

Vectron Systems

Technology
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Growth in a tough market

Despite the effect of lockdowns on the hospitality industry in FY20, Vectron reported 10% revenue growth. After a dip in Q220, revenue rebounded as customers sought to meet German point-of-sale (POS) system security regulations. Recurring revenue, while still low, is growing as customers adopt Vectron's digital services. The combination of gradual lockdown relaxations and the ongoing regulatory-driven replacement cycle is expected to drive strong growth in revenue and profitability for FY21/22.

FY20: Investment continued despite pandemic

Vectron reported 10% revenue growth in FY20; retrofitting of systems to meet German regulations outweighed the decline in business due to the pandemic. The EBITDA loss widened to €2.2m from €1.4m in FY19 as the company increased investment in its digital services offering. Having raised €11m through a fund raise in February 2020, Vectron closed the year with a net cash position of €8.3m.

Promising start to FY21

Vectron reported Q121 revenue of €8.6m (+15% y-o-y, +13% q-o-q) and EBITDA of €0.6m (Q120 loss of €0.7m), confirming a return to profitability. Recurring revenue increased as more customers adopted digital services (c 9% in FY20, c 12% in Q121). The company's unconsolidated subsidiary, bonVito also made a good start to the year, with revenue of €0.8m up 14% y-o-y and EBITDA of €0.2m. Vectron plans to consolidate bonVito later this year, effective 1 January 2021.

Valuation: Replacement cycle the trigger

Management has no formal guidance in place for FY21/22 due to the uncertainty around the timing of lockdowns being relaxed. Consensus forecasts have not changed since results were reported, factoring in strong growth for both FY21 and FY22 and a rebound in profitability. On these forecasts, the stock is trading at a discount to peers on all valuation metrics. Continued evidence that the expected replacement cycle is under way and the increasing uptake of digital solutions should help close the valuation discount.

Price €11.94
Market cap €96m

Share price graph



Share details

Code	V3S
Listing	Deutsche Börse Scale
Shares in issue	8.0m
Net cash at end FY20	€8.3m

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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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	46.9	5.8	0.47	0.07	25.6	0.5
12/22e	65.7	12.1	0.99	0.13	12.1	1.0

Source: Refinitiv

Review of FY20 results

Exhibit 1: FY20 financial highlights

€m	2019	2020
Revenues	25.17	27.77
Rev growth	1.4%	10.3%
EBITDA	(1.39)	(2.19)
EBITDA margin	(5.5%)	(7.9%)
EBIT	(1.78)	(2.58)
EBIT margin	(7.1%)	(9.3%)
PAT	(1.39)	(2.07)
EPS (€)	(0.19)	(0.26)
Net cash	0.9	8.3

Source: Vectron Systems

Despite the impact on the hospitality industry in FY20, Vectron managed to grow revenues by 10% y-o-y. There were two opposing factors at play in the year:

- Tailwinds from the legal requirement in Germany to embed a technical security device in all POS systems.¹ With the deadline for doing this extended to 31 March 2021, this stimulated demand for retrofitting POS systems and new systems from the end of 2019 and through 2020.
- Headwinds from the effect of lockdowns on customers' businesses. Vectron measured² that in 2020 restaurants saw 31% less business and bakeries (which rely less than restaurants on in-house dining) 12% less. This had the combined effect of delaying investment decisions for new hardware and reducing the volume of online transactions (eg reservations, ordering).

Exhibit 2: Quarterly revenue

€m	Q120	Q220	Q320	Q420	Q121
Revenue	7.5	5.1	7.6	7.6	8.6
y-o-y growth	27%	-17%	38%	-1%	15%

Source: Vectron Systems

Exhibit 2 shows the quarterly progression of revenues. Q120 revenue grew 27% y-o-y as customers prepared for the new regulations in Germany. In Q220, revenues dropped 17% y-o-y and 32% q-o-q as the pandemic restrictions hit customers. Revenues rebounded again in Q320 and stayed at a similar level in Q420. The company has just released Q121 headline numbers, which confirm that revenue grew 15% y-o-y.

Helped by an €11m fund raise in February 2020 before the pandemic hit, the company was able to continue to invest in its digital business, spending €4.4m compared to €3.5m in 2019. Material costs increased 9.3% y-o-y, just below the rate of sales growth. Staff costs increased 5.7% y-o-y whereas other operating costs increased 34.6% y-o-y. The increase in other operating expenses was from the combination of increased external support (consulting and sales service) relating to the shift of the business model towards digital services and costs relating to the February 2020 fund raise. Management expects these costs to revert to nearer the 2019 level in 2021. This resulted in an expansion in the EBITDA loss to €2.2m in FY20 from a €1.4m loss in FY19. Depreciation and amortisation was flat at €0.4m, resulting in an operating loss of €2.6m (FY19: loss €1.8m). After net interest expenses of €0.2m and a tax credit of €0.7m Vectron reported a net loss of €2.1m.

Cash at year-end stood at €8.3m and there was no debt (a €10m loan was repaid in December 2020). Since year-end, the company has taken out a €3m KfW loan with a two-year term.

¹ See [Positive Outlook](#), 3 September 2020 for further detail.

² Takings through the POS systems for customers using Vectron's online systems.

Q121 shows uptick in performance

As shown in Exhibit 2, Vectron saw 15% y-o-y revenue growth in Q121. The company reported EBITDA of €0.6m (margin 7%), compared to a loss of €0.7m in Q120.

Business update

Vectron continues to make progress with its strategy to offer digital services to its customer base. By adding recurring revenue streams (digital services) to the one-off hardware purchase, Vectron should be able to generate more predictable revenue streams and be less tied to hardware replacement cycles. The company noted that in FY20, recurring revenue made up just under 9% of total revenue, rising from less than 5% in January 2020 to 12% in Q121.

The company noted that most customers retrofitting their systems to meet German fiscal regulations also signed up for Vectron's digital package, which includes various digital services, cloud storage of POS data and a reporting app. The number of customers using this package grew from c 2,000 at the start of the year to more than 10,000 by the end of the year. Vectron now plans to include an entry-level digital package with every new POS sale.

bonVito profitability improving; soon to be consolidated

bonVito is the business that runs Vectron's online loyalty services platform. The subsidiary was created in 2012 and has not been consolidated to date, partly so it can take advantage of tax losses. During 2020, it increased the number of customers using its service from 5,576 to 6,605 (+19%). The table below shows the progress this business has made over recent years. It is now consistently profitable and has exhausted all tax losses. Vectron plans to consolidate this business later this year, effective 1 January 2021.

Exhibit 3: bonVito subsidiary financial performance

€k	2016	2017	2018	2019	2020
Revenue				2,950	2,850
EBITDA				634	662
EBITDA margin				21.5%	23.2%
Operating profit				538	575
Operating margin				18.2%	20.2%
Net profit/(loss)	(118)	(111)	69	370	333
Equity value	164	54	123	493	826

Source: Vectron Systems

The company has indicated in Exhibit 4 how Q121 and Q120 revenue and EBITDA would look on a consolidated basis. It has also disclosed the combined level of recurring revenue, which has increased from 12.5% of consolidated revenue in Q120 to 17.8% in Q121.

Exhibit 4: Consolidated Q1 results

€m	Q121	Q120
Revenue		
Vectron	8.6	7.5
bonVito	0.8	0.7
Consolidation adjustment	(0.4)	(0.2)
Group revenue	9.0	8.0
EBITDA		
Vectron	0.6	(0.7)
bonVito	0.2	0.2
Consolidation adjustment	0.0	0.0
Group EBITDA	0.8	(0.5)
Recurring revenue	1.6	1.0
Recurring revenue/group revenue	17.8%	12.5%

Source: Vectron Systems

Duratec Digital World adoption grows

By the end of FY19, Vectron had signed up several hundred customers to use the Duratec Digital World solution; this increased to more than a thousand by the end of FY20. The solution combines a Duratec POS system with online services from Vectron and partners; the Duratec hardware is supplied free in return for per transaction fees for digital services such as table reservations. In FY21, the company is planning to expand these digital services to its main Vectron POS system.

Outlook and changes to consensus forecasts

In August 2020, the company reinstated guidance. For FY20, management expected revenue of €25–29m and EBITDA of –€2.0m to €0.25m. For FY21, management expected revenue of c €50m with an EBITDA margin of c 20% and for FY22, revenue of c €65m and an EBITDA margin of c 25%. In February 2021, the company decided that due to continuing disruption from the pandemic, it would withdraw its guidance for FY21 and FY22. However, it remains positive the new German regulations around POS systems have created pent-up demand for systems (with an estimated 50% of systems not yet compliant), and once lockdowns are lifted and business returns to more normal operation, customers will need to place orders. Consensus forecasts have not changed since the annual report and Q121 results were published.

Exhibit 5: Consensus forecasts

€m	FY21e	FY22e
Revenues	46.9	65.7
EBITDA	7.9	15.5
PBT	5.8	12.1
EPS (€)	0.47	0.99
DPS (€)	0.07	0.13
Revenue growth	69%	40%
EBITDA margin	16.9%	23.6%
PBT margin	12.4%	18.4%

Source: Refinitiv

Valuation

Vectron is trading at a discount to peers on all valuation metrics, with EBITDA profitability forecast to be at the upper end of its peer group. Continued evidence that the expected replacement cycle is under way and the increasing uptake of digital solutions should help close the valuation discount.

Exhibit 6: Peer group financial and valuation metrics

Company	Quoted	Share	Market	EV	EV/Sales		EV/EBITDA		P/E		Div yield		EBITDA margin	
	ccy	price	Cap m	m	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Vectron Systems	EUR	11.94	96	88	1.9	1.3	11.1	5.7	25.6	12.1	0.5%	1.0%	16.9%	23.6%
Worldline	EUR	80.32	22371	26675	5.3	4.8	20.8	17.6	33.1	27.6	0.0%	0.0%	25.2%	27.4%
NCR Corp	USD	46.4	6079	9480	1.4	1.3	8.3	7.3	17.5	13.5			16.9%	18.0%
Aures Technologies	EUR	24.3	97	104	1.0	0.9	9.0	7.0	18.6	13.0	2.3%	3.6%	10.7%	12.1%
PayPoint	GBp	600.0	409	391	4.0	3.5	8.1	6.9	13.6	11.7	5.2%	5.8%	49.4%	49.9%
Square	USD	243.7	110963	110161	7.7	6.5	154.4	96.3	195.7	128.0	0.0%	0.0%	5.0%	6.8%
GrubHub	USD	68.8	6426	6516	3.0	2.6	45.3	22.8	N/A	62.5	0.0%	0.0%	6.7%	11.3%
Just Eat Takeaway.com	EUR	86.3	12792	12884	3.7	2.8	N/A	74.1	N/A	N/A	0.0%	0.0%	-1.2%	3.8%
Eagle Eye Solutions	GBp	547.5	142	143	6.5	5.6	37.6	30.7	N/A	228.1	0.0%	0.0%	17.3%	18.2%
Delivery Hero	EUR	131.8	32703	32893	6.5	4.6	N/A	N/A	N/A	N/A	0.0%	0.0%	-9.3%	-1.4%
Average					4.3	3.6	N/A	32.8	38.0	14.5	0.9%	1.2%	13.4%	16.2%
Median					4.0	3.5	14.9	20.2	18.1	13.3	0.0%	0.0%	10.7%	12.1%

Source: Refinitiv. Note: Priced at 4 May.

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