin licence sales, which should drive up multiples over time. We note a forecast dividend yield of more than 3%. Triggers for share price appreciation include large licence wins in TXT Retail, evidence of growing North American and Asia Pacific market share and further international wins in TXT Next.

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 7: Peer group valuation table

Company	Share price	Market cap	Rev growth		EBIT margin		EBITDA margin		EV/Sales (x)		P/E (x)	
		m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
TXT	**€ 7.31**	**€ 86**	**14.1%**	**6.1%**	**10.2%**	**10.3%**	**11.2%**	**11.4%**	**1.1**	**1.0**	**15.5**	**14.4**
Software companies with SCM software offerings												
American Software	$11.14	$320	3.6%	5.8%	9.7%	10.6%	16.1%	16.7%	2.1	2.0	33.8	30.9
Descartes	$20.31	$1,531	10.8%	10.7%	16.7%	18.4%	34.0%	35.1%	7.3	6.6	59.7	48.4
Kinaxis	C$ 59.51	C$ 1,432	25.7%	20.3%	24.2%	25.6%	26.4%	28.5%	11.6	9.7	71.7	57.2
Manhattan Associates	$59.07	$4,231	10.7%	9.7%	33.2%	33.9%	34.7%	35.3%	6.7	6.1	33.0	29.4
Oracle	$41.25	$170,021	2.4%	2.8%	42.9%	43.8%	45.2%	46.6%	4.2	4.0	14.9	13.7
SAP	€ 78.68	€ 96,659	5.4%	5.8%	28.7%	29.0%	32.9%	33.1%	4.7	4.4	20.5	18.6
Totvs	R 32.19	R 5,265	13.4%	7.7%	14.2%	14.6%	20.8%	21.6%	2.6	2.5	20.2	17.6
Average			***9.0%***	***12.2%***	***24.2%***	***25.1%***	***30.0%***	***31.0%***	***5.6***	***5.0***	***36.3***	***30.8***
European IT services companies												
AtoS	€ 90.09	€ 9,438	9.5%	2.7%	8.4%	8.7%	12.0%	12.4%	0.8	0.7	13.4	12.3
Cap Gemini	€ 86.05	€ 14,816	6.7%	4.0%	10.7%	11.4%	13.4%	13.9%	1.3	1.3	16.4	15.0
Computacenter	£8.19	£1,004	3.1%	2.3%	2.8%	2.9%	3.9%	3.9%	0.3	0.3	15.4	14.6
Devoteam	€ 43.06	€ 353	11.1%	7.8%	7.6%	8.3%	8.3%	8.8%	0.6	0.5	17.9	15.2
Reply	€ 123.00	€ 1,150	11.8%	9.1%	12.4%	12.6%	13.6%	14.2%	1.4	1.3	17.7	15.8
Sopra Steria	€ 103.70	€ 2,123	4.8%	3.2%	7.2%	8.0%	9.0%	9.8%	0.7	0.7	12.8	11.0
SQS	£5.35	£169	8.8%	5.0%	7.0%	7.8%	9.6%	10.0%	0.6	0.6	14.1	12.7
Average			***8.0%***	***4.9%***	***8.0%***	***8.5%***	***10.0%***	***10.4%***	***0.8***	***0.8***	***15.4***	***13.8***

Source: Thomson. Note: Prices as at 11 August 2016.

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 1% and capex/sales of 1% (the company does not capitalise development costs), a revenue CAGR of 3.6% for 2018-25 and average EBITDA margins of 11.7% from FY18-25 are required to reach the current share price. Based on forecast market growth for SCP software and IT services, this appears conservative.

Exhibit 8: Financial summary

	€'000s	2012	2013	2014	2015	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		46,499	52,560	54,410	61,540	70,247	74,508
Cost of sales		(22,351)	(24,854)	(26,455)	(29,189)	(32,918)	(34,586)
Gross profit		24,148	27,706	27,955	32,351	37,329	39,922
EBITDA		5,322	6,263	5,324	6,659	7,897	8,509
Operating Profit (before amort and except)		4,283	5,241	4,284	5,820	7,147	7,709
Amortisation of acquired intangibles		0	(285)	(285)	(285)	(549)	(637)
Exceptionals and other income		939	0	1,468	0	(300)	0
Other income		0	0	0	(740)	(400)	(500)
Operating Profit		5,222	4,956	5,467	4,795	5,898	6,572
Net Interest		(37)	(435)	(249)	(151)	(100)	(100)
Profit Before Tax (norm)		4,246	4,806	4,035	5,669	7,047	7,609
Profit Before Tax (FRS 3)		5,185	4,521	5,218	4,644	5,798	6,472
Tax		(188)	121	(1,046)	(762)	(1,160)	(1,294)
Profit After Tax (norm)		4,092	4,927	3,226	4,739	5,638	6,087
Profit After Tax (FRS 3)		4,997	4,642	4,172	3,882	4,639	5,177
Ave. Number of Shares Outstanding (m)		11.0	11.5	11.5	11.7	11.7	11.7
EPS - normalised (c)		37	43	28	41	47	51
EPS - normalised fully diluted (c)		34	41	28	40	47	51
EPS - (IFRS) (c)		45	40	36	33	39	43
Dividend per share (c)		18.2	22.7	22.7	25.0	26.0	27.0
Gross margin (%)		51.9	52.7	51.4	52.6	53.1	53.6
EBITDA Margin (%)		11.4	11.9	9.8	10.8	11.2	11.4
Operating Margin (before GW and except) (%)		9.2	10.0	7.9	9.5	10.2	10.3
BALANCE SHEET							
Fixed Assets		18,570	17,850	18,019	18,132	23,403	22,786
Intangible Assets		16,621	15,370	15,078	14,692	19,913	19,246
Tangible Assets		1,154	1,118	1,249	1,361	1,411	1,461
Other		795	1,362	1,692	2,079	2,079	2,079
Current Assets		36,769	34,914	34,892	38,946	38,702	42,466
Stocks		1,388	1,451	1,820	2,075	2,175	2,275
Debtors		19,562	18,642	20,768	27,791	28,869	30,620
Cash		15,819	14,821	12,304	9,080	7,658	9,572
Other		0	0	0	0	0	0
Current Liabilities		(20,651)	(17,864)	(17,451)	(18,349)	(21,778)	(22,294)
Creditors		(15,155)	(14,512)	(15,297)	(17,528)	(17,778)	(18,294)
Short term borrowings		(5,496)	(3,352)	(2,154)	(821)	(4,000)	(4,000)
Long Term Liabilities		(8,666)	(6,965)	(6,491)	(5,105)	(6,505)	(6,505)
Long term borrowings		(4,301)	(2,896)	(1,685)	0	(1,400)	(1,400)
Other long term liabilities		(4,365)	(4,069)	(4,806)	(5,105)	(5,105)	(5,105)
Net Assets		26,022	27,935	28,969	33,624	33,822	36,453
CASH FLOW							
Operating Cash Flow		2,760	7,630	5,404	2,412	6,369	7,774
Net Interest		(37)	(435)	(249)	(151)	(100)	(100)
Tax		64	(1,615)	(1,344)	(1,461)	(1,160)	(1,294)
Capex		(405)	(483)	(615)	(763)	(770)	(820)
Acquisitions/disposals		(8,450)	19	0	0	(5,430)	(600)
Financing		1,690	(755)	(597)	2,215	(354)	0
Dividends		0	(2,107)	(2,615)	(2,678)	(2,931)	(3,046)
Net Cash Flow		(4,378)	2,254	(16)	(426)	(4,375)	1,914
Opening net debt/(cash)		(10,266)	(6,023)	(8,575)	(8,465)	(8,259)	(2,258)
HP finance leases initiated		0	0	0	0	0	0
Other		135	298	(94)	220	(1,625)	0
Closing net debt/(cash)		(6,023)	(8,575)	(8,465)	(8,259)	(2,258)	(4,172)

Source: TXT e-solutions, Edison Investment Research

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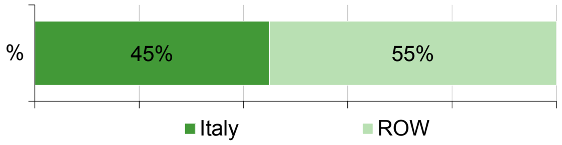
Revenue by geography



Management team

CEO: Marco Guida

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.

CFO: Paolo Matarazzo

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	29.7
Alvise Braga Illa (chairman)	14.9
Treasury shares	9.9
Kabouter	5.0
Allianz Global Investors	2.3
Marco Guida	2.1
Paolo Colombo	1.2

Companies named in this report

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