EDISON

SNP Schneider-Neureither & Partner

Q3 results

Strong Q3 profits recovery

Software & comp services

Q3 results reveal that SNP is stabilising after the July profit warning. While underlying revenues showed a small contraction, profits recovered strongly. This indicates that cost saving measures are beginning to have an impact. Additionally, SNP has recently won several small S/4HANA migration contracts, which indicates that the S/4HANA business is beginning to gain momentum. We have increased our FY18 profits forecasts while maintaining revenues. While the shares look punchy on c 23x our FY19e earnings, the rating could fall quickly as new projects come through.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	80.7	6.0	100.4	39.0	16.0	2.4
12/17	122.3	3.8	61.9	0.0	25.9	0.0
12/18e	137.9	(1.1)	(19.5)	0.0	N/A	0.0
12/19e	153.4	5.9	70.7	30.0	22.7	1.9

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

9M18 results: Nine-month adjusted EBITDA of €0.8m

9M18 revenue rose by 22% to €98.8m, including €18.5m from acquisitions and a c 1% organic contraction. Adjusted EBITDA expanded to €0.8m in 9M18 from a loss of €1.7m in H118. SNP increased its FY18 profit guidance but maintained revenue guidance. In H2, SNP initiated a globally oriented programme to improve efficiencies, with a focus on improving cost structures and increasingly concentrating on free cash flow.

SAP S/4HANA contracts are beginning to flow

SNP has recently won several small S/4HANA migrations, including with Volkswagen Saxony, a wholly owned subsidiary of Volkswagen.

Proposed capital increase via subscription rights

In August, SNP said that it was making preparations for a capital increase in Q418. Shareholders will be entitled to apply for new shares that will result in the issue of up to 1.127m new bearer shares. While SNP does not require the funds immediately, the money will provide the group with extra financial flexibility.

Forecasts: FY18 profits upgrade

We have increased our FY18 operating profit forecast to break-even, in line with guidance, from a €2.8m loss. While we have retained our revenues, we have amended the split. We have reduced our capex and depreciation forecasts. We now forecast the group to end FY18 with net debt of €40.2m (previously €42.8m).

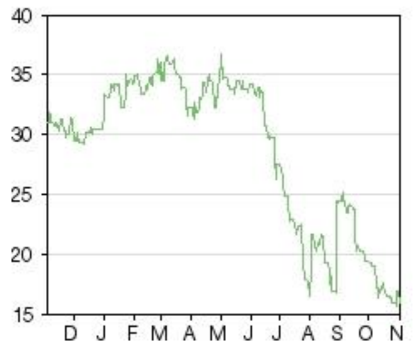
Valuation: Strong growth play in the ERP space

The stock trades on c 23x our earnings in FY19e, falling to c 12x in FY20e. Our discounted cash flow valuation (based on c 7% organic revenue CAGR over 10 years, 10% WACC, 14.8% long-term margin and 2% terminal growth) is €32/share, double the current share price. Increasing the organic revenue CAGR to 10% increases the valuation to c €44/share, with other variables remaining constant.

2 November 2018

Price	**€16.04**
Market cap	**€88m**
Net debt (€m) at 30 September 2018	32.8
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)	(2.7)	(44.6)
Rel (local)	(9.1)	8.1	(34.9)
52-week high/low		€36.8	€15.4

Business description

SNP Schneider-Neureither & Partner 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	26/27 November 2018
Prelim FY18 results	31 January 2019
Annual report	29 March 2019
Q1 results	30 April 2019

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Q3 results: Q3 adjusted EBITDA was €2.5m

Revenue for the first nine months of 2018 (9M18) rose by 22% to €98.8m, including €18.5m from acquisitions and a c 1% organic contraction. This compared with a 2% organic gain in H1, although the company has not divulged exchange rate impacts on revenues. The main considerations are the US$, which has weakened by 7% against the euro (9M18 vs 9M17) and strengthened by 1% (Q318 vs Q317) and the Argentine peso, which has plummeted. Professional services fared well, with 9M18 organic revenues down 3.9%, compared with 6.0% at the halfway stage. Adjusted EBITDA rose to €0.8m in 9M18 from a loss of €1.7m in H1. Statutory IFRS EBITDA was €0.3m lower at €0.5m, as a €2m benefit from a reduction in the earnout for Adepcon was more than cancelled by €2.1m in restructuring costs, €1.8m of which was incurred in H1, along with €0.2m of currency-related factors.

Q3 adjusted EBITDA rose to €2.5m (7.4% margin) from a loss in Q2 and small profit in Q317. The Q3 IFRS EBITDA was a record €4.0m, boosted by a €1.5m reduction in the earnout for Adepcon. The renewed profitability was aided by the recent restructurings and consequently significantly improved utilisation rates. Headcount stood at 1,324 at end-September, down from 1,350 at end June and 1,363 at end-March.

€2.4m was spent on acquisitions during the quarter, which related to Harlex and the final 20% of Innoplexia. Capex costs were relatively subdued at €2.4m. Net debt fell by €3.0m to €32.8m from €35.8m at end June. This was largely due to the reduction in the Adepcon earnout.

SNP increased its FY18 profit guidance (both statutory and adjusted EBITDA in the low- to mid-single digit million range) while maintaining revenue guidance (€135-140m).

Exhibit 1: Quarterly analysis

€000s	Q117	Q217	Q317	Q417	FY17	Q118	Q218	Q318	Q418e	FY18e	FY19e
Professional services	19,089	22,151	25,936	31,157	98,333	25,441	26,867	25,996	26,547	104,851	117,267
Cloud						424	565	1,158	1,200	3,347	3,665
Licences	1,733	3,042	5,935	8,389	19,099	3,697	3,888	4,408	9,204	21,197	23,211
Maintenance	776	1,237	1,140	1,758	4,911	1,991	2,172	2,165	2,171	8,499	9,306
Total revenue	21,598	26,430	33,011	41,304	122,343	31,553	33,492	33,727	39,123	137,895	153,449
Other operating income*	235	295	171	1,217	1,918	833	1,015	2,391			
Cost of materials	(2,260)	(3,244)	(7,037)	(6,674)	(19,215)	(5,135)	(5,346)	(6,050)			
Personnel costs	(14,657)	(15,511)	(18,849)	(22,455)	(71,472)	(21,363)	(23,010)	(19,184)			
Other operating expenses	(6,692)	(6,461)	(7,156)	(9,626)	(29,935)	(7,183)	(7,875)	(6,738)			
Impairments on receivables etc							(225)	(13)			
Other taxes	(28)	(277)	(32)	(196)	(533)	(118)	(137)	(95)			
Exceptional items	200	1,700	500	1,200	3,600	200	1,600	(1,500)			
Op costs (before depreciation)	(23,202)	(23,498)	(32,403)	(36,372)	(115,475)	(32,766)	(33,978)	(31,189)	(36,618)	(134,551)	(142,566)
Adjusted EBITDA	(1,604)	2,932	608	4,932	6,868	(1,213)	(486)	2,538	2,504	3,343	10,883
Depreciation*	(344)	(390)	(493)	(528)	(1,755)	(808)	(936)	(754)	(790)	(3,288)	(3,644)
Adjusted operating profit	(1,948)	2,542	115	4,404	5,113	(2,021)	(1,422)	1,784	1,714	55	7,239
Operating Margin	(9.0%)	9.6%	0.3%	10.7%	4.2%	(6.4%)	(4.2%)	5.3%	4.4%	0.0%	4.7%
Net interest	(577)	(181)	(218)	(351)	(1,327)	(287)	(351)	(201)	(361)	(1,200)	(1,300)
Edison profit before tax (norm)	(2,525)	2,361	(103)	4,053	3,786	(2,308)	(1,773)	1,583	1,353	(1,145)	5,939
Amortisation of acq'd intangis*	(250)	(300)	(350)	(1,121)	(2,021)	(400)	(400)	(400)	(400)	(1,600)	(1,600)
Associates	0	(1)	0	(23)	(24)	0	0	0	0	0	0
Exceptional items	(200)	(1,700)	(500)	(1,200)	(3,600)	(200)	(1,600)	1,500	0	(300)	0
Earnings before tax	(2,975)	360	(953)	1,709	(1,859)	(2,908)	(3,773)	2,683	953	(3,045)	4,339
New orders and backlog											
Incoming orders	24,400	33,200	37,400	35,700	130,700	40,900	26,300	31,500			
Quarterly revenues	21,598	26,430	33,011	41,304	122,343	31,553	33,492	33,727			
Book-to-bill ratio	1.13	1.26	1.13	0.86	1.07	1.30	0.79	0.93			
Backlog	40,800	48,500	62,200	61,300		70,200	63,300	61,400			

Source: Company accounts, Edison Investment Research. Note: *Quarterly amortisation of acquired intangibles are estimated data.

The company now has two managing directors, following the appointment of Dr Uwe Schwellbach, CFO, as managing director in September. He joins Dr Andreas Schneider-Neureither, CEO, and SNP is making progress in the hunt for a chief operating officer (COO).

New contract win with Volkswagen Saxony

Volkswagen Saxony has mandated SNP to migrate its IT systems to SAP S/4HANA. Volkswagen Saxony is a wholly owned subsidiary of Volkswagen and has plants in Zwickau, Dresden and Chemnitz. We see this as an introductory S/4HANA migration project and, if successful, it has the potential to be extended more broadly across the Volkswagen group.

In addition to migrating data to S/4HANA, the project involves complex adjustments such as client merges, company code merges and plant relocations. There is a tight deadline to complete the S/4HANA migration (1 January 2019), which reflects SNP's highly effective, automated, proprietary software-based transformation approach. The project includes the transfer of master and transaction data from various modules of the SAP system to the S/4HANA target system. The standard software SNP Transformation Backbone will be used for the migration.

Forecast changes: Increase FY18 profitability

We have increased our FY18 operating profit forecast to break-even, which is in line with management guidance, from a €2.8m loss previously. While we have retained our revenue forecast, we have amended the revenue split, increasing cloud revenues and software maintenance while reducing software licences (which is a mix of proprietary licences and resales). We have reduced our capex, depreciation and FY18 net interest forecasts. We now forecast the group to end FY18 with net debt of €40.2m (previously €42.8m).

Exhibit 2: Forecast changes

	2018e			2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue									
Professional services	104,851	104,851	0.0	117,267	117,267	0.0	127,158	127,158	0.0
Cloud	2,000	3,347	67.4	2,190	3,665	67.4	2,388	3,996	67.4
Software licences	22,804	21,197	(7.0)	24,971	23,211	(7.0)	27,224	25,306	(7.0)
Software maintenance	8,239	8,499	3.2	9,022	9,306	3.2	9,836	10,146	3.2
Total software	31,043	29,696	(4.3)	33,992	32,517	(4.3)	37,060	35,452	(4.3)
Group revenue	137,895	137,895	0.0	153,449	153,449	0.0	166,606	166,606	0.0
Growth (%)	12.7	12.7		11.3	11.3		8.6	8.6	
Professional services contribution	0	2,621	N/A	4,691	4,984	6.3	8,265	8,583	3.8
Cloud contribution	100	167	67.4	146	246	67.9	178	300	68.2
Software contribution	3,104	3,267	5.2	8,498	8,129	(4.3)	10,192	9,749	(4.3)
Non-segment-related expenses	(6,000)	(6,000)	0.0	(6,120)	(6,120)	0.0	(6,242)	(6,242)	0.0
Operating expenses	(140,690)	(137,839)	(2.0)	(146,234)	(146,211)	(0.0)	(154,214)	(154,216)	0.0
Capitalisation of dev costs (net)	(32)	(32)	0.0	(32)	(32)	0.0	(32)	(32)	0.0
Adjusted operating profit (EBIT)	(2,796)	55	(102.0)	7,215	7,239	0.3	12,393	12,390	(0.0)
Operating profit margin (%)	(2.0)	0.0		4.7	4.7		7.4	7.4	
Growth (%)	(284.8)	(98.9)		(358.1)	13,009.7		71.8	71.2	
Net interest	(1,300)	(1,200)	(7.7)	(1,300)	(1,300)	0.0	(1,100)	(1,100)	0.0
Profit before tax norm	(4,096)	(1,145)	(72.0)	5,915	5,939	0.4	11,293	11,290	(0.0)
Amortisation of acquired intangibles	(1,600)	(1,600)	0.0	(1,600)	(1,600)	0.0	(1,600)	(1,600)	0.0
Exceptional items	0	(300)			0			0	
Profit before tax	(5,696)	(3,045)	(46.5)	4,315	4,339	0.5	9,693	9,690	(0.0)
Taxation	1,229	343	(72.0)	(1,775)	(1,782)	0.4	(3,388)	(3,387)	(0.0)
Non-controlling interests	(267)	(267)	0.0	(289)	(289)	0.0	(312)	(312)	0.0
FRS 3 net income	(4,734)	(2,969)	(37.3)	2,252	2,268	0.7	5,993	5,991	(0.0)
Adjusted EPS (c)	(57.3)	(19.5)	(65.9)	70.4	70.7	0.4	138.7	138.7	(0.0)
P/E - Adjusted EPS		N/A			22.7			11.6	

Source: Edison Investment Research.

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Exhibit 3: 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	137,895	153,449	166,606
Cost of sales	0	0	0	0	0	0
Gross Profit	56,236	80,685	122,343	137,895	153,449	166,606
EBITDA	5,484	8,124	6,868	3,343	10,883	16,162
Adjusted Operating Profit	4,222	7,114	5,113	55	7,239	12,390
Amortisation of acquired intangibles	0	(657)	(2,021)	(1,600)	(1,600)	(1,600)
Exceptionals	356	400	(3,600)	(300)	0	0
Associates	(3)	8	(24)	0	0	0
Operating Profit	4,575	6,865	(532)	(1,845)	5,639	10,790
Net Interest	(828)	(1,137)	(1,327)	(1,200)	(1,300)	(1,100)
Profit Before Tax (norm)	3,394	5,977	3,786	(1,145)	5,939	11,290
Profit Before Tax (FRS 3)	3,747	5,728	(1,859)	(3,045)	4,339	9,690
Tax	(1,195)	(1,517)	(807)	343	(1,782)	(3,387)
Profit After Tax (norm)	2,198	4,460	2,980	(801)	4,157	7,903
Profit After Tax (FRS 3)	2,552	4,211	(2,666)	(2,701)	2,557	6,303
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	(1,069)	3,868	7,591
Net income (FRS 3)	2,552	4,064	(2,431)	(2,969)	2,268	5,991
Average Number of Shares Outstanding (m)	3.7	4.3	5.2	5.5	5.5	5.5
EPS - normalised (c)	58.8	100.4	61.9	(19.5)	70.7	138.7
EPS - normalised & fully diluted (c)	58.8	100.4	61.9	(19.5)	70.7	138.7
EPS - FRS 3 (c)	68.3	94.6	(46.8)	(54.2)	41.4	109.4
Dividend per share (c)	34.00	39.00	0.00	0.00	30.00	40.00
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	9.8	10.1	5.6	2.4	7.1	9.7
Adjusted Operating Margin (%)	7.5	8.8	4.2	0.0	4.7	7.4
BALANCE SHEET						
Fixed Assets	15,243	30,109	75,171	73,698	72,258	71,018
Intangible Assets	11,675	24,179	67,012	65,380	63,748	62,115
Tangible Assets	1,999	3,161	5,187	5,346	5,538	5,931
Other	1,570	2,769	2,972	2,972	2,972	2,972
Current Assets	29,996	58,424	78,614	60,885	62,567	67,131
Stocks	0	371	371	418	466	506
Debtors	16,084	25,652	43,781	44,346	49,348	53,579
Cash	13,769	31,914	33,877	15,535	12,168	12,461
Current Liabilities	(13,703)	(32,631)	(40,531)	(40,517)	(44,862)	(48,353)
Creditors	(11,101)	(14,523)	(29,295)	(29,281)	(33,626)	(37,117)
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	48,483	49,380	54,213
CASH FLOW						
Operating Cash Flow	1,879	1,005	(5,316)	2,686	10,148	15,362
Net Interest	(167)	53	(798)	(1,200)	(1,300)	(1,100)
Tax	(554)	(412)	(1,366)	321	(1,663)	(3,161)
Capex	(1,779)	(3,451)	(5,234)	(3,447)	(3,836)	(4,165)
Acquisitions/disposals*	(3,228)	(5,923)	(28,783)	(11,701)	(1,716)	0
Shares issued	0	30,129	18,293	0	0	0
Dividends	(483)	(1,264)	(1,932)	0	0	(1,642)
Net Cash Flow	(4,332)	20,137	(25,136)	(13,342)	1,633	5,293
Opening net debt/(cash)	(3,431)	1,176	(8,275)	26,847	40,188	38,555
Other	(275)	(10,686)	(9,985)	0	()	0
Closing net debt/(cash)	1,176	(8,275)	26,847	40,188	38,555	33,262

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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