

SNP Schneider-Neureither & Partner

Acquisition

Polish SAP consulting bolt-on

SNP is acquiring BCC, one of the largest SAP partners in Central and Eastern Europe, for an undisclosed price. The deal broadens 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. On our estimates, the deal is value creating and earnings enhancing, with our FY18e and FY19e EPS rising by c 19%. However, we have cut our FY17 EBIT forecast, which implies a 7.3% margin, or 9.7% before the €2.65m one-off items outlined in the Q1 results. 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 18x our FY19e 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	67.0	0.9
12/16	80.7	5.7	94.4	39.0	41.8	1.0
12/17e	110.0	7.2	96.3	45.0	40.9	1.1
12/18e	135.1	13.6	185.6	52.0	21.2	1.3

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

Acquisition of BCC

SNP is acquiring 100% of the shares in the Polish BCC Group from its management for an undisclosed price. In our view, BCC provides an excellent geographic fit with SNP, since BCC is one of the largest SAP partners in Eastern Europe. Additionally, Polish talent is cheaper than in other markets, and BCC offers the potential for nearshoring/offshoring. Despite having over 400 customers in 40 countries, BCC was subscale and had limited capital to expand. BCC generated revenue of PLN95.4m in FY16 (c €21.6m) with profit margins in mid-single digits.

Acquisition of Innoplexia

Separately, SNP has increased its stake in Innoplexia from 20% to 80%. SNP paid €0.4m for the initial 20% in April 2016, so we assume it has paid €1.2m for the additional 60%. Innoplexia operates out of the same offices as SNP in Heidelberg. Innoplexia's flagship product – Innoplexia Virtual Industry – collects, processes and analyses digital market data from search engines and comparison portals.

Forecasts: FY17 cut while FY18 EPS rises by c 19%

We have increased our FY17 revenues in line with the new guidance of €110m and have conservatively ignored Innoplexia. We have cut FY17 operating profit by €1.8m to €8.0m. We increase group revenue by €24.6m in FY18 and €26.9m in FY19, while EPS rise by 19% in each year. Noting that SNP seeks to acquire businesses at c 0.6-1.2x sales, we have assumed a €20m purchase price for BCC.

Valuation: Strong growth play in the ERP space

The stock trades on c 41x our FY17e EPS, which falls to c 21x in FY18e and to c 18x in FY19e. Our discounted cash flow (DCF) valuation rises to €47.75/sh from €46.00, which is c 21% above the current share price. However, our model is based on conservative assumptions and takes no account of any additional acquisitions.

Software & comp services

12 May 2017

Price €39.42

Market cap €196m

Net cash (€m) at 31 March 2017 12.2

Shares in issue 4.98m

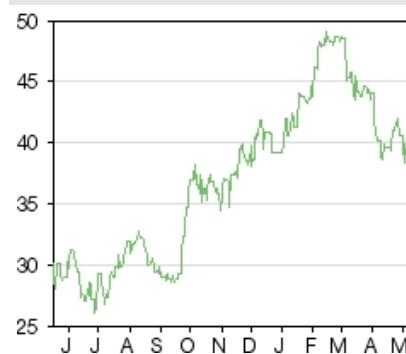
Free float 65.9%

Code SHF

Primary exchange Frankfurt (Xetra)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.3 (17.6) 25.2

Rel (local) (2.3) (24.4) (1.8)

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 2017

Q2 results 28 July 2017

Q3 results 27 October 2017

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Acquisition of BCC

SNP is acquiring 100% of the shares in the Poznan-based BCC Group from its three senior managers for an undisclosed price. Founded in 1995, BCC has c 300 employees and therefore this acquisition will take SNP's total headcount to more than 1,000. BCC has one of the biggest SAP teams in Central and Eastern Europe, with over 200 SAP specialists along with a further c 50 IT experts. As an authorised SAP partner, BCC has competencies in all major SAP products and technologies and offers a wide range of solutions extending from standard SAP to complementary solutions. In addition to SAP services, BCC offers IT outsourcing activities, including cloud computing and managed hosting, operating from two twinned data centres at different locations. SNP intends to maintain these data centre activities, which will strengthen its service offering and enable it to match some of its larger competitors. Additionally, BCC offers customised software development through the BCC Software Factory, which will offer synergies with SNP's own software activities.

BCC has over 400 customers in 40 countries and has implemented more than 1,000 projects. It had a strategy in place called BCC + international, which ran until 2017. The plan was to drive revenues above PLN140m, with at least 60% of the revenues coming from projects carried out outside Poland. However, this plan appears to have been behind target. BCC generated revenue of PLN95.4m in FY16 (c €21.6m) with profit margins in mid-single digits.

The purchase is funded from the group's existing cash resources. As SNP had cash resources of €53.9m at the end of March (ie net cash of €12.2m after taking into account €41.7m of debt of which €39.6m is long term), based on our assumptions this will reduce to a pro forma €32.7m after the acquisitions of BCC and Innoplexia. This would leave the group with c €25-30m of headroom for acquisitions before additional financing is needed.

Acquisition of Innoplexia

SNP has increased its stake in Innoplexia from 20% to 80%. Innoplexia operates out of the same offices as SNP in Heidelberg. Innoplexia's flagship product – Innoplexia Virtual Industry – collects, processes and analyses digital market data from search engines and comparison portals. SNP has got to know the Innoplexia business well, and it plans to utilise Innoplexia's skills in its future transformation software to generate automated recommended actions in transformation projects using artificial intelligence and software algorithms.

Founded in 2010, Innoplexia has 24 employees and generated revenue of c €1m FY16. In the future, SNP and Innoplexia will further extend and grow their collaboration, particularly in the areas of software development and sales. Innoplexia will be able to use the established distribution networks of SNP and will also seek separate routes to international markets. The company founders and managing directors hold the remaining 20% of Innoplexia shares. A unilateral purchase option has additionally been arranged for these shares.

Management guidance

Following the BCC acquisition, and prior to the Innoplexia deal, SNP's management increased its FY17 revenue guidance to €110m from €96-100m previously. This implies c €22m in annualised revenue from BCC based on seven months in FY17. With the Q1 results, management's FY17 EBIT margin guidance was 9-11%, or 7-12% after any acquisitions.

Forecasts: FY18 & FY19 revenues rise by c 22% while EPS goes up by c 19%

We have included BCC for a seven-month period in FY17, taking our FY17 revenues to match management's new guidance of €110m. We have conservatively eased our FY17 operating profit forecast by €1.8m to €8.0m (vs €6.9m in 2016) to reflect additional one-off costs going into the business, as outlined in the Q1 results. This translates to an operating margin of 7.3%, or 9.7% after adding back the one-off costs. We increase group revenue by €24.6m in FY18 and €26.9m in FY19, with incremental margins of 8.6% and 9.3% to take synergies into account. We have treated this as professional services revenue for simplicity. We have conservatively ignored Innoplexia given its small size. We have maintained our interest charge forecasts, since the financing is already in place and there is no interest on cash balances. We have maintained our tax charge assumptions at 30% going forward.

Given that SNP seeks to acquire businesses at around 0.6-1.2x sales, we have assumed a €20m purchase price for BCC. We have ignored any earnout or other deferred payment structure. As SNP paid €0.4m for the initial 20% of Innoplexia in April 2016, we have assumed that SNP has paid €1.2m for the additional 60%.

In all, our revenue forecasts rise by 13% in FY17, and 22% in each of FY18 and FY19. EBIT falls by 18% in FY17, and rises by 17% in FY18 and FY19, while EPS falls by 21% in FY17 and rises 19% in FY18 and FY19. We forecast the group to end FY17 with net cash of €0.3m, which moves to net debt of €2.2m at end-FY18 (after making the deferred payments for previous acquisitions) and then moves to €6.1m net cash a year later.

Exhibit 1: Forecast changes

	Old	New	Change	Old	New	Change	Old	New	Change
(€'000s)	2017e	2017e	%	2018e	2018e	%	2019e	2019e	%
Revenue									
Professional services	80,500	92,991	15.5	91,652	116,292	26.9	100,104	127,025	26.9
Software licences	14,000	14,000	0.0	15,000	15,000	0.0	16,425	16,425	0.0
Software maintenance	3,000	3,000	0.0	3,850	3,850	0.0	4,216	4,216	0.0
Total software	17,000	17,000	0.0	18,850	18,850	0.0	20,641	20,641	0.0
Group revenue	97,500	109,991	12.8	110,502	135,142	22.3	120,745	147,665	22.3
Growth (%)	20.8	36.3		13.3	22.9		9.3	9.3	
Professional services contribution	7,889	6,650	(15.7)	9,394	11,513	22.6	10,511	13,020	23.9
Software contribution	4,590	4,250	(7.4)	5,655	5,655	(0.0)	6,915	6,915	0.0
Non-segment-related expenses	(3,200)	(3,400)	6.3	(3,350)	(3,350)	0.0	(3,417)	(3,417)	0.0
Other operating income & other taxes	500	500	0.0	510	510	0.0	520	520	0.0
Operating expenses	(87,721)	(101,991)	16.3	(98,293)	(120,814)	22.9	(106,216)	(130,627)	23.0
Adjusted operating profit (EBIT)	9,779	8,000	(18.2)	12,209	14,328	17.4	14,529	17,038	17.3
Operating profit margin (%)	10.0	7.3		11.0	10.6		12.0	11.5	
Growth (%)	42.6	16.7		24.9	79.1		19.0	18.9	
Net interest	(800)	(800)	0.0	(750)	(750)	0.0	(700)	(700)	0.0
Profit before tax norm	8,979	7,200	(19.8)	11,459	13,578	18.5	13,829	16,338	18.1
Profit before tax	8,979	7,200	(19.8)	11,459	13,578	18.5	13,829	16,338	18.1
Taxation	(2,694)	(2,160)	(19.8)	(3,438)	(4,073)	18.5	(4,149)	(4,901)	18.1
Non-controlling interests	(248)	(248)	0.0	(267)	(267)	0.0	(289)	(289)	0.0
FRS 3 net income	6,038	4,792	(20.6)	7,754	9,237	19.1	9,391	11,148	18.7
Adjusted EPS (c)	121.3	96.3	(20.6)	155.8	185.6	19.1	188.7	224.0	18.7
P/E - Adjusted EPS		40.9			21.2			17.6	

Source: Edison Investment Research

Exhibit 2: 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	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	16,804	19,823
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
BALANCE SHEET							
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	96.3	185.6	224.0
EPS - normalised & fully diluted (c)		(13.9)	58.8	94.4	96.3	185.6	224.0
EPS - FRS 3 (c)		26.6	68.3	94.6	96.3	185.6	224.0
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	12.4	13.4
Adjusted Operating Margin (%)		-0.2	7.5	8.5	7.3	10.6	11.5
Fixed Assets		8,291	15,243	29,054	50,377	50,603	50,772
Intangible Assets		5,190	11,675	24,179	45,779	45,779	45,779
Tangible Assets		1,231	1,999	3,161	3,284	3,510	3,679
Other		1,871	1,570	1,714	1,314	1,314	1,314
Current Assets		17,882	29,996	59,478	80,293	86,280	93,771
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	42,849	40,357	43,626
Current Liabilities		(9,782)	(13,703)	(34,382)	(33,134)	(46,041)	(49,576)
Creditors		(9,182)	(11,101)	(21,583)	(31,034)	(38,941)	(42,476)
Short term borrowings		(600)	(2,602)	(12,799)	(2,100)	(7,100)	(7,100)
Long Term Liabilities		(2,501)	(15,513)	(5,576)	(45,576)	(36,076)	(26,576)
Long term borrowings		(1,650)	(12,344)	(434)	(40,434)	(35,434)	(30,434)
Other long term liabilities		(851)	(3,169)	(5,141)	(5,141)	(641)	3,859
Net Assets		13,890	16,024	48,575	51,961	54,767	68,391
CASH FLOW							
Operating Cash Flow		2,579	1,879	1,005	9,526	16,129	19,085
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)	(2,200)	(2,703)	(2,953)
Acquisitions/disposals		(500)	(3,228)	(5,923)	(21,200)	(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	(18,366)	(2,492)	8,269
Opening net debt/(cash)		(3,505)	(3,431)	1,176	(18,681)	(315)	2,177
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)	(315)	2,177	(6,092)

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

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