

Recommendation:
HOLD (HOLD)

Risk:
HIGH (HIGH)

Price Target:
EUR 2.75 (2.75)

17 August 2011

Strong top line but low margins

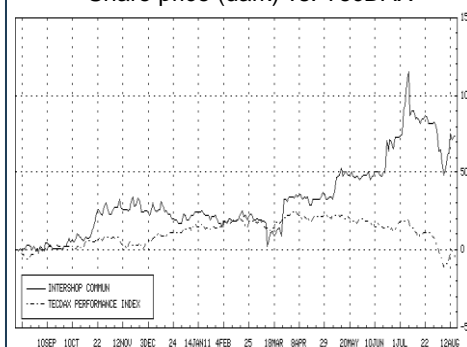
- 1H11 results:** Intershop (ISH) recently released its 1H11 results which came shy of our expectations in the bottom line (preview from 11 July 2011). In the top line, ISH achieved net revenues of EUR 23.0m in (2Q11: EUR 11.6m vs our estimates of EUR 12.1m) indicating a yoy increase of 39%. License revenues amounted to EUR 1.8m up by 43% yoy. However, with a 56% share of the total net revenue, the biggest contribution was made by consulting and training business, which grew by 53% to reach EUR 12.9m. Maintenance revenues increased by 7% to EUR 5.1m.
- Weaker than expected operating performance:** Gross margin came in at 38.4% implying a decline by 80bp compared to 1H11. Given the company's investments in its operating business (i.e. adding R&D capacities) 2Q11 EBIT came in at EUR 0.44m below our expectations of EUR 0.60m. This amounts to an EBIT of EUR 0.8m in 1H11, up by 82% compared to 1H10. In the bottom line, the company posted net income of EUR 1.1m (1H10: EUR 0.4m) benefiting from a tax gain of EUR 0.3m. Over the numbers translate into EPS of EUR 0.04 in 1H11 compared to EUR 0.01 in 1H10.
- Cash and balance sheet:** Despite positive operating cash flow of EUR 1.2m, FCF in 1H11 was slightly negative with EUR -0.4m. Nevertheless cash and cash equivalents improved to EUR 16.3m from EUR 15.0m at the end of FY10. ISH continues to run business with a crystal clear balance sheet that does not comprise any interest bearing debt.
- Implications:** The management confirmed its full year guidance of sales growth of ~ 20% in FY11 and EBIT that is expected to achieve similar level seen in the prior-year. While we are positive that the company continues to deliver in the top line, we are turning more negative on ISH's capability to achieve substantial margin expansion in the short run. We think the management will continue to add R&D and sales capacities to scale up business for substantially higher sales in the midterm. Thus, we believe it will take longer than originally anticipated to turn the impressive top line growth into similar profitability growth rates. Thus we reduced our EBIT estimates for FY11E and FY12E as portrayed in our change table (i.e. details on RHS of this document).
- Recommendation:** Despite the drop in share price of almost 20%, since our last update, we continue to rate the stock with a HOLD recommendation and unchanged PT of EUR 2.75/share. We think a higher valuation is only justified if ISH starts to deliver in the bottom line as well.

Key data

Y/E 31.12., EUR m	2008	2009	2010	2011E	2012E
Net revenues	28.1	31.8	38.3	47.1	53.7
Gross profit	11.4	14.9	17.9	19.3	23.1
EBIT	1.9	2.0	2.2	2.3	3.9
Net result	1.5	2.1	1.9	2.2	3.6
EPS	0.06	0.07	0.07	0.08	0.12
Gross profit margin	40.6%	46.9%	46.8%	41.1%	43.0%
EBIT margin	6.7%	6.3%	5.9%	4.9%	7.2%
EV/EBIT	35.6	33.3	29.7	28.9	17.2
P/E	47.2	37.9	42.5	37.1	22.9

Source: Company Data, CBS Research AG

Share price (dark) vs. TecDAX



Change	2010A		2011E		2012E	
	new	old	new	old	new	old
Sales	-	38.3	-	47.1	-	53.7
EBIT	-	2.2	2.3	3.9	3.9	5.8
EPS	-	0.07	0.08	0.12	0.12	0.18

Sources: CBS Research AG, Bloomberg

Internet: www.intershop.com Sector: Software
 WKN: A0EPUH ISIN: DE000A0EPUH1
 Reuters: ISHGK.DE 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 2.83
Shares outstanding (m):	29.3
Market capitalisation (EURm):	82.9
Enterprise value (EURm):	66.6
Ø daily trading volume (no. of shares):	78,292

Performance data:

High 52 weeks:	EUR 3.60
Low 52 weeks:	EUR 1.57
Absolute performance (12 months):	72.1%
Relative performance (vs. TecDAX):	
1 month	7.6%
3 months	45.5%
6 months	81.2%
12 months	83.0%

Shareholders:

eBay, Inc.	26.3%
Free float	73.7%

Financial calendar:

09 Nov 2011 3Q11 results

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Profit and Loss account

	IFRS	EUR 1,000	2008	2009	2010	2011E	2012E
Net Revenues			28,118	31,777	38,250	47,073	53,663
YoY growth			4.5%	13.0%	20.4%	23.1%	14.0%
Cost of sales			-16,713	-16,866	-20,353	-27,726	-30,588
Gross profit			11,405	14,911	17,897	19,347	23,075
as % of net revenue			40.6%	46.9%	46.8%	41.1%	43.0%
Research and Development expenses			-1,228	-4,275	-6,186	-5,602	-6,332
as % of net revenue			-4.4%	-13.5%	-16.2%	-11.9%	-11.8%
Selling and Marketing expenses			-3,593	-4,460	-4,275	-5,837	-6,493
as % of net revenue			-12.8%	-14.0%	-11.2%	-12.4%	-12.1%
General and Administrative expenses			-3,512	-3,895	-4,653	-5,602	-6,279
as % of net revenue			-12.5%	-12.3%	-12.2%	-11.9%	-11.7%
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	821	989	1,073
as % of net revenue			2.1%	2.1%	2.1%	2.1%	2.0%
Other operating expenses			-1,787	-949	-1,358	-989	-1,181
as % of net revenue			-6.4%	-3.0%	-3.6%	-2.1%	-2.2%
EBIT			1,871	2,000	2,246	2,307	3,864
as % of net revenue			6.7%	6.3%	5.9%	4.9%	7.2%
Net financial result			-117	135	10	94	107
as % of net revenue			-0.4%	0.4%	0.0%	0.2%	0.2%
EBT			1,754	2,135	2,256	2,401	3,971
as % of net revenue			6.2%	6.7%	5.9%	5.1%	7.4%
Income taxes			-251	-428	-391	-168	-356
as % of EBT			-14.3%	-20.0%	-17.3%	-7.0%	-9.0%
Earnings after tax			1,503	1,707	1,865	2,233	3,615
as % of net revenue			5.3%	5.4%	4.9%	4.7%	6.7%
Minorities			0	-382	0	0	0
Earnings attributable to shareholders			1,503	2,089	1,865	2,233	3,615
as % of net revenue			5.3%	6.6%	4.9%	4.7%	6.7%
Weight. Average of shares outstanding (in 1,000)			25,132	27,975	27,975	29,276	29,276
Earnings per share (EUR)			0.06	0.07	0.07	0.08	0.12

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
17 August 2011	HOLD	EUR 2.83	EUR 2.75
11 July 2011	HOLD	EUR 3.50	EUR 2.75
30 March 2011	BUY	EUR 2.15	EUR 2.75
23 February 2011	BUY	EUR 1.98	EUR 2.75
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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