Intershop Communications AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	HIGH (HIGH)	EUR 2.50 (2.50)

11 November 2011

Impressive 3Q & more to follow

- **Encouraging top line growth –** On 10 November 2010, Intershop (ISH) posted its 3Q2010 results and confirmed its full year guidance. In 3Q2010 net revenues increased q-o-q (+18.2%) as well as y-o-y (34.4%) achieving EUR 10.5m (9M2010: EUR 27.6m). With revenues of EUR 9.9m (9M2010: EUR 25.8m), Service and Maintenance business was the company´s main revenue contributor. Despite a sequential increase of 54.5% revenues from Licenses was still below previous year level.

- **Disproportional improvement in margins –** Despite further investment ISH managed to increase operating efficiency in 3Q2010 and posted an operating result (EBIT) of EUR 0.7m implying an impressive sequential improvement of almost 120% (9M2010: EBIT of EUR 1.1m). In the bottom line the company reported net income of EUR 1.0m after EUR 0.3m in first half of current fiscal year. With EUR 14.2, the company´s cash position was relatively flat compared to previous quarter.

- **Further positive surprise possible –** The management confirmed its full year guidance of +20% y-o-y revenue growth. Considering the upswing in ISH´s business in 3Q we think our top line estimates (+17.5% y-o-y) might turn out to be too conservative (4Q is usually ISH´s strongest in terms of revenues). However since year end software business is traditionally volatile (depends whether customers are willing to fully exploit their IT budgets) we prefer to be conservative. We nevertheless highlight that our estimates as well as current company guidance might turn out to be too conservative, depending on year end business and GSI Commerce (meanwhile largest customer).

- **Shaping business for growth –** In the first nine months of current fiscal year ISH continued to invest in its operating business adding further sales and R&D capacities (e.g. 32 new employees of which 29 in R&D). We believe management is shaping operating business for much a higher sales level than seen currently (> EUR 50m in the next years). Thus we project sales to grow at a CAGR of 13.3% through FY2012E with further EBIT margin improvements (mid-term > 10.0%). Upside potential to our current estimates is given by ISH´s reselling agreement with GSI Commerce which could result in additional revenues of EUR 2.0-3.0m p.a., going forward.

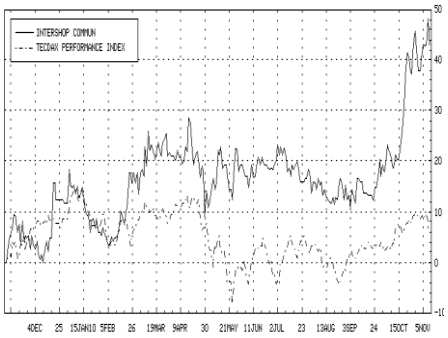
- **Unchanged PT –**Despite the recent share price rally (+31%) we continue to be BUYers of ISH with an unchanged PT of EUR 2.50 per share.

Key data

Y/E 31.12., EUR m	2008	2009	2010E	2011E	2012E
Net revenues	28.1	31.8	37.3	41.6	47.4
Gross profit	11.4	14.9	16.2	18.8	21.8
EBIT	1.9	2.0	2.4	3.2	4.3
Net result	1.5	2.1	2.3	3.0	4.0
EPS	0.06	0.08	0.08	0.11	0.14
Gross profit margin	40.6%	46.9%	43.5%	45.3%	46.0%
EBIT margin	6.7%	6.3%	6.5%	7.8%	9.1%
EV/EBIT	25.7	24.0	19.8	14.8	11.1
P/E	35.8	26.9	27.0	20.4	15.6

Source: Company Data, CBS Research AG

Share price (dark) vs. TecDAX



Change	2010E		2011E		2012E	
	new	old	new	old	new	old
Sales	-	37.3	-	41.6	-	47.4
EBIT	-	2.4	-	3.2	-	4.3
EPS	-	0.08	-	0.11	-	0.14

Sources: CBS Research AG, Bloomberg

Internet: www.intershop.com
WKN: A0EPUH
Reuters: ISHGk.DE

Sector: Software
ISIN: DE000A0EPUH1
Bloomberg: ISH2 GY

Company profile:

Intershop Communications AG is a leading provider of comprehensive e-commerce and online marketing solutions. The company´s flagship product is the e-commerce software platform Enfinity Suite 6, which allows its customers to centrally manage online business channels, including B2B, B2C and C2C.

Share data:

Share price (last closing price):	**EUR 2.15**
Shares outstanding (m):	28.9
Market capitalisation (EURm):	62.3
Enterprise value (EURm):	48.1
Ø daily trading volume (no. of shares):	43,042

Performance data:

High 52 weeks:	EUR 2.16
Low 52 weeks:	EUR 1.43
Absolute performance (12 months):	40.0%
Relative performance (vs. TecDAX):	
1 month	18.5%
3 months	18.1%
6 months	19.6%
12 months	33.8%

Shareholders:

GSI Commerce, Inc.	27.2%
D+S europe AG	9.5%
Free float	63.3%

Financial calender:

24 FEB 2011 — FY2010 results

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Overview 9M2010

IFRS EURm	1H2010	9M2010	9M 2009	FY2010E
Net Revenues	**17.16**	**27.68**	**20.60**	**37.34**
Licences	1.23	1.85	2.43	4.56
Service, maintenance and other	15.93	25.83	18.17	32.78
EBIT	0.33	1.14	-0.63	2.43
As % of net revenues	1.9%	4.1%	-3.0%	6.5%
Net income after tax	0.32	1.00	-0.47	2.26
Cash and Cash equivalents	15.99	14.19	5.27	15.30
Equity ratio	65%	68%	63%	68%

Source. Company Data, CBS Research AG

Income statement

IFRS EUR 1,000	2008	2009	2010E	2011E	2012E
Net Revenues	**28,118**	**31,777**	**37,337**	**41,573**	**47,393**
YoY growth	4.5%	13.0%	17.5%	11.3%	14.0%
Cost of sales	-16,713	-16,866	-21,096	-22,740	-25,592
Gross profit	**11,405**	**14,911**	**16,242**	**18,832**	**21,801**
as % of net revenue	40.6%	46.9%	43.5%	45.3%	46.0%
Research and Development expenses	-1,228	-4,275	-4,891	-5,197	-5,735
as % of net revenue	-4.4%	-13.5%	-13.1%	-12.5%	-12.1%
Selling and Marketing expenses	-3,593	-4,460	-4,294	-5,155	-5,877
as % of net revenue	-12.8%	-14.0%	-11.5%	-12.4%	-12.4%
General and Administrative expenses	-3,512	-3,895	-5,041	-5,238	-5,877
as % of net revenue	-12.5%	-12.3%	-13.5%	-12.6%	-12.4%
Restructuring expenses	6	0	0	0	0
as % of net revenue	0.0%	0.0%	0.0%	0.0%	0.0%
Other operating income	580	668	862	0	0
as % of net revenue	2.1%	2.1%	2.3%	0.0%	0.0%
Other operating expenses	-1,787	-949	-451	0	0
as % of net revenue	-6.4%	-3.0%	-1.2%	0.0%	0.0%
EBIT	**1,871**	**2,000**	**2,427**	**3,243**	**4,313**
as % of net revenue	6.7%	6.3%	6.5%	7.8%	9.1%
Net financial result	-117	135	0	83	95
as % of net revenue	-0.4%	0.4%	0.0%	0.2%	0.2%
EBT	**1,754**	**2,135**	**2,427**	**3,326**	**4,408**
as % of net revenue	6.2%	6.7%	6.5%	8.0%	9.3%
Income taxes	-251	-428	-171	-278	-408
as % of EBT	-14.3%	-20.0%	-7.0%	-8.4%	-9.3%
Earnings after tax	**1,503**	**1,707**	**2,256**	**3,047**	**4,000**
as % of net revenue	5.3%	5.4%	6.0%	7.3%	8.4%
Minorities	0	-382	0	0	0
Earnings attributable to shareholders	**1,503**	**2,089**	**2,256**	**3,047**	**4,000**
as % of net revenue	5.3%	6.6%	6.0%	7.3%	8.4%
Weight. Average of shares outstanding (in 1,000)	25,132	26,204	28,310	28,952	28,952
Earnings per share (EUR)	**0.06**	**0.08**	**0.08**	**0.11**	**0.14**

Source: Company Data, CBS Research AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
11 November 2010	BUY	EUR 2.14	EUR 2.50
12 August 2010	BUY	EUR 1.64	EUR 2.50
05 July 2010	BUY	EUR 1.76	EUR 2.50
14 June 2010	BUY (Initiation of Coverage)	EUR 1.70	EUR 2.50

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HIGH: The volatility is expected to be higher than the volatility of the benchmark

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