

Recommendation:

BUY (BUY)

Risk:

HIGH (HIGH)

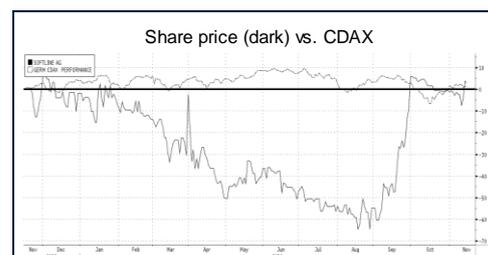
Price Target:

EUR 1.30 (1.30)

18 November 2014

Strategic refocusing bears first fruit

- Consolidated financial statements now allow for analytical reassessment:** Before publication of Softline's annual group report 2013 in September, the latest available consolidated balance sheet had been from 31 December 2012. An analysis and valuation of the group, which also constantly suffers from a tight liquidity situation, had therefore not been possible for a while. The (unaudited) FY13 figures now give at least a more current insight into the group's financial situation. The recently issued 9M14 report shows the latest sales and earnings development, but does neither include a balance sheet nor a cash flow statement.
- 9M14 figures:** In May 2014, Softline sold its share in its subsidiary Softline Systems & Services GmbH. This company, a provider of data center solutions, did no longer fit in with Softline's focus on the core business areas of Software Asset Management, IT consulting and managed services. There will be no further effect on earnings or balance sheet in 2014. The deconsolidation had a negative sales impact, but the prior year's 9M figures were retroactively adjusted for this deconsolidation. On this basis of comparison, sales declined in 9M14 by 15.6% to EUR 13.3m (9M13: EUR 15.8m). This was partly due to the expiring of unprofitable projects on a deliberate basis. EBITDA improved from EUR -0.5m in 9M13 to EUR 0.1m in 9M14. EBIT accounted for EUR -0.8m (9M13: EUR -1.6m). Without the scheduled goodwill amortisations in the amount of almost EUR 1.0m (which would not accrue according to IFRS), EBIT would have been positive. Net income amounted to EUR -1.1m (9M13: EUR -1.8m).
- New estimates:** Due to the refocusing on core business areas and portfolio elements, Softline expects further positive effects in 2014 and 2015. According to the latest **guidance**, the management now plans to achieve **sales of about EUR 17m - 19m** and a positive **EBITDA of EUR 0.2m - 0.4m**. This does not include the **expected income of EUR 1m from a debt waiver** including debtor warrant. For FY 2015, Softline issued an organic sales growth target of approx. 10% yoy, and plans to achieve an EBITDA margin of about 4-5%. Accordingly, we adjusted our outdated estimates which still had included Softline Systems & Services GmbH. The scheduled goodwill amortisations in the amount of almost EUR 1.3m per year will come to an end in 2017. This will result in a corresponding jump in Softline's EBIT margin according to German GAAP. We leave our **price target unchanged at EUR 1.30** (DCF model) and renew our **BUY** rating.



Source: CBS Research AG, Bloomberg, Softline AG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	17,3	33,8	19,0	41,3	20,9	-
EBITDA	1,2	0,0	0,8	1,6	1,2	-
EPS	-0,06	-0,19	-0,08	-0,04	-0,05	-

Internet: softline-group.com Sector: IT services
WKN: A1CSBR ISIN: DE000A1CSBR6
Reuters: SFDG.DE Bloomberg: SFD1 GY

Short company profile:

Softline AG offers IT services and solutions with a focus on Software Asset Management (SAM), IT-Consulting und Managed Services. Headquartered in Leipzig, Softline AG 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.

Share data:

Share price (EUR, last closing price):	0,73
Shares outstanding (m):	9,8
Market capitalisation (EUR m):	7,1
Enterprise value (EUR m):	8,4
Ø daily trading volume (3 m., no. of shares):	9.572

Performance data:

High 52 weeks (EUR):	0,79
Low 52 weeks (EUR):	0,23
Absolute performance (12 months):	2,8%
Relative performance vs. CDAX:	
1 month	-4,1%
3 months	186,9%
6 months	87,1%
12 months	1,4%

Shareholders:

S.K. Management- und Beteiligungs GmbH	33,8%
Prof. Dr. Knut Löschke	14,1%
LBBW	4,1%
S-Invest	3,7%
Softline Group Management	2,7%
Other free float	41,5%

Financial calendar:

-

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Y/E Dec 31, EUR m	2012	2013	2014E	2015E	2016E
Sales	34,2	27,3	17,3	19,0	20,9
EBITDA	-1,2	-1,3	1,2	0,8	1,2
EBIT before goodwill amort.	-1,4	-1,8	1,1	0,7	1,0
EBIT	-2,7	-3,1	-0,2	-0,6	-0,2
Net result	-4,9	-3,4	-0,5	-0,8	-0,5
Basic EPS	-0,54	-0,35	-0,06	-0,08	-0,05
EBITDA margin	-3,5%	-4,7%	6,8%	4,4%	5,6%
EBIT margin	-7,9%	-11,4%	-1,1%	-3,0%	-1,2%
EV/EBITDA	neg.	neg.	7,1	10,1	7,2
EV/EBIT before goodwill amort.	neg.	neg.	7,8	11,8	8,2

Source: Softline AG, CBS Research AG

Appendix

Quarterly key figures with YOY comparison

German GAAP (HGB)	EURm	3Q 2014	3Q 2013	+/- YOY	9M 2014	9M 2013	+/- YOY
Sales		3.9	5.7	-31.2%	13.3	15.8	-15.6%
Gross profit		2.2	2.7	-17.1%	6.9	7.8	-10.9%
as % of sales		56.4%	46.7%		52.0%	49.2%	
EBITDA		0.0	-0.1	n/m	0.1	-0.5	n/m
as % of sales		0.2%	-2.1%		0.9%	-3.2%	
EBIT		-0.3	-0.5	n/m	-0.8	-1.6	n/m
as % of sales		-8.1%	-8.4%		-6.4%	-10.2%	
Net income		-0.4	-0.6	n/m	-1.1	-1.8	n/m
as % of sales		-9.6%	-9.8%		-8.2%	-11.5%	

Source: Softline AG, CBS Research AG

Changes in sales and earnings estimates of CBS Research

EURm (except for EPS)	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	17.3	33.8	19.0	41.3	20.9	-
EBITDA	1.2	0.0	0.8	1.6	1.2	-
EBIT	-0.2	-1.4	-0.6	0.2	-0.2	-
Net result after minorities	-0.5	-1.9	-0.8	-0.3	-0.5	-
EPS (EUR)	-0.06	-0.19	-0.08	-0.04	-0.05	-

Source: CBS Research AG

Profit and loss account

German GAAP (HGB)	EURm	2010*	2011*	2012	2013	2014E	2015E	2016E
Sales		13.1	30.0	34.19	27.33	17.30	19.03	20.93
YoY growth		-	128.7%	14.0%	-20.1%	-36.7%	10.0%	10.0%
Inventory changes (finished goods, WIP)				-0.31	-0.30	0.00	0.00	0.00
Other own work capitalised				0.00	0.00	0.00	0.00	0.00
Total output				33.9	27.0	17.3	19.0	20.9
Cost of materials				-23.14	-16.22	-8.11	-8.37	-9.11
as % of total output				-68.3%	-60.0%	-46.9%	-44.0%	-43.5%
Gross profit				10.73	10.80	9.19	10.66	11.83
as % of total output				31.7%	40.0%	53.1%	56.0%	56.5%
Personnel expenses				-9.28	-8.87	-7.21	-7.86	-8.52
as % of total output				-27.4%	-32.8%	-41.7%	-41.3%	-40.7%
Other operating income				1.51	0.55	1.38	0.32	0.34
				4.5%	2.0%	8.0%	1.7%	1.6%
Other operating expenses				-4.15	-3.76	-2.18	-2.29	-2.49
as % of total output				-12.3%	-13.9%	-12.6%	-12.0%	-11.9%
EBITDA		-5.2	-5.9	-1.19	-1.27	1.18	0.83	1.16
as % of total output		-39.6%	-19.7%	-3.5%	-4.7%	6.8%	4.4%	5.6%
Adjusted EBITDA FY14E (excl. income from debt waiver) = subject of Softline's FY14 guidance						0.18		
as % of total output						1.0%		
Depreciation and amortisation, excl. goodwill impairments				-0.23	-0.56	-0.10	-0.12	-0.14
as % of total output				-0.7%	-2.1%	-0.6%	-0.6%	-0.7%
EBIT before scheduled goodwill amortisation				-1.42	-1.83	1.08	0.71	1.02
as % of total output				-4.2%	-6.8%	6.2%	3.7%	4.9%
Goodwill amortisation (scheduled, German GAAP)				-1.27	-1.27	-1.27	-1.27	-1.27
as % of total output				-3.8%	-4.7%	-7.4%	-6.7%	-6.1%
EBIT		-5.3	-7.7	-2.69	-3.10	-0.20	-0.56	-0.25
as % of total output		-40.6%	-25.7%	-7.9%	-11.5%	-1.1%	-3.0%	-1.2%
Net financial result				-2.06	-0.24	-0.26	-0.15	-0.15
EBT				-4.75	-3.35	-0.46	-0.71	-0.39
as % of total output				-14.0%	-12.4%	-2.7%	-3.7%	-1.9%
Extraordinary result				0.00	0.00	-0.05	0.00	0.00
Taxes on income				-0.06	0.01	0.00	-0.02	-0.06
as % of EBT				1.2%	-0.2%	0.9%	2.2%	14.8%
Other taxes				-0.07	-0.04	-0.03	-0.03	-0.03
as % of total output				-0.2%	-0.1%	-0.1%	-0.1%	-0.1%
Net income of the group		-5.3	-8.1	-4.88	-3.38	-0.54	-0.75	-0.48
as % of total output		-40.4%	-27.0%	-14.4%	-12.5%	-3.1%	-4.0%	-2.3%
Minority interests				-0.03	0.01	0.00	0.00	0.00
Net income attr. to shareholders				-4.91	-3.37	-0.54	-0.75	-0.48
Weighted average shares outstanding (m)**				9.06	9.54	9.76	9.76	9.76
Basic earnings per share (EUR)				-0.54	-0.35	-0.06	-0.08	-0.05

*2010 and 2011: Unaudited, approximate figures (no consolidated financial statements for the group available)

**Weighted average number of shares outstanding: Own calculation based on company information

Source: CBS Research AG, Softline AG

Balance sheet

German GAAP (HGB)	EURm	2012	2013	2014E	2015E	2016E
Assets						
Noncurrent assets		5.89	4.31	3.14	1.97	0.89
as % of total assets		28.6%	29.5%	40.1%	26.9%	12.5%
Goodwill		5.09	3.82	2.55	1.27	0.00
Other intangible assets		0.33	0.05	0.07	0.10	0.15
Property, plant and equipment		0.47	0.44	0.47	0.51	0.56
Financial assets		0.00	0.00	0.00	0.00	0.00
Current assets		9.28	5.58	3.89	4.51	5.38
as % of total assets		45.0%	38.2%	49.6%	61.7%	75.2%
Inventories		0.87	0.12	0.07	0.08	0.08
Trade accounts receivable		6.34	2.87	1.85	2.09	2.41
Other receivables		0.95	0.92	0.50	0.51	0.55
Cash and cash equivalents		1.11	1.67	1.47	1.84	2.34
Deferred expenses		5.43	4.70	0.80	0.84	0.88
as % of total assets		26.3%	32.2%	10.3%	11.4%	12.3%
Total assets		20.60	14.59	7.84	7.31	7.16
Shareholders' equity and liabilities						
Shareholders' equity		2.02	-0.98	-1.52	-2.27	-2.75
as % of total equity and liabilities		9.8%	-6.7%	-19.3%	-31.0%	-38.5%
Subscribed capital		9.36	9.76	9.76	9.76	9.76
Capital reserve		10.92	10.92	10.92	10.92	10.92
Accumulated loss brought forward		-18.31	-21.68	-22.22	-22.97	-23.46
Minority interests		0.05	0.03	0.03	0.03	0.03
Provisions		3.21	2.75	2.19	2.29	2.48
as % of total equity and liabilities		15.6%	18.8%	27.9%	31.3%	34.7%
Tax and other provisions		3.21	2.75	2.19	2.29	2.48
Liabilities		9.56	7.83	6.29	6.40	6.49
as % of total equity and liabilities		46.4%	53.6%	80.2%	87.5%	90.6%
Financial liabilities to banks		0.00	0.00	0.00	0.00	0.00
Trade accounts payable		5.09	2.67	2.00	2.06	2.06
Prepayments received		0.01	0.01	0.01	0.01	0.00
Other liabilities incl. liabilities to affiliated companies		4.46	5.15	4.28	4.33	4.43
- thereof interest-bearing shareholder loans		3.50	3.50	2.90	2.90	2.90
Deferred income		5.80	5.00	0.88	0.90	0.94
as % of total assets		28.2%	34.3%	11.2%	12.2%	13.1%
Total equity and liabilities		20.60	14.59	7.84	7.31	7.16

Source: CBS Research AG, Softline AG

Cash flow statement

German GAAP (HGB)	EURm	2012	2013	2014E	2015E	2016E
Net income of the group		-4.88	-3.38	-0.54	-0.75	-0.48
Depreciation and amortisation		1.50	1.83	1.37	1.40	1.41
Impairments on financial assets		1.95	0.00	0.00	0.00	0.00
Change in provisions		-0.63	-0.47	-0.56	0.10	0.19
Gains/losses on disposals of noncurrent assets and other non-cash income/expenses		0.00	0.02	-1.00	0.00	0.00
Increase/decrease in inventories, trade receivables/payables, and other assets and liab.		-1.19	1.83	0.27	-0.19	-0.38
Cash flow from operating activities		-3.25	-0.16	-0.45	0.55	0.74
Net cash outflows from the purchase and retirement of PP&E and intangible assets		-0.18	-0.27	-0.15	-0.19	-0.24
Net payments arising from financial investments		0.09	0.00	0.00	0.00	0.00
Cash flow from investing activities		-0.09	-0.27	-0.15	-0.19	-0.24
Cash inflow from capital stock increases		0.07	0.40	0.00	0.00	0.00
Net borrowings/retirements of financial debt		2.54	0.61	0.40	0.00	0.00
Payout to (minority) shareholders		-0.04	-0.01	0.00	0.00	0.00
Cash flow from financing activities		2.57	0.99	0.40	0.00	0.00
Total change in cash and cash equivalents		-0.77	0.56	-0.20	0.36	0.50
Cash and cash equivalents at the start of the period		1.88	1.11	1.67	1.47	1.84
Cash and cash equivalents at the end of the period		1.11	1.67	1.47	1.84	2.34

Source: CBS Research AG, Softline AG

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2							PHASE 3
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	∞
Sales revenues	17,3	19,0	20,9	23,0	24,8	26,0	27,3	28,1	29,0	29,6	
Y-o-Y growth	-36,7%	10,0%	10,0%	10,0%	7,5%	5,0%	5,0%	3,0%	3,0%	2,0%	
EBIT	-0,2	-0,6	-0,2	1,3	1,5	1,7	1,8	1,9	1,9	1,9	
EBIT margin as % of sales	-1,1%	-3,0%	-1,2%	5,8%	6,0%	6,5%	6,6%	6,6%	6,5%	6,5%	
Income tax on EBIT (cash tax rate)	0,0	0,0	0,0	0,0	-0,1	-0,3	-0,5	-0,5	-0,6	-0,6	
Depreciation and amortisation	1,4	1,4	1,4	0,1	0,2	0,2	0,2	0,2	0,2	0,2	
Other non-cash items	-1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Change in net working capital	-0,3	-0,1	-0,2	-0,3	-0,2	-0,1	-0,2	-0,1	-0,2	-0,1	
Net capital expenditure	-0,2	-0,2	-0,2	-0,3	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	
Free cash flow	-0,3	0,6	0,7	0,9	1,1	1,3	1,1	1,2	1,2	1,3	
Present values	-0,3	0,5	0,6	0,7	0,8	0,8	0,6	0,6	0,6	0,6	8,5
Present value Phase 1	0,9										
Present value Phase 2	4,7										
Present value Phase 3	8,5										
Total present value	14,1										
+ Liquid funds net of financial debt	1,7										
- Financial debt and minority interests	-2,9										
Fair value of equity	12,8										
Number of shares outstanding (m)	9,8										
Fair value per share (EUR)	1,32										

Risk free rate	3,0%	Target equity ratio	70,0%
Equity risk premium	6,0%	Beta (fundamental)	1,3
Debt risk premium	3,0%	WACC	8,9%
Tax shield (Phase 3)	29,0%	Terminal growth	2,0%

Sensitivity analysis					
Terminal growth (Phase 3)					
	1,0%	1,5%	2,0%	2,5%	3,0%
7,85%	1,42	1,50	1,60	1,71	1,84
8,35%	1,30	1,37	1,45	1,54	1,64
WACC 8,85%	1,20	1,25	1,32	1,39	1,48
9,35%	1,11	1,15	1,21	1,27	1,34
9,85%	1,02	1,06	1,11	1,16	1,22

Source: CBS Research AG

Research



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- g. CBS has a significant financial interest in relation to the company that is subject of this analysis.

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Recommendation System:

CBSR 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%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

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

Date	Recommendation	Price at change date	Price Target
18 November 2014	BUY	EUR 0.73	EUR 1.30
17 December 2013	BUY	EUR 0.68	EUR 1.30
02 December 2013	BUY	EUR 0.735	EUR 1.30

Risk-scaling System:

CBSR 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

HIGH: The volatility is expected to be higher than the volatility of the benchmark

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