

Intershop Communications AG

GERMANY / Technology
 Primary Exchange: Frankfurt
 Bloomberg: ISH2 GR
 ISIN: DE000A0EPUH1

Preliminary 2013
 Results

RATING
BUY

PRICE TARGET
€2.40

Return Potential 38.6%
 Risk Rating High

LICENSE INCOME DOUBLED IN Q4

Strong Q4 licensing growth pushed Intershop's preliminary full year sales to €53.6m (+3.5%) and EBIT to €3.2m. Both figures were above our forecasts. Intershop is one of few remaining independent suppliers of high-end e-commerce software. The recent move in the share above our previous target of €1.70 reflects the market's growing confidence (which will have been reinforced by robust Q4 numbers) that Intershop will link up with a stronger partner in the medium term. Recent transactions in the e-commerce space have been concluded at prices equivalent to several times the targets' revenues. We move our price target from €1.70 to €240 (1.3X our 2014E sales forecast) and the recommendation from Add to Buy.

License income +105% in Q4 Intershop has published preliminary FY 2013 results. Sales rose 3.5% to €53.6m (2012: €51.8m) compared with our forecast of €53.0m. Q4 revenues were stronger than we had expected due mainly to very strong license income (+105% to €3.7m). However, a 43% increase in year-on-year marketing costs and a significant bad debt provision pushed EBIT down to €-3.2m (2012: €-0.6m) compared with our forecast of €-3.5m.

Full Service business also sees fast growth Q4's very strong growth pushed license income for the full year to €6.3m (€5.3m) - an increase of 19.7%. However Consulting, which is the largest component of revenue, fell 9.6% to €25.5m (2012: €28.3m) due mainly to reduced business with several large customers. The 4.1% decline in maintenance revenue to €8.5m (2012: €8.8m) reflects the 4% decline in license revenue seen in 2012. Revenue at the online marketing business, SoQuero, grew 2% to €4.4m (2012: €4.3m) while other revenues - of which the largest part is the Full Service business (e-commerce outsourcing) - climbed 73.9% to €8.8m (2012: €5.1m)

EBIT margin burdened by higher marketing expenses Intershop's FY gross profit climbed 8.5% to €18.8m (2012: €17.4m). (p.to).

FINANCIAL HISTORY & PROJECTIONS

| | 2010 | 2011 | 2012 | 2013E | 2014E | 2015E |
|--------------------|--------|--------|--------|--------|--------|--------|
| Revenue (€m) | 38.25 | 49.16 | 51.77 | 53.56 | 56.55 | 62.68 |
| Y-o-y growth | n.a. | 28.5% | 5.3% | 3.5% | 5.6% | 10.8% |
| EBIT (€m) | 2.25 | 2.63 | -0.59 | -3.23 | -0.50 | 2.50 |
| EBIT margin | 5.9% | 5.3% | -1.1% | -6.0% | -0.9% | 4.0% |
| Net income (€m) | 1.87 | 3.04 | -0.58 | -3.43 | -0.70 | 2.15 |
| EPS (diluted) (€) | 0.07 | 0.10 | -0.02 | -0.11 | -0.02 | 0.07 |
| DPS (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FCF (€m) | 5.38 | -0.59 | -2.51 | -7.00 | -0.63 | 2.37 |
| Net gearing | -66.6% | -59.8% | -51.8% | -30.6% | -28.8% | -35.6% |
| Liquid assets (€m) | 16.39 | 16.88 | 14.31 | 7.39 | 6.76 | 9.12 |

RISKS

Risks include, but are not limited to, market share losses, unfavourable 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.

MARKET DATA

As of 20 Feb 2014

| | |
|-------------------------|---------------|
| Closing Price | € 1.73 |
| Shares outstanding | 30.18m |
| Market Capitalisation | € 52.25m |
| 52-week Range | € 1.03 / 1.94 |
| Avg. Volume (12 Months) | 51,860 |

| Multiples | 2012 | 2013E | 2014E |
|------------|------|-------|-------|
| P/E | n.a. | n.a. | n.a. |
| EV/Sales | 0.9 | 0.8 | 0.8 |
| EV/EBIT | n.a. | n.a. | n.a. |
| Div. Yield | 0.0% | 0.0% | 0.0% |

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2013

| | |
|----------------------|----------|
| Liquid Assets | € 7.39m |
| Current Assets | € 20.66m |
| Intangible Assets | € 11.10m |
| Total Assets | € 33.71m |
| Current Liabilities | € 9.04m |
| Shareholders' Equity | € 24.18m |

SHAREHOLDERS

| | |
|-------------------|-------|
| GSI Commerce Inc. | 26.1% |
| Axxion S.A. | 5.1% |
| Free Float | 68.8% |



The improvement in gross margin to 35.2% (2012: 33.5%) reflected a shift in the product mix towards license income. However, as indicated above, the improvement would have been more pronounced without the significant bad debt provision. While the gross margin widened, the operating margin declined to -6.0% (2012: -1.1%) due to higher marketing expenses in connection with the expansion of the sales force.

Revamped sales team is gaining traction After q/q declines of 38.9% and 32.9% in Q1 and Q2 2013 respectively, license income grew by 16.6% in Q3 and by 105.2% in Q4 indicating that the revamped sales team is gaining traction. We now forecast licensing income to grow by 30% in 2014 and by 25% in 2015 and expect the concomitant improvement in the product mix to push the EBIT margin to 4.0% in 2015. These numbers are slightly above our previous forecasts. Changes to our forecasts are shown in figure 1 below.

Forrester Research regards Intershop as one of leaders in B2B commerce space In recent weeks Intershop's share price has climbed above the €1.70 price target featured in our Q3 results note of 20 November. Intershop is one of few remaining independent providers of high-end e-commerce software. An October 2013 publication by Forrester Research described „the big three enterprise software firms (IBM, Oracle and SAP) as the leaders in the B2B commerce category with Intershop also making the cut“. Oracle acquired the e-commerce publisher ATG in 2010 for USD1bn or ca. 5x sales. In 2013 SAP acquired the Swiss e-commerce software publisher Hybris. Sources close to the transaction estimated the price paid by SAP at USD 1bn - nearly 10x Hybris' then annual revenue of USD100m. Intershop is currently trading at 0.92x our 2014 sales estimate.

Raising price target from €1.70 to €2.40; moving recommendation to Buy from Add

We have chosen to apply a valuation of 1.3x to our 2014 sales forecast - equivalent to €73.5m or €2.44 per share. This is much lower than the multiples applied in the ATG and Hybris transactions but reflects the facts that Intershop was loss-making in 2013 and that with a cash position of €7.4m at end 2013 (down from €14.3m at end of 2012) it is likely to require a capital injection later this year. We raise our price target from €1.70 to €2.40 and the recommendation from Add to Buy.

FIGURE 1: CHANGES TO FORECASTS

| All figures in € m | FY 2013E | | | FY 2014E | | | FY 2015E | | |
|--------------------|----------|-------|------|----------|-------|------|----------|-------|-------|
| | New | Old | Δ % | New | Old | Δ % | New | Old | Δ % |
| Sales | 53.56 | 53.03 | 1.0% | 56.55 | 55.00 | 2.8% | 62.68 | 59.00 | 6.2% |
| EBIT | -3.23 | -3.50 | - | -0.50 | 0.10 | - | 2.50 | 2.00 | 25.0% |
| Net profit | -3.43 | -3.53 | - | -0.70 | 0.07 | - | 2.15 | 1.87 | 15.0% |
| EPS (€) | -0.11 | -0.12 | - | -0.02 | 0.00 | - | 0.07 | 0.06 | 18.8% |

Source: Intershop; First Berlin estimates

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...14 | ↓ | ↓ | ↓ | ↓ |
| 15 | 8 August 2013 | €1.24 | Buy | €2.20 |
| 16 | 31 October 2013 | €1.48 | Add | €1.70 |
| 17 | 20 November 2013 | €1.48 | Add | €1.70 |
| 18 | Today | €1.73 | Buy | €2.40 |

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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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