

Intershop Communications

Neutral → | Target 1.70 EUR

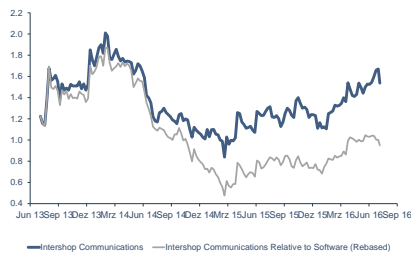
Price (08/03/2016) : 1.54 EUR| Upside : 11 %

Est.chng	2016e	2017e
EPS	-83.1%	127.0%

Q2 turnaround after negative Q1

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Capital			
ISH2 GY ISHG.DE			
Market Cap (EURm)			49
Enterprise value (EURm)			45
Extrema 12 months	1.07	-	1.73
Free Float (%)			66.6
Performance (%)	1m	3m	12m
Absolute	0.8	7.0	24.0
Perf. rel. Country Index	-0.2	7.0	47.5
Perf. rel. Software	-8.3	-4.0	22.3
P&L	12/16e	12/17e	12/18e
Sales (EURm)	38.0	41.1	43.1
EBITDA (EURm)	2.6	3.1	3.5
Current EBIT (EURm)	0.3	0.7	1.1
Attr. net profit (EURm)	0	0	1
Adjusted EPS (EUR)	0.00	0.01	0.03
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	ns	116.7	58.6
P/B (x)	2.6	2.5	2.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	2.6	5.2	6.2
EV/Sales (x)	1.18	1.09	1.03
EV/EBITDA (x)	17.1	14.6	12.6
EV/Current EBIT (x)	168.0	64.2	39.8
Gearing (%)	-23	-22	-22
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

02.11.2016 Q3 Results

Quarterly figures still remain below our expectations

Intershop (ISH2) released Q2 2016 results which came in as a turnaround compared to a negative Q1 2016. However, all numbers still remained below our expectations. Q2 group sales were up sequentially (qoq) by +24.9% to € 9.1m but compared to Q2 2015 (yoy) down by -17.8%, and -19.0% below our Q2 estimate of € 11.2m. Q2 product revenue improved +42.6% qoq to € 3.9m (-4.3% yoy and -29.3% below Oddo est.) mainly driven by license sales up by +160.7% qoq (-7.8% yoy and -44.3% below Oddo est.). According to ISH2, the lower sales figures were primarily due to not-yet-compensated project delays from Q1 2016 and overall lower service revenues owing to recent changes in the strategic focus towards medium-sized customers, which should only gradually lead to new service revenues.

QoQ improvements could not yet cover Q1 losses

In €m	Q2/16	Q1/16	qoq %	Q2/16 Oddo est.	rep vs Oddo diff. %	Q2/15	yoy %
Total revenue	9.072	7.266	24.9%	11.200	-19.0%	11.034	-17.8%
Product revenues	3.890	2.727	42.6%	5.500	-29.3%	4.065	-4.3%
License	1.895	0.727	160.7%	3.400	-44.3%	2.056	-7.8%
Maintenance	1.995	2.000	-0.2%	2.100	-5.0%	2.009	-0.7%
Service revenues	5.182	4.539	14.2%	5.700	-9.1%	6.969	-25.6%
Consulting/ training	4.076	3.471	17.4%	4.300	-5.2%	5.342	-23.7%
Full service	1.106	1.068	3.6%	1.400	-21.0%	1.627	-32.0%
EBITDA	0.645	-0.780	n.m.	1.210	-46.7%	0.657	-1.8%
EBITDA margin	7.1%	-10.7%	n.m.	10.8%	-370bp	6.0%	+110bp
EBIT	0.072	-1.390	n.m.	0.600	-88.0%	-0.111	n.m.
EBIT margin	0.8%	-19.1%	n.m.	5.4%	-460bp	-1.0%	+180bp
EPS	0.00	-0.05		0.02		0.00	

Reiterated FY guidance poised to be revised downwards

Based on weak business development in H1 2016, it is becoming likely that ISH2 will not reach its reiterated 2016 top-line guidance of revenues to remain at 2015 levels. Consequently, we have revised our 2016 revenue estimates down to € 38.0m from € 42m. According to our calculations, ISH2 should be able to compensate for the Q1 losses and produce a positive FY 2016 EBIT result (in accordance to current guidance) due to: i/ its increasingly lean cost structure, and ii/ primary focus on sustainable profitable growth.

Neutral rating as fundamental transformation still at an early stage

Weak H1 2016 results show that ISH2's transformation from service to product business is not yet completed. However, ISH2 has significantly reduced its cost structure and was able to greatly improve its financial situation. We have adjusted our estimates but kept our TP after a conversation with the company. While ISH2 still has a bumpy road ahead to fully reconnect to its market environment in terms of competitiveness and valuation, we see its current EV/sales level of ~1.3 as a valuation floor. For perspective, its relevant IT software sector is currently trading at an EV/sales multiple of 4.3x, which is near the upper end of its historical trading range of between of 1.5-5.0x. We maintain our Neutral rating at this stage.

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ISHG.DE | ISH2 GY
Software | Germany

	Neutral			Price	1.54EUR	
	Upside	10.61%		TP	1.70EUR	
PER SHARE DATA (EUR)						
Adjusted EPS	12/12	12/13	12/14	12/15	12/16e	12/17e
Reported EPS	-0.02	-0.11	-0.22	0.00	0.00	0.01
Growth in EPS(%)	-0.02	-0.11	-0.22	0.00	0.00	0.01
Net dividend per share	-	ns	ns	ns	ns	ns
FCF to equity per share	0.00	0.00	0.00	0.00	0.00	0.00
Book value per share	0.04	-0.15	0.00	0.16	0.04	0.08
Number of shares market cap	0.92	0.80	0.58	0.62	0.60	0.61
Number of diluted shares	30.17	30.18	30.18	30.59	31.68	31.68
Number of diluted shares	30.14	30.18	30.18	30.59	31.68	31.68
VALUATION						
12m highest price	12/12	12/13	12/14	12/15	12/16e	12/17e
12m lowest price	3.11	2.05	2.13	1.43	1.73	
(*) Reference price	1.76	1.03	1.02	0.84	1.07	
Capitalization	2.29	1.62	1.49	1.16	1.54	1.54
Restated Net debt	69	49	45	35	49	49
Minorities (fair value)	-9.0	-1.4	-0.7	-5.4	-4.3	-4.2
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	0.9	0.5	0.0	0.4	0.4	0.4
P/E (x)	61	48	44	30	45	45
P/CF (x)	ns	ns	ns	ns	ns	117
Net Yield (%)	52	ns	ns	11	21	18
FCF yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/B incl. GW (x)	1.6%	ns	0.3%	13.6%	2.6%	5.2%
P/B excl. GW (x)	2.50	2.03	2.57	1.86	2.55	2.50
EV/Sales (x)	2.50	2.03	2.57	1.86	2.55	2.50
EV/EBITDA (x)	1.18	0.90	0.96	0.71	1.18	1.09
EV/EBIT (x)	35	99	ns	8.8	17	15
EV/EBIT (x)	ns	ns	ns	181	168	64
(*) historical average price						
PROFIT AND LOSS (EURm)						
Sales	12/12	12/13	12/14	12/15	12/16e	12/17e
EBITDA	52	54	46.2	42.7	38.0	41.1
Depreciations	1.8	0.5	-2.1	3.5	2.6	3.1
Current EBIT	-2.3	-3.7	-4.1	-3.3	-2.4	-2.4
Published EBIT	-0.6	-3.2	-6.3	0.2	0.3	0.7
Net financial income	-0.6	-3.2	-6.3	0.2	0.3	0.7
Corporate Tax	0.1	0.0	0.0	-0.1	-0.3	-0.3
Net income of equity-accounted companies	-0.1	-0.1	-0.4	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-0.6	-3.3	-6.6	0.0	0.0	0.4
Adjusted attributable net profit	-0.6	-3.3	-6.6	0.0	0.0	0.4
BALANCE SHEET (EURm)						
Goodwill	12/12	12/13	12/14	12/15	12/16e	12/17e
Other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible fixed assets	12	11	9.5	8.7	8.5	8.4
WCR	1.4	1.0	0.6	0.4	0.3	0.3
Financial assets	5.6	10	5.8	3.8	5.1	5.7
Ordinary shareholders equity	0.9	0.9	1.0	1.3	1.3	1.3
Minority interests	28	24	18	19	19	19
Shareholders equity	0.0	0.0	0.0	0.0	0.0	0.0
Non-current provisions	28	24	18	19	19	19
Net debt	0.9	0.5	0.0	0.4	0.4	0.4
	-9.0	-1.4	-0.7	-5.4	-4.3	-4.2
CASH FLOW STATEMENT (EURm)						
EBITDA	12/12	12/13	12/14	12/15	12/16e	12/17e
Change in WCR	1.8	0.5	-2.1	3.5	2.6	3.1
Interests & taxes	0.7	-3.7	2.7	1.8	-0.9	-0.1
Others	0.1	-0.4	-0.2	-0.2	0.0	0.0
Operating Cash flow	-0.5	-0.5	0.0	-0.1	-0.3	-0.3
CAPEX	2.0	-4.1	0.4	5.0	1.4	2.7
Free cash-flow	-0.9	-0.4	-0.3	-0.1	-0.1	-0.1
Acquisitions / disposals	1.1	-4.5	0.1	4.8	1.3	2.5
Dividends	0.0	0.1	-0.4	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	1.6	0.0	0.0
Change in net debt	-0.1	0.0	0.0	5.9	-2.2	-1.0
	-2.6	-6.9	-3.0	10.1	-2.9	-0.6
GROWTH MARGINS PRODUCTIVITY						
Sales growth	12/12	12/13	12/14	12/15	12/16e	12/17e
Lfi sales growth	-	3.5%	-13.8%	-7.5%	-11.0%	8.0%
Current EBIT growth	-	-	-	-	-	-
Growth in EPS(%)	-	ns	ns	ns	ns	ns
Net margin	-	ns	ns	ns	ns	ns
EBITDA margin	-1.1%	-6.2%	-14.4%	0.0%	0.0%	1.0%
Current EBIT margin	3.4%	0.9%	-4.6%	8.1%	6.9%	7.5%
CAPEX / Sales	-1.1%	-6.0%	-13.6%	0.4%	0.7%	1.7%
WCR / Sales	-1.7%	-0.7%	-0.6%	-0.3%	-0.3%	-0.3%
Tax Rate	10.8%	19.1%	12.6%	8.8%	13.3%	13.9%
Normative tax rate	-13.5%	-3.7%	-5.9%	73.7%	ns	2.3%
Asset Turnover	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
ROCE post-tax (normative tax rate)	-	2.6	2.4	3.0	2.9	2.9
ROCE post-tax hors GW (normative tax rate)	-	-11.2%	-23.3%	0.8%	1.4%	3.5%
ROE	-	-11.2%	-23.3%	0.8%	1.4%	3.5%
	-	-12.8%	-31.8%	0.0%	-0.1%	2.2%
DEBT RATIOS						
Gearing	12/12	12/13	12/14	12/15	12/16e	12/17e
Net Debt / Market Cap	-33%	-6%	-4%	-28%	-23%	-22%
Net debt / EBITDA	-0.13	-0.03	-0.02	-0.15	-0.09	-0.09
EBITDA / net financial charges	ns	ns	0.33	ns	ns	ns
	-20.9	-23.2	354.8	23.2	9.6	11.3

Mention of conflicts of interest

• Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
16.11.15	Neutre	1.70	1.43	Henning Steinbrink

Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(412)	52%	37%	11%
Liquidity providers coverage	(136)	63%	31%	6%
Research service coverage	(64)	67%	30%	3%
Investment banking services	(23)	65%	30%	4%

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