

Intershop Communications AG

GERMANY / Technology
 Primary Exchange: Frankfurt
 Bloomberg: ISH2 GR
 ISIN: DE000A0EPUH1

Q1 figures

RATING
PRICE TARGET **ADD**
 Return Potential 2.0%
 Risk Rating High

€ 1.34

STRONG GROWTH AND POSITIVE EBIT

On 3 May, Intershop reported Q1 figures and held a conference call. Strong revenue growth (+26% y/y), a jump in the gross margin to 49% and a lean cost base resulted in positive EBIT (€0.2m). Both sales and EBIT were above our forecast. The company is still guiding towards slightly higher revenues and break-even at the operating level. We continue to forecast 12% sales growth and a 1.4% EBIT margin. We have increased our price target to €1.34 (previously: €1.25) and reiterate our Add rating.

Q1 figures above estimates Sales rose 26% y/y to €9.1m (FBe: €8.6m, Q1/16: €7.3m), driven by both Product (+49%) and Service revenues (+12%). The gross margin jumped by 5 PP to 49% due to an improved product mix (as the Product segment's revenue share increased by 7 PP to 44.5%) and a higher gross margin in the Service segment (27.3% vs. 18.5% in Q1/16). Operating costs fell 7% y/y to €4.3m from €4.6m, despite a 16% rise in sales and marketing expenses to €2.1m. This is in line with the "Lighthouse 2020" program which redirects funds to expand marketing activities especially in the wholesale sector. EBIT was already in positive territory in Q1 at €0.2m (FBe: €-0.3m, Q1/16: €-1.4m). The net result was €0.1m (FBe: €-0.4m, Q1/16: €-1.5m) and EPS improved to €0.00 from €-0.02 (see figure 1 overleaf).

Guidance reiterated Intershop reiterated its guidance (slightly higher revenues and break-even at the operating level). We continue to forecast 12% sales growth and an EBIT margin of 1.4%.

Improved balance sheet metrics The cash position improved to €13.1m (end 2016: €10.9m). As financial debt was largely unchanged (short-term: €1.0m, long-term: €2.8m) the net cash position rose to €9.4m from €7.1m at the end of 2016. Equity rose marginally q/q to €16.2m and the equity ratio remained largely stable at 58%. Working capital fell by €1.1m to €27m.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	46.18	42.72	34.19	38.28	42.11	45.90
Y-o-y growth	n.a.	-7.5%	-20.0%	12.0%	10.0%	9.0%
EBIT (€m)	-6.28	0.17	-2.38	0.54	1.43	2.11
EBIT margin	-13.6%	0.4%	-7.0%	1.4%	3.4%	4.6%
Net income (€m)	-6.64	0.01	-2.99	0.37	1.25	1.93
EPS (diluted) (€)	-0.22	0.00	-0.09	0.01	0.04	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-2.60	2.65	-3.67	0.22	0.56	1.29
Net gearing	-36.2%	-48.7%	-44.4%	-44.7%	-44.7%	-46.9%
Liquid assets (€m)	6.36	15.23	10.90	10.11	9.67	10.18

RISKS

Risks include, but are not limited to, increasing competition, rapid technological change, currency risks, and financial solidity.

COMPANY PROFILE

Intershop is a leading independent provider of omni-channel commerce solutions offering high-performance packaged software for internet sales. The company also acts as a business process outsourcing provider, covering all aspects of online retailing. The company has over 300 customers worldwide including HP, BMW, and Deutsche Telekom.

MARKET DATA

As of 10 May 2017

Closing Price	€ 1.31
Shares outstanding	31.68m
Market Capitalisation	€ 41.63m
52-week Range	€ 1.03 / 1.71
Avg. Volume (12 Months)	28,245

Multiples	2016	2017E	2018E
P/E	n.a.	108.9	31.8
EV/Sales	0.9	0.8	0.7
EV/EBIT	n.a.	56.9	21.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 13.11m
Current Assets	€ 17.61m
Intangible Assets	€ 8.81m
Total Assets	€ 28.10m
Current Liabilities	€ 8.84m
Shareholders' Equity	€ 16.19m

SHAREHOLDERS

Shareholder Value	24.9%
BNY Mellon Service	9.3%
Free Float	65.8%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q1-17A	Q1-17E	Delta	Q1-16	Delta
Sales	9.14	8.60	6.3%	7.27	25.8%
EBIT	0.19	-0.28	-	-1.39	-
margin	2.1%	-3.3%	-	-3.3%	-
Net income	0.10	-0.35	-	-1.49	-
margin	1.0%	-4.0%	-	-3.5%	-
EPS (diluted)	0.00	-0.01	-	-0.05	-

Source: First Berlin Equity Research, Intershop Communications AG

Strong operating cash flow A slightly positive net result and lower working capital requirements resulted in a positive operating cash flow of €2.8m. Due to CAPEX of €0.6m free cash flow amounted to €2.2m. As there was no cash flow from financing activity, the net cash flow was €2.2m.

“Lighthouse 2020” restructuring program shows first effects Intershop’s cost base remained lean and both investment in sales & marketing and the focus on the wholesale sector showed first successes. Due to intensified marketing efforts Intershop quadrupled the number of leads y/y. Assuming roughly stable conversion rates, this should ultimately boost future sales. In Q1, the company gained five new customers. Given that Q1 is usually a seasonally weak quarter, this is a promising start. Among the new customers are two companies from the targeted wholesale sector. Furthermore, Intershop received a significant order from a large client – a German premium car company.

Cooperation with Microsoft expanded Intershop has expanded its partnership with Microsoft. In the two companies’ joint cloud offering, all the constituent solutions such as ERP, marketing, CRM & OMS tools, are seamlessly combined to guarantee smooth interaction of the Intershop Commerce Suite with Microsoft NAV on the Microsoft Azure cloud platform. Intershop Commerce Suite 7.8 now offers the full infrastructure of the Intershop commerce system on Azure. Joint events and global campaigns with Microsoft look set to generate further leads and ultimately orders.

Intershop remains a leading provider of B2B and B2C commerce solutions In March, the IT analyst firm Forrester Research ranked Intershop as one of three global leaders in the B2B segment. Intershop also performed well in Forrester’s recent analysis of B2C Commerce Suites and was ranked among the three best B2C providers. We believe that Forrester’s results give Intershop’s marketing efforts strong tailwind.

Estimates unchanged, price target increased, Add reiterated We stick to our forecast for 2017E and view Q1 as a very good start to the year. Due to the lower net debt position we raise our price target to €1.34 (previously: €1.25). We reiterate our Add rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	38,278	42,106	45,895	49,796	53,803	57,850	61,880	65,833
NOPLAT	517	1,366	2,010	2,320	2,644	3,021	3,389	3,765
+ depreciation & amortisation	2,535	2,262	2,467	2,700	2,946	3,185	3,420	3,650
Net operating cash flow	3,052	3,627	4,477	5,020	5,589	6,207	6,809	7,415
- total investments (CAPEX and WC)	-2,686	-2,959	-3,110	-3,609	-3,850	-4,085	-4,308	-4,516
Capital expenditures	-2,488	-2,737	-2,983	-3,237	-3,468	-3,697	-3,921	-4,135
Working capital	-198	-222	-126	-372	-382	-387	-387	-381
Free cash flows (FCF)	366	668	1,367	1,412	1,739	2,122	2,501	2,899
PV of FCF's	342	564	1,041	969	1,077	1,185	1,259	1,316

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	17,327
PV of FCFs in terminal period	15,641
Enterprise value (EV)	32,968
+ Net cash / - net debt	9,359
+ Investments / minority interests	0
Shareholder value	42,327

Fair value per share in EUR	1.34
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WACC		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	14.0%	6.9%	2.26	2.35	2.46	2.59	2.75	2.95	3.21
Pre-tax cost of debt	4.5%	7.9%	1.90	1.96	2.03	2.11	2.20	2.31	2.44
Tax rate	20.0%	8.9%	1.64	1.68	1.72	1.77	1.83	1.89	1.97
After-tax cost of debt	3.6%	9.9%	1.44	1.46	1.49	1.52	1.56	1.60	1.65
Share of equity capital	70.0%	10.9%	1.28	1.29	1.31	1.34	1.36	1.39	1.42
Share of debt capital	30.0%	11.9%	1.15	1.16	1.18	1.19	1.21	1.23	1.25
		12.9%	1.05	1.05	1.06	1.08	1.09	1.10	1.11
Fair value per share in EUR	1.34	13.9%	0.96	0.97	0.97	0.98	0.99	1.00	1.01

* for layout purposes the model shows numbers only to 2024, but runs until 2031



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	46,175	42,721	34,188	38,278	42,106	45,895
Cost of goods sold	29,462	23,616	18,452	19,905	21,895	23,865
Gross profit	16,713	19,105	15,736	18,373	20,211	22,030
S&M	11,872	8,504	7,377	8,230	8,253	8,445
G&A	5,698	4,962	3,905	3,636	3,705	4,360
R&D	5,113	5,801	5,923	5,818	6,695	7,022
Other operating income	1,510	689	276	230	295	367
Other operating expenses	1,815	359	1,189	383	421	459
Operating income (EBIT)	-6,275	168	-2,382	536	1,432	2,111
Net financial result	6	-149	-259	-151	-112	-80
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-6,269	19	-2,641	385	1,319	2,031
Income taxes	373	14	347	19	66	102
Minority interests	0	0	0	0	0	0
Net income / loss	-6,642	5	-2,988	366	1,254	1,930
Diluted EPS (in €)	-0.22	0.00	-0.09	0.01	0.04	0.06
EBITDA	-2,129	3,464	113	3,071	3,693	4,578
Ratios						
Gross margin	36.2%	44.7%	46.0%	48.0%	48.0%	48.0%
EBIT margin on revenues	-13.6%	0.4%	-7.0%	1.4%	3.4%	4.6%
EBITDA margin on revenues	-4.6%	8.1%	0.3%	8.0%	8.8%	10.0%
Net margin on revenues	-14.4%	0.0%	-8.7%	1.0%	3.0%	4.2%
Tax rate	-5.9%	73.7%	-13.1%	5.0%	5.0%	5.0%
Expenses as % of revenues						
S&M	25.7%	19.9%	21.6%	21.5%	19.6%	18.4%
G&A	12.3%	11.6%	11.4%	9.5%	8.8%	9.5%
R&D	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Depreciation and amortisation	9.0%	7.7%	7.3%	6.6%	5.4%	5.4%
Other operating expenses	3.9%	0.8%	3.5%	1.0%	1.0%	1.0%
Y-Y Growth						
Revenues	n.a.	-7.5%	-20.0%	12.0%	10.0%	9.0%
Operating income	n.a.	n.m.	n.m.	n.m.	167.1%	47.5%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	242.5%	54.0%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	14,203	21,429	16,618	16,262	16,259	17,063
Cash and cash equivalents	6,358	15,232	10,898	10,113	9,669	10,185
Short-term investments	0	0	0	0	0	0
Receivables	6,737	5,338	5,129	5,558	5,999	6,287
Inventories	0	0	0	0	0	0
Other current assets	1,108	859	591	591	591	591
Non-current assets, total	11,077	11,539	10,493	10,446	10,921	11,437
Property, plant & equipment	631	362	567	390	347	351
Goodwill & other intangibles	9,451	8,697	8,806	8,936	9,454	9,966
Other assets	995	2,480	1,120	1,120	1,120	1,120
Total assets	25,280	32,968	27,111	26,708	27,180	28,500
Shareholders' equity & debt						
Current liabilities, total	7,703	8,571	7,936	8,167	8,386	8,548
Short-term debt	0	1,000	1,000	1,000	1,000	1,000
Accounts payable	1,670	2,066	1,350	1,581	1,800	1,962
Current provisions	344	497	690	690	690	690
Other current liabilities	5,689	5,008	4,896	4,896	4,896	4,896
Long-term liabilities, total	0	5,316	3,120	2,120	1,120	348
Long-term debt	0	4,949	2,772	1,772	772	0
Deferred revenue	0	367	348	348	348	348
Other liabilities	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
Shareholders' equity	17,577	19,081	16,055	16,421	17,675	19,604
Share capital	30,183	31,683	31,683	31,683	31,683	31,683
Capital reserve	7,751	7,806	7,806	7,806	7,806	7,806
Other reserves	0	0	0	0	0	0
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-20,357	-20,408	-23,434	-23,068	-21,814	-19,885
Total consolidated equity and debt	25,280	32,968	27,111	26,708	27,180	28,500
Ratios						
Current ratio (x)	1.84	2.50	2.09	1.99	1.94	2.00
Quick ratio (x)	1.84	2.50	2.09	1.99	1.94	2.00
Net debt	-6,358	-9,283	-7,126	-7,341	-7,897	-9,185
Net gearing	-36.2%	-48.7%	-44.4%	-44.7%	-44.7%	-46.9%
Equity ratio	69.5%	57.9%	59.2%	61.5%	65.0%	68.8%
Book value per share (in €)	0.57	0.62	0.51	0.52	0.56	0.62
Return on equity (ROE)	-37.8%	0.0%	-18.6%	2.2%	7.1%	9.8%
Days of sales outstanding (DSO)	53	46	55	53	52	50
Days in payables (DIP)	21	32	27	29	30	30



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	-6,275	168	-2,382	536	1,432	2,111
Depreciation and amortisation	4,146	3,296	2,495	2,535	2,262	2,467
EBITDA	-2,129	3,464	113	3,071	3,693	4,578
Changes in working capital	3,142	1,675	-473	-198	-222	-126
Other adjustments	-626	-172	-502	-170	-178	-181
Operating cash flow	387	4,967	-862	2,703	3,293	4,271
Investments in PP&E	-275	-147	-473	-191	-211	-229
Investments in intangibles	-2,708	-2,168	-2,336	-2,297	-2,526	-2,754
Free cash flow	-2,596	2,652	-3,671	215	556	1,287
Acquisitions & disposals, net	1,941	12	1	0	0	0
Other investments	-375	0	375	0	0	0
Investment cash flow	-1,417	-2,303	-2,433	-2,488	-2,737	-2,983
Debt financing, net	0	5,902	-2,200	-1,000	-1,000	-772
Equity financing, net	0	1,650	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	-1,294	1,200	0	0	0
Financing cash flow	0	6,258	-1,000	-1,000	-1,000	-772
FOREX & other effects	-1	-48	-39	0	0	0
Net cash flows	-1,031	8,874	-4,334	-785	-444	515
Cash, start of the year	7,389	6,358	15,232	10,898	10,113	9,669
Cash, end of the year	6,358	15,232	10,898	10,113	9,669	10,185
EBITDA/share (in €)	-0.07	0.11	0.00	0.10	0.12	0.14
Y-Y Growth						
Operating cash flow	n.a.	1184.8%	n.m.	n.m.	21.8%	29.7%
Free cash flow	n.a.	n.m.	n.m.	n.m.	158.3%	131.5%
EBITDA/share	n.a.	n.m.	-96.9%	2617.6%	20.3%	24.0%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	18 November 2010	€2.02	Buy	€2.60
2...18	↓	↓	↓	↓
19	9 May 2014	€1.72	Buy	€2.40
20	18 January 2017	€1.14	Add	€1.25
21	20 March 2017	€1.12	Add	€1.25
22	Today	€1.31	Add	€1.34

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BUY: An expected favourable price trend of more than 25% percent.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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