

Recommendation:

BUY (BUY)

Risk:

HIGH (HIGH)

Price Target:

EUR 2.30 (3.00)

17 April 2012

Softline expected to break even in FY 2012

- Since our last update on Softline AG, the Group has made substantial progress on its way to becoming a provider of complete solutions. Last December, **Softline acquired 100% of the shares in the Belgian Company ASIST** with retroactive effect as of 1 January 2011. ASIST supports clients in the areas of Application Development, Application Lifecycle Management and Enterprise Modernisation within the IBM environment. ASIST customer base comprises leading organisations and financial institutions, e.g. KBC, International Commercial Bank of China (ICBC) and Cornèr Banca Switzerland. Through the acquisition of ASIST, with sites in Belgium, Luxembourg and Switzerland, Softline AG expands its European footprint. At the same time, ASIST clients benefit from cooperation with Softline Systems & Services GmbH and other Softline subsidiaries. In the future, the entire Group will be able to offer more complete solutions including application areas beyond infrastructures.
- Only eight months after its foundation, **Softline Systems & Services GmbH achieved the top partner status ('IBM Premier Business Partner')** with IBM. This was due to a high level of specialist expertise and customer satisfaction. According to Softline's 1H 2011 report, the newly established company has quickly acquired major customers and was supposed to be **profitable already in 2011**. The foundation of the new company was another step towards the offering of complete Cloud Computing solutions for the Group's customers.
- The Group as a whole operated profitably by the time of October 2011, but will still post a loss in FY 2011E.** In view of an **order backlog of EUR 9m** in December, the Management however expects that the Group will be able to keep up profitability in 2012. Softline's CFO, Christoph Harvey, said in an interview last January that he expects sales of more than EUR 45m and a profit of more than EUR 1m in FY 2012. We adjusted our financial estimates for Softline AG. The increase in our sales estimates is mainly due to the takeover of ASIST. Regarding our margin estimates, we now adopted a more cautious stance. We also included 700.000 new Softline shares issued for the ASIST acquisition in the number of shares outstanding. As a result, our EPS estimates show a decrease. A valuation update resulted in a **new price target of EUR 2.30** (previously: EUR 3.00). We maintain our **BUY** recommendation.



Source: CBS Research AG, Bloomberg, Softline AG

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	33.0	29.4	46.4	38.1	54.5	46.7
EBITDA	-2.8	0.8	0.9	2.3	2.4	3.9
EPS	-0.25	0.07	0.03	0.21	0.14	0.38

Internet: centrotherm.de

Sector: Renewable Energy

WKN: A1CSBR

ISIN: DE000A1CSBR6

Reuters: SFDG.DE

Bloomberg: SFD1 GY

Short company profile:

Softline AG, based in Leipzig, operates subsidiaries in Germany, the Netherlands, Belgium, Norway, and France. While one subsidiary offers services to other IT companies (provider of service providers), the other Group companies directly provide IT consulting, support and services to the end customer. Since a strategic reorientation in 2009, Softline's business model places special emphasis on future trends in the IT industry and is currently particularly driven by Cloud Computing.

Share data:

Share price (EUR, last closing price):	1.15
Shares outstanding (m):*	9.3
Market capitalisation (EUR m):*	10.7
Enterprise value (EUR m):*	7.0
Ø daily trading volume (3 m., no. of shares):	2,220

*incl. new shares from capital increase announced in Dec 2011

Performance data:

High 52 weeks (EUR):	2.10
Low 52 weeks (EUR):	1.01
Absolute performance (12 months):	-42.1%
Relative performance vs. CDAX:	
1 month	-1.5%
3 months	-31.1%
6 months	-29.9%
12 months	-37.6%

Shareholders:

SKMB	37.5%
Dr. Knut Löschke	10.5%
Pensionskasse BW	4.6%
SLAG Management	4.6%
DZ Bank	3.0%
Checkmark	3.5%

Financial calendar:

Annual General Meeting: August 2012

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Y/E Dec 31, EUR m	2009	2010*	2011E	2012E	2013E	2014E
Sales	7.8	13.1	33.0	46.4	54.5	60.0
EBITDA	n/a	-5.1	-2.8	0.9	2.4	3.0
EBIT	-1.4	-5.2	-3.0	0.6	2.0	2.5
Net result	0.0	-5.3	-2.2	0.3	1.3	1.7
Basic EPS	n/a	-1.11	-0.25	0.03	0.14	0.18
DPS	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA margin	n/a	-39.0%	-8.4%	2.0%	4.4%	5.0%
EBIT margin	-17.9%	-39.9%	-8.9%	1.2%	3.7%	4.2%
EV/EBIT	neg.	neg.	neg.	12.0	3.5	2.8
P/E	n/a	neg.	neg.	33.0	8.2	6.4

*2010: Sales and net income are based on unaudited figures; EBIT and EBITDA are estimates by CBS Research AG.

Source: Softline AG, CBS Research AG

Softline Systems & Services successfully established

On 1 May 2011, the new subsidiary Softline Systems & Services GmbH commenced its business activities in Weiterstadt near Frankfurt. The company provides services and complete solutions in the fields of **data management, storage and complex server environments** for data centers with partners such as IBM or Hitachi Data Systems. The directors of the new company, Stefan Schneider and Thomas Riedl, have both successfully operated in the IT industry for a long time. Softline aims for synergies and a higher utilisation within the Group resulting from a combination of this additional service with the established service portfolio of Softline Solutions in the fields of virtualisation, network and server monitoring. The foundation of the new company was another step towards the offering of complete Cloud Computing solutions for the Group's customers.

According to Softline's 1H report, the new company has quickly acquired major customers and was supposed to be **profitable already in 2011**. Only eight months after its foundation, Softline Systems & Services **achieved the top partner status ('IBM Premier Business Partner') with IBM**. This was due to a high level of specialist expertise and customer satisfaction. As IBM Premier Business Partner, the company will receive even more extensive support from IBM in the joint development of innovative solutions. Softline also gained access to IBM's 'Smarter Planet' initiative which addresses the potential of smarter systems such as solutions to traffic congestion problems, smart grids, water management systems, or greener buildings. This initiative might offer interesting business opportunities in the long run.

Half-year figures – still excluding ASIST

The takeover of ASIST (see section below) was announced on 28 December 2011, but the company will be retroactively consolidated as of 1 January 2011. Softline's group figures for 1H 2011, as reported on 8 December, still did not include the financial statements of ASIST. Besides sales of almost EUR 10m and **EBIT of EUR -3m**, Softline reported personnel expenses to the tune of EUR 5.46m, cost of materials in the amount of EUR 5.15m, and other operating expenses (incl. depreciation) of EUR 1.76m.

1H figures (excluding ASIST)

German GAAP (HGB)	EURm	1H 2011	1H 2010
Total sales (rounded)		10	n/a
Gross profit*		4.8	n/a
as % of total sales		48%	n/a
EBIT (rounded)		-3	n/a
as % of total sales		-30%	n/a
Net financial debt (net liquid funds)		-5.7	n/a

Source: Softline AG, CBS Research AG (*gross profit: sales minus material costs)

Even though the Management of Softline had anticipated a loss in 1H 2011, its amount was higher than the budget. This was mainly due to the start-up of Softline Systems & Services GmbH and continuing losses of Softline Solutions GmbH. In the context of a portfolio review at the end of 1H 2011, Softline's

Data management and storage solutions

IBM Premier Business Partner after only eight months

Operating loss reported in 1H 2011

Portfolio streamlining and rightsizing in 2011

Management decided to **streamline the Group's services portfolio** and implement some **rightsizing and cost optimisation measures** in certain companies, in particular in Softline Solutions GmbH. The number of permanent employees was reduced from 190 as of 30 June 2011 to less than 160 in 3Q 2011 (before the acquisition of ASIST).

Acquisition of ASIST

At the end of December 2011, Softline announced another step in the implementation of the Group's Buy & Build strategy. **With retroactive effect as of 1 January 2011, Softline acquired 100% of the shares in the Belgian Company ASIST.** This company, founded in 1995, supports clients in the areas of Application Development, Application Lifecycle Management and Enterprise Modernisation within the IBM environment. ASIST customer base comprises leading organisations and financial institutions, e.g. KBC, International Commercial Bank of China (ICBC) and Cornèr Banca Switzerland. ASIST offers a full service portfolio, beginning with the provision of application developers, consulting, migration, adjustment and modernisation to training and project management. The most important fields of application are IBM Rational, WebSphere and the DB2 environment. As an **IBM Premier Business Partner**, ASIST has privileged access to IBM software labs worldwide.

Through the acquisition of ASIST, with **sites in Belgium, Luxembourg and Switzerland**, Softline AG is able to expand its market position within Europe. At the same time, ASIST clients benefit from cooperation with Softline Systems & Services GmbH and other Softline subsidiaries. In the future, the entire Softline Group will be able to offer more complete solutions, which include application areas beyond infrastructures.

Financial forecasts

Softline's 1H report (issued on 8 December 2011) included the following guidance: For FY 2011, the Management expected **sales of more than EUR 30m**. Due to the start-up losses of the new companies in the Netherlands, Belgium, and Germany, the Management still anticipated a **loss for the full year 2011**.

Softline also announced that the Group operated profitably by the time of October 2011. In view of an order backlog of EUR 9m at the beginning of December, the Management **expects that the Group will be able to keep up profitability in 2012**. Softline's CFO, Christoph Harvey, said in an interview last January that he expects **sales of more than EUR 45m** and a **profit of more than EUR 1m in FY 2012**. The ongoing introduction of an ERP system (SAP) in 2012 should contribute to cost efficiency improvements in the future.

Part of the price for the acquisition of ASIST was paid in 700,000 new Softline shares from a **capital increase in kind** by usage of the authorised capital. Softline's share capital is therefore about to increase from 8.6m shares to 9.3m shares (entry in the commercial register is expected to take place in the next few days).

Retroactive consolidation as of 1/1/11

Expanded international footprint

Guidance for FY 2011: Sales of >EUR 30m, loss expected

FY 2012: CFO forecasts sales of >EUR 45m and earnings figures in the black

Capital increased by 700,000 new shares

We changed our sales and earnings estimates for 2011E-2013E as shown in the table below. The increase in our sales estimates is mainly due to the takeover of ASIST. **We assume an EBIT loss of EUR 3m in FY 2011 but do not rule out the possibility that this might turn out to be too pessimistic.** Regarding our margin estimates for 2012E and the following years, we now adopted a more cautious stance.

Changes in sales and earnings estimates of CBS Research

EURm (except for EPS)	2011E		2012E		2013E		2014E	
	new	old	new	old	new	old	new	old
Sales	33.0	29.4	46.4	38.1	54.5	46.7	60.0	-
EBITDA	-2.8	0.8	0.9	2.3	2.4	3.9	3.0	-
EBIT	-3.0	0.6	0.6	1.9	2.0	3.6	2.5	-
Net result after minorities	-2.2	0.6	0.3	1.8	1.3	3.3	1.7	-
EPS (EUR)	-0.25	0.07	0.03	0.21	0.14	0.38	0.18	-

Source: CBS Research AG

Valuation and recommendation

Due to the **relatively early stage of the company development** (after the strategic reorientation in 2009) and the very strong expected earnings growth in 2012E and 2013E, the use of a **peer group comparison** (multiple-based valuation) is **not entirely appropriate** in the case of Softline AG. We therefore apply only a 25% weighting to the multiple-based valuation while we place the emphasis on our Discounted Cash Flow (DCF) model (see Appendix). This weighting results in a **fair value per share of EUR 2.35**. We set our **price target at EUR 2.30** (previously: EUR 3.00) and maintain our **BUY** recommendation for the share.

Price target: EUR 2.30

BUY

Valuation summary

	Weighting factor	Fair value per share (EUR)
DCF valuation	75.0%	2.60
Peer group valuation	25.0%	1.61
Fair value per share (EUR)		2.35

Source: CBS Research AG

Appendix

Profit and loss account

German GAAP (HGB)	SFY 2009 ¹⁾ only Softline AG	2009 calendar year ²⁾	2010 uncon- solidated	2009(E) Group pro forma ³⁾	2010(E) Group pro forma ⁴⁾	2011E Group	2012E Group	2013E Group	2014E Group
Sales	n/a	n/a	0.32	7.80	13.12	33.00	46.42	54.54	59.99
Other operating income	n/a	n/a	0.43	n/a	0.59	0.26	0.28	0.30	0.30
Total revenues	0.45	1.60	0.76	n/a	13.71	33.26	46.70	54.84	60.29
Cost of materials	n/a	n/a	-0.31	n/a	-6.79	-18.03	-27.54	-33.68	-36.43
as % of total revenues	n/a	n/a	-41.1%	n/a	-49.5%	-54.2%	-59.0%	-61.4%	-60.4%
Gross profit	0.24	n/a	0.45	n/a	6.92	15.23	19.16	21.16	23.86
as % of total revenues	n/a	n/a	58.9%	n/a	50.5%	45.8%	41.0%	38.6%	39.6%
Personnel expenses	-0.47	n/a	-0.62	-2.10	-6.80	-13.54	-14.19	-14.60	-16.34
as % of total revenues	n/a	n/a	-82.4%	n/a	-49.6%	-40.7%	-30.4%	-26.6%	-27.1%
Other operating expenses	-0.49	n/a	-2.03	-1.60	-5.23	-4.46	-4.04	-4.16	-4.51
as % of total revenues	n/a	n/a	-267.5%	n/a	-38.2%	-13.4%	-8.7%	-7.6%	-7.5%
EBITDA	-0.72	n/a	-2.2	n/a	-5.1	-2.8	0.9	2.4	3.0
as % of total revenues	n/a	n/a	-291.0%	n/a	-37.3%	-8.3%	2.0%	4.4%	5.0%
Depreciation and amortisation	-0.01	n/a	-0.08	n/a	-0.12	-0.19	-0.35	-0.41	-0.51
as % of total revenues	n/a	n/a	-10.0%	n/a	-0.9%	-0.6%	-0.7%	-0.8%	-0.8%
EBIT	-0.72	n/a	-2.28	-1.40	-5.23	-2.95	0.58	1.99	2.50
as % of total revenues	n/a	n/a	-301.0%	n/a	-38.1%	-8.9%	1.2%	3.6%	4.1%
Net financial result	0.01	n/a	0.11	n/a	-0.06	-0.13	-0.13	-0.13	-0.13
EBT	-0.71	n/a	-2.16	n/a	-5.29	-3.08	0.45	1.87	2.37
as % of total revenues	n/a	n/a	-285.9%	n/a	-38.6%	-9.3%	1.0%	3.4%	3.9%
Taxes on income	0.00	n/a	0.00	n/a	0.01	0.92	-0.14	-0.56	-0.71
as % of EBT	0.0%	n/a	0.0%	n/a	-0.3%	-30.0%	-30.0%	-30.0%	-30.0%
Net income attr. to shareholders	-0.71	-1.80	-2.16	-1.60	-5.28	-2.15	0.32	1.31	1.66
Weighted average shares outstanding (m)				n/a	4.7	8.6	9.1	9.3	9.3
Basic earnings per share (EUR)				n/a	-1.11	-0.25	0.03	0.14	0.18

1) Short fiscal year 1 July - 31 December 2009

2) Calendar year 2009 (pro forma), only Softline AG (actual consolidation scope in 2009)

3) Unaudited pro forma figures voluntarily provided by Softline AG

4) Sales and net income figures voluntarily provided by Softline AG (based on unaudited figures). All other items are estimates by CBS Research AG.

Source: CBS Research AG, Softline AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	∞
Sales revenues	46.4	54.5	60.0	64.5	67.7	71.1	74.7	78.4	82.3	84.0	
Y-o-Y growth	40.7%	17.5%	10.0%	7.5%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	
EBIT	0.6	2.0	2.5	3.5	4.1	4.6	4.9	5.1	5.3	5.5	
EBIT margin as % of sales	1.2%	3.7%	4.2%	5.5%	6.0%	6.4%	6.5%	6.5%	6.5%	6.5%	
Income tax on EBIT (cash tax rate)	0.7	-0.8	-0.6	-1.1	-1.2	-1.4	-1.5	-1.5	-1.6	-1.6	
Depreciation and amortisation	0.3	0.4	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.6	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-1.7	-1.2	-0.9	-0.7	-0.5	-0.5	-0.6	-0.6	-0.6	-0.3	
Net capital expenditure	-0.8	-0.5	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	
Free cash flow	-0.9	-0.1	1.0	1.7	2.4	2.6	2.8	3.0	3.1	3.6	
Present values	-0.8	-0.1	0.8	1.1	1.4	1.3	1.3	1.2	1.1	1.1	12.0
Present value Phase 1	-0.1										
Present value Phase 2	8.5										
Present value Phase 3	12.0										
Total present value	20.4										
+ Liquid funds net of financial debt	5.7										
- Financial debt and minority interests	-2.0										
Fair value of equity	24.2										
Number of shares outstanding (m)	9.3										
Fair value per share (EUR)	2.60										

Risk free rate	3.50%	Target equity ratio	85.0%
Equity risk premium	6.00%	Beta (fundamental)	1.60
Debt risk premium	1.70%	WACC	11.68%
Tax shield (Phase 3)	30.0%	Terminal growth	2.00%

Sensitivity analysis						
Terminal growth (Phase 3)						
	1.0%	1.5%	2.0%	2.5%	3.0%	
10.68%	2.78	2.87	2.96	3.06	3.18	
11.18%	2.61	2.69	2.77	2.86	2.96	
WACC 11.68%	2.47	2.53	2.60	2.68	2.76	
12.18%	2.33	2.38	2.45	2.51	2.59	
12.68%	2.21	2.26	2.31	2.37	2.43	

Source: CBS Research AG

Multiple-based valuation

Company name	P / E		EV / EBIT		EV / EBITDA	
	2013E	2014E	2013E	2014E	2013E	2014E
Softline AG (based on estimates by CBSR)	8.2	6.4	3.5	2.8	2.9	2.3
International group of IT service/consulting companies (market cap below EUR 1bn):						
ADESSO AG	7.4	5.9	4.0	3.2	3.3	2.8
ALLGEIER HOLDING AG	7.7	6.3	5.8	4.7	3.8	3.4
ASSYSTEM	9.0	7.7	5.0	4.7	4.1	3.9
BOUVET ASA	9.5	8.7	6.1	5.6	5.6	5.1
CENIT AG	10.6	n.a.	3.8	n.a.	3.0	n.a.
CONNECTA AB	8.9	8.0	6.3	5.6	6.1	5.4
COR&FJA AG	11.8	7.9	10.6	6.9	6.3	4.5
CYBERCOM GROUP AB	6.7	5.8	6.7	6.2	4.9	4.6
DATAGROUP AG	7.2	n.a.	5.8	n.a.	4.7	n.a.
DEVOTEAM SA	8.6	7.7	4.3	3.8	4.1	3.5
ECONOCOM GROUP	8.2	6.6	7.4	6.9	6.5	5.9
EDB ERGOGROUP ASA	6.2	6.8	7.1	7.4	4.5	4.5
GFI INFORMATIQUE	7.2	7.2	7.0	6.7	5.8	5.4
GFT TECHNOLOGIES AG	7.8	7.4	4.6	4.8	4.1	n.a.
GROUPE STERIA SCA	6.0	5.3	4.5	4.3	3.6	3.4
HIQ INTERNATIONAL AB	11.3	10.0	7.6	6.7	7.2	6.4
ITELLIGENCE AG	11.5	n.a.	n.a.	n.a.	n.a.	n.a.
KNOW IT AB	7.7	7.2	6.0	5.7	5.1	4.8
ORDINA NV	9.2	3.9	12.9	4.6	4.9	2.9
OSIATIS	6.7	n.a.	4.1	n.a.	3.6	n.a.
PHOENIX IT GROUP LTD	6.3	5.8	6.9	6.5	4.1	3.9
PROACT IT GROUP AB	8.4	6.7	7.3	5.8	5.0	4.2
REALTECH AG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SEVEN PRINCIPLES AG	6.5	n.a.	3.6	n.a.	2.9	n.a.
SNP SCHNEIDER-NEUREITHER & P	10.4	n.a.	6.6	6.2	5.9	5.4
SOLUCOM	14.3	12.5	7.2	6.3	6.3	5.6
SOPRA GROUP	8.5	7.0	6.5	5.7	5.6	4.9
TIETO OYJ	9.4	8.5	7.2	6.7	4.5	4.2
Average	8.6	7.3	6.3	5.7	4.8	4.5
Median Weight: 100%	8.4	7.2	6.4	5.8	4.8	4.5
Minimum	6.0	3.9	3.6	3.2	2.9	2.8
Maximum	14.3	12.5	12.9	7.4	7.2	6.4

EURm, except EPS (EUR)	EPS		EBIT		EBITDA	
	2013E	2014E	2013E	2014E	2013E	2014E
Softline AG (estimates by CBSR)	0.14	0.18	2.0	2.5	2.4	3.0
Applied multiples (peer group median)	8.4	7.2	6.4	5.8	4.8	4.5
Fair Enterprise Value	-	-	12.8	14.4	11.5	13.6
+ Liquid funds	5.7					
- Financial debt	-2.0					
Fair value of equity from each multiple	10.9	11.9	16.5	18.1	15.2	17.4
Average of derived fair values	15.0					
Premium (discount) vs. peer group companies	0%					
Fair value of equity	15.0					
Number of shares outstanding (m)	9.3					
Fair value per share (EUR)	1.61					

Source: CBS Research AG, Bloomberg

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