



## Another capital increase

**Intershop announced a capital increase and is going to issue up to 4.4m new shares to existing or selected institutional shareholders. The company, which is currently in transition to become a cloud software provider, aims at accelerating the process via the equity measure. From an operational point-of-view FY2019 is a crucial year for a binary investment case, as the company needs to demonstrate the successful marketability of its cloud product in order to successfully turn around the business. We lower our TP slightly to EUR 1.70 (from EUR 1.75), assuming full placement of shares.**

### Cornerstones of the capital increase

- Intershop announced that it will draw up to EUR 4.4m from its authorised capital II from existing shareholders via (non-tradeable) subscription rights, oversubscription rights and potential additional private placements. This amount is equivalent to 12.5% of the outstanding share capital.
- Accordingly, for each 8 existing shares one subscription right is granted for a subscription price of EUR 1.14.
- The exercise period is between January 14 and January 28.
- The proceeds will be used in order to finance the transformation to a cloud software provider and to accelerate the marketing of the new offering.

EURm	2016	2017	2018e	2019e	2020e
Revenues	34	36	32	40	52
EBITDA	0	3	(3)	1	6
EBIT	(2)	0	(5)	(1)	3
EPS	(0.09)	(0.02)	(0.14)	(0.03)	0.07
EPS adj	(0.07)	(0.02)	(0.13)	(0.03)	0.07
DPS	-	-	-	-	-
EV/EBITDA	-	17.7	-	32.3	7.4
EV/EBIT	-	-	-	-	14.2
P/E adj	-	-	-	-	20.0
P/B	2.16	3.67	2.69	2.87	2.51
ROE (%)	-	-	-	-	13.4
Div yield (%)	-	-	-	-	-
Net debt	(7)	(6)	(11)	(8)	(9)

Source: Pareto

Target price (EUR)	1.7
Share price (EUR)	1.4

### Forecast changes

%	2018e	2019e	2020e
Revenues	-	-	-
EBITDA	-	-	-
EBIT adj	-	-	-
EPS reported	11	11	(11)
EPS adj	11	11	(11)

Source: Pareto

Ticker	ISHG.DE, ISH2 GY
Sector	Software & Services
Shares fully diluted (m)	39.2
Market cap (EURm)	53
Net debt (EURm)	-11
Minority interests (EURm)	0
Enterprise value 18e (EURm)	42
Free float (%)	62

### Performance



Source: Factset

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## Background

*FY2018 was burdened by the transition to the cloud, which however shows some early progress*

*Low visibility of the solution main weakness in the past*

*Strategic initiatives to improve visibility start to pay off*

As Intershop is currently in the transformation period from a license software provider to a cloud software provider, FY2018 was a tough year as typically larger one-time payments for licenses were replaced by monthly recurring subscription revenues. The significant decline in license revenues (9M2018: -50% to EUR 1.9m) could only partly be compensated by rising cloud & subscription revenues (9M2018: +16% to EUR 3.9m). Consequently, 9M2018 group revenue stands at -9% yoy (FY2018e Pareto estimate: -11%). However, cloud order intake is expected to triple to EUR 6m in FY2018e according to the management, raising expectations that we are to observe substantial revenue growth in the cloud / subscription business of mid double-digit rates in FY2019e.

Historically, the company suffered from limited visibility among its multinational peer group, which led to declining revenues and an increased demand for external finance in the past. Over the last 7 years, Intershop collected roughly EUR 12m cash from capital increases (including the current c. EUR 5m offering, gross of fees). During the same time, accumulated FCF was EUR -17m (including FY2018e Pareto estimate of EUR -5.4m).

The cooperation with Microsoft and the cloud offering via Microsoft's Azure platform are the strategic initiatives of the management that aim at improving the brand visibility of Intershop's solution. Kicked-off in FY2018, Intershop could already acquire more than 20 clients via Azure. We therefore regard Intershop as a high-risk, high-reward investment case that has significant potential in the mid-term if sufficient clients can be on-boarded and kept that the group can return to growth (and to profitability in a second step).

## Implications

*History of net losses led to an increased demand to finance the deficit*

*FY2019 crucial year to demonstrate that cloud business can carry the group*

*New TP of EUR 1.70 reflects full placement of new shares*

After Intershop raised EUR 5.1m in May 2018 and issued profit warnings in Q2 and Q4 due to the transformation to the cloud, the company aims at raising another round of fresh capital in early 2019 to fund the acceleration in ramping-up the cloud business. The recent capital increase will leave the company with reserves for capital increases of EUR 3.2m authorised capital I (valid until 2021) and EUR 5.1m of authorised capital II (until 2023), if the current capital increase can be placed in full. At our FY2018e estimated level of FCF burn (EUR -5.4m) and with an expected cash position of EUR 13.9m after the capital increase, Intershop's cash position could endure two and a half comparable years in a worst case scenario. This is, however, not our core scenario. Assuming a successful ramp-up in the cloud business, we estimate that returning revenue growth will transform Intershop into a profitable business by FY2020e.

Therefore, it is essential in our view that Intershop continues its growth path in the cloud business in FY2019, especially that revenue growth accelerates and management achieves its FY2019 targets. A successful FY2019 might prove to be the turning point for the shares. Significantly under-achieving FY2019 targets might increase reputational risks, as ongoing losses may deteriorate the possibilities to attract long-term clients. Key factors to monitor in our view are new orders (customers / growth), cloud revenue growth, operating earnings development, as well as cash flow development. Preliminary FY2018 results are scheduled for February 20.

In our updated DCF analysis, we assume that the capital increase can be placed in full, leading to a cash inflow of approximately EUR 4.8m (net of assumed fees of EUR 0.2m), while at the same time increasing the number of outstanding shares to 39.2m (from 34.9m). We maintain our Buy rating and lower our TP to EUR 1.70 (from EUR 1.75).

## DCF Valuation

EUR m	Phase I					Phase II					Phase III
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
<b>Revenues</b>	<b>32</b>	<b>40</b>	<b>52</b>	<b>60</b>	<b>67</b>	<b>74</b>	<b>81</b>	<b>86</b>	<b>91</b>	<b>94</b>	
<i>growth rate</i>	-110%	24.8%	30.2%	16.7%	11.9%	10.2%	8.6%	6.9%	5.3%	3.6%	
<b>EBIT</b>	<b>-5.0</b>	<b>-1.2</b>	<b>3.1</b>	<b>5.0</b>	<b>6.4</b>	<b>7.1</b>	<b>7.7</b>	<b>8.3</b>	<b>8.7</b>	<b>9.0</b>	
<i>EBIT margin</i>	-15.8%	-3.0%	6.0%	8.2%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	
<b>Tax</b>	<b>0.0</b>	<b>0.4</b>	<b>-1.0</b>	<b>-1.6</b>	<b>-2.0</b>	<b>-2.2</b>	<b>-2.4</b>	<b>-2.6</b>	<b>-2.7</b>	<b>-2.8</b>	
<i>Tax rate</i>	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	
<b>Depr. &amp; Amort.</b>	<b>2.5</b>	<b>2.6</b>	<b>2.9</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>4.2</b>	<b>4.5</b>	<b>4.7</b>	<b>4.9</b>	
<i>% of sales</i>	7.8%	6.5%	5.5%	5.2%	5.1%	5.2%	5.2%	5.2%	5.2%	5.2%	
<b>Capex</b>	<b>-2.7</b>	<b>-3.2</b>	<b>-3.5</b>	<b>-3.8</b>	<b>-3.7</b>	<b>-4.1</b>	<b>-4.4</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-5.2</b>	
<i>% of sales</i>	8.5%	8.0%	6.8%	6.3%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	
<b>Change in NWC</b>	<b>0.5</b>	<b>-0.8</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.4</b>	<b>-0.3</b>	
<i>% of sales</i>	-16%	2.0%	2.3%	1.4%	10%	0.9%	0.8%	0.6%	0.5%	0.3%	
<b>Free Cash Flow</b>	<b>-4.8</b>	<b>-2.2</b>	<b>0.3</b>	<b>1.9</b>	<b>3.4</b>	<b>3.9</b>	<b>4.4</b>	<b>4.9</b>	<b>5.3</b>	<b>5.6</b>	<b>71.6</b>
<i>growth rate</i>	nm	-53.9%	nm	nm	77.6%	14.5%	12.0%	10.0%	8.1%	6.5%	2.0%
<b>Present Value FCF</b>	<b>-4.8</b>	<b>-2.0</b>	<b>0.2</b>	<b>1.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>30.5</b>

<b>PV Phase I</b>	<b>-3</b>	<b>Risk free rate</b>	3.5%	<b>Targ. equity ratio</b>	90%
<b>PV Phase II</b>	<b>12</b>	<b>Premium Equity</b>	5.0%	<b>Beta</b>	1.4
<b>PV Phase III</b>	<b>31</b>	<b>Premium Debt</b>	5.0%	<b>WACC</b>	10.0%

Enterprise value	40	Sensitivity	Growth in phase III					
			1.0%	1.5%	2.0%	2.5%	3.0%	
- Net Debt (Cash)	-6							
- Pension Provisions	0	8.97%	1.78	1.84	1.91	1.99	2.08	
- Minorities & Peripherals	0	9.47%	1.69	1.74	1.80	1.86	1.94	
+ MV of financial assets	0	WACC 9.97%	1.60	1.65	1.70	1.75	1.82	
- Paid-out dividends for last FY	0	10.47%	1.53	1.57	1.61	1.66	1.71	
+/- Other EV items	20	10.97%	1.47	1.50	1.54	1.58	1.62	

<b>Equity value</b>	<b>67</b>
<b>Number of shares</b>	<b>39.2</b>
<b>Value per share (€)</b>	<b>1.70</b>
<b>Current Price (€)</b>	<b>1.35</b>
<b>Upside</b>	<b>26%</b>

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Revenues</b>	<b>54</b>	<b>46</b>	<b>43</b>	<b>34</b>	<b>36</b>	<b>32</b>	<b>40</b>	<b>52</b>
<b>EBITDA</b>	<b>0</b>	<b>(2)</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>(3)</b>	<b>1</b>	<b>6</b>
Depreciation & amortisation	(4)	(4)	(3)	(2)	(2)	(2)	(3)	(3)
<b>EBIT</b>	<b>(3)</b>	<b>(6)</b>	<b>0</b>	<b>(2)</b>	<b>0</b>	<b>(5)</b>	<b>(1)</b>	<b>3</b>
Net interest	0	0	(0)	(0)	(0)	(0)	(0)	(0)
Other financial items	-	-	-	-	-	-	-	-
<b>Profit before taxes</b>	<b>(3)</b>	<b>(6)</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(5)</b>	<b>(1)</b>	<b>3</b>
Taxes	(0)	(0)	(0)	(0)	(1)	(0)	0	(0)
Minority interest	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>(3)</b>	<b>(7)</b>	<b>0</b>	<b>(3)</b>	<b>(1)</b>	<b>(6)</b>	<b>(1)</b>	<b>3</b>
EPS reported	(0.11)	(0.22)	0.00	(0.09)	(0.02)	(0.14)	(0.03)	0.07
<b>EPS adjusted</b>	<b>(0.11)</b>	<b>(0.24)</b>	<b>0.00</b>	<b>(0.07)</b>	<b>(0.02)</b>	<b>(0.13)</b>	<b>(0.03)</b>	<b>0.07</b>
DPS	-	-	-	-	-	-	-	-
<b>BALANCE SHEET (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Tangible non current assets	1	1	0	1	1	1	1	1
Other non-current assets	12	10	11	10	10	10	10	10
Other current assets	13	8	6	6	6	5	6	8
Cash & equivalents	7	6	15	11	9	14	10	10
<b>Total assets</b>	<b>34</b>	<b>25</b>	<b>33</b>	<b>27</b>	<b>25</b>	<b>29</b>	<b>28</b>	<b>30</b>
Total equity	24	18	19	16	15	20	18	21
Interest-bearing non-current debt	-	-	5	3	2	3	2	1
Interest-bearing current debt	-	-	1	1	1	1	1	-
Other Debt	10	8	8	7	7	6	6	8
<b>Total liabilities &amp; equity</b>	<b>34</b>	<b>25</b>	<b>33</b>	<b>27</b>	<b>25</b>	<b>29</b>	<b>28</b>	<b>30</b>
<b>CASH FLOW (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Cash earnings	1	(4)	3	(0)	2	(3)	1	5
Change in working capital	(5)	4	2	(0)	(0)	1	(1)	(1)
Cash flow from investments	(3)	(1)	(2)	(2)	(3)	(3)	(3)	(4)
Cash flow from financing	-	-	6	(1)	(1)	10	(1)	(1)
Net cash flow	(7)	(1)	9	(4)	(2)	5	(4)	0
<b>CAPITALIZATION &amp; VALUATION (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Share price (EUR end)</b>	<b>1.48</b>	<b>1.07</b>	<b>1.24</b>	<b>1.10</b>	<b>1.78</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>
Number of shares end period	30	30	31	32	32	39	39	39
Net interest bearing debt	(7)	(6)	(9)	(7)	(6)	(11)	(8)	(9)
<b>Enterprise value</b>	<b>37</b>	<b>26</b>	<b>29</b>	<b>28</b>	<b>50</b>	<b>42</b>	<b>45</b>	<b>44</b>
EV/Sales	0.7	0.6	0.7	0.8	1.4	1.3	1.1	0.8
<b>EV/EBITDA</b>	<b>76.1</b>	<b>-</b>	<b>8.3</b>	<b>-</b>	<b>17.7</b>	<b>-</b>	<b>32.3</b>	<b>7.4</b>
EV/EBIT	-	-	-	-	-	-	-	14.2
P/E reported	-	-	-	-	-	-	-	20.0
<b>P/E adjusted</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.0</b>
P/B	1.8	1.8	2.0	2.2	3.7	2.7	2.9	2.5
<b>FINANCIAL ANALYSIS &amp; CREDIT METRICS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
ROE adjusted (%)	-	-	0.0	-	-	-	-	13.4
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	0.9	-	8.1	0.3	7.9	-	3.5	11.5
EBIT margin (%)	-	-	0.4	-	1.2	-	-	6.0
NIBD/EBITDA	(15.14)	2.98	(2.68)	(63.06)	(2.18)	4.19	(5.90)	(1.51)
EBITDA/Net interest	-	-	23.25	4.30	8.53	-	10.30	64.96

