

# SNP Schneider-Neureither & Partner

Q2 results

## Activity picking up after a slow start to the year

SNP reported a 27% growth in H1 revenues, including 6% organic growth. While the growth was significantly lower than budgeted, management remains very buoyant, and activity has been picking up, with the book-to-bill ratio rising to 1.26 in Q2. The hyperactive acquisition strategy is based on the view that there is a potential tsunami of data migrations building up across the globe, particularly around SAP S/4HANA, with some 50,000 companies expected to upgrade to the new SAP ERP platform over the next few years. SNP's goal is to be the global leader in software-based transformation projects and, following the recent correction, we believe the shares look increasingly attractive on c 16x our FY19e EPS.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	56.2	3.4	58.8	34.0	52.4	1.1
12/16	80.7	5.7	94.4	39.0	33.7	1.2
12/17e	110.0	7.2	91.7	45.0	34.7	1.4
12/18e	135.1	13.6	168.7	52.0	18.9	1.6

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

## Q2 results: Book-to-bill rises to 1.26x

SNP reported 36% growth in Q2 revenues and the group returned to a profit, after posting a loss in Q1 (after a host of one-off costs). The group finished Q2 with net debt of €14.9m and adjusted debt was c €24.8m. SNP maintained its guidance, in spite of the ADEPCON acquisition, which will contribute for five months in FY17. However, management plans to review the situation over the next one or two months after taking into account new orders, the backlog and the acquisition.

## Acquisition of ADEPCON Group

In July, SNP announced that it was acquiring an initial 60% of ADEPCON, a SAP consultancy group that has subsidiaries in Argentina, Chile and Colombia, for an undisclosed price. ADEPCON has completed c 300 projects and has 250 employees. In FY16, it generated c \$20m of revenues and a 9% EBIT margin.

## Forecasts: Capital increase and ADEPCON added

Given SNP's guidance, we maintain our headline revenue and profit figures, despite the ADEPCON acquisition. However, we have adjusted for the increased share count, in the wake of the capital increase. Consequently, FY17e EPS falls by 5% to 91.7c and FY18e EPS falls by 9% to 168.7c. We have also added ADEPCON to the balance sheet, and increased the FY17 working capital outflow by €3m to allow for M&A items and increased capex. We now expect the group to end FY17 with net cash of €1.9m, which swings to €2.4m net debt a year later.

## Valuation: Strong growth play in the ERP space

The stock trades on c 35x our FY17e EPS, which falls to c 19x in FY18e and to c 16x in FY19e. Our discounted cash flow valuation (based on a conservative c 6% CAGR over 10 years, 10% WACC, 17% long-term margin and 2% terminal growth) is €40.75/share, 28% above the current share price.

## Software & comp services

4 August 2017

Price **€31.85**

Market cap **€174m**

Net debt (€m) at 30 June 2017 14.9

Shares in issue 5.48m

Free float 66%

Code SHF

Primary exchange Frankfurt (Xetra)

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (17.1) (17.2) 0.4

Rel (local) (14.9) (14.7) (16.0)

52-week high/low €49.1 €28.5

## 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

Q3 results 27 October

German Equity Forum 27-29 November

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## H1 results: Organic growth was 6%

SNP reported a 36% growth in Q2 revenues and the group returned to a profit, after posting a loss in Q1. The Q1 loss was after a host of one-off costs. Utilisation rates at the start of the year were a bit slow, but management says they have picked up as the year has progressed.

Employee numbers rose to 1,077 at the end of the quarter, up 69% over 12 months, and rose to c 1,250 at the beginning of August. SNP has had an extremely busy year, with two major acquisitions (BCC and ADEPCON) and separate debt and equity fund-raising. It also acquired a majority stake in Innoplexia. In addition, new corporate entities have been established in the US and Germany and the parent company has converted to a European stock corporation. On top of that, staff training schemes have been established in Germany (Berlin) and China in addition to the existing ones in Magdeburg, Eastern Germany, and Dallas, Texas. Meanwhile the group is busy delivering on a contract to combine the IT landscapes of two US chemical companies (we assume Dow Chemical and DuPont) that are merging, and it recently secured an extensive transformation project from one of the largest automotive suppliers in the world.

H1 operating cash outflow was €8.0m, including a €6.1m working capital outflow, of which around half related to staff bonuses paid in Q1 and half related to M&A items as is required under IFRS accounting standards. Capex jumped to €3.2m from €1.4m in H116, and acquisition of businesses amounted to €20.7m (this was before the initial 60% of ADEPCON acquired 1 August).

### Exhibit 1: Quarterly analysis

€000	2016	2016	2016	2016	2016	2017	2017	2017	2017	2018
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3-Q4e	FYe	FYe
Professional services	15,516	16,558	15,953	18,613	66,640	19,089	22,151	51,751	92,991	116,292
Licences	2,216	2,425	3,258	4,101	12,000	1,733	3,042	9,225	14,000	15,000
Maintenance	742	457	416	430	2,045	776	1,237	987	3,000	3,850
<b>Total revenue</b>	<b>18,474</b>	<b>19,440</b>	<b>19,627</b>	<b>23,144</b>	<b>80,685</b>	<b>21,598</b>	<b>26,430</b>	<b>61,963</b>	<b>109,991</b>	<b>135,142</b>
Other operating income	200	148	150	730	1,228	235	295			
Cost of materials	(1,928)	(2,037)	(1,965)	(2,346)	(8,276)	(2,260)	(3,244)			
Personnel costs	(10,604)	(11,382)	(11,399)	(13,822)	(47,207)	(14,657)	(15,511)			
Other operating expenses	(4,174)	(3,986)	(4,209)	(5,442)	(17,811)	(6,692)	(6,461)			
Other taxes	(22)	(27)	(21)	(25)	(95)	(28)	(277)			
Op costs (before depreciation)	(16,528)	(17,284)	(17,444)	(20,905)	(72,161)	(23,402)	(25,198)	(51,315)	(99,915)	(117,421)
<b>Adjusted EBITDA</b>	<b>1,946</b>	<b>2,156</b>	<b>2,183</b>	<b>2,239</b>	<b>8,524</b>	<b>(1,804)</b>	<b>1,232</b>	<b>10,649</b>	<b>10,077</b>	<b>17,721</b>
Depreciation	(323)	(372)	(399)	(573)	(1,667)	(594)	(690)	(793)	(2,077)	(3,393)
<b>Adjusted operating profit (EBIT)</b>	<b>1,623</b>	<b>1,784</b>	<b>1,784</b>	<b>1,666</b>	<b>6,857</b>	<b>(2,398)</b>	<b>542</b>	<b>9,856</b>	<b>8,000</b>	<b>14,328</b>
Operating Margin	8.8%	9.2%	9.1%	7.2%	8.5%	(11.1%)	2.1%	15.9%	7.3%	10.6%
Net interest	(191)	(268)	(141)	(537)	(1,137)	(577)	(181)	(42)	(800)	(750)
<b>Edison profit before tax (norm)</b>	<b>1,432</b>	<b>1,516</b>	<b>1,643</b>	<b>1,129</b>	<b>5,720</b>	<b>(2,975)</b>	<b>361</b>	<b>9,814</b>	<b>7,200</b>	<b>13,578</b>
Associates	0	(1)	0	9	8	0	(1)	0	0	0
<b>Profit before tax (FRS 3)</b>	<b>1,432</b>	<b>1,515</b>	<b>1,643</b>	<b>1,138</b>	<b>5,728</b>	<b>(2,975)</b>	<b>360</b>	<b>9,814</b>	<b>7,200</b>	<b>13,578</b>
<b>New orders and backlog</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>			
€000	Q1	Q2	Q3	Q4	FY	Q1	Q2			
Incoming orders	26,200	19,900	26,200	23,300	95,600	24,400	33,200			
Quarterly revenues	18,474	19,440	19,627	23,144	80,685	21,598	26,430			
Book-to-bill ratio	1.42	1.02	1.33	1.01	1.18	1.13	1.26			
Backlog	28,700	29,300	36,200	39,300		40,800	48,500			

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

### Guidance

SNP maintained its guidance for €110m revenue in FY17, with an EBIT margin between 7% and 12%. This was in spite of the ADEPCON acquisition, which will contribute for five months in FY17. Further, the outlook is underpinned by a record backlog of €48.5m. Hence, in our view, the guidance is conservative. The wide EBIT margin guidance reflects the uncertainty around high-

margin software sales later in the year. SNP also says it plans to further improve market penetration via additional acquisitions and to tap into new sales markets. Management is very bullish on the industry drivers, hence its determination to position the business globally to take full advantage of an upcoming wave of transformations. Management expects software to take a greater share of transformation revenues, and this would drive margins higher.

## Acquisition of ADEPCON Group

In July, SNP announced it was acquiring ADEPCON Group for an undisclosed price and completed the initial 60% on 1 August 2017. ADEPCON Group has three subsidiaries in Argentina, Chile and Colombia, with respective offices in Buenos Aires, Santiago de Chile and Bogotá. The acquisitions will create SNP's first significant presence in South America, and follow recent acquisitions in Asia, the UK and Poland. ADEPCON has c 250 employees, including more than 200 SAP and IT consultants. ADEPCON has completed more than 300 projects and it has 200+ clients including many high-quality names. The majority of its key clients are from Latin America and Europe, and mainly consist of insurance companies, private social security funds, media companies, pharma, retail, wholesale distributors, discrete production and utility companies. ADEPCON's focus has been on projects with very large data volumes. All three consultancies are profitable and have generated robust revenue growth in recent years. In FY16, total revenue amounted to c \$20m and EBIT margins have been c 9% in the previous few years. At the time of the announcement on 30 June, when the company said it was pursuing the acquisition, SNP said it expected an earnings contribution of \$0.7m to \$0.9m from the acquisition for the remaining six-month period in FY17, or \$1.4m to \$1.8m on an annualised basis.

## Financial impact

We have assumed that SNP has acquired ADEPCON at 1x revenues, with 60% paid up front (c €10.3m) and the balance spread over three years.

## 10% capital increase completed in July

In early July, SNP carried out a 10% capital increase. The funds are being used to help finance the company's growth strategy including the acquisition of ADEPCON. SNP successfully placed the maximum of 497,677 new shares, which were offered to selected institutional investors by means of an accelerated book-building process. New shares were placed at a price of €37.65, raising c €18.74m in gross proceeds. The shareholding of Dr Andreas Schneider-Neureither, CEO, subsequently fell from 20.03% to 18.21%.

**Exhibit 2: Balance sheet development**

€m	31 December 2015	31 December 2016	31 March 2017	30 June 2017	Capital increase	Acquisition of ADEPCON	Pro forma 30 June 2017
Cash	(13.8)	(31.9)	(53.9)	(26.5)	(17.9)	10.3	(34.1)
Short-term debt	2.6	12.8	2.1	1.7			2.1
Long-term debt	12.3	0.4	39.6	39.6			39.6
Net debt/(cash)	1.2	(18.7)	(12.2)	14.9			7.6
RSP acquisition liabilities	2.5	2.5	2.5	2.5			2.5
Astrums/Hartungs acquisition liabilities		1.9	1.9	1.9			1.9
Harlex acquisition liabilities		4.0	4.0	4.0			4.0
ADEPCON acquisition liabilities						6.9	6.9
Corporate bond fair value premium	0.5	0.0	0.0	0.0			0.0
Pension deficit	1.2	1.5	1.5	1.5			1.5
Adjusted net debt/(cash)	5.4	(8.7)	(2.3)	24.8			24.4

Source: SNP, Edison Investment Research

## Strategy

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SNP's goal is to become the global standard for software-based data transformation. SNP is pursuing this goal with three strategic approaches:

1. Automation through software
  - The successful launch of the new version of the SNP Transformation Backbone
  - The embedding of SAP LT in the SNP Transformation Backbone
  - The introduction of additional software products, including
    - SNP CrystalBridge
    - SNP Interface Scanner
    - SNP BPA
    - SNP RESC
  - The expansion of the software portfolio through targeted acquisitions, including Harlex, BCC and Innoplexia
2. Internationalisation
  - Internationalisation is critical in order to become a global standard and is primarily driven through an acquisition strategy. The latest acquisitions have been predominantly in important global markets. The acquisition history is outlined below.
3. Ability to execute globally
  - In spite of the high degree of automation, transformation projects require appropriate customer interaction in the form of high-quality support. Consequently, a local presence is very important.

## Acquisition strategy and history

The group has made seven significant acquisitions over the last four years (Exhibit 3), which have enabled SNP to become a provider of end-to-end solutions, covering the entire value creation chain on the transformation market. SNP acquired GL Associates in 2013, to accelerate the group's entry into the US and a software-based approach to Oracle ERP transformations. SNP acquired RSP in early 2015 to expand the group's range of strategy- and process-related consultancy services. SNP acquired Hartung Consult and Astrums in early 2016 to target the Asian market and to support customers in international rollout projects. SNP acquired UK-based Harlex in September 2016 to target and deliver new business in the UK. In May 2017, SNP acquired BCC. The BCC deal broadened the group's customer base in Central and Eastern Europe, widened its expertise in the areas of SAP service and cloud provisioning and brought on board c 250 SAP and IT consultants who can be cross-trained in transformation projects. ADEPCON extends the group's presence into South America.

Consequently, SNP has established a proven track record of successfully integrating companies on several occasions, which now contribute to an improved market penetration. Management is on the lookout for other selective acquisitions that add to the product offerings, tap new markets, enhance technical expertise or simply expand capacity.

**Exhibit 3: Recent acquisitions**

	Announced	Share-holding	Cost	Revenues	Main regions	Headcount	Notes
GL Associates	24/08/2013	Asset deal	€3.8m	>\$5m in FY12	US	c 20	Gave SNP a US presence and extended SNP's offerings to Oracle transformations
RSP	18/12/2014	Initial 74.9%	€7.6m total	c €11m	Germany	65	Enabled SNP to expand its strategy- and process-oriented consulting services
Astrums Consulting	03/12/2015	Initial 51%	} c €10m combined	c €10m combined in 1st year	Singapore, Malaysia	77	Boosted SNP's presence in Asia, better positioning the group to handle transformations of global enterprises operating in Asia
Hartung Consult	22/12/2015	Initial 51%			Germany, China	86	
Harlex Consulting	30/09/2016	Initial 90%	est €6m	c €5.6m	UK	25	Strengthened the group's position to target and deliver new business in the UK
BCC	04/05/2017	100%	est €20m	PLN95.4m	Central & E Europe	300	Broadened the group's customer base, widens its expertise in the areas of SAP service and cloud provisioning and brings onboard c 250 SAP and IT consultants who can be cross-trained in transformation projects
Innoplexia	05/05/2017	From 20% to 80%	N/A	c €1m in FY16	Germany	24	Added artificial intelligence and software algorithms
ADEPCON Group	20/07/2017	Initial 60%	est \$20m total	c \$20m	Argentina, Chile, Colombia	250	Boosted SNP's presence in South America

Source: SNP Schneider-Neureither & Partner

## Forecast changes

In line with SNP's guidance, we have maintained our headline revenue and profits figures, in spite of the ADEPCON acquisition. However, we have adjusted for the increased share count, in the wake of the July capital increase. Consequently, FY17e EPS falls by 5% to 91.7c and FY18e EPS falls by 9% to 168.7c. We have also added ADEPCON to the balance sheet, increased the FY17 working capital outflow by €3m to allow for M&A items, increased capex by €2.8m and adjusted the dividend to the actual amount paid. We now expect the group to end FY17 with net cash of €1.9m, which swings to €2.4m net debt a year later.

**Exhibit 4: Financial summary**

	€000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		30,480	56,236	80,685	109,991	135,142	147,665
Cost of sales		0	0	0	0	0	0
Gross Profit		30,480	56,236	80,685	109,991	135,142	147,665
EBITDA		862	5,484	8,524	10,077	17,721	20,739
Adjusted Operating Profit		(66)	4,222	6,857	8,000	14,328	17,038
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	8,000	14,328	17,038
Net Interest		(66)	(828)	(1,137)	(800)	(750)	(700)
Profit Before Tax (norm)		(132)	3,394	5,720	7,200	13,578	16,338
Profit Before Tax (FRS 3)		1,373	3,747	5,728	7,200	13,578	16,338
Tax		(344)	(1,195)	(1,517)	(2,160)	(4,073)	(4,901)
Profit After Tax (norm)		(477)	2,198	4,203	5,040	9,505	11,437
Profit After Tax (FRS 3)		1,028	2,552	4,211	5,040	9,505	11,437
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	4,792	9,237	11,148
Net income (FRS 3)		988	2,552	4,064	4,792	9,237	11,148
Average Number of Shares Outstanding (m)		3.7	3.7	4.3	5.2	5.5	5.5
EPS - normalised (c)		(13.9)	58.8	94.4	91.7	168.7	203.6
EPS - normalised & fully diluted (c)		(13.9)	58.8	94.4	91.7	168.7	203.6
EPS - FRS 3 (c)		26.6	68.3	94.6	91.7	168.7	203.6
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	9.2	13.1	14.0
Adjusted Operating Margin (%)		-0.2	7.5	8.5	7.3	10.6	11.5
<b>BALANCE SHEET</b>							
Fixed Assets		8,291	15,243	29,054	70,287	69,597	68,849
Intangible Assets		5,190	11,675	24,179	62,939	62,939	62,939
Tangible Assets		1,231	1,999	3,161	6,033	5,343	4,595
Other		1,871	1,570	1,714	1,314	1,314	1,314
Current Assets		17,882	29,996	59,478	81,890	81,107	87,540
Stocks		0	0	0	0	0	0
Debtors		11,286	16,084	27,201	37,081	45,560	49,782
Cash		5,681	13,769	31,914	44,446	35,184	37,395
Current Liabilities		(9,782)	(13,703)	(34,382)	(30,134)	(38,041)	(41,576)
Creditors		(9,182)	(11,101)	(21,583)	(28,034)	(35,941)	(39,476)
Short term borrowings		(600)	(2,602)	(12,799)	(2,100)	(2,100)	(2,100)
Long Term Liabilities		(2,501)	(15,513)	(5,576)	(52,440)	(40,366)	(32,792)
Long term borrowings		(1,650)	(12,344)	(434)	(40,434)	(35,434)	(30,434)
Other long term liabilities		(851)	(3,169)	(5,141)	(12,005)	(4,931)	(2,357)
Net Assets		13,890	16,024	48,575	69,604	72,297	82,020
<b>CASH FLOW</b>							
Operating Cash Flow		2,579	1,879	1,005	6,526	17,046	20,001
Net Interest		(66)	(167)	53	(800)	(750)	(700)
Tax		(1,102)	(554)	(412)	(2,016)	(3,802)	(4,575)
Capex		(701)	(1,779)	(3,451)	(4,950)	(2,703)	(2,953)
Acquisitions/disposals*		(500)	(3,228)	(5,923)	(31,496)	(11,701)	(1,716)
Shares issued		0	0	30,129	17,898	0	0
Dividends		(335)	(483)	(1,264)	(1,932)	(2,352)	(2,847)
Net Cash Flow		(124)	(4,332)	20,137	(16,769)	(4,262)	7,211
Opening net debt/(cash)		(3,505)	(3,431)	1,176	(18,681)	(1,912)	2,350
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)	(1,912)	2,350	(4,861)

Source: SNP Schneider-Neureither & Partner accounts, Edison Investment Research. Note: \*Includes additional payments for ADEPCON in FY18 and FY19, and final payments for RSP, Astrums/Hartung and Harlex in FY18.

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