

## Vectron Systems

**Technology**
**14 May 2019**

### Digital services partnerships on track

Although a slowdown in demand for Vectron's traditional point-of-sale (POS) systems had a negative effect on revenue growth and profitability in FY18, the company has made good progress in extending its offering into the digital domain. By supporting Vectron POS owners to offer loyalty and online services, partnerships with DeutschlandCard (DC) and Metro promise to deliver recurring revenues once the schemes are launched.

### FY18 saw a pause in demand for POS systems

FY18 financial results were affected by a drop in demand for Vectron's POS systems that started in H217. This reflects a pause in buying after merchants satisfied the cash register regulations that came into force in 2017, as seen in the strong revenues generated in FY16 and H117. The next phase of regulation is due to come into force in CY20; consequently management expects demand to pick up this year and next to satisfy these regulations. Consensus forecasts reflect this. Vectron raised €5m from the issue of 661k shares in February, returning the company to a net cash position.

### Making progress with digital partnerships

Vectron is keen to reduce its dependency on hardware sales, which are unpredictable and one off in nature. Adding digital services to Vectron's POS systems provides a route to recurring revenues and supports its POS users with their customer marketing and retention efforts. The collaboration with DeutschlandCard (DC) has been formalised and will enable DC holders to generate and redeem points in hospitality venues that use Vectron POS systems when launched later in Q219. This should widen the appeal of DC and generate more footfall for Vectron POS customers, while generating transaction revenues for Vectron. The pilot with Metro's digital arm, Hospitality Digital, has been widened to test pricing and distribution models.

### Valuation: Factoring in return to profitability

Consensus forecasts are for strong revenue growth in FY19 and FY20 with a return to profitability in FY19. We assume that analysts have factored in a regulatory-driven resumption in demand for POS systems starting in FY19. On this basis, Vectron's valuation falls to attractive levels by FY20.

#### Consensus estimates

| Year end | Revenue (€m) | EBIT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|-----------|---------|---------|---------|-----------|
| 12/17    | 32.4         | 1.7       | 0.16    | 0.06    | 66.6    | 0.6       |
| 12/18    | 24.8         | (5.5)     | (0.59)  | N/A     | N/A     | N/A       |
| 12/19e   | 35.9         | 2.3       | 0.19    | 0.06    | 56.1    | 0.6       |
| 12/20e   | 56.5         | 9.1       | 0.85    | 0.12    | 12.6    | 1.2       |

Source: Company reports, analyst reports on Vectron Systems website, Refinitiv.

**Price** €10.65  
**Market cap** €77m

#### Share price graph



#### Share details

|                      |                      |
|----------------------|----------------------|
| Code                 | V3S                  |
| Listing              | Deutsche Börse Scale |
| Shares in issue      | 7.3m                 |
| Net debt at end FY18 | €1.2m                |

#### 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 partnerships with DeutschlandCard and Metro.

#### Bull

- Flexible, comprehensive POS systems.
- Strong position in DACH hospitality market.
- Partnership with DeutschlandCard.

#### Bear

- Dependent on the German economy.
- Management owns more than 50% of Vectron.
- Low level of recurring revenues.

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## Review of FY18 results

### Exhibit 1: Vectron results highlights

| €m               | 2017   | 2018    |
|------------------|--------|---------|
| Revenues         | 32.38  | 24.82   |
| Revenue growth   | (4.0%) | (23.3%) |
| EBITDA           | 2.25   | (3.77)  |
| EBITDA margin    | 7.0%   | (15.2%) |
| EBIT             | 1.74   | (5.45)  |
| EBIT margin      | 5.4%   | (22.0%) |
| Profit after tax | 1.08   | (3.88)  |
| EPS (€)          | 0.16   | (0.59)  |
| Net cash/(debt)  | 1.7    | (1.2)   |

Source: Vectron Systems

### Exhibit 2: Half-yearly revenues by product and geography

| €m                              |              |              |              |              |              |              | y-o-y change   |                |                |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|
|                                 | H117         | H217         | FY17         | H118         | H218         | FY18         | H118           | H218           | FY18           |
| <b>POS systems</b>              | <b>12.81</b> | <b>7.41</b>  | <b>20.22</b> | <b>8.29</b>  | <b>6.26</b>  | <b>14.55</b> | <b>(35.3%)</b> | <b>(15.5%)</b> | <b>(28.0%)</b> |
| Germany                         | 9.47         | 5.30         | 14.77        | 6.12         | 4.53         | 10.65        | (35.4%)        | (14.5%)        | (27.9%)        |
| Other EU                        | 3.21         | 1.97         | 5.18         | 2.06         | 1.62         | 3.68         | (35.7%)        | (17.7%)        | (28.9%)        |
| International                   | 0.14         | 0.14         | 0.28         | 0.10         | 0.12         | 0.22         | (27.0%)        | (14.9%)        | (20.9%)        |
| <b>Software</b>                 | <b>1.69</b>  | <b>1.03</b>  | <b>2.72</b>  | <b>1.16</b>  | <b>0.89</b>  | <b>2.05</b>  | <b>(31.4%)</b> | <b>(14.1%)</b> | <b>(24.9%)</b> |
| Germany                         | 1.16         | 0.68         | 1.84         | 0.77         | 0.64         | 1.41         | (33.5%)        | (6.9%)         | (23.6%)        |
| Other EU                        | 0.52         | 0.33         | 0.85         | 0.36         | 0.23         | 0.58         | (31.7%)        | (30.5%)        | (31.2%)        |
| International                   | 0.01         | 0.02         | 0.03         | 0.04         | 0.02         | 0.06         | 260.0%         | (13.6%)        | 71.9%          |
| <b>Goods for resale/service</b> | <b>4.81</b>  | <b>4.64</b>  | <b>9.44</b>  | <b>4.43</b>  | <b>3.80</b>  | <b>8.23</b>  | <b>(7.8%)</b>  | <b>(18.1%)</b> | <b>(12.9%)</b> |
| Germany                         | 3.48         | 3.64         | 7.12         | 3.44         | 2.81         | 6.25         | (1.2%)         | (22.7%)        | (12.2%)        |
| Other EU                        | 1.28         | 0.92         | 2.21         | 0.96         | 0.95         | 1.92         | (24.9%)        | 3.1%           | (13.2%)        |
| International                   | 0.04         | 0.07         | 0.11         | 0.03         | 0.03         | 0.06         | (26.8%)        | (58.9%)        | (47.4%)        |
| <b>Total revenues</b>           | <b>19.31</b> | <b>13.07</b> | <b>32.38</b> | <b>13.88</b> | <b>10.94</b> | <b>24.83</b> | <b>(28.1%)</b> | <b>(16.3%)</b> | <b>(23.3%)</b> |

Source: Vectron Systems

As previously flagged at Vectron's H118 results, demand dropped in FY18 compared to FY17 as regulatory tailwinds diminished. Revenues declined in all geographies and for all product types, resulting in a 23% decline in revenues y-o-y. This resulted in a loss for the year and shifted the company into a net debt position. The cost of materials declined 20% y-o-y, reflecting the lower volume of systems sold. Personnel costs increased 5% y-o-y as the company invested in digital services, including the joint projects with DeutschlandCard and Metro. The company wrote-down capitalised development costs by €1.2m, reflecting the investment in the now discontinued GetHappy service. Excluding this, the company would have reported an EBIT loss of €4.2m.

## Business update

### DC relationship formalised

Following on from the letter of intent signed in August, in December DC and Vectron Systems signed a co-operation agreement. The aim is to distribute the DC via Vectron's POS systems to hospitality customers, starting with the collection and redemption of points. Catering businesses of all sizes will be able to access an established and successful multi-partner bonus programme, while DC holders will be able to use their cards in the hospitality sector. The agreement provides for a separate hospitality area on the DC website and in the DC app so participants can immediately see in which restaurants they can collect and redeem points. Additional functionality for online reservations and orders will be integrated into the solution in due course. DC has 20 million participants (making it the second-largest loyalty scheme in Germany after Payback) and is partnered with well-known companies such as EDEKA, Netto Marken-Discount and Esso. Vectron started marketing the scheme in January, with market launch planned later in H119.

## Hospitality Digital pilot extended

Hospitality Digital, the digital arm of METRO Group, launched a pilot project with Vectron last September, incorporating 100 caterers. Initial results were encouraging and both sides have agreed to extend the field test to significantly more catering establishments. The extension will test various pricing and distribution models for combinations of Hospitality Digital service packages and Vectron POS systems. In particular, the test will focus on a bundled solution that incorporates the Duratec cash register, the digital DISH platform developed specifically by METRO for the hospitality industry and the Hospitality Digital reporting tool dashboard. The partners also provide installation and on-site training. In the case of larger installations, Vectron brings in dealers and external service providers.

## Adding alternative payment methods to tills

In March, Vectron announced a co-operation with epay, a subsidiary of payment processor Euronet. epay is a full-service provider for payment and prepaid solutions, specialising in alternative payment methods and offering a large portfolio of prepaid and gift card products. Vectron will be able to offer caterers and bakers cashless payment options enabling them to access new customer groups and additional revenue via alternative payment methods and prepaid solutions. epay will gain access to merchants in the hospitality and bakery segments.

## Financials

On 1 January 2019, Vectron acquired the remaining 25% of Posmatic that it did not already own, at an undisclosed cost. Posmatic and bonVito were not consolidated in FY18 but we expect the company to consolidate both businesses in FY19.

In February, the company issued 661,199 new shares at a price of €7.6 per share, resulting in gross proceeds of €5.03m and net proceeds of €4.88m, which are to be used in the development of digital services.

Since FY18 results were announced there have been no changes to consensus forecasts (see Exhibit 3). Analysts are expecting a resumption in revenue growth in FY19 with a forecast of 45% followed by growth of 58% in FY20. We assume this factors in an uptick in demand for POS systems driven by regulatory requirements coming into force in FY20. This also drives a resumption in profitability.

| Exhibit 3: Consensus forecasts |       |       |
|--------------------------------|-------|-------|
| €m                             | FY19e | FY20e |
| Revenues                       | 35.9  | 56.5  |
| EBITDA                         | 3.0   | 9.9   |
| EBIT                           | 2.3   | 9.1   |
| EPS (€)                        | 0.19  | 0.85  |
| DPS (€)                        | 0.06  | 0.12  |
| Revenue growth                 | 45%   | 58%   |
| EBITDA margin                  | 8.3%  | 17.5% |
| EBIT margin                    | 6.3%  | 16.0% |

Source: Analyst reports on Vectron Systems website, Refinitiv

## Valuation

Based on consensus forecasts for a resumption in revenue growth and a return to profitability in FY19e, the stock is trading at the upper end of its POS provider peer group and at a discount to hospitality-focused online marketing services companies.

**Exhibit 4: Peer group valuation**

| Company                          | Quoted ccy | Share price | Market cap (m) | EV (rep ccy, m) | EV/Sales (x) |            | EV/EBITDA (x) |             | P/E (x)     |             | Div yield   |             | EBITDA margin |              |
|----------------------------------|------------|-------------|----------------|-----------------|--------------|------------|---------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
|                                  |            |             |                |                 | CY           | NY         | CY            | NY          | CY          | NY          | CY          | NY          | CY            | NY           |
| <b>Vectron Systems</b>           | EUR        | 10.65       | 77             | 79              | 2.2          | 1.4        | 26.3          | 8.0         | 56.1        | 12.6        | 0.6%        | 1.2%        | 8.3%          | 17.5%        |
| <b>POS system providers</b>      |            |             |                |                 |              |            |               |             |             |             |             |             |               |              |
| Ingenico Group                   | EUR        | 71.42       | 4,510          | 6,061           | 1.9          | 1.8        | 10.6          | 9.7         | 14.9        | 13.5        | 1.9%        | 2.3%        | 17.6%         | 18.2%        |
| NCR Corp                         | USD        | 31.1        | 3,735          | 7,423           | 1.1          | 1.1        | 7.0           | 6.7         | 11.1        | 9.8         | N/A         | N/A         | 16.3%         | 16.6%        |
| Aures Technologies               | EUR        | 23.8        | 95             | 90              | 0.7          | 0.7        | 6.8           | 5.6         | 11.4        | 9.6         | 3.7%        | 3.9%        | 11.0%         | 12.3%        |
| PayPoint plc                     | GBp        | 1018.0      | 695            | 661             | 5.5          | 5.3        | 10.4          | 9.9         | 16.0        | 15.3        | 8.2%        | 8.3%        | 53.0%         | 53.3%        |
| Universe Group                   | GBp        | 5.5         | 14             | 12              | 0.5          | 0.5        | 3.9           | 3.4         | 27.5        | 11.0        | 0.0%        | 0.0%        | 13.4%         | 13.4%        |
| <b>mPOS provider</b>             |            |             |                |                 |              |            |               |             |             |             |             |             |               |              |
| Square Inc                       | USD        | 66.0        | 27,912         | 27,733          | 12.2         | 9.0        | 66.4          | 42.5        | 87.6        | 58.7        | 0.0%        | 0.0%        | 18.3%         | 21.3%        |
| <b>Online marketing services</b> |            |             |                |                 |              |            |               |             |             |             |             |             |               |              |
| Just Eat                         | GBp        | 665.0       | 4,538          | 4,461           | 4.3          | 3.4        | 25.3          | 18.9        | 83.6        | 40.5        | 0.0%        | 0.0%        | 16.8%         | 18.2%        |
| GrubHub                          | USD        | 66.6        | 6,072          | 6,189           | 4.5          | 3.6        | 24.5          | 17.0        | 46.3        | 30.2        | 0.0%        | 0.0%        | 18.5%         | 21.0%        |
| Takeaway.com                     | EUR        | 77.5        | 4,442          | 4,502           | 11.0         | 8.1        | 420.0         | 54.0        | N/A         | 100.1       | 0.0%        | 0.0%        | 2.6%          | 15.0%        |
| Eagle Eye Solutions Group        | GBp        | 152.5       | 39             | 41              | 2.3          | 1.9        | 180.9         | 20.1        | N/A         | N/A         | 0.0%        | 0.0%        | 1.3%          | 9.5%         |
| Delivery Hero                    | EUR        | 41.9        | 7,856          | 7,492           | 6.6          | 4.6        | N/A           | N/A         | N/A         | N/A         | 0.0%        | 0.0%        | -24.5%        | -4.6%        |
| <b>Average</b>                   |            |             |                |                 | <b>4.6</b>   | <b>3.6</b> | <b>75.6</b>   | <b>18.8</b> | <b>37.3</b> | <b>32.1</b> | <b>1.4%</b> | <b>1.4%</b> | <b>13.1%</b>  | <b>17.6%</b> |
| <b>Median</b>                    |            |             |                |                 | <b>4.3</b>   | <b>3.4</b> | <b>17.6</b>   | <b>13.5</b> | <b>21.8</b> | <b>15.3</b> | <b>0.0%</b> | <b>0.0%</b> | <b>16.3%</b>  | <b>16.6%</b> |

Source: Vectron estimates as per Exhibit 3, all other companies Refinitiv (as at 13 May)

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