



Softline AG

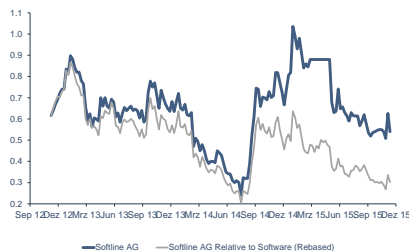
Neutral ↘ | Target 0.72 EUR vs 1.30 EUR ↘

Price : 0.54 EUR | Upside : 33 %

Est.chg	2015e	2016e
EPS	-	-

Transition in full swing – liquidity still an issue

Monday 14 December 2015



Capital			
SFD1 GY SFDG.DE			
Market Cap (EURm)	6		
Enterprise value (EURm)	7		
Extrema 12 months	0.50	-	1.04
Free Float (%)	42.3		
Performance (%)			
	1m	3m	12m
Absolute	5.1	-8.5	-34.1
Perf. rel. "sector"	11.8	-8.5	-37.1
Perf. rel. Software	8.3	-17.5	-42.0
P&L			
	12/15e	12/16e	12/17e
Sales (EURm)	17.1	18.8	20.7
EBITDA (EURm)	0.1	0.5	0.8
Current EBIT (EURm)	0.0	0.4	0.7
Attr. net profit (EURm)	-1	-1	0
Adjusted EPS (EUR)	-0.02	0.01	0.04
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	ns	40.8	12.9
P/B (x)	ns	ns	ns
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	ns	10.8	16.9
EV/Sales (x)	0.40	0.34	0.27
EV/EBITDA (x)	64.7	12.9	6.9
EV/Current EBIT (x)	ns	18.2	8.7
Gearing (%)	ns	ns	ns
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

Revenue growth turns positive in Q3 2015

Softline's (SFD's) 9M 2015 revenue was down -8.9% to € 12.1m, equating to c.90% of the company's full-year internal sales budget (€ 13.4m). While the software asset management segment (SAM) expanded sales in both Germany and Benelux by roughly € 0.8m or +24% yoy, recruiting services and managed services (Germany) saw a sales decline of € 1.5m (-30% yoy). Due to recent strategy adjustments SFD France's sales continued to decline as well, falling c.€ 0.4m yoy. On a quarterly basis, however, Q3 2015 revenues finally increased yoy in all segments for the first time this year after negative yoy growth in Q1 and Q2 2015. Q3 EBITDA was positive at € 15k after negative EBITDA in Q1 and Q2 2015. As a result, 9M 2015 EBITDA remained negative at -€ 170T. Management reduced its 2015 sales guidance from € 18-19m to € 17-18m (Oddo € 17.1m). Its EBITDA guidance remains basically unchanged and now stands at €100-150k (Oddo: € 107K).

Transformation shifts to phase III

Market momentum at SAM continues to look promising for SFD. 2015 marked the start of the 3rd phase of its companywide transformation which shifts its focus to profitable growth. In addition to expanding European sales with existing partners and customers, management significantly improved the company's margin-oriented service offerings. In this context, the near doubling of the order backlog from € 4.4m at 9M 2014 to € 9.1m at 9M 2015 looks rather encouraging. In line with its new strategy to open new geographic markets, the company opened of its first office in London in October 2015.

Capital increase and loan waivers improve liquidity situation

SFD's liquidity situation remains challenging. In 2014 the company already initiated significant financial restructuring measures (debt waiver in exchange for an earn-out certificate, restructured repayment schedules for loans to affiliated companies, and factoring) to improve its liquidity. In 2015, the company achieved another loan waiver of € 1m and a capital increase of 536,189 shares. Although management now expects a balanced liquidity position until the end of 2016, our model still does not indicate a significant safety cushion before 2017.

Reduced TP on adjusted estimates

2015 has been another year of transition. SFD reshaped its business portfolio and cost structure to get the group headed towards profitability and growth again. However, the 9M 2015 results and reduced full-year 2015 guidance suggest the transformation has fallen behind schedule. We have adjusted our estimates accordingly and derive a new DCF-based TP of € 0.72. Although our reduced TP is still well above the current share price, we downgrade our recommendation from Buy to Neutral due to the ongoing weak liquidity situation. However, we expect SFD's two anchor shareholders S. K. Management- und Beteiligungs GmbH (Siegfried Kiener) and Prof. Dr. Knut Löschke, to continue their active financial support of the company in the future, as they have done in the past. We believe SFD's management has pulled the right levers. Proof of the fundamental transition should become visible within the next 6-9 months.

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Softline Group: Discounted Cash Flow Modell

	PHASE 1			PHASE 2							PHASE 3
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	∞
Sales	17.1	18.8	20.7	22.6	24.4	26.1	27.7	29.1	29.9	30.5	
Y-o-Y growth	-5.1%	10.0%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	3.0%	2.0%	
EBIT	-1.3	-0.9	0.7	0.8	1.0	1.1	1.2	1.2	1.2	1.3	
EBIT margin	-7.4%	-4.9%	3.2%	3.6%	4.0%	4.3%	4.2%	4.2%	4.2%	4.2%	
Income tax on EBIT	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	
Depreciation and amortisation	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Change in net working capital	-0.1	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.2	0.2	
Net capital expenditure	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
Free cash flow	-1.4	-0.5	1.2	1.3	1.4	1.5	1.5	1.4	1.2	1.1	
Present values	-1.4	-0.4	1.0	1.0	1.0	1.0	0.9	0.7	0.6	0.5	6.5
Present value Phase 1	-0.9										
Present value Phase 2	5.6										
Present value Phase 3	6.5										
Total present value	11.3										
+ Excess cash/Non-operating assets	0.3										
- Financial debt	-4.2										
Fair value of equity	7.4										
Number of shares (m)	10.3										
Fair value per share (in EUR)	0.72										

Risk free rate	2.50%	Target equity ratio	70.0%
Equity risk premium	6.00%	Beta	1.30
Debt risk premium	5.00%	WACC	8.90%
Tax shield (Phase 3)	25.0%	Terminal growth	1.00%

Sensitivity analysis						
		Terminal growth rate				
		0.0%	0.5%	1.0%	1.5%	2.0%
7.90%		0.81	0.86	0.92	0.98	1.06
8.40%		0.72	0.76	0.81	0.87	0.93
WACC 8.90%		0.65	0.68	0.72	0.77	0.82
9.40%		0.58	0.61	0.64	0.68	0.73
9.90%		0.51	0.54	0.57	0.60	0.64

Source: Company data, Oddo Seydler

SFDG.DE | SFD1 GY
IT services | Germany

Neutral

Price 0.54EUR

Upside 33.33%

TP 0.72EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15e	12/16e	12/17e
Adjusted EPS	-0.31	-0.21	-0.04	-0.02	0.01	0.04
Reported EPS	-0.53	-0.35	-0.07	-0.14	-0.11	0.04
Growth in EPS(%)	-	ns	ns	ns	ns	ns
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.48	-0.06	-0.06	-0.04	0.06	0.09
Book value per share	0.21	-0.20	-0.17	-0.28	-0.39	-0.35
Number of shares market cap	9.36	9.76	9.76	10.29	10.29	10.29
Number of diluted shares	9.36	9.76	9.76	10.29	10.29	10.29
VALUATION	12/12	12/13	12/14	12/15e	12/16e	12/17e
12m highest price	1.58	1.03	0.82	1.04		
12m lowest price	0.47	0.55	0.24	0.50		
(*) Reference price	1.08	0.69	0.53	0.54	0.54	0.54
Capitalization	10	6.8	5.2	5.6	5.6	5.6
Restated Net debt	-1.1	-1.7	-0.3	-0.2	-0.8	-1.8
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	3.3	4.7	1.6	1.6	1.7	1.9
Enterprise Value	12	9.8	6.5	6.9	6.5	5.7
P/E (x)	ns	ns	ns	ns	41	13
P/CF (x)	ns	ns	7.3	ns	19	9.3
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	ns	ns	ns	10.8%	16.9%
P/B incl. GW (x)	5.15	ns	ns	ns	ns	ns
P/B excl. GW (x)	ns	ns	ns	ns	ns	ns
EV/Sales (x)	0.36	0.36	0.36	0.40	0.34	0.27
EV/EBITDA (x)	ns	ns	ns	65	13	6.9
EV/EBIT (x)	ns	ns	ns	ns	18	8.7
(*) historical average price						
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales	34.2	27.3	18.1	17.1	18.8	20.7
EBITDA	-2.5	-1.2	0.0	0.1	0.5	0.8
Depreciations	-0.2	-0.6	-0.1	-0.1	-0.1	-0.2
Current EBIT	-2.7	-1.8	-0.2	0.0	0.4	0.7
Published EBIT	-4.1	-3.1	-1.4	-1.3	-0.9	0.7
Net financial income	-0.8	-0.3	0.8	-0.2	-0.2	-0.2
Corporate Tax	-0.1	0.0	0.0	0.0	0.0	0.0
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-5.0	-3.4	-0.7	-1.5	-1.1	0.4
Adjusted attributable net profit	-2.9	-2.1	-0.4	-0.2	0.1	0.4
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15e	12/16e	12/17e
Goodwill	5.1	3.8	2.5	1.3	0.0	0.0
Other intangible assets	0.3	0.0	0.1	0.1	0.1	0.1
Tangible fixed assets	0.5	0.5	0.1	0.1	0.1	0.0
WCR	-1.6	-3.3	-3.1	-3.0	-3.3	-3.6
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary shareholders equity	2.0	-2.0	-1.7	-2.9	-4.0	-3.6
Minority interests	0.1	0.0	0.0	0.0	0.0	0.0
Shareholders equity	2.0	-2.0	-1.7	-2.9	-4.0	-3.6
Non-current provisions	3.3	4.7	1.6	1.6	1.7	1.9
Net debt	-1.1	-1.7	-0.3	-0.2	-0.8	-1.8
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15e	12/16e	12/17e
EBITDA	-2.5	-1.2	0.0	0.1	0.5	0.8
Change in WCR	0.0	1.1	-1.4	-0.1	0.4	0.5
Interests & taxes	-0.9	-0.3	0.8	-0.2	-0.2	-0.2
Others	-1.1	0.1	0.0	0.0	0.0	0.0
Operating Cash flow	-4.5	-0.3	-0.7	-0.2	0.7	1.1
CAPEX	0.0	-0.3	0.1	-0.1	-0.1	-0.1
Free cash-flow	-4.5	-0.6	-0.6	-0.4	0.6	0.9
Acquisitions / disposals	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.4	0.0	0.3	0.0	0.0
Others	2.5	0.8	-0.8	0.0	0.0	0.1
Change in net debt	-4.5	0.6	-1.4	-0.1	0.6	1.0
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales growth	-	-20.1%	-33.9%	-5.1%	10.0%	10.0%
Lfl sales growth	-	-	-	-	-	-
Current EBIT growth	-	ns	ns	ns	ns	85.0%
Growth in EPS(%)	-	ns	ns	ns	ns	ns
Net margin	-8.6%	-7.5%	-2.2%	-1.3%	0.7%	2.1%
EBITDA margin	-7.2%	-4.5%	-0.2%	0.6%	2.7%	4.0%
Current EBIT margin	-7.9%	-6.5%	-0.8%	0.0%	1.9%	3.2%
CAPEX / Sales	0.0%	-1.1%	0.8%	-0.7%	-0.7%	-0.7%
WCR / Sales	-4.8%	-11.9%	-17.1%	-17.4%	-17.4%	-17.4%
Tax Rate	-1.6%	0.4%	-1.2%	2.1%	-4.1%	2.0%
Normative tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Asset Turnover	-	10	52	-18.3	-8.2	-6.3
ROCE post-tax (normative tax rate)	-	-50.4%	-32.7%	-0.1%	-11.5%	-15.0%
ROCE post-tax hors GW (normative tax rate)	-	ns	ns	ns	ns	ns
ROE	-	ns	21.7%	9.5%	-4.0%	-11.4%
DEBT RATIOS	12/12	12/13	12/14	12/15e	12/16e	12/17e
Gearing	-55%	ns	ns	ns	ns	ns
Net Debt / Market Cap	-0.11	-0.25	-0.06	-0.04	-0.15	-0.32
Net debt / EBITDA	0.45	1.37	6.82	ns	ns	ns
EBITDA / net financial charges	-21.5	-5.0	-0.2	0.5	2.3	3.8

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)
09.12.15	Neutral	0.72	0.57
18.11.14	Buy	1.30	0.73

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