EDISON

SNP Schneider-Neureither & Partner

Q3 results

Positioning the business for growth

Software & comp services

2017 has been a year of major change for SNP, including two major acquisitions, debt and equity capital raisings, corporate restructurings, new product offerings launched and new training centres established. This has involved significant cost in both financial terms and management time. There has been €4m in one off costs, and management expects to report break-even at the EBIT level in FY17. Excluding one-off costs, the FY17 EBIT margin is expected be c 3.3%. Following the acquisitions, the group now has a presence in most major regions globally. Hence, SNP now looks better positioned to deliver on its goal to be the global leader in software-based transformation projects. Following the recent correction, we believe the shares look increasingly attractive on c 18x our FY19e EPS.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	56.2	3.4	58.8	34.0	49.1	1.2
12/16	80.7	5.7	94.4	39.0	30.6	1.4
12/17e	120.0	(1.2)	(20.5)	45.0	N/A	1.6
12/18e	149.2	6.4	77.1	52.0	37.4	1.8

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

Investment case: Huge transformation opportunities

SNP's T-B is the only off-the-shelf software that automates the process of combining, upgrading or carving out data from ERP systems. The industry is driven by the need to transform, adapt and harmonise data, which is initiated by M&A activity, system consolidation, cloudification and the need for simplification. The industry is growing apace and is potentially large. Only around a third of transformation work is outsourced with just a tiny percentage involving software-based tools.

Q3 results: 2% organic growth with record backlog

Q3 revenue growth of 68% was driven by acquired businesses ADEPCON, BCC and Harlex and included c 2% organic growth. A €1m normalised pretax loss was partly due to delayed software sales and investment in growth. However, order backlog was at record levels and the book-to-bill remained healthy at 1.13x. Additionally, utilisation rates returned to normal levels after a slow start to the year.

Guidance and forecasts: Revenues up, profits down

Management upgraded FY17 revenue guidance by €10m to €120m, reflecting the acquisition of ADEPCON, effective from 1 August. However, it now only expects break-even at the EBIT level, reflecting the increased investment going into the business. We have adjusted our FY17 forecasts in line with management guidance, while also increasing revenues and cutting margins in subsequent years.

Valuation: Strong growth play in the ERP space

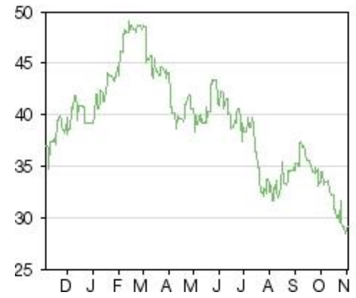
The stock trades on c 37x our FY18e EPS, which falls to c 18x in FY19e. Our discounted cash flow valuation (based on c 7.6% organic revenue CAGR over 10 years, 10% WACC, 16% long-term margin and 2% terminal growth) is €40.75/share, 41% above the current share price.

3 November 2017

Price	**€28.85**
Market cap	**€158m**

Net debt (€m) at 30 September 2017	7.5
Shares in issue	5.5m
Free float	53.0
Code	SHF
Primary exchange	Frankfurt (Xetra)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(15.6)	(12.3)	(20.1)
Rel (local)	(18.9)	(20.5)	(38.3)
52-week high/low		€49.1	€28.5

Business description

SNP Schneider-Neureither & Partner (SNP) is a software and consulting business focused on supporting customers in implementing change, and rapidly and economically tailoring IT landscapes to new situations. It has developed a proprietary software suite, CrystalBridge and Transformation Backbone with SAP LT (T-B), which automatically analyses and applies and tracks changes in IT systems.

Next events

German Equity Forum	27/28 November 2017
Preliminary results	31 January 2018
Annual report	28 March 2018
Q1 results	27 April 2018

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Edison profile page

Q3 results: 2% organic growth in Q3, 5% in 9M17

Q3 revenues grew by 68% to €33.0m, including c 2% organic growth and contributions from Harlex (consolidated into the accounts from 1 October 2016), Innoplexia (1 May 2017), BCC (1 May 2017) and ADEPCON (1 August 2017). The group recorded a €953k normalised pre-tax loss, partly due to postponed sales of its proprietary software. While Q3 licence revenues jumped 82% to €5.9m, this includes a significant amount of low-margin software sales relating to the two recent acquisitions. Within 9M licence revenues, c €5m were third-party licence re-sales and own software was c €1m lower. The business benefits from software re-sales as it typically leads to project work. As own software sales were delayed, management anticipates a very busy Q4.

Incoming orders jumped by 43% to a record €37.4m in Q3, while the backlog rose by 70% to a record €62.2m. Utilisation rates have returned to normal levels after a slow start to the year and the book-to-bill remained positive at 1.13x. For 9M17, revenues rose by 41% to €81.0m, with a normalised loss of €3.6m after the €4m of one-off costs. Most of these one-off costs were in the first half, including €2.65m in Q1. We outlined these items in our Q1 note, published in early May, and have treated these items within normal operating expenses. This is because most of the costs are operational in nature such as legal fees and restructuring costs.

During 2017 the group has expanded its software product portfolio with the launch of CrystalBridge (used to blueprint projects) and Interface Scanner (enables customers to gather insights into their system landscape and any changes that have occurred over time). Both products were developed internally. CrystalBridge is a crucial component in the planning of SAP S/4HANA transformations and it operates on a recurring Software-as-a-Service revenue model. The recently acquired Innoplexia also broadens the offering – as a provider of market information, it enables customers to see what is going on in their particular industries.

Exhibit 1: Quarterly analysis

€000s	Q116	Q216	Q316	Q416	FY16	Q117	Q217	Q317	Q417	FY17e	FY18e
Professional services	15,516	16,558	15,953	18,613	66,640	19,089	22,151	25,936	30,776	97,952	125,399
Licences	2,216	2,425	3,258	4,101	12,000	1,733	3,042	5,935	7,090	17,800	18,800
Maintenance	742	457	416	430	2,045	776	1,237	1,140	1,047	4,200	5,050
Total revenue	18,474	19,440	19,627	23,144	80,685	21,598	26,430	33,011	38,913	119,952	149,249
Other operating income	200	148	150	730	1,228	235	295	171			
Cost of materials	(1,928)	(2,037)	(1,965)	(2,346)	(8,276)	(2,260)	(3,244)	(7,037)			
Personnel costs	(10,604)	(11,382)	(11,399)	(13,822)	(47,207)	(14,657)	(15,511)	(18,849)			
Other operating expenses	(4,174)	(3,986)	(4,209)	(5,442)	(17,811)	(6,692)	(6,461)	(7,156)			
Other taxes	(22)	(27)	(21)	(25)	(95)	(28)	(277)	(32)			
Op costs (before depreciation)	(16,528)	(17,284)	(17,444)	(20,905)	(72,161)	(23,402)	(25,198)	(32,903)	(35,452)	(116,955)	(138,292)
Adjusted EBITDA	1,946	2,156	2,183	2,239	8,524	(1,804)	1,232	108	3,460	2,996	10,957
Depreciation	(323)	(372)	(399)	(573)	(1,667)	(594)	(690)	(843)	(850)	(2,977)	(3,543)
Adjusted operating profit (EBIT)	1,623	1,784	1,784	1,666	6,857	(2,398)	542	(735)	2,611	20	7,415
Operating Margin	8.8%	9.2%	9.1%	7.2%	8.5%	(11.1%)	2.1%	(2.2%)	6.7%	0.0%	5.0%
Net interest	(191)	(268)	(141)	(537)	(1,137)	(577)	(181)	(218)	(224)	(1,200)	(1,000)
Edison profit before tax (norm)	1,432	1,516	1,643	1,129	5,720	(2,975)	361	(953)	2,387	(1,180)	6,415
Associates	0	(1)	0	9	8	0	(1)	12	0	0	0
Exceptional items	0	0	0	0	0	0	0	0	0	0	0
Profit before tax (FRS 3)	1,432	1,515	1,643	1,138	5,728	(2,975)	360	(941)	2,387	(1,180)	6,415
New orders and backlog											
Incoming orders	26,200	19,900	26,200	23,300	95,600	24,400	33,200	37,400			
Quarterly revenues	18,474	19,440	19,627	23,144	80,685	21,598	26,430	33,011			
Book-to-bill ratio	1.42	1.02	1.33	1.01	1.18	1.13	1.26	1.13			
Backlog	28,700	29,300	36,200	39,300		40,800	48,500	62,200			

Source: SNP Schneider-Neureither & Partner accounts, Edison Investment Research

During the period, the company established a strategic partnership with NTT Data. The aim of the partnership is to jointly offer software-based transformation services for enterprises in Asia Pacific.

In October, SNP had a successful Transformation World customer conference with 240 attendees, up from 160 in the previous year. There were the first presentations given in English, reflecting the increasingly international perspective, and considerable interest was shown in the new products.

The cash outflow from operating activities eased to €2.9m in Q3 from €8.0m in H1. There were acquisition costs of c €7m in Q3 relating to ADEPCON, and the company raised €18.3m in a share placement. After c €0.8m capex and €0.2m of currency movement, net debt fell by €7.4m over the quarter to €7.5m. Our estimated adjusted net debt eases by €0.5m to €24.3m, after including of our assumed cost over the remaining 40% of ADEPCON.

Exhibit 2: Balance sheet development

€m	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17
Cash	(31.9)	(53.9)	(26.5)	(33.3)
Short-term debt	12.8	2.1	1.7	1.2
Long-term debt	0.4	39.6	39.6	39.7
Net debt/(cash)	(18.7)	(12.2)	14.9	7.5
RSP acquisition liabilities	2.5	2.5	2.5	2.5
Astrums/Hartung acquisition liabilities	1.9	1.9	1.9	1.9
Harlex acquisition liabilities	4.0	4.0	4.0	4.0
ADEPCON acquisition liabilities				6.9
Pension deficit	1.5	1.5	1.5	1.5
Adjusted net debt/(cash)	(8.7)	(2.3)	24.8	24.3

Source: SNP, Edison Investment Research

Outlook: Strong business drivers in M&A and data migrations

Management raised its revenue guidance for FY17 to €120m from €110m. It now expects to generate EBITDA margin, before the c €4m in one-off costs, of c 5% and an EBIT margin of 3%. After one-off costs, management anticipates a broadly neutral (zero) EBIT margin. It expects own software sales to reach c €10m for the year, with Q4 proprietary software sales helping the group return to profit in the final quarter. Management has given no guidance beyond FY17.

The group's medium-term growth is largely driven by M&A-related factors, with around 40,000 mergers each year around the globe, while longer-term vision is around the potential tsunami of data migrations building up across the globe, particularly around SAP S/4HANA. SNP estimates that some 125 S4 migrations are required per week to meet the goal of achieving SAP's end-of-life target. SNP argues that this can only be achieved through automation.

Forecast changes: Revenues up, margins come back

We have adjusted our FY17 forecasts in line with management guidance, while also increasing revenues and cutting margins in subsequent years. We forecast the FY17e EBIT margin at zero. Stripping out €4m of one-off costs, the EBIT margin would be 3.4%, while the EBITDA margin would be 5.8%. Our FY18 EBIT margin forecast is 5%. The gain reflects the dropping out of one-off costs, improving utilisation rates, merger synergies and increased proprietary software sales.

We forecast strong cash generation in Q417 and for the group to end FY17 with a small net cash position. However, this moves back to net debt at end-FY18 after follow-on acquisition payments. We have maintained our assumptions for outstanding acquisition liabilities as shown in Exhibit 2.

Exhibit 3: Forecast changes

€000s	2017e			2018e			2019e		
Revenue	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**
Professional services	92,991	97,952	5.3	116,292	125,399	7.8	127,025	136,975	7.8
Software licences	14,000	17,800	27.1	15,000	18,800	25.3	16,425	20,586	25.3
Software maintenance	3,000	4,200	40.0	3,850	5,050	31.2	4,216	5,530	31.2
Total software	17,000	22,000	29.4	18,850	23,850	26.5	20,641	26,116	26.5
Group revenue	109,991	119,952	9.1	135,142	149,249	10.4	147,665	163,090	10.4
Growth (%)	36.3	48.7		22.9	24.4		9.3	9.3	
Professional services contribution	6,650	980	(85.3)	11,513	6,145	(46.6)	13,020	10,958	(15.8)
Software contribution	4,250	2,640	(37.9)	5,655	4,770	(15.6)	6,915	6,529	(5.6)
Non-segment-related expenses	(3,400)	(4,000)	17.6	(3,350)	(4,000)	19.4	(3,417)	(4,080)	19.4
Other operating income & other taxes	500	400	(20.0)	510	500	(2.0)	520	510	(2.0)
Operating expenses	(101,991)	(119,932)	17.6	(120,814)	(141,834)	17.4	(130,627)	(149,173)	14.2
Adjusted operating profit (EBIT)	8,000	20	(99.8)	14,328	7,415	(48.3)	17,038	13,917	(18.3)
Operating profit margin (%)	7.3	0.0		10.6	5.0		11.5	8.5	
Net interest	(800)	(1,200)	50.0	(750)	(1,000)	33.3	(700)	(800)	14.3
Profit before tax norm	7,200	(1,180)	(116.4)	13,578	6,415	(52.8)	16,338	13,117	(19.7)
Profit before tax	7,200	(1,180)	(116.4)	13,578	6,415	(52.8)	16,338	13,117	(19.7)
Taxation	(2,160)	354	(116.4)	(4,073)	(1,924)	(52.8)	(4,901)	(3,935)	(19.7)
Non-controlling interests	(248)	(248)	0.0	(267)	(267)	0.0	(289)	(289)	0.0
FRS 3 net income	4,792	(1,074)	(122.4)	9,237	4,223	(54.3)	11,148	8,893	(20.2)
Adjusted EPS (c)	91.7	(20.5)	(122.4)	168.7	77.1	(54.3)	203.6	162.4	(20.2)
P/E - Adjusted EPS		**N/A**			**37.4**			**17.8**	

Source: Edison Investment Research

Exhibit 4: Financial summary

€'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	30,480	56,236	80,685	119,952	149,249	163,090
Cost of sales	0	0	0	0	0	0
Gross Profit	30,480	56,236	80,685	119,952	149,249	163,090
EBITDA	862	5,484	8,524	2,996	10,957	17,862
Adjusted Operating Profit*	(66)	4,222	6,857	20	7,415	13,917
Amortisation of acquired intangibles	0	0	0	0	0	0
Exceptionals	1,505	356	0	0	0	0
Associates	0	(3)	8	0	0	0
Operating Profit	1,439	4,575	6,865	20	7,415	13,917
Net Interest	(66)	(828)	(1,137)	(1,200)	(1,000)	(800)
Profit Before Tax (norm)	(132)	3,394	5,720	(1,180)	6,415	13,117
Profit Before Tax (FRS 3)	1,373	3,747	5,728	(1,180)	6,415	13,117
Tax	(344)	(1,195)	(1,517)	354	(1,924)	(3,935)
Profit After Tax (norm)	(477)	2,198	4,203	(826)	4,490	9,182
Profit After Tax (FRS 3)	1,028	2,552	4,211	(826)	4,490	9,182
Minority interest	(40)	0	(147)	(248)	(267)	(289)
Adjustments for normalised earnings	0	0	0	0	0	0
Net income (norm)	(517)	2,198	4,056	(1,074)	4,223	8,893
Net income (FRS 3)	988	2,552	4,064	(1,074)	4,223	8,893
Average Number of Shares Outstanding (m)	3.7	3.7	4.3	5.2	5.5	5.5
EPS - normalised (c)	(13.9)	58.8	94.4	(20.5)	77.1	162.4
EPS - normalised & fully diluted (c)	(13.9)	58.8	94.4	(20.5)	77.1	162.4
EPS - FRS 3 (c)	26.6	68.3	94.6	(20.5)	77.1	162.4
Dividend per share (c)	13.00	34.00	39.00	45.00	52.00	60.00
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	2.8	9.8	10.6	2.5	7.3	11.0
Adjusted Operating Margin (%)	-0.2	7.5	8.5	0.0	5.0	8.5
BALANCE SHEET						
Fixed Assets	8,291	15,243	29,054	69,835	69,278	68,595
Intangible Assets	5,190	11,675	24,179	62,939	62,939	62,939
Tangible Assets	1,231	1,999	3,161	5,582	5,024	4,341
Other	1,871	1,570	1,714	1,314	1,314	1,314
Current Assets	17,882	29,996	59,478	83,465	78,719	83,135
Stocks	0	0	0	0	0	0
Debtors	11,286	16,084	27,201	40,439	50,315	54,982
Cash	5,681	13,769	31,914	42,663	28,041	27,790
Current Liabilities	(9,782)	(13,703)	(34,382)	(33,211)	(42,463)	(46,371)
Creditors	(9,182)	(11,101)	(21,583)	(31,111)	(40,363)	(44,271)
Short term borrowings	(600)	(2,602)	(12,799)	(2,100)	(2,100)	(2,100)
Long Term Liabilities	(2,501)	(15,513)	(5,576)	(52,440)	(40,366)	(32,792)
Long term borrowings	(1,650)	(12,344)	(434)	(40,434)	(35,434)	(30,434)
Other long term liabilities	(851)	(3,169)	(5,141)	(12,005)	(4,931)	(2,357)
Net Assets	13,890	16,024	48,575	67,650	65,169	72,567
CASH FLOW						
Operating Cash Flow	2,579	1,879	1,005	(876)	10,211	17,046
Net Interest	(66)	(167)	53	(1,200)	(1,000)	(800)
Tax	(1,102)	(554)	(412)	331	(1,796)	(3,673)
Capex	(701)	(1,779)	(3,451)	(5,398)	(2,985)	(3,262)
Acquisitions/disposals**	(500)	(3,228)	(5,923)	(27,770)	(11,701)	(1,716)
Shares issued	0	0	30,129	18,293	0	0
Dividends	(335)	(483)	(1,264)	(1,932)	(2,352)	(2,847)
Net Cash Flow	(124)	(4,332)	20,137	(18,552)	(9,623)	4,749
Opening net debt/(cash)	(3,505)	(3,431)	1,176	(18,681)	(129)	9,494
HP finance leases initiated	0	0	0	0	0	0
Other	51	(275)	(281)	0	0	0
Closing net debt/(cash)	(3,431)	1,176	(18,681)	(129)	9,494	4,744

Source: SNP Schneider-Neureither & Partner accounts, Edison Investment Research. Note: *Includes c €4m exceptional costs in FY17. **Includes additional payments for ADEPCON in FY18 and FY19, and final payments for RSP, Astrums/Hartung and Harlex in FY18.

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