

# SNP Schneider-Neureither & Partner

Annual report

## Focusing on organic growth

SNP has undertaken a series of acquisitions over the last few years that have transformed the scale and the geographical footprint of the business. The goal is to position the group for the anticipated surge in data migrations globally, particularly around SAP S/4HANA, and SNP has already completed more than 30 S/4 projects. In FY18, management is focused on driving organic growth. We have maintained our headline forecasts, although adjusted net debt rises due to higher-than-expected FY17 net debt. Given the favourable industry drivers and the potential for margin recovery, the shares look attractive on c 21x our FY19e earnings.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	80.7	5.7	94.4	39.0	35.8	1.2
12/17	122.3	(1.8)	(46.4)	0.0	N/A	0.0
12/18e	151.2	6.4	76.9	30.0	44.0	0.9
12/19e	165.3	13.1	162.7	40.0	20.8	1.2

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

## FY17 results: Organic revenue growth was 8%

FY17 revenue jumped by 52% to €122.3m, including 8% organic growth, with additional contributions from five acquisitions. The group reported a loss before tax of €1.8m, after a series of one-off costs. EBITDA was €3.3m, while on the company's non-IFRS basis, adjusted EBITDA was €6.9m, down from €8.1m in FY16. The group finished the year with net debt of €26.8m, up by €35.1m.

## Strategy: CrystalBridge to be the new core platform

Following the splurge in acquisitions, which has seen headcount jump from 250 in 2014 to 1300+ now, the group is focusing on organic growth in FY18. Particular attention is on North America and Asia where key management appointments have been made to drive the business forward. CrystalBridge, launched last October, is destined to become SNP's central software platform and all the group's core software is expected to be integrated into the CrystalBridge platform in time.

## Forecasts: Broadly maintained, FY20 introduced

We have maintained our FY18 and FY19 revenue and profit forecasts, although we have amended the revenue split, increasing the level of software sales. We have also introduced FY20 numbers. Our net debt forecast increases due to an accounting change (primarily includes acquisition liabilities), and higher-than-expected end FY17 net debt. We have pared back our dividend forecasts.

## Valuation: Strong growth play in the ERP space

The stock trades on c 44x our FY18e EPS, which falls to c 21x in FY19e and c 16x in FY20. Our discounted cash flow valuation (based on c 7% organic revenue CAGR over 10 years, 10% WACC, 15.8% long-term margin and 2% terminal growth) is €40.50/share, 20% above the current share price. Increasing the organic revenue CAGR to 10% increases the valuation to c €53/share, while a 15% CAGR takes the valuation to c €83/share, with other variables remaining constant.

## Software & comp services

18 April 2018

**Price** €33.80

**Market cap** €185m

Net debt (€m) at 31 December 2017 26.8

Shares in issue 5.5m

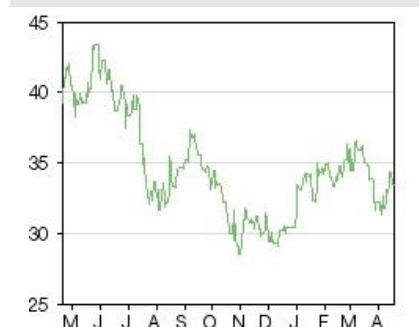
Free float 53.0

Code SHF

Primary exchange Frankfurt (Xetra)

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (4.6) (2.2) (15.6)

Rel (local) (6.1) 2.5 (18.8)

52-week high/low €43.4 €28.5

## Business description

SNP Schneider-Neureither & Partner 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 suite, CrystalBridge and Transformation Backbone with SAP LT (T-B), which automatically analyses and applies and tracks changes in IT systems.

## Next events

Q1 results 27 April

AGM 30 May

Q2 results 2 August

Q3 results 31 October

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## FY17 results: Total revenue growth was 52%

SNP had an extremely busy FY17, with two major acquisitions (BCC and Adecon) and separate debt and equity fund-raising. It also increased its shareholding in Innoplexia from 20% to 80% and acquired a small company, ERST European Retail Systems Technology, late in the year. In addition, new corporate entities were established in the US and Germany and the parent company converted to a European stock corporation. The primary goal in FY18 is to adapt the newly acquired businesses and make adjustments to the group while focusing on driving organic growth with an emphasis on pushing software sales.

As stated in the preliminary announcement, FY17 organic revenue growth was c 8%, along with the impact of five acquisitions. In aggregate, revenues grew by 52% to €122.3m, including €35m from acquisitions. The newly consolidated businesses included Harlex (90% owned), acquired in late 2016, along with BCC (100%), Innoplexia (80%), Adecon (60%) and ERST (100%), which were acquired during 2017. This is the group's first public announcement of the ERST acquisition. ERST is a small nine-person data transformation company, based in Hamburg, which operates its own proprietary middleware platform. Additionally, during 2017 the group increased its stake in SNP Transformations SEA from 51% to 81%. The group's acquisition strategy has shifted away from consulting businesses to acquiring businesses that will broaden the group's software expertise.

### Exhibit 1: Quarterly analysis

€000	FY16	Q117	Q217	Q317	Q417	FY17	FY18e
Professional services	66,640	19,089	22,151	25,936	31,157	98,333	116,757
Licences	11,982	1,733	3,042	5,935	8,389	19,099	27,671
Maintenance	2,063	776	1,237	1,140	1,758	4,911	6,821
<b>Total revenue</b>	<b>80,685</b>	<b>21,598</b>	<b>26,430</b>	<b>33,011</b>	<b>41,304</b>	<b>122,343</b>	<b>151,249</b>
Other operating income	1,228	235	295	171	1,217	1,918	
Cost of materials	(8,276)	(2,260)	(3,244)	(7,037)	(6,674)	(19,215)	
Personnel costs	(47,207)	(14,657)	(15,511)	(18,849)	(22,455)	(71,472)	
Other operating expenses	(17,811)	(6,692)	(6,461)	(7,156)	(9,626)	(29,935)	
Other taxes	(95)	(28)	(277)	(32)	(196)	(533)	
Op costs (before depreciation)	(72,161)	(23,402)	(25,198)	(32,903)	(37,572)	(119,075)	(140,367)
<b>EBITDA</b>	<b>8,524</b>	<b>(1,804)</b>	<b>1,232</b>	<b>108</b>	<b>3,732</b>	<b>3,268</b>	<b>10,882</b>
Depreciation	(1,667)	(594)	(690)	(843)	(1,649)	(3,776)	(3,488)
<b>Adjusted operating profit (EBIT)</b>	<b>6,857</b>	<b>(2,398)</b>	<b>542</b>	<b>(735)</b>	<b>2,083</b>	<b>(508)</b>	<b>7,394</b>
Operating margin	8.5%	(11.1%)	2.1%	(2.2%)	5.0%	(0.4%)	4.9%
Net interest	(1,137)	(577)	(181)	(218)	(351)	(1,327)	(1,000)
<b>Edison profit before tax (norm)</b>	<b>5,720</b>	<b>(2,975)</b>	<b>361</b>	<b>(953)</b>	<b>1,732</b>	<b>(1,835)</b>	<b>6,394</b>
Associates	8	0	(1)	12	(35)	(24)	0
Exceptional items	0	0	0	0	0	0	0
<b>Profit before tax (FRS 3)</b>	<b>5,728</b>	<b>(2,975)</b>	<b>360</b>	<b>(941)</b>	<b>1,697</b>	<b>(1,859)</b>	<b>6,394</b>
<b>New orders and backlog</b>	<b>FY16</b>	<b>Q117</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	
Incoming orders	95,600	24,400	33,200	37,400	35,700	130,700	
Quarterly revenues	80,685	21,598	26,430	33,011	41,304	122,343	
Book-to-bill ratio	1.18	1.13	1.26	1.13	0.86	1.07	
Backlog		40,800	48,500	62,200	61,300		

Source: Company accounts, Edison Investment Research

The group's DACH (Germany, Austria and Switzerland) businesses have been performing well, while the Asian and North American markets have been more challenging. Hence, the primary focus in FY18 is on turning around the Asian and North American businesses.

Revenue from the DACH countries grew by 8% to €64.0m, but fell from 73% of the total to 52%, reflecting the group's internationalisation strategy. The rest of Europe jumped from €1.4m to €23.6m, mainly reflecting the acquisition of Adecon. The US grew by 21% to €15.9m, largely reflecting a large order from a US chemicals company. South America jumped from zero to €12.0m while Asia eased by 3% to €6.9m.

Software sales jumped 71% to €24.0m, helped by a strong Q4 (up 105%), while professional services rose by 48% to €98.3m. The SNP Transformation Backbone with SAP LT grew revenues by 9% to €10.4m, while Interface Scanner generated €1.1m of revenue in its first year.

SNP has decided not to pay a dividend for FY17 to strengthen the group's capital base.

The cash outflow from operating activities was €5.3m in FY17. After interest of €0.8m, tax of €1.4m and capex of €5.2m, the free cash outflow was €12.7m. There were acquisition costs of c €28.8m and the company raised €18.3m in a share placement. After the €1.9m dividend and €10.0m of other movements, including foreign exchange, net debt jumped by €35.1m to €26.8m. There is also a €1.5m pension deficit that takes the adjusted position to €28.4m.

#### Exhibit 2: Balance sheet position

€m	31 Dec 16	31 Dec 17
Cash	(31.9)	(33.9)
Corporate bond	10.7	0.0
Short-term bank debt	2.1	1.0
Long-term bank debt	0.4	39.6
Net debt / (cash) (old presentation)	(18.7)	6.7
Purchase price obligations (current)	5.3	9.8
Purchase price obligations (non-current)	5.1	9.1
Leasing obligations (current)	0.0	0.3
Leasing obligations (non-current)	0.0	0.3
Other financial liabilities (current)	0.0	0.1
Other financial liabilities (non-current)	0.0	0.5
Net debt / (cash)	(8.3)	26.8
Pension deficit	1.5	1.5
Adjusted net debt / (cash)	(6.8)	28.4
Source: Company accounts		

### Evolving software platform

The new CrystalBridge software platform was unveiled at SNP's Transformation World trade show in October 2017 and is intended to become SNP's central software platform. CrystalBridge offers a graphical and interactive visualisation of entire SAP systems with the goal of supporting and accelerating business transformations, and is a crucial component in the planning of SAP S/4HANA transformations. All the group's core software is expected to be integrated into the CrystalBridge platform, with T-Bone in the development phase. CrystalBridge is mainly offered on a hosted SaaS rental basis, but SNP also offers one time on-premise licences for larger projects. The other important software launch in 2017 is the SNP Interface Scanner, which enables customers to analyse the interfaces between SAP systems and their surrounding IT landscapes.

Research and development costs were €14.0m in FY17 (or 11.4% of sales), up from €11.0m in FY16 (13.7% of sales) and the development team more than doubled from 43 to 91 people.

### Management changes

The group implemented a new organisational and management structure at the end of FY17. There are now six positions on the executive board: chief executive officer, chief revenue officer, global head of services, global head of product development, chief financial officer and global head of human resources.

Henry Göttler has stepped down from the executive board to focus on driving the group's business in Asia. Mr Göttler is fluent in Cantonese and has strong knowledge of the Asian region. Earlier this year, SNP appointed David Kenneson, a software industry veteran, in the new role of chief revenue officer to head the global sales effort. The role is based in Philadelphia, US, supported by a small team. Dieter Matheis rejoined the company as CFO late last year. He was chairman of the SNP supervisory board from 2002 and 2011 and before that was CFO of SAP. Mr Matheis has made a

number of changes to the accounts, including to the balance sheet position (as shown in Exhibit 2) and to the contribution breakdown (Exhibit 3).

### **Outlook**

Management continues to expect FY18 group revenue of between €150m and €155m along with an operating earnings margin (EBIT margin) in the mid-single digits. As in previous years, it is assumed that in FY18, revenue will be much stronger in the second half of the year. Software revenue is expected to reach 23% of group revenues.

The EBIT margin excluding non-segment-related expenses is expected to fall within the mid-single digit percentage range in the professional services business segment. For the software business segment, management expects an EBIT margin in the lower- to mid-double digit percentage range.

The group order book stood at c €131m at the end of December, including €16m of software and maintenance revenue. Around two-thirds of the orders are from the DACH region, with the remaining c €43m from the rest of the world.

### **Forecasts: Key FY18 and FY19 numbers maintained**

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We have maintained our revenues, normalised PBT and EPS numbers for FY18 and FY19, although we have amended the revenues split, increasing the level of software sales. Following the recent acquisitions, and internal development, there is an expanded software portfolio and software also includes third-party software licence re-sales. We have also introduced FY20 numbers. Our year-end net debt forecasts increase due to the accounting change and higher-than-expected end FY17 net debt. The latter was partly due to the €1.5m (net) consideration paid for ERST in Q417. Consequently, we forecast end FY18 net debt to be €24.7m higher than our previous estimates at €34.2m, while end FY19 rises by €23.5m to €28.3m.

We have conservatively pared back our dividend forecasts.

**Exhibit 3: Updated forecasts**

€000s	2015	2016	2017	2018e	2019e	2020e
Professional services	46,868	66,640	98,333	116,757	127,527	138,340
Software licences	7,437	11,982	19,099	27,671	30,300	33,035
Software maintenance	1,931	2,063	4,911	6,821	7,469	8,143
Total software	9,368	14,045	24,010	34,492	37,769	41,178
Group revenue	56,236	80,685	122,353	151,249	165,297	179,518
Growth (%)	84.5	43.5	51.6	23.6	9.3	8.6
Professional services contribution	4,936	4,938	276	5,838	8,519	10,321
Software contribution	2,290	5,927	4,902	7,556	11,536	13,607
Non-segment-related expenses	(3,272)	(4,009)	(5,685)	(6,000)	(6,120)	(6,242)
Other operating income & other taxes	268	0	0	0	0	0
Operating expenses	(52,014)	(73,828)	(123,022)	(143,855)	(151,362)	(161,833)
Capitalisation of dev costs (net)			161	(32)	(32)	(32)
Adjusted operating profit (EBIT)	4,222	6,857	(508)	7,394	13,935	17,685
Operating profit margin (%)	7.5	8.5	(0.4)	4.9	8.4	9.9
Net interest	(828)	(1,137)	(1,327)	(1,000)	(800)	(600)
Profit before tax (norm)	3,394	5,720	(1,835)	6,394	13,135	17,085
Amortisation of acquired intangibles	0	0	0	(1,600)	(1,600)	(1,600)
Associates	(3)	8	0	0	0	0
Exceptional items	356	0	0	0	0	0
Profit before tax	3,747	5,728	(1,835)	4,794	11,535	15,485
Taxation	(1,195)	(1,517)	(807)	(1,918)	(3,940)	(5,126)
Non-controlling interests	0	(147)	234	(267)	(289)	(312)
FRS 3 net income	2,552	4,064	(2,407)	2,609	7,306	10,048
Adjusted EPS (c)	58.8	94.4	(46.4)	76.9	162.7	212.8
<b>P/E - Adjusted EPS (x)</b>	<b>57.5</b>	<b>35.8</b>	<b>N/A</b>	<b>44.0</b>	<b>20.8</b>	<b>15.9</b>

Source: Company accounts, Edison Investment Research

**Exhibit 4: Financial summary**

<b>PROFIT &amp; LOSS</b>	<b>€'000s</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Revenue		56,236	80,685	122,343	151,249	165,297	179,518
Cost of sales		0	0	0	0	0	0
Gross Profit		56,236	80,685	122,343	151,249	165,297	179,518
EBITDA		5,484	8,524	3,268	10,882	17,838	21,540
Adjusted Operating Profit		4,222	6,857	(508)	7,394	13,935	17,685
Amortisation of acquired intangibles		0	0	0	(1,600)	(1,600)	(1,600)
Exceptionals		356	0	0	0	0	0
Associates		(3)	8	(24)	0	0	0
Operating Profit		4,575	6,865	(532)	5,794	12,335	16,085
Net Interest		(828)	(1,137)	(1,327)	(1,000)	(800)	(600)
Profit Before Tax (norm)		3,394	5,720	(1,835)	6,394	13,135	17,085
Profit Before Tax (FRS 3)		3,747	5,728	(1,859)	4,794	11,535	15,485
Tax		(1,195)	(1,517)	(807)	(1,918)	(3,940)	(5,126)
Profit After Tax (norm)		2,198	4,203	(2,642)	4,476	9,194	11,960
Profit After Tax (FRS 3)		2,552	4,211	(2,666)	2,876	7,594	10,360
Minority interest		0	(147)	234	(267)	(289)	(312)
Adjustments for normalised earnings		0	0	0	0	0	0
Net income (norm)		2,198	4,056	(2,407)	4,209	8,906	11,648
Net income (FRS 3)		2,552	4,064	(2,431)	2,609	7,306	10,048
Average Number of Shares Outstanding (m)		3.7	4.3	5.2	5.5	5.5	5.5
EPS - normalised (c)		58.8	94.4	(46.4)	76.9	162.7	212.8
EPS - normalised & fully diluted (c)		58.8	94.4	(46.4)	76.9	162.7	212.8
EPS - FRS 3 (c)		68.3	94.6	(46.8)	47.7	133.5	183.5
Dividend per share (c)		34.00	39.00	0.00	30.00	40.00	50.00
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		9.8	10.6	2.7	7.2	10.8	12.0
Adjusted Operating Margin (%)		7.5	8.5	(0.4)	4.9	8.4	9.9
<b>BALANCE SHEET</b>							
Fixed Assets		15,243	30,109	75,171	73,076	70,846	68,949
Intangible Assets		11,675	24,179	67,012	65,380	63,748	62,115
Tangible Assets		1,999	3,161	5,187	4,724	4,127	3,862
Other		1,570	2,769	2,972	2,972	2,972	2,972
Current Assets		29,996	58,424	78,614	76,686	82,657	92,300
Stocks		0	371	371	459	502	545
Debtors		16,084	25,652	43,781	54,125	59,152	64,241
Cash		13,769	31,914	33,877	21,517	22,419	26,929
Current Liabilities		(13,703)	(32,631)	(40,531)	(50,322)	(54,621)	(58,913)
Creditors		(11,101)	(14,523)	(29,295)	(39,086)	(43,385)	(47,676)
Short term borrowings		(2,602)	(18,108)	(11,236)	(11,236)	(11,236)	(11,236)
Long Term Liabilities		(15,513)	(7,327)	(53,157)	(41,083)	(33,509)	(25,935)
Long term borrowings		(12,344)	(5,531)	(49,487)	(44,487)	(39,487)	(34,487)
Other long term liabilities		(3,169)	(1,796)	(3,670)	3,404	5,978	8,552
Net Assets		16,024	48,575	60,097	58,357	65,373	76,402
<b>CASH FLOW</b>							
Operating Cash Flow		1,879	1,005	(5,316)	10,157	17,044	20,674
Net Interest		(167)	53	(798)	(1,000)	(800)	(600)
Tax		(554)	(412)	(1,366)	(1,790)	(3,678)	(4,784)
Capex		(1,779)	(3,451)	(5,234)	(3,025)	(3,306)	(3,590)
Acquisitions/disposals		(3,228)	(5,923)	(28,783)	(11,701)	(1,716)	0
Shares issued		0	30,129	18,293	0	0	0
Dividends		(483)	(1,264)	(1,932)	0	(1,642)	(2,190)
Net Cash Flow		(4,332)	20,137	(25,136)	(7,360)	5,902	9,510
Opening net debt/(cash)		(3,431)	1,176	(8,275)	26,847	34,206	28,305
HP finance leases initiated		0	0	0	0	0	0
Other		(275)	(10,686)	(9,985)	()	0	0
Closing net debt/(cash)		1,176	(8,275)	26,847	34,206	28,305	18,794

Source: Company accounts, Edison Investment Research. Note: \*Includes exceptional costs in FY17. \*\*Includes additional payments for ADEPCON in FY18 and FY19, and final payments for RSP, Astrums/Hartung and Harlex in FY18.

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