EDISON **Scale research report - Update**

Nynomic

Measurement instruments

10 June 2020

Non-destructive measurement technology

While noting the uncertainty caused by the coronavirus pandemic, management believes that Nynomic is comparatively robust because of the diversity of markets served and its global customer-base. Longer term, demand for Nynomic's smart, miniaturised measurement technology is likely to benefit from the new automated production methodologies loosely aggregated as industry 4.0.

FY19 performance in line with revised guidance

Group revenue declined by 6% year-on-year during FY19 to €64.9m as the uncertainty created by the global geopolitical climate stifled investment in equipment for manufacturing semiconductors, particularly during the first half of the year. EBIT fell by 46% to €6.4m because of lower revenues, investment in sales and marketing and product development, and higher numbers of employees following the acquisition of LemnaTec in August 2019 and Sensortherm in September 2019. These acquisitions take the group into two new industry verticals. EBIT margin reduced from 17% to 10%. Net debt (including €5.5m financial liabilities from leasing at end FY19 (nil at end FY18) increased by €10.6m during FY19 to €20.2m at the year end.

Management confident about FY20 and beyond

The group appears relatively unaffected by the global coronavirus pandemic. In June 2020 management reiterated FY20 guidance of over €70.0m revenues with an EBIT margin of over 10%. Management is also maintaining its medium-term growth target of €100m sales with an EBIT margin of around 15%. The Q120 figures showed that the company is on track to meet management guidance.

Valuation: Trading at a discount to peers

The share price has bounced back since the panic selling at the start of the coronavirus pandemic, helped by the announcement of a large medical contract in mid-May. A comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample of European-listed companies involved in instrumentation shows the company is trading at a discount to the mean on all metrics. However, we note that Nynomic's EBIT margin is also below the sample mean. This indicates there is potential for further share price appreciation if management can combine continued revenue growth with an improvement in the operating margin.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	68.9	11.6	1.71	0.0	13.0	N/A
12/19	64.9	5.8	0.87	0.0	25.6	N/A
12/20e	73.0	7.7	0.83	0.0	26.9	N/A
12/21e	81.2	11.5	1.34	0.0	16.6	N/A

Source: Company data, Refinitiv

Price	€22.3
Market cap	€114m

Share price graph

Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.1m
Last reported net debt at end December 2019	€20.2m

Business description

Nynomic is an integrated provider of photonics solutions based on a common technology platform. It uses non-contact optical technology to create customised systems for OEMs, which are deployed in the clean tech, green tech and life science sectors.

Bull

- Ability to provide customised solutions for OEMs.
- Addresses high growth emerging markets.
- LemnaTec and Sensortherm open new industry verticals.

Bear

- Buy-and-build strategy resulting in higher levels of debt.
- Margin drag of sales and marketing and product development for Spectral Engines.
- Presence in multiple sectors gives resilience but does not protect against general market weakness.

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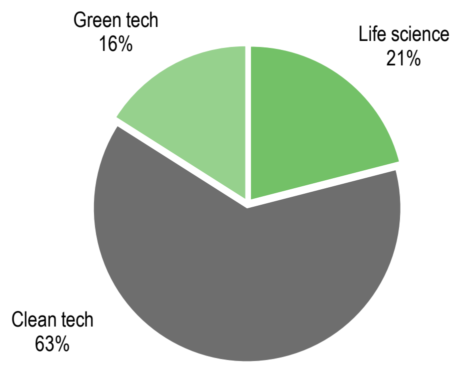
Financials

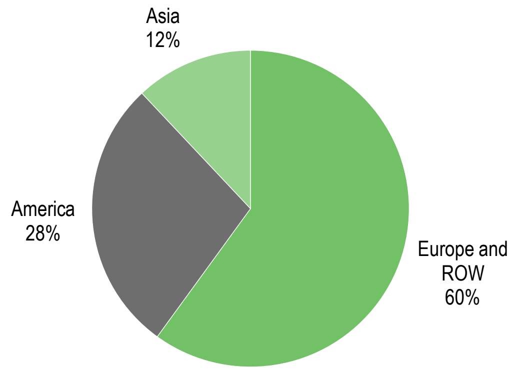
FY19 performance affected by global uncertainty

Exhibit 1: Revenues by segment, FY19



Source: Company data

Exhibit 2: Revenues by geography, FY19



Source: Company data

After four record years in a row, group revenue declined by 6% year-on-year during FY19 to €64.9m. This was ahead of management guidance which in November 2019 was revised down from €67.0–70.0m to €62.0m. While the life science segment reported an 18% year-on-year increase in revenues, the substantially larger clean tech segment showed a 10% year-on-year decrease. Management had anticipated this decline, which was attributable to the uncertainty created by the global geopolitical climate which stifled investment, particularly in equipment for manufacturing semiconductors and electronic equipment and leading customers to postpone projects and purchases. This effect was most marked in the first half, when group revenues fell by 19% year-on-year. H219 revenues were 21% higher than H119 and 9% higher than H218.

Cost of materials as a percentage of sales, work-in-progress and finished goods and capitalised work increased by 1.7pp to 37.2%, reflecting a change in product mix. Personnel costs increased by 8% reflecting the increased number of employees following the acquisitions of LemnaTec and Sensortherm. EBIT fell by 46% to €6.4m as a result of lower revenues on a leveraged cost-base and investment in sales and marketing and product development. The EBIT margin reduced from 17% to 10%, in line with revised guidance of 10%. EPS halved to €0.85.

Net debt, including €5.5m financial liabilities from leasing at end FY19 (nil at end FY18) increased by €10.6m during FY19 to €20.2m at end FY19. Gearing (net debt/equity) rose by 29.1pp year-on-year to 61.6%, distorted by the adoption of IFRS 16 in FY19. Cash invested in acquisitions totalled €4.5m, €4.1m of which related to Sensortherm. The business operations of LemnaTec were purchased through an asset deal for an undisclosed sum in the ‘middle six-digit’ range.

Management confident about FY20 and beyond

The group appears relatively unaffected by the global coronavirus pandemic. The individual companies have remained operational throughout the outbreak. While management recognises the potential for adverse effects on both procurement and sales, there have not been any significant delivery bottlenecks or order cancellations so far. The group is protected to some extent by the wide range of markets it serves, with stronger demand from the healthcare and pharmaceutical markets offsetting weakness elsewhere. Noting that some of its competitors serving individual market niches may not have the balance sheet strength to survive the effects of the pandemic, management believes that the economic turmoil may present opportunities to acquire additional businesses serving new industry verticals.

In March management provided guidance of over €70.0m in revenues with an EBIT margin of 10–15%. The revenue guidance was reiterated in May and again in June, though EBIT guidance was revised to 'over 10%' in May. The EBIT guidance was repeated in June, with the caveat that the full-year outcome will depend on how coronavirus affects demand later in the year. The Q120 figures show that the company is on track to meet management guidance. Quarterly group sales rose by 18% to €18.2m, while EBIT was down 14% at €1.8m. The EBIT margin fell from 14% in the prior year period to 10% because of changes in the product mix, continued investment in sales and marketing and the macroeconomic background. The net order backlog at end FY19 was lower than the previous year (€34.2m vs €35.3m) reflecting customers placing smaller orders to cover their requirements for a shorter period of time because of the lack of demand visibility. However, the order book jumped to over €40.0m in mid May following the receipt of a follow-on order related to laboratory automation worth €14.0m over two years from a long-standing customer in the Life Sciences segment.

While noting the uncertainties created by the coronavirus pandemic, management believes that the group remains well positioned for the medium and long term, with demand for its smart, miniaturised measurement technology supported by the new automated production methodologies loosely aggregated as industry 4.0. It is therefore sticking with its medium-term growth target of €100m sales with an EBIT margin of around 15%.

Acquisitions take group into new verticals

LemnaTec takes group into high-growth segment in agriculture

In August 2019 Nynomic acquired the business operations of LemnaTec, a specialist in the development of hardware and software systems for automated, high-throughput digital plant phenotyping. These systems use non-invasive, contact-free sensors to measure external characteristics such as the size, shape and colour of plants to determine in real-time how quickly their shoots or roots are growing. The systems also record physiological parameters such as the water and nutrient content of the leaves or photosynthesis rates. This information is used to breed new variants of plants that are adaptable to climate change, particularly to drought and extreme weather conditions.

Sensortherm takes group into high-growth segment in infra-red measurement technology

In September Nynomic acquired 100% of the shares in Sensortherm. Sensortherm specialises in applications for non-contact, high-precision and fast temperature determination such as controlling the process temperature in laser systems for additive manufacturing. Its pyrometers deploy digital signal processing techniques for speed of analysis.

Successful entry into B2C markets

Nynomic acquired a 75% stake in Spectral Engines in May 2018 for an undisclosed sum with the intention of accessing the B2C (business-to-consumer) market for the first time. At the time management allocated €10–15m for further technology and market development in the new subsidiary. Spectral Engines makes MEMS-based (microelectromechanical systems) spectral sensors, opening a route for manufacturing high volumes of extremely small, cost-effective spectrometers. These sensors measure material content such as moisture, fat, protein, hydrocarbons, textiles, polymers and pharmaceutical ingredients, including narcotics. The sensor technology is complemented by a cloud-based platform for processing data from the sensors and applying AI (artificial intelligence) techniques to interpret it. The technology is suitable for smart industry, smart agriculture, smart home and portable applications.

During FY18 the subsidiary announced its first strategic contract. This was to supply Bosch-Siemens-Hausgeräte with MEMS-based spectral sensors for smart home applications. In November 2019 the group announced another milestone in its penetration of the B2C market with the launch of a handheld device for real-time contactless measurement of THC (tetrahydrocannabinol) and CBD (cannabidiol) levels in hemp and cannabis ingredients. The spectral data obtained by the device is processed in the cloud using machine learning (AI) algorithms and the aggregated measurement values are displayed on the user's smartphone or other device. This means that complex and lengthy laboratory measurements can be replaced by smart and fast applications at various points in the processing and distribution chain of hemp and cannabis. The device retails at $1,495. Significantly, the development represents an opportunity for the group to start generating recurring revenues from the monthly fees associated with related smartphone applications. Given the strategic significance of this subsidiary, Nynomic acquired the remaining 25% stake in Spectral Engines for an undisclosed sum in May 2020, ahead of schedule.

Valuation

In common with all of the other stocks in our sample of European-listed companies involved in instrumentation with the exception of Isravision, which is the subject of a takeover, Nynomic's share price slumped during the panic selling at the start of the coronavirus pandemic, falling to €12.0 on 16 March. Nynomic's share price has recovered since then and is now 24% higher than at the start of 2020, boosted in part by the announcement of the large medical order in mid May. At current levels, a comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample shows that the company is trading at a discount to the sample mean on all metrics. However, we note that Nynomic's EBIT margin is also below the sample mean. This suggests that there might be potential for further share price appreciation if management can combine continued revenue growth with meaningful improvement in the operating margin, which should be possible as the investment in product development and sales and marketing for Spectral Engines translates into profits.

Exhibit 3: Listed peers

Name	Market cap (€m)	Ytd performance (%)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	EBIT margin 1FY (%)	Revenue CAGR (%)
Halma	10,169	9.4	6.8	6.7	28.1	27.8	41.1	41.3	20.7	6.4%
Hexagon	18,791	2.9	5.6	5.1	17.6	14.9	28.4	23.4	22.4	2.4%
Isra Vision	1,044	18.4	6.0	5.4	18.5	16.4	39.8	34.2	21.4	11.0%
Jenoptik	1,367	(8.9)	1.7	1.6	12.3	10.2	27.8	20.6	7.8	1.3%
Oxford Instruments	836	(18.4)	2.1	2.3	12.3	14.8	19.9	24.5	13.9	-0.8%
Spectris	3,588	(8.1)	2.3	2.1	13.6	11.4	23.6	18.9	13.0	-2.4%
Vaisala	1,075	10.7	2.7	2.6	17.2	15.1	39.3	33.9	10.2	1.8%
Mean			**3.9**	**3.7**	**15.3**	**13.8**	**31.4**	**28.1**	**15.6**	**2.8%**
Nynomic	114	24.2	1.7	1.5	12.4	8.9	26.9	16.6	11.3	5.6%

Source: Refinitiv. Note: Prices at 4 June 2020. Grey shading indicates exclusion from mean.

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