

Intershop Communications AG

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

Q2 figures

RATING
PRICE TARGET **REDUCE**
€ 1.44
 Return Potential -15.2%
 Risk Rating High

OPERATING RESULT REMAINS POSITIVE

On 2 August, Intershop published Q2 figures and held a conference call. Q2 figures were slightly below the previous year's figures and our estimates. Q2 sales decreased 3% to €8.8m. EBIT remained slightly positive. In H1, Intershop acquired a large number of new customers, particularly in the licence area. Many new customers come from the wholesale segment, which shows that Intershop's new strategy is successful. As H1 figures still show robust sales and earnings growth y/y we believe that Intershop's growth path remains intact. We thus stick to our forecasts for 2017E and the following years. An updated DCF model yields a new price target of €1.44 (previously: €1.34). Following the strong share price increase in recent months, we downgrade the rating from Add to Reduce.

Q2 figures slightly weaker Following a very strong Q1, the Q2 figures were slightly below the previous year's numbers and our forecasts. Sales declined 3% to €8.8m (Q2/16: €9.1m, FBe: €9.7m, see figure 1 overleaf). The main reason was lower product revenues (€3.6m vs. €3.9m in Q2/16) as a few deals were postponed into Q3 & Q4. Despite lower sales, gross profit increased slightly to €4.5m from €4.3m in the previous year's period due to a significantly higher gross profit in the service segment (€1.9m vs. €1.4m in Q2/16). Here, the restructuring shows first positive results. The group's gross margin was up 3.3PP y/y at 51.0%. Total net operating costs increased slightly y/y (+6%) to €4.5m from €4.3m due mainly to increased S&M costs (€2.1m vs. €1.9m). We see the higher S&M costs as a prerequisite for generating higher revenues. Q2 EBIT was slightly positive (€7k vs. €72k in Q2/16, FBe: €130k). Reaching a slightly positive EBIT despite lower revenues shows that the cost structure is now much more flexible and adjusts to revenue fluctuations. The net result was on the same level as in the previous year's period (€-67k vs. €-63k, FBe: €100k).

H1 figures showed a 10% increase y/y in sales to €18.0m and a positive EBIT of €0.2m vs. €-1.3m in H1/16. The H1 net result was slightly positive at €28k.

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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	10.18

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 03 Aug 2017

Closing Price	€ 1.70
Shares outstanding	31.68m
Market Capitalisation	€ 53.83m
52-week Range	€ 1.03 / 1.77
Avg. Volume (12 Months)	33,522

Multiples	2016	2017E	2018E
P/E	n.a.	147.1	42.9
EV/Sales	1.3	1.2	1.1
EV/EBIT	n.a.	85.8	32.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 10.60m
Current Assets	€ 16.25m
Intangible Assets	€ 8.71m
Total Assets	€ 26.59m
Current Liabilities	€ 8.50m
Shareholders' Equity	€ 16.05m

SHAREHOLDERS

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

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q2-17A	Q2-17E	Delta	Q2-16	Delta	H1-17	H1-16	Delta
Sales	8.81	9.66	-8.7%	9.07	-2.8%	17.96	16.34	9.9%
EBIT	0.01	0.13	-94.4%	0.07	-90.3%	0.20	-1.32	-
margin	0.1%	1.3%		0.8%		1.1%	-8.1%	
Net income	-0.67	0.10	-	-0.63	-	0.03	-1.55	-
margin	-7.6%	1.0%		-6.9%		0.2%	-4.2%	
EPS (diluted) in €	0.00	0.00	-	0.00	-	0.00	-0.05	-

Source: First Berlin Equity Research, Intershop Communications AG

Guidance reiterated Intershop reiterated its guidance (slightly higher revenues and break-even EBIT). Given the 10% sales growth and positive EBIT in H1 as well as the increasing number of new customers we believe that the company will comfortably reach its guidance.

Balance sheet metrics remain stable The cash position was €10.6m—slightly below the €10.9m at the end of 2016. Whereas long-term financial debt was reduced by €1m to €1.8m, short-term debt was stable at €1.0m. The net cash position thus increased slightly to €7.8m (end 2016: €7.1m). Equity remained stable at €16.1m. The equity ratio increased slightly from 59% to 60% due to a lower balance sheet total.

Positive free cash flow in H1 Operating cash flow amounted to €1.8m. As CAPEX was €1.0m, the free cash flow was positive at €0.8m. Cash flow from investing was €-1.1m. Financing cash outflow amounted to €1.0m due to the repayment of loans. The net cash outflow was thus €0.3m.

More new customers gained y/y in H1 Intershop acquired more than twice as many customers in H1 compared to the previous year's figure. Wholesale customers account for half the new customers, which shows that Intershop's "Lighthouse 2020" strategy with its focus on the wholesale segment is successful.

Cooperation with Microsoft is developing into a strategic partnership Microsoft's cloud business exhibits strong growth. The company is more and more becoming a solution provider in the cloud business and Intershop's product offers significant value-add. Joint sales activities and Microsoft's global sales support look set to boost Intershop's business.

Cloud business continues to grow Q2 cloud revenues topped the Q1 figure and we believe that Intershop will further increase its cloud-based revenues as the latest Commerce Suite version 7.8 now provides the full infrastructure of the Intershop commerce system on the Microsoft Azure cloud platform. Both Microsoft and Intershop have the opportunity to generate a large number of new digital customer projects in the coming years with the combined Intershop's Commerce Suite/Microsoft Azure cloud offering.

Forecasts unchanged Given the robust H1 sales (+10%) and earnings growth as well as the increasing number of new customers, we stick to our 2017E forecast (sales: +12%, EBIT margin of €1.4%). We believe that Intershop's growth path is intact despite the slight Q2 setback. New customers and the growing cloud business look set to generate growth in H2.

WACC lowered We have lowered our WACC from 10.5% to 10.2% as Intershop's new strategy shows continued success. EBIT was positive for the second consecutive quarter; H1 operating cash flow was positive at €1.8m, and the balance sheet metrics are stable.



Price target increased, rating downgraded An updated DCF model yields a new price target of €1.44 (previously: €1.34). Multiples indicate a high valuation. The 2018E P/E is 43x, the 2018E EV/EBIT 32x. Since we reinitiated coverage in January, the share price has risen by almost 50%. We believe that investors already anticipate a takeover offer by a larger player such as Microsoft and speculate on a strategic premium. Assuming an EV/sales multiple of 1.5x based on 2016 sales, the enterprise value would be €51.3m. Including the net cash position (€7.8m) this would imply a valuation of ca. €59.1m or €1.87 per share. We do not incorporate any strategic premium in our model, but stick to our DCF-based valuation. Following the share price increase in recent months, we downgrade the stock from Add to Reduce.



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	2,644	3,021	3,389	3,765
+ 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	5,589	6,207	6,809	7,415
- 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	1,412	1,739	2,122	2,501	2,899
PV of FCF's	352	583	1,082	1,014	1,134	1,255	1,343	1,412

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	18,711
PV of FCFs in terminal period	19,045
Enterprise value (EV)	37,756
+ Net cash / - net debt	7,832
+ Investments / minority interests	0
Shareholder value	45,588

Fair value per share in EUR	1.44
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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	13.0%	6.2%	2.58	2.71	2.87	3.07	3.32	3.65	4.10
Pre-tax cost of debt	4.5%	7.2%	2.13	2.21	2.30	2.41	2.55	2.72	2.93
Tax rate	20.0%	8.2%	1.80	1.85	1.91	1.97	2.06	2.15	2.27
After-tax cost of debt	3.6%	9.2%	1.55	1.58	1.62	1.67	1.72	1.78	1.84
Share of equity capital	70.0%	10.2%	1.36	1.38	1.41	1.44	1.47	1.51	1.55
Share of debt capital	30.0%	11.2%	1.21	1.23	1.24	1.26	1.29	1.31	1.34
		12.2%	1.09	1.10	1.11	1.13	1.14	1.16	1.18
Fair value per share in EUR	1.44	13.2%	0.99	1.00	1.01	1.02	1.03	1.04	1.06

* 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	8,230	8,253	8,445
G&A	5,698	4,962	3,905	3,636	3,705	4,360
R&D	5,113	5,801	5,923	5,818	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%	21.5%	19.6%	18.4%
G&A	12.3%	11.6%	11.4%	9.5%	8.8%	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	17,063
Cash and cash equivalents	6,358	15,232	10,898	10,113	9,669	10,185
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	28,500
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	348
Long-term debt	0	4,949	2,772	1,772	772	0
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	28,500
Ratios						
Current ratio (x)	1.84	2.50	2.09	1.99	1.94	2.00
Quick ratio (x)	1.84	2.50	2.09	1.99	1.94	2.00
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%	68.8%
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	-772
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	-772
FOREX & other effects	-1	-48	-39	0	0	0
Net cash flows	-1,031	8,874	-4,334	-785	-444	515
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	10,185
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...19	↓	↓	↓	↓
20	18 January 2017	€1.14	Add	€1.25
21	20 March 2017	€1.12	Add	€1.25
22	11 May 2017	€1.31	Add	€1.34
23	Today	€1.70	Reduce	€1.44

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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%.

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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