

# NedSense

## Share Data

Price	€0.35
Market cap	€7.4m
Outstanding shares	21.1m
Fully diluted	30.5m
Year low/high	€0.25/ €0.54
Avg. daily volume	- shares

Source: Bloomberg

## Major Shareholders

Project Holland Beheer	29.65%
Todlin NV	18.82%
A.Strating	9.28%
Bibiana Beheer BV	7.63%
D. Lindenbergh	6.42%
Generali Holding	6.29%
Free float	21.90%

Source: AFM, NedSense



Source: Bloomberg

	Sales(€m)	EBIT(€m)	Net result(€m)	EPS(€)
FY08a	9.8	3.9	4.6	1.16
FY09a	8.1	-2.3	-6.2	-1.39
FY10a	9.5	-0.6	-0.7	-0.05
FY11est. (old)	9.8 (10.6)	-0.9 (0.3)	-1.2 (0.1)	-0.04 (0.01)
FY12est. (old)	11.3 (11.7)	0.5 (1.0)	0.2 (0.8)	0.01 (0.05)

Source: NedSense, AEK Research

## NEDSENSE; PRESSURE ON RESULTS DUE TO INCREASING INVESTMENTS

- 1H11 sales of €4.2m compared to 1H10 sales of €4.5m, slightly below our estimate of €4.4m
- EBIT 1H11 a loss of -/€1.2m vs. our estimate of a loss of -/€0.6m
- NedGraphics; sales 1H11 down 4% due to a decrease of new software sales
- Loft™; sales 1H11 €78k (1H10; €58k), order intake increased significantly to €233k
- DPI; sales 1H11 €191k lower at €283k (1H10; €474k) as a result of a decrease in consultancy revenue
- Future financing successfully completed
- Loft to be introduced as Software as a Service (SaaS) this fall, real estate sector targeted as new market
- Anticipated release of iPad 3 will work out favorably for Loft as the iPad 3 has a more powerful processor, which makes technical adjustments to Loft less necessary
- AEK Research maintains its **Outperformer** rating on NedSense

### **1H11 results; sales in line, EBIT below our estimates**

Last month NedSense reported its 1H11 results. A modest decrease in software sales at NedGraphics and less favorable exchange rates, predominantly the US dollar, resulted in 7% lower sales of €4.2m (1H10: €4.5m), slightly below our estimate of €4.4m.

The operational loss for the period of -/- €1.2m came in well below our estimate of -/- €0.6m. A sharp rise in other operational costs to €2.5m over 1H11 (1H10: €1.7m) which in part is related to non-capitalized investments (€350k) in software development, is mostly debit to this difference.

As a result of declining sales at NedGraphics and increased investments a modest loss for the period of -/- €173k was reported at the most important division of NedSense, as compared to a profit of €209k over 1H10. ERP daughter Dynamics Perspective (DPI) also swung to a modest net loss of -/- €100k over 1H11, as compared to a net profit of €50k over 1H10, something which we hadn't anticipated. Last but not least Loft, 1H11 a net loss of -/- €1.0m, as compared to -/- €900k over 1H10. Sales are in line with our estimates while the net loss is slightly worse than estimated.

All in all the 1H11 numbers of NedSense came in below our estimates. The company signaled some negative effects from the political turmoil in the Middle East, which is an important region for NedGraphics. In addition; less favorable exchange rates, mostly the US dollar, also had a negative effect on companies results.

### **Financing**

Earlier this month NedSense held an EGM with as primary focus the future financing of the company. As a result of the positive outcome of the EGM NedSense secured its financing for the short and midterm, which we consider to be a big plus. On the downside; the number of outstanding shares has increased significantly.

- A) First; Project Holland Deelnemingen BV has received 6.25 mio newly issued shares of NedSense at €0.40 per share out of a private placement, which equals an equity stake in NedSense of close to 30% (before dilution).
- B) Second; NedSense has issued 24 out of 42 convertible bonds for in total €1.2m. Characteristics of these convertible bonds; denomination of €50.000 each, a yearly interest percentage of 4.0%, a term of five years and a exercise price of €0.48.
- C) Third; a non-transferable convertible loan of €2.4 mio (under certain conditions can this be increased to €2.9m), five year term, annual interest percentage of 4.0%, exercisable as of 2013. The strike price is also €0.48 per share, so if and when drawn fully within a defined timeframe the number of outstanding shares could increase with another 5.0 mio (conversion possible as of January the 1<sup>st</sup> 2013). This non-transferable convertible loan has to be drawn for at least €1.0 mio before the 31th of December 2012. The portion above €1.0m which has not been drawn by January the 1<sup>st</sup> 2013 will be nullified.

### *Dilution*

The maximum amount NedSense is able to raise is €7.0m, the total amount of outstanding shares would in that scenario increase with in total 16.9m. However, of the convertible bonds (B) only €1.2m has been issued, or 24 out of 42 convertibles (exercise price €0.48 per share). In addition; the non-transferable convertible loan (C) has not been drawn from until today as far as we are aware.

### *Cash position*

Proceeds will first of all be used to further invest in its new software line Loft. Second to make (small) acquisitions in the distribution channels in both Europe and the US for Loft as well as to enforce the proposition of NedGraphics. Exploratory talks are being held. Also, NedSense needs to repay an existing outstanding loan of in total €2.1m in three instalments; €0.5m at January first 2012, €1.0m at January first 2013 and the remaining €0.6m at December 31<sup>st</sup> 2013.

NedSense reported a cash position of €1.7m at the 1H11 figures. This is before the proceeds of the financing (September), but including a bridge loan of €2.0m from Project Holland Fund. After date €2.5m was received from Project Holland Fund out of the before mentioned private placement of 6.25m shares at €0.40. After repayment of the bridge loan that leaves €0.5m. In addition; until date €1.2m has been received from the issue of the 4% convertible bonds. This all adds up to a net cash position of at least €3.4m, excluding any draw downs from the non-transferable convertible loan from Project Holland Fund. At the same time net debt has gone up by €1.2m (the convertible bond issue) to €3.2m.

### **Revised estimates FY11 & FY12**

The slightly disappointing 1H11 figures, which mostly relates to higher than estimated investments in Loft and deteriorating market conditions, forces us to lower our FY11 & FY12 estimates going forward (see also table 1; P&L).

The largest adjustment in our estimates is for FY11; we lower our sales estimate from €10.6m to €9.8m. This is still higher compared to FY10 sales as we assume Loft sales will gain momentum over 2H11, NedGraphics and DPI will improve its sales and the recent weakening of the Euro vs. the US dollar will work in favour of NedSense. As for the P&L; as a consequence of (much) higher than anticipated investments and slightly lower sales, we no longer estimate a break-even result for FY11, but anticipate a net loss for the period of -/€1.2m.

We also revise our FY12 estimates downwards. For sales our new estimate amounts to €11.3m (previously; €11.7m). Due to ongoing heavy investments net result FY12 is estimated at a net profit of €0.2m vs. our previous estimate of a net profit of €0.8m. Note; estimates for both FY11 as well as FY12 exclude any possible future acquisitions which could have a major impact on sales, P&L and cash position. We do expect management to announce some smaller acquisitions within the next six to twelve months, primarily distribution companies to boost sales of Loft.

## **Summary**

The 1H11 figures of NedSense came in below our estimates, especially with regards to the suffered net loss. The company on the one hand got hurt by less favourable market conditions and an appreciation of the Euro against the US Dollar. At the same time the development and further roll-out of new software line Loft required ongoing heavy investing. This will also be the case in FY12. However, as we assume sales for Loft to gain momentum, the necessary investments should be less of a burden next year. Midterm management aims to grow Loft sales to the same level as the NedGraphics activities. That indicates group annual sales, over time, of in excess of €20.0m.

Market conditions have deteriorated in recent months; the textile and apparel market is rather sensitive to the economic business cycles. As financing issues have been dealt with, management can now solely focus on the path of building up the sales momentum in Loft. At the same time further growth at NedGraphics, aside from the current business cycle, is to our opinion achievable. Over time, three to four years, we expect NedSense to achieve sales of well over €20.0m and a corresponding net profit of at least €2.0-2.5m.

AEK Research maintains its **Outperformer** rating on NedSense.

*Martin Crum, Financial Analyst*

Profit&Loss						
	<b>FY09a</b>	<b>FY10a</b>	<b>FY11est (old)</b>	<b>FY11est.</b>	<b>FY12est (old)</b>	<b>FY12est.</b>
Net revenue	8.123.000	9.518.000	10.602.546	9.815.000	11.698.017	11.287.250
Cost of sale	-316.000	-283.000	-318.076	-339.925	-350.941	-389.410
Gross profit	7.807.000	9.235.000	10.284.469	9.475.075	11.347.076	10.897.840
Personnel expenses	-5.107.000	-5.262.000	-5.498.790	-5.171.730	-5.608.766	-5.223.447
Taxes	-886.000	-1.189.000	-1.242.727	-1.208.500	-1.267.581	-1.267.581
Other operational costs	-3.257.000	-3.357.000	-3.396.764	-4.918.000	-3.464.700	-4.672.100
	-9.250.000	-9.808.000	-10.138.281	-11.298.230	-10.341.047	-11.163.128
EBITDA	-1.443.000	-573.000	146.188	-1.823.155	1.006.030	-265.288
Amortization & depreciation	-1.586.000	-1.657.000	-1.698.425	-1.871.100	-1.783.346	-1.936.589
Capitalized production	1.455.000	1.870.000	1.870.000	2.741.850	1.776.500	2.673.304
	-131.000	213.000	171.575	870.750	-6.846	736.715
EBIT	-1.574.000	-360.000	317.763	-952.405	999.183	471.427
Financial income	33.000	5.000	5.000	2.500	10.000	2.500
Financial expense	-116.000	-313.000	-168.000	-197.400	-120.000	-202.335
Net finance costs	-83.000	-308.000	-163.000	-194.900	-110.000	-199.835
EBT	-1.657.000	-668.000	154.763	-1.147.305	889.183	271.592
Income tax expense	-23.000	-65.000	-65.000	-52.000	-95.000	-65.000
Result for the period	-1.680.000	-733.000	89.763	-1.199.305	794.183	206.592

Table 1 Profit & Loss, Source: NedSense, AEK Research

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### History recommendation

Date	Previous Recommendation	New Recommendation
16-08-2010	-	Outperformer
23-10-2010	Outperformer	Outperformer
29-04-2011	Outperformer	Outperformer
30-09-2011	Outperformer	Outperformer

### Supervisory authority

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Rating	Expected absolute share price performance	Time horizon
Outperformer	better absolute returns	12 months
Market performer	same absolute returns	12 months
Underperformer	less absolute returns	12 months

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