EDISON

SNP Schneider-Neureither & Partner

Provisional FY18 results

Significant operational improvements in H2

Software & comp services

The primary focus in FY18 was on integrating the recent acquisitions and positioning the business for growth in anticipation of the emerging digitisation wave. FY18 revenues of c €131m were below our forecast of €137.9m. Nevertheless, H2 adjusted EBITDA saw a c €5.4m improvement over H1 reflecting significant operational improvements. We have trimmed our FY19–20 revenue forecasts by 4–5% and adjusted EBITDA by 5–7%. Meanwhile, a key appointment has been made to drive sales in North America and SNP is close to announcing the hire of a new COO. SNP has a number of recent successful pilots, which it is optimistic will convert into larger projects. While the shares look punchy on c 32x our FY19e EPS, the rating could fall quickly as new projects come through.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	122.3	3.8	61.9	0.0	27.3	0.0
12/18e	131.0	(2.5)	(36.4)	0.0	N/A	0.0
12/19e	147.5	5.5	53.6	25.0	31.5	1.5
12/20e	160.0	10.3	104.5	33.0	16.2	2.0

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

Trading update: Sales below, EBITDA roughly in line

FY18 revenues were c €131m and IFRS EBITDA was c €2.8m (we forecast €3.0m, with no additional exceptional items in Q4). The numbers imply that while Q4 software sales were not as good as expected, cost savings made during the year largely made up the difference. Headcount was reduced by 8% in Germany in H2 while total group headcount was reduced by 4% over the year. Management now anticipates FY19 sales of €145–150m while no profit guidance has yet been given.

Management changes: New boss for North America

SNP has hired an industry veteran to drive its growth strategy in North America. The company is close to announcing the hire of a new chief operating officer (COO) who will be responsible for day-to-day operations in both sales and consulting. This will be the first time SNP has had a role in charge of both these areas and it will increase the number of managing directors to three (CEO, CFO and COO).

Forecast changes: Revenues and profits trimmed

We have reduced our FY18 revenue and EBITDA forecasts in line with guidance. For FY19 and FY20, we have cut our revenue forecasts by 4% to €147.5m and €160m respectively, which still reflects attractive growth rates of 13% and 8%. We have cut adjusted EBITDA forecasts by 5% in FY19 to €10.4m and by 7% in FY20 to €15.1m, reflecting EBITDA margins of 7.0% and 9.4% respectively.

Valuation: Strong growth play in the ERP space

The stock trades on c 32x our earnings in FY19e, falling to c 16x in FY20e. Our discounted cash flow valuation (based on c 5.8% organic revenue CAGR over 10 years, 10% WACC, 14.0% long-term operating margin and 2% terminal growth) is €27/share, c 60% above the current share price.

7 February 2019

Price	**€16.90**
Market cap	**€112m**

Net debt (€m) at 30 September 2018	32.8
Shares in issue	6.6m
Free float	71%
Code	SHF
Primary exchange	Frankfurt (Xetra)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	7.8	(0.9)	(50.0)
Rel (local)	2.5	0.5	(45.2)
52-week high/low		€36.2	€15.1

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, applies and tracks changes in IT systems.

Next events

Annual report	29 March 2019
Q119 results	30 April 2019
AGM	6 June 2019
H119 results	2 August 2019

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Edison profile page

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Trading update: Substantial H2 improvement

Group revenues rose by 7% to €131m, including full period contributions from SNP Poland, Innoplexia and ADEPCON (Argentina), which were all acquired during FY17. There was an organic revenue decline of c 5% in Germany and the US, largely due to lower professional services utilisation rates and lower than expected proprietary software sales following S/4HANA project deferrals. Nevertheless, management's efforts to streamline the business resulted in a significant improvement in profitability in H2 over H1. IFRS EBITDA swung from a €3.5m loss in H1 to a €6.3m profit in H2, while non-IFRS adjusted EBITDA swung from a €1.7m loss in H1 to a €3.7m profit in H2. This equates to an H2-adjusted EBITDA margin of 5.6%.

Management is focused on a new financial strategy including boosting free cash flow. Payment terms have been optimised to improve working capital. The company is selling its car fleet and will instead lease cars and it has made cut backs on travel. The group reduced its headcount in Germany by c 50, falling from c 550 to c 500. These cuts were mostly lower-level jobs, with many leaving on their own accord. Hence we estimate there was only a modest charge for redundancy costs in Q3 and Q4 which we have factored into our operating costs forecasts. Total group headcount fell to 1,286 at the year end, down from 1,350 at the mid-year stage and 1,341 at the end of FY17. The total decline over the 12 months includes the US headcount reductions in early-FY18.

SNP is trialling a near-shore approach, utilising three hubs to help optimise project costs.

- DACH region. Utilising the group's Polish consultants.
- North America. Utilising the group's Argentinean workforce, taking advantage of the extremely weak peso.
- Asia. Using Malaysian resources to cover all of Asia, including a nascent market in Australia (SNP recently appointed an SNP veteran to target the Australian market).

Management is excited about a number of recent successful pilot projects, which it believes could become substantial projects. This includes the S/4HANAproject for Volkswagen Saxony, which is close to going live and leaves SNP well positioned to expand its transformation work in the VW group. There is also a project in the US, which involved merging two SAP landscapes and could expand into a larger S/4HANA project, and a project for a car maker in Germany.

Forecast changes: Revenues and EBITDA trimmed

We have reduced our FY18 revenue forecast by 5% to bring in line with the update and cut IFRS EBITDA to €2.8m. Following discussions with the company, we understand that the IFRS EBITDA number translates to adjusted EBITDA of €2.0m (ie a 39% reduction on our €3.3m forecast). We have cut our FY19 and FY20 revenue forecasts by 4% to €147.5m (the middle of management's guidance range) and €160m respectively. We have cut our adjusted EBITDA forecasts by 5% in FY19 to €10.4m and by 7% in FY20 to €15.1m, reflecting EBITDA margins of 7.0% and 9.4% respectively. We believe the margin can advance further as the business scales and sells more high-margin proprietary software. We now forecast the group to have ended FY18 with net debt of €23.3m, which falls to €21.9m at the end of FY19 and €17.3m at the end of FY20.

Exhibit 1: Forecast changes

€m	Revenue (€m)			Adjusted EBITDA (€m)			EPS (c)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	137.9	131.0	(5)	3.3	2.0	(39)	(19.4)	(36.4)	N/A
2019e	153.4	147.5	(4)	10.9	10.4	(5)	58.6	53.6	(9)
2020e	166.6	160.0	(4)	16.2	15.1	(7)	115.0	104.5	(9)

Source: Edison Investment Research

Approximately €1.1m of exceptional profits are expected in Q4, mostly relating to the write back of the ADEPCON earnout due to the sliding peso. When combined with the cumulative €0.3m exceptional losses over Q1-Q3, the result is an exceptional profit of €0.8m, which represents the difference between IFRS and non-IFRS EBITDA for FY18 (Exhibit 2).

Exhibit 2: Reconciling non-IFRS EBITDA with IFRS EBITDA

	2017	2017	2017	2017	2017	2018	2018	2018	2018	2018
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4e	FYe
Non-IFRS EBITDA	(1.6)	2.9	0.6	5.0	6.9	(1.2)	(0.5)	2.5	1.2	2.0
Exceptional items	(0.2)	(1.7)	(0.5)	(1.2)	(3.6)	(0.2)	(1.6)	1.5	1.1	0.8
IFRS EBITDA	(1.8)	1.2	0.1	3.8	3.3	(1.4)	(2.1)	4.0	2.3	2.8

Source: Company accounts, Edison Investment Research

Incoming orders were €132.3m in FY18, which indicates that the book-to-bill ratio was just above 1x for Q4 and the year as a whole; in Q2 and Q3 the ratio was below 1x.

Exhibit 3: New orders and backlog

	2017	2017	2017	2017	2017	2018	2018	2018	2018	2018
€'000	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4e	FYe
Incoming orders	24,400	33,200	37,400	35,700	130,700	40,900	26,300	31,500	33,600	132,300
Quarterly revenues	21,598	26,430	33,011	41,304	122,343	31,553	33,492	33,727	32,228	131,000
Book-to-bill ratio (x)	1.13	1.26	1.13	0.86	1.07	1.30	0.79	0.93	1.04	1.01
Backlog	40,800	48,500	62,200	61,300		70,200	63,300	61,400	56,000	

Source: Company accounts, Edison Investment Research

Management changes: New US boss and new COO is close

SNP has hired software industry veteran Derek Oats as CEO and president of the group's North American operations. Mr Oats' appointment follows the departure of the group's US-based chief revenue officer who had been responsible for the entire group's sales strategy. Mr Oats will work from SNP's Dallas, Newark and Philadelphia offices, reporting directly to SNP's CEO and Chairman Dr Andreas Schneider-Neureither. The plan involves expanding the US sales department to bring the US operations back on track.

SNP is close to announcing the hire of a new COO who will be responsible for the group's day-to-day operations, covering both sales and consulting. This will be the first time that SNP has had a role in charge of both areas.

Following the appointment of the COO, SNP will have three managing directors: Dr Andreas Schneider-Neureither, CEO, responsible for development, IT and marketing; Dr Uwe Schwellbach, CFO, responsible for finance, human resources, legal and administration; and the new COO responsible for sales and consulting.

Exhibit 4: Financial summary

€'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	56,236	80,685	122,343	131,000	147,500	160,000
Cost of sales	0	0	0	0	0	0
Gross Profit	56,236	80,685	122,343	131,000	147,500	160,000
EBITDA	5,484	8,124	6,868	2,000	10,357	15,070
Adjusted Operating Profit	4,222	7,114	5,113	(1,288)	6,771	11,404
Amortisation of acquired intangibles	0	(657)	(2,021)	(1,600)	(1,600)	(1,600)
Exceptionals	356	400	(3,600)	800	0	0
Associates	(3)	8	(24)	0	0	0
Operating Profit	4,575	6,865	(532)	(2,088)	5,171	9,804
Net Interest	(828)	(1,137)	(1,327)	(1,200)	(1,300)	(1,100)
Profit Before Tax (norm)	3,394	5,977	3,786	(2,488)	5,471	10,304
Profit Before Tax (FRS 3)	3,747	5,728	(1,859)	(3,288)	3,871	8,704
Tax	(1,195)	(1,517)	(807)	746	(1,641)	(3,091)
Profit After Tax (norm)	2,198	4,460	2,980	(1,741)	3,829	7,213
Profit After Tax (FRS 3)	2,552	4,211	(2,666)	(2,541)	2,229	5,613
Minority interest	0	(147)	234	(267)	(289)	(312)
Adjustments for normalised earnings	0	0	0	0	0	0
Net income (norm)	2,198	4,313	3,214	(2,009)	3,541	6,901
Net income (FRS 3)	2,552	4,064	(2,431)	(2,809)	1,941	5,301
Average Number of Shares Outstanding (m)	3.7	4.3	5.2	5.5	6.6	6.6
EPS - normalised (c)	58.8	100.4	61.9	(36.4)	53.6	104.5
EPS - normalised & fully diluted (c)	58.8	100.4	61.9	(36.4)	53.6	104.5
EPS - FRS 3 (c)	68.3	94.6	(46.8)	(50.9)	29.4	80.3
Dividend per share (c)	34.00	39.00	0.00	0.00	25.00	33.00
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	9.8	10.1	5.6	1.5	7.0	9.4
Adjusted Operating Margin (%)	7.5	8.8	4.2	(1.0)	4.6	7.1
BALANCE SHEET						
Fixed Assets	15,243	30,109	75,171	73,526	71,994	70,697
Intangible Assets	11,675	24,179	67,012	65,380	63,748	62,115
Tangible Assets	1,999	3,161	5,187	5,174	5,275	5,609
Other	1,570	2,769	2,972	2,972	2,972	2,972
Current Assets	29,996	58,424	78,614	75,236	76,977	80,678
Stocks	0	371	371	398	448	486
Debtors	16,084	25,652	43,781	41,879	47,153	51,149
Cash	13,769	31,914	33,877	32,375	28,791	28,457
Current Liabilities	(13,703)	(32,631)	(40,531)	(38,035)	(42,689)	(45,973)
Creditors	(11,101)	(14,523)	(29,295)	(26,799)	(31,452)	(34,737)
Short term borrowings	(2,602)	(18,108)	(11,236)	(11,236)	(11,236)	(11,236)
Long Term Liabilities	(15,513)	(7,327)	(53,157)	(45,583)	(40,583)	(35,583)
Long term borrowings	(12,344)	(5,531)	(49,487)	(44,487)	(39,487)	(34,487)
Other long term liabilities	(3,169)	(1,796)	(3,670)	(1,096)	(1,096)	(1,096)
Net Assets	16,024	48,575	60,097	65,144	65,700	69,818
CASH FLOW						
Operating Cash Flow	1,879	1,005	(5,316)	1,377	9,652	14,302
Net Interest	(167)	53	(798)	(1,200)	(1,300)	(1,100)
Tax	(554)	(412)	(1,366)	697	(1,532)	(2,885)
Capex	(1,779)	(3,451)	(5,234)	(3,275)	(3,688)	(4,000)
Acquisitions/disposals*	(3,228)	(5,923)	(28,783)	(11,701)	(1,716)	0
Shares issued	0	30,129	18,293	17,600	0	0
Dividends	(483)	(1,264)	(1,932)	0	0	(1,651)
Net Cash Flow	(4,332)	20,137	(25,136)	3,498	1,416	4,666
Opening net debt/(cash)	(3,431)	1,176	(8,275)	26,847	23,349	21,932
Other	(275)	(10,686)	(9,985)	0	0	0
Closing net debt/(cash)	1,176	(8,275)	26,847	23,349	21,932	17,266

Source: Company accounts, Edison Investment Research. Note: *Includes additional payments for Adepcon in FY18 and FY19, and final payments for RSP, Astrums/Hartung, Harlex and Innoplexia in FY18.

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