

Vectron Systems

Technology

3 September 2020

Positive outlook

Vectron Systems has so far weathered the disruption caused by COVID-19, reporting 5% revenue growth in H120 despite weaker demand in Q2. With lockdown restrictions easing and deadlines for compliance with German regulations fast approaching, the company expects demand to improve through H220 with a significant pick up in revenues in FY21.

Demand improving since May

Vectron reported H120 revenue growth of 4.9% y-o-y, helped by a strong first quarter (Q1 revenues +28% y-o-y). COVID-19 lockdowns started to affect demand in March with a further month-on-month decline in April, but as the catering industry started returning to a more normal situation, demand improved from May. By June it was still below normal seasonal levels but has continued to gradually improve. Excluding one-off costs for the February fund raise (€10.6m net), the H120 EBITDA loss of €0.9m was below the H119 loss of €1.0m. The company continues to invest in its digital business, which should provide a growing level of recurring revenue. Helped by the fund raise, end H120 net cash was €6.2m.

Company reinstates guidance for FY20–22

Earlier in the year, the company withdrew guidance due to the difficulty in forecasting in the midst of the pandemic. In mid-August, Vectron published new guidance, with the expectation for revenues of €25–29m in FY20, rising to €50m in FY21 and €65m in FY22 as customers replace or retrofit systems to meet German regulations. While the company estimates that an EBITDA loss is likely for FY20, it expects a return to profitability in FY21.

Valuation: Replacement cycle the trigger

Consensus forecasts are within the guidance range for FY20 and slightly ahead of guidance for FY21 and FY22, implying confidence in the expected rebound in demand. As Vectron is expected to report a loss for FY20, valuation metrics for that year are less relevant. Based on FY21 forecasts, Vectron is trading at a discount to its peer group on all metrics. This implies the market is discounting management's guidance. Evidence that the expected replacement cycle has started will be key to reducing the valuation discount; increasing uptake of its digital solutions should also drive share price upside.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	24.8	(5.5)	(0.59)	0.00	N/A	N/A
12/19	25.2	(2.0)	(0.19)	0.00	N/A	N/A
12/20e	27.5	(3.6)	(0.32)	0.00	N/A	N/A
12/21e	51.8	8.5	0.71	0.05	13.7	0.5

Source: Refinitiv

Price €9.7
Market cap €78m

Share price graph



Share details

Code	V3S
Listing	Deutsche Börse Scale
Shares in issue	8.04m
Net cash at 30 June 2020	€6.2m

Business description

Vectron Systems produces high-end, proprietary point of sale systems for the hospitality sector. It is diversifying into providing systems designed for online marketing services, which have been given impetus recently through partnerships with DeutschlandCard and Metro.

Bull

- Flexible, comprehensive POS systems.
- Strong position in the 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 H120 results

Exhibit 1: Half-yearly results highlights

€m	H119	H120	y-o-y
Revenues	12.01	12.60	4.9%
Changes in inventory of finished goods & WIP	(0.39)	0.21	(152.7%)
Other income	0.16	0.17	1.8%
Material costs	(4.91)	(5.31)	8.3%
Personnel costs	(4.50)	(4.43)	(1.6%)
Other operating expenses	(3.40)	(4.55)	33.9%
EBITDA	(1.03)	(1.32)	28.9%
Depreciation and amortisation	(0.22)	(0.19)	(11.4%)
Operating profit	(1.24)	(1.52)	21.8%
Interest expense	(0.09)	(0.08)	(12.0%)
PBT	(1.34)	(1.60)	19.5%
Tax	(0.01)	(0.00)	(75.0%)
Net income	(1.34)	(1.60)	18.9%
Operating margin	(10.4%)	(12.0%)	
EBITDA margin	(5.7%)	(15.0%)	
Tax rate	(0.6%)	(0.1%)	
Material costs/revenue	40.9%	42.2%	
Cash & cash equivalents	13.814	16.211	17.4%
Bank debt	10.842	10.000	(7.8%)
Net cash	2.972	6.211	109.0%

Source: Vectron Systems

Vectron Systems reported 4.9% year-on-year growth in revenues in H120, despite COVID-19 disruption. Revenues in Q120 of €7.5m were 27% higher year-on-year and 2% lower quarter-on-quarter. Q220 revenues of €5.1m were 17% lower year-on-year and 32% lower quarter-on-quarter. As a number of staff were put on short working hours in Q220, this resulted in slightly lower staff costs year-on-year. H120 results included a €410k one-off cost incurred in the February fundraise and a further €1.7m invested in developing the digital business. Excluding these costs, the core business remains profitable.

The company noted that the number of customers using bonVito digital services increased 12.6% through H1 to 6,279.

In H1 Vectron saw a €4.9m cash outflow from operating activities due to a €3.5m increase in working capital requirements. In anticipation of strong demand from H220, the company has increased inventory. Capex of €0.8m in H120 mainly comprised the capitalisation of Duratec systems, which are provided to customers free as part of the Duratec Digital World solution. The systems are depreciated over 72 months.

The company had a net cash position of €6.2m at the end of H120. We note the €10m bank loan is due to be repaid by the end of this year.

Business update

Demand bottoms out in Q220

As Vectron's point of sale (POS) systems are predominantly used by the catering industry (bakeries, cafés, restaurants and bars), sales from March were significantly affected by COVID-19 restrictions. While many bakeries remained open, other hospitality venues had to close completely and Vectron saw sales decline on a month-on-month basis in March (10%) and April (25%). Lockdown in Germany did not last as long as some European countries, so from May Vectron started to see a pick-up in business. By June, the highest selling week was still 20% below normal seasonal levels.

Further grace period granted for German regulations

At the end of 2016, the law on the protection against manipulation of digital background recordings (Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen) came into force. This prescribes that all cash registers must be fitted with a certified technical security device (TSE) from 1 January 2020. For Vectron customers, this either means buying new systems that are compliant or retrofitting existing systems with a TSE.

Detailed technical requirements for this law were in draft format for some time, with the final version only published in August 2019. This meant TSE manufacturers were not able to finalise the design and certification of their devices until late 2019, preventing customers from being able to upgrade to newer systems. In November 2019, the Federal Ministry of Finance published the final timetable for the implementation of the Kassensicherungsverordnung (KassenSichV – regulations for the approval of technical requirements for electrical recording and safety systems in business dealings) confirming the 1 January 2020 start date and a grace period until 30 September 2020, after when fines of €25k could be imposed. As COVID-19 has been so disruptive to the retail and catering industries, various industry bodies lobbied the government to extend this grace period. All states, bar Bremen, have extended the period to 31 March 2021, although business owners will need to prove they placed orders for new POS systems/retrofits by 30 September 2020.

Outlook and changes to consensus estimates

In mid-August, management reinstated guidance for the next three years (see table below). For FY20, the guidance implies H220 revenues are at least as high as H120 revenues and that profitability will improve in H220. The jump in revenues from FY20 to FY21 is based on the assumption that customers will need to either replace or retrofit their POS systems according to the regulations described above and that this process will happen over the next two years or so.

Exhibit 2: Company outlook

€m	FY20e	FY21e	FY22e
Revenues	25–29	50	65
EBITDA	-2.0 to +0.25	10	16.25
EBITDA margin	-8.0% to +0.7%	20%	25%

Source: Vectron Systems

The table below shows consensus forecasts over the same time period. Forecasts for FY20 are in within the guidance range whereas forecasts for FY21 and FY22 are slightly ahead of guidance.

Exhibit 3: Consensus forecasts

€m	FY20e	FY21e	FY22e
Revenues	27.5	51.8	66.6
EBITDA	(1.7)	10.7	16.0
PBT	(3.6)	8.5	12.7
EPS (€)	(0.32)	0.71	1.04
DPS (€)	0.00	0.05	0.15
Revenue growth	9%	88%	28%
EBITDA margin	-6.0%	20.7%	24.0%
PBT margin	-12.9%	16.4%	19.0%

Source: Refinitiv

Valuation

Exhibit 4: Peer group valuation multiples

Company	Quoted ccy	Share price	Market cap (m)	EV (m)	EV/sales		EV/EBITDA		P/E		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Vectron Systems	€	9.7	78	72	2.6	1.4	N/A	6.7	N/A	13.7	0.0%	0.5%	-6.0%	20.7%
Ingenico Group	€	142.2	9,035	10,679	3.6	3.3	17.7	16.0	29.8	26.1	0.8%	1.0%	20.3%	20.9%
NCR Corp	US\$	20.4	2,624	6,083	1.0	0.9	6.8	6.0	12.7	8.9			14.1%	15.3%
Aures Technologies	€	13.6	54	66	0.7	0.6	11.7	5.0	92.7	9.0	0.0%	4.1%	5.9%	11.4%
PayPoint	GBp	630.0	431	408	3.7	3.4	7.4	6.6	12.2	10.7	7.7%	6.2%	50.4%	51.7%
Square	US\$	159.6	70,770	70,309	9.4	7.3	227.3	102.6	290.8	132.4	0.0%	0.0%	4.1%	7.1%
GrubHub	US\$	72.4	6,676	6,636	4.0	3.5	84.1	43.6	N/A	391.4	0.0%	0.0%	4.7%	7.9%
Just Eat Takeaway.com	€	93.2	13,829	13,912	6.8	5.2	55.3	34.4	161.3	75.4	0.0%	0.0%	12.3%	15.0%
Eagle Eye Solutions	GBp	249.0	64	66	3.3	2.8	21.8	17.4	N/A	249.0	0.0%	0.0%	15.0%	15.8%
Delivery Hero	€	90.0	17,875	17,038	7.1	4.3	N/A	N/A	N/A	N/A	0.0%	0.1%	-24.5%	-7.1%
Average					4.4	3.5	54.0	28.9	99.9	43.8	1.1%	1.4%	11.4%	15.3%
Median					3.7	3.4	19.7	16.7	61.3	18.4	0.0%	0.0%	12.3%	15.0%

Source: Refinitiv. Note: Priced at 1 September.

As Vectron is expected to report a loss for FY20, valuation metrics for that year are less relevant. Based on FY21 forecasts, Vectron is trading at a discount to its peer group on all metrics. This implies the market is discounting management's guidance. Evidence that the expected replacement cycle has started will be key to reducing the discount to peers.

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