

Vectron Systems

Technology

2 September 2021

Return to profitability in H121

Vectron's H121 results benefited from an uptick in revenue in Q221 as COVID-19 pressures abated and customers sought to comply with German regulations for point of sale (POS) systems. Its 66% growth in revenue year-on-year resulted in a significant improvement in EBITDA profitability over the same period. To counter the unpredictability of POS system sales and exploit the growing trend for online transactions, Vectron has developed digital services to supplement its hardware. The ongoing adoption of these services will be key to driving recurring revenue and share price upside.

Record revenue in Q221

Vectron reported revenue of €20.9m for H121, up 66% y-o-y. On a quarterly basis, Q121 revenue was 12% higher year-on-year and Q221 was 144% higher. Q220 demand was hit by the pandemic as most hospitality venues were closed during lockdown. Revenues rebounded from Q320, helped to a certain extent by the lifting of lockdowns but also by German customers replacing or retrofitting POS systems to comply with German regulations. Q221 in particular benefited from this aspect, as the deadline for compliance expired on 31 March. Higher revenues in H121 resulted in an EBITDA margin of 18.5% compared to -10.5% for H120. Recurring revenue tripled year-on-year and made up 9% of H121 revenue.

Re-establishing guidance for FY21

Having suspended guidance in February due to pandemic-related uncertainty, Vectron recently provided guidance for FY21, which consolidates its bonVito subsidiary from 1 January 2021 (note that H121 results do not consolidate bonVito). The company expects to generate revenue of €40.9–42.4m and EBITDA of €4.5–5.5m. Consensus estimates have been cut since we last wrote in May and reflect the lower end of guidance.

Valuation: Shift to digital services key to upside

Since we last wrote in May, the share price has declined 10%. Vectron trades at a discount to the peer average on all valuation metrics, which are skewed by very high multiples for Square and Just Eat Takeaway.com. Based on median multiples, Vectron still trades at a discount on an EV/sales basis but at a premium on a P/E basis reflecting slower growth and lower profitability than many of its peers. We believe that growth in recurring revenue from increasing adoption of digital services will be key to improving the predictability of the business, which in turn should support the share price.

Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/19 | 25.2 | (2.0) | (0.19) | 0.00 | N/A | N/A |
| 12/20 | 27.8 | (2.6) | (0.26) | 0.00 | N/A | N/A |
| 12/21e | 40.6 | 4.5 | 0.39 | 0.03 | 28.0 | 0.2 |
| 12/22e | 45.3 | 7.5 | 0.59 | 0.05 | 18.4 | 0.5 |

Source: Analyst notes on Vectron website, as at 1 September

Price €10.78
Market cap €87m

Share price graph



Share details

Code V3S
Listing Deutsche Börse Scale
Shares in issue 8.1m
Last reported net cash at end H121 €14.0m

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.

Analyst

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Review of H121 results

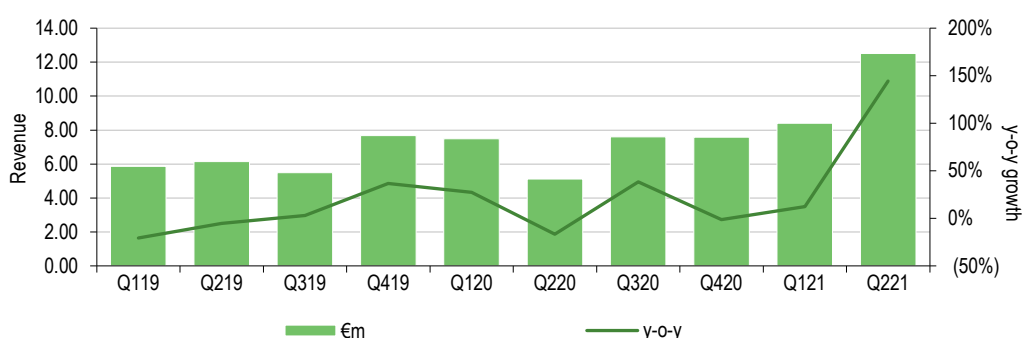
Exhibit 1: H121 results highlights

| €m | H120 | H121 | y-o-y |
|--|----------------|--------------|--------------|
| Revenues | 12.60 | 20.91 | 66.0% |
| Changes in inventory of finished goods & WIP | 0.21 | (0.56) | N/A |
| Other income | 0.17 | 0.48 | 189.8% |
| Material costs | (5.31) | (6.67) | 25.6% |
| Personnel costs | (4.43) | (5.75) | 30.0% |
| Other operating expenses | (4.55) | (4.54) | (0.3%) |
| EBITDA | (1.32) | 3.86 | N/A |
| Depreciation and amortisation | (0.19) | (0.18) | (7.2%) |
| Operating profit | (1.52) | 3.68 | N/A |
| Interest expense | (0.08) | (0.04) | (49.4%) |
| PBT | (1.60) | 3.64 | N/A |
| Tax | (0.00) | (1.10) | 55000.0% |
| Net income | (1.60) | 2.54 | N/A |
| Operating margin | (12.0%) | 17.6% | |
| EBITDA margin | (10.5%) | 18.5% | |
| <i>Tax rate</i> | <i>(0.1%)</i> | <i>30.2%</i> | |
| Cash & cash equivalents | 16.2 | 17.0 | 4.9% |
| Bank debt | 10.0 | 3.0 | (70.0%) |
| Net cash | 6.2 | 14.0 | 125.4% |
| Recurring revenue | 0.6 | 1.8 | |
| <i>Recurring revenue/total revenue</i> | <i>4.8%</i> | <i>8.6%</i> | |

Source: Vectron Systems

Vectron Systems reported strong revenue growth for H121, 66% higher than H120. Exhibit 2 shows the progression of revenue over the last 10 quarters; COVID-19 had a significant negative impact in Q220, with a rebound to Q1 levels in Q320 and Q420. In Q221, the company benefited from customers replacing or retrofitting their POS systems to comply with German regulations, after a deadline for compliance expired at the end of March. The unconsolidated subsidiary, bonVito, generated revenue of €1.5m (H120: €1.4m) and EBITDA of €0.4m (H120: €0.3m). Recurring revenue made up 9% of total revenue and tripled compared to the same period a year ago. This does not include bonVito revenue, which is nearly all recurring.

Exhibit 2: Quarterly revenue progression Q119–Q221



Source: Vectron Systems

The boost in revenue in H121 resulted in EBITDA increasing to €3.9m compared to a loss of €1.3m in H120. Depreciation and amortisation were essentially flat year-on-year and the tax rate reverted to a more normal rate of 30%, resulting in net income increasing to €2.5m from a €1.6m loss a year ago.

Net cash at the end of H121 stood at €14.0m, up from €8.3m at the end of FY20. Operating cash inflow of €6.1m benefited from a €1.6m working capital inflow.

In Q121, the company took advantage of German government 'Corona-Hilfe für Unternehmen' support, drawing down a €3m loan.

Business update: COVID-19 impact receding

The company noted that roughly 60% of revenue typically comes from the catering industry, with 30% from bakeries and 10% from other sectors. The catering industry has suffered due to repeated lockdowns but was able to partially compensate with delivery services and received some financial support from the government. By summer this year, business from the catering sector had largely reached pre-COVID-19 levels. The bakery sector was less affected by COVID-19 as food stores were still able to open. Due to the lack of certainty around the progress of the pandemic, the company finds it difficult to assess exactly how its business will develop. With a high level of cash, the business is well-funded to manage through any further COVID-19 disruption.

The company continues to develop its digital offering in three areas:

- bonVito: provides customer loyalty solutions. The existing customer base is stable and churn rates are low.
- myVectron: additional products and services are available to supplement the cash register, such as reporting apps, cloud data back-up and integrations to cloud solutions such as DATEV. The number taking the basic digital package increased from 2,000 at the start of FY20 to more than 16,000 by the end of H121.
- Digital World: offers a comprehensive package of digital services combined with a cash register system than can be partially or completely financed through the use of the services.

In Q221, the company increased the number of payment options supported by its systems.

As we have previously written ([Positive Outlook](#), September 2020), the company is currently benefiting from customers upgrading their systems to meet German regulations. With the deadline for compliance having expired on 31 March 2021, it is difficult to assess how many companies still need to upgrade their systems. The German Association for Cash Register and Accounting System Technology (DFKA) estimates that by the end of June, 71% of companies were compliant. Some companies may decide to take the risk and stick with uncompliant systems, but it is likely that there are still companies that will place orders for new or retrofitted systems in H221.

Outlook and changes to consensus estimates

Recently, management updated guidance for FY21 and noted that it plans to consolidate its 100%-owned bonVito subsidiary this year. FY21 results will be the first to be reported on a consolidated basis. For the full year, management expects to generate revenue of €40.9–42.4m including a nearly €3m contribution from bonVito. It also expects EBITDA of €4.5–5.5m (including c €0.5m from bonVito). Consensus forecasts were partially revised to reflect this guidance prior to the release of full H121 results. When we last wrote in May, consensus revenue stood at €46.9m for FY21 and €65.7m for FY22, with EBITDA of €7.9m and €15.5m respectively.

Exhibit 3: Consensus forecasts as at 1 September

| €m | FY21e | FY22e |
|----------------|-------|-------|
| Revenues | 40.6 | 45.3 |
| EBITDA | 4.7 | 7.1 |
| PBT | 4.5 | 7.5 |
| EPS (€) | 0.39 | 0.59 |
| DPS (€) | 0.03 | 0.05 |
| Revenue growth | 46% | 12% |
| EBITDA margin | 11.7% | 15.6% |
| PBT margin | 11.1% | 16.5% |

Source: Analyst research on Vectron website

Valuation

Since we last wrote in May, consensus forecasts have been cut and the share price has declined 10%. Vectron trades at a discount to the peer average on all valuation metrics, which are skewed by very high multiples for Square and Just Eat Takeaway.com. Based on median multiples, Vectron still trades at a discount on an EV/sales basis but at a premium on a P/E basis reflecting slower growth and lower profitability than many of its peers.

Exhibit 4: Peer group valuation multiples

| Company | Quoted ccy | Share price | Market cap (m) | EV (m) | EV/sales (x) | | EV/EBITDA (x) | | P/E (x) | | Div. yield | | EBITDA margin | |
|------------------------|------------|-------------|----------------|---------|--------------|------------|---------------|-------------|--------------|-------------|-------------|-------------|---------------|--------------|
| | | | | | CY | NY | CY | NY | CY | NY | CY | NY | CY | NY |
| Vectron Systems | € | 10.78 | 87 | 73 | 1.8 | 1.6 | 15.4 | 10.3 | 28.0 | 18.4 | 0.2% | 0.5% | 11.7% | 15.6% |
| Worldline | € | 74.98 | 21,026 | 25,058 | 4.9 | 4.5 | 19.5 | 16.8 | 30.6 | 25.5 | 0.0% | 0.1% | 25.4% | 27.0% |
| NCR Corp | US\$ | 43.1 | 5,667 | 11,504 | 1.6 | 1.4 | 9.1 | 7.2 | 16.9 | 11.3 | | | 17.3% | 19.5% |
| Aures Technologies | € | 28.1 | 112 | 118 | 1.0 | 0.9 | 8.2 | 6.9 | 17.6 | 13.2 | 2.7% | 3.4% | 12.8% | 13.5% |
| PayPoint plc | GBp | 698.0 | 480 | 528 | 4.5 | 4.4 | 9.2 | 8.7 | 13.5 | 12.7 | 5.2% | 5.5% | 49.7% | 50.6% |
| Square Inc | US\$ | 271.9 | 125,001 | 125,122 | 6.6 | 6.0 | 116.9 | 93.0 | 142.3 | 114.8 | 0.0% | 0.0% | 5.6% | 6.4% |
| Just Eat Takeaway.com | € | 76.0 | 16,110 | 16,785 | 3.8 | 2.8 | N/A | 121.2 | N/A | N/A | 0.0% | 0.0% | (2.5%) | 2.3% |
| Eagle Eye Solutions | GBp | 522.5 | 136 | 136 | 6.1 | 5.3 | 33.6 | 29.3 | 746.4 | 401.9 | 0.0% | 0.0% | 18.1% | 18.2% |
| Delivery Hero | € | 118.3 | 29,479 | 30,748 | 5.1 | 3.5 | N/A | N/A | N/A | N/A | 0.0% | 0.0% | (11.4%) | (4.2%) |
| Average | | | | | 4.2 | 3.6 | 32.7 | 27.0 | 161.2 | 96.6 | 1.1% | 1.3% | 14.4% | 16.7% |
| Median | | | | | 4.7 | 4.0 | 9.1 | 12.7 | 17.2 | 13.0 | 0.0% | 0.0% | 15.0% | 15.8% |

Source: Refinitiv (as at 31 August)

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