

Recommendation:
BUY (BUY)

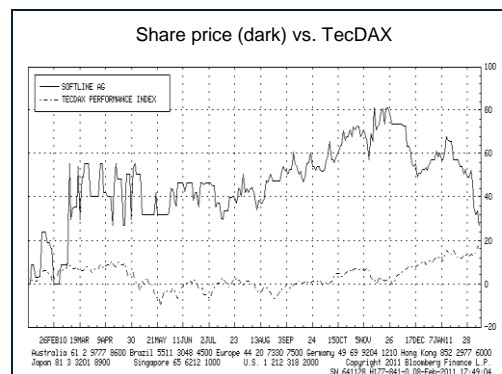
Risk:
HIGH (HIGH)

Price Target:
EUR 3.75 (4.00)

08 February 2011

Delayed acquisitions and jittery investors

- Since our last update in October 2010, Softline AG has advanced with the implementation of its announced international growth strategy. Besides the subsidiary in Utrecht, Netherlands established in October 2010, the company founded a second site (Softline Solutions N.V.) in Zaventem, Belgium. Additionally, Softline announced the 100% takeover of Stover AS, an Oslo-based provider of information technology consulting services, and the French IT specialist STR (Software Technology Services) for an undisclosed price and in a move to expand its European presence.
- According to the management, both acquired companies are profitable and therefore are expected to contribute positive amounts to Softline's operating income. Softline has now presence in Germany, France, Norway, Belgium and Netherlands. The acquired companies complement Softline's service portfolio (especially with IT-security services) and alleviate tapping new markets, talent pools, and build up robust pipeline to fuel its company's future growth.
- The acquisitions were financed with cash raised through the capital increase accomplished in October 2010. At that time, the corporate action contributed gross cash inflow of approximately EUR 12.3m. We guess that Softline paid not more than EUR 2.4m for each company (EUR 12m raised through the capital increase divided by the number of planned acquisition targets (5) announced before the capital increase). Although the company did not revealed financials related to the transactions, we are confident that the experienced management team paid a suitable price for the acquired companies.
- The implementation of the announced inorganic growth strategy occurs slower than expected. Whereas initially, Softline's management communicated the realization of four acquisitions in 2010, only two transactions were accomplished. This hints to a slower than assumed implementation of Softline's inorganic growth strategy. Consequently, we reduce our weighting of the valuation model reflecting the inorganic growth scenario from 50% to 25%, but leave all other assumptions unchanged. We continue to rate the stock with BUY but reduce our price target to EUR 3.75 per share.



Source: CBS Research AG, Bloomberg

Change	2010E		2011E		2012E	
	new	old	new	old	new	old
Sales	-	10.4	-	15.7	-	21.1
EBIT	-	-2.4	-	1.0	-	1.9
EPS	-	-0.27	-	0.12	-	0.21

www.softline.de

WKN: A1CSBR

Reuters: SFDGk.DE

Sector: Software

ISIN: DE000A1CSBR6

Bloomberg: SFD1 GY

Short company profile

Softline is a German manufacturer-independent ICT solution provider. Softline services small and midsized companies as well as large customers and IT service providers.

Share data:

Share price (last closing price, EUR):	2.55
Shares outstanding (m):	8.60
Market capitalisation (EURm):	21.93
Enterprise value (EURm):	14.23
Ø daily trading volume (3 m., no. of shares):	19,113

Performance data:

High 52 weeks (EUR):	3.50
Low 52 weeks (EUR):	1.90
Absolute performance (12 months)	26.60
Relative performance: (vs. TecDAX)	
1 month	-23%
3 months	-32%
6 months	-25%
12 months	8%

Shareholders:

SKMB	25.1%
Dr. Knut Lösche	13.5%
Donner-Reuschel Bank	5.8%
S-Beteiligungen Leipzig	5.0%
Checkmark	5.1%
Christoph Michel	2.4%
Free float	43.1%

Financial calendar:

Fiscal Year End	31 December 2010
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Key data

Y/E 31.12., EUR m	2008	2009	2010E	2011E	2012E
Sales	19.4	1.6	10.4	15.7	21.1
Gross profit	2.8	0.2	4.8	10.7	14.4
EBITDA	-2.2	-0.7	-2.2	1.3	2.2
EBIT	-1.4	-0.7	-2.4	1.0	1.9
Net income	-1.6	-0.7	-2.4	1.0	1.8
EPS	-0.15	-0.70	-0.27	0.12	0.21
CPS	n.a.	-0.67	-0.46	0.02	0.10
Gross profit margin	14%	15%	46%	68%	68%
EBIT margin	-7.0%	-45.3%	-22.6%	6.7%	8.8%
P/E	n.m.	n.m.	n.m.	24.4	14.4

Source: Softline AG, CBS Research AG

Appendix

Softline AG

Profit and loss account

	EURm	2008*	2009**	2010E	2011E	2012E
Sales		19.43	1.60	10.44	15.69	21.10
YoY growth		-26.4%	-91.8%	552.5%	50.2%	34.5%
Cost of raw materials & purchased services		-16.66	-1.36	-5.64	-5.03	-6.75
as % of Total sales		-85.8%	-85.0%	-54.0%	-32.0%	-32.0%
Gross profit		2.77	0.24	4.80	10.66	14.35
as % of Total sales		14.2%	15.0%	46.0%	68.0%	68.0%
Personnel expenses		-3.31	-0.47	-4.95	-6.68	-8.70
as % of Total sales		17.1%	29.3%	47.4%	42.6%	41.3%
Other operating expenses		-1.61	-0.49	-2.08	-2.73	-3.48
as % of Total sales		-8.3%	-30.5%	-20.0%	-17.4%	-16.5%
Sum SG&A expenses		-4.92	-0.96	-7.04	-9.41	-12.18
as % of Total sales		-25.3%	-59.8%	-67.4%	-60.0%	-57.7%
EBITDA		-1.17	-0.72	-2.24	1.25	2.17
as % of Total sales		-11.1%	-44.8%	-21.4%	8.0%	10.3%
Depreciation		-0.19	-0.01	-0.12	-0.21	-0.31
as % of Total sales		-1.0%	-0.4%	-1.2%	-1.3%	-1.5%
EBIT		-1.36	-0.72	-2.36	1.05	1.85
as % of Total sales		-7.0%	-45.3%	-22.6%	6.7%	8.8%
Financial income		0.00	0.00	0.00	0.00	0.00
Financial expenses		0.00	0.00	0.00	0.00	0.00
Financial result		0.00	0.00	0.00	0.00	0.00
as % of Total sales		0.0%	0.0%	0.0%	0.0%	0.0%
Income taxes		0.02	0.00	0.00	0.00	-0.09
as % of EBT		-1.6%	0.0%	0.0%	0.0%	-4.6%
EAT (Earnings after tax)		-1.33	-0.71	-2.36	1.05	1.77
as % of Total sales		-8.0%	-44.5%	-22.6%	6.7%	8.4%
Shares outstanding (in m)		10.14	1.01	8.60	8.60	8.60
Earnings per share (EUR)		-0.13	-0.70	-0.27	0.12	0.21

Source: CBS Research AG; Softline AG

* The financial statement was prepared in conformity with IFRS.

** Abbreviated fiscal year; the financial statement was prepared in conformity with the Germany commercial code (HGB)

Softline AG

Balance sheet

EURm	2008*	2009**	2010E	2011E	2012E
Assets					
Noncurrent assets	0.94	0.17	2.57	2.63	2.64
as % of total assets	53.5%	22.0%	14.8%	14.3%	13.0%
Intangible Assets	0.01	0.01	0.14	0.14	0.14
Property, plant and equipment	0.03	0.02	0.43	0.49	0.50
Financial Assets	0.90	0.15	2.00	2.00	2.00
Current assets	0.80	0.60	14.73	15.81	17.74
as % of total assets	45.8%	76.3%	85.2%	85.7%	87.0%
Trade receivables	0.49	0.46	2.16	3.25	4.50
Inventories	0.00	0.01	0.00	0.00	0.00
Cash and cash equivalents	0.32	0.14	12.57	12.56	13.24
Prepaid expenses	0.01	0.01	0.00	0.00	0.00
as % of total assets	0.7%	1.7%	0.0%	0.0%	0.0%
Total assets	1.76	0.78	17.30	18.44	20.38
Shareholders' equity and liabilities					
Shareholders' equity	0.74	0.03	14.53	15.58	17.35
as % of total equity and liabilities	42.2%	3.9%	84.0%	84.5%	85.1%
Subscribed capital	10.14	1.01	8.60	8.60	8.60
Capital reserve	0.00	0.00	11.28	11.28	11.28
Accumulated loss	-9.40	-0.98	-5.34	-4.30	-2.53
Noncurrent Liabilities	0.00	0.00	2.00	2.00	2.00
as % of total equity and liabilities	0.0%	0.0%	11.6%	10.8%	9.8%
Shareholder debt	0.00	0.00	2.00	2.00	2.00
Current Liabilities	0.65	0.43	0.44	0.54	0.71
as % of total equity and liabilities	37.0%	55.0%	2.5%	2.9%	3.5%
Liabilities to banks	0.00	0.00	0.00	0.00	0.00
Trade payables	0.65	0.43	0.44	0.54	0.71
Tax liabilities	0.00	0.00	0.00	0.00	0.00
Other short-term liabilities	0.00	0.00	0.00	0.00	0.00
Accrued liabilities	0.36	0.32	0.32	0.32	0.32
as % of total equity and liabilities	20.8%	41.1%	1.9%	1.7%	1.6%
Total equity and liabilities	1.76	0.78	17.30	18.44	20.38

Source: CBS Research AG; Softline AG

* The financial statement was prepared in conformity with IFRS.

** Abbreviated fiscal year; the financial statement was prepared in conformity with the Germany commercial code (HGB)

Softline AG

Cash flow statement

EURm	2008*	2009**	2010E	2011E	2012E
Net income	n.a.	-0.71	-2.36	1.05	1.77
Depreciation and amortization	n.a.	0.01	0.12	0.21	0.31
Change in prepaid expenses	n.a.	0.00	0.01	0.00	0.00
Increase/decrease in Inventories	n.a.	-0.01	0.01	0.00	0.00
Increase/decrease in trade receivables	n.a.	0.03	-1.70	-1.09	-1.25
Cash flow from operating activities	n.a.	-0.68	-3.92	0.16	0.83
Cash outflow for investments in intangible assets	n.a.	0.00	-0.25	-0.21	-0.31
Cash outflow for investments in tangible assets	n.a.	0.01	-0.42	-0.06	-0.01
Cash outflow based on financial assets	n.a.	0.75	-1.85	0.00	0.00
Cash flow from investing activities	n.a.	0.76	-2.52	-0.27	-0.32
Change in short term liabilities	n.a.	-0.22	0.01	0.10	0.17
Change in accrued liabilities	n.a.	-0.04	0.00	0.00	0.00
Cash flow from capital increase	n.a.	0.00	18.86	0.00	0.00
Cash flow from financing activities	n.a.	-0.26	18.87	0.10	0.17
Total change in cash and cash equivalents	n.a.	-0.18	12.44	-0.01	0.68
Cash and cash equivalents at the start of the period	n.a.	0.32	0.14	12.57	12.56
Cash and cash equivalents at the end of the period	n.a.	0.14	12.57	12.56	13.24

Source: CBS Research AG; Softline AG

* The financial statement was prepared in conformity with IFRS.

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price Target
14.10.2010	BUY	2.97	4.00
19.08.2010	BUY	2.85	4.00
08.02.2011	BUY	2.55	3.75

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