

TXT E-SOLUTIONS OUTPERFORM

Price (Eu): **12.03**

Target Price (Eu): **13.50**

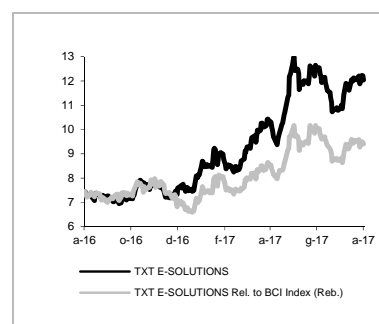
SECTOR: *Industrials*

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Plenty of Growth Options Ahead Following the Sale of TXT Retail

- Quarterly results below our expectations.** 2Q17 revenues (at constant perimeter, as PACE was consolidated in 2Q16) were down 3.4% to Eu18.1mn, mostly due to lower licence sales at TXT Retail. The gross margin went from 54.5% in 2Q16 to 53.2% in 2Q17, penalized by a less profitable revenue mix. EBITDA was Eu1.8mn, down 7.4% YoY. Gross operating margin was down 40bps YoY following significant R&D investments and higher commercial costs. Net profit was Eu0.93mn, down 17.9% YoY. Revenues, EBITDA and net profit were all below our forecast figures, by 9.3%, 7.7% and 17.8% respectively. Finally, net cash was in line with expectations at Eu5.5mn, lower QoQ due to the dividend payment.
- Disposal of TXT Retail.** On July 27th, TXT reached an agreement for the sale of TXT Retail to Aptos, an American retail software company, for Eu85mn in cash (subject to minor economic adjustments and several regulatory requirements): closing is expected by the end of October. If Aptos is listed, TXT has the right to exercise an option to acquire 10% of the shares offered in the IPO at the regular IPO price. In 2016 TXT Retail recorded revenues of Eu36.1mn, EBITDA of Eu4.5mn, and net profit of Eu3.0mn. Multiples of the transaction are 2.4x EV/revenues, 19x EV/EBITDA, and 28x PE on actual 2016 figures.
- Focus on TXT Next.** In 2016 TXT Next recorded revenues of Eu33.1mn, EBITDA of Eu3.8mn, and net profit of Eu2.5mn. In 1H17, the division reported revenues up 16.2% YoY (or +5.3% at constant perimeter) to Eu17.9mn, and gross margin up 250bps to 43.6%. In the short-term, TXT Next technologies find application in the aeronautical market, the auto industry, transport, and complex industrial systems. We expect revenue synergies from the integration of PACE due to the potential demand for NEXT's on-board software, flight simulators, and flight training systems from major companies in the PACE client base, including Airbus, Boeing, Safran, GE Aviation, Sukhoi, Embraer, Rolls-Royce, Air France & KLM, Lufthansa and Delta Airlines.
- OUTPERFORM reiterated; target cut to Eu13.50.** Pending the closing of the deal with Aptos (TXT Retail will be deconsolidated from the release of 3Q17 results) we are leaving our estimates unchanged. We have reduced our target price from Eu14.50 to Eu13.50 per share as TXT Retail was sold for slightly less than the figure in our SOP model. We reaffirm our positive view on the stock: TXT will focus on developing the TXT Next division, with the aim of growing internationally, as well as the newly-created TXT Sense division, a start-up with proprietary technology for active 3D representation and new augmented reality. Finally, the BoD will propose distribution of an extraordinary dividend. In our view, the TXT balance sheet has the flexibility needed for additional M&A, which is a positive catalyst given that management has built up a solid track record of integrating acquisitions.

TXT E-SOLUTIONS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 14.50 to 13.50

Change in EPS est:	2016A	2017E
	0.0%	0.0%

STOCK DATA

Reuters code: TXTS.MI
Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	11.4%	-6.8%	61.7%
Relative	7.8%	-6.8%	33.7%
12 months H/L:	12.99/6.96		

SHAREHOLDER DATA

No. of Ord. shares (mn):	13
Total No. of shares (mn):	13
Mkt Cap Ord (Eu mn):	156
Total Mkt Cap (Eu mn):	156
Mkt Float - ord (Eu mn):	68
Mkt Float (in %):	43.6%
Main shareholder:	
E-Business Consulting	26.4%

BALANCE SHEET DATA

	2017
Book value (Eu mn):	37
BVPS (Eu):	2.84
P/BV:	4.2
Net Financial Position (Eu mn):	6
Enterprise value (Eu mn):	134

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Key Figures	2014A	2015A	2016A	2017E	2018E
Sales (Eu mn)	56	62	69	76	83
Ebitda (Eu mn)	7	6	8	9	10
Net profit (Eu mn)	4	4	6	6	7
EPS - New (Eu)	0.358	0.333	0.477	0.532	0.596
EPS - Old (Eu)	0.358	0.333	0.477	0.532	0.596
DPS (Eu)	0.230	0.252	0.300	0.330	0.363

Ratios & Multiples	2014A	2015A	2016A	2017E	2018E
P/E	33.6	36.1	25.2	22.6	20.2
Div. Yield	1.9%	2.1%	2.5%	2.7%	3.0%
EV/Ebitda	19.3	22.2	16.3	14.5	12.7
ROCE	27.4%	20.9%	25.5%	26.3%	28.5%

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TXT E-SOLUTIONS - KEY FIGURES

		2014A	2015A	2016A	2017E	2018E
	Fiscal year end	12/12/2014	12/12/2015	12/12/2016	12/12/2017	12/12/2018
PROFIT & LOSS (Eu mn)	Sales	56	62	69	76	83
	EBITDA	7	6	8	9	10
	EBIT	5	5	7	8	9
	Financial income (charges)	(0)	(0)	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	5	5	7	8	9
	Taxes	(1)	(1)	(1)	(2)	(2)
	Tax rate (%)	20.0%	16.4%	20.8%	22.5%	25.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	4	6	6	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	7	6	8	9	10
	Ebit excl. extraordinary items	5	5	7	8	9
Net profit restated	4	4	6	6	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	13	13	13	13	13
	EPS stated fd	0.358	0.333	0.477	0.532	0.596
	EPS restated fd	0.358	0.333	0.477	0.532	0.596
	BVPS fd	2.227	2.585	2.636	2.844	3.082
	Dividend per share (ord)	0.230	0.252	0.300	0.330	0.363
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	64.2%	75.4%	63.0%	62.1%	61.0%
	CASH FLOW (Eu mn)	Gross cash flow	5	6	5	8
Change in NWC		(2)	(5)	4	(3)	(2)
Capital expenditure		(1)	(1)	(1)	(1)	(1)
Other cash items		(0)	0	(2)	0	0
Free cash flow (FCF)		3	0	6	4	5
Acquisitions, divestments & others		0	0	(5)	0	0
Dividend		(3)	(3)	(3)	(4)	(4)
Equity financing/Buy-back		(1)	2	(1)	0	0
Change in Net Financial Position	(0)	(0)	(3)	0	1	
BALANCE SHEET (Eu mn)	Total fixed assets	18	18	25	25	24
	Net working capital	6	11	7	10	13
	Long term liabilities	(4)	(4)	(4)	(4)	(4)
	Net capital employed	21	25	29	31	33
	Net financial position	8	8	5	6	7
	Group equity	29	34	34	37	40
	Minorities	0	0	0	0	0
Net equity	29	34	34	37	40	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	156	156	156	156	156
	Adjustments (associate & minorities)	17	17	17	17	17
	Net financial position	8	8	5	6	7
	Enterprise value	131	131	134	134	132
RATIOS(%)	EBITDA margin*	12.2%	9.6%	11.9%	12.1%	12.6%
	EBIT margin*	9.8%	7.8%	10.0%	10.3%	11.1%
	Gearing - Debt/equity	-29.2%	-24.6%	-15.7%	-15.7%	-17.9%
	Interest cover on EBIT	22.0	31.8	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	27.4%	20.9%	25.5%	26.3%	28.5%
	ROE*	14.7%	12.4%	16.4%	17.4%	18.0%
	EV/CE	6.6	5.7	4.9	4.5	4.1
	EV/Sales	2.3	2.1	1.9	1.8	1.6
	EV/Ebit	24.0	27.4	19.4	16.9	14.5
Free Cash Flow Yield	2.2%	0.2%	4.5%	2.8%	3.7%	
GROWTH RATES (%)	Sales	6.3%	10.1%	12.4%	10.4%	8.2%
	EBITDA*	8.4%	-12.8%	38.8%	12.0%	13.5%
	EBIT*	10.3%	-12.3%	44.0%	14.2%	15.7%
	Net profit	-10.1%	-6.9%	43.0%	11.6%	12.0%
	EPS restated	-10.1%	-6.9%	43.0%	11.6%	12.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Results

TXT - Results

(Eu mn)	2Q16A	2Q17A	YoY	2Q17E	A vs E	2016A	2017E	YoY
Total revenues	18.8	18.1	-3.4%	20.0	-9.3%	69.2	76.3	10.4%
<i>YoY growth</i>	14.2%	-3.4%		6.5%		12.4%	10.4%	
Gross Profit	10.2	9.7	-5.7%	10.5	-8.0%	37.1	41.3	11.3%
gross margin	54.5%	53.2%		52.4%		53.7%	54.1%	
EBITDA IFRS	1.9	1.8	-7.4%	1.9	-7.7%	8.2	9.2	12.0%
EBITDA margin	10.1%	9.7%		9.5%		11.9%	12.1%	
Depreciation and amortization <i>on revenues</i>	(0.3) -1.8%	(0.3) -1.9%		(0.2) -0.9%		(1.3) 1.9%	(1.3) 1.7%	
EBIT IFRS	1.6	1.4	-9.5%	1.7	-17.4%	6.9	7.9	14.2%
<i>EBIT margin</i>	8.3%	7.8%		8.6%		10.0%	10.3%	
Financial income and charges	(0.1)	(0.1)		(0.1)		0.1	0.1	
Pre-tax profit	1.5	1.3	-11.4%	1.6	-18.8%	7.0	8.0	14.1%
Income taxes <i>tax rate</i>	(0.4) -24.4%	(0.4) -29.9%		(0.5) -30.8%		(1.5) -20.8%	(1.8) -22.5%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0	
Net profit	1.13	0.93	-17.9%	1.13	-17.8%	5.56	6.20	11.6%
<i>YoY growth</i>	-17.2%	-17.9%		-0.4%		43.0%	11.6%	

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

TXT E-SOLUTIONS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT E-SOLUTIONS	12.03	EUR	156	11.4%	-6.8%	40.2%	60.4%	61.7%	46.4%
AMERICAN SOFTWARE	9.47	USD	282	-5.4%	-13.2%	-7.3%	-8.3%	-15.2%	1.6%
ATOSS SOFTWARE	76.93	EUR	306	9.8%	13.3%	17.5%	46.6%	28.2%	66.2%
CAPGEMINI	90.20	EUR	14,973	-0.5%	-6.1%	17.2%	12.5%	4.6%	5.3%
COMPUTACENTER	8.85	GBP	1,086	0.6%	6.5%	12.4%	10.6%	7.1%	18.0%
DESCARTES SYSTEMS	33.54	CAD	2,548	7.7%	6.2%	16.5%	17.1%	25.7%	51.8%
DEVOTEAM	76.46	EUR	602	9.9%	23.8%	28.2%	33.0%	75.0%	195.2%
MANHATTAN ASSOCIATE	43.37	USD	2,989	-7.1%	-4.4%	-12.0%	-18.2%	-26.0%	-32.6%
ORACLE	49.06	USD	202,946	-0.6%	7.9%	21.9%	27.6%	19.4%	24.0%
REPLY	189.50	EUR	1,772	14.1%	18.4%	56.5%	60.6%	53.4%	77.3%
SAP	89.93	EUR	110,479	-0.5%	-5.5%	4.2%	8.6%	14.1%	37.2%
SOPRA GROUP	143.25	EUR	2,881	3.1%	2.5%	29.8%	32.8%	38.1%	44.6%
SQS SOFTWARE	5.78	EUR	196	4.7%	13.5%	-12.8%	-12.7%	7.7%	-25.9%
Mean performance				3.6%	4.3%	16.3%	20.8%	22.6%	39.2%
Italy FTSE Mib	21,848.4	EUR	340,011	4.0%	1.7%	15.3%	13.6%	30.1%	-7.8%

Source: FactSet

TXT E-SOLUTIONS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
TXT E-SOLUTIONS	12.03	EUR	156	1.8	1.6	14.5	12.7	16.9	14.5	22.6	20.2	2.7%	3.0%
AMERICAN SOFTWARE	9.47	USD	282	1.8	1.7	10.6	10.0	15.1	14.1	29.1	26.7		
ATOSS SOFTWARE	76.93	EUR	306	5.2	4.5	17.8	15.6	18.8	16.5	30.3	27.1	1.7%	1.8%
CAPGEMINI	90.20	EUR	14,973	1.3	1.2	9.1	8.2	11.1	9.8	15.5	14.3	1.8%	2.0%
COMPUTACENTER	8.85	GBP	1,086	0.3	0.2	7.1	6.8	9.7	9.2	15.6	15.2	2.7%	2.7%
DESCARTES SYSTEMS	33.54	CAD	2,548	8.1	7.2	22.9	19.8	42.4	33.6	59.8	46.7	0.0%	
DEVOTEAM	76.46	EUR	602	0.9	0.8	9.7	8.2	10.4	8.7	22.5	19.8	1.2%	1.3%
MANHATTAN ASSOCIATE	43.37	USD	2,989	4.8	4.3	13.3	11.9	13.8	12.4	23.2	21.7		
ORACLE	49.06	USD	202,946	4.7	4.4	10.2	9.2	10.7	9.7	16.7	15.3	1.3%	1.4%
REPLY	189.50	EUR	1,772	1.9	1.7	13.6	11.7	14.8	12.6	22.2	19.3	0.7%	0.8%
SAP	89.93	EUR	110,479	4.7	4.3	14.7	13.1	16.1	14.4	21.7	19.8	1.5%	1.6%
SOPRA GROUP	143.25	EUR	2,881	0.9	0.8	9.3	8.1	10.8	9.4	15.0	13.6	2.4%	2.1%
SQS SOFTWARE	6.18	EUR	196	0.6	0.6	6.5	6.0	8.1	7.4	13.2	12.6	2.6%	2.9%
Median				1.8	1.7	10.4	9.6	12.5	11.1	21.9	19.5	1.6%	1.8%

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

TXT E-SOLUTIONS - Estimates Comparison with Consensus

(Eu mn)	2017			2018		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	76.3	75.6	0.9%	82.6	80.7	2.3%
Ebitda	9.2	8.8	4.5%	10.4	9.7	7.3%
Net Profit	6.2	5.7	9.5%	6.9	6.5	6.9%
EPS	0.532	0.531	0.2%	0.596	0.593	0.5%
Net Debt	5.8	6.6	-11.7%	7.2	9.2	-22.2%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM		
Current Target (Eu):	13.50	Previous Target (Eu):	14.50
Current Price (Eu):	12.03	Previous Price (Eu):	12.47
Date of report:	10/08/2017	Date of last report:	15/05/2017

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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Explanation of our ratings system:

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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	12.99 %
OUTPERFORM:	46.75 %
NEUTRAL:	39.61 %
UNDERPERFORM:	00.65 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (44 in total) is as follows:

BUY:	26.09 %
OUTPERFORM:	45.65 %
NEUTRAL:	28.26 %
UNDERPERFORM:	00.00 %
SELL:	00.00 %

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- o Intermonte SIM SpA has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Alerion Clean Power, Autostrade per l'Italia (Atlantia Group), Bolzoni, Carraro, Conafi, CNRC/Marco Polo Industrial Holding (on Pirelli shares), Generali Assicurazioni, Hitachi (on Ansaldo STS shares), Italiaonline, Prelios, RCS, Saras, Sorgente SGR (on Nova Re shares).
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- o Intermonte SIM SpA performs as a liquidity provider for the following companies: A2a, Ansaldo STS, Atlantia, Atsm, Autogrill, Azimut Holding, Banca Generali, Banca Mediolanum, Banco Popolare, BCA Monte dei Paschi di Siena, BCA POP Emilia Romagna, BCA POP Milano, BCA POP Sondrio, Buzzi Unicem, Campani, Cir-Comp. Ind. Riunite, Credito Emiliano, Danieli & c., Danieli & c. Risp. Nc, Diasorin, Enel, Eni, Exor, Generali, Hera, Intesa Sanpaolo, Intesa Sanpaolo Rsp, Iren, Italcementi, Italmobiliare, Italmobiliare RNC, Leonardo-Finmeccanica, Luxottica Group, Maire Tecnimont, Mediaset, Mediobanca, Parmalat, Prysmian, Recordati, S.i.a.s., Saipem, Salini Impregilo, Salvatore Ferragamo, Snam, Telecom Italia, Telecom Italia Risparmio, Terna, Tod's, Ubi Banca, Unicredit, Unipol, Unipolsai, Yoox Net A Porter.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CHL	1.08	SHORT
COGEME SET SPA	1.6	SHORT
IKF	0.57	SHORT
OLIDATA	0.88	SHORT
STEFANEL	0.71	SHORT
WASTE ITALIA	1.06	SHORT
ZEPHYRO SPA	1.4	LONG

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