

Recommendation:  
**BUY** (BUY)

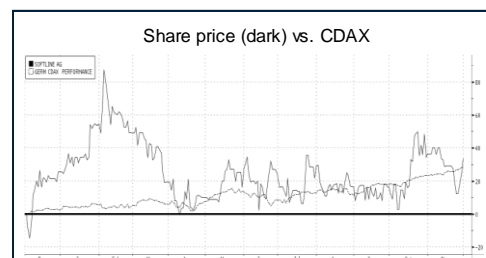
Risk:  
**HIGH** (HIGH)

Price Target:  
**EUR 1.30** (1.30)

02 December 2013

## 1H figures back our estimates for FY 2013

- Softline has published its 1H report for 2012, delivering consolidated group figures for 1H 2013 as well as unaudited, approximate figures for the comparison period 1H 2012.
- Sales** reached EUR 13.7m (1H 2012: about EUR 19.5m). While some affiliates were able to increase their sales on a YOY basis to a total of approximately EUR 1.4m, sales in other subsidiary were affected by separations from unprofitable projects (impact of about EUR -2.4m), as well as the cyclical investment needs of Softline's customers (approx. EUR -4.9m). The resulting decline of about 30% was in line with our expectations.
- EBITDA slightly improved** to EUR -0.5m (1H 2012: about EUR -0.6m). **EBIT** accounted for EUR -1.3m (1H 2012: about EUR -0.7m) including amortisations of goodwill from the capital consolidation in the amount of EUR 0.6m (1H 2012: EUR 0). **Net income** amounted to EUR -1.4m (1H 2012: about EUR -0.9m), and **EPS** accounted for EUR -0.14 (1H 2012: EUR -0.09m).
- The **negative cash flow from operating activities (EUR -0.4m)** could be more than compensated by a capital increase in June 2013 (EUR 0.4m) as well as a sale-and-leaseback agreement for a software investment (EUR 0.3m). Together with other **financing measures** taken in 2013 (factoring, further shareholder loans), this should result in a balanced liquidity situation until the end of 2014, according to the management of Softline.
- The group's **order backlog** on 30 June 2013 amounted to approx. EUR 11m (PY: approx. EUR 10m). The **number of employees** declined from 169 as of mid-2012 to 158 as of mid-2013.
- Softline confirmed its guidance for FY 2013** (sales decline of about 10%, negative net result). We therefore leave our financial estimates for the group unchanged.
- We **maintain our price target of EUR 1.30** as well as our **BUY** recommendation.



Source: CBS Research AG, Bloomberg, Softline AG

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	-	30.8	-	33.8	-	41.3
EBITDA	-	-1.2	-	0.0	-	1.6
EPS	-	-0.31	-	-0.19	-	-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):	<b>0.735</b>
Shares outstanding (m):	9.8
Market capitalisation (EUR m):	7.2
Enterprise value (EUR m):	10.0
Ø daily trading volume (3 m., no. of shares):	6,870

### Performance data:

High 52 weeks (EUR):	1.05
Low 52 weeks (EUR):	0.40
Absolute performance (12 months):	33.6%
Relative performance vs. CDAX:	
1 month	-5.8%
3 months	1.1%
6 months	-7.3%
12 months	4.2%

### 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:

Annual general meeting 2013: 18 December 2013

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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	6.3
EV/EBIT before goodwill amort.	n/a	neg.	neg.	neg.	6.9

Source: Softline AG, CBS Research AG

\*2011: Unaudited, approximate figures

## Appendix

### 1H key figures with YOY comparison

German GAAP (HGB)	EURm	1H 2013	1H 2012	Change
<b>Sales</b>		13.7	19.5	-29.9%
<b>EBITDA</b>		-0.5	-0.6	n/m
as % of total sales		-3.9%	-3.0%	
<b>EBIT</b>		-1.3	-0.7	n/m
as % of total sales		-9%	-3.4%	
<b>Net income attrib. to shareholders</b>		-1.4	-0.9	n/m
as % of total sales		-10.3%	-4.5%	
<b>Basic earnings per share (EUR)</b>		-0.14	-0.09	n/m

1H 2012: *Unaudited, approximate figures*  
 Source: *Softline AG, CBS Research AG*

**Profit and loss account**

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

Source: CBS Research AG, Softline AG

## Balance sheet

German GAAP (HGB)	EURm	2012	2013E	2014E	2015E
<b>Assets</b>					
<b>Noncurrent assets</b>		<b>5.89</b>	<b>4.47</b>	<b>3.31</b>	<b>2.23</b>
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
<b>Current assets</b>		<b>9.28</b>	<b>7.80</b>	<b>8.54</b>	<b>10.52</b>
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
<b>Deferred expenses</b>		<b>5.43</b>	<b>5.35</b>	<b>5.52</b>	<b>5.68</b>
as % of total assets		26.3%	30.4%	31.8%	30.8%
<b>Total assets</b>		<b>20.60</b>	<b>17.62</b>	<b>17.37</b>	<b>18.43</b>
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>		<b>2.02</b>	<b>-0.53</b>	<b>-2.41</b>	<b>-2.76</b>
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
<b>Provisions</b>		<b>3.21</b>	<b>3.08</b>	<b>2.30</b>	<b>2.56</b>
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
<b>Liabilities</b>		<b>9.56</b>	<b>9.27</b>	<b>11.53</b>	<b>12.50</b>
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
<b>Deferred income</b>		<b>5.80</b>	<b>5.80</b>	<b>5.95</b>	<b>6.14</b>
as % of total assets		28.2%	32.9%	34.3%	33.3%
<b>Total equity and liabilities</b>		<b>20.60</b>	<b>17.62</b>	<b>17.37</b>	<b>18.43</b>

Source: CBS Research AG, Softline AG

### Cash flow statement

German GAAP (HGB)	EURm	2012	2013E	2014E	2015E
<b>Net income of the group</b>		-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
<b>Cash flow from operating activities</b>		<b>-3.25</b>	<b>-0.91</b>	<b>-1.51</b>	<b>0.60</b>
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
<b>Cash flow from investing activities</b>		<b>-0.09</b>	<b>0.07</b>	<b>-0.29</b>	<b>-0.32</b>
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
<b>Cash flow from financing activities</b>		<b>2.57</b>	<b>0.80</b>	<b>1.83</b>	<b>0.00</b>
<b>Total change in cash and cash equivalents</b>		<b>-0.77</b>	<b>-0.04</b>	<b>0.03</b>	<b>0.28</b>
Cash and cash equivalents at the start of the period		1.88	1.11	1.08	1.11
<b>Cash and cash equivalents at the end of the period</b>		<b>1.11</b>	<b>1.08</b>	<b>1.11</b>	<b>1.39</b>

Source: CBS Research AG, Softline AG

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Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

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

Date	Recommendation	Price at change date	Price Target
02 December 2013	BUY	EUR 0.735	EUR 1.30
06 November 2013	BUY	EUR 0.77	EUR 1.30

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

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