

# SNP Schneider-Neureither & Partner

Capital increase

## Capital base is boosted

In December, SNP completed its capital increase, raising gross proceeds of €18.7m (c €17.6m net). The funds will provide the group with significant financial flexibility and support its international growth strategy, including acquisitions. We have updated our model for the capital increase, which results in EPS coming back by 17.1% in both FY19 and FY20, solely reflecting the dilution impact from the new shares. Following the Q3 results, which showed a strong recovery in profits, we noted that there were signs that the group's important S/4HANA transformation business had been picking up as SNP had won several small S/4HANA migrations. While the shares look punchy on c 27x our FY19e earnings, the rating could fall quickly as new projects come through.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	80.7	6.0	100.4	39.0	15.9	2.4
12/17	122.3	3.8	61.9	0.0	25.7	0.0
12/18e	137.9	(1.1)	(19.4)	0.0	N/A	0.0
12/19e	153.4	6.0	58.6	25.0	27.2	1.6

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

## Capital increase raises €18.7m gross (c €17.6m net)

The capital increase results in the issue of up to 1.127m new bearer shares, increasing the number of shares from 5.474m to 6.602m. The take-up of the subscription rights issue (one new share for every five existing shares at €16.60 per new share) was 90.6%. The balance has been placed at the subscription price with SN Assets, a private company affiliated with the CEO, Dr Andreas Schneider-Neureither. Dr Schneider-Neureither now holds c 22% of SNP's expanded share capital. While SNP does not require the funds immediately, the money provides the group with extra financial flexibility and weighs concerns over the covenants on SNP's €40m promissory notes. The €17.6m net proceeds add to the group's €16.6m cash position as at the end of September while the promissory notes are not repaid until 2020 through to 2022. As part of the capital raising process, MC Investments, a private investment company, has acquired a c 8% stake in the company and is SNP's second largest shareholder after the CEO.

## Forecasts: Updated for the capital increase only

We have updated our model for the capital increase. The 20.6% increase in the number of shares reduces EPS by 17.1% going forward. We have not reduced the net interest charge as the funds are not being used to pay down debt. We have reduced our dividend forecasts to reflect the dilution in FY19 and FY20. We now forecast the group to end FY18 with net debt of €22.6m (previously €40.2m), which falls to €21.0m (€38.6m) at end-FY19 and €15.7m (€33.3) at end-FY20.

## Valuation: Strong growth play in the ERP space

The stock trades on c 27x our earnings in FY19e, falling to c 14x in FY20e. Our discounted cash flow valuation (based on c 7% organic revenue CAGR over 10 years, 10% WACC, 14.8% long-term operating margin and 2% terminal growth) is €30/share, c 90% above the current share price.

## Software & comp services

7 January 2019

**Price** €15.94  
**Market cap** €105m

Net debt (€m) at 30 September 2018	32.8
Shares in issue	6.6m
Free float	71%
Code	SHF
Primary exchange	Frankfurt (Xetra)
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(11.0)	(16.8)	(52.3)
Rel (local)	(6.3)	(5.3)	(41.6)
52-week high/low	€36.24	€15.11	

## 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, applies and tracks changes in IT systems.

## Next events

Prelim FY18 results	31 January 2019
Annual report	29 March 2019
Q1 results	30 April 2019

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**Exhibit 1: Financial summary**

	€'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		56,236	80,685	122,343	137,895	153,449	166,606
Cost of sales		0	0	0	0	0	0
Gross Profit		56,236	80,685	122,343	137,895	153,449	166,606
EBITDA		5,484	8,124	6,868	3,343	10,883	16,162
Adjusted Operating Profit		4,222	7,114	5,113	55	7,239	12,390
Amortisation of acquired intangibles		0	(657)	(2,021)	(1,600)	(1,600)	(1,600)
Exceptionals		356	400	(3,600)	(300)	0	0
Associates		(3)	8	(24)	0	0	0
Operating Profit		4,575	6,865	(532)	(1,845)	5,639	10,790
Net Interest		(828)	(1,137)	(1,327)	(1,200)	(1,300)	(1,100)
Profit Before Tax (norm)		3,394	5,977	3,786	(1,145)	5,939	11,290
Profit Before Tax (FRS 3)		3,747	5,728	(1,859)	(3,045)	4,339	9,690
Tax		(1,195)	(1,517)	(807)	343	(1,782)	(3,387)
Profit After Tax (norm)		2,198	4,460	2,980	(801)	4,157	7,903
Profit After Tax (FRS 3)		2,552	4,211	(2,666)	(2,701)	2,557	6,303
Minority interest		0	(147)	234	(267)	(289)	(312)
Adjustments for normalised earnings		0	0	0	0	0	0
Net income (norm)		2,198	4,313	3,214	(1,069)	3,868	7,591
Net income (FRS 3)		2,552	4,064	(2,431)	(2,969)	2,268	5,991
Average Number of Shares Outstanding (m)		3.7	4.3	5.2	5.5	6.6	6.6
EPS - normalised (c)		58.8	100.4	61.9	(19.4)	58.6	115.0
EPS - normalised & fully diluted (c)		58.8	100.4	61.9	(19.4)	58.6	115.0
EPS - FRS 3 (c)		68.3	94.6	(46.8)	(53.8)	34.4	90.7
Dividend per share (c)		34.00	39.00	0.00	0.00	25.00	33.00
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		9.8	10.1	5.6	2.4	7.1	9.7
Adjusted Operating Margin (%)		7.5	8.8	4.2	0.0	4.7	7.4
<b>BALANCE SHEET</b>							
Fixed Assets		15,243	30,109	75,171	73,698	72,258	71,018
Intangible Assets		11,675	24,179	67,012	65,380	63,748	62,115
Tangible Assets		1,999	3,161	5,187	5,346	5,538	5,931
Other		1,570	2,769	2,972	2,972	2,972	2,972
Current Assets		29,996	58,424	78,614	78,485	80,167	84,723
Stocks		0	371	371	418	466	506
Debtors		16,084	25,652	43,781	44,346	49,348	53,579
Cash		13,769	31,914	33,877	33,135	29,768	30,053
Current Liabilities		(13,703)	(32,631)	(40,531)	(40,517)	(44,862)	(48,353)
Creditors		(11,101)	(14,523)	(29,295)	(29,281)	(33,626)	(37,117)
Short term borrowings		(2,602)	(18,108)	(11,236)	(11,236)	(11,236)	(11,236)
Long Term Liabilities		(15,513)	(7,327)	(53,157)	(45,583)	(40,583)	(35,583)
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)	(1,096)	(1,096)	(1,096)
Net Assets		16,024	48,575	60,097	66,083	66,980	71,805
<b>CASH FLOW</b>							
Operating Cash Flow		1,879	1,005	(5,316)	2,686	10,148	15,362
Net Interest		(167)	53	(798)	(1,200)	(1,300)	(1,100)
Tax		(554)	(412)	(1,366)	321	(1,663)	(3,161)
Capex		(1,779)	(3,451)	(5,234)	(3,447)	(3,836)	(4,165)
Acquisitions/disposals		(3,228)	(5,923)	(28,783)	(11,701)	(1,716)	0
Shares issued		0	30,129	18,293	17,600	0	0
Dividends		(483)	(1,264)	(1,932)	0	0	(1,651)
Net Cash Flow		(4,332)	20,137	(25,136)	4,258	1,633	5,285
Opening net debt/(cash)		(3,431)	1,176	(8,275)	26,847	22,588	20,955
Other		(275)	(10,686)	(9,985)	0	0	0
Closing net debt/(cash)		1,176	(8,275)	26,847	22,588	20,955	15,671

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

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