

TXT e-solutions

Q118 results

On the acquisition trail

TXT reported year-on-year revenue and EBITDA growth in Q118, with a particular boost to software licence sales. The change in the largest shareholder has prompted changes to the board, and is likely to mark the start of a series of acquisitions to accelerate the growth of the TXT Next business.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	33.1	4.0	0.27	0.30	45.8	2.4
12/17	35.9	3.0	0.19	1.00	66.8	8.1
12/18e	39.1	3.0	0.19	0.16	66.9	1.3
12/19e	41.9	3.5	0.22	0.17	57.6	1.4

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

Q118 results: Making good progress

TXT reported 4.9% year-on-year revenue growth and 6.4% EBITDA growth in Q118. The EBITDA margin increased to 12.6% from 12.4% a year ago. With the adoption of IFRS 16 from the start of 2018, higher depreciation has resulted in a 14.9% decline in normalised EBIT. The company closed the quarter with net cash of €87.9m. We have revised our forecasts to reflect higher R&D and commercial costs in Q1, as well as higher than forecast gross margins. This results in a 10.2% increase in our FY18 normalised EPS forecast, and a 5.6% cut to our FY19 forecast.

Expect pick-up in M&A

Laserline, owned by Enrico Magni, recently acquired a 25.6% stake in the company from E-business Consulting. Mr Magni is keen to take an active role in the business and was recently appointed to TXT's board. A €1 per share dividend was recently paid out, leaving the company with a large proportion of the proceeds from the TXT Retail disposal to invest in growing the company. The company expects to generate organic growth from the existing business combined with the acquisition of niche software and specialist engineering service providers to the aerospace and aviation, and banking and finance markets. Two acquisition targets are currently being evaluated.

Valuation: Factors in accretive acquisitions

On price-based valuation metrics, TXT continues to trade at a premium to peers as 60% of its market cap is made up by the net cash balance of €87.9m. Until the bulk of TXT's cash is put to use on value-accretive acquisitions, we would expect the stock to trade at a significant premium to peers on a P/E basis. On an EV basis, TXT trades at a small premium to peers, with forecast EBITDA and EBIT margins slightly below the peer group average.

Software & comp services

16 May 2018

Price €12.42

Market cap €146m

Net cash (€m) at end-Q118 87.9m

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 12.8 21.7 (1.2)

Rel (local) 8.5 13.3 (11.1)

52-week high/low €13.5 €9.2

Business description

TXT e-solutions operates through TXT Next, which provides IT, consulting and R&D services to aerospace, aviation, banking and finance customers.

Next event

H118 results 2 August 2018

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Review of Q118 results

Exhibit 1: Quarterly results highlights			
€m	Q117	Q118	y-o-y
Revenues	9.0	9.4	4.9%
Licences & maintenance	0.7	1.1	54.3%
Services	8.2	8.3	0.4%
Gross margin	44.8%	45.1%	0.2%
EBITDA	1.1	1.2	6.4%
EBITDA margin	12.4%	12.6%	0.2%
Normalised EBIT	1.0	0.9	(14.9%)
Normalised EBIT margin	11.4%	9.2%	(2.1%)
Net income from continuing operations	0.5	0.5	5.0%
Discontinued operations	0.1	0.0	(100.0%)
Reported net income	0.6	0.5	(15.0%)
Net cash	8.8	87.9	898.9%

Source: TXT e-solutions

TXT reported a 4.9% y-o-y revenue increase, driven by a pick-up in software licensing, resulting in a 20bp expansion of the gross margin. Operating costs were essentially flat y-o-y, resulting in a 6.4% increase in EBITDA and a 20bp increase in EBITDA margin. As flagged the last time we wrote, the implementation of IFRS 16 for lease accounting from 1 January 2018 has resulted in a higher depreciation charge. The company incurred a tax rate of 30% on reported PBT and generated 5% growth in net income from continuing operations.

Changes to forecasts

The company expects organic revenue growth in Q218, with profitability in line with the same period a year ago due to higher investment in international sales and R&D. We have revised our forecasts to reflect Q118 results. We have increased our gross margin assumptions to more accurately reflect the levels achieved in recent quarters. We have increased operating costs to reflect the higher level of R&D and commercial costs in Q118. For FY18, the increase in gross profit outweighs the increase in opex, resulting in a 10.2% upgrade to our normalised EPS forecast. For FY19, the situation is reversed, resulting in a 5.6% cut to our normalised EPS forecast.

Exhibit 2: Changes to forecasts								
	FY18e old	FY18e new	change	y-o-y	FY19e old	FY19e new	change	y-o-y
Revenues (€m)	39.2	39.1	(0.3%)	9.0%	42.1	41.9	(0.5%)	7.1%
Gross margin	41.9%	43.5%	1.6%	(0.1%)	42.1%	43.1%	0.9%	(0.4%)
Gross profit	16.4	17.0	3.4%	8.7%	17.7	18.0	1.7%	6.2%
EBITDA (€m)	3.8	4.1	8.5%	16.6%	4.8	4.6	(3.4%)	12.0%
EBITDA margin	9.7%	10.6%	0.9%	0.7%	11.4%	11.0%	(0.3%)	0.5%
Normalised EBIT (€m)	2.6	2.9	10.8%	(10.1%)	3.6	3.4	(5.8%)	17.3%
Normalised EBIT margin	6.6%	7.3%	0.7%	(1.5%)	8.5%	8.0%	(0.4%)	0.7%
Normalised net income (€m)	2.0	2.2	10.2%	(0.1%)	2.7	2.5	(5.5%)	16.5%
Normalised EPS (€)	0.17	0.19	10.2%	(0.2%)	0.23	0.22	(5.6%)	16.2%
Reported basic EPS (€)	0.14	0.16	12.1%	(97.3%)	0.20	0.19	(6.3%)	19.3%
Net cash (€m)	76.5	76.8	0.3%	(12.0%)	77.8	78.0	0.2%	1.5%
Dividend (€)	0.16	0.16	0.0%	(84.0%)	0.17	0.17	0.0%	6.3%

Source: Edison Investment Research

Board changes reflect new share ownership

As we have previously written, in February, TXT received notice that its largest shareholder, E-business Consulting, had agreed to sell its 25.62% stake to Laserline for €10.5 per share. Laserline is an Italian company specialising in car security technology and services, and is owned by Enrico Magni, an Italian entrepreneur. On 28 February, Mr Magni confirmed he would be seeking active involvement in the board, and that he was happy with the current company structure and for TXT to remain public.

At the AGM on 19 April, independent directors Teresa Cristiana Naddeo and Andrea Lanciani stepped down from the board and Mr Magni and Valentina Cogliati were appointed to the board.

TXT's founder and chairman, Alvisè Braga Illa, has confirmed that he is handing his executive powers over to Mr Magni and will remain on the board in a non-executive capacity.

On the acquisition trail

The company retained the majority of the €85m proceeds received from the sale of TXT Retail, after paying out dividends totalling €11.7m, and we are forecasting a net cash position of €76.8m by the end of FY18. The appointment of Enrico Magni to the board has prompted a more ambitious M&A strategy, with acquisitions possible in the aerospace and aviation markets, as well as banking and finance. The company noted that it is currently evaluating two acquisition targets and has a significant cash balance to fund this strategy.

Exhibit 3: Financial summary

€000s	2012	2013	2014	2015	2016	2017	2018e	2019e
Year end 31 December	IFRS							
PROFIT & LOSS								
Revenue	46,499	52,560	54,410	61,540	33,060	35,852	39,067	41,855
Cost of sales	(22,351)	(24,854)	(26,455)	(29,189)	(18,954)	(20,224)	(22,087)	(23,826)
Gross profit	24,148	27,706	27,955	32,351	14,106	15,628	16,980	18,030
EBITDA	5,322	6,263	5,324	6,659	4,260	3,536	4,124	4,620
Operating Profit (before amort and except)	4,283	5,241	4,284	5,820	3,954	3,180	2,860	3,356
Amortisation of acquired intangibles	0	(285)	(285)	(285)	(264)	(439)	(439)	(439)
Exceptionals and other income	939	0	1,468	0	(557)	0	0	0
Other income	0	0	0	(740)	0	(69)	0	0
Operating Profit	5,222	4,956	5,467	4,795	3,133	2,672	2,421	2,917
Net Interest	(37)	(435)	(249)	(151)	48	(208)	150	150
Profit Before Tax (norm)	4,246	4,806	4,035	5,669	4,002	2,972	3,010	3,506
Profit Before Tax (FRS 3)	5,185	4,521	5,218	4,644	3,181	2,464	2,571	3,067
Tax	(188)	121	(1,046)	(762)	(661)	(710)	(720)	(859)
Profit After Tax (norm)	4,092	4,927	3,226	4,739	3,170	2,170	2,167	2,524
Profit After Tax (FRS 3)	4,997	4,642	4,172	3,882	2,520	1,754	1,851	2,208
Average Number of Shares Outstanding (m)	11.0	11.5	11.5	11.7	11.7	11.7	11.7	11.7
EPS - normalised (€)	0.371	0.428	0.281	0.406	0.271	0.186	0.185	0.216
EPS - normalised fully diluted (€)	0.340	0.411	0.276	0.403	0.271	0.186	0.186	0.216
EPS - (IFRS) (€)	0.454	0.403	0.364	0.333	0.475	5.874	0.158	0.189
Dividend per share (c)	0.18	0.23	0.23	0.25	0.30	1.00	0.16	0.17
Gross margin (%)	51.9	52.7	51.4	52.6	42.7	43.6	43.5	43.1
EBITDA Margin (%)	11.4	11.9	9.8	10.8	12.9	9.9	10.6	11.0
Operating Margin (before GW and except) (%)	9.2	10.0	7.9	9.5	12.0	8.9	7.3	8.0
BALANCE SHEET								
Fixed Assets	18,570	17,850	18,019	18,132	25,428	8,860	9,076	7,793
Intangible Assets	16,621	15,370	15,078	14,692	21,296	7,332	6,888	6,445
Tangible Assets	1,154	1,118	1,249	1,361	1,598	793	1,453	613
Other	795	1,362	1,692	2,079	2,534	735	735	735
Current Assets	36,769	34,914	34,892	38,946	37,085	109,426	100,593	103,174
Stocks	1,388	1,451	1,820	2,075	3,146	2,528	2,628	2,728
Debtors	19,562	18,642	20,768	27,791	26,369	17,215	18,196	19,494
Cash	15,819	14,821	12,304	9,080	7,570	89,683	79,769	80,952
Other	0	0	0	0	0	0	0	0
Current Liabilities	(20,651)	(17,864)	(17,451)	(18,349)	(21,051)	(13,612)	(15,323)	(16,286)
Creditors	(15,155)	(14,512)	(15,297)	(17,528)	(20,243)	(12,937)	(14,048)	(15,011)
Short term borrowings	(5,496)	(3,352)	(2,154)	(821)	(808)	(675)	(1,275)	(1,275)
Long Term Liabilities	(8,666)	(6,965)	(6,491)	(5,105)	(7,180)	(4,781)	(4,781)	(4,781)
Long term borrowings	(4,301)	(2,896)	(1,685)	0	(1,391)	(1,688)	(1,688)	(1,688)
Other long term liabilities	(4,365)	(4,069)	(4,806)	(5,105)	(5,789)	(3,093)	(3,093)	(3,093)
Net Assets	26,022	27,935	28,969	33,624	34,282	99,893	89,565	89,900
CASH FLOW								
Operating Cash Flow	2,760	7,630	5,404	2,412	10,676	119	4,155	4,185
Net Interest	(37)	(435)	(249)	(151)	105	(208)	150	150
Tax	64	(1,615)	(1,344)	(1,461)	(2,022)	379	(720)	(859)
Capex	(405)	(483)	(615)	(763)	(738)	(661)	(420)	(420)
Acquisitions/disposals	(8,450)	19	0	0	(5,403)	82,250	0	0
Financing	1,690	(755)	(597)	2,215	(828)	(6)	(440)	0
Dividends	0	(2,107)	(2,615)	(2,678)	(2,931)	(3,496)	(11,738)	(1,874)
Net Cash Flow	(4,378)	2,254	(16)	(426)	(1,141)	78,377	(9,013)	1,182
Opening net debt/(cash)	(10,266)	(6,023)	(8,575)	(8,465)	(8,259)	(5,371)	(87,320)	(76,806)
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	135	298	(94)	220	(1,747)	3,572	(1,500)	0
Closing net debt/(cash)	(6,023)	(8,575)	(8,465)	(8,259)	(5,371)	(87,320)	(76,806)	(77,989)

Source: TXT e-solutions, Edison Investment Research

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