

TXT E-SOLUTIONS

OUTPERFORM

Price (Eu): 7.60

Target Price (Eu): 11.00

SECTOR: *Industrials*

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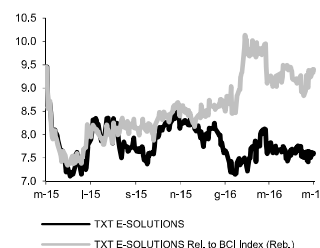
Soft Start To The Year As Expected, Constructive Outlook

- **Soft start to the year as expected.** In 1Q16, TXT's revenues came to Eu14.4mn, down 1.9% YoY and a touch below our forecast. The Next division performed well (+7.4% YoY) while the Perform division (-8.3% YoY) suffered from lower sales of licences and maintenance services (-16.6% YoY due to the difficulties and uncertainties in Fashion and Luxury markets). EBITDA stood at Eu1.4mn in 1Q16, down 6.2% YoY and 2.7% below our forecast. The margin on sales deteriorated by 40bps YoY due to a less profitable revenue mix. Net profit decreased by 9.5% YoY to Eu0.88mn, falling 7.1% short of our forecast as the tax rate came in higher than estimated. Net cash increased from Eu8.3mn as at the end of December 2015 to Eu13.7mn as at March 2016: quarterly cash generation was boosted by good collection of trade receivables.
- **Constructive outlook.** The Chairman commented: "After a very positive 2015 for TXT, during the first quarter of 2016 many retailers and brands have been delaying investments; however, the second quarter is already showing the positive impact of our commercial efforts and of our continuous improvement in references and product performance. North America is indeed one of our fundamental priorities.... We therefore confirm our overall objectives for 2016".
- **Estimates updated to include PACE.** Following the release of 1Q16 results, we have left our 2016 and 2017 estimates unchanged except for the consolidation of PACE for 9 months in 2016 and for 12 months in 2017. On average, we have therefore revised revenues and EBITDA upwards by 10.2% and 10.8% respectively in 2016-2017 (PACE reported revenues of Eu7.3mn and EBITDA of Eu0.8mn in 2015). Based on almost unchanged depreciation, net financial charges and tax rate, we have lifted our net profit estimates by 10.4% for 2016 and 11.5% for 2017. The net cash position is expected to fall to Eu1.1mn at the end of 2016, then increase to Eu2.2mn at the end of 2017: the total cash out (including put-call options) for the PACE acquisition should be Eu7.8mn.
- **OUTPERFORM reaffirmed; target increased to Eu11.00.** We appreciate TXT Perform's focus on the luxury, fashion and specialist retail sectors, which offer significant and sustainable growth opportunities. Within TXT Next, we believe that there are opportunities to extract revenue synergies from the acquisition of PACE over the next few years. Indeed, TXT Next will have the opportunity to supply PACE's customer base (large companies including Airbus, Boeing, Safran, GE Aviation, COMAC, Sukhoi, Embraer, Rolls-Royce, Air France & KLM Engineering, Lufthansa and Delta Airlines) with its on-board software, flight simulators, and flight training systems. Finally, a cash-positive balance sheet grants room to ensure high shareholder remuneration and/or pursue further external growth opportunities. We are increasing our target price to Eu11.00 per share (from Eu10.00) as a result of the consolidation of PACE.

Key Figures	2013A	2014A	2015A	2016E	2017E
Sales (Eu mn)	53	56	62	71	78
Ebitda (Eu mn)	6	7	6	7	9
Net profit (Eu mn)	5	4	4	5	6
EPS - New (Eu)	0.394	0.354	0.330	0.422	0.529
EPS - Old (Eu)	0.394	0.354	0.330	0.382	0.474
DPS (Eu)	0.222	0.227	0.248	0.263	0.280
Ratios & Multiples	2013A	2014A	2015A	2016E	2017E
P/E	19.3	21.5	23.1	18.0	14.4
Div. Yield	2.9%	3.0%	3.3%	3.5%	3.7%
EV/Ebitda	12.9	11.9	13.7	11.9	9.6
ROCE	25.2%	27.4%	20.9%	21.8%	23.9%

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TXT E-SOLUTIONS - 12m Performance



RATING: Unchanged

TARGET PRICE (€): from 10.00 to 11.00

Change in EPS est:	2016E	2016E
	+10.4%	+11.5%

STOCK DATA

Reuters code: TXTS.MI
Bloomberg code: TXT JM

Performance	1m	3m	12m
Absolute	-1.2%	5.3%	-19.6%
Relative	0.5%	-3.9%	-0.5%
12 months H/L:			9.46/7.11

SHAREHOLDER DATA

No. of Ord. shares (mn):	13
Total No. of shares (mn):	13
Mkt Cap Ord (Eu mn):	99
Total Mkt Cap (Eu mn):	99
Mkt Float - ord (Eu mn):	43
Mkt Float (in %):	43.6%
Main shareholder:	
E-Business Consulting	26.4%

BALANCE SHEET DATA

Book value (Eu mn):	36
BVPS (Eu):	2.74
P/BV:	2.8
Net Financial Position (Eu mn):	1
Enterprise value (Eu mn):	88

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on the last page of this report**

TXT E-SOLUTIONS - KEY FIGURES

		2013A	2014A	2015A	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	62	71	78
	EBITDA	6	7	6	7	9
	EBIT	5	5	5	6	8
	Financial income (charges)	(0)	(0)	(0)	(0)	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	5	5	5	6	8
	Taxes	0	(1)	(1)	(1)	(2)
	Tax rate (%)	-2.7%	20.0%	16.4%	20.0%	22.5%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	5	4	4	5	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	6	7	6	7	9
	Ebit excl. extraordinary items	5	5	5	6	8
	Net profit restated	5	4	4	5	6
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	13	13	13	13	13
	EPS stated fd	0.394	0.354	0.330	0.422	0.529
	EPS restated fd	0.394	0.354	0.330	0.422	0.529
	BVPS fd	2.148	2.227	2.585	2.742	2.983
	Dividend per share (ord)	0.222	0.227	0.248	0.263	0.280
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	56.3%	64.2%	75.4%	62.4%	53.0%
CASH FLOW (Eu mn)	Gross cash flow	5	5	6	7	8
	Change in NWC	0	(2)	(5)	(4)	(3)
	Capital expenditure	(0)	(1)	(1)	(1)	(1)
	Other cash items	0	(0)	0	(1)	1
	Free cash flow (FCF)	5	3	0	1	5
	Acquisitions, divestments & others	0	0	0	(5)	(1)
	Dividend	(2)	(3)	(3)	(3)	(3)
	Equity financing/Buy-back	(1)	(1)	2	0	0
	Change in Net Financial Position	3	(0)	(0)	(7)	1
BALANCE SHEET (Eu mn)	Total fixed assets	18	18	18	23	23
	Net working capital	5	6	11	15	18
	Long term liabilities	(3)	(4)	(4)	(5)	(7)
	Net capital employed	19	21	25	33	35
	Net financial position	9	8	8	1	2
	Group equity	28	29	34	36	39
	Minorities	0	0	0	0	0
	Net equity	28	29	34	36	39
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	99	99	99	99	99
	Adjustments (associate & minorities)	10	10	10	10	10
	Net financial position	9	8	8	1	2
	Enterprise value	81	81	81	88	87
RATIOS(%)	EBITDA margin*	11.9%	12.2%	9.6%	10.4%	11.6%
	EBIT margin*	9.4%	9.8%	7.8%	8.9%	10.4%
	Gearing - Debt/equity	-30.7%	-29.2%	-23.9%	-3.1%	-5.6%
	Interest cover on EBIT	11.4	22.0	31.8	63.1	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	25.2%	27.4%	20.9%	21.8%	23.9%
	ROE*	17.2%	14.7%	12.4%	14.3%	16.7%
	EV/CE	4.1	4.0	3.5	3.0	2.6
	EV/Sales	1.5	1.4	1.3	1.2	1.1
	EV/Ebit	16.3	14.8	16.9	13.9	10.8
	Free Cash Flow Yield	6.0%	3.5%	0.0%	0.8%	5.9%
GROWTH RATES (%)	Sales	13.0%	6.3%	10.1%	15.6%	9.0%
	EBITDA*	17.7%	8.4%	-12.8%	25.2%	21.9%
	EBIT*	16.1%	10.3%	-12.3%	31.6%	27.3%
	Net profit	-7.1%	-10.1%	-6.9%	27.9%	25.4%
	EPS restated	-55.6%	-10.1%	-6.9%	27.9%	25.4%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

TXT - Results

(Eu mn)	1Q15A	1Q16A	YoY	1Q16E	A vs E	2015A	2016E	YoY
Total revenues	14.7	14.4	-1.9%	14.5	-0.6%	61.5	71.2	15.6%
YoY growth	4.9%	-1.9%		-1.2%		10.1%	15.6%	
Gross Profit	7.6	7.1	-6.2%	7.3	-2.7%	32.4	38.1	17.8%
gross margin	51.6%	49.3%		50.3%		52.6%	53.6%	
EBITDA pre stock grant						6.7	7.4	
EBITDA IFRS	1.5	1.4	-5.1%	1.4	1.1%	5.9	7.4	25.2%
EBITDA margin	10.2%	9.8%		9.7%		9.6%	10.4%	
Depreciation and amortization on revenues	(0.3)	(0.2)		(0.3)		(1.1)	(1.1)	
	-1.7%	-1.4%		-1.7%		1.9%	1.6%	
EBIT IFRS	1.2	1.2	-1.9%	1.2	5.7%	4.8	6.3	31.6%
EBIT margin	8.4%	8.4%		7.9%		7.9%	9.1%	
Financial income and charges	(0.1)	(0.1)		0.0		(0.2)	(0.1)	
Pre-tax profit	1.2	1.1	-3.3%	1.2	-1.7%	4.6	6.2	33.7%
Income taxes	(0.2)	(0.2)		(0.2)		(0.8)	(1.2)	
tax rate	-16.3%	-21.7%		-17.4%		-16.4%	-20.0%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0	
Net profit	0.98	0.88	-9.5%	0.95	-7.1%	3.88	4.97	27.9%
YoY growth	-1.8%	-9.5%		-2.7%		-6.9%	27.9%	

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

Estimates

TXT - Change in estimates

(Eu mn)	2014A	2015 A v E	2016E	2017E
Total revenues new	55.9	61.5	71.2	77.6
Total revenues old		61.2	65.4	69.5
% change		0.5%	8.9%	11.6%
EBITDA pre stock grant new		6.7	7.9	9.6
EBITDA pre stock grant old		6.4	7.2	8.7
% change		3.3%	9.5%	10.6%
EBITDA new	6.8	5.9	7.4	9.0
EBITDA old		6.4	6.7	8.1
% change		-8.2%	10.2%	11.4%
EBIT new	5.5	4.8	6.3	8.0
EBIT old		5.3	5.7	7.2
% change		-10.3%	10.2%	11.5%
PBT new	5.2	4.6	6.2	8.0
PBT old		5.2	5.6	7.2
% change		-11.5%	10.4%	11.5%
Net profit new	4.2	3.9	5.0	6.2
Net profit old		4.3	4.5	5.6
% change		-10.3%	10.4%	11.5%
Net cash new	8.5	8.3	1.1	2.2
Net cash old		11.0	9.9	12.5
% change		-25.0%	-89.0%	-82.7%

Source: Intermonite SIM estimates

TXT E-SOLUTIONS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT E-SOLUTIONS	7.60	EUR	99	-1.2%	5.3%	-7.8%	-6.5%	-19.6%	-16.2%
AMERICAN SOFTWARE	---	USD	258	-0.6%	-1.5%	-8.0%	-12.0%	1.5%	-3.4%
ATOSS SOFTWARE	---	EUR	248	-6.5%	12.6%	8.0%	-9.5%	44.8%	108.8%
CAPGEMINI	---	EUR	13,948	-0.3%	17.8%	0.4%	-4.8%	1.5%	57.5%
COMPUTACENTER	---	GBP	1,034	-0.7%	6.9%	10.5%	-1.1%	14.7%	25.5%
DESCARTES SYSTEMS	---	CAD	1,845	-1.3%	13.8%	-5.2%	-12.5%	33.3%	72.9%
DEVOTEAM	---	EUR	321	1.0%	28.4%	28.4%	26.5%	81.9%	127.2%
ENGINEERING	66.00	EUR	825	1.1%	2.6%	17.9%	10.0%	18.3%	36.7%
MANHATTAN ASSOCIATE	---	USD	4,399	6.5%	23.1%	-14.6%	-7.8%	14.0%	97.3%
ORACLE	---	USD	164,376	-4.1%	11.5%	6.2%	8.4%	-9.5%	-5.4%
REPLY	121.00	EUR	1,132	-4.0%	9.5%	3.7%	-3.9%	27.3%	87.2%
SAP	---	EUR	84,140	-1.3%	4.9%	-6.2%	-6.7%	2.5%	22.3%
SOPRA GROUP	---	EUR	2,288	10.2%	32.3%	10.2%	6.6%	39.8%	41.0%
SQS SOFTWARE	---	EUR	189	-2.6%	-9.3%	-23.7%	-24.8%	-29.1%	-11.5%
Mean performance				-0.3%	11.3%	1.4%	-2.7%	15.8%	45.7%
Italy FTSE Mib	17,729.5	EUR	249,788	-2.4%	7.4%	-18.8%	-17.2%	-23.6%	-16.6%

Source: FactSet

TXT E-SOLUTIONS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
TXT E-SOLUTIONS	7.60	EUR	99	1.2	1.1	11.9	9.6	13.9	10.8	18.0	14.4	3.5%	3.7%
AMERICAN SOFTWARE	8.96	USD	258	1.6	1.5	9.9	9.6	14.0	13.4	28.9	25.6		
ATOSS SOFTWARE	62.29	EUR	248	4.6	4.0	17.0	14.9	18.1	15.7	28.8	25.7	1.7%	1.9%
CAPGEMINI	81.50	EUR	13,948	1.2	1.1	8.9	8.0	11.0	9.6	15.8	14.2	1.8%	1.9%
COMPUTACENTER	8.43	GBP	1,034	0.3	0.3	7.2	6.5	10.1	9.0	15.7	14.8	2.6%	2.8%
DESCARTES SYSTEMS	24.35	CAD	1,845	6.7	5.9	19.6	16.9	40.1	31.8	24.1	22.2	0.0%	0.0%
DEVOTEAM	42.38	EUR	321	0.5	0.5	7.6	6.1	7.0	5.7	17.9	15.3	1.4%	1.6%
ENGINEERING	66.00	EUR	825	0.7	0.6	5.7	5.1	7.9	7.0	15.8	15.1	0.0%	0.0%
MANHATTAN ASSOCIATE	60.98	USD	4,399	6.7	5.9	19.6	17.0	20.9	17.9	34.7	31.0		
ORACLE	39.61	USD	164,376	4.1	4.0	9.2	8.5	9.6	9.1	15.1	14.1	1.4%	1.5%
REPLY	121.00	EUR	1,132	1.4	1.2	9.7	8.2	10.6	8.8	17.6	15.1	0.9%	1.1%
SAP	68.49	EUR	84,140	4.0	3.6	12.0	10.9	13.2	11.9	17.2	16.0	1.8%	2.0%
SOPRA GROUP	115.50	EUR	2,288	0.8	0.7	8.4	7.2	10.4	8.7	14.1	11.9	1.7%	1.9%
SQS SOFTWARE	5.98	EUR	189	0.6	0.5	5.9	5.1			13.3	12.1	2.6%	2.8%
Median				1.4	1.2	9.2	8.2	10.8	9.3	17.2	15.1	1.7%	1.9%

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

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

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

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The stock price indicated is the reference price on the day prior to the publication of the report.

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BUY: 19.46%

OUTPERFORM: 42.95%

NEUTRAL: 31.11%

UNDERPERFORM: 0.0%

SELL: 0.0%

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BUY: 22.22%

OUTPERFORM: 46.67%

NEUTRAL: 18.42%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TEXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	11.00	Previous Target (Eu):	10.00
Current Price (Eu):	7.60	Previous Price (Eu):	7.59
Date of report:	17/05/2016	Date of last report:	10/03/2016

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