

# TXT e-solutions

Acquisition

Diversifying the banking and finance business

TXT has announced an agreement to acquire an Italian financing software company for an enterprise value of €7.6m. This marks the first acquisition since TXT Retail was sold and diversifies the offering for the banking and finance business, adding software to what is predominantly a services offering. We estimate the deal should be earnings accretive (+11% FY18e EPS, +23% FY19e) and will revise our estimates on completion.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	33.1	4.0	0.27	0.30	39.4	2.8
12/17	35.9	3.0	0.19	1.00	57.5	9.4
12/18e	39.1	3.0	0.19	0.16	57.7	1.5
12/19e	41.9	3.5	0.22	0.17	49.5	1.6

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

## Agreement to acquire financial software company

TXT has signed a letter of intent to acquire Cheleo S.r.l, an Italian developer of lifecycle management software for financing. Cheleo's portfolio includes software to manage the entire process (initial application, credit management and collection, disposal of loan books) for leasing, mortgages, personal loans, salary-based loans, factoring and non-performing loans. Customers are Italian specialist financial companies. Cheleo is indirectly majority-owned by Enrico Magni, TXT's largest shareholder and a TXT board director. The price is based on an enterprise value of €7.6m with c €2.5m of net cash. Cheleo reported 2017 revenues of €2.8m and EBITDA of €0.95m (34% margin). This implies an EV/EBITDA multiple of 8x versus TXT's multiple of 9x FY18e. TXT will pay 60% in cash and 40% in treasury shares.

## Potentially accretive deal

While Cheleo will continue to operate on a standalone basis within the banking and finance division, we expect a focus on cross-selling opportunities across the combined Italian client base. The two founders, Bruno Roma and Flavio Minari, will remain on the Cheleo board and will be entitled to a future cash payment based on the performance of Cheleo in 2019. Subject to the outcome of due diligence, TXT expects to complete the acquisition by the end of July. Conservatively factoring in flat revenues and margins, we estimate that the deal is likely to increase EBITDA margins by 0.7pp in FY18e and 1.4pp in FY19e, and lift FY18e normalised EPS by 11% and FY19e by 23%. We will revise our forecasts on completion of the deal.

## Valuation: Factors in accretive acquisitions

On price-based valuation metrics, TXT continues to trade at a premium to peers as even post the deal c 64% of its market cap is made up by the net cash balance. 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 discount to peers, with forecast EBITDA and EBIT margins slightly below the peer group average. The company continues to evaluate targets in the aerospace and automotive space.

Software &amp; comp services

26 June 2018

**Price** €10.68

**Market cap** €125m

Net cash (€m) at end Q118 87.9

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 (6.6) (1.5) (7.9)

Rel (local) (2.6) 2.5 (9.9)

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 events

Q218 results 2 August 2018

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**TXT e-solutions is a research client of Edison Investment Research Limited**

**Exhibit 1: Financial summary**

	€'000s	2012	2013	2014	2015	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>									
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	0.185	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
<b>BALANCE SHEET</b>									
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
<b>CASH FLOW</b>									
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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