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TXT e-solutions

Q1 results

Profits maintained despite licensing weakness

Software & comp services

TXT reported a small year-on-year revenue decline for Q116. While TXT Next showed continued growth, TXT Perform saw delays in the signing of new licences, resulting in a decline in revenues. This was offset by reduced operating expenses. Management sees a more positive outlook in Q2 and maintains expectations for FY16. We leave our forecasts substantially unchanged.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	54.4	4.0	0.28	0.23	26.9	3.1
12/15	61.5	5.7	0.40	0.25	18.8	3.3
12/16e	70.3	7.1	0.46	0.26	16.3	3.5
12/17e	74.5	7.7	0.50	0.27	15.0	3.6

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

Weaker Q1 revenues offset by cost control

In Q116, TXT reported revenues of €14.4m, a small decline of 1.9% from a year ago. The company noted that customers in the fashion and luxury goods markets delayed or rescheduled new licence agreements, leading to TXT Perform revenues declining 8.3% y-o-y. Licensing and maintenance revenues were down 16.6% y-o-y and we estimate TXT Perform services revenues were down 2% y-o-y. Conversely, TXT Next grew 7.4% y-o-y in Q116, following on from growth of 14% in FY15. The company noted TXT Next won new international customers in Q1. The higher proportion of services revenues reduced the gross margin to 49.3% from 51.6% a year ago. Well controlled operating expenses resulted in EBITDA of €1.4m, marginally down from €1.5m reported a year ago. The high level of trade receivables outstanding at end FY15 reduced as customers paid invoices in Q1, resulting in net cash moving up to €13.7m from €8.3m at year-end.

Outlook and forecasts unchanged

The company is already seeing a more positive trend in Q216, and maintains its expectations for FY16. The PACE acquisition within the TXT Next division completed as planned on 1 April; this has already been factored into our estimates. Other than factoring in the put/call option in place to acquire the remaining 21% of PACE in 2020/21, our forecasts are substantially unchanged.

Valuation: International expansion to drive upside

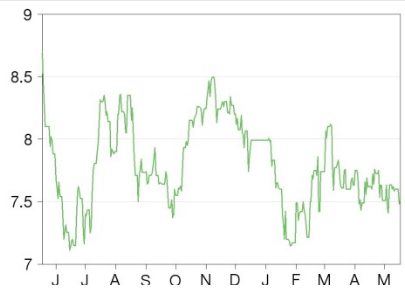
TXT trades on a P/E of 16.3x FY16e and 15.0x FY17e based on normalised EPS. This is a discount to global supply chain software vendors and a small premium to European IT services companies, which is reasonable considering the current split of the business. Even after acquiring PACE, we forecast a strong net cash position and a dividend yield above 3% for FY16 and FY17. If TXT is able to successfully integrate and grow the PACE business as well as sell TXT Next's existing services to PACE's international customers, we see scope for stronger growth in TXT Next and margin enhancement. For TXT Perform, key growth drivers include the North American business and the recently established Asia-Pacific operations.

18 May 2016

Price	**€7.52**
Market cap	**€89m**

Net cash (€m) at end Q116	13.7
Shares in issue	11.8m
Free float	42%
Code	TXT
Primary exchange	Borsa Italiana (STAR)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.2)	(2.5)	(13.0)
Rel (local)	2.6	(3.7)	13.5
52-week high/low		€8.70	€7.11

Business description

TXT e-solutions has two divisions: TXT Perform, 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 event

H116 results	10 August 2016

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Exhibit 1: 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	70,277	74,486
Cost of sales	(22,351)	(24,854)	(26,455)	(29,189)	(33,008)	(34,505)
Gross profit	24,148	27,706	27,955	32,351	37,269	39,980
EBITDA	5,322	6,263	5,324	6,659	7,919	8,527
Operating Profit (before amort and except)	4,283	5,241	4,284	5,820	7,169	7,777
Amortisation of acquired intangibles	0	(285)	(285)	(285)	(285)	(285)
Exceptionals and other income	939	0	1,468	0	0	0
Other income	0	0	0	(740)	(400)	(500)
Operating Profit	5,222	4,956	5,467	4,795	6,484	6,992
Net Interest	(37)	(435)	(249)	(151)	(100)	(100)
Profit Before Tax (norm)	4,246	4,806	4,035	5,669	7,069	7,677
Profit Before Tax (FRS 3)	5,185	4,521	5,218	4,644	6,384	6,892
Tax	(188)	121	(1,046)	(762)	(1,277)	(1,378)
Profit After Tax (norm)	4,092	4,927	3,226	4,739	5,655	6,142
Profit After Tax (FRS 3)	4,997	4,642	4,172	3,882	5,107	5,514
Average Number of Shares Outstanding (m)	11.0	11.5	11.5	11.7	11.8	11.8
EPS - normalised (c)	37	43	28	41	47	51
EPS - normalised fully diluted (c)	34	41	28	40	46	50
EPS - (IFRS) (c)	45	40	36	33	43	46
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	53.0	53.7
EBITDA Margin (%)	11.4	11.9	9.8	10.8	11.3	11.4
Operating Margin (before GW and except) (%)	9.2	10.0	7.9	9.5	10.2	10.4
BALANCE SHEET						
Fixed Assets	18,570	17,850	18,019	18,132	23,617	23,302
Intangible Assets	16,621	15,370	15,078	14,692	20,177	19,862
Tangible Assets	1,154	1,118	1,249	1,361	1,361	1,361
Other	795	1,362	1,692	2,079	2,079	2,079
Current Assets	36,769	34,914	34,892	38,946	36,302	40,082
Stocks	1,388	1,451	1,820	2,075	2,175	2,275
Debtors	19,562	18,642	20,768	27,791	28,881	30,611
Cash	15,819	14,821	12,304	9,080	5,246	7,196
Other	0	0	0	0	0	0
Current Liabilities	(20,651)	(17,864)	(17,451)	(18,349)	(18,599)	(21,115)
Creditors	(15,155)	(14,512)	(15,297)	(17,528)	(17,778)	(18,294)
Short term borrowings	(5,496)	(3,352)	(2,154)	(821)	(821)	(2,821)
Long Term Liabilities	(8,666)	(6,965)	(6,491)	(5,105)	(7,105)	(5,105)
Long term borrowings	(4,301)	(2,896)	(1,685)	0	(2,000)	0
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	34,216	37,164
CASH FLOW						
Operating Cash Flow	2,760	7,630	5,404	2,412	6,379	7,814
Net Interest	(37)	(435)	(249)	(151)	(100)	(100)
Tax	64	(1,615)	(1,344)	(1,461)	(1,277)	(1,378)
Capex	(405)	(483)	(615)	(763)	(720)	(720)
Acquisitions/disposals	(8,450)	19	0	0	(5,200)	(600)
Financing	1,690	(755)	(597)	2,215	0	0
Dividends	0	(2,107)	(2,615)	(2,678)	(2,915)	(3,066)
Net Cash Flow	(4,378)	2,254	(16)	(426)	(3,833)	1,950
Opening net debt/(cash)	(10,266)	(6,023)	(8,575)	(8,465)	(8,259)	(2,425)
HP finance leases initiated	0	0	0	0	0	0
Other	135	298	(94)	220	(2,000)	0
Closing net debt/(cash)	(6,023)	(8,575)	(8,465)	(8,259)	(2,425)	(4,375)

Source: TXT e-solutions accounts, Edison Investment Research

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