Softline AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (HOLD)	HIGH (HIGH)	EUR 1.50 (2.30)

29 August 2012

Softline successfully completes restructuring

- Softline today provided information on final restructuring processes in the Company's **transition to a focused consultancy and systems house for cloud-based IT solutions**. These measures, which are based on experience of the Management during the last twelve months, all aim to **concentrate activities and cost structures within the Group**. In particular, the following measures have been implemented:

✓ Establishment of a **centralised Finance Center** in Leipzig, which handles all billing and accountancy activities of the German companies, as well as the group-wide controlling of Softline. This leads to increased transparency and corresponding cost savings.

✓ The strongly product-related business in Norway is not pursued any further because its long-term profitability could not be guaranteed, and since it has already begun to have a negative impact on the result of Softline Group in 2012. The subsidiary **Stover AS will be liquidated**.

✓ The **activities of ASIST Belgium and Softline Solutions NV in Belgium were merged**, resulting in higher utilisation of the consultants as well as administrative and infrastructure cost savings.

- Softline has also announced that **Christoph Harvey, CFO of Softline AG, will leave the Company** at the end of September at his own request and on the most amicable terms, in order to accept a new position in the IT industry. The Finance Division of Softline will be headed by Martin Alexander Schaletzky as Vice President Finance and CFO. Mr Schaletzky has been a consultant for Softline for the last several months and is therefore very familiar with the company. He has many years of commercial experience in various industries and has particular expertise in corporate structures with an international background. Bernd Wagner, CEO of Softline AG, will lead the company as sole Managing Director.

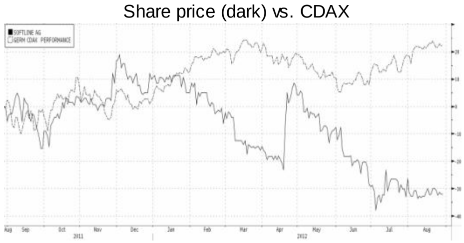
- Softline will now concentrate on its fast growing business fields consulting and comprehensive solutions in the Cloud IT market. After the company has grown into bigger dimensions and gained a reputation and larger customer base in these fields, the **share of recurrent business with large customers is increasing**. Softline is **well on track to significantly improve profitability in 2013E.** In discussions with the Management, we also gathered the impression that working capital financing will be no problem, as the company has recently made use of other instruments than a capital increase (e.g. factoring). Even though we reduce our price target to EUR 1.50 (prev.: EUR 2.30) due to the low result of the multiple-based part of our valuation, we change our recommendation from HOLD to **BUY**.

Y/E Dec 31, EUR m	2009	2010*	2011E	2012E	2013E	2014E
Sales	7.8	13.1	34.0	46.4	54.5	60.0
EBITDA	n/a	-5.1	-4.7	0.9	2.4	3.0
EBIT	-1.4	-5.2	-4.9	0.6	2.0	2.5
Net result	-1.6	-5.3	-5.0	0.3	1.3	1.7
Basic EPS	n/a	-1.11	-0.58	0.03	0.14	0.18
EBITDA margin	n/a	-39.0%	-13.7%	2.0%	4.4%	5.0%
EBIT margin	-17.9%	-39.9%	-14.3%	1.2%	3.7%	4.2%
EV/EBIT	neg.	neg.	neg.	19.0	5.5	4.4
P/E	n/a	neg.	neg.	27.8	6.9	5.4

*2010: Sales and net income are based on unaudited figures; EBIT and EBITDA are estimates by CBS Research AG.

Source: Softline AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, Softline AG

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	-	34.0	-	46.4	-	54.5
EBITDA	-	-4.7	-	0.9	-	2.4
EPS	-	-0.58	-	0.03	-	0.14

Internet: softline-group.com
Sector: IT services
WKN: A1CSBR
ISIN: DE000A1CSBR6
Reuters: SFDG.DE
Bloomberg: SFD1 GY

Short company profile:

Softline AG, based in Leipzig, operates subsidiaries in Germany, the Netherlands, Belgium, Norway, and France. While one subsidiary offers services to other IT companies ('provider of service providers'), the other Group companies directly provide IT consulting, support and services to the end customer. Since a strategic reorientation in 2009, Softline's business model places special emphasis on future trends in the IT industry and is currently particularly driven by Cloud Computing.

Share data:

Share price (EUR, last closing price):	**0.97**
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	9.0
Enterprise value (EUR m):	11.0
Ø daily trading volume (3 m., no. of shares):	5,092

Performance data:

High 52 weeks (EUR):	1.70
Low 52 weeks (EUR):	0.89
Absolute performance (12 months):	-32.1%
Relative performance vs. CDAX:	
1 month	-6.9%
3 months	-31.2%
6 months	-32.0%
12 months	-44.4%

Shareholders:

SKMB	37.5%
Dr. Knut Löschke	10.5%
Pensionskasse BW	4.6%
SLAG Management	4.6%
DZ Bank	3.0%
Checkmark	3.5%
Free float	36.3%

Financial calendar:

Annual report 2011:	TBA

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Appendix

Discounted Cash Flow Model

EURm	PHASE 1 2012E	2013E	2014E	PHASE 2 2015E	2016E	2017E	2018E	2019E	2020E	2021E	PHASE 3 ∞
Sales revenues	46.4	54.5	60.0	64.5	67.7	71.1	74.7	78.4	82.3	84.0	
Y-o-Y growth	36.5%	17.5%	10.0%	7.5%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	
EBIT	0.6	2.0	2.5	3.5	4.1	4.6	4.9	5.1	5.3	5.5	
EBIT margin as % of sales	1.2%	3.7%	4.2%	5.5%	6.0%	6.4%	6.5%	6.5%	6.5%	6.5%	
Income tax on EBIT (cash tax rate)	1.1	-1.1	-0.6	-1.1	-1.2	-1.4	-1.5	-1.5	-1.6	-1.6	
Depreciation and amortisation	0.3	0.4	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.6	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-1.6	-1.2	-0.9	-0.7	-0.5	-0.5	-0.6	-0.6	-0.6	-0.3	
Net capital expenditure	-0.8	-0.5	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	
Free cash flow	**-0.3**	**-0.4**	**1.0**	**1.7**	**2.4**	**2.6**	**2.8**	**3.0**	**3.1**	**3.6**	
Present values	**-0.3**	**-0.4**	**0.8**	**1.1**	**1.4**	**1.4**	**1.3**	**1.3**	**1.2**	**1.2**	**12.6**

Present value Phase 1	0.1
Present value Phase 2	8.9
Present value Phase 3	12.6
Total present value	21.6
+ Liquid funds net of financial debt	0.0
- Financial debt and minority interests	-2.0
Fair value of equity	**19.6**
Number of shares outstanding (m)	9.3
Fair value per share (EUR)	**2.11**

Risk free rate	3.50%	Target equity ratio	85.0%
Equity risk premium	6.00%	Beta (fundamental)	1.60
Debt risk premium	1.70%	**WACC**	**11.68%**
Tax shield (Phase 3)	30.0%	**Terminal growth**	**2.00%**

Sensitivity analysis

		Terminal growth (Phase 3)				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
	10.68%	2.29	2.38	2.47	2.58	2.71
	11.18%	2.12	2.20	2.28	2.37	2.48
WACC	**11.68%**	1.97	2.03	**2.11**	2.19	2.28
	12.18%	1.83	1.89	1.95	2.02	2.10
	12.68%	1.71	1.76	1.81	1.87	1.94

Source: CBS Research AG

Multiple-based valuation

Company name	P / E 2013E	P / E 2014E	EV / EBIT 2013E	EV / EBIT 2014E	EV / EBITDA 2013E	EV / EBITDA 2014E
Softline AG (based on estimates by CBSR)	6.9	5.4	5.5	4.4	4.6	3.7
International group of IT service/consulting companies (market cap below EUR 1bn):						
ADESSO AG	12.9	8.5	3.9	2.7	2.9	2.2
ALLGEIER SE	4.0	5.8	4.5	4.5	3.0	3.3
ASSYSTEM	8.2	7.1	4.4	4.1	3.6	3.3
BOUVET ASA	8.3	7.7	5.3	4.9	4.8	4.4
CENIT AG	9.5	8.4	3.6	3.2	2.8	2.5
CONNECTA AB	8.4	7.5	5.9	5.3	5.6	5.1
COR&FJA AG	38.4	12.0	28.3	11.1	8.2	5.5
CYBERCOM GROUP AB	3.0	2.4	3.8	3.2	2.7	2.4
DATAGROUP AG	5.7	n.a.	7.6	n.a.	5.6	n.a.
DEVOTEAM SA	7.5	5.8	4.0	3.4	3.3	2.7
ECONOCOM GROUP	8.4	7.4	6.0	5.7	5.3	4.8
GFI INFORMATIQUE	7.2	8.2	5.7	5.5	4.7	4.4
GFT TECHNOLOGIES AG	8.0	7.3	4.5	4.5	4.0	3.5
GROUPE STERIA SCA	4.7	4.2	4.6	4.2	3.4	3.2
HIQ INTERNATIONAL AB	10.7	9.5	7.1	6.4	6.8	6.2
ITELLIGENCE AG	13.8	n.a.	n.a.	n.a.	n.a.	n.a.
KNOW IT AB	9.4	8.3	7.6	6.9	6.1	5.7
ORDINA NV	12.1	14.9	16.2	11.6	6.3	7.0
OSIATIS	5.9	5.6	3.7	3.4	3.2	3.1
PHOENIX IT GROUP LTD	7.2	6.9	7.2	6.9	4.7	4.6
PROACT IT GROUP AB	7.3	6.1	6.9	5.8	4.7	4.1
REALTECH AG	18.8	7.0	7.8	5.7	4.4	3.5
SEVEN PRINCIPLES AG	9.1	n.a.	5.4	n.a.	3.6	n.a.
SOLUCOM	11.9	10.6	6.0	5.4	5.5	4.8
SOPRA GROUP	6.7	6.0	4.7	4.3	4.1	3.7
TIETO OYJ	9.6	8.8	7.6	6.9	4.6	4.4
Average	**9.9**	**7.6**	**6.9**	**5.5**	**4.6**	**4.1**
Median **Weight: 100%**	**8.3**	**7.4**	**5.7**	**5.3**	**4.6**	**4.1**
Minimum	**3.0**	**2.4**	**3.6**	**2.7**	**2.7**	**2.2**
Maximum	**38.4**	**14.9**	**28.3**	**11.6**	**8.2**	**7.0**

EURm, except EPS (EUR)		EPS 2013E	EPS 2014E	EBIT 2013E	EBIT 2014E	EBITDA 2013E	EBITDA 2014E
Softline AG (estimates by CBSR)		0.14	0.18	2.0	2.5	2.4	3.0
Applied multiples (peer group median)		8.3	7.4	5.7	5.3	4.6	4.1
Fair Enterprise Value		-	-	**11.4**	**13.3**	**11.2**	**12.3**
+ Liquid funds	0.0						
- Financial debt	-2.0						
Fair value of equity from each multiple		**10.9**	**12.2**	**9.4**	**11.3**	**9.2**	**10.3**
Average of derived fair values	**10.5**						
Premium (discount) vs. peer group companies	0%						
Fair value of equity	**10.5**						
Number of shares outstanding (m)	9.3						
Fair value per share (EUR)	**1.13**						

Source: CBS Research AG, Bloomberg

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BUY: The expected performance of the share price is above +10%.
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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price Target
14 June 2011	BUY	EUR 1.88	EUR 3.00
17 April 2012	BUY	EUR 1.15	EUR 2.30
20 April 2012	BUY	EUR 1.33	EUR 2.30
19 July 2012	HOLD	EUR 1.05	EUR 2.30
29 August 2012	BUY	EUR 0.97	EUR 1.50

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