

TXT e-solutions

Q319 results

Growing on all fronts

TXT e-solutions reported a strong performance in Q319, with double-digit organic revenue growth in both divisions boosted by the contribution from Assioma and TXT Risk. For 9M19, normalised operating profits doubled year-on-year with margin expansion of 230bp. We have raised our FY19 and FY20 EPS forecasts to reflect Q3 performance. Recent fintech acquisitions have been integrated and are helping to accelerate the growth and profitability of the Banking & Finance division. With a significant amount of cash remaining on the balance sheet, we expect the company to make further targeted acquisitions.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	35.9	3.0	0.19	1.00	52.6	10.2
12/18	40.0	1.5	0.10	0.50	95.0	5.1
12/19e	59.2	7.1	0.41	0.13	23.6	1.3
12/20e	65.5	6.6	0.38	0.15	25.7	1.5

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

Q3: Strong organic growth boosted by acquisitions

TXT reported 61.5% revenue growth in Q319, with 29% growth from the Aerospace, Aviation and Automotive (AAA) division (all organic) and 178% growth from the Banking & Finance (B&F) division, of which 134% was contributed by the Assioma and TXT Risk acquisitions. Software revenues made up 19% of Q319 revenues and 14% of 9M19 revenues, driving an improved gross margin versus Q318 and 9M18. Normalised EBIT increased 209% y-o-y in Q319 resulting in a normalised EBIT margin of 10.2% (Q318: 5.4%). Net cash at the end of Q319 of €43.2m was marginally lower than the previous quarter.

Raising estimates on stronger growth

We have revised our estimates to reflect the strong contribution in Q319. Higher revenues for FY19 and FY20 outweigh increased operating expenses, helped by higher than expected net financial income in FY19 and a lower tax rate for both years (from 31% to 28%). We raise our FY19 normalised EPS by 24% and FY20 by 17%.

Valuation: Accretive acquisitions to drive upside

On the back of Q3 results, the stock has gained 8%, and is up 20% from recent lows in mid-October and early September. On EV/sales and EV/EBIT multiples, TXT is trading in line with its peer group for FY19 and at a small discount in FY20, with EBITDA and EBIT margins slightly below the group average in FY19, increasing to the average by FY20. While the company still holds a high level of cash (we forecast net cash of €50m by the end of FY19), it continues to trade at a premium to peers on a P/E basis. Further acquisitions of earnings-enhancing businesses should reduce this premium.

Software & comp services

18 November 2019

Price €9.77

Market cap €115m

Net cash (€m) at end Q319 43.2

Shares in issue 11.8m

Free float 45%

Code TXT

Primary exchange Borsa Italiana (STAR)

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	19.4	19.3	24.0
Rel (local)	13.2	1.6	0.4
52-week high/low		€10.0	€7.7

Business description

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

Next events

FY19 results March 2020

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Review of Q319 results

Exhibit 1: 9M19/Q319 results highlights						
€m	9M19	9M18	y-o-y	Q319	Q318	y-o-y
Revenues	42.5	28.6	48.6%	15.5	9.6	61.5%
Licenses & maintenance	6.0	3.7	62.4%	3.0	1.3	129.5%
Services	36.6	25.0	46.6%	12.5	8.3	50.7%
Gross margin	44.6%	44.3%	0.3%	46.6%	43.6%	3.0%
EBITDA	4.9	3.0	65.3%	2.0	0.9	119.0%
EBITDA margin	11.6%	10.4%	1.2%	12.9%	9.5%	3.4%
Normalised EBIT	3.8	1.9	100.5%	1.6	0.5	208.5%
Normalised EBIT margin	8.9%	6.6%	2.3%	10.2%	5.4%	4.9%
Reported net income after MI	3.0	1.0	202.2%	0.9	0.1	598.4%
Net cash	43.2	64.8	(33.4%)	43.2	64.8	(33.4%)

Source: TXT e-solutions, Edison Investment Research

Exhibit 2: Revenues by division						
Revenues (€m)	9M19	9M18	y-o-y	Q319	Q318	y-o-y
Aerospace, Aviation & Automotive (AAA)	28.3	22.7	24.8%	9.7	7.5	29.0%
Banking & Finance (B&F)	14.2	5.9	139.7%	5.8	2.1	177.7%
- Original business plus Cheleo	9.0	5.9	51.9%	3.0	2.1	43.6%
- Assioma & TXT Risk	5.2	0	N/A	2.8	0	N/A

Source: TXT e-solutions

Strong organic growth from both divisions

TXT reported a strong performance in Q319. Group revenues increased 61.5% y-o-y, with organic revenue growth of 32%. Assioma (acquired 1 May 2019) and TXT Risk (acquired 6 November 2018) contributed a combined €2.8m to revenues in Q319.

Revenues from software licences, subscriptions and maintenance increased 130% y-o-y to €3.0m in Q319, including a €0.35m contribution from the Assiopay subsidiary of Assioma. Services revenues increased 51% y-o-y to €12.5m, including an estimated €2.4m contribution from Assioma. This implies services revenues grew at an organic rate of 23% y-o-y.

Looking at the performance by division, the AAA business grew 25% over 9M19 and 29% in Q319. This was all organic growth. At the start of Q319, the business signed several contracts in North America, which have contributed to the step up in revenues in both software and services.

The B&F business grew 140% over 9M19 and 178% in Q319. On an organic basis, the business grew 44% in Q319. Organic growth for 9M19 was 17% (after also excluding Cheleo revenues for both periods). This division is made up of the existing software testing business, augmented by the acquisitions of Cheleo in August 2018, TXT Risk in November 2018 and Assioma in May 2019. The company is making good progress in integrating the acquired businesses and is starting to see progress in cross-selling.

Improving profitability

The increasing contribution of software to group revenues has resulted in an increase in gross margin in Q319 versus Q318. Despite higher investment in R&D and commercial costs, Q319 EBITDA and normalised EBIT margins improved on a year-on-year basis. On a 9M19 basis, margins also improved, smoothing out the effects of seasonality. We have treated €0.7m of operating costs as exceptional as they relate to reorganisation of the group.

The company continues to hold a large proportion of its cash (€81m) in multi-segment insurance funds that are marked to market. This generated a further €0.3m in financial income in Q319, after net financial income of €1.8m was reported in H119.

For 9M19 the company used a 28% tax rate, down from the 31% used for H119. This resulted in an increase in reported net income (after minority interest) of more than 200% for 9M19 and nearly 600% for Q319.

Net cash at the end of Q319 was €43.2m compared to €44.2m at the end of H119. This is after taking account of lease financing of c €5m, bank debt of c €39m and c €7m owed for deferred consideration and earn-outs.

Outlook and changes to forecasts

The company expects revenue growth to accelerate in Q419, both in terms of organic growth and the acquired businesses. Q419 EBITDA is expected to show improvement compared to Q418.

We have revised our forecasts as follows:

- **Revenues:** we have slightly changed our assumptions for the mix between software and services.
- **Gross profit:** with a higher contribution from software revenues, we have increased our gross profit forecasts for FY19 and FY20.
- **Operating costs:** we have increased our R&D and commercial cost forecasts from Q419 to reflect the higher level in Q319.
- **Net financial income:** we have factored in the Q3 reported financial income. We do not factor in future income/expense related to marking-to-market the short-term investments.
- **Tax:** we have reduced our assumption for the effective tax rate from 31% to 28% for FY19/20.
- **Normalised EPS:** overall, the changes above result in a 23.7% increase in FY19 normalised EPS and 17.2% for FY20. We note that EPS shows a small decline from FY19 to FY20 – this is due to the large net financial income contribution in FY19, which we have not factored into FY20 estimates. A better measure of underlying business performance, normalised EBIT is forecast to increase 81.8% y-o-y in FY19 and 26.6% in FY20.

Exhibit 3: Changes to forecasts

	FY19e old	FY19e new	change	y-o-y	FY20e old	FY20e new	change	y-o-y
Revenues (€m)	57.4	59.2	3.1%	48.2%	64.4	65.5	1.6%	10.5%
Gross margin	43.1%	45.3%	2.3%	1.1%	43.0%	45.8%	2.8%	0.5%
Gross profit (€m)	24.7	26.9	8.6%	52.0%	27.7	30.0	8.2%	11.7%
EBITDA (€m)	5.8	6.6	13.9%	60.5%	7.2	8.0	10.9%	22.1%
EBITDA margin	10.1%	11.1%	1.0%	0.8%	11.2%	12.3%	1.0%	1.2%
Normalised EBIT (€m)	4.3	5.0	17.4%	81.8%	5.7	6.3	11.8%	26.6%
Normalised EBIT margin	7.4%	8.5%	1.0%	1.6%	8.8%	9.7%	0.9%	1.2%
Normalised net income (€m)	3.9	4.9	23.7%	303.5%	3.8	4.5	17.3%	(7.7%)
Normalised EPS (€)	0.34	0.41	23.7%	303.5%	0.32	0.38	17.2%	(8.3%)
Reported basic EPS (€)	0.26	0.28	9.0%	483.9%	0.27	0.32	19.9%	14.2%
Net cash (€m)	50.3	50.1	(0.4%)	(17.0%)	53.2	53.9	1.2%	7.5%
Dividend (€)	0.13	0.13	0.0%	(74.0%)	0.15	0.15	0.0%	15.4%

Source: Edison Investment Research

Valuation

On the back of Q3 results, the stock has gained 8%, and is up 20% from recent lows in mid-October and early September. On EV/sales and EV/EBIT multiples, TXT is trading in line with its peer group for FY19 and at a small discount in FY20, with EBITDA and EBIT margins slightly below the group average in FY19, increasing to the average by FY20. While the company still holds a high level of cash (we forecast net cash of €50m by the end of FY19), it continues to trade at a premium to peers on a P/E basis. Further acquisitions of earnings-enhancing businesses should reduce this premium

Exhibit 4: Peer group financial and valuation performance

Company	Share price	Market cap m	Rev growth		EBIT margin		EBITDA margin		EV/sales (x)		EV/EBIT (x)		P/E (x)		Dividend yield	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
TXT	€ 9.77	€ 115	48.2%	10.5%	8.5%	9.7%	11.1%	12.3%	1.2	1.1	14.2	11.2	23.6	25.7	1.3%	1.5%
European IT services companies																
AKKA Technologies	€ 60.40	€ 1,222	21.0%	5.5%	8.2%	8.6%	10.6%	10.9%	1.0	0.9	11.7	10.7	12.3	11.0	1.9%	2.2%
Alten	€ 100.7	€ 3,413	15.2%	7.9%	9.8%	10.0%	11.2%	11.3%	1.4	1.3	13.9	12.7	18.3	16.6	1.0%	1.0%
Altran	€ 14.16	€ 3,629	11.1%	5.7%	11.4%	12.2%	15.4%	15.8%	1.6	1.5	14.3	12.7	16.6	14.4	1.6%	1.8%
AtoS	€ 73.00	€ 7,950	-5.7%	2.2%	9.9%	10.2%	14.9%	15.3%	1.0	1.0	10.6	10.1	8.8	8.1	2.2%	2.5%
Cap Gemini	€ 106.55	€ 17,778	7.3%	4.8%	12.1%	12.3%	15.4%	15.4%	1.4	1.4	11.8	11.1	16.5	15.1	1.8%	1.9%
Devoteam	€ 84.10	€ 699	16.9%	9.2%	9.9%	10.3%	10.6%	11.0%	1.0	0.9	10.0	8.8	17.0	14.4	1.3%	1.6%
ESI Group	€ 30.30	€ 180	1.5%	7.8%	6.3%	7.6%	9.2%	10.7%	1.6	1.5	25.7	19.8	42.0	30.5	0.0%	0.0%
Exprivia	€ 0.80	€ 41	-10.1%	7.9%	2.9%	4.3%	6.4%	7.6%	0.5	0.4	16.9	10.4	40.0	8.0	0.0%	0.0%
Reply	€ 66.50	€ 2,481	13.4%	8.5%	12.5%	12.7%	15.1%	15.3%	2.1	1.9	16.9	15.3	23.6	21.4	0.7%	0.8%
Sopra Steria	€ 132.10	€ 2,706	8.5%	5.2%	7.4%	8.2%	10.5%	11.1%	0.8	0.8	11.2	9.6	13.9	11.3	1.7%	2.1%
Average			7.9%	6.5%	9.0%	9.6%	11.9%	12.4%	1.2	1.2	14.3	12.1	20.9	15.1	1.2%	1.4%
(Discount)/premium to peers											(4%)	(7%)	(1%)	(8%)	13%	70%

Source: Edison Investment Research, Refinitiv (as at 18 November)

Exhibit 5: Financial summary

	€'000s	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		54,410	61,540	33,060	35,852	39,957	59,221	65,455
Cost of sales		(26,455)	(29,189)	(18,954)	(20,224)	(22,289)	(32,370)	(35,475)
Gross profit		27,955	32,351	14,106	15,628	17,668	26,851	29,980
EBITDA		5,324	6,659	4,260	3,536	4,098	6,576	8,030
Operating Profit (before amort and except)		4,284	5,820	3,954	3,180	2,755	5,009	6,342
Amortisation of acquired intangibles		(285)	(285)	(264)	(439)	(610)	(960)	(960)
Exceptionals and other income		1,468	0	(557)	0	(300)	(1,205)	0
Other income		0	(740)	0	(69)	0	0	0
Operating Profit		5,467	4,795	3,133	2,672	1,845	2,844	5,382
Net Interest		(249)	(151)	48	(208)	(1,284)	2,100	300
Profit Before Tax (norm)		4,035	5,669	4,002	2,972	1,471	7,109	6,642
Profit Before Tax (FRS 3)		5,218	4,644	3,181	2,464	561	4,944	5,682
Tax		(1,046)	(762)	(661)	(710)	4	(1,384)	(1,591)
Profit After Tax (norm)		3,226	4,739	3,170	2,170	1,204	5,119	4,782
Profit After Tax (FRS 3)		4,172	3,882	2,520	1,754	565	3,560	4,091
Average Number of Shares Outstanding (m)		11.5	11.7	11.7	11.7	11.7	11.7	11.8
EPS - normalised (€)		0.281	0.406	0.271	0.186	0.103	0.415	0.380
EPS - normalised fully diluted (€)		0.276	0.403	0.271	0.186	0.103	0.415	0.380
EPS - (IFRS) (€)		0.364	0.333	0.475	5.874	0.048	0.282	0.322
Dividend per share (€)		0.23	0.25	0.30	1.00	0.50	0.13	0.15
Gross margin (%)		51.4	52.6	42.7	43.6	44.2	45.3	45.8
EBITDA Margin (%)		9.8	10.8	12.9	9.9	10.3	11.1	12.3
Operating margin (before GW and except) (%)		7.9	9.5	12.0	8.9	6.9	8.5	9.7
BALANCE SHEET								
Fixed Assets		18,019	18,132	25,428	8,860	22,942	30,935	28,727
Intangible Assets		15,078	14,692	21,296	7,332	17,751	24,163	23,175
Tangible Assets		1,249	1,361	1,598	793	3,680	5,261	4,041
Other		1,692	2,079	2,534	735	1,511	1,511	1,511
Current Assets		34,892	38,946	37,085	109,426	134,674	124,925	123,136
Stocks		1,820	2,075	3,146	2,528	3,141	3,441	3,741
Debtors		20,768	27,791	26,369	17,215	16,992	25,184	27,835
Cash		12,304	9,080	7,570	89,683	114,541	96,299	91,560
Other		0	0	0	0	0	0	0
Current Liabilities		(17,451)	(18,349)	(21,051)	(13,612)	(30,086)	(31,196)	(33,140)
Creditors		(15,297)	(17,528)	(20,243)	(12,937)	(12,782)	(18,792)	(20,736)
Short term borrowings		(2,154)	(821)	(808)	(675)	(17,304)	(12,404)	(12,404)
Long Term Liabilities		(6,491)	(5,105)	(7,180)	(4,781)	(41,184)	(38,084)	(29,584)
Long term borrowings		(1,685)	0	(1,391)	(1,688)	(36,882)	(33,782)	(25,282)
Other long term liabilities		(4,806)	(5,105)	(5,789)	(3,093)	(4,302)	(4,302)	(4,302)
Net Assets		28,969	33,624	34,282	99,893	86,346	86,580	89,139
CASH FLOW								
Operating Cash Flow		5,404	2,412	10,676	119	2,039	3,394	7,024
Net Interest		(249)	(151)	105	(208)	(69)	2,100	300
Tax		(1,344)	(1,461)	(2,022)	379	(624)	(1,384)	(1,591)
Capex		(615)	(763)	(738)	(661)	(548)	(620)	(440)
Acquisitions/disposals		0	0	(5,403)	82,250	1,314	(6,500)	0
Financing		(597)	2,215	(828)	(6)	(7,227)	(931)	0
Dividends		(2,615)	(2,678)	(2,931)	(3,496)	(11,710)	(5,781)	(1,532)
Net Cash Flow		(16)	(426)	(1,141)	78,377	(16,825)	(9,723)	3,761
Opening net debt/(cash)		(8,575)	(8,465)	(8,259)	(5,371)	(87,320)	(60,336)	(50,113)
HP finance leases initiated		0	0	0	0	(2,788)	(2,500)	0
Other		(94)	220	(1,747)	3,572	(7,371)	2,000	(0)
Closing net debt/(cash)		(8,465)	(8,259)	(5,371)	(87,320)	(60,336)	(50,113)	(53,874)

Source: TXT e-solutions accounts, Edison Investment Research

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