

Recommendation:
BUY (BUY)

Risk:
HIGH (HIGH)

Price Target:
EUR 1.30 (1.00)

06 November 2013

Preliminary 2012 figures confirmed

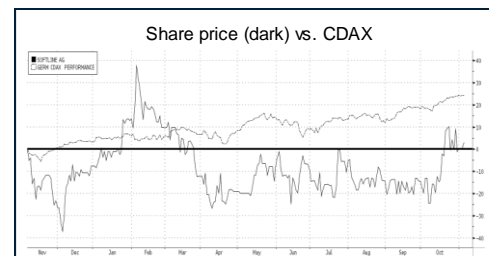
The course is set for strong profitability increases

- Softline issued its annual report for 2012, delivering complete consolidated financial statements for the first time. We appreciate this **increase in transparency** very much. The Group's **preliminary FY2012 figures**, as issued on 30 September 2013, **were confirmed**. Accordingly, sales reached EUR 34.2m (FY2011: about EUR 30m). EBIT accounted for EUR -2.7m (FY2011: about EUR -7.7m), and net income for EUR -4.9m (FY2011: about EUR -7.7m). Besides positive one-off effects of about EUR 1.1m, the result was impacted by goodwill amortisation (EUR 1.3m) as well as write-downs of financial assets amounting to EUR 1.9m after **rescission of the ASIST purchase agreement**.
- After some failures with regard to international M&A activities (STOVER, ASIST), **Softline will now solely concentrate on its core competencies and organic growth**. Softline's CEO, Sokrates Koutounidis, plans to significantly **increase profitability** in the next few years by means of a further restructuring and integration of the single business units as well as the development of new markets. Softline growth strategy includes a stronger cooperation of the subsidiaries within business units. This will optimise the transnational organisation and help to leverage the resulting synergies between the companies, in particular when it comes to support international customers. Furthermore, Softline will further **expand and strengthen its sales and marketing expertise** and benefit from a **very healthy demand for its SAM solutions** in Germany and abroad.
- We completely revised our financial estimates for the group. According to our new estimates, Softline is supposed to **break even on EBITDA level in 2014E**. **Without the regular goodwill amortisations (EUR 1.3m) accounted for under German GAAP, our net income estimate for 2015 would be clearly positive**. In our financial model, **we simplistically assume that liquidity will be ensured by existing and/or further shareholder loans**. Softline has recently taken several measures (see page 4 of this document) in order to finance its still negative cash flows. In order to cope with stronger growth again, as it is expected for 2015E, we assume that additional financing will be required.
- A DCF model yields a **PT of EUR 1.30** (previously: EUR 1.00). We issue a **BUY** recommendation addressing investors with some risk appetite.

Y/E Dec 31, EUR m	2011*	2012	2013E	2014E	2015E
Sales	30.0	34.2	30.8	33.8	41.3
EBITDA	-5.9	-1.2	-1.2	0.0	1.6
EBIT	-7.7	-2.7	-2.6	-1.4	0.2
EBIT before goodwill amort.	n/a	-1.4	-1.3	-0.2	1.5
Net result	-8.1	-4.9	-2.9	-1.9	-0.3
Basic EPS	-0.82	-0.52	-0.31	-0.19	-0.04
EBITDA margin	-19.7%	-3.5%	-3.9%	0.0%	3.8%
EBIT margin	-25.7%	-7.9%	-8.3%	-4.3%	0.4%
EV/EBITDA	neg.	neg.	neg.	n/m	6.6
EV/EBIT before goodwill amort.	n/a	neg.	neg.	neg.	7.1

Source: Softline AG, CBS Research AG

*2011: Unaudited, approximate figures



Source: CBS Research AG, Bloomberg, Softline AG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	30.8	45.0	33.8	49.5	41.3	-
EBITDA	-1.2	1.5	0.0	2.0	1.6	-
EPS	-0.31	0.06	-0.19	0.09	-0.04	-

Internet: softline-group.com Sector: IT services
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, and France. While its subsidiary Prometheus 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 2010, Softline concentrates on the expansion of its IT consulting and IT services business.

Share data:

Share price (EUR, last closing price):	0.77
Shares outstanding (m):	9.8
Market capitalisation (EUR m):	7.5
Enterprise value (EUR m):	10.4
Ø daily trading volume (3 m., no. of shares):	6,338

Performance data:

High 52 weeks (EUR):	1.05
Low 52 weeks (EUR):	0.40
Absolute performance (12 months):	2.9%
Relative performance vs. CDAX:	
1 month	13.1%
3 months	13.1%
6 months	14.7%
12 months	-17.0%

Shareholders:

SKMB	33.8%
Dr. Knut Lösche	14.1%
LBBW	4.1%
S-Invest	3.7%
Management der Softline AG	2.7%
Free float	41.6%

Financial calendar:

1H report 2013:	November 2013
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New CEO took over last May

With effect from 1 May 2013, **Sokrates Koutounidis** was appointed as the new CEO of Softline AG. Mr Koutounidis previously was director at Fujitsu Technologies Solutions GmbH and responsible for the support of a globally operating German group. He has **extensive industry expertise** due to many years of service for national and international IT companies. His predecessor, Mr Bernd Wagner, left the company at his own request in order to pursue new challenges.

Sokrates Koutounidis is the new CEO of Softline AG

Annual report 2012 issued

On 28 October 2013, Softline issued its annual report for 2012. **Publication had recently been delayed** because a successor for the chairman of the supervisory board had to be found before the financial statements could be adopted. The previous chairman, Bernhard von Minckwitz, had to resign for health reasons. A few days ago, the **appointment of Prof. Dr. Knut Löschke** as the new chairman of the supervisory board was announced. He is the well-known founder of PC-Ware GmbH (now COMPAREX) and one of Softline's strategic shareholders as well as a former executive board member of Softline. The company then delivered complete **consolidated financial statements for the first time**. We appreciate this **increase in transparency** very much. In the past, Softline had only issued individual financial statements of the holding company supplemented by some unaudited key figures for the consolidated group.

Prof. Löschke is new chairman of the supervisory board

Consolidated financial statements enhance transparency

The Group's **preliminary FY2012 figures**, as issued on 30 September 2013, **were confirmed** by the annual report. Accordingly, sales reached EUR 34.2m (FY2011: about EUR 30m). EBIT accounted for EUR -2.7m (FY2011: about EUR -7.7m), and net income for EUR -4.9m (FY2011: about EUR -7.7m). The given figures for 2011 are only unaudited, approximate figures, as no consolidated financial statements for the group are available for 2011. Comparability with 2012 might therefore be very limited.

Preliminary FY2012 figures confirmed

Taking a closer look at **EBIT** in 2012, we have identified the following items which might call for analytical adjustments:

One-off income items included in EBIT

- Income of EUR 0.5m from the reversal of accruals relating to the rescission of the purchase contract for ASIST BVBA and ASIST SARL.
- Income of EUR 0.3m from the reversal of accruals relating to potential subsequent claims relating to the insolvency of the former subsidiary STOVER, Norway.
- Income of EUR 0.3m from the Saxony promotion of employment.
- Goodwill amortisation of EUR 1.3m: Due to the fact that Softline reports according to German GAAP (HGB), the goodwill from capital consolidation (EUR 6.4m opening balance in 2012) is written off over 5 years in the period from 2012 to 2016. In order to make a reasonable comparison with peer group companies reporting under IFRS, these amortisations should be eliminated for valuation purposes.

EUR 1.3m of goodwill amortisations

The **net income** of the group was additionally distorted by **write-downs of financial assets amounting to EUR 1.9m** (included in the financial result and thus below the EBIT level). These one-off write-downs were retroactively made for 2012 since it had become clear that the integration of **ASIST** was very problematic so that the **rescission of the purchase agreement** was agreed

Rescission of the ASIST purchase agreement

upon with effect as of July 2013. ASIS had been taken over by Softline at the end of 2011 with effect as of 1 January 2011. According to § 296 Abs. 1 HGB, the subsidiaries ASIST BVBA und ASIST SARL were not fully consolidated in Softline's financial statements 2012 but were interpreted as financial assets. As the carrying amount of these assets has been completely written off in 2012, **there will be no more impact from this transaction in 2013E**, according to the management.

Group strategy

Softline's strategy is based on its core competencies in the fields of

▪ Managed Services:

- Software Asset Management (SAM): Softline is a leading SAM expert. Since 2011, Softline offers the world's first SAM platform ('SAMmanaged') which is 100% cloud-based including integrated consulting services. SAMmanaged constitutes a clear USP for the group and is supposed to become a 'door-opener' for integrated offerings of products and services to the group's clients.
- EBC-Lync ('EBCmanaged'): In cooperation with Deutsche Telekom as hosting partner, Softline has started to offer Communications as a Service on basis of Microsoft Lync in 2013. As EBC is a white-label solution, we are still not sure regarding Softline's potential for differentiation from the competition in this field. Softline also still lacks a pilot customer for EBCmanaged. Nevertheless, we expect this market segment to grow and believe that Softline will be able to benefit from this development.

▪ Project services:

- Consulting
- Integration
- Operation

While Softline's Managed Services are supposed to become high-margin top sellers of the group, Project Services continue to be the basic business which is also very important for the acquisition of customers for Managed Services. Softline will concentrate even more on its positioning as a cross-product consulting partner which is independent of suppliers and able to comprehensively support clients in their projects. **Softline intends to establish common solutions in all its strategically important market segments which comprise SAM, Cloud Computing, Big Data, Mobility, and IT Security.**

By means of anonymisation of existing customised solutions, Softline plans to **develop its own product portfolio**. The **particularly high quality** of its products and services will serve as an element of differentiation from competitors. Softline also aims at an **acceleration of vertical processes** in order to reduce time to market.

After some failures with regard to international M&A activities (STOVER, ASIST), **Softline will now solely concentrate on its core competencies and organic growth**. By means of a further **restructuring and integration of the single business units** as well as the **development of new markets**, Softline plans to significantly increase profitability in the next few years. Softline growth strategy includes a **stronger cooperation of the subsidiaries** within business units. This will optimise the transnational organisation and help to leverage synergies between the companies, in particular when it comes to support international customers in transnational projects.

Core competencies

Product strategy

Concentration on organic growth and optimisation of internal structures and processes

Furthermore, Softline will further **expand and strengthen its sales and marketing expertise**. The above mentioned separation of ASIST was part of the **adjustment of the group's sales strategy in the Benelux region**. Due to the success in the area of software asset management (SAM), Softline has organised the distribution of the SAM portfolio through Softline Solutions NV (Belgien) since summer 2013, and no longer through ASIST. Softline also plans to intensively work the market in **France** in the SAM segment with its French subsidiary. In **Germany**, sales efforts will also be intensified. Several of Softline's key accounts are only served with one or a few of Softline's products and services and/or are only served at one of the client's group companies. The management expects **significant revenue potential from a broadening and deepening of the range of offerings to each client**.

Sales and marketing

Financing

In the past, the tight liquidity situation of the group has somewhat restricted the development of Softline. However, due to the strong commitment of the major shareholders (SKMB, Prof. Dr. Löscke), we have never had serious concerns about the solvency of the company. **Softline has recently taken the following measures** in order to finance its still negative cash flows:

Recent financing measures

- After a **factoring** agreement had been concluded for one of Softline's subsidiaries in 2012, another subsidiary entered into a factoring agreement in 2013.
- In April 2013, Softline concluded a **sale-and-lease-back** contract regarding software licenses at one of its subsidiaries with a volume of about EUR 0.3m.
- In June 2013, Softline announced a **capital increase** of 0.4m shares which were placed with Prof. Dr. Löscke at an issue price of EUR 1.00 per share (partial utilisation of authorised capital with exclusion of the subscription rights).
- In August 2013, further **shareholder loans** in a total amount of EUR 0,4m were granted by Prof. Dr. Löscke (the new chairman of Softline's supervisory board). At the end of 2012, shareholder loans had already amounted to EUR 3.5m, entirely granted by SKMB (S. K. Management- und Beteiligungs GmbH, the Family Office of Mr Siegmund Kiener). According to the annual report, the EUR 2.9m loans granted by SKMB are subject to interest of 5% per year and have a term until the end of March 2014. The residual amount granted by SKMB (EUR 0.55m) apparently is due in less than one year, too.

According to the financial planning of Softline's management, liquidity is assured until the end of 2014. We assume that all shareholder loans currently add up to EUR 3.9m. **In our view, a prolongation of these loans will be absolutely necessary in order to ensure liquidity of the group**. In order to cope with stronger growth again, as it is expected for 2015E, we even assume that additional financing will be required for the expansion of working capital and sales & marketing activities. As stated in the annual report, the management and supervisory board pursue other financing options and are in discussions about their implementation. **In our financial model, we simplistically assume that liquidity will be ensured by existing and/or further shareholder loans. We stress the fact that all our financial estimates, including sales and earnings estimates, are subject to this assumption.**

Financing assumptions for our sales and earnings estimates

Financial estimates

At the end of 2012, the **order backlog** at the group companies added up to some **EUR 12m**. Softline has announced that the expected growth requires investments in sales & marketing at first. For this reason, the management does not expect a positive result in **2013E**. Due to the cyclical investment needs of Softline's customers, the management currently also assumes that group sales will be about 10% below the level of 2012. This corresponds to roughly EUR 30.8m. For **2014E**, the management expects a slight increase in sales and a positive operating result of the subsidiaries (excluding holding costs).

At the m:access conference, Softline also provided a more detailed outlook which we also used as a basis for our own estimates, even though we still remain a bit more cautious for the time being. In particular, **we stay below the company's sales target of EUR 50m in 2015E due to the still unsolved financing issues which still pose restrictions on more aggressive growth**. According to our new estimates, Softline is supposed to **break even on EBITDA level in 2014E**. Profitability will already improve only due to the fact that holding costs will not increase significantly in the next few years but will be spread over a larger revenue base. Since goodwill amortisations in the amount of EUR 1.3m per year will accrue until 2016, **we do not expect break-even on EBIT level before 2015E**.

Guidance for 2013E and 2014E

New CBSR estimates

Changes in sales and earnings estimates of CBS Research

EURm (except for EPS)	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	30.8	45.0	33.8	49.5	41.3	-
EBITDA	-1.2	1.5	0.0	2.0	1.6	-
EBIT	-2.6	1.0	-1.4	1.4	0.2	-
Net result after minorities	-2.9	0.6	-1.9	0.9	-0.3	-
EPS (EUR)	-0.31	0.06	-0.19	0.09	-0.04	-

Source: CBS Research AG

Valuation and recommendation

Assuming rather high weighted average cost of capital (WACC) of 11.2% in our DCF model, we determined a fair value per share of EUR 1.39. **We set our price target at EUR 1.30** (previously: EUR 1.00) and issue a **BUY recommendation** addressing investors with some risk appetite.

PT: EUR 1.30

'BUY'

Appendix

Profit and loss account

German GAAP (HGB)	EURm	2010*	2011*	2012	2013E	2014E	2015E
Sales		13.1	30.0	34.19	30.77	33.85	41.29
YoY growth		-	128.7%	14.0%	-10.0%	10.0%	22.0%
Inventory changes (finished goods, WIP)				-0.31	0.00	0.00	0.00
Other own work capitalised				0.00	0.00	0.00	0.00
Total output				33.9	30.8	33.8	41.3
Cost of materials				-23.14	-20.25	-21.93	-26.04
as % of total output				-68.3%	-65.8%	-64.8%	-63.1%
Gross profit				10.73	10.52	11.91	15.26
as % of total output				31.7%	34.2%	35.2%	36.9%
Personnel expenses				-9.28	-8.92	-9.14	-10.86
as % of total output				-27.4%	-29.0%	-27.0%	-26.3%
Other operating income				1.51	0.98	0.51	0.64
				4.5%	3.2%	1.5%	1.5%
Other operating expenses				-4.15	-3.78	-3.28	-3.45
as % of total output				-12.3%	-12.3%	-9.7%	-8.4%
EBITDA		-5.2	-5.9	-1.19	-1.20	0.00	1.58
as % of total output		-39.6%	-19.7%	-3.5%	-3.9%	0.0%	3.8%
Depreciation and amortisation, excl. goodwill impairments				-0.23	-0.08	-0.17	-0.13
as % of total output				-0.7%	-0.3%	-0.5%	-0.3%
Goodwill impairments				-1.27	-1.27	-1.27	-1.27
as % of total output				-3.8%	-4.1%	-3.8%	-3.1%
EBIT		-5.3	-7.7	-2.69	-2.56	-1.44	0.18
as % of total output		-40.6%	-25.7%	-7.9%	-8.3%	-4.3%	0.4%
Net financial result				-2.06	-0.19	-0.24	-0.29
EBT				-4.75	-2.74	-1.68	-0.10
as % of total output				-14.0%	-8.9%	-5.0%	-0.2%
Taxes on income				-0.06	-0.14	-0.13	-0.16
as % of EBT				1.2%	5.1%	7.5%	155.3%
Other taxes				-0.1	-0.1	-0.1	-0.1
as % of total output				-0.2%	-0.2%	-0.2%	-0.2%
Net income of the group		-5.3	-8.1	-4.88	-2.95	-1.88	-0.35
as % of total output		-40.4%	-27.0%	-14.4%	-9.6%	-5.6%	-0.8%
Minority interests				-0.03	0.00	0.00	0.00
Net income attr. to shareholders				-4.91	-2.95	-1.88	-0.35
Weighted average shares outstanding (m)					9.5	9.8	9.8
Basic earnings per share (EUR)			-0.82	-0.52	-0.31	-0.19	-0.04

Source: CBS Research AG, Softline AG

Balance sheet

German GAAP (HGB)	EURm	2012	2013E	2014E	2015E
Assets					
Noncurrent assets		5.89	4.47	3.31	2.23
as % of total assets		28.6%	25.4%	19.1%	12.1%
Goodwill		5.09	3.82	2.55	1.27
Other intangible assets		0.33	0.27	0.38	0.51
Property, plant and equipment		0.47	0.38	0.39	0.46
Financial assets		0.00	0.00	0.00	0.00
Current assets		9.28	7.80	8.54	10.52
as % of total assets		45.0%	44.3%	49.2%	57.1%
Inventories		0.87	0.77	0.83	1.00
Trade accounts receivable		6.34	5.06	5.66	7.01
Other receivables		0.95	0.89	0.95	1.11
Cash and cash equivalents		1.11	1.08	1.11	1.39
Deferred expenses		5.43	5.35	5.52	5.68
as % of total assets		26.3%	30.4%	31.8%	30.8%
Total assets		20.60	17.62	17.37	18.43
Shareholders' equity and liabilities					
Shareholders' equity		2.02	-0.53	-2.41	-2.76
as % of total equity and liabilities		9.8%	-3.0%	-13.9%	-15.0%
Subscribed capital		9.36	9.76	9.76	9.76
Capital reserve		10.92	10.92	10.92	10.92
Accumulated loss brought forward		-18.31	-21.26	-23.14	-23.49
Minority interests		0.05	0.05	0.05	0.05
Provisions		3.21	3.08	2.30	2.56
as % of total equity and liabilities		15.6%	17.5%	13.3%	13.9%
Tax and other provisions		3.21	3.08	2.30	2.56
Liabilities		9.56	9.27	11.53	12.50
as % of total equity and liabilities		46.4%	52.6%	66.4%	67.8%
Financial liabilities to banks		0.00	0.00	0.00	0.00
Trade accounts payable		5.09	4.44	4.81	5.64
Prepayments received		0.01	0.01	0.01	0.02
Other liabilities incl. liabilities to affiliated companies		4.46	4.82	6.71	6.84
- thereof interest-bearing shareholder loans		3.50	3.90	5.73	5.73
Deferred income		5.80	5.80	5.95	6.14
as % of total assets		28.2%	32.9%	34.3%	33.3%
Total equity and liabilities		20.60	17.62	17.37	18.43

Source: CBS Research AG, Softline AG

Cash flow statement

German GAAP (HGB)	EURm	2012	2013E	2014E	2015E
Net income of the group		-4.88	-2.95	-1.88	-0.35
Depreciation and amortisation		1.50	1.36	1.44	1.40
Impairments on financial assets		1.95	0.00	0.00	0.00
Change in provisions		-0.63	-0.14	-0.78	0.26
Gains/losses on disposals of noncurrent assets		0.00	0.00	0.00	0.00
Increase/decrease in inventories, trade receivables/payables, and other assets and liab.		-1.19	0.82	-0.29	-0.71
Cash flow from operating activities		-3.25	-0.91	-1.51	0.60
Net cash outflows from the purchase and retirement of PP&E and intangible assets		-0.18	0.07	-0.29	-0.32
Net payments arising from financial investments		0.09	0.00	0.00	0.00
Cash flow from investing activities		-0.09	0.07	-0.29	-0.32
Cash inflow from capital stock increases		0.07	0.40	0.00	0.00
Net borrowings/retirements of financial debt		2.54	0.40	1.83	0.00
Payout to (minority) shareholders		-0.04	0.00	0.00	0.00
Cash flow from financing activities		2.57	0.80	1.83	0.00
Total change in cash and cash equivalents		-0.77	-0.04	0.03	0.28
Cash and cash equivalents at the start of the period		1.88	1.11	1.08	1.11
Cash and cash equivalents at the end of the period		1.11	1.08	1.11	1.39

Source: CBS Research AG, Softline AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	∞
Sales revenues	30.8	33.8	41.3	47.5	52.2	56.2	59.0	61.9	63.8	64.7	
Y-o-Y growth	-10.0%	10.0%	22.0%	15.0%	10.0%	7.5%	5.0%	5.0%	3.0%	1.5%	
EBIT	-2.6	-1.4	0.2	2.6	3.1	3.4	3.5	3.7	3.8	3.9	
EBIT margin as % of sales	-8.3%	-4.3%	0.4%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
Income tax on EBIT (cash tax rate)	-0.1	-0.1	-0.1	-0.5	-0.6	-0.7	-0.7	-0.9	-1.0	-1.2	
Depreciation and amortisation	1.4	1.4	1.4	1.4	0.2	0.2	0.2	0.2	0.2	0.2	
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	0.7	-1.1	-0.4	-0.7	-0.6	-0.5	-0.3	-0.4	-0.2	-0.2	
Net capital expenditure	0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	
Free cash flow	-0.6	-1.5	0.7	2.4	1.8	2.1	2.4	2.4	2.5	2.5	
Present values	-0.6	-1.3	0.5	1.7	1.2	1.2	1.2	1.1	1.0	0.9	9.6
Present value Phase 1	-1.4										
Present value Phase 2	8.3										
Present value Phase 3	9.6										
Total present value	16.5										
+ Liquid funds net of financial debt	1.1										
- Financial debt and minority interests	-4.0										
Fair value of equity	13.6										
Number of shares outstanding (m)	9.8										
Fair value per share (EUR)	1.39										

Risk free rate	3.50%	Target equity ratio	85.0%
Equity risk premium	6.00%	Beta (fundamental)	1.50
Debt risk premium	1.70%	WACC	11.19%
Tax shield (Phase 3)	27.0%	Terminal growth	1.50%

Sensitivity analysis					
Terminal growth (Phase 3)					
	0.5%	1.0%	1.5%	2.0%	2.5%
10.19%	1.53	1.59	1.66	1.74	1.83
10.69%	1.40	1.46	1.52	1.59	1.66
WACC 11.19%	1.29	1.34	1.39	1.45	1.52
11.69%	1.19	1.23	1.28	1.33	1.39
12.19%	1.10	1.14	1.18	1.22	1.27

Source: CBS Research AG

Research



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06 November 2013	BUY	EUR 0.77	EUR 1.30

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