

## artec technologies

Technology

9 March 2018

### Contract wins provide excellent references

artec has won three prestigious new contracts in recent months that provide a strong endorsement of the company's new platform. The wins come in the wake of the 2016/17 period, which the company used to focus on modernising its software platform. artec has subsequently undertaken a 10% capital increase that will provide working capital to help it deliver the new contracts. During the upcoming FY17 results release in April, management intends to reveal a new business plan, which will outline how it intends to address the range of market opportunities.

### XENTAURIX win with major German publishing house

In December, artec announced a two-year cloud contract with a major German publishing house (Springer, according to reports in the German press). The customer will use the platform for video recording, storage, ratings analysis, clipping and fingerprint analysis.

### XENTAURIX win with German state media office

In February, artec announced an on-premise contract with a German state media office (ie regulator). The customer will use the platform for monitoring social media platforms such as Facebook, YouTube and Twitch for illegal content.

### Contract win with German Ministry of the Interior

In February, artec announced that it had won a major cloud contract from the German Ministry of the Interior. The contract includes features from both the MULTIEYE and XENTAURIX products, and will be used to analyse unstructured video data from a range of sources.

### 10% capital increase

In February, artec placed 236.5k new shares with German investors at €3.95 per share, raising €934k of gross proceeds. The funds will provide working capital to help deliver the new business. The placement was significantly oversubscribed.

### Valuation: An option on a massive opportunity

The group's target markets are huge and we see artec's modest €13m market capitalisation as an option on management's ability to leverage the company's significant success stories into a more scalable and profitable business model.

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	3.5	1.0	0.22	0.0	23.2	N/A
12/16	2.5	0.1	(0.13)	0.0	N/A	N/A
12/17e	1.9	(0.5)	(0.32)	0.0	N/A	N/A
12/18e	2.5	(0.1)	(0.08)	0.0	N/A	N/A

Source: Broker consensus

Price €5.10

Market cap €13m

#### Share price graph



#### Share details

Code	A6T
Listing	Deutsche Börse Scale
Shares in issue	2.6m
Last reported net cash as at 30 June 2017	€0m

#### Business description

artec technologies develops and produces software and systems solutions for the transmission, recording and analysis of video, audio and metadata in networks or on the internet.

#### Bull

- Very strong customer list and some excellent case studies.
- Heavily invested in IP, through many years of experience, supported by a German patent.
- Shifting to a more scalable cloud business model.

#### Bear

- Small scale and limited staff resources for projects.
- Small balance sheet position, with limited cash resources.
- Volatile trading record.

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## **New contracts boost the investment case**

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artec technologies is a specialist in the recording and storage of audiovisual information. The company operates in two market segments with two key products, which are based around the same core technology – video security (MULTIEYE) and media analysis systems (XENTAURIX). Its revenues are largely from customised projects and artec can deliver both onsite and hosted (cloud) solutions. Historically, video surveillance was the predominant target market, although the focus has been shifting to media analysis systems. This is due to the Chinese domination of video surveillance with commoditised products (although artec has found a new niche in public sector security after recent terror attacks), along with artec's recent successes in the media analysis systems end-market. XENTAURIX competes with specialist providers such as Volicon (owned by Verizon), Ustream (owned by IBM), Veritone (NASDAQ:VERI) and Actus Digital (private company).

### **XENTAURIX win with major German publishing house**

The multi-year framework agreement with a major German publishing house exemplifies artec's strategy to sell cloud implementations, highlighting the cost benefits such as savings to electricity costs and manpower. Each customer gets its own installation on a co-location in a datacentre and pays a monthly fee for the service. The unnamed German publishing house will use the platform for video recording, storage, audience ratings analysis, clipping (eg creating short clips for the website) and fingerprint analysis (searching for pictures and sounds).

### **XENTAURIX win with German state media office**

The system for the German state media office (SMO) will be used for the documentation and analysis of digital TV programmes and internet streams from websites and social media platforms such as Facebook, YouTube and Twitch. The system is used within the scope of the legal control of broadcast content, in particular with regard to compliance with the provisions of the protection of minors and also to monitor for propaganda videos. The order will be implemented in the current year and will make a significant contribution to company sales in 2018. There are 16 German states, each with its own SMO responsible for broadcasters in its area. This is the first SMO contract artec has won and the company is confident it can make further sales to the other SMOs in due course.

### **MULTIEYE/XENTAURIX win with German Ministry of the Interior**

The order with the Ministry of the Interior follows the contract announced in November 2016 to supply mobile video technology to the interior ministry of an undisclosed EU member state. artec benefits from its German position in being a trusted local partner to state authorities and is focused on the DACH countries and Benelux. The system will be used to store and analyse unstructured video data (referred to in the industry as "dirt data") from a range of sources, eg television, police video, CCTV and mobile devices. This contract involves a cloud installation in the customer's own servers in Germany, which will allow police services from all over the country to access the service. In this space, artec competes with large software vendors, such as IBM Watson, Microsoft or SAP and argues that its solution has greater simplicity and is more user-friendly.

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