

# GFT Technologies

Q115 results

GFT solutions business grew at 23% in Q1

The strong growth momentum continued into Q1, with the core GFT solutions business growing 23% organically, compared with 24% y-o-y in FY14. GFT is seeing ongoing strong demand from its core customer base driven by rising compliance requirements and digitisation in banking. While management has maintained its guidance, we see an increasing likelihood of upgrades as the year progresses. Hence, we have nudged up our FY16 and FY17 revenues while our EPS forecasts rise in each year from FY15-17. In our view, the valuation continues to look attractive at c 17x our FY16e earnings if management can sustain the growth momentum.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	264.3	18.5	55.3	25.0	34.3	1.3
12/14	365.3	32.8	97.7	25.0	19.4	1.3
12/15e	425.0	36.7	99.0	25.0	19.2	1.3
12/16e	450.1	41.3	111.5	27.0	17.0	1.4

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

## Q1 results: Headcount growth is ahead of target

Group revenue jumped 42% to €110.3m as the GFT division rose 58%, including 23% organic growth. While emagine's revenue was flat, this was on target and profitability improved. Revenue in the UK and US more than doubled to €43.0m, as a result of the acquisition of Rule Financial. Rule grew c 9% organically over Q114, but profit was below plan due to the under-utilisation of business consultants in the UK, though management expects this to improve through the year. Demand from Spanish banks was strong and GFT sees potential business from the integration of TSB in the UK by Banca Sabadell. Group headcount expanded by 145 to 3,395 over the quarter, hence just 105 need to be added to meet the year-end target of 3,500 – we note revenue growth correlates closely with headcount. The employee utilisation rate improved to a healthy 90.5%, from 87.7% in Q114 and 89% in FY14.

## Forecasts: FY16 and FY17 revenues move higher

We have maintained our FY15 revenue forecast, though we have increased GFT (from 7% to 8% organic growth) and eased emagine. We have increased our FY16 and FY17 revenues by 2.2% and 4.4% respectively. Our EPS forecasts rise by 2%, 5% and 6% over FY15-17. We have edged up our capex forecasts and adjusted for acquisition payments made in Q1. Hence, our end-FY15 net debt forecast rises to €24.2m from €20.4m, while end-FY16 net cash slips to €2.6m from €4.7m.

## Valuation: Attractive if it can maintain the growth

The stock trades on 1.20x FY16 EV/revenues and 10.7x EBITDA. These numbers look favourable when compared to c 2.1-3.1x sales and c 11.2-13.2x EBITDA for larger global IT services businesses. Our DCF model (which assumes a WACC of 10% and 11.5% long-term margins [up from 11.2% in our last note to reflect the change in business mix]) values the shares at €16.25 (previously €14.87). However, 20% compound growth over FY15-17 would lift our valuation to c €22.50.

Software &amp; comp services

26 May 2015

**Price** €19.0  
**Market cap** €500m

Net debt (€m) at March 31 2015	61.8
Shares in issue	26.3m
Free float	54%
Code	GFT
Primary exchange	Frankfurt
Secondary exchange	N/A

### Share price performance



### Business description

GFT Group (legal name: GFT Technologies) is a global technology services and recruitment business primarily focused on banks and insurance companies. GFT Group has two divisions: GFT, the group's solutions business, and emagine, a contract recruitment business.

### Next events

AGM	23 June 2015
Q2 results	13 August 2015
Q3 results	12 November 2015
Deutsches Eigenkapitalforum	23-25 November 2015

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## Q1 results

### Quarterly analysis

While the adjusted EBITDA margin rose from 8.5% in Q114 to 8.9% in Q115, the adjusted operating profit margin was flat due to a higher depreciation charge. We are now assuming flat revenues for emagine in FY15, while Rule Financial's FY15 revenues are forecast to be roughly be 4x its Q1 revenues. The continuing GFT revenues look conservative for FY15, with revenues for Q2-Q4 only 2.8x Q1 revenues. However, we note investment banks can cut their IT budgets at short notice.

GFT Italy (Sempla) is now included in the continuing GFT business and clearly the comparative periods in 2014 get tougher as the year progresses. The GFT organic growth has been impressive, eg it grew 33% in the UK, which excludes Rule Financial. The group's offshore/nearshore centres in Spain, Poland, Brazil and Costa Rica give GFT a cost advantage over smaller local players. In Germany, GFT grew slightly while emagine slipped slightly. Italy and Spain have been experiencing particularly strong demand for digitisation projects and GFT expects this trend to move northwards. GFT experienced strong utilisation in spite of the growth in employees in Spain, Poland and Brazil.

Our adjusted operating profit forecast for the Q2-Q4 period assumes a very slightly lower margin than in the corresponding period in 2014. Hence, our profit forecasts are now slightly ahead of management guidance, which is shown in Exhibit 3. Management is continuing to investigate potential options for emagine, the group's contract recruitment business.

**Exhibit 1: Quarterly analysis**

Quarterly analysis	2013	2013	2013	2014	2014	2014	2014	2014	2015a	2015e	2015e
€000s	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2-Q4	FY
GFT (continuing)	48,681	56,219	174,040	55,990	58,080	58,630	68,130	240,830	68,810	191,109	259,919
Rule Financial						18,750	19,640	38,390	19,700	59,300	79,000
emagine	22,567	22,623	90,230	21,720	20,940	21,080	22,350	86,090	21,765	64,316	86,081
Other/misc	6	0	15	11	(1)	(3)	2	10	9	(9)	0
Total revenue	71,254	78,842	264,285	77,721	79,019	98,457	110,122	365,320	110,284	314,716	425,000
Cost of materials	(28,859)	(31,149)	(108,559)	(29,238)	(27,879)	(33,135)	(34,878)	(125,130)	(34,003)	(113,086)	(147,088)
Gross profit	42,394	47,692	155,726	48,483	51,140	65,322	75,245	240,189	76,281	201,630	277,912
Op costs before depreciation	(34,986)	(39,321)	(134,781)	(41,903)	(43,074)	(54,871)	(62,972)	(202,820)	(66,473)	(166,551)	(233,024)
Adjusted EBITDA	7,408	8,371	20,945	6,579	8,066	10,452	12,273	37,370	9,808	35,080	44,887
Depreciation	(709)	(801)	(2,246)	(497)	(527)	(577)	(1,922)	(3,523)	(1,241)	(4,937)	(6,178)
Adjusted operating profit	6,699	7,570	18,699	6,083	7,539	9,875	10,350	33,847	8,567	30,143	38,710
Operating margin	9.4%	9.6%	7.1%	7.8%	9.5%	10.0%	9.4%	9.3%	7.8%	9.6%	9.1%
Net interest	(206)	(175)	(241)	(181)	(90)	(287)	(457)	(1,016)	(366)	(1,634)	(2,000)
Edison profit before tax (norm)	6,493	7,395	18,458	5,901	7,449	9,588	9,893	32,831	8,201	28,508	36,710
Associates	(4)	(5)	(9)	1	(6)	(1)	(5)	(12)	(4)	4	0
Amortisation of acq'd intangibles*	(1,190)	(1,060)	(2,250)	(590)	(590)	(1,530)	(2,001)	(4,711)	(1,134)	(3,402)	(4,536)
Exceptionals - acquisition costs**	(65)	(685)	(1,000)	(500)	(535)	0	(5)	(1,040)	0	0	0
Excepts - earnout adjustments	580	560	0	0	0	0	0	0	0	0	0
Exceptionals - other	(105)	0	0	0	0	0	0	0	0	0	0
Profit before tax (FRS 3)	5,708	6,311	15,199	4,812	6,317	8,056	7,882	27,068	7,064	25,110	32,174

Source: GFT Group. Note: \*Estimated in Q214 along with the impact on depreciation. \*\*Estimated in Q114 and Q214 along with the impact on operating costs.

### Forecasts

While we have maintained our FY15 revenues, we have altered the mix between GFT and emagine, increasing GFT and reducing emagine. The mix-change feeds through to higher group revenues in FY16 and FY17. We have slightly increased our forecasts for emagine's margins. We have increased our assumptions for central costs. H1 capex was higher than we expected, due to additional building work at GFT Group's new headquarters in Stuttgart. We have increased our forecast for capex in FY15 to €6.4m and edged up our forecast thereafter to 1.5% of sales. We have adjusted our cash flow forecasts for acquisition payments made in Q1.

**Exhibit 2: Forecasts**

	Old	New	Old	New	Old	New
(€000s)	2015e	2015e	2016e	2016e	2017e	2017e
Existing GFT revenues	256,827	259,919	267,100	277,853	277,250	291,746
Rule Financial revenues	79,000	79,000	82,160	84,451	85,282	88,674
(A) Total GFT revenues	335,827	338,919	349,260	362,304	362,532	380,419
(D) GFT contribution (Edison assumptions)	43,803	44,494	46,425	49,038	51,465	54,992
Margin (%)	13.04	13.13	13.29	13.54	14.20	14.46
(B) emagine revenues	89,173	86,081	90,965	87,812	92,794	89,577
emagine net fee income (Edison assumptions)	16,497	15,925	17,056	16,465	17,631	17,020
(E) emagine contribution (Edison assumptions)	1,692	1,706	2,029	2,103	2,303	2,443
Margin (% of net fee income)	10.26	10.71	11.90	12.78	13.06	14.35
(F) Central costs (Edison assumptions)	(7,490)	(7,490)	(7,640)	(8,191)	(7,801)	(8,883)
GFT Group revenue (A+B)	425,000	425,000	440,225	450,116	455,326	469,996
Growth (%)	16.3	16.3	3.6	5.9	3.4	4.4
Gross profit	276,072	277,912	289,685	299,307	303,392	316,921
Gross margin (%)	65.0	65.4	65.8	66.5	66.6	67.4
Operating expenses	(238,067)	(239,202)	(248,871)	(256,357)	(257,426)	(268,369)
Adjusted operating profit (D+E+F)	38,005	38,710	40,814	42,950	45,967	48,552
Operating profit margin (%)	8.9	9.1	9.3	9.5	10.1	10.3
Growth (%)	12.3	14.4	7.4	11.0	12.6	13.0
Net interest	(2,000)	(2,000)	(1,600)	(1,600)	(1,200)	(1,200)
Profit before tax normalised	36,005	36,710	39,214	41,350	44,767	47,352
Amortisation of acquired intangibles	(4,536)	(4,536)	(4,536)	(4,536)	(4,536)	(4,536)
Profit before tax	31,469	32,174	34,678	36,814	40,231	42,816
Taxation	(10,441)	(10,646)	(11,372)	(11,991)	(12,982)	(13,732)
Net income	21,028	21,528	23,306	24,822	27,248	29,084
Adjusted EPS (c)	97.1	99.0	105.8	111.5	120.7	127.7
P/E - adjusted EPS		19.2		17.0		14.9

Source: Edison Investment Research

## Guidance

GFT Group has maintained all its guidance, as shown in Exhibit 3 which also reconciles the company's definitions with Edison's definitions. Notably, Edison's adjusted EBITDA and GFT EBITDA are the same going forward, as the primary difference relates to exceptional items.

**Exhibit 3 Presentation of GFT and Edison definitions, based on GFT guidance**

	Actual	Actual	Actual	GFT guidance
	FY13	FY14	Q115	FY15e
Group revenue	264.285	365.320	110.284	425.000
Profit measures:				
GFT	21.780	36.904	10.180	45.380
emagine	1.306	1.923	0.263	1.848
Holding company	(3.257)	(2.819)	(0.639)	(2.871)
(A) Operating profit (GFT definition)	19.829	36.008	9.804	44.358
Add back: exceptional items, misc	1.110	1.040	0.000	0.000
Adjusted EBITDA (Edison definition)	20.939	37.048	9.804	44.358
(E) Normal depreciation	(2.246)	(3.523)	(1.240)	(6.369)
Adjusted operating profit (Edison definition)	18.693	33.525	8.564	37.989
Normal net interest	(0.224)	(1.017)	(0.366)	(2.453)
Earn-out interest	(0.037)	0.002	0.000	0.000
Earn-out adaption interest	0.125	0.000	0.000	0.000
Total net interest	(0.136)	(1.015)	(0.366)	(2.453)
Profit before tax norm (Edison definition)	18.557	32.510	8.198	35.536
(B) Earn-out accruals	2.322	0.309	0.000	0.000
(C) PPA orderbook (amort of acquired)	(1.657)	(1.675)	0.000	0.000
(F) PPA amortisation (amort of acquired)	(0.593)	(3.036)	(1.135)	(4.536)
Exceptional items, misc	(1.011)	(1.040)	0.000	0.000
EBT (GFT definition)	17.618	27.068	7.063	31.000
(D) EBITDA (GFT definition) (A+B+C)	20.494	34.642	9.804	44.358
EBIT (GFT definition) (D+E+F)	17.655	28.083	7.429	33.453

Source: GFT Group

## Financial position

GFT Group receives a disproportionate level of cash in Q4, as some of the group's largest customers utilise their budgets. Q1 and Q2 typically have weaker cash flows. In Q414, a large client was slow to pay, but this issue has now been resolved, with the money received in Q2 this year.

GFT Group purchased the outstanding minority interests in Rule Financial in Q1 and the only remaining acquisition liabilities relate to Sempla.

### Exhibit 4: Financial position

	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15
Cash	(47.1)	(44.2)	(24.7)	(20.0)	(38.1)	(32.5)
Financial debt	27.7	28.0	59.1	63.7	80.2	94.3
Net (cash)/debt	(19.4)	(16.3)	34.4	43.7	42.0	61.8
Investments	(1.4)	(1.5)	(0.7)	0.0	0.0	0.0
Outstanding acquisition liabilities	11.7	11.8	31.2	33.3	12.8	12.8
Adjusted net (cash)/debt	(9.1)	(6.0)	64.9	77.0	54.9	74.6

Source: GFT Group

## Peer analysis

The number of the group's quoted peers has been declining, with Sapient taken over by Publicis while Luxoft has absorbed IBS Group. There has been further M&A in the sector with Luxoft acquiring privately-owned Excelian in February. The EV/sales data are not directly comparable due to GFT Group's lower-margin contractor recruiting business, emagine. In terms of EV/EBITDA and P/E, the stock looks attractive relative to its peer group.

### Exhibit 5: Peers

	Share price	Market cap	EV/Sales		EV/EBITDA		P/E	
	local curr	local curr(m)	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<b>GFT Technologies</b>	<b>19.00</b>	<b>500</b>	<b>1.28</b>	<b>1.20</b>	<b>12.1</b>	<b>10.7</b>	<b>19.2</b>	<b>17.0</b>
1) European-based IT services / financial sector consulting								
Adecco (€m)	16	93	0.46	0.43	7.3	6.5	20.8	18.6
Devoteam (€m)	26.95	220	0.48	0.47	6.8	6.3	18.3	16.0
First Derivatives (€m)	1,179	273	3.40	2.71	19.2	14.1	28.6	23.4
Indra Sistemas (€m)	9.11	1,495	0.76	0.73	9.3	8.1	15.6	11.9
2) US-based IT services / financial sector consulting								
Accenture (\$m)	96.26	63,833	2.0	1.9	11.9	11.2	20.3	18.6
Cognizant (\$m)	65.05	39,714	3.0	2.6	15.0	13.0	22.0	19.0
Luxoft (\$m)	52.66	1,730	2.6	2.1	13.8	11.7	19.7	17.4
3) Indian-based IT services / financial sector consulting								
HCL Technologies (INR)	984.15	1,383,494	3.5	3.1	14.5	13.2	18.9	17.2
Tata Consultancy Svcs (INR)	2,617.9	5,127,754	4.6	4.0	16.1	14.1	21.6	18.9
Wipro (INR)	560.5	1,383,930	2.7	2.4	12.0	10.9	15.0	13.5
<b>Medians excl GFT</b>			<b>2.7</b>	<b>2.3</b>	<b>12.9</b>	<b>11.5</b>	<b>20.0</b>	<b>18.0</b>
4) Contractor recruitment								
Adecco (€)	75.6	13,539	0.64	0.60	11.0	10.0	15.8	14.3
Harvey Nash (£m)	99.5	73	0.10	0.10	5.8	5.3	10.5	9.8
Hays (£m)	162.9	2,312	0.62	0.58	12.7	10.8	22.3	17.9
Matchtech (£m)	550	167	0.33	0.25	9.5	6.8	12.9	11.2
Parity Group (£m)	9	9	0.17	0.17	7.9	7.1	12.9	11.3
Randstad (€)	53.9	9,862	0.54	0.51	10.7	9.3	16.7	14.1
<b>Medians</b>			<b>0.43</b>	<b>0.38</b>	<b>10.1</b>	<b>8.2</b>	<b>14.4</b>	<b>12.7</b>

Source: GFT calculated by Edison Investment Research, others Bloomberg data. Note: Priced on 22 May

**Exhibit 6: Financial summary**

	€000s	2012	2013	2014	2015e	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		230,691	264,285	365,320	425,000	450,116	469,996
Cost of Materials*		(108,304)	(108,559)	(125,130)	(147,088)	(150,809)	(153,075)
Gross Profit		122,387	155,726	240,189	277,912	299,307	316,921
Adjusted EBITDA		10,794	20,945	37,370	44,887	50,656	55,930
Adjusted Operating Profit		9,307	18,699	33,847	38,710	42,950	48,552
Amortisation of acquired intangibles		(80)	(2,250)	(4,711)	(4,536)	(4,536)	(4,536)
Exceptionals		2,657	1,320	(1,040)	0	0	0
Associates		(17)	(9)	(12)	0	0	0
Operating Profit		11,867	17,760	28,084	34,174	38,414	44,016
Net Interest		243	(241)	(1,016)	(2,000)	(1,600)	(1,200)
Profit Before Tax (norm)		9,550	18,458	32,831	36,710	41,350	47,352
Profit Before Tax (FRS 3)		12,110	17,519	27,068	32,174	36,814	42,816
Tax		(3,774)	(3,890)	(7,113)	(10,646)	(11,991)	(13,732)
Profit After Tax (norm)		5,775	14,568	25,718	26,064	29,358	33,620
Profit After Tax (FRS 3)		8,335	13,628	19,955	21,528	24,822	29,084
Minority interest		0	0	0	0	0	0
Adjustments for normalised earnings		0	0	0	0	0	0
Net income (norm)		5,775	14,568	25,718	26,064	29,358	33,620
Net income (FRS 3)		8,335	13,628	19,955	21,528	24,822	29,084
Average No of Shares Outstanding (m)		26.3	26.3	26.3	26.3	26.3	26.3
EPS - normalised (c)		21.9	55.3	97.7	99.0	111.5	127.7
EPS - normalised & fully diluted (c)		21.9	55.3	97.7	99.0	111.5	127.7
EPS - FRS 3 (c)		31.7	51.8	75.8	81.8	94.3	110.5
Dividend per share (c)		15.00	25.00	25.00	25.00	27.00	31.00
Gross Margin (%)		53.1	58.9	65.7	65.4	66.5	67.4
EBITDA Margin (%)		4.7	7.9	10.2	10.6	11.3	11.9
Adjusted Operating Margin (%)		4.0	7.1	9.3	9.1	9.5	10.3
<b>BALANCE SHEET</b>							
Fixed Assets		47,446	80,761	149,241	144,903	137,162	129,948
Intangible Assets		36,686	68,210	125,852	121,316	116,780	112,244
Tangible Assets		3,208	7,666	17,780	17,977	14,772	12,094
Other		7,551	4,885	5,609	5,609	5,609	5,609
Current Assets		84,311	125,616	152,921	178,396	202,644	228,670
Stocks		0	0	0	0	0	0
Debtors		44,206	73,010	108,216	125,895	133,334	139,223
Cash		35,912	47,149	38,129	45,925	62,733	82,870
Current Liabilities		(47,055)	(70,769)	(144,804)	(153,794)	(151,786)	(148,112)
Creditors		(47,055)	(70,037)	(98,773)	(117,763)	(125,754)	(132,080)
Short term borrowings		0	(732)	(46,032)	(36,032)	(26,032)	(16,032)
Long Term Liabilities		(4,598)	(48,460)	(56,946)	(56,946)	(56,946)	(56,946)
Long term borrowings		0	(27,006)	(34,131)	(34,131)	(34,131)	(34,131)
Other long term liabilities		(4,598)	(21,453)	(22,815)	(22,815)	(22,815)	(22,815)
Net Assets		80,105	87,148	100,412	112,558	131,074	153,560
<b>CASH FLOW</b>							
Operating Cash Flow		7,892	9,531	23,357	44,887	50,655	55,930
Net Interest		545	384	231	(2,000)	(1,600)	(1,200)
Tax		(2,284)	(2,091)	(8,152)	(9,912)	(11,164)	(12,785)
Capex		(1,790)	(5,484)	(11,258)	(6,375)	(4,501)	(4,700)
Acquisitions/disposals		0	(15,254)	(58,472)	(2,223)	0	0
Shares issued		3,000	587	(1,494)	0	0	0
Dividends		(3,949)	(3,949)	(6,584)	(6,581)	(6,581)	(7,108)
Net Cash Flow		3,414	(16,276)	(62,373)	17,796	26,808	30,137
Opening net debt/(cash)		(32,473)	(35,912)	(19,410)	42,034	24,238	(2,570)
HP finance leases initiated		0	0	0	0	0	0
Other		25	(225)	929	0	0	0
Closing net debt/(cash)		(35,912)	(19,410)	42,034	24,238	(2,570)	(32,708)

Source: GFT Group (historicals), Edison Investment Research (forecasts)

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