Intershop Communications AG

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

Reinitiation of Coverage

RATING	**ADD**
PRICE TARGET	**€1.25**
Return Potential	9.6%
Risk Rating	High

RIDING THE B2B DIGITALISATION WAVE IN THE WHOLESALE SECTOR

Intershop Communications AG is restructuring its operations to increase its efficiency, and regain growth momentum. The "Lighthouse 2020" plan sets a 2020 revenue target of €50m at a 5% EBIT margin. Investments in sales & marketing, a focus on the wholesale sector, where digitalisation of sales channels is a top priority, and a cooperation with Microsoft in the cloud business look set to increase revenues and margins from 2017E on. We reinitiate coverage with an Add rating and a €1.25 price target.

Riding the B2B digitalisation wave in the wholesale sector Quick and professional digitalisation of sales channels is vital for wholesalers so that they can remain competitive and prevent themselves from being circumvented by manufacturers' own sales channels. High scope for further digitalisation and Intershop's existing strong competitive position make the wholesale sector a natural focus for Intershop.

Restructuring in 2016, but growth in 2017E For 2016E, Intershop is guiding towards revenues of €34-36m and EBIT between €-1m and €-2.5m including restructuring costs of ca. €1m. Annual cost savings in central functions of ca. €3m will be invested in sales & marketing to increase brand awareness and to focus on wholesale. For 2017E, we expect revenues of ca. €38m (+12% y/y) at a positive EBIT margin of 1.4%. We view the wholesale sector and the growing cloud business as main revenue drivers for this year. Intershop's balance sheet is still solid. At the end of 9M/16, Intershop had liquid funds of €10.9m, a net cash position of €7.1m and an equity ratio of 61%.

Intershop is still a potential takeover target Intershop is one of the few remaining independent providers of e-commerce solutions. Recent takeovers of NetSuite by Oracle and Demandware by Salesforce show that larger players still view e-commerce software providers as attractive takeover targets. Although we are currently unaware of any deal involving Intershop in the works, we do not rule out a takeover bid in the future.

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	46.18	42.72	34.18	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	-2.16	0.54	1.43	2.11
EBIT margin	-13.6%	0.4%	-6.3%	1.4%	3.4%	4.6%
Net income (€m)	-6.64	0.01	-2.30	0.32	1.20	1.88
EPS (diluted) (€)	-0.22	0.00	-0.07	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	-2.53	-0.06	0.48	1.33
Net gearing	-36.2%	-48.7%	-40.2%	-39.1%	-39.2%	-42.2%
Liquid assets (€m)	6.36	15.23	11.70	10.64	10.12	10.46

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 1/17/2017

Closing Price	€ 1.14
Shares outstanding	31.68m
Market Capitalisation	€ 36.12m
52-week Range	€ 1.03 / 1.71
Avg. Volume (12 Months)	30,994

Multiples	**2015**	**2016E**	**2017E**
P/E	7223.8	n.a.	114.4
EV/Sales	0.7	0.8	0.8
EV/EBIT	172.5	n.a.	54.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW

COMPANY DATA

As of 30 Sep 2016

Liquid Assets	€ 10.89m
Current Assets	€ 16.66m
Intangible Assets	€ 8.97m
Total Assets	€ 27.46m
Current Liabilities	€ 7.63m
Shareholders' Equity	€ 16.73m

SHAREHOLDERS

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

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INVESTMENT CASE

LEADING PROVIDER OF E-COMMERCE SOLUTIONS WITH EXCELLENT PRODUCTS

Intershop is a well-established player in the e-commerce solutions market. The company has frequently been short-listed by industry analysts such as Gartner and Forrester Research as one of the leading industry players. Intershop has 24 years of experience in the e-commerce market and is one of the few independent providers with both excellent B2C (business-to-consumer) and B2B (business-to-business) capabilities. Intershop has more than 300 enterprise customers around the globe, including Hewlett Packard, BMW, Deutsche Telekom, and Würth.

In a recent study by Gartner, a leading IT research and advisory company, Intershop's flagship product Intershop Commerce Suite ranked among the top 3 solutions for digital commerce. Gartner evaluated 19 vendors' products and analysed 14 critical product capabilities. Only the industry heavyweights IBM and SAP achieved slightly better scores. This shows that in terms of product quality, Intershop is competitive with the largest players in the industry and is among the global technology leaders in e-commerce solutions. Intershop's Commerce Suite shows very convincing performance with respect to complex, diverse and large operations, the use of multiple channels, global selling, and both B2C & B2B.

STRATEGIC REPOSITIONING INCREASES COMPETITIVENESS

In recent years, Intershop has transitioned from a service company to an integrated omni-commerce solution provider with a focus on product offerings. This opens the door to higher market penetration and new client segments, as small- and medium-sized companies can now start with a cost-effective cloud-based solution. As part of a cooperation with Microsoft, the Intershop Commerce Management Platform will be offered in the Microsoft Azure cloud. In addition, Intershop's solutions will be integrated into Microsoft's cloud-based Dynamics NAV enterprise resource planning (ERP) system which has more than eight million users in 54 countries and a leading position in Germany. Intershop plans to increase its cloud-based revenue share, which currently is at ca. 10% to ca. 15-20% in 2017E.

Given strong competition from larger companies, Intershop is now focusing on the wholesale sector. Quick and professional digitalisation of sales channels is vital for wholesalers so that they can remain competitive and prevent themselves from being circumvented by manufacturers own sales channels. B2B digitalisation growth potential and Intershop's existing strong competitive position are a very good opportunity for Intershop to ride the digitalisation wave in the wholesale sector. Its focused approach looks set to increase its brand awareness in the sector resulting in an increasing project pipeline.

RIDING THE B2B DIGITALISATION WAVE

The global e-commerce market looks set to continue growing strongly in the coming years. The B2C e-commerce market is expected to grow at a CAGR of more than 20% to 2019. Particularly the B2B e-commerce market, which is less developed than its B2C counterpart, is poised for growth, as digitalisation efforts increasingly focus on the B2B business. Frost & Sullivan estimates that the B2B online retailing market will reach $6.7 trillion, or ca. 27% of total trade in manufactures by 2020. This is more than double the expected B2C online retail market of $3.2 trillion.

German small and medium-sized enterprises (SME) are lagging in digitalisation. As they begin to catch up, there will be an increasing demand for e-commerce solutions. This is a huge opportunity for Intershop. Being a medium-sized company itself, Intershop has a deep understanding of SME's needs making it a more suitable partner than the larger competitors.

SWOT ANALYSIS

STRENGTHS

- **Leading independent e-commerce software provider** Intershop is a well-established player in the e-commerce solutions market with 24 years of experience, excellent B2C (business-to-consumer) and B2B (business-to-business) capabilities, and more than 300 enterprise customers, including Hewlett Packard, BMW, Deutsche Telekom, and Würth.
- **Excellent product** In a recent study by Gartner, a leading IT research and advisory company, Intershop's Commerce Suite ranked among the top 3 solutions for digital commerce. Gartner evaluated 19 vendors' products and analysed 14 critical product capabilities. Only the industry's heavyweights IBM and SAP received slightly better scores. Intershop is one of the industry's technology leaders.

WEAKNESSES

- **Margin weakness** In recent years, low margins resulted in mostly negative net results. The shift towards product orientation and cloud-based services as well as the new sector focus look set to support gross margins. Cost savings in central functions including reduced personnel should lift the EBIT margin. The "Lighthouse 2020" plan targets a 5% EBIT margin in 2020.
- **US business remains difficult** In 2015, revenues in the US declined by 20% y/y to €9.0m. Revenues in 9M/16 declined 71% y/y to €2.2m. After the separation from eBay Enterprise in April 2016, it may be difficult to regain market share in the US.

OPPORTUNITIES

- **Focus on B2B wholesale sector** Focusing on the wholesale sector is a very good opportunity for Intershop to increase brand awareness and generate further orders. The wholesale sector offers great scope for further digitalisation, and hence excellent growth prospects for Intershop. The company already has a strong competitive position in the sector.
- **Cloud business cooperation with Microsoft** Intershop's cooperation with Microsoft in the cloud business looks set to be a significant revenue driver for the company. Intershop plans to increase its cloud-based revenue share from ca. 10% in 2016E to ca. 15-20% in 2017E.

THREATS

- **Increasing competition** Large players, such as IBM, SAP, and Oracle are formidable competitors. They not only offer very good products, but also have superior sales strength and brand awareness, as well as high financial stability. For Intershop as a relatively small player, it may become more difficult to compete against these giants, especially in the large customer segment.
- **Technological change** Digitalisation, clouds, industry 4.0, internet of things, and cyber-physical systems are all manifestations of rapid technological change. Although Intershop is currently well-prepared to benefit from these trends, we cannot rule out further innovations jeopardising Intershop's business model.

VALUATION

Our valuation of Intershop is based on a discounted cash flow (DCF) model that discounts the free cash flows generated in the future back to present value. Our DCF model yields a fair shareholder value of €1.25 per share.

In order to determine Intershop's cost of equity, we use our proprietary multi-factor risk model, which takes into account company-specific risk factors, such as management strength, balance sheet, financial risk, competitive position, and company size. We assume cost of equity of 14.0%. Our calculation is based on a risk-free rate of 0.5% and a market risk premium of 5.0%.

For the cost of debt we assume an interest rate of 4.5%. With a terminal effective tax rate of 20%, the financing costs after tax are 3.6%. Our targeted capital structure assumes an equity / debt ratio of 70% / 30%. This results in a WACC (Weighted Average Costs of Capital) of 10.9%.

In our DCF model we distinguish three planning periods:

- We have carried out a detailed estimate for the planning period 2016E – 2018E (three years). We forecast the profit and loss account as well as the balance sheet and the cash flow statement in detail.
- For the planning period 2019E – 2030E (12 years), parameters relevant to the valuation (profit and loss account, CAPEX, working capital, amongst others) are estimated.
- For the terminal period we assume a constant growth in sales, a constant EBIT margin and a constant tax rate.

Detailed estimates for the years 2016E – 2018E are outlined in the chapter "Financial History and Outlook". For the period 2019E – 2030E we assume:

- a sales growth rate declining from 9% to of 2%;
- an EBIT margin increasing from 4.6% to 9.5%;
- an effective tax rate amounting to 5% until 2020E and rising gradually to 20% by 2027E.

For the terminal period we assume a sales growth rate of 2%, an EBIT margin of 9.5% and a tax rate of 20%.

Figure 1: DCF 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**	**49,802**	**53,760**	**57,710**	**61,591**	**65,339**
NOPLAT	**519**	**1,368**	**2,012**	**2,371**	**2,717**	**3,113**	**3,495**	**3,882**
+ depreciation & amortisation	2,325	2,169	2,417	2,673	2,918	3,155	3,385	3,607
Net operating cash flow	2,844	3,537	4,430	5,045	5,635	6,268	6,880	7,489
- total investments (CAPEX and WC)	-2,700	-2,888	-2,963	-3,501	-3,724	-3,938	-4,138	-4,320
Capital expenditures	-2,488	-2,737	-2,983	-3,210	-3,436	-3,657	-3,869	-4,069
Working capital	-212	-151	20	-291	-289	-281	-269	-251
Free cash flows (FCF)	143	649	1,467	1,544	1,911	2,330	2,742	3,169
PV of FCF's	**130**	**531**	**1,081**	**1,026**	**1,145**	**1,260**	**1,337**	**1,393**

All figures in thousands	
PV of FCFs in explicit period (2017E-2030E)	16,431
PV of FCFs in terminal period	16,150
Enterprise value (EV)	32,581
+ Net cash / - net debt	7,140
+ Investments / minority interests	0
Shareholder value	39,721
Fair value per share in EUR	1.25

WACC	10.9%
Cost of equity	14.0%
Pre-tax cost of debt	4.5%
Tax rate	20.0%
After-tax cost of debt	3.6%
Share of equity capital	70.0%
Share of debt capital	30.0%
Fair value per share in EUR	1.25

Terminal growth rate

WACC	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.9%	2.14	2.24	2.35	2.49	2.66	2.87	3.14
7.9%	1.80	1.86	1.93	2.01	2.11	2.23	2.38
8.9%	1.54	1.58	1.63	1.68	1.74	1.81	1.90
9.9%	1.34	1.37	1.40	1.44	1.48	1.52	1.58
10.9%	1.19	1.21	1.23	1.25	1.28	1.31	1.35
11.9%	1.06	1.08	1.09	1.11	1.13	1.15	1.18
12.9%	0.96	0.97	0.98	1.00	1.01	1.03	1.04
13.9%	0.88	0.89	0.89	0.90	0.91	0.92	0.94

* for layout purposes the model shows numbers only to 2024, but runs until 2030

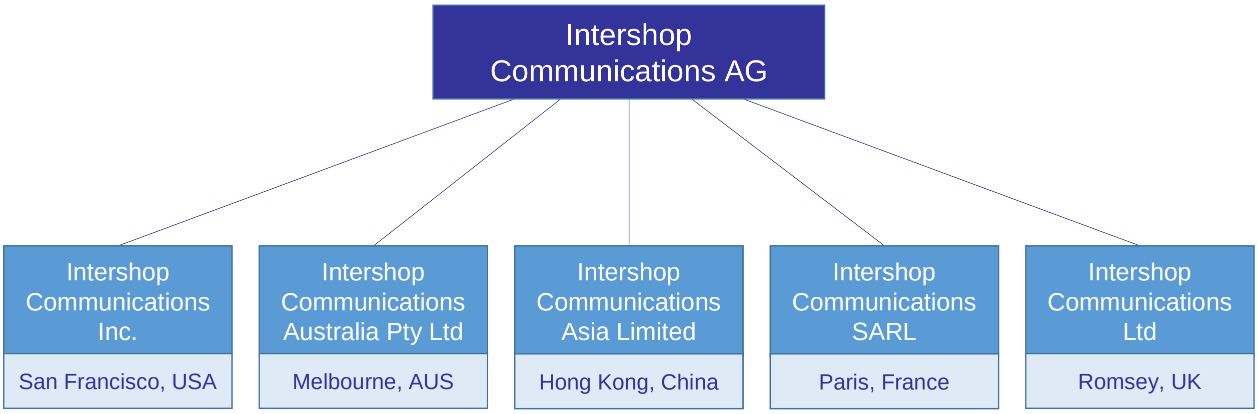
We calculate with a diluted number of shares of 31,683,484 and see fair value at €39.7m or €1.25 per share.

COMPANY PROFILE

Intershop Communications AG is a leading supplier of comprehensive e-commerce software solutions suited to all business models and company structures. Currently, more than 300 large and mid-sized corporations use Intershop software including many well-known companies such as Hewlett-Packard, BMW, and Deutsche Telekom.

Company structure
The company is headquartered in Jena, Germany and operates worldwide with subsidiary offices in Australia, France, Hong Kong, the United Kingdom, and the United States. Intershop is listed on the Prime Standard of the Frankfurt Stock Exchange. As of 9M 2016, the company had 373 employees (FTE).

Figure 2: Company structure



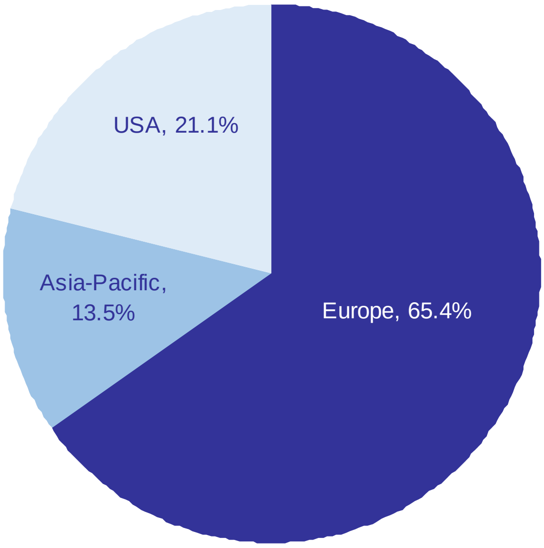
Source: First Berlin Equity Research, Intershop Communications AG

Company history
Intershop was founded in 1992 and executed the world's first fully functional online shop in 1994. One year later 'Intershop Online' was released, the first standard software for e-commerce. From there, the company continued to flourish, eventually going public in 1998 on the Frankfurt Neuer Markt, followed by listing as an ADR on the NASDAQ exchange in September 2000. Intershop correspondingly reached its peak valuation in FY 2000 with revenues of €123m and a market cap of €11.1bn. With the burst of the dotcom bubble at the beginning of the 21st century Intershop's valuation and revenues began to slide.

In 2010, a strategic partnership with eBay Enterprise (formerly GSI Commerce) was concluded. The partnership was terminated when eBay sold its 24.9% stake in Intershop in April 2016 to Shareholder Value Management AG, a Frankfurt-based value investor with a focus on small cap stocks. With the sale now complete, Intershop can again claim the position of the world's largest independent provider of enterprise solutions for omni-channel commerce.

Revenue split
Intershop has internationalised its operations and is actively pursuing growth in the Asia-Pacific region as well as increasing its presence in the US. In 2015, Europe remained the main revenue driver accounting for 65% of total revenues generated (see figure 3 overleaf). In 9M 2016, Europe's revenue share rose to 73%, Asia-Pacific was at 18%, and the US share fell to 9%.

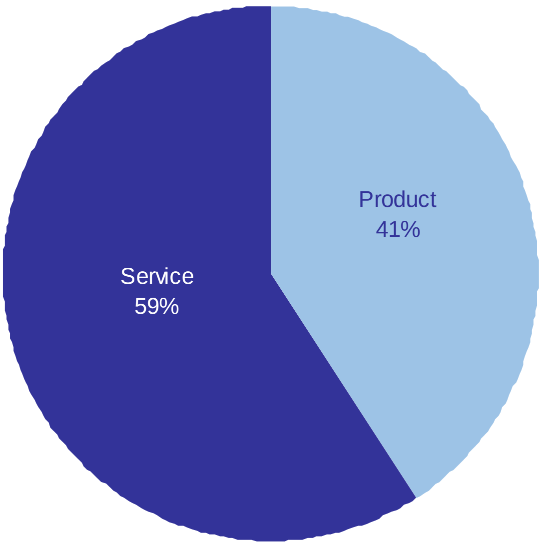
Figure 3: Geographical revenue split 2015



Source: First Berlin Equity Research, Intershop Communications AG

In Q1/14 Intershop announced that the company would move away from its service-orientated business model and become more product-orientated. Intershop thus adjusted its revenue reporting. The new system splits the revenue stream into Service revenues and Product revenues. In FY 2014, the revenue split was 70% Service and 30% Product. The 2015 split was 59% Service and 41% Product, a trend that illustrates Intershop's commitment to transitioning to a more product-based corporation (see figure 4). In 9M 2016, the segment split was Service 61% and Product 39%.

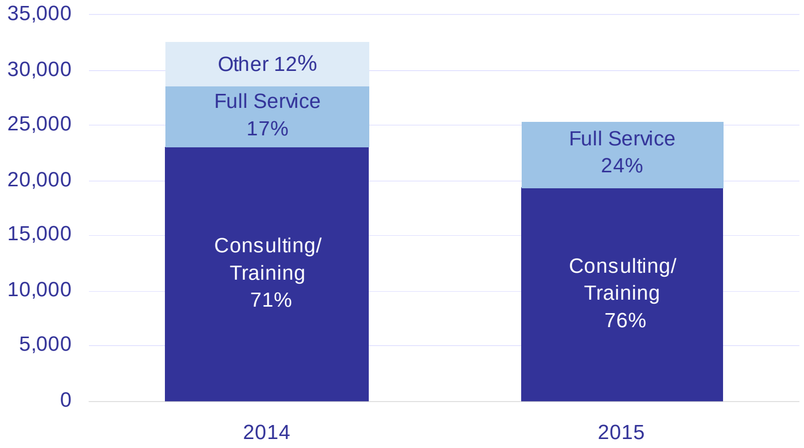
Figure 4: Segment revenue split 2015



Source: First Berlin Equity Research, Intershop Communications AG

Revenues of the Service segment are additionally broken down into three subsections: Consulting/Training, Full Service, and Other. Other revenues for 2014 consisted of two subsidiaries: "SoQuero GmbH", which was sold in 2014, and "The Bakery GmbH" whose operating business was sold in 2014. In 2015, the majority (76%) of Service revenues was generated through Consulting/Training with the remaining 24% coming from the Full Service division.

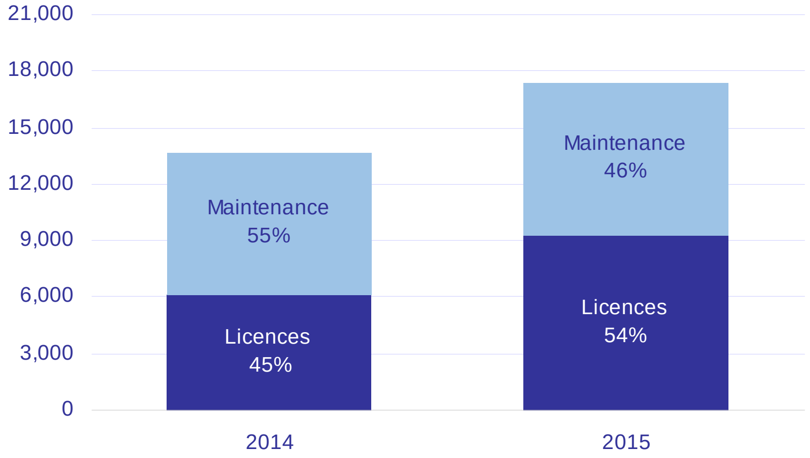
Figure 5: Service segment revenue split 2014 and 2015 in €k and percent



Source: First Berlin Equity Research, Intershop Communications AG

The Product segment consists of two relatively equal halves: the software product licenses sold, and revenues generated from the maintenance of these licenses (see figure 6).

Figure 6: Product segment revenue split 2014 and 2015 in €k and percent



Source: First Berlin Equity Research, Intershop Communications AG

Employees

Of the 373 people employed at the end of 9M 2016, 286 worked in technical departments, 46 in sales and marketing, and 41 in the area “General & Administrative”. The overwhelming part of the workforce, 327 or 88% worked in Europe. 30 people (8%) were employed in the Asia-Pacific region, and 16 (4%) in the US.

Partners

Intershop has established a large partner network with more than 900 specialists across five continents. Its partners offer the company an optimised customer approach and scalability of its distribution efforts. Together with its partners Intershop can serve heterogeneous markets and customers from different industries and cultures.

Customers

Intershop's customers come from a variety of sectors, including automotive, food, media, retail, pharmaceuticals, telecoms, and utilities. Geographically, customers are located in Europe, America, and Asia-Pacific with a clear dominance of European customers. Currently, more than 300 large and mid-sized corporations use Intershop software. Among them are well-known companies such as BMW, Deutsche Telekom, Hewlett-Packard, and Würth.

Strategy: cloud business & wholesale focus

In recent years, Intershop transitioned from a service company to an integrated omni-commerce solution provider with a focus on product offerings. This transition opens the door to higher market penetration and new client segments, as small- and medium-sized companies can now start with a cost-effective cloud-based solution. The cloud-based business will be an important growth driver as the company plans to increase its cloud-based revenue share, which currently is at ca. 10%, to ca. 15-20% in 2017E. At the end of 2016, the latest cloud solution version, the Intershop 7.8 Cloud solution, was launched. Based on a co-operation with Microsoft, the Intershop Commerce Management Platform will be offered in the Microsoft Azure cloud. In addition, Intershop's solutions will be integrated into Microsoft's cloud-based Dynamics NAV enterprise resource planning (ERP) system which has more than eight million users in 54 countries and a leading position in Germany.
Given the strong competition of larger companies Intershop will now focus on the wholesale sector as the sector's B2B digitalisation growth potential is high and Intershop already has a strong competitive position in the sector. This offers the company a very good growth opportunity. Digitalisation of sales channels is a top priority in the wholesale sector to remain competitive and prevent manufacturers from circumventing the sector through own sales channels. Intershop's focused sector approach looks set to increase its brand awareness in the sector and should result in an increasing project pipeline.

COMPETITIVE POSITION: AN EXCELLENT PRODUCT AMIDST STRONG COMPETITORS

We see

- IBM Corp.
- SAP SE
- Oracle Corp.
- Salesforce.com Inc. / Demandware
- Net Suite Inc. (currently being acquired by Oracle)

as the main competitors.

IBM Corporation released its first PC in 1981. IBM's primary focus is now technology services and software. The company plays a leading role in a variety of software markets including, but not limited to: analytics, commerce, IT infrastructure, data security, and artificial intelligence. The company is headquartered in New York, USA and generated revenues of $81.4bn in FY 2015. IBM has ca. 380,000 employees.

SAP SE was founded in 1972 by five German IBM engineers. The company now develops and implements a wide variety of software solutions including: analytics, data management, IT management, application platforms and infrastructure, and security software. SAP's software products are available for a variety of business sectors including: asset management, commerce, manufacturing, marketing, and sales. In 2013, SAP acquired Hybris, a company offering enterprise multichannel e-commerce and product content management software. SAP's hybris omni-channel commerce solution is applicable for B2B and B2C and includes Omni-Channel Offering, Product Content Management, Order Management, hybris Marketing Conversion, and powerful search and merchandising. The commerce software helps integrate all digital and physical customer touchpoints onto a single platform – including online, mobile, point-of-sale, call center, social media and print. SAP's corporate headquarters are located in Walldorf, Germany. In FY 2015 SAP generated €20.8bn in revenues and has over 70,000 employees.

Oracle Corporation supplies software for enterprise information management. The company offers databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, minicomputers, mainframes, and massively parallel computers. In FY 2015, Oracle generated revenues of $38.3bn. The company has more than 130,000 employees. At the end of July 2016, Oracle announced that it had entered into a definitive agreement to acquire NetSuite. The transaction is valued at ca. $9.3 billion or 11x trailing-12-month sales.

Salesforce.com Inc. is a provider of cloud-based enterprise computing solutions and specialises in customer relationship management (CRM). Salesforce provides cloud-based software solutions as a service in six clouds for sales, service, marketing, community, analytics, and app development. The company has more than 150,000 customers and ca. 21,000 employees. Salesforce was founded in 1999 in San Francisco, USA, and posted revenues of $5.4bn FY 2015.
In July 2016, Salesforce acquired all outstanding shares in Demandware Inc., a digital commerce software provider, for $2.8bn, which represented a 56% premium on Demandware's stock price. By acquiring an already established player Salesforce has expanded directly into the e-commerce market. Demandware was founded in 2004 by former Intershop founder Stephan Schambach and is headquartered in Burlington, Massachusetts, USA. The company posted FY 2015 revenues of $237m.

NetSuite Inc. is a leading supplier of cloud based software based out of San Mateo, California, USA. The company provides its customers with relationship management software solutions. NetSuite was founded in 1998 as NetLedger, a webhosted accounting software solution. The company has since expanded, and now offers a comprehensive collection of software including enterprise resource planning, customer relationship management, accounting, and e-commerce. In 2015, NetSuite reported revenues of $737m.

Compared to its peers, Intershop is a dwarf in terms of revenues and market capitalisation. But in terms of product quality, Intershop is comparable with the industry giants. In its recent study from June 2016, Gartner ranked Intershop's Commerce Suite among the top 3 solutions for digital commerce. Gartner evaluated 19 vendors' products and analysed 14 critical product capabilities. Gartner assessed the usefulness of the products for the following five use cases:

- complex, diverse and large operations
- multiple channels
- selling globally
- selling to consumers
- selling to other organisations.

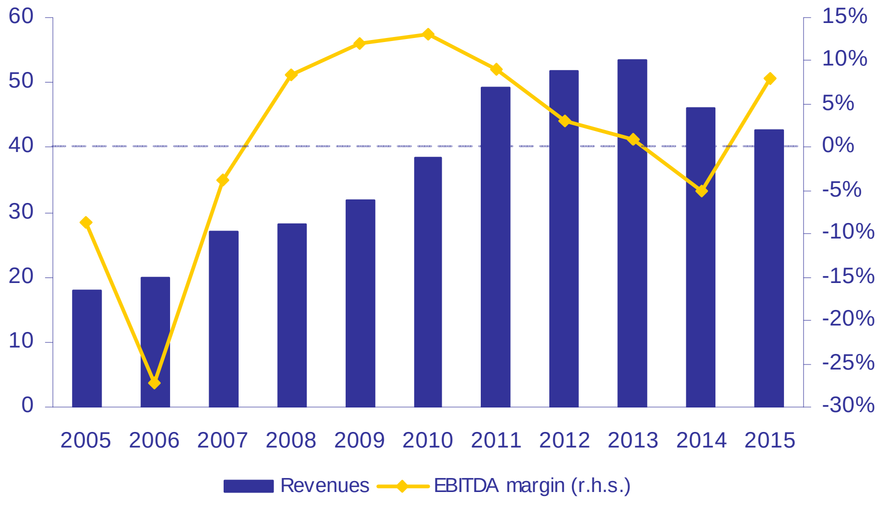
In all use cases, Intershop ranked number three, and only IBM'S and SAP's products received a higher score. This illustrates that Intershop belongs to the global technology leaders for e-commerce solutions.

FINANCIAL HISTORY AND OUTLOOK

FINANCIAL HISTORY

Since 2005, Intershop has more than doubled revenues to above €40m. However, since 2013, sales have been declining. In 2015, Intershop reversed the trend of declining EBITDA margins, which began in 2011 (see figure 7).

Figure 7: Revenue and EBITDA margin 2005-2015



Source: First Berlin Equity Research, Intershop Communications AG

2015 figures influenced by SoQuero sale, gross margin increase and cost reductions
In 2015 revenues dropped 7.5% to €42.7m. The fall in revenues is entirely represented by the sale of subsidiary SoQuero GmbH in September 2014 along with the sale of The Bakery GmbH's operating business in October 2014. Adjusted for lost revenues from the sold subsidiaries, sales from the remaining segments rose 1% from €42.3m (see figure 8). Proceeds from disposals of consolidated companies for 2014 came in at €1.9m.

Figure 8: Segment revenue split

in €m	2014	2015	delta
Product	13.67	17.40	27.3%
Service	32.51	25.32	-22.1%
Total	**46.18**	**42.72**	**-7.5%**
Total excluding sold subsidiaries	**42.28**	**42.72**	**1.0%**

Source: First Berlin Equity Research, Intershop Communications AG

As Intershop transitions from service to product orientation the revenues of each segment reflect the changing dynamic. In 2015, Product revenues saw a 27.3% y/y increase, and consequently, Intershop saw a y/y decrease of 22.1% in Service revenues. The sale of SoQuero was largely responsible for the Service segment revenue decrease along with a 15.9% reduction in Consulting/Training revenues (see figure 9 overleaf).

Figure 9: Revenue split of sub-segments

in €m	2014	2015	delta
Licenses	6.17	9.33	51.1%
Maintenance	7.49	8.07	7.7%
Product Revenues	**13.67**	**17.40**	**27.3%**
Consulting/Training	22.99	19.34	-15.9%
Full Service	5.63	5.98	6.3%
Other (sold subsidiaries)	3.89	0.00	n.a.
Service Revenues	**32.51**	**25.32**	**-22.1%**
Total Revenues	**46.18**	**42.72**	**-7.5%**

Source: First Berlin Equity Research, Intershop Communications AG

The driving force behind Intershop's transition to become more product-orientated is mainly based upon the greater margins that are realised from the product side of the business. In 2015, largely through the ongoing transition from a service to a product orientation, Intershop was able to increase its gross margin by 850 basis points y/y to 44.7%. The gross margin for the product segment at 69.8% in 2015 was more than 2.5 times the margin realised through the service segment (27.5%). The product segment is almost solely software based and is thus able to produce higher margins due to significantly lower employee requirements than the service segment (see figure 10).

Figure 10: Segment gross margins in %

Gross margin	2014	2015
Product	61.8%	69.8%
Service	25.4%	27.5%
Total Revenues	**36.2%**	**44.7%**

Source: First Berlin Equity Research, Intershop Communications AG

EBITDA for 2015 totalled €3.5m, a substantial increase from the 2014 result of €-2.1m. EBIT in 2015 came in at €0.2m, an increase of €6.5m y/y from 2014 (€-6.3m). This was Intershop's first positive EBIT result since 2011 (€2.6m). The substantial increase in gross profit margin is chiefly responsible for the spike in the operating profit (see figure 11). Intershop recorded a 2015 net result of €0.05m (2014: €-6.3m) and EPS of €0.00 (2014: €-0.22).

Figure 11: Revenues & earnings 2011-2015

in €m	2011	2012	2013	2014	2015
Revenues	49.16	51.77	53.56	46.18	42.72
Change y/y	*28.5%*	*5.3%*	*3.5%*	*-13.8%*	*-7.5%*
Gross Profit	20.00	17.37	18.85	16.71	19.11
Margin	*40.7%*	*33.5%*	*35.2%*	*36.2%*	*44.7%*
EBITDA	4.51	1.75	0.49	-2.13	3.46
Margin	*9.2%*	*3.4%*	*0.9%*	*-4.6%*	*8.1%*
EBIT	2.63	-0.59	-3.23	-6.28	0.17
Margin	*5.3%*	*-1.1%*	*-6.0%*	*-13.6%*	*0.4%*
Net Result	3.04	-0.58	-3.33	-6.64	0.05
Margin	*6.2%*	*-1.1%*	*-6.2%*	*-14.4%*	*0.1%*
EPS (diluted, in €)	0.10	-0.02	-0.11	-0.22	0.00

Source: First Berlin Equity Research, Intershop Communications AG

In 2015, Intershop's newly optimised cost structure resulted in substantially lower costs of revenues and operating expenses. Intershop realised cost savings across the board in all cost and expense sections except for cost of revenues in the product segment and Research & Development. Cost of revenues in the product segment increased €0.04m from the 2014 level and translated into an increase of €3.7m in segment revenues. In total, costs of revenues dropped 19.8% y/y from the 2014 level.

The increase in research expense is a side effect of moving forward with the shift to product orientation. Accordingly, Intershop continued to invest more funds into researching and developing new and improved software products. Research expense for 2015 came in at €5.9m, a 13.5% increase from 2014's €5.1m. Total operating expenses still realised a decrease of 19.9% y/y despite the increased investment in research and development (see figure 12).

Figure 12: Cost chart 2014 - 2015

in €m	2014	2015	delta
Cost of revenues - Product	5.22	5.26	0.6%
Cost of revenues - Services	24.24	18.36	-24.3%
Total cost of revenues	**29.46**	**23.62**	**-19.8%**
Research & development	5.11	5.80	13.5%
Sales and marketing	11.87	8.50	-28.4%
General and administrative	5.70	4.96	-12.9%
Other operating expenses	1.82	0.36	-80.2%
Total operating expenses	**24.50**	**19.63**	**-19.9%**
Other operating income	-1.51	-0.69	-54.4%
Net operating expenses	**22.99**	**18.94**	**-17.6%**

Source: First Berlin Equity Research, Intershop Communications AG

Balance Sheet: Net cash position and high equity ratio

In 2015, intangible assets came in at €8.7m, a figure consisting mainly of €4.2m in internally developed software as well as €4.5m in goodwill. Intangible assets alone accounted for 75% of Intershop's 2015 non-current asset pool. Trade receivables totalled at €5.3m and in combination with cash and cash equivalents at €15.2m made up the overwhelming majority of current assets. Intershop's equity ratio fell to 58% in 2015 from 70% in the previous year. The decrease in the equity ratio is a result of taking on €6m in debt in 2015. The term of the loan is six years with a p.a. fixed interest rate of 4.5% and annual repayments of €1.0m. The net cash position saw an increase of €2.9m y/y to €9.3m (see figure 13 overleaf). With an increased net cash position and significantly more financial means available, Intershop has strengthened its balance sheet.

Figure 13: Balance sheet – selected items

in €m	2014	2015	delta
Intangible assets	9.24	8.70	-5.9%
Non-current assets	**11.08**	**11.54**	**4.2%**
Receivables	6.74	5.34	-20.8%
Cash and cash equivalents	6.36	15.23	139.6%
Current assets	**14.20**	**21.43**	**50.9%**
Equity	17.58	19.08	8.6%
Equity ratio	*69.5%*	*57.9%*	-11.6 PP
Financial debt (long-term)	0.00	4.95	n.a.
Financial debt (short-term)	0.00	1.00	n.a.
Financial debt total	0.00	5.95	n.a.
Net cash	6.36	9.28	46.0%
Payables	1.67	2.07	23.7%
Net working capital	5.07	3.27	-35.4%
Balance sheet total	**25.28**	**32.97**	**30.4%**

Source: First Berlin Equity Research, Intershop Communications AG

Cash Flow Statement: Strong free cash flow in 2015

Despite an only marginally positive net operating result, operating cash flow for 2015 was a respectable €5.0m. Operating cash flow consisted mainly of adjustments for depreciation and amortisation (€3.3m) and a decrease in receivables of €1.6m. Intershop's capital expenditures of €2.4m continue to largely consist of investments in intangibles (€2.2m). The company's free cash flow was €2.6m. The discrepancy between CAPEX and cash flow from investment activities in 2014 is primarily due to the payments received from the disposal of consolidated companies (SoQuero). Financing activities for 2015 included both the acquisition of a six year €6m loan as well as a capital increase consisting of 1.5m shares sold at €1.10 raising a total of €1.65m in equity financing. Net cash flow in 2015 equalled to €8.9m (see figure 14).

Figure 14: Cash flow statement – selected items

in €m	2014	2015
Operating cash flow	0.39	4.97
CAPEX	-2.98	-2.42
Free cash flow	-2.60	2.55
Cash flow investment activities	-1.42	-2.30
Cash flow financing activities	0.00	6.26
Net cash flow	-1.03	8.87

Source: First Berlin Equity Research, Intershop Communications AG

Weak 9M 2016 results

Due to weak business development during the first nine months of 2016, Intershop has lowered its 2016 guidance and is now guiding towards revenues of €34-36m and EBIT between €-1m and €-2.5m including restructuring costs of ca. €1m (previously: sales on the level of the prior year (2015: €42.7m) and a slight EBIT improvement (2015: €0.2m).

9M revenues came in at €24.7m (-25% y/y). The decline is attributable to both segments (Product segment: €9.5m, -27% y/y, Service segment: €15.2m, -23% y/y). The Product segment was burdened by a weak licence business as well as project delays and cancellations. The Service segment suffered from a change in the customer structure. The strategic shift towards medium-sized customers will only gradually lead to new service revenues. Gross profit fell to €13.7m from €18.4m (-25.3% y/y). A slightly improved gross margin (44.2% vs. 43.7% in 9M/15) could not compensate for the lower revenues. Despite significant cost reductions (Sales & Marketing: €5.5m vs. €6.4m, and General & Administrative €2.9m vs. €3.8m in 9M/15), EBIT was negative at €-2.0m (9M/15: €0.0m). The net result amounted to €-2.3m (9M/15: €-0.1m). This corresponded to EPS of €-0.07 (9M/15: €0.00).

The balance sheet total fell to €27.5m from €33.0m at the end of 2015, due mainly to a lower cash position (€10.9m vs. €15.2m). The 9M net loss of €2.3m reduced equity to €16.7m (31/12/2015: €19.1m). The equity ratio was 61%. Long-term financial debt fell to €2.8m from €4.9m, whereas short term financial debt remained at €1.0m. The net cash position declined to €7.1m from €9.3m at the beginning of the year.

Negative operating cash flow (€-1.4m) and CAPEX of €2.3m resulted in free cash flow of €-3.7m. Cash flow from investing activities amounted to €-1.9m and from financing activities €-1.0m. This resulted in net cash flow of €-4.3m.

FINANCIAL FORECAST

We regard 2016E as a restructuring year and expect sales to decline by 20% y/y to €34.2m, due to weaker sales in both segments. We believe that in 2017E, the new strategy (focus on wholesale sector and cloud business) will increase sales by 12% y/y. The Product segment looks set to be the main sales driver with an increase of 23.2%. This trend should continue in 2018E (see figure 15).

Figure 15: Revenue forecast

in €m	2015A	2016E	2017E	2018E
Sales Product	**17.40**	**13.67**	**16.84**	**19.37**
Growth y/y	*27.3%*	*-21.4%*	*23.2%*	*15.0%*
Sales Product in %	*40.7%*	*40.0%*	*44.0%*	*46.0%*
Sales Service	**25.32**	**20.51**	**21.44**	**22.74**
Growth y/y	*-22.1%*	*-19.0%*	*4.5%*	*6.1%*
Sales Product in %	*59.3%*	*60.0%*	*56.0%*	*54.0%*
Sales Total	**42.72**	**34.18**	**38.28**	**42.11**
Growth y/y	*-7.5%*	*-20.0%*	*12.0%*	*10.0%*

Source: First Berlin Equity Research, Intershop Communications AG

For 2017E and 2018E, we expect a gross margin increase to 48% driven by an improved product mix and a higher gross margin in the Product segment (see figure 16).

Figure 16: Gross margin forecast

in €m	2015A	2016E	2017E	2018E
Gross margin	**44.7%**	**45.0%**	**48.0%**	**48.0%**
Gross margin Product	*69.8%*	*75.9%*	*78.9%*	*78.0%*
Gross margin Service	*27.5%*	*24.4%*	*23.7%*	*22.5%*
Gross profit total	**19.11**	**15.38**	**18.37**	**20.21**
Gross profit Product	12.15	10.38	13.29	15.11
Gross profit Service	6.96	5.00	5.08	5.10

Source: First Berlin Equity Research, Intershop Communications AG

In addition to the increased gross margin, we expect the lower and much more flexible cost base to contribute to an EBIT margin increase. Whereas 2016E was affected by restructuring (FBe EBIT margin: -6.3%), we forecast rising EBIT margins for this and the next year (2017E: 1.4%, 2018E: 3.4%, see figure 17). Intershop's "Lighthouse 2020" plan targets a 5% EBIT margin in 2020.

We expect the financial result to be negative due to the interest payments on the bank loan (2016E & 2017E: €-0.2m). Accumulated losses of almost €22m are the basis for high tax loss carry forwards which look set to significantly reduce taxable income in the future. We therefore assume a very low tax rate of 5% for the coming years. We forecast the net result to be negative in 2016E and project a slightly positive net contribution of €0.3m in 2017E (see figure 17).

Figure 17: P&L forecast

in €m	2015A	2016E	2017E	2018E
Sales	42.72	34.18	38.28	42.11
Growth	*-7.5%*	*-20.0%*	*12.0%*	*10.0%*
Gross profit	19.11	15.38	18.37	20.21
Margin	*44.7%*	*45.0%*	*48.0%*	*48.0%*
EBITDA	3.46	0.40	2.86	3.60
Margin	*8.1%*	*1.2%*	*7.5%*	*8.6%*
EBIT	0.17	-2.16	0.54	1.43
Margin	*0.4%*	*-6.3%*	*1.4%*	*3.4%*
Net result	0.01	-2.30	0.32	1.20
Margin	*0.0%*	*-6.7%*	*0.8%*	*2.9%*
EPS (diluted, in €)	0.00	-0.07	0.01	0.04

Source: First Berlin Equity Research, Intershop Communications AG

We expect largely stable balance sheet KPIs (see figure 18). The forecast net profits and the reduction of financial debt look set to increase the equity ratio from 57.9% in 2015 to 63.3% in 2018E.

Figure 18: Balance sheet forecast – selected items

in €m	2015A	2016E	2017E	2018E
Goodwill	4.47	4.47	4.47	4.47
Other Intangibles	4.22	3.95	4.27	4.88
Non-current assets, total	**11.54**	**11.44**	**11.60**	**12.17**
Cash and cash equivalents	15.23	11.70	10.64	10.12
Receivables	5.34	5.15	5.45	5.77
Current assets, total	**21.43**	**17.71**	**16.95**	**16.75**
Equity	19.08	16.78	17.10	18.30
Equity ratio	*57.9%*	*57.6%*	*59.9%*	*63.3%*
Payables	2.07	1.54	1.64	1.80
Financial debt (long-term)	4.95	3.95	2.95	1.95
Financial debt (short-term)	1.00	1.00	1.00	1.00
Net cash	9.28	6.75	6.69	7.18
Balance sheet total	**32.97**	**29.15**	**28.56**	**28.92**

Source: First Berlin Equity Research, Intershop Communications AG

We forecast operating cash flow of €-0.1m in 2016E. This is significantly below the previous year's figure of €5.0m as we do not expect another positive impact from working capital. CAPEX of €2.5m results in negative free cash flow of €-2.5m in 2016E. In the coming years, operating cash flow looks set to rise due to improving net results. For 2017E, we forecast slightly negative free cash flow as operating cash flow falls short of CAPEX. Cash flows from financing in 2016-19E reflect the repayment of the loan (see figure 19).

Figure 19: Cash flow forecast

in €m	2015A	2016E	2017E	2018E
Operating cash flow	4.97	-0.07	2.43	3.22
CAPEX	-2.30	-2.46	-2.49	-2.74
Free cash flow	2.66	-2.53	-0.06	0.48
Cash flow financing actitivites	6.26	-1.00	-1.00	-1.00
Net cash flow	8.87	-3.53	-1.06	-0.52

Source: First Berlin Equity Research, Intershop Communications AG

MARKET ENVIRONMENT: E-COMMERCE MARKET POISED FOR FURTHER GROWTH

The global e-commerce market has maintained a high level of relatively steady growth since the beginning of the 21st century. As of today, the trend is continuing as more and more companies invest in the digitalisation of their businesses.

B2C E-COMMERCE REMAINS A GROWTH MARKET

According to Ecommerce Europe, the European e-commerce association, the global business to consumer (B2C) e-commerce market increased 24% y/y to over $1.9 trillion in 2014. The growth was spearheaded by the Asia-Pacific region (+44% y/y). In contrast, the European and North American markets saw lower but substantial y/y growth rates at 14% and 12% respectively (see figure 20).

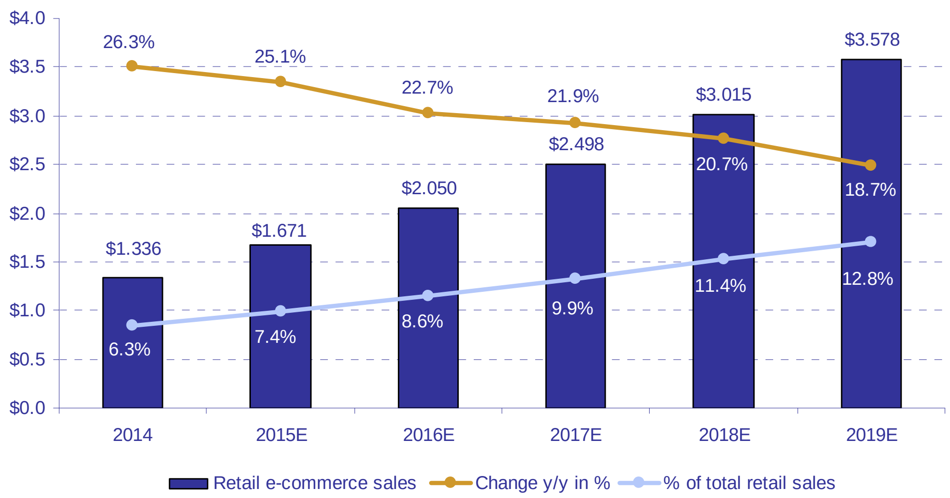
Figure 20: Worldwide e-commerce B2C revenues in 2014

Region	E-commerce B2C revenue in $bn	Increase y/y
Asia-Pacific	770	44%
Europe	567	14%
North America	523	12%
Latin America	37	18%
MENA	21	22%
Others	25	24%
Total	**1,943**	**24%**

Source: First Berlin Equity Research, Ecommerce Europe

The future continues to look bright for the e-commerce industry. According to the global research and consulting company Frost & Sullivan (F&S), the B2C online retail market is expected to reach $3.2 trillion by 2020. The research provider eMarketer is even more optimistic and sees worldwide 2019E retail e-commerce sales at $3.6 trillion, or almost 13% of total global retail sales (see figure 21 overleaf). Compared to eMarketer’s 2014 figure of $1.3 trillion, this would be an increase of 168% in five years (CAGR: almost 22%).

Figure 21: Retail e-commerce sales worldwide 2014-2019E in $ trillions



Source: First Berlin Equity Research, eMarketer

B2B E-COMMERCE MARKET LOOKS SET TO OUTPACE B2C

Although the B2B e-commerce market is already larger than its B2C counterpart, it is still in its infancy but has excellent growth perspectives. Frost & Sullivan estimates that the business to business online retailing market will reach $6.7 trillion in 2020, or ca. 27% of total manufacturing trade. This is more than double the expected B2C online retail market.

According to Forrester, the US B2B e-commerce market reached ca. $780 billion or 9.3% of all B2B sales by the end of 2015. The firm predicts that B2B e-commerce will exceed $1.1 trillion and comprise 12 percent of all B2B sales in the United States by 2020.

The B2B market consists of businesses selling directly to other businesses, and the expected revenue figure is bigger for two main reasons: B2B transactions are substantially larger, and e-commerce is a largely untapped market where growth is expected to be considerably higher than in the more mature B2C market.

According to a B2B commerce study by Forrester from April 2015, B2B buying behaviour changed significantly towards a digital-first value proposition over recent years. Forrester expects B2B sellers to harness technologies to meet customer demands for transparency, convenience, and speed, and to deliver superior customer experience, drive agility and operational efficiency. B2B sellers will upgrade their ERP (enterprise resource planning) and CRM (customer relationship management) infrastructure and develop advanced self-service e-commerce websites.

A survey conducted in June 2015 by research consultancy Vanson Bourne across 400 US and European B2B decision makers draws similar conclusions. The decision makers expect digital platforms to grow significantly in the near future. They embark on “synaptic commerce”, a seamless integration of business processes to deliver superior customer experience across multiple touch points. Among these business processes are marketing, customer management & service, order management, and content management. Decision makers aim at an interconnected digital enterprise infrastructure which focuses on the customer (“customer centricity”).

GERMAN MITTELSTAND IS A DIGITALISATION LAGGARD

Especially the German Mittelstand needs to catch up with the digitalisation trend. According to a study by the research institutes ZEW and infas, which was published by KfW Bank Group in August 2016, small and medium-sized German companies (SME) are in an early phase of digitalisation. The study sees only 19% of the SMEs as digital front-runners which fulfil two of the three following criteria

- digitally connected products & services,
- app offering,
- industry 4.0 projects.

Some 49% of the SMEs are in the middle of the range, and 32% lag behind. So far, spending for digitalisation projects amounts to ca. €10bn p.a. To increase the average digitalisation level of SMEs, spending has to increase by ca. 30% by 2018.

PRODUCTS AND SERVICES

FLAGSHIP PRODUCT INTERSHOP COMMERCE SUITE

Intershop enterprise software solutions (products and services) can be adapted to fit any corporation's needs. Its flagship product, Intershop Commerce Suite (ICS), offers an all-in-one package comprising Product Information Management (PIM), Web Content Management (WCM), Order Management (OMS), and personalised customer communications. In addition, Intershop Commerce Suite meets the very particular requirements of B2B commerce. Areas of application are:

- Omni-Channel Management
- Experience Management
- Product Information
- Customer Management
- Transaction Management
- Organisation Management
- Analytics & Reporting
- Operational Excellence

PRODUCT DEPLOYMENT MODELS

Currently, Intershop offers three distinct deployment models for its flagship product, each model offers a different degree of freedom. Unlimited freedom can be attained through the ICS Enterprise model, maximum flexibility through the ICS Managed model and the easiest and quickest set up through ICS Cloud.

ICS Enterprise: Intershop's *Enterprise* model is hosted by the purchasing company's data centre and administered by the company's own in-house IT specialists. ICS Enterprise enables the purchaser to fully customise the platform and remain in total control of all business data.

ICS Managed: Intershop's *Managed* model offers the purchasing company a great deal of flexibility and options. The platform can be hosted by Intershop, a third party provider, in-house at the company's HQ, all three, or any two of the three. The purchaser has full autonomy in choosing how its software platform is run and where each specific part is administered from.

ICS Cloud: Intershop's *Cloud* model is based upon Intershop providing the infrastructure and managing the software platform as a service. The purchaser gains immediate access to the platform technology with minimal invested time and funds allowing the company to focus on its core business while Intershop administers its online software solution.

SERVICES

In juxtaposition to its product segment, Intershop also offers a range of services related to the implementation and administration of its omni-channel enterprise solutions. The services offered by Intershop can be subdivided into four distinct categories: Professional Services, Training, Full Service E-Commerce, and Support.

Professional Services: Through the professional services department, Intershop offers implementation of a corporation's entire e-commerce project either implementing the project on the company's behalf or working directly with the purchaser's in-house IT department.

Training: Intershop offers various training courses allowing its customers to fully realise the potential of their Intershop software. Training sessions can be attended at Intershop's training centre in Jena, Germany, or privately at the customer's corporate office. Training options consist of introductory courses, basic technical training, customised programs for specific employees, as well as preparation and implementation stage training.

Full Service E-Commerce: Through its full service division, Intershop implements, administers, and maintains the entire enterprise software solution, allowing the purchaser to continue business as usual while gaining access to the thriving e-commerce market.

Support: Intershop provides all customers with 24/7 emergency support. Technicians are full-time Intershop employees located both in Europe and USA. Support technicians have extensive software understanding and the capability to directly deliver custom fixes for each individual customer.

MANAGEMENT

CEO

Dr. Jochen Wiechen was elected CEO in September 2015. Prior to his position as CEO he was CTO for two years. Dr. Wiechen is responsible for the technical departments, Administration, Finance and Communication. Prior to working at Intershop, Dr. Wiechen was Vice President at SAP, where he oversaw product strategy, management and development of the “Workforce Performance Builder.”. Other previous positions include member of the Executive Board and Head of Product Development & Support at datango AG, and CTO of the venture capital company Martlet Venture Management Ltd., where he was responsible for technology, strategy and development. Dr. Wiechen holds a PhD in physics.

COO

Axel Köhler was elected COO in September 2015. He is head of Sales, Marketing, and Professional Services. Prior to his appointment as COO, Mr Köhler served as Senior Vice President Global Sales and Marketing for Intershop. He has over 20 years experience in the IT industry. Mr Köhler had various management positions at EMC and worked as Managing Director of Dell Halle GmbH. He graduated as an engineer from the University of Zittau/Görlitz and later continued his education at the IMD Lausanne business school.

Supervisory Board

Christian Oecking, Chairman, Senior Consultant, Mechanical Engineer,
Ulrich Prädel, Vice Chairman, Executive Adviser, Computer Scientist,
Prof. Dr. Louis Velthuis, Member, Professor for Controlling at Gutenberg University in Mainz

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE000A0EPUH1
WKN	A0EPUH
Bloomberg ticker	ISH2
No. of issued shares	31,683,484
Transparency Standard	Prime Standard
Country	Germany
Sector	Technology
Subsector	Software

Source: Börse Frankfurt, First Berlin Equity Research

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

Source: Intershop Communications AG

INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016E	2017E	2018E
Revenues	**46,175**	**42,721**	**34,177**	**38,278**	**42,106**
Cost of goods sold	29,462	23,616	18,797	19,905	21,895
Gross profit	**16,713**	**19,105**	**15,380**	**18,373**	**20,211**
S&M	11,872	8,504	7,486	7,541	7,832
G&A	5,698	4,962	3,948	3,904	4,126
R&D	5,113	5,801	5,967	6,239	6,695
Other operating income	1,510	689	273	230	295
Other operating expenses	1,815	359	410	383	421
Operating income (EBIT)	**-6,275**	**168**	**-2,158**	**536**	**1,432**
Net financial result	6	-149	-259	-204	-165
Non-operating expenses	0	0	0	0	0
Pre-tax income (EBT)	**-6,269**	**19**	**-2,417**	**332**	**1,267**
Income taxes	373	14	-121	17	63
Minority interests	0	0	0	0	0
Net income / loss	**-6,642**	**5**	**-2,296**	**316**	**1,203**
Diluted EPS (in €)	**-0.22**	**0.00**	**-0.07**	**0.01**	**0.04**
EBITDA	**-2,129**	**3,464**	**400**	**2,861**	**3,601**
Ratios					
Gross margin	36.2%	44.7%	45.0%	48.0%	48.0%
EBIT margin on revenues	-13.6%	0.4%	-6.3%	1.4%	3.4%
EBITDA margin on revenues	-4.6%	8.1%	1.2%	7.5%	8.6%
Net margin on revenues	-14.4%	0.0%	-6.7%	0.8%	2.9%
Tax rate	-5.9%	73.7%	5.0%	5.0%	5.0%
Expenses as % of revenues					
S&M	25.7%	19.9%	21.9%	19.7%	18.6%
G&A	12.3%	11.6%	11.6%	10.2%	9.8%
R&D	11.1%	11.1%	11.1%	11.1%	11.1%
Depreciation and amortisation	9.0%	7.7%	7.5%	6.1%	5.2%
Other operating expenses	3.9%	0.8%	1.2%	1.0%	1.0%
Y-Y Growth					
Revenues	n.a.	-7.5%	-20.0%	12.0%	10.0%
Operating income	n.a.	n.m.	n.m.	n.m.	167.1%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	281.1%

BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016E	2017E	2018E
Assets					
Current assets, total	**14,203**	**21,429**	**17,709**	**16,953**	**16,752**
Cash and cash equivalents	6,358	15,232	11,700	10,640	10,125
Short-term investments	0	0	0	0	0
Receivables	6,737	5,338	5,150	5,453	5,768
Inventories	0	0	0	0	0
Other current assets	1,108	859	859	859	859
Non-current assets, total	**11,077**	**11,539**	**11,441**	**11,605**	**12,172**
Property, plant & equipment	631	362	537	379	343
Goodwill & other intangibles	9,451	8,697	8,424	8,745	9,349
Other assets	995	2,480	2,480	2,480	2,480
Total assets	**25,280**	**32,968**	**29,151**	**28,557**	**28,924**
Shareholders' equity & debt					
Current liabilities, total	**7,703**	**8,571**	**8,050**	**8,141**	**8,305**
Short-term debt	0	1,000	1,000	1,000	1,000
Accounts payable	1,670	2,066	1,545	1,636	1,800
Current provisions	344	497	497	497	497
Other current liabilities	5,689	5,008	5,008	5,008	5,008
Long-term liabilities, total	**0**	**5,316**	**4,316**	**3,316**	**2,316**
Long-term debt	0	4,949	3,949	2,949	1,949
Deferred revenue	0	367	367	367	367
Other liabilities	0	0	0	0	0
Minority interests	**0**	**0**	**0**	**0**	**0**
Shareholders' equity	**17,577**	**19,081**	**16,785**	**17,100**	**18,304**
Share capital	30,183	31,683	31,683	31,683	31,683
Capital reserve	7,751	7,806	7,806	7,806	7,806
Other reserves	0	0	0	0	0
Treasury stock	0	0	0	0	0
Loss carryforward / retained earnings	-20,357	-20,408	-22,704	-22,389	-21,185
Total consolidated equity and debt	**25,280**	**32,968**	**29,151**	**28,557**	**28,924**
Ratios					
Current ratio (x)	1.84	2.50	2.20	2.08	2.02
Quick ratio (x)	1.84	2.50	2.20	2.08	2.02
Net debt	-6,358	-9,283	-6,751	-6,691	-7,176
Net gearing	-36.2%	-48.7%	-40.2%	-39.1%	-39.2%
Book value per share (in €)	0.57	0.62	0.53	0.54	0.58
Return on equity (ROE)	-37.8%	0.0%	-13.7%	1.8%	6.6%
Days of sales outstanding (DSO)	53	46	55	52	50
Days in payables (DIP)	21	32	30	30	30

CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016E	2017E	2018E
EBIT	**-6,275**	**168**	**-2,158**	**536**	**1,432**
Depreciation and amortisation	4,146	3,296	2,559	2,325	2,169
EBITDA	**-2,129**	**3,464**	**400**	**2,861**	**3,601**
Changes in working capital	3,142	1,675	-333	-212	-151
Other adjustments	-626	-172	-138	-220	-228
Operating cash flow	**387**	**4,967**	**-71**	**2,428**	**3,221**
Investments in PP&E	-275	-147	-410	-191	-211
Investments in intangibles	-2,708	-2,168	-2,051	-2,297	-2,526
Free cash flow	**-2,596**	**2,652**	**-2,532**	**-60**	**484**
Acquisitions & disposals, net	1,941	12	0	0	0
Other investments	-375	0	0	0	0
Investment cash flow	**-1,417**	**-2,303**	**-2,461**	**-2,488**	**-2,737**
Debt financing, net	0	5,902	-1,000	-1,000	-1,000
Equity financing, net	0	1,650	0	0	0
Dividends paid	0	0	0	0	0
Other financing	0	-1,294	0	0	0
Financing cash flow	**0**	**6,258**	**-1,000**	**-1,000**	**-1,000**
FOREX & other effects	-1	-48	0	0	0
Net cash flows	**-1,031**	**8,874**	**-3,532**	**-1,060**	**-516**
Cash, start of the year	7,389	6,358	15,232	11,700	10,640
Cash, end of the year	**6,358**	**15,232**	**11,700**	**10,640**	**10,125**
EBITDA/share (in €)	**-0.07**	**0.11**	**0.01**	**0.09**	**0.11**
Y-Y Growth					
Operating cash flow	n.a.	1184.8%	n.m.	n.m.	32.7%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	-88.8%	614.5%	25.9%

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...16	↓	↓	↓	↓
17	20 November 2013	€1.48	Add	€1.70
18	21 February 2014	€1.73	Buy	€2.40
19	9 May 2014	€1.72	Buy	€2.40
20	Today	€1.14	Add	€1.25

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- **sensitivity of valuation parameters**

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