

26 October 2022

Intershop Communications AG

Rating Buy
Share price (EUR) 2.91
Target price (EUR) 6.00

Bloomberg ISHA GR
Sector IT-Service/Software

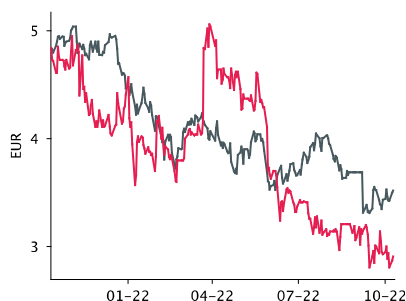
Share data

Shares out (m) 14.2
Market cap (EUR m) 43
EV (EUR m) 46
DPS (EUR) 0.00
Dividend yield (%) 0.0
Payout ratio (%) 0.0

Performance

ytd (%) -27.8
12 months (%) -40.2
12 months rel. (%) -13.2
Index TecDAX

Share price performance



— Intershop Communications AG
— Price rel. to TecDAX – Price Index

Source: Bloomberg

Next triggers

15.02.2023: Q4 results

Analysts

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Strong performance in cloud business

This morning, October 26, Intershop reported its 9M results. Total revenues were up 4% yoy with 13 new clients in the period. Sales in cloud business was up 27% yoy and incoming cloud orders even grew 65% yoy to EUR 18.7m - quite strong and strategically important for the company. Cloud revenues now account for 38% of total revenues, up from 31%. Net new annual recurring revenue was up 40% yoy to EUR 2.9m, increasing the predictability and resilience of the business. Only negative point is the lower EBIT, which, however, is no surprise as management communicated this issue a few weeks ago – more details below. However, in our view, this should be resolved in the mid-term and we see Intershop on track to profitability again. Management presented itself quite well in the conference call and made a very good case that reinforced our positive view. We confirm our target price of EUR 6.00, based on our DCF model and reiterate our Buy recommendation. In our view, the current share price does not reflect the long-term potential of Intershop. The overall economic slowdown has not yet had a negative effect on the B2B business but is still possible. Therefore, we believe the guidance (revenue at previous year's level and a negative EBIT in the lower single-digit million euro range) is rather cautious and there is a possibility to exceed the guidance.

Service business

Main reason for the negative EBIT is the performance of the service business, which declined by 18% yoy to EUR 9.6m. The reason for this decline were inefficiencies in project costing and execution. Some service projects turned out to be more expensive than calculated and thus required more time and resources. There has already been a management change and restructuring measures implemented. We believe Intershop is on the right track to achieving adequate utilization of their service team again. This is expected in the first half of 2023 with corresponding revenue increases. Another aspect for the lower service revenues is the high level of incoming orders outside the DACH region, which has led to the strategically intended expansion of the partner business in these regions resulting in a significant shift of service revenues in favour of Intershop's partners. In the future, an increase in joint project implementation with partners is planned.

Intershop Communications AG - 9m 2022

EUR m	9m 2022	9m 2021	yoy	Quirin est.	delta
Revenues	27.6	26.6	3.8%	27.0	2.2%
EBIT	-1.10	1.20	n.m.	-1.30	n.m.
EBIT margin	-4.0%	4.5%	n.m.	-4.8%	83 BP

Source: Intershop Communications AG, Quirin Privatbank AG

Key figures		2020	2021	2022e	2023e	2024e
Sales	EUR m	34	36	36	39	43
EBITDA	EUR m	4	4	0	4	5
EBIT	EUR m	1	1	-3	1	2
Sales growth	%	6.3	7.1	0.0	9.0	8.5
EBITDA margin	%	13.3	12.3	-0.1	10.7	11.3
EBIT margin	%	3.1	3.6	-8.5	3.5	5.0
Net margin	%	2.2	2.4	-10.5	-1.2	0.2
EV/Sales	ratio	1.05	1.58	1.28	1.17	1.08

Source: Bloomberg, Company data, Quirin Privatbank estimates

DCF Valuation

We have derived our target price for Intershop from our DCF model. With a WACC of 6.80% (resulting from a risk-free rate of 2%, market premium of 5% and a beta of 1.0), a midterm revenue CAGR 2021-2024 of 5.8% fading to a perpetual growth rate of 1.5% and a sustainable long-term EBIT margin of 15% our DCF model derives a fair value of EUR 6.00 per share. Hence, we reiterate our Buy recommendation.

DCF Model for Intershop Communications AG

(EUR m)	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TV
Sales	36.0	39.2	42.6	45.5	48.7	51.7	54.4	56.7	58.6	60.0	
growth yoy	0.0%	9.0%	8.5%	7.0%	7.0%	6.1%	5.2%	4.3%	3.4%	2.5%	
EBIT	-3.1	1.4	2.1	3.6	4.4	5.3	6.2	7.1	8.1	9.0	
EBIT margin	-8.5%	3.5%	5.0%	7.8%	9.0%	10.2%	11.4%	12.6%	13.8%	15.0%	
Taxes	0.8	-0.3	-0.6	-1.1	-1.3	-1.6	-1.9	-2.1	-2.4	-2.7	
Tax rate	25%	25%	30%	30%	30%	30%	30%	30%	30%	30%	
Depreciation	3.0	2.8	2.7	2.7	2.7	3.3	3.6	3.9	4.1	4.2	
% of sales	8.4%	7.2%	6.3%	5.9%	5.6%	6.3%	6.7%	6.8%	6.9%	7.0%	
Capex	-2.9	-2.7	-3.0	-3.2	-3.4	-3.6	-3.8	-4.0	-4.1	-4.2	
% of sales	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Δ NWC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
% of sales	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	
FCF	-2.1	1.1	1.2	2.0	2.4	3.4	4.2	4.9	5.6	6.3	121.9
growth yoy	n.m.	n.m.	5.6%	65.3%	216%	38.9%	24.4%	18.0%	14.4%	12.3%	1.5%
PV FCF	-2.1	1.1	1.0	1.6	1.8	2.4	2.8	3.1	3.3	3.5	66.5

Enterprise value	85	PV Forecast Period	18	Risk free rate	2.00%
- Net Debt / Net Cash	-0.2	PV Terminal Value	67	Cost of debt	3.00%
- Pension Provisions	0			Market Premium	5.00%
Equity value	85			Equity ratio	100%
Number of shares	14.2			Company beta	1.0
Value per share (€)	6.00			WACC	6.82%

Source: Quirin Privatbank

Profit & loss statement

Profit & loss statement (EUR m)	2020	YOY	2021	YOY	2022e	YOY	2023e	YOY	2024e	YOY
Sales	33.6	6.3 %	36.0	7.1 %	36.0	0.0 %	39.2	9.0 %	42.6	8.5 %
Cost of sales	-17.9		-18.6		-18.6		-20.3		-22.0	
Gross profit	15.7		17.4		17.4		19.0		20.6	
Selling expenses	-7.7		-7.7		-7.5		-8.0		-8.5	
General administrative expenses	-3.1		-3.3		-3.3		-3.6		-3.9	
Research and development costs	-3.8		-5.7		-5.7		-6.2		-6.7	
Other operating income	0.5		0.9		-3.6		0.6		1.0	
Other operating expenses	-0.5		-0.4		-0.4		-0.4		-0.5	
EBITDA	4.5	-292.3 %	4.4	-1.0 %	0.0	-100.8 %	4.2	-12286.7 %	4.8	14.1 %
EBITDA margin (%)	13.30		12.29		-0.10		10.71		11.27	
EBIT	1.0	-116.1 %	1.3	25.5 %	-3.1	-333.6 %	1.4	-144.9 %	2.1	55.0 %
EBIT margin (%)	3.11		3.64		-8.50		3.50		5.00	
Net interest	-0.1		-0.4		-2.0		-2.0		-2.0	
Net financial result	-0.1		-0.4		-2.0		-2.0		-2.0	
Pretax profit	0.9	-113.6 %	0.9	2.9 %	-5.1	-644.7 %	-0.6	-87.7 %	0.1	-121.3 %
Pretax margin (%)	2.68		2.58		-14.04		-1.59		0.31	
Taxes	-0.1		-0.1		1.3		0.2		0.0	
Tax rate (%)	12.08		12.72		25.00		25.00		30.00	
Earnings after taxes	0.8		0.8		-3.8		-0.5		0.1	
Group attributable income	0.7	-111.0 %	0.9	19.6 %	-3.8	-534.3 %	-0.5	-87.7 %	0.1	-119.9 %
No. of shares (m)	14.2		14.2		14.2		14.2		0.0	
Earnings per share (EUR)	0.05	-110.4 %	0.06	19.6 %	-0.27	-534.3 %	-0.03	-87.7 %	0.01	-119.9 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2020	YOY	2021	YOY	2022e	YOY	2023e	YOY	2024e	YOY
Assets										
Cash and cash equivalents	11.6		12.2		8.6		8.6		8.9	
Accounts receivables	3.9		5.0		5.0		5.5		5.9	
Inventories	1.0		0.0		0.0		0.0		0.0	
Other current assets	0.0		0.9		0.9		0.9		0.9	
Tax claims	0.1		0.1		0.1		0.1		0.1	
Total current assets	16.5	13.0 %	18.1	9.5 %	14.4	-20.2 %	15.0	3.7 %	15.7	4.8 %
Fixed assets	0.5		0.6		0.5		0.4		0.7	
Goodwill	4.5		4.5		4.5		4.5		4.5	
Other intangible assets	5.9		5.9		5.9		5.9		5.9	
Financial assets	0.0		0.0		0.0		0.0		0.0	
Deferred taxes	0.1		0.1		0.1		0.1		0.1	
Other fixed assets	1.8		10.4		10.4		10.4		10.4	
Total fixed assets	12.8	-1.3 %	21.5	67.2 %	21.3	-0.7 %	21.2	-0.4 %	21.5	1.5 %
Total assets	29.4	6.3 %	39.6	34.7 %	35.8	-9.6 %	36.2	1.2 %	37.2	2.9 %
Equity & Liabilities										
Subscribed capital	14.2		14.2		14.2		14.2		14.2	
Reserves & other	2.6		2.6		2.6		2.6		2.6	
Revenue reserves	-0.2		0.6		-3.2		-3.6		-3.5	
Accumulated other comprehensive	0.0		0.0		0.0		0.0		0.0	
Shareholder's equity	16.5	5.1 %	17.4	5.3 %	13.6	-21.8 %	13.1	-3.4 %	13.2	0.7 %
Minorities	0.0		0.0		0.0		0.0		0.0	
Shareholder's equity incl. minorities	16.5	5.1 %	17.4	5.3 %	13.6	-21.8 %	13.1	-3.4 %	13.2	0.7 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	0.8		12.0		12.0		12.0		12.0	
Tax liabilities	0.0		0.0		0.0		0.0		0.0	
Other liabilities	3.0		0.0		0.0		0.0		0.0	
Total long-term debt	3.9	646.8 %	12.0	210.2 %	12.0	0.0 %	12.0	0.0 %	12.0	0.0 %
Short-term debt										
Other provisions	0.3		0.3		0.3		0.3		0.3	
Trade payables	1.5		1.6		1.6		1.8		1.9	
Financial debt	1.5		0.0		0.0		0.0		0.0	
Other liabilities	3.0		4.6		4.6		5.0		5.4	
Total short-term debt	6.3	-22.4 %	6.5	2.7 %	6.5	0.0 %	7.1	9.0 %	7.7	8.5 %
Total equity & liabilities	29.4	6.3 %	39.6	34.7 %	35.8	-9.6 %	36.2	1.2 %	37.2	2.9 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2020	2021	2022e	2023e	2024e
Per share data (EUR)					
EPS	0.05	0.06	-0.27	-0.03	0.01
Book value per share	1.2	1.2	1.0	0.9	0.9
Free cash flow per share	0.2	0.2	-0.3	0.0	0.0
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	1.05	1.58	1.28	1.17	1.08
EV/EBITDA	7.9	12.9	-1338.2	11.0	9.6
EV/EBIT	33.8	43.5	-15.1	33.6	21.5
P/E	58.5	48.9	-11.3	-91.5	459.6
P/B	2.6	2.5	3.1	3.2	3.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	6.3	7.1	0.0	9.0	8.5
Profitability ratios					
EBITDA margin (%)	13.3	12.3	-0.1	10.7	11.3
EBIT margin (%)	3.1	3.6	-8.5	3.5	5.0
Net margin (%)	2.2	2.4	-10.5	-1.2	0.2
ROCE (%)	4.5	4.0	-10.4	4.7	7.2
Financial ratios					
Total equity (EUR m)	16.5	17.4	13.6	13.1	13.2
Equity ratio (%)	56.3	44.0	38.1	36.3	35.6
Net financial debt (EUR m)	-9.3	-0.2	3.4	3.4	3.1
Net debt/Equity	0.6	0.4	0.4	0.4	0.4
Interest cover	-7.3	-3.4	1.5	-0.7	-1.1
Net debt/EBITDA	-2.1	0.0	-99.5	0.8	0.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	0.8	-0.3	-0.3	-0.3	-0.3
Working capital/Sales	0.02	-0.01	-0.01	-0.01	-0.01

Source: Company data, Quirin Privatbank estimates

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HOLD <=-10% and < = +10%

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Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
26.10.2022	6.00	Buy	
30.09.2022	6.00	Buy	
22.02.2022	6.20	Buy	11.12.2018

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