

TXT E-SOLUTIONS OUTPERFORM

Price (Eu): **12.50**
 Target Price (Eu): **14.50**

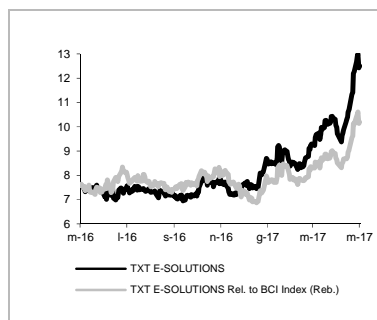
SECTOR: *Industrials*

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Good Start To The Year, Downgrade To Outperform On Lower Upside

- Quarterly results show strong top line growth but lower than forecast profitability.** In 1Q17, TXT's revenues came to Eu18.0mn, up 24.9% YoY as PACE contributed Eu1.9mn. Organic growth was +11.4%, of which +14.2% at RETAIL and +8.0% at NEXT. The sale of licences and maintenance grew 18.9% YoY at constant scope; sales of services were up 9.4% YoY. EBITDA prior to the stock grant stood at Eu1.6mn, up from Eu1.4mn in 1Q16 and 5.1% above our forecast. The margin on sales deteriorated YoY from 9.8% to 8.3% due to higher R&D and commercial expenses. Net profit stood at Eu0.64mn, down 27.7% hit by a higher tax rate. This figure turned out to be 32.8% below our forecast. Finally, net cash increased QoQ from Eu5.4mn to Eu8.8mn.
- Positive outlook; estimates unchanged.** In the second quarter the company foresees positive revenue and profit trends in both divisions. Feedback from customers has been constructive. Following the release of 1Q17 results we are leaving our 2017-18 estimates unchanged. For 2017, we assume 10.4% revenue growth, an improvement in the EBITDA margin from 11.9% to 12.1%, and net profit of Eu6.20mn (+11.6% YoY based on a 22.5% tax rate). The net cash position is set to be Eu5.8mn at YE17. For 2018, we assume an additional 8.2% revenue growth, a further improvement in the EBITDA margin to 12.6%, and net profit of Eu6.95mn (+12.0%). The net cash position is set to increase to Eu7.2mn at YE18.
- Downgrade to OUTPERFORM; target increased to Eu14.50.** We move our recommendation from Buy to OUTPERFORM following a strong share price performance (it is up over 60% YTD). Looking at fundamentals, we continue to appreciate TXT RETAIL's focus on the Retail, Fashion and Luxury sectors, which offer significant and sustainable growth prospects, and TXT NEXT's opportunities to extract revenue synergies from the PACE acquisition 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, Sukhoi, Embraer, Rolls-Royce, Air France & KLM, Lufthansa and Delta Airlines) with its on-board software, flight simulators, and flight training systems. Finally, the ungeared balance sheet leaves the door open for additional M&A: management has built up a solid track record of integrating acquired companies. Our valuation, now based on a DCF model and a peer comparison, yields a target price of Eu14.50 per share (from Eu12.00 previously).

TXT E-SOLUTIONS - 12m Performance



RATING: from BUY to Outperform

TARGET PRICE (Eu): from 12.00 to 14.50

Change in EPS est: **2017E 2018E**
0.0% 0.0%

STOCK DATA

Reuters code: TXTS.MI
 Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	25.3%	49.1%	64.9%
Relative	19.1%	34.5%	42.2%
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):	163
Total Mkt Cap (Eu mn):	163
Mkt Float - ord (Eu mn):	71
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:	4.4
Net Financial Position (Eu mn):	6
Enterprise value (Eu mn):	140

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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)		0.330	0.439	0.511	-5.544
DPS (Eu)	0.230	0.252	0.300	0.330	0.363

Ratios & Multiples	2014A	2015A	2016A	2017E	2018E
P/E	34.9	37.5	26.2	23.5	21.0
Div. Yield	1.8%	2.0%	2.4%	2.6%	2.9%
EV/Ebitda	20.2	23.2	17.1	15.2	13.3
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	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	163	163	163	163	163
	Adjustments (associate & minorities)	17	17	17	17	17
	Net financial position	8	8	5	6	7
	Enterprise value	137	137	140	140	138
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	6.9	6.0	5.2	4.7	4.3
	EV/Sales	2.5	2.2	2.0	1.8	1.7
	EV/Ebit	25.1	28.6	20.3	17.7	15.2
Free Cash Flow Yield	2.1%	0.2%	4.3%	2.7%	3.6%	
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)	1Q16A	1Q17A	YoY	1Q17E	A vs E	2016A	2017E	YoY
Total revenues	14.4	18.0	24.9%	18.0	0.0%	69.2	76.3	10.4%
<i>YoY growth</i>	-1.9%	24.9%		24.9%		12.4%	429.6%	
Gross Profit	7.1	9.5	33.9%	9.0	5.7%	37.1	41.3	11.3%
<i>gross margin</i>	49.3%	52.9%		50.0%		53.7%	54.1%	
EBITDA pre stock grant	1.4	1.6	11.5%	1.5	5.1%	8.2	9.2	
EBITDA IFRS	1.4	1.5	5.8%	1.5	-0.2%	8.2	9.2	12.0%
<i>EBITDA margin</i>	9.8%	8.3%		8.3%		11.9%	12.1%	
Depreciation and amortization <i>on revenues</i>	(0.2)	(0.3)		(0.2)		(1.3)	(1.3)	
	-1.4%	-1.9%		-1.1%		1.9%	1.7%	
EBIT IFRS	1.2	1.2	-5.1%	1.3	-11.3%	6.9	7.9	14.2%
<i>EBIT margin</i>	8.4%	6.4%		7.2%		10.0%	10.3%	
Financial income and charges	(0.1)	(0.2)		(0.1)		0.1	0.1	
Pre-tax profit	1.1	0.9	-16.9%	1.2	-21.8%	7.0	8.0	14.1%
Income taxes	(0.2)	(0.3)		(0.3)		(1.5)	(1.8)	
<i>tax rate</i>	-21.7%	-31.8%		-20.8%		-20.8%	-22.5%	
Profit from discontinued operations	0.0	0.0		0.0		0.0	0.0	
Net profit	0.88	0.64	-27.7%	0.95	-32.8%	5.56	6.20	11.6%
<i>YoY growth</i>	-9.5%	-27.7%		7.6%		43.0%	11.6%	

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

Estimates

TXT - Change in estimates				
(Eu mn)	2015A	2016 AvE	2017E	2018E
Total revenues new	61.5	69.2	76.3	82.6
Total revenues old		71.2	76.3	82.6
% change		-2.8%	0.0%	0.0%
EBITDA pre stock grant new	6.7	8.2	9.7	11.0
EBITDA pre stock grant old		7.9	9.7	11.0
% change		3.9%	0.0%	0.0%
EBITDA new	5.9	8.2	9.2	10.4
EBITDA old		7.9	9.2	10.4
% change		3.9%	0.0%	0.0%
EBIT new	4.8	6.9	7.9	9.1
EBIT old		6.6	7.9	9.1
% change		5.3%	0.0%	0.0%
PBT new	4.6	7.0	8.0	9.3
PBT old		6.5	8.0	9.3
% change		8.5%	0.0%	0.0%
Net profit new	3.9	5.6	6.2	6.9
Net profit old		5.2	6.2	6.9
% change		7.5%	0.0%	0.0%
Net cash new	8.3	5.4	5.8	7.2
Net cash old		1.5	5.8	7.2
% change		n.m.	0.0%	0.0%

Source: Intermonte SIM estimates

Valuation

Our valuation is now based on a discounted cash flow (DCF) model and a comparison using peers' multiples.

TXT is showing potential upside of 16.9% from the current share price of Eu12.40. At our target (Eu14.50 per share), the stock would be trading at 23.9x P/E (net of treasury shares and ex-cash), 15.4x EV/EBITDA and 1.9x EV/sales based on our 2018 estimates.

Further upside to our valuation might come from higher than forecast growth in revenues from licences and maintenance, quicker than expected improvements in profitability, or balance sheet re-leverage (through external growth or cash distributions to shareholders).

TXT - Valuation Summary

Valuation approach	Equity value p.s. (Eu)	Note
DCF	12.4	WACC 8.0%, g 2.5%, TV 2022
SOP	16.3	peers EV/EBITDA and EV/Sales, 2017-18
Simple average	14.50	
Current share price	12.4	
Upside/Downside	16.9%	

Source: Intermonte SIM

DCF

TXT - DCF model

(Eu mn)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E	TV
Sales	51.9	60.7	69.2	76.3	82.6	86.7	91.0	95.6	98.0
EBITDA	6.8	5.9	8.2	9.2	10.4	11.1	11.7	12.4	12.7
DA	(1.3)	(1.1)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.2)	(1.3)
EBIT	5.5	4.8	6.9	7.9	9.1	9.8	10.5	11.2	11.5
Taxes	(1.1)	(0.8)	(1.4)	(1.8)	(2.3)	(2.4)	(2.6)	(2.8)	(2.9)
tax rate	-20.0%	-16.4%	-20.8%	-22.5%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Change in WC	(1.5)	(4.7)	3.6	(2.8)	(2.3)	(0.4)	(0.4)	(0.5)	(0.2)
Capex	(0.6)	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)
Capex/Sales	-1.2%	-1.3%	-1.1%	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
FCF	3.6	-0.4	9.7	3.9	5.1	7.4	7.9	8.3	8.8
TV									159.1
year	0	0	0	1	2	3	4	5	6
WACC	0	0	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discounted WACC	1.00	1.00	1.00	0.93	0.86	0.79	0.74	0.68	0.63
Discounted Free cash flow	3.6	-0.4	9.7	3.6	4.4	5.9	5.8	5.7	100.3

Discounted Free Cash Flows	35.0
Terminal value	100.3
Total EV	135.2
Net cash	5.4
Treasury shares	12.3
Excess cash	3.1
Total EQUITY	156.0
N. of shares (mn)	13.0
TARGET PRICE (Eu)	12.0

TV / Total EV	74.2%
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WACC	8.0%
Terminal growth	2.5%

Peer Comparison

TXT - Valuation based on peer group EV/EBITDA

(Eu mn)	2015A	2016A	2017E	2018E
RETAIL EBITDA	4.6	4.5	5.2	6.0
EV/EBITDA peer group	11.3 x	10.5 x	13.0 x	11.7 x
EV PERFORM	52.1	46.8	67.1	70.0
NEXT EBITDA	2.0	3.8	4.5	5.0
EV/EBITDA peer group	8.2 x	7.7 x	12.1 x	10.4 x
EV NEXT	16.6	29.0	54.9	52.3
EV based on multiples	68.7	75.7	122.0	122.3
Net cash	8.3	5.4	5.8	7.2
Treasury shares	16.9	16.9	16.9	16.9
Equity Value	93.9	98.0	144.7	146.4
N. of shares	13.0	13.0	13.0	13.0
Equity Value p.s.	7.2	7.5	11.1	11.3
Average Equity Value p.s.				11.2

Source: Factset data & Intermonte estimates

TXT - Valuation based on peer group EV/Sales

(Eu mn)	2015A	2016A	2017E	2018E
RETAIL Sales	36.7	36.1	39.7	42.9
EV/Sales peer group	4.4 x	4.1 x	4.9 x	4.5 x
EV PERFORM	159.5	146.2	192.5	193.2
NEXT Sales	24.9	33.1	36.6	39.6
EV/Sales peer group	1.1 x	1.1 x	1.7 x	1.5 x
EV NEXT	27.4	34.7	62.3	59.5
EV based on multiples	186.9	180.9	254.7	252.7
Net cash	8.3	5.4	5.8	7.2
Treasury shares	16.9	16.9	16.9	16.9
Equity Value	212.1	203.2	277.5	276.8
N. of shares	13.0	13.0	13.0	13.0
Equity Value p.s.	16.3	15.6	21.3	21.3
Average Equity Value p.s.				21.3

Source: Factset data & Intermonte estimates

TXT E-SOLUTIONS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
TXT E-SOLUTIONS	12.50	EUR	163	25.3%	49.1%	59.4%	66.7%	64.9%	31.4%
AMERICAN SOFTWARE	10.75	USD	317	1.7%	4.8%	-0.8%	4.1%	21.5%	18.8%
ATOSS SOFTWARE	67.76	EUR	269	-1.8%	6.7%	19.9%	29.1%	10.2%	54.7%
CAPGEMINI	96.35	EUR	15,994	10.2%	24.5%	33.0%	20.2%	19.2%	20.8%
COMPUTACENTER	8.16	GBP	1,001	11.2%	2.6%	12.2%	1.9%	-3.1%	10.8%
DESCARTES SYSTEMS	32.37	CAD	2,459	8.3%	12.5%	13.7%	13.1%	30.0%	80.7%
DEVOTEAM	63.47	EUR	497	3.2%	6.0%	28.1%	10.4%	50.0%	176.0%
MANHATTAN ASSOCIATE	45.19	USD	3,138	-8.4%	-7.8%	-16.0%	-14.8%	-24.6%	-15.2%
ORACLE	45.08	USD	185,490	2.0%	10.5%	14.3%	17.2%	13.2%	3.5%
REPLY	162.00	EUR	1,515	10.2%	35.6%	44.0%	37.3%	32.8%	72.6%
SAP	94.66	EUR	116,290	3.5%	9.7%	23.8%	14.3%	38.2%	41.2%
SOPRA GROUP	140.00	EUR	2,814	9.0%	24.7%	51.9%	29.8%	21.7%	71.2%
SQS SOFTWARE	4.50	EUR	172	-1.5%	-23.7%	-20.1%	-23.4%	-9.2%	-35.8%
Mean performance				5.6%	11.9%	20.3%	15.8%	20.4%	40.8%
Italy FTSE Mib	21,575.5	EUR	328,766	7.9%	14.4%	28.3%	12.2%	22.2%	-6.6%

Source: FactSet

TXT E-SOLUTIONS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
TXT E-SOLUTIONS	12.50	EUR	163	1.8	1.7	15.2	13.3	17.7	15.2	23.5	21.0	2.6%	2.9%
AMERICAN SOFTWARE	10.75	USD	317	2.1	2.0	14.8	11.6	23.1	15.9	42.2	30.7		
ATOSS SOFTWARE	67.76	EUR	269	4.5	3.9	15.5	13.6	16.4	14.3	26.7	23.9	1.9%	2.1%
CAPGEMINI	96.35	EUR	15,994	1.3	1.2	9.7	8.7	11.6	10.3	16.6	15.2	1.7%	1.9%
COMPUTACENTER	8.16	GBP	1,001	0.2	0.2	6.8	6.4	8.8	8.3	14.4	14.2	2.8%	2.9%
DESCARTES SYSTEMS	32.37	CAD	2,459	7.8	6.8	21.9	18.8	39.5	30.7	55.6	44.8	0.0%	
DEVOTEAM	63.47	EUR	497	0.8	0.7	7.8	6.7	8.4	7.2	19.2	17.2	1.4%	1.4%
MANHATTAN ASSOCIATE	45.19	USD	3,138							23.8	21.9		
ORACLE	45.08	USD	185,490	4.8	4.5	10.8	9.8	11.4	10.6	17.1	15.9	1.4%	1.5%
REPLY	162.00	EUR	1,515	1.7	1.5	12.2	10.5	13.3	11.3	19.5	17.1	0.8%	0.9%
SAP	94.66	EUR	116,290	5.0	4.5	15.3	13.6	16.7	15.0	22.5	20.7	1.4%	1.6%
SOPRA GROUP	140.00	EUR	2,814	0.9	0.8	8.8	7.8	10.5	9.2	14.5	13.2	1.7%	1.9%
SQS SOFTWARE	5.42	EUR	172	0.5	0.5	5.6	5.2	7.1	6.5	12.1	11.7	3.0%	3.2%
Median				1.7	1.5	10.8	9.8	11.6	10.6	19.4	17.1	1.6%	1.9%

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

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM	Previous Recomm:	BUY
Current Target (Eu):	14.50	Previous Target (Eu):	12.00
Current Price (Eu):	12.50	Previous Price (Eu):	9.29
Date of report:	15/05/2017	Date of last report:	10/03/2017

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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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OUTPERFORM:	48.70 %
NEUTRAL:	33.77 %
UNDERPERFORM	00.65 %
SELL:	00.00 %

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NEUTRAL:	28.26 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IKF	0,57	SHORT
OLIDATA	0,88	SHORT
PIERREL SPA	0,62	SHORT
PREMUDA	0,53	SHORT
STEFANEL	0,65	SHORT
WASTE ITALIA	1,06	SHORT
ZEPHYRO SPA	1,4	LONG

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