

Intershop Communications AG

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

Q3 figures

RATING
PRICE TARGET
 Return Potential
 Risk Rating

SELL
€ 1.51
 -31.0%
 High

THIRD POSITIVE EBIT IN A ROW

On 2 November, Intershop published Q3 figures and held a conference call. Revenues grew slightly y/y to €8.4m. EBIT improved significantly y/y and was in positive territory at €18k. Based on the 9M figures, Intershop looks set to reach its guidance (slightly higher revenues and break-even EBIT). Both 2018E multiples and our DCF model imply that the stock is overvalued. An updated DCF model yields a price target of €1.51 (previously: €1.44). We downgrade the stock from Reduce to Sell.

Slight revenue growth and positive EBIT In Q3, Intershop increased its revenue 1% y/y to €8.4m (FBe: €9.1m). Revenues were lower than expected as a few deals were postponed. Gross profit was €0.6m higher y/y at €4.0m. The gross margin increased significantly (more than 6 PPI) from 40.9% to 47.2% due mainly to an improved gross margin in the Service segment (37.5% vs. 27.2% in the previous year's period). Operating costs were slightly lower y/y at €4.0m resulting in EBIT of €18k (Q3/16: €-729k, FBe: €83k). The net result was slightly negative and amounted to €-44k (Q3/16: €-820k, FBe: €30k).

On a nine months basis, sales increased 7% y/y to €26.4m. 9M EBIT amounted to €0.22m—a significant improvement compared to the previous year's figure of €-2.0m (see figure 1 overleaf).

Lighthouse 2020 restructuring is successful The 9M report shows growing sales, the third positive quarterly EBIT in a row, twice as many new customers in the first nine months as in the previous year's period, and an evolving cooperation with Microsoft in the cloud business. All of this indicates that the Lighthouse 2020 restructuring has been successful both in terms of profitability and the strategic focus on medium-sized companies and the cloud business. We believe that Intershop is on the right track to reach the 2020 targets of €50m sales at a 5% EBIT margin.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	46.18	42.72	34.19	36.83	41.11	45.90
Y-o-y growth	n.a.	-7.5%	-20.0%	7.7%	11.6%	11.7%
EBIT (€m)	-6.28	0.17	-2.38	0.53	1.40	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	0.36	1.22	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	0.44	0.49	1.15
Net gearing	-36.2%	-48.7%	-44.4%	-46.1%	-45.7%	-47.1%
Liquid assets (€m)	6.36	15.23	10.90	10.34	9.83	10.21

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 08 Nov 2017

Closing Price	€ 2.19
Shares outstanding	31.68m
Market Capitalisation	€ 69.35m
52-week Range	€ 1.03 / 2.19
Avg. Volume (12 Months)	36,670

Multiples	2016	2017E	2018E
P/E	n.a.	190.8	56.8
EV/Sales	1.8	1.7	1.5
EV/EBIT	n.a.	117.0	44.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 9.65m
Current Assets	€ 14.83m
Intangible Assets	€ 8.73m
Total Assets	€ 25.20m
Current Liabilities	€ 7.19m
Shareholders' Equity	€ 15.99m

SHAREHOLDERS

Shareholder Value	24.9%
Axxion S.A.	9.2%
Free Float	65.9%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q3-17A	Q3-17E	Delta	Q3-16	Delta	9M-17	9M-16	Delta
Sales	8.42	9.14	-7.9%	8.31	1.3%	26.37	24.65	7.0%
EBIT	0.02	0.08	-78.3%	-0.73	-	0.22	-2.05	-
margin	0.2%	0.9%		-8.8%		0.8%	-8.3%	
Net income	-0.04	0.03	-	-0.82	-	-0.02	-2.37	-
margin	-0.5%	0.3%		-9.9%		-0.1%	-6.4%	
EPS (diluted) in €	0.00	0.00	-	-0.03	-	0.00	-0.07	-

Source: First Berlin Equity Research, Intershop Communications AG

Guidance reiterated Management confirmed the 2017 guidance (slightly higher revenues and break-even EBIT). Given the 9M figures, we believe that Intershop will rather easily reach its guidance.

Balance sheet remains solid The balance sheet did not change materially in the first nine months of this year. The cash position fell from €10.9m to €9.6m due mainly to the repayment of debt (€1m). Equity remained stable at €16.0m. The equity ratio increased from 59% to 63% due to a lower balance sheet total (€25.2m versus €27.1m at the end of 2016), Long-term financial debt fell by €1.0m to €1.8m and short-term financial debt remained stable at €1.0m. Total financial debt thus amounted to €2.8m and Intershop's net cash position (€6.9m) was only slightly below the value at the end of 2016 (€7.1m).

Operating cash flow at €1.5m In the first nine months, Intershop generated operating cash flow of €1.5m. CAPEX of €1.7m resulted in a free cash flow of €-0.2m. Cash outflow from financing was €-1.0m due to the repayment of bans. Net cash outflow amounted to €1.3m.

Intershop's technology keeps its competitive edge Recent competition analysis by reputable market research and consulting firms such as Forrester Research and Quadrant Knowledge Solutions resulted in top rankings for Intershop. We especially appreciate Intershop's very good performance in Forrester's "B2B Commerce Suites for Midsize Organisations, Q3 2017" industry analysis. In accordance with the Lighthouse 2020 strategy, Intershop has focused on midsize companies and offers them functionality which was previously only available for large enterprises. We view Intershop's top ranking as an early indication that its new strategy has already generated a competitive edge in the midsize enterprise segment. This is underlined by the fact that Intershop won twice as many customers in the first nine months of this year as in the previous year's period. Half of the new customers are from the wholesale sector—the sector, Intershop has selected as its prime target.

Lighthouse program entering next strategic step Following the successful implementation of phase 1 of the Lighthouse 2020 strategy, Intershop is now beginning phase 2, the transition of the entire organisational focus to the cloud business. Instead of selling complex and individually customised software, Intershop is standardising its products and offering them in the cloud. Intershop is positioning itself as a provider of Digital Commerce as a Service (CaaS). The advantage of the standardisation will be higher product volume and a quicker rollout of projects.

The company will support midsize companies in the digitisation of their businesses. This will start with a digital maturity check, entail digital consulting, development of a digital growth story, and digital solution mapping.



Partnership with Microsoft is evolving Thanks to the cooperation with Microsoft, Intershop now offers comprehensive and scalable B2B and B2C cloud-based commerce solutions. Several customers, e.g. Miele and Brita, already rely on Intershop's and Microsoft's joint cloud offering. The cloud business is based on long-term contracts and generates continuous revenues, thus increasing revenue visibility. In July, Intershop attended Microsoft's Inspire Conference, to which all Microsoft partners are invited, and established contacts with many potential customers. These should generate additional business in 2018E. So far, Intershop has generated many leads worldwide based on the Microsoft cooperation. In the longer term, we believe that software leasing models (cloud business) will generate higher margins than selling software. But the transition process will strain Intershop's resources and take some time.

Forecasts for 2017E and 2018E slightly reduced Project postponements cause us to reduce our forecasts for this and the coming year slightly (see figure 2).

Figure 2: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	38.28	36.83	-3.8%	42.11	41.11	-2.4%	45.90	45.90	0.0%
EBIT	0.54	0.53	-0.4%	1.43	1.40	-2.3%	2.11	2.11	0.0%
margin	1.4%	1.4%		3.4%	3.4%		4.6%	4.6%	
Net income	0.37	0.36	-0.7%	1.25	1.22	-2.6%	1.93	1.93	0.0%
margin	1.0%	1.0%		3.0%	3.0%		4.2%	4.2%	
EPS (diluted) in €	0.01	0.01	-0.7%	0.04	0.04	-2.6%	0.06	0.06	0.0%

Source: First Berlin Equity Research

WACC reduced Given the good 9M performance (sales growth, gross margin increase, positive EBIT, new customers), we have reduced the WACC from 10.2% to 9.8%.

Stock valued at strategic premium Multiples indicate a high valuation. The 2018E P/E is 57x, the 2018E EV/EBIT 45x. Since we reinitiated coverage in January, the share price has risen from €1.14 to €2.19 (+92%). 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 range of 1.5x – 2.0x based on 2017E sales of €36.8m, the enterprise value would be €55.2m – €73.6m. Including the 9M net cash position (€6.9m) this would imply a valuation range of ca. €62.1m – €80.5m or €1.96 - €2.54 per share. We do not incorporate any strategic premium in our model, but stick to our DCF-based valuation.

Price target increased, rating downgraded An updated DCF model yields a new price target of €1.51 (previously: €1.44). Following the share price increase in recent weeks, we downgrade the stock from Reduce to Sell.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	36,828	41,106	45,895	49,796	53,803	57,850	61,880	65,833
NOPLAT	515	1,333	2,010	2,320	2,644	3,021	3,389	3,765
+ depreciation & amortisation	2,535	2,218	2,414	2,672	2,930	3,177	3,416	3,647
Net operating cash flow	3,050	3,551	4,423	4,992	5,574	6,198	6,804	7,413
- total investments (CAPEX and WC)	-2,456	-2,947	-3,192	-3,609	-3,850	-4,085	-4,308	-4,516
Capital expenditures	-2,394	-2,672	-2,983	-3,237	-3,468	-3,697	-3,921	-4,135
Working capital	-62	-276	-209	-372	-382	-387	-387	-381
Free cash flows (FCF)	594	604	1,231	1,383	1,724	2,114	2,497	2,896
PV of FCF's	586	542	1,005	1,029	1,167	1,303	1,401	1,480

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	19,704
PV of FCFs in terminal period	21,334
Enterprise value (EV)	41,038
+ Net cash / - net debt	6,868
+ Investments / minority interests	0
Shareholder value	47,906

Fair value per share in EUR	1.51
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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	12.5%	5.8%	2.79	2.95	3.15	3.40	3.72	4.16	4.79
Pre-tax cost of debt	4.5%	6.8%	2.27	2.37	2.48	2.62	2.79	3.00	3.28
Tax rate	20.0%	7.8%	1.90	1.96	2.03	2.12	2.21	2.33	2.48
After-tax cost of debt	3.6%	8.8%	1.63	1.67	1.71	1.77	1.83	1.90	1.98
Share of equity capital	70.0%	9.8%	1.42	1.45	1.48	1.51	1.55	1.60	1.65
Share of debt capital	30.0%	10.8%	1.26	1.27	1.30	1.32	1.35	1.38	1.41
		11.8%	1.12	1.14	1.15	1.17	1.19	1.21	1.23
Fair value per share in EUR	1.51	12.8%	1.02	1.03	1.04	1.05	1.06	1.08	1.09

* 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	36,828	41,106	45,895
Cost of goods sold	29,462	23,616	18,452	18,966	21,170	23,865
Gross profit	16,713	19,105	15,736	17,862	19,936	22,030
S&M	11,872	8,504	7,377	8,397	8,673	8,904
G&A	5,698	4,962	3,905	3,609	3,864	4,360
R&D	5,113	5,801	5,923	5,174	5,878	6,563
Other operating income	1,510	689	276	221	288	367
Other operating expenses	1,815	359	1,189	368	411	459
Operating income (EBIT)	-6,275	168	-2,382	534	1,398	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	383	1,285	2,031
Income taxes	373	14	347	19	64	102
Minority interests	0	0	0	0	0	0
Net income / loss	-6,642	5	-2,988	364	1,221	1,930
Diluted EPS (in €)	-0.22	0.00	-0.09	0.01	0.04	0.06
EBITDA	-2,129	3,464	113	3,069	3,616	4,525
Ratios						
Gross margin	36.2%	44.7%	46.0%	48.5%	48.5%	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%	8.3%	8.8%	9.9%
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%	22.8%	21.1%	19.4%
G&A	12.3%	11.6%	11.4%	9.8%	9.4%	9.5%
R&D	11.1%	13.6%	17.3%	14.1%	14.3%	14.3%
Depreciation and amortisation	9.0%	7.7%	7.3%	6.9%	5.4%	5.3%
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%	7.7%	11.6%	11.7%
Operating income	n.a.	n.m.	n.m.	n.m.	161.7%	51.1%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	235.8%	58.1%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	14,203	21,429	16,618	16,280	16,280	17,090
Cash and cash equivalents	6,358	15,232	10,898	10,341	9,833	10,212
Short-term investments	0	0	0	0	0	0
Receivables	6,737	5,338	5,129	5,348	5,856	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	10,352	10,806	11,375
Property, plant & equipment	631	362	567	383	339	348
Goodwill & other intangibles	9,451	8,697	8,806	8,849	9,346	9,907
Other assets	995	2,480	1,120	1,120	1,120	1,120
Total assets	25,280	32,968	27,111	26,631	27,085	28,465
Shareholders' equity & debt						
Current liabilities, total	7,703	8,571	7,936	8,093	8,326	8,548
Short-term debt	0	1,000	1,000	1,000	1,000	1,000
Accounts payable	1,670	2,066	1,350	1,507	1,740	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	16,419	17,639	19,569
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	-23,070	-21,850	-19,920
Total consolidated equity and debt	25,280	32,968	27,111	26,631	27,085	28,465
Ratios						
Current ratio (x)	1.84	2.50	2.09	2.01	1.96	2.00
Quick ratio (x)	1.84	2.50	2.09	2.01	1.96	2.00
Net debt	-6,358	-9,283	-7,126	-7,569	-8,061	-9,212
Net gearing	-36.2%	-48.7%	-44.4%	-46.1%	-45.7%	-47.1%
Equity ratio	69.5%	57.9%	59.2%	61.7%	65.1%	68.7%
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%	6.9%	9.9%
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	534	1,398	2,111
Depreciation and amortisation	4,146	3,296	2,495	2,535	2,218	2,414
EBITDA	-2,129	3,464	113	3,069	3,616	4,525
Changes in working capital	3,142	1,675	-473	-62	-276	-209
Other adjustments	-626	-172	-502	-170	-177	-181
Operating cash flow	387	4,967	-862	2,837	3,163	4,134
Investments in PP&E	-275	-147	-473	-184	-206	-229
Investments in intangibles	-2,708	-2,168	-2,336	-2,210	-2,466	-2,754
Free cash flow	-2,596	2,652	-3,671	443	491	1,151
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	-2,394	-2,672	-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	-557	-509	379
Cash, start of the year	7,389	6,358	15,232	10,898	10,341	9,833
Cash, end of the year	6,358	15,232	10,898	10,341	9,833	10,212
EBITDA/share (in €)	-0.07	0.11	0.00	0.10	0.11	0.14
Y-Y Growth						
Operating cash flow	n.a.	1184.8%	n.m.	n.m.	11.5%	30.7%
Free cash flow	n.a.	n.m.	n.m.	n.m.	10.9%	134.2%
EBITDA/share	n.a.	n.m.	-96.9%	2616.0%	17.8%	25.1%

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...20	↓	↓	↓	↓
21	20 March 2017	€1.12	Add	€1.25
22	11 May 2017	€1.31	Add	€1.34
23	4 August 2017	€1.70	Reduce	€1.44
24	Today	€2.19	Sell	€1.51

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

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

ASSET RECOMMENDATION

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

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