SNP Schneider-Neureither & Partner

Q1 results

Q1 organic growth was 9%

Software & comp services

Growth slowed in Q1, as the group focused its attention on delivering its strong backlog. Nevertheless, business remains healthy and management affirmed its guidance. Activity remained busy in Q1, including the issuing of €40m of loan notes, repayment of a corporate bond, a reshaping of the group structure and the creation of a third training academy in Berlin. Separately, SNP said it is close to acquiring a European SAP consulting and IT company. Given SNP's strong market position in software-based transformation projects and assuming a sustained high level of activity, we believe the shares remain attractive on c 21x our FY19 earnings.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	56.2	3.4	58.8	34.0	67.9	0.9
12/16	80.7	5.7	94.4	39.0	42.3	1.0
12/17e	97.5	9.0	121.3	45.0	32.9	1.1
12/18e	110.5	11.5	155.8	52.0	25.6	1.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q1 results: Book-to-bill ratio remained healthy at 1.13

Group revenue grew by 17% to €21.6m, representing 9% organic growth and c €1.5m from Harlex, which was acquired in late 2016. Professional services revenues rose 23%, including 13% organic growth. This figure is probably a better guide to the group's underlying growth, as lumpier, higher-margin, licence revenue fell by 22%. While incoming orders dipped 7% to €24.4m, the book-to-bill ratio remained healthy at 1.13. The EBITDA loss was €1.8m and the EBIT loss was €2.4m. After taking into account one-off costs the EBITDA margin was c 4% and the EBIT margin was c 1%. The group ended the period with €53.9m in cash and €41.7m debt, of which €39.6m is long-term, for net cash of €12.2m. Outstanding acquisition liabilities and a pension deficit take adjusted net cash to €2.3m.

Possible acquisition

SNP said that it is pursuing the acquisition of a European SAP consulting and IT company. SNP said the target operates globally, specialising in the areas of SAP services, software development and cloud provisioning. SNP says the discussions are ongoing between the two parties and are very close to being concluded.

Guidance and forecasts: Maintained all round

Management maintained its guidance for FY17 revenue of €96-100m, organic growth of 10-15% and EBIT margins of 9-11%. After including acquisitions, the EBIT margin could range from 7-12%. We have maintained all of our forecasts.

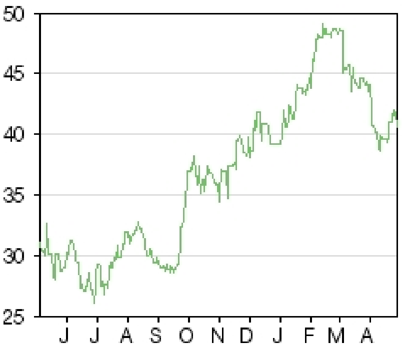
Valuation: Strong growth play in the ERP space

The stock trades on c 33x our FY17 earnings, which falls to c 26x in FY18 and to c 21x in FY19. Our discounted cash-flow (DCF) model values the shares at €46, c 15% above the current share price. However, our model is based on conservative assumptions and takes no account of any acquisitions.

2 May 2017

Price	**€39.90**
Market cap	**€199m**
Net cash (€m) as at 31 March 2017	12.2
Shares in issue	4.98m
Free float	65.9%
Code	SHF
Primary exchange	Frankfurt (Xetra)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.2)	(4.4)	35.1
Rel (local)	(8.6)	(9.2)	11.8
52-week high/low		€49.09	€26.06

Business description

SNP Schneider-Neureither & Partner (SNP) is a software and consulting business focused on supporting customers in implementing change, and rapidly and economically tailoring IT landscapes to new situations. It has developed a proprietary software product called SNP Transformation Backbone with SAP Landscape Transformation software (T-B).

Next events

AGM	31 May
Q2 results	28 July
Q3 results	27 October

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Edison profile page

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Q1 results: Book-to-bill ratio remains healthy at 1.13

Group revenue grew by 17% to €21.6m, representing 9% organic growth and c €1.5m from Harlex Consulting, which was acquired in late 2016. Incoming orders dipped 7% to €24.4m, partly reflecting the focus on delivering the strong backlog. Nevertheless, the book-to-bill ratio remained healthy at 1.13. Professional services revenues grew by 23% to €19.1m, including organic growth of 13%. However, licence revenue fell by 22% to €1.7m, as a result of orders that had been expected to be booked in Q1 having been brought forward into Q4 due to incentives for sales people. Maintenance revenue strengthened by 5% to €0.8m, reflecting the addition from perpetual licence sales made last year. Employee numbers grew by 10 over the quarter (134 or 23% over 12 months) to 722. Operating costs grew by 42% to €23.4m, or by c 26% to €20.8m when excluding one-off costs. Within that figure, personnel costs rose by 38% to €14.7m. The EBITDA loss was €1.8m (negative 8.4% margin), while the EBIT loss was €2.4m (negative 11.1% margin). After taking into account various one-off costs, outlined below, the EBITDA margin was c 4% and the EBIT margin was c 1%. This implies that the one-off costs were c €2.65m. Utilisation rates remain strong, particularly in the DACH countries and in the UK (the acquired Harlex). However, utilisation rates are lower in Asia and management is taking action to resolve this. While Q1 interest looks high at €0.6m, it includes a €0.4m premium paid on the corporate bond that was redeemed.

Exhibit 1: Quarterly analysis

€000s	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 FY	2017 Q1	2017 Q2-Q4e	2017 FYe	2018 FYe
Professional services	15,516	16,558	15,953	18,613	66,640	19,089	61,411	80,500	91,652
Licences	2,216	2,425	3,258	4,101	12,000	1,733	12,267	14,000	15,000
Maintenance	742	457	416	430	2,045	776	2,224	3,000	3,850
Total revenue	18,474	19,440	19,627	23,144	80,685	21,598	75,902	97,500	110,502
Other operating income*	200	148	150	730	1,228	235			
Cost of materials	(1,928)	(2,037)	(1,965)	(2,346)	(8,276)	(2,260)			
Personnel costs	(10,604)	(11,382)	(11,399)	(13,822)	(47,207)	(14,657)			
Other operating expenses	(4,174)	(3,986)	(4,209)	(5,442)	(17,811)	(6,692)			
Other taxes	(22)	(27)	(21)	(25)	(95)	(28)			
Op costs (before depreciation)	(16,528)	(17,284)	(17,444)	(20,905)	(72,161)	(23,402)	(62,242)	(85,644)	(95,899)
Adjusted EBITDA	1,946	2,156	2,183	2,239	8,524	(1,804)	13,660	11,856	14,603
Depreciation	(323)	(372)	(399)	(573)	(1,667)	(594)	(1,483)	(2,077)	(2,393)
Adjusted operating profit (EBIT)	1,623	1,784	1,784	1,666	6,857	(2,398)	12,177	9,779	12,209
Operating Margin	8.8%	9.2%	9.1%	7.2%	8.5%	(11.1%)	16.0%	10.0%	11.0%
Net interest	(191)	(268)	(141)	(537)	(1,137)	(577)	(223)	(800)	(750)
Edison profit before tax (norm)	1,432	1,516	1,643	1,129	5,720	(2,975)	11,954	8,979	11,459
Associates	0	(1)	0	9	8	0	0	0	0
Profit before tax (FRS 3)	1,432	1,515	1,643	1,138	5,728	(2,975)	11,954	8,979	11,459
New orders and backlog	**2016**	**2016**	**2016**	**2016**	**2016**	**2017**			
€000s	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**Q1**			
Incoming orders	26,200	19,900	26,200	23,300	95,600	24,400			
Quarterly revenues	18,474	19,440	19,627	23,144	80,685	21,598			
Book-to-bill ratio	**1.42**	**1.02**	**1.33**	**1.01**	**1.18**	**1.13**			
Backlog	28,700	29,300	36,200	39,300		40,800			

Source: SNP (historicals), Edison Investment Research (forecasts)

SNP highlighted several Q1 one-off costs, which we estimate totalled c €2.65m:

1. The adjustment of the group structure in the US and Germany.
2. The development of a second training academy in Berlin, Germany.
3. Preparations for the planned legal conversion of SNP AG into a European stock corporation (SE).
4. Investment expenses and start-up losses resulting from the intensified international sales strategy with a twin emphasis on the US and SNP Applications.

5. The ongoing integration of corporate acquisitions in the past two years and related expenses.
6. Expenses related to the issuance of the borrower's note loan.
7. Legal and consulting expenses related to the group's acquisition strategy.
8. Expenses related to the recruitment of senior employees.
9. Increased research and development expenses to increase the degree of automation, including through the use of artificial intelligence in transformation projects.
10. Additional extraordinary restructuring expenses.

There was a Q1 operating cash out flow of €6.3m. This reflected the €2.3m after-tax loss, with €0.6m depreciation added back, less €1.3m from other non-cash items and a €3.2m outflow from working capital. After net investment of €0.8m, the free cash outflow was €7.1m. As with many software and IT services businesses, Q1 is typically SNP's weakest quarter. During Q1, SNP issued a €40m multi-tranche loan note with investors, with a blended average initial yield of 1.41% pa. Due to the strong investor demand, the amount was increased by €10m to €40m. Additionally, SNP redeemed its outstanding 6.25% €10m bearer bond at 103% plus accrued interest.

Exhibit 2: Balance sheet financial development

€m	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17
Cash	(13.8)	(9.2)	(7.1)	(36.0)	(31.9)	(53.9)
Short-term debt	2.6	2.1	2.3	2.4	12.8	2.1
Long-term debt	12.3	11.8	11.3	10.8	0.4	39.6
Net debt/(cash)	1.2	4.8	6.4	(22.8)	(18.7)	(12.2)
RSP acquisition liabilities	2.5	2.5	2.5	2.5	2.5	2.5
Astrums/Hartungs acquisition liabilities		1.9	1.9	1.9	1.9	1.9
Harlex acquisition liabilities					4.0	4.0
Corporate bond fair value premium	0.5	0.5	0.5	0.6	0.0	0.0
Pension deficit	1.2	1.3	1.4	1.4	1.5	1.5
Adjusted net debt/(cash)	5.4	11.0	12.7	(16.4)	(8.7)	(2.3)

Source: SNP accounts

Conversion to a stock corporation under EU Law (Societas Europaea/SE)

In order to further promote the internationalisation of the SNP group, the company will propose the legal conversion of SNP Schneider-Neureither & Partner AG into a stock corporation under EU law (Societas Europaea/SE) as its annual general meeting on 31 May 2017. The corporate structure, corporate governance of the company and the listing of the share on the stock exchange remains unchanged.

Possible acquisition

SNP said that it is pursuing the acquisition of a European SAP consulting and IT company. The target is a global business, specialising in the areas of SAP services, software development and cloud provisioning. It generated revenue in the lower end of the double-digit million range in the past fiscal year and has more than 200 employees.

SNP says the discussions between the two parties are ongoing and are very close to being concluded. The acquisition is subject to the completion of a final purchase agreement and approval from the relevant bodies. The transaction will be financed from the group's existing cash resources and management' goal is to conclude the transaction shortly.

Exhibit 3: Financial summary

€000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	30,480	56,236	80,685	97,500	110,502	120,745
Cost of sales	0	0	0	0	0	0
Gross Profit	30,480	56,236	80,685	97,500	110,502	120,745
EBITDA	862	5,484	8,524	11,856	14,603	17,066
Adjusted Operating Profit	(66)	4,222	6,857	9,779	12,209	14,529
Amortisation of acquired intangibles	0	0	0	0	0	0
Exceptionals	1,505	356	0	0	0	0
Associates	0	(3)	8	0	0	0
Operating Profit	1,439	4,575	6,865	9,779	12,209	14,529
Net Interest	(66)	(828)	(1,137)	(800)	(750)	(700)
Profit Before Tax (norm)	(132)	3,394	5,720	8,979	11,459	13,829
Profit Before Tax (FRS 3)	1,373	3,747	5,728	8,979	11,459	13,829
Tax	(344)	(1,195)	(1,517)	(2,694)	(3,438)	(4,149)
Profit After Tax (norm)	(477)	2,198	4,203	6,285	8,022	9,680
Profit After Tax (FRS 3)	1,028	2,552	4,211	6,285	8,022	9,680
Minority interest	(40)	0	(147)	(248)	(267)	(289)
Adjustments for normalised earnings	0	0	0	0	0	0
Net income (norm)	(517)	2,198	4,056	6,038	7,754	9,391
Net income (FRS 3)	988	2,552	4,064	6,038	7,754	9,391
Average Number of Shares Outstanding (m)	3.7	3.7	4.3	5.0	5.0	5.0
EPS - normalised (c)	(13.9)	58.8	94.4	121.3	155.8	188.7
EPS - normalised & fully diluted (c)	(13.9)	58.8	94.4	121.3	155.8	188.7
EPS - FRS 3 (c)	26.6	68.3	94.6	121.3	155.8	188.7
Dividend per share (c)	13.00	34.00	39.00	45.00	52.00	60.00
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	2.8	9.8	10.6	12.2	13.2	14.1
Adjusted Operating Margin (%)	-0.2	7.5	8.5	10.0	11.0	12.0
BALANCE SHEET						
Fixed Assets	8,291	15,243	29,054	28,927	28,744	28,622
Intangible Assets	5,190	11,675	24,179	24,179	24,179	24,179
Tangible Assets	1,231	1,999	3,161	3,034	2,851	2,728
Other	1,871	1,570	1,714	1,714	1,714	1,714
Current Assets	17,882	29,996	59,478	58,876	59,775	70,115
Stocks	0	0	0	0	0	0
Debtors	11,286	16,084	27,201	32,870	37,253	40,706
Cash	5,681	13,769	31,914	25,644	22,158	29,045
Current Liabilities	(9,782)	(13,703)	(34,382)	(28,934)	(32,819)	(35,710)
Creditors	(9,182)	(11,101)	(21,583)	(26,834)	(30,719)	(33,610)
Short term borrowings	(600)	(2,602)	(12,799)	(2,100)	(2,100)	(2,100)
Long Term Liabilities	(2,501)	(15,513)	(5,576)	(5,576)	(1,076)	3,424
Long term borrowings	(1,650)	(12,344)	(434)	(434)	(434)	(434)
Other long term liabilities	(851)	(3,169)	(5,141)	(5,141)	(641)	3,859
Net Assets	13,890	16,024	48,575	53,294	54,625	66,451
CASH FLOW						
Operating Cash Flow	2,579	1,879	1,005	11,369	14,050	16,462
Net Interest	(66)	(167)	53	(800)	(750)	(700)
Tax	(1,102)	(554)	(412)	(2,514)	(3,209)	(3,872)
Capex	(701)	(1,779)	(3,451)	(1,950)	(2,210)	(2,415)
Acquisitions/disposals	(500)	(3,228)	(5,923)	0	(9,127)	0
Shares issued	0	0	30,129	0	0	0
Dividends	(335)	(483)	(1,264)	(1,676)	(2,240)	(2,588)
Net Cash Flow	(124)	(4,332)	20,137	4,428	(3,485)	6,887
Opening net debt/(cash)	(3,505)	(3,431)	1,176	(18,681)	(23,109)	(19,624)
HP finance leases initiated	0	0	0	0	0	0
Other	51	(275)	(281)	0	0	0
Closing net debt/(cash)	(3,431)	1,176	(18,681)	(23,109)	(19,624)	(26,511)

Source: SNP Schneider-Neureither & Partner accounts, Edison Investment Research

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