

## Vectron Systems

**IT hardware**
**16 May 2018**

### Evolving the business

FY17 results reflected the declining impact of regulatory changes on demand in Germany. International sales continued to grow in FY17 and the company saw good demand for its Duratec product line. Vectron's push into marketing services is progressing well: bonVito is close to profitability and the new GetHappy app is currently being trialled in Leipzig. We view the full launch and then uptake of the app as the key drivers of the share price.

### Boost from regulatory changes recedes

Vectron continued to see strong demand for its products in H117 after a very strong H216, supported by changes in regulations for cash registers in Germany. This effect waned in H217, resulting in a small revenue decline for FY17. Combined with a small increase in costs, the company reported FY17 EBITDA €1.4m lower than a year ago. Despite more than 30% of customers not having upgraded to compliant systems, management does not expect a strong uptick in demand for its POS systems in FY18, instead suggesting that this is more likely to happen in FY19 ahead of further regulations coming into force in FY20.

### Increased focus on cloud services

The original founders have instigated changes to the management structure to ensure the company is well positioned to grow to the next level. The new CEO, Oliver Kaltner, has confirmed that he expects to increase the business's focus on software and cloud services to deliver full solutions that enable customers to make the best use of the data generated by their POS systems. Several modules of the new GetHappy app are currently being trialled by c 60 restaurants in Leipzig. The date of the full launch has not yet been confirmed, and will be decided in collaboration with Coca-Cola.

### Valuation: Factoring online marketing success

Consensus forecasts for FY18 have reduced, factoring in a revenue and EBITDA decline, before the company is forecast to return to growth in FY19. The stock is trading at a significant premium to peers, in our view factoring in a level of success for GetHappy that has not yet been incorporated into forecasts. We view the full launch and then uptake of the app as the key drivers of the share price.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	33.7	3.0	0.30	0.25	88.7	0.9
12/17*	32.4	1.7	0.16	0.06	165.0	0.2
12/18e	31.0	0.4	0.03	0.06	N/A	0.2
12/19e	39.9	3.2	0.32	0.09	82.5	0.3

Source: Bloomberg (as at 10 May). Note: \*FY17 DPS not yet announced.

**Price** €26.40

**Market cap** €174m

#### Share price graph



#### Share details

Code	V3S
Listing	Deutsche Börse Scale
Shares in issue	6.6m
Net cash as at 31 December 2017	€1.7m

#### Business description

Vectron Systems produces high-end, proprietary POS systems for the hospitality sector. Vectron is also diversifying into providing systems designed for online marketing services, which has been given impetus recently through a partnership with Coca-Cola.

#### Bull

- Flexible, comprehensive POS systems.
- Regulatory tailwinds.
- Partnership with Coca-Cola.

#### Bear

- Dependent on the German economy.
- Management owns more than 50% of Vectron.
- GetHappy launch pushed out.

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## Review of FY17 results

### Exhibit 1: Results highlights

€m	2016	2017	Y-o-y
Revenues	33.72	32.38	-4.0%
EBITDA	3.61	2.25	-37.6%
EBITDA margin	10.7%	7.0%	
EBIT	3.08	1.74	-43.4%
EBIT margin	9.1%	5.4%	
PAT	1.97	1.08	-45.3%
EPS	0.30	0.16	-46.2%
Net cash	7.2	1.7	-76.0%

Source: Vectron Systems

### Exhibit 2: Half-yearly divisional revenues

€m							Y-o-y change		
	H116	H216	FY16	H117	H217	FY17	H117	H217	FY17
<b>POS systems</b>	<b>9.76</b>	<b>12.71</b>	<b>22.47</b>	<b>12.81</b>	<b>7.41</b>	<b>20.22</b>	<b>31.3%</b>	<b>-41.7%</b>	<b>-10.0%</b>
Germany	7.03	10.30	17.33	9.47	5.30	14.77	34.6%	-48.6%	-14.8%
Other EU	2.58	2.23	4.81	3.21	1.97	5.18	24.1%	-11.5%	7.7%
International	0.14	0.18	0.32	0.14	0.14	0.28	-4.2%	-22.1%	-14.2%
<b>Software</b>	<b>1.00</b>	<b>1.33</b>	<b>2.33</b>	<b>1.69</b>	<b>1.03</b>	<b>2.72</b>	<b>68.9%</b>	<b>-22.5%</b>	<b>16.8%</b>
Germany	0.67	1.01	1.68	1.16	0.68	1.84	73.8%	-32.4%	9.9%
Other EU	0.32	0.30	0.61	0.52	0.33	0.85	64.4%	9.8%	38.0%
International	0.02	0.02	0.04	0.01	0.02	0.03	-41.2%	-4.3%	-20.0%
<b>Good for resale/service</b>	<b>4.56</b>	<b>4.36</b>	<b>8.92</b>	<b>4.81</b>	<b>4.64</b>	<b>9.44</b>	<b>5.3%</b>	<b>6.4%</b>	<b>5.8%</b>
Germany	3.20	3.65	6.85	3.48	3.64	7.12	8.7%	-0.2%	4.0%
Other EU	1.31	0.66	1.97	1.28	0.92	2.21	-2.0%	39.4%	11.9%
International	0.05	0.05	0.10	0.04	0.07	0.11	-19.6%	52.1%	15.2%
<b>Total revenues</b>	<b>15.33</b>	<b>18.39</b>	<b>33.72</b>	<b>19.31</b>	<b>13.07</b>	<b>32.38</b>	<b>26.0%</b>	<b>-28.9%</b>	<b>-4.0%</b>

Source: Vectron Systems

## Revenues reflect impact of regulation

Vectron reported a small revenue decline of 4% for FY17. The half-yearly breakdown in Exhibit 2 demonstrates the progression of half-yearly revenues, which clearly shows the uptick in demand in H216 and H117, which fell back in H217. German regulations relating to cash registers came into force from the end of 2016 and this drove the increase in sales in H216, with continued strong demand in H117 as companies ensured compliance with the regulations. The company estimates that c 30% of its customer base is not yet compliant, but it is not clear at what point customers will feed the need to upgrade their equipment. Additional regulations will come into force in 2020 which, while likely to drive demand in 2019, could result in a hiatus in 2018. We note that while German revenues declined 8% y-o-y, international revenues increased 10% y-o-y. The Duratec product line showed further growth, generating revenues of €1.74 in FY17 (H1: €1.0m, H2: €0.7m) compared to €1.01m in FY16 (H1: €0.4m, H2: €0.6m).

## EBITDA fall: Revenues decline while costs increase

In FY17, the company increased headcount from 167 to 180. Operating costs excluding depreciation and amortisation increased 2% y-o-y to €31.3m, reflecting the increase in headcount, partially offset by a reduction in raw materials, consumables and supplies. The cost increase, combined with lower revenues, resulted in a €1.4m decrease in EBITDA y-o-y. We note that a large proportion of the costs relating to the development of the GetHappy app have been capitalised.

## Cash flow reflects investment in new ventures

In FY17, the business consumed €1.5m in cash from operating activities compared to a cash inflow of €0.8m in FY16. EBITDA was €1.4m lower than a year ago; in addition, the business increased its

stock of parts and completed POS systems to ensure rapid delivery of orders. It also paid out significantly more in tax (€1.7m vs €0.2m a year ago) and reduced the level of accruals.

The company spent €0.25m on tangible assets, €1.28m on capitalised development costs (vs zero in FY16), and paid €0.75m for the Posmatic acquisition at the start of the year.

## **Financed for growth**

The company closed FY17 with a net cash position of €1.7m, made up of gross cash of €5.5m and loans totalling €3.8m. In April 2018, the company announced that it had received a €10m loan from DZ Bank. The loan is repayable in December 2020 and will be used to support the company's growth plans.

## **Q118 update**

The company announced that it generated revenues of €7.4m in Q118. This is 30.3% lower than a year ago but 6.3% higher than in Q417. EBITDA for the quarter was -€0.18m, compared to €1.97m a year ago and -€0.12m in Q417.

## **Business update**

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### **Management changes to drive business to next level**

In January, the company announced that the original founders of the business, Jens Reckendorf and Thomas Stümmler, would be making changes to the management structure to drive the business forward, as they are keen for the company to grow on an international basis and to maximise the opportunity with GetHappy. Oliver Kaltner joined as CEO with effect from 1 February 2018; Mr Reckendorf remains on the executive board as CTO, while Mr Stümmler has moved to the supervisory board. Related to this, the company brand was revamped.

### **Business evolution**

The business is currently evolving from being a POS system provider to becoming a full system solution provider. The focus of development is to produce solutions that help hospitality businesses maximise the use of their POS data. This can serve several purposes: to enhance customer retention, to improve the efficiency of customers' businesses and to help customers to market effectively to new consumers. Hardware product cycles are shortening, more in line with consumer electronics products, and the business is responding to this by adjusting development and procurement processes. Software development, however, is the main focus, in order to support POS system software and cloud services.

The main group activities are grouped into two business areas:

- Hardware – this includes the Vectron and Duratec POS terminals as well as related peripherals.
- Cloud services – this includes the bonVito online marketing services, Posmatic mobile POS software, the myVectron reporting app and GetHappy activities.

The bonVito business is not consolidated; instead, it is reported through the associate line. While this was loss-making in FY16, the company expects that it was profitable in FY17. It stated that the take-up of bonVito by existing customers has increased over the course of FY17 (from 2,671 at the end of FY16), but no metrics were disclosed. The Posmatic business was acquired at the start of FY17 – no specific metrics were disclosed but the company noted that it was loss-making in FY17.

### **GetHappy – currently being trialled in Leipzig**

From November 2017, Vectron started trialling three modules within the GetHappy app (which will have six modules) with 62 businesses in Leipzig. Management had previously targeted a roll-out of

the GetHappy app to hospitality businesses in January 2018 and customers from April 2018. It has now said that timings will be worked out in collaboration with Coca-Cola. The company capitalised development costs totalling €1.28m in FY17 relating to the work involved in building the GetHappy app. We would expect the company to start amortising this once the app is fully launched.

## Forecasts and valuation

Consensus forecasts for FY18 have reduced since our [last note](#) in September 2017. Forecast revenues have declined 24% to €31.0m and EBITDA from €4.7m to €1.1m (3.5% margin). FY19 forecasts assume 29% revenue growth and EBITDA of €4.0m (10% margin).

The share price peaked in June 2017 at close to €40, in our view due to optimism about the GetHappy collaboration with Coca-Cola. As demand for Vectron's core POS systems has waned (regulatory reasons for this explained above) and the timeline for launching the GetHappy app has extended, the share has fallen back to a trading range of €20-28. We see the key near-term trigger for the share price being full launch of the GetHappy app and, in the medium term, the pace at which the app is adopted will influence forecasts and the share price.

**Exhibit 3: Vectron share price – January 2017 to May 2018**



Source: Bloomberg

## Trading at a premium to peers

In Exhibit 4, Vectron is clearly trading at a significant premium to peers on all valuation metrics. We believe that this is because the share price is factoring in upside from the launch of the GetHappy app, which is not yet evident in consensus forecasts.

**Exhibit 4: Peer valuation multiples**

Company	Quoted ccy	Share price	Market cap (m)	EV (m)	EV/Sales (x)		EV/EBITDA (x)		P/E (x)		Dividend yield (%)		EBITDA margin (%)	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Vectron Systems	EUR	25.85	171	166	5.3	4.2	155.5	41.6	861.7	80.8	0.2	0.3	3.4	10.0
Ingenico Group	EUR	74.26	4,631	6,148	2.2	2.1	11.3	10.3	15.1	13.5	2.1	2.4	19.8	20.3
NCR Corporation	USD	29.9	3,544	7,123	1.1	1.0	6.3	6.1	9.0	8.2			17.0	17.1
Verifone Systems	USD	22.9	2,534	3,253	1.8	1.7	11.0	10.5	15.4	13.4	0.0		16.5	16.6
Aures Technologies	EUR	50.7	203	199	1.8	1.4	13.2	11.3	21.2	17.2	0.9	1.1	13.4	12.7
Paypoint	GBp	870.0	593	566	4.7	4.0	9.2	9.0	14.1	13.9	8.5	8.7	51.1	44.4
Universe Group	GBp	5.9	14	12	0.6	0.5	3.4	2.9	8.4	7.3			17.1	18.1
Pax Global Technology	HKD	3.5	3,851	1,674	0.4	0.4	2.9	2.4	8.0	6.6	2.6	3.1	14.3	15.2
Square INC - A	USD	54.3	21,742	21,172	14.9	11.3	83.9	49.2	116.9	70.2	0.0	0.0	17.8	23.0
Just Eat	GBp	801.2	5,451	5,195	7.3	6.0	27.3	21.0	42.6	32.2	0.0	0.0	26.8	28.8
Grubhub	USD	103.5	9,334	9,193	9.6	7.6	35.8	27.5	58.9	46.2	0.0	0.0	26.8	27.7
Takeaway.com	EUR	48.4	2,088	1,998	8.6	6.7		68.0					(3.7)	9.8
Eagle Eye Solutions Group	GBp	206.5	53	52	3.4	2.5							(13.6)	4.5
<b>Average</b>					<b>4.7</b>	<b>3.8</b>	<b>20.4</b>	<b>19.8</b>	<b>31.0</b>	<b>22.9</b>	<b>1.8</b>	<b>2.2</b>	<b>16.9</b>	<b>19.9</b>
<b>Median</b>					<b>2.8</b>	<b>2.3</b>	<b>11.1</b>	<b>10.5</b>	<b>15.3</b>	<b>13.7</b>	<b>0.5</b>	<b>1.1</b>	<b>17.0</b>	<b>17.6</b>

Source: Bloomberg. Note: Prices as at 10 May.

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