EDISON

SNP Schneider-Neureither & Partner

Q1 results

New $4.5m contract win in North America

Software & comp services

While Q1 revenue grew by 46%, the underlying growth was affected by customers deferring projects, particularly around SAP S/4HANA. However, new orders were healthy, and the book-to-bill ratio jumped to 1.3x. This included part of a $4.5m new contract in the US and we expect FY18 to follow a similar path to FY17 with a stronger than normal H2. Meanwhile, SNP remains focused on bedding down acquisitions and the management team has been restructured to reflect the global nature of the business. Also, there has been some streamlining. The outlook remains favourable, particularly on the M&A-driven side of the business, with global M&A at record highs. Given the favourable industry drivers and the potential for margin recovery, the shares look attractive on c 22x our FY19e earnings.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	80.7	6.4	109.7	39.0	31.5	1.1
12/17	122.3	0.2	(7.4)	0.0	N/A	0.0
12/18e	151.2	6.2	74.3	30.0	46.4	0.9
12/19e	165.3	12.9	160.1	40.0	21.5	1.2

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

Q1 results: Book-to-bill ratio rises to 1.30x

Group revenue grew by 46% to €31.6m, including organic growth of 2% and the impact of four acquisitions. There was also a c €450k FX tailwind. SNP reported an operating loss of €2.6m, which was after €1m of exceptional costs that are not expected to continue. Net debt increased by €5.8m to €32.6m.

Contract win with Spectrum Brands

SNP has won a $4.5m contract to provide transformation software and services to Spectrum Brands, the global consumer goods company listed on the NYSE, as it carves out its batteries and appliances divisions. The contract consists of two projects, one of which was booked after the period end, and includes a software component of $1.9m. The deal is evidence that SNP's US business is regaining traction after the appointment in January of a US-based chief revenue officer.

Forecasts: Modest tweaks on maintained guidance

We have increased our interest and capex forecasts and created a new cloud revenue category. Otherwise, our forecasts are broadly maintained. Our adjusted EPS falls by 3.3% in FY18 and by 1.6% in FY19, while year-end net debt goes up by €0.6m to €34.8m in FY18 and by €1.5m to €29.8m a year later.

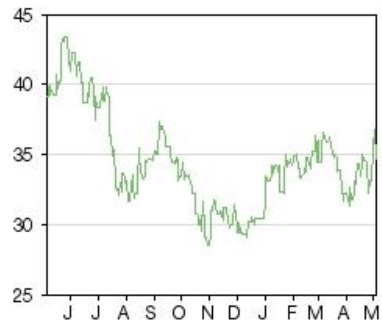
Valuation: Strong growth play in the ERP space

The stock trades on c 46x our FY18e EPS, which falls to c 22x in FY19e and c 16x in FY20e. 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, 14% 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.

4 May 2018

Price	**€34.50**
Market cap	**€189m**
Net debt (€m) at 31 March 2018	32.6
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	9.1	(0.6)	(9.5)
Rel (local)	3.2	0.2	(10.6)
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

AGM	30 May 2018
Q2 results	2 August 2018
Q3 results	31 October 2018
German Equity Forum	26-28 November 2018

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SNP Schneider-Neureither & Partner is a research client of Edison Investment Research Limited

Q1 results: Slow start to year, but outlook looks good

While Q1 was weaker than management expected, SNP is maintaining guidance for FY18, with revenue in the €150-155m range and an EBIT margin in the mid-single digits. Despite the weak Q1, new orders rose by 68% to €40.9m, while the backlog jumped by 72% to €70.2m. Consequently, the group's financial performance is expected to pick up as the year progresses.

Q1 group revenue grew by 46% to €31.6m, including organic growth of €0.3m, or c 2%, and the impact of four acquisitions (Innoplexia, SNP Poland, Adepcon and ERST). There was also a c €450k FX tailwind. There was an operating loss of €2.6m, which was after €1m of exceptional costs that are not expected to continue. This included €0.3m of acquisition-related expenses, €0.4m from the changeover to IFRS 15 and €0.3m in other factors, mainly being redundancies in North America. Around 25 full-time positions were eliminated in Q1, which is expected to generate savings in the lower single-digit millions.

The group is continuing to evolve following the significant acquisitions of the last two years. The two-person executive board has been replaced with a six-person leadership team to reflect the global nature of the group. Much of management time has been on transforming the group processes following the recent acquisitions. SNP rehired Dieter Matheis late last year on a temporary contract as global CFO to assist in the process. Meanwhile, the overall group strategy, to build a global, software-based IT services business providing support in transformation projects, both at international and regional levels, remains intact.

The DACH (German-speaking) area has been performing well (10% revenue growth y-o-y to €15.4m), as have BCC (€4.8m revenues) and Adepcon (€4.2m revenues), which are the major acquisitions of 2017, and the UK (€2.0m revenues, up 33%). BCC, now called SNP Poland, has been fully integrated, while Adepcon continues to operate as it did previously. The laggard regions have been North America and Asia. North America saw a 22% decline in revenues to €3.6m, which largely reflects the lumpiness of orders, as a large order recently completed. In Asia, revenues rose by 7% to €1.6m, representing 5% of group revenues, compared with 10% of employees. The new transformation contract with Spectrum Brands is a positive development for the North American business and also highlights the emphasis on increasing software sales. Henry Göttler, who was running the Asian business, has left the group.

There were several project delays, which mostly related to SAP S/4HANA and resulted in lower utilisation levels as well as lower software sales. S/4HANA is very complex to implement, and the S/4HANA projects are expected to be staggered or implemented over the coming months.

Professional services revenue jumped by 33% to €25.4m, reflecting a 6% organic decline and €7.4m from acquisitions. The company has also added a new cloud revenue category that incorporates the hosting activities of the recently acquired SNP Poland, with €0.4m revenue generated in Q1.

Total software licence sales more than doubled to €5.7m, including €1.8m from acquisitions and 56% organic growth. The total includes €1.9m of third-party software resales. Despite the strong organic growth, sales of SNP's high-margin applications, including Interface Scanner, DPM and Dragoman, were lower than expected.

Exhibit 1: Quarterly analysis

Quarterly analysis	2016	2017	2017	2017	2017	2017	2018	2018	2018	2019
€'000	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2-Q4	FYe	FYe
Professional services	66,640	19,089	22,151	25,936	31,157	98,333	25,441	89,516	114,957	125,556
Cloud							424	1,376	1,800	1,971
Licences	11,982	1,733	3,042	5,935	8,389	19,099	3,697	23,974	27,671	30,300
Maintenance	2,063	776	1,237	1,140	1,758	4,911	1,991	4,830	6,821	7,469
Total revenue	80,685	21,598	26,430	33,011	41,304	122,343	31,553	119,696	151,249	165,297
Other operating income*	1,228	235	295	171	1,217	1,918	833			
Cost of materials	(8,276)	(2,260)	(3,244)	(7,037)	(6,674)	(19,215)	(5,135)			
Personnel costs	(47,207)	(14,657)	(15,511)	(18,849)	(22,455)	(71,472)	(21,363)			
Other operating expenses	(17,811)	(6,692)	(6,461)	(7,156)	(9,626)	(29,935)	(7,183)			
Other taxes	(95)	(28)	(277)	(32)	(196)	(533)	(118)			
Op costs (before depreciation)	(72,161)	(23,402)	(25,198)	(32,903)	(37,572)	(119,075)	(32,966)	(107,401)	(140,367)	(146,954)
Adjusted EBITDA	8,524	(1,804)	1,232	108	3,732	3,268	(1,413)	12,295	10,882	18,343
Depreciation*	(1,010)	(344)	(390)	(493)	(528)	(1,755)	(808)	(2,680)	(3,488)	(4,408)
Adjusted operating profit	7,514	(2,148)	842	(385)	3,204	1,513	(2,221)	9,615	7,394	13,935
Operating Margin	9.3%	(9.9%)	3.2%	(1.2%)	7.8%	1.2%	(7.0%)	8.0%	4.9%	8.4%
Net interest	(1,137)	(577)	(181)	(218)	(351)	(1,327)	(287)	(913)	(1,200)	(1,000)
Edison profit before tax (norm)	6,377	(2,725)	661	(603)	2,853	186	(2,508)	8,702	6,194	12,935
Amortisation of acq'd intangibles*	(657)	(250)	(300)	(350)	(1,121)	(2,021)	(400)	(1,200)	(1,600)	(1,600)
Associates	8	0	(1)	12	(35)	(24)	0	0	0	0
Earnings before tax	5,728	(2,975)	360	(941)	1,697	(1,859)	(2,908)	7,502	4,594	11,335
New orders and backlog	2016	2017	2017	2017	2017	2017	2018			
Incoming orders	95,600	24,400	33,200	37,400	35,700	130,700	40,900			
Quarterly revenues	80,685	21,598	26,430	33,011	41,304	122,343	31,553			
Book-to-bill ratio	1.18	1.13	1.26	1.13	0.86	1.07	1.30			
Backlog		40,800	48,500	62,200	61,300		70,200			

Source: Company accounts, Edison Investment Research. *Quarterly amortisation of acquired intangibles is estimated data.

The group maintains healthy cash balances following its capital-raising last year. SNP recently amended the presentation of its accounts, with financial liabilities now including acquisition liabilities (see our previous update note). The Q1 operating cash outflow was €4.7m and, after capex of €1.4m, free cash outflow was €6.1m. The group paid €3.2m in acquisition payments during the quarter. The group's net debt increased by €5.8m over the quarter to €32.6m. There is also a small pension deficit that we have included in our DCF valuation.

Exhibit 2: Balance sheet position

€m	31-Dec-17	31-Mar-18
Cash	(33.9)	(24.3)
Current financial liabilities	11.2	7.4
Non-current financial liabilities	49.5	49.5
Net debt/(cash)	26.8	32.6
Pension deficit	1.5	1.6
Adjusted net debt/(cash)	28.4	34.2

Source: Company accounts

Exhibit 3: Financial summary

€'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	56,236	80,685	122,343	151,249	165,297	179,476
Cost of sales	0	0	0	0	0	0
Gross Profit	56,236	80,685	122,343	151,249	165,297	179,476
EBITDA	5,484	8,524	3,268	10,882	18,343	22,454
Adjusted Operating Profit	4,222	7,514	1,513	7,394	13,935	17,682
Amortisation of acquired intangibles	0	(657)	(2,021)	(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	16,082
Net Interest	(828)	(1,137)	(1,327)	(1,200)	(1,000)	(800)
Profit Before Tax (norm)	3,394	6,377	186	6,194	12,935	16,882
Profit Before Tax (FRS 3)	3,747	5,728	(1,859)	4,594	11,335	15,282
Tax	(1,195)	(1,517)	(807)	(1,858)	(3,880)	(5,065)
Profit After Tax (norm)	2,198	4,860	(620)	4,336	9,054	11,817
Profit After Tax (FRS 3)	2,552	4,211	(2,666)	2,736	7,454	10,217
Minority interest	0	(147)	234	(267)	(289)	(312)
Adjustments for normalised earnings	0	0	0	0	0	0
Net income (norm)	2,198	4,713	(386)	4,069	8,766	11,506
Net income (FRS 3)	2,552	4,064	(2,431)	2,469	7,166	9,906
Average Number of Shares Outstanding (m)	3.7	4.3	5.2	5.5	5.5	5.5
EPS - normalised (c)	58.8	109.7	(7.4)	74.3	160.1	210.2
EPS - normalised & fully diluted (c)	58.8	109.7	(7.4)	74.3	160.1	210.2
EPS - FRS 3 (c)	68.3	94.6	(46.8)	45.1	130.9	180.9
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	11.1	12.5
Adjusted Operating Margin (%)	7.5	9.3	1.2	4.9	8.4	9.9
BALANCE SHEET						
Fixed Assets	15,243	30,109	75,171	74,588	73,094	71,176
Intangible Assets	11,675	24,179	67,012	65,380	63,748	62,115
Tangible Assets	1,999	3,161	5,187	6,237	6,375	6,089
Other	1,570	2,769	2,972	2,972	2,972	2,972
Current Assets	29,996	58,424	78,614	75,032	80,124	89,626
Stocks	0	371	371	459	502	545
Debtors	16,084	25,652	43,781	54,125	59,152	64,226
Cash	13,769	31,914	33,877	19,863	19,885	24,270
Current Liabilities	(13,703)	(32,631)	(40,531)	(50,324)	(54,623)	(58,900)
Creditors	(11,101)	(14,523)	(29,295)	(39,088)	(43,387)	(47,664)
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	58,213	65,085	75,967
CASH FLOW						
Operating Cash Flow	1,879	1,005	(5,316)	10,159	17,548	21,589
Net Interest	(167)	53	(798)	(1,200)	(1,000)	(800)
Tax	(554)	(412)	(1,366)	(1,734)	(3,622)	(4,727)
Capex	(1,779)	(3,451)	(5,234)	(4,537)	(4,546)	(4,487)
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)	(9,014)	5,022	9,386
Opening net debt/(cash)	(3,431)	1,176	(8,275)	26,847	35,861	30,839
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	35,861	30,839	21,453

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

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