

Intershop Communications AG

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

FY 2016 figures

RATING
PRICE TARGET **ADD**
 Return Potential 11.5%
 Risk Rating High

OPERATING BREAK-EVEN IN 2017E

On 15 March, Intershop published its FY 2016 annual report and held a conference call. Sales of €34.2m and EBIT of €-2.4m met our forecasts and were at the lower end of the guidance range. For 2017, the company expects moderate revenue growth and break-even at the operating level. An updated DCF model still yields a €1.25 price target. We reiterate our Add recommendation.

FY 2016 figures roughly in line with forecasts Intershop's revenues fell 20% y/y to €34.2m (FBe: €34.2m) reflecting declining business in both segments (Product revenues: -21%, Service revenues: -19%). A better product mix resulted in a gross margin increase of 1.3 PP y/y to 46%. Despite large cost savings in Sales & Marketing (€1.2m) and General & Admin (€1.1m), EBITDA fell from €3.5m to €0.1m. EBIT amounted to €-2.4m (FBe: €-2.2m). Before restructuring costs of €1.0m EBIT was to €-1.4m. Despite negative EBT of €-2.6m, tax amounted to €0.3m and meant that the net result was €-3.0m (2015: €0.0m). The average number of shares remained stable at 31.683m leading to EPS of €-0.09 (FBe: €-0.07).

2016 guidance reached Intershop reached its revised guidance (sales: €34-€36m, EBIT between €-1m and €2.5m), but both revenue and EBIT were at the lower end of the guidance range.

Cautious guidance for 2017E Intershop is guiding towards moderate revenue growth and break-even at the operating level. The company reiterated its 2020 target of €50m revenues at a 5% EBIT margin.

Balance sheet remains solid Although the net loss lowered equity to €16.1m, the equity ratio increased 1 PP to 59% as the balance sheet total fell from €33.0m to €27.1m. Following a reduction by €2.2m, financial debt now amounts to €3.8m. As the cash position is at €10.9m, Intershop has a net cash position of €7.1m. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	46.18	42.72	34.19	38.28	42.11	45.90
Y-o-y growth	n.a.	-7.5%	-20.0%	12.0%	10.0%	9.0%
EBIT (€m)	-6.28	0.17	-2.38	0.54	1.43	2.11
EBIT margin	-13.6%	0.4%	-7.0%	1.4%	3.4%	4.6%
Net income (€m)	-6.64	0.01	-2.99	0.37	1.25	1.93
EPS (diluted) (€)	-0.22	0.00	-0.09	0.01	0.04	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-2.60	2.65	-3.67	0.22	0.56	1.29
Net gearing	-36.2%	-48.7%	-44.4%	-44.7%	-44.7%	-46.9%
Liquid assets (€m)	6.36	15.23	10.90	10.11	9.67	9.96

RISKS

Risks include, but are not limited to, increasing competition, rapid technological change, currency risks, and financial solidity.

COMPANY PROFILE

Intershop is a leading independent provider of omni-channel commerce solutions offering high-performance packaged software for internet sales. The company also acts as a business process outsourcing provider, covering all aspects of online retailing. The company has over 300 customers worldwide including HP, BMW, and Deutsche Telekom.

MARKET DATA

As of 17 Mar 2017

Closing Price € 1.12
 Shares outstanding 31.68m
 Market Capitalisation € 35.52m
 52-week Range € 1.03 / 1.71
 Avg. Volume (12 Months) 29,448

Multiples	2016	2017E	2018E
P/E	n.a.	97.0	28.3
EV/Sales	0.8	0.7	0.7
EV/EBIT	n.a.	53.0	19.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets € 10.90m
 Current Assets € 16.62m
 Intangible Assets € 8.81m
 Total Assets € 27.11m
 Current Liabilities € 7.94m
 Shareholders' Equity € 16.06m

SHAREHOLDERS

Shareholder Value 24.9%
 BNY Mellon Service 9.3%
 Free Float 65.8%



Negative free cash flow Operating cash flow amounted to €-0.9m. Investments in intangible assets (€2.3m) and PP&E (€0.5m) were the main contributors to a negative cash flow from investing activities of €2.4m. Free cash flow amounted to €-3.7m. As Intershop's financing cash flow was also negative (€1m) due mainly to the repayment of financial debt (€2.2m), the net cash outflow of €4.3m was completely financed by cash. The cash position thus declined from €15.2m to €10.9m.

Restructuring measures show first effects Project delays and the loss of clients caused Intershop to initiate the restructuring program "Lighthouse 2020" in October 2016. During 2016, the company reduced the number of employees from 380 to 355 and lowered S,G&A costs by €2.2m. The restructuring program will generate cost savings of ca. €3m from 2017 on, which will be reallocated towards marketing & distribution. Furthermore, Intershop began to focus on the wholesale segment and cloud solutions, which look set to be the key future growth drivers. Instead of servicing a broad range of customers, Intershop started to focus on medium-sized companies. As a consequence, Intershop has stopped fighting for large companies where competition with SAP, Oracle, Salesforce & IBM is too strong.

Focus on wholesale Intershop already has a strong competitive position and a very good reputation in the wholesale segment. The sector offers a higher growth potential for e-commerce solutions than most other sectors as the pressure to digitalise the wholesale business model is particularly high due to relatively new competitors such as Amazon and manufacturers' attempts to circumvent wholesale via their own B2B sales channels.

Focus on cloud-based services For many medium-sized companies, cloud solutions are increasingly attractive as they are cost-efficient and have the advantage of being scalable at any time. As medium-sized companies are gaining significance in Intershop's customer portfolio, its cloud-based business looks very promising, particularly since the cooperation with Microsoft agreed upon in 2016, which allows Intershop to offer its customers a cloud application of its product as a scalable solution on Microsoft's Azure cloud platform. Furthermore, Intershop's e-commerce platform can be seamlessly integrated into Microsoft's Enterprise Resource Planning (ERP) software Dynamics NAV. This strategic partnership with Microsoft is of utmost importance for Intershop and gives the company new opportunities regarding implementation, marketing, and distribution of its product. Ca. 20 customers already use its e-commerce platform on NAV, and first new clients have been won due to the cooperation with Microsoft.

Focus on medium-sized companies The focus on medium-sized companies has already shown first successes. According to management, new customers have already been won in Q1. We believe that the partnership with Microsoft will help Intershop in the medium-size customer segment as Microsoft's product NAV is popular among German medium-sized companies.

Q4/16 encouraging Q4/16 already indicates that Intershop is on the right track. Q4/16 produced the highest quarterly sales figure of the year at €9.5m (Q1: €7.3m, Q2: €9.1m, Q3: €8.3m). The gross margin also peaked at 50.7%. As restructuring costs of almost €1m were booked in Q4/16, Q4 EBIT of €-0.3m indicated that EBIT before restructuring was positive at ca. €0.6m. This is also by far the highest quarterly value in 2016.

Estimates largely unchanged Although Intershop's guidance for 2017 (moderate revenue growth and operating break-even) sounds more cautious than our 2017E forecasts (sales: €38.3m, +12% y/y, EBIT margin 1.4%), we are leaving them largely unchanged (see figure 2 overleaf). The upswing in Q4/16, the acquisition of new customers early in the year, even before larger marketing campaigns have started, and the evolving cooperation with Microsoft suggest profitable growth.



Add reiterated at unchanged price target An updated DCF model still yields a price target of €1.25. We reiterate our Add recommendation.

Figure 1: Reported figures versus forecasts

All figures in €m	2016A	2016E	Delta	2015	Delta
Sales	34.19	34.18	0.0%	42.72	-20.0%
EBIT	-2.38	-2.16	-	0.17	-
<i>margin</i>	-7.0%	-6.3%		0.4%	
Net income	-2.99	-2.30	-	0.01	-
<i>margin</i>	-8.7%	-6.7%		0.0%	
EPS (diluted)	-0.09	-0.07	-	0.00	-

Source: First Berlin Equity Research, Intershop Communications AG

Figure 2: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	38.28	38.28	0.0%	42.11	42.11	0.0%	45.90	45.90	0.0%
EBIT	0.54	0.54	0.0%	1.43	1.43	0.0%	2.11	2.11	0.0%
<i>margin</i>	1.4%	1.4%		3.4%	3.4%		4.6%	4.6%	
Net income	0.32	0.37	15.9%	1.20	1.25	4.2%	1.88	1.93	2.7%
<i>margin</i>	0.8%	1.0%		2.9%	3.0%		4.1%	4.2%	
EPS (diluted)	0.01	0.01	15.9%	0.04	0.04	4.2%	0.06	0.06	2.7%

Source: First Berlin Equity Research



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	38,278	42,106	45,895	49,796	53,803	57,850	61,880	65,833
NOPLAT	517	1,366	2,010	2,320	2,640	3,017	3,384	3,759
+ depreciation & amortisation	2,535	2,262	2,467	2,700	2,946	3,185	3,420	3,650
Net operating cash flow	3,052	3,627	4,477	5,020	5,586	6,202	6,804	7,409
- total investments (CAPEX and WC)	-2,686	-2,959	-3,110	-3,609	-3,850	-4,085	-4,308	-4,516
Capital expenditures	-2,488	-2,737	-2,983	-3,237	-3,468	-3,697	-3,921	-4,135
Working capital	-198	-222	-126	-372	-382	-387	-387	-381
Free cash flows (FCF)	366	668	1,367	1,411	1,736	2,118	2,496	2,893
PV of FCF's	337	555	1,024	954	1,058	1,164	1,237	1,293

All figures in thousands	
PV of FCFs in explicit period (2017E-2030E)	17,025
PV of FCFs in terminal period	15,395
Enterprise value (EV)	32,420
+ Net cash / - net debt	7,126
+ Investments / minority interests	0
Shareholder value	39,546

Fair value per share in EUR	1.25
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WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	14.0%	6.9%	2.17	2.26	2.37	2.50	2.65	2.85	3.11
Pre-tax cost of debt	4.5%	7.9%	1.81	1.87	1.94	2.01	2.10	2.21	2.35
Tax rate	20.0%	8.9%	1.55	1.59	1.63	1.68	1.73	1.80	1.88
After-tax cost of debt	3.6%	9.9%	1.35	1.37	1.40	1.43	1.47	1.51	1.56
Share of equity capital	70.0%	10.9%	1.19	1.21	1.23	1.25	1.27	1.30	1.33
Share of debt capital	30.0%	11.9%	1.06	1.08	1.09	1.10	1.12	1.14	1.16
		12.9%	0.96	0.97	0.98	0.99	1.00	1.01	1.03
Fair value per share in EUR	1.25	13.9%	0.88	0.88	0.89	0.90	0.91	0.91	0.92

* for layout purposes the model shows numbers only to 2024, but runs until 2031



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	46,175	42,721	34,188	38,278	42,106	45,895
Cost of goods sold	29,462	23,616	18,452	19,905	21,895	23,865
Gross profit	16,713	19,105	15,736	18,373	20,211	22,030
S&M	11,872	8,504	7,377	7,541	7,832	8,445
G&A	5,698	4,962	3,905	3,904	4,126	4,360
R&D	5,113	5,801	5,923	6,239	6,695	7,022
Other operating income	1,510	689	276	230	295	367
Other operating expenses	1,815	359	1,189	383	421	459
Operating income (EBIT)	-6,275	168	-2,382	536	1,432	2,111
Net financial result	6	-149	-259	-151	-112	-80
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-6,269	19	-2,641	385	1,319	2,031
Income taxes	373	14	347	19	66	102
Minority interests	0	0	0	0	0	0
Net income / loss	-6,642	5	-2,988	366	1,254	1,930
Diluted EPS (in €)	-0.22	0.00	-0.09	0.01	0.04	0.06
EBITDA	-2,129	3,464	113	3,071	3,693	4,578
Ratios						
Gross margin	36.2%	44.7%	46.0%	48.0%	48.0%	48.0%
EBIT margin on revenues	-13.6%	0.4%	-7.0%	1.4%	3.4%	4.6%
EBITDA margin on revenues	-4.6%	8.1%	0.3%	8.0%	8.8%	10.0%
Net margin on revenues	-14.4%	0.0%	-8.7%	1.0%	3.0%	4.2%
Tax rate	-5.9%	73.7%	-13.1%	5.0%	5.0%	5.0%
Expenses as % of revenues						
S&M	25.7%	19.9%	21.6%	19.7%	18.6%	18.4%
G&A	12.3%	11.6%	11.4%	10.2%	9.8%	9.5%
R&D	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Depreciation and amortisation	9.0%	7.7%	7.3%	6.6%	5.4%	5.4%
Other operating expenses	3.9%	0.8%	3.5%	1.0%	1.0%	1.0%
Y-Y Growth						
Revenues	n.a.	-7.5%	-20.0%	12.0%	10.0%	9.0%
Operating income	n.a.	n.m.	n.m.	n.m.	167.1%	47.5%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	242.5%	54.0%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	14,203	21,429	16,618	16,262	16,259	16,835
Cash and cash equivalents	6,358	15,232	10,898	10,113	9,669	9,957
Short-term investments	0	0	0	0	0	0
Receivables	6,737	5,338	5,129	5,558	5,999	6,287
Inventories	0	0	0	0	0	0
Other current assets	1,108	859	591	591	591	591
Non-current assets, total	11,077	11,539	10,493	10,446	10,921	11,437
Property, plant & equipment	631	362	567	390	347	351
Goodwill & other intangibles	9,451	8,697	8,806	8,936	9,454	9,966
Other assets	995	2,480	1,120	1,120	1,120	1,120
Total assets	25,280	32,968	27,111	26,708	27,180	28,272
Shareholders' equity & debt						
Current liabilities, total	7,703	8,571	7,936	8,167	8,386	8,548
Short-term debt	0	1,000	1,000	1,000	1,000	1,000
Accounts payable	1,670	2,066	1,350	1,581	1,800	1,962
Current provisions	344	497	690	690	690	690
Other current liabilities	5,689	5,008	4,896	4,896	4,896	4,896
Long-term liabilities, total	0	5,316	3,120	2,120	1,120	120
Long-term debt	0	4,949	2,772	1,772	772	-228
Deferred revenue	0	367	348	348	348	348
Other liabilities	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
Shareholders' equity	17,577	19,081	16,055	16,421	17,675	19,604
Share capital	30,183	31,683	31,683	31,683	31,683	31,683
Capital reserve	7,751	7,806	7,806	7,806	7,806	7,806
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-20,357	-20,408	-23,434	-23,068	-21,814	-19,885
Total consolidated equity and debt	25,280	32,968	27,111	26,708	27,180	28,272
Ratios						
Current ratio (x)	1.84	2.50	2.09	1.99	1.94	1.97
Quick ratio (x)	1.84	2.50	2.09	1.99	1.94	1.97
Net debt	-6,358	-9,283	-7,126	-7,341	-7,897	-9,185
Net gearing	-36.2%	-48.7%	-44.4%	-44.7%	-44.7%	-46.9%
Equity ratio	69.5%	57.9%	59.2%	61.5%	65.0%	69.3%
Book value per share (in €)	0.57	0.62	0.51	0.52	0.56	0.62
Return on equity (ROE)	-37.8%	0.0%	-18.6%	2.2%	7.1%	9.8%
Days of sales outstanding (DSO)	53	46	55	53	52	50
Days in payables (DIP)	21	32	27	29	30	30



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	-6,275	168	-2,382	536	1,432	2,111
Depreciation and amortisation	4,146	3,296	2,495	2,535	2,262	2,467
EBITDA	-2,129	3,464	113	3,071	3,693	4,578
Changes in working capital	3,142	1,675	-473	-198	-222	-126
Other adjustments	-626	-172	-502	-170	-178	-181
Operating cash flow	387	4,967	-862	2,703	3,293	4,271
Investments in PP&E	-275	-147	-473	-191	-211	-229
Investments in intangibles	-2,708	-2,168	-2,336	-2,297	-2,526	-2,754
Free cash flow	-2,596	2,652	-3,671	215	556	1,287
Acquisitions & disposals, net	1,941	12	1	0	0	0
Other investments	-375	0	375	0	0	0
Investment cash flow	-1,417	-2,303	-2,433	-2,488	-2,737	-2,983
Debt financing, net	0	5,902	-2,200	-1,000	-1,000	-1,000
Equity financing, net	0	1,650	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	-1,294	1,200	0	0	0
Financing cash flow	0	6,258	-1,000	-1,000	-1,000	-1,000
FOREX & other effects	-1	-48	-39	0	0	0
Net cash flows	-1,031	8,874	-4,334	-785	-444	287
Cash, start of the year	7,389	6,358	15,232	10,898	10,113	9,669
Cash, end of the year	6,358	15,232	10,898	10,113	9,669	9,957
EBITDA/share (in €)	-0.07	0.11	0.00	0.10	0.12	0.14
Y-Y Growth						
Operating cash flow	n.a.	1184.8%	n.m.	n.m.	21.8%	29.7%
Free cash flow	n.a.	n.m.	n.m.	n.m.	158.3%	131.5%
EBITDA/share	n.a.	n.m.	-96.9%	2617.6%	20.3%	24.0%

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...17	↓	↓	↓	↓
18	21 February 2014	€1.73	Buy	€2.40
19	9 May 2014	€1.72	Buy	€2.40
20	18 January 2017	€1.14	Add	€1.25
21	Today	€1.12	Add	€1.25

Authored by: Karsten von Blumenthal, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 85 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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PRICE TARGET DATES

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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