

INTERSHOP COMMUNICATIONS AG

GERMANY / TECHNOLOGY

Primary Exchange: Frankfurt
 Bloomberg symbol: ISH2
 ISIN: DE000A0EPUH1

UPDATE

RATING:	Buy
PRICE TARGET:	€2.60
RETURN POTENTIAL:	59.3%
RISK RATING:	High

STRONG Q4 LENDS SUPPORT TO OUR FY2011 MODEL

Intershop has reported strong results for Q4 of FY2010, which exceeded our estimates for the period. This happened in part as early benefits of the collaboration with strategic partner and major shareholder GSI began to kick in. The strong Q4 performance lends support to our FY2011 forecasts on Intershop, which we reiterate today. We maintain our €2.60 price target and our BUY rating on the company.

Topline strength driven by licenses Intershop reported license revenues of €2.3M for Q4 and €4.2M for the entire FY2010. While down on a Y/Y basis, these results were stronger than our own estimate of €2.5M, and represented a positive sign that the strategic partnership with GSI is beginning to bear fruit. License revenues are a direct function of new customer wins or contract renewals, and therefore serve as a critical leading indicator of future topline trends in both consulting/training (52% of total sales in FY2010) and maintenance (25% of total sales).

Margin developments were mixed Intershop reported FY2010 gross margin of 46.8%. This exceeded our estimate due to better than expected license revenues. SG&A-to-sales stood at 23.3% for the year, which was in line with our estimate. R&D expenses trended above expectations at 16.0% of sales. While this was in part due to hiring, non-sustainable factors such as write-downs of software development costs contributed as well.

Strong profits and cash flows Bottom line, Intershop posted FY2010 EBITDA/share of €0.18 (+33% Y/Y) and diluted EPS of €0.07 (-12% Y/Y, held back by increased non-cash amortization charges). Intershop generated FCF of €6.95M in FY2010 - a multi-year high for the company.

FINANCIAL HISTORY & PROJECTIONS

	2007	2008	2009	2010E	2011E	2012E
Revenue (€m)	26.91	28.12	31.78	38.25	42.90	48.80
Y-o-y growth	n.a.	4.5%	13.0%	20.4%	12.2%	13.8%
EBIT (€m)	-1.95	1.87	2.00	2.25	3.03	4.28
EBIT margin	-7.2%	6.7%	6.3%	5.9%	7.1%	8.8%
Net income (€m)	-2.03	1.50	2.09	1.87	2.73	3.85
EPS (diluted) (€)	-0.08	0.06	0.08	0.07	0.09	0.13
EV / Sales (x)	1.7	1.6	1.4	1.2	1.0	0.9
EV / EBIT (x)	n.a.	24.1	22.5	20.1	14.9	10.5
P/E (x)	n.a.	27.5	20.0	22.7	17.5	12.5
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF (€m)	-7.73	1.99	-0.06	6.95	6.33	7.95
Net gearing	1.4%	7.6%	4.2%	8.3%	13.0%	13.5%
Liquid assets (€m)	5.95	8.08	6.31	16.39	21.62	28.47

RISKS

Risks include, but are not limited to, market share losses, unfavorable macroeconomic developments, and management churn.

COMPANY PROFILE

Intershop is one of the pioneers of the e-commerce solutions market. Intershop has over 300 customers. The company's target customer base includes mid-market and large enterprise companies. Typical implementation projects include online retail store development, supply chain integration, and online marketing campaigns.

TRADING DATA

Closing price (16.03.11)	€1.63
Shares outstanding	29.12m
Market capitalisation	€47.52m
52-week range	€1.56 / 2.20
Average volume (12 months)	55,968

STOCK OVERVIEW



COMPANY DATA (as of 31 December 2010)

Liquid assets (incl. securities)	€16.39m
Current assets	€25.98m
Intangible assets	€8.52m
Total assets	€36.20m
Current liabilities	€9.54m
Shareholders' equity (incl. minorities)	€24.61m

SHAREHOLDERS

GSI Commerce, Inc.	27.2%
Pyramus S.a.r.l.	9.5%
Free float	63.3%

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	18 November 2010	€2.02	Buy	€2.60
2...0	↓	↓	↓	↓
1	24 November 2010	€2.09	Buy	€2.60
2	15 December 2010	€2.00	Buy	€2.60
3	Today	€1.63	Buy	€2.60

Tsvetan Kintisheff

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 88

Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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