

## Vectron Systems

IT hardware

08 September 2017

### Solid H1; GetHappy launch set for FY18

Vectron Systems continues to benefit from regulatory tailwinds, achieving revenue growth of 26% in H117 after the 30% growth reported in FY16. This translated to operating margin expansion of 6.7 percentage points year-on-year to 14.9%. The company expects the new GetHappy app to be launched in FY18; this has the potential to provide significant upside to Vectron's earnings. We do not believe that this is currently factored into consensus forecasts although the share price reflects some level of success for GetHappy in our view.

### Regulation has a positive impact on H117 results

Vectron reported strong revenue growth in H117, with year-on-year growth of 26%. This compares to growth of 30% for FY16. On a quarterly basis, Q117 revenues grew 40% and Q217 revenues grew 12%, although were down 18% sequentially. The main driver of revenue growth was recent regulatory changes in Germany relating to cash registers, which resulted in strong demand in Q416 and Q117, although it slowed somewhat in Q217. EBITDA doubled and operating profit increased 129% over the period, despite a significant increase in staff costs. Better profitability combined with a lower tax rate resulted in a 225% increase in profit after tax.

### GetHappy to launch in H118

Vectron is collaborating with Coca-Cola to support the next version of its GetHappy app with Vectron's bonVito technology. The app is in the final stages of development and is due for launch to hospitality businesses in January 2018 and to consumers in April 2018. Initial indications are positive, with 4,000 businesses already pre-registered. Adoption of the new service by businesses and ultimately consumers should drive high-margin revenues for Vectron.

### Valuation: Factoring in online marketing success

Consensus forecasts are for revenue growth of 17% in FY17 falling to 3% in FY18. This implies flattish revenues in H217 versus H117 and we believe assumes that the upgrade cycle flattens off. It also appears that forecasts do not factor in a material contribution from the GetHappy initiative. However, valuation metrics imply that the market has factored in some level of success from GetHappy.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	25.9	1.8	0.20	0.11	136.3	0.4
12/16	33.7	3.0	0.30	0.25	90.8	0.9
12/17e	39.6	4.1	1.12	0.28	24.4	1.0
12/18e	40.8	3.8	1.29	0.28	21.2	1.0

Source: Vectron Systems (historics), Bloomberg (estimates as at 7 September)

Price €27.25  
Market cap €180m

#### Share price graph



#### Share details

Code	V3S
Listing	Deutsche Börse Scale
Shares in issue	6.6m
Last reported net cash as at 30 June 2017	€5.0m

#### Business description

Vectron Systems produces high-end, proprietary POS systems for the hospitality sector. Vectron is also diversifying into providing systems designed for online marketing services, which has been given impetus recently through a partnership with Coca-Cola.

#### Bull

- Flexible, comprehensive POS systems.
- Regulatory tailwinds.
- Partnership with Coca-Cola.

#### Bear

- Dependent on the German economy.
- Management owns more than 50% of Vectron.
- bonVito is loss-making.

#### Analysts

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## Review of H117 results

### Exhibit 1: H117 results highlights

€m	H116	H117	y-o-y
<b>Revenues</b>	<b>15.33</b>	<b>19.31</b>	<b>26.0%</b>
Changes in inventory of finished goods & WIP	2.11	0.20	-90.6%
Other income	0.18	0.31	76.4%
Material costs	(9.12)	(8.49)	-6.9%
Personnel costs	(3.72)	(4.88)	31.0%
<b>EBITDA</b>	<b>1.53</b>	<b>3.13</b>	<b>104.4%</b>
Depreciation and amortisation	(0.27)	(0.25)	-8.4%
Other operating expenses	(3.24)	(3.32)	2.7%
<b>Operating profit</b>	<b>1.26</b>	<b>2.88</b>	<b>129.0%</b>
Interest expense	(0.22)	(0.02)	-93.1%
PBT	1.04	2.87	175.3%
Tax	(0.46)	(0.97)	111.6%
<b>Net income</b>	<b>0.59</b>	<b>1.90</b>	<b>225.0%</b>
Operating margin	8.2%	14.9%	6.7%
EBITDA margin	10.0%	16.2%	6.2%
Tax rate	43.8%	33.7%	-10.1%

Source: Vectron Systems

### Exhibit 2: Revenues by product and region

€m	Revenues		y-o-y growth
	H116	H117	
<b>POS systems</b>	<b>9.76</b>	<b>12.81</b>	<b>31.3%</b>
Germany	7.03	9.47	34.6%
Other EU	2.58	3.21	24.1%
International	0.14	0.14	-4.2%
<b>Software</b>	<b>1.00</b>	<b>1.69</b>	<b>68.9%</b>
Germany	0.67	1.16	73.8%
Other EU	0.32	0.52	64.4%
International	0.02	0.01	-41.2%
<b>Good for resale/service</b>	<b>4.56</b>	<b>4.81</b>	<b>5.3%</b>
Germany	3.20	3.48	8.7%
Other EU	1.31	1.28	-2.0%
International	0.05	0.04	-19.6%
<b>Total revenues</b>	<b>15.33</b>	<b>19.31</b>	<b>26.0%</b>

Source: Vectron Systems

Vectron reported sales growth of 26% y-o-y and 5% h-o-h. Despite a significant increase in staff costs over the year, EBITDA increased 104% y-o-y and operating profit increased 129% y-o-y. Helped by a lower tax rate, profit after tax increased 225% y-o-y. Net cash at the end of H117 was €5.0m compared to €7.2m at the end of FY16.

Vectron reported revenues of €10.6m in Q117 (+40% y-o-y) and €8.7m in Q217 (+12% y-o-y, -18% q-o-q). This equated to an EBITDA margin of 18.5% in Q117 and 12.7% in Q217. Duratec sales were €1.0m for H117 (+156% y-o-y), split out as €570k in Q117 (+235% y-o-y) and €428k in Q217 (+95% y-o-y).

## German regulation the main demand driver over the last year

At the end of 2016, the German tax authority rules changed regarding cash registers. Business owners must now be able to provide detailed electronic records of all transactions from their cash registers. Failure to do so could lead to the tax authorities estimating a business's turnover as well as imposing fines. This drove an uptick in demand for new cash registers in Q416 and Q117, but this started to tail off in Q217. The company believes that a sizeable proportion of its customer base is still not compliant with the new regulations, and that upgrades are inevitable. However, the timing of these upgrades is very uncertain, with many businesses (particularly single venue businesses) waiting to see how the tax authorities police the new rules. In addition to the recent regulation changes, further changes to federal law in 2020 (the requirement to make cash registers

tamperproof) have the potential to drive further upgrades. Vectron plans to undertake a marketing campaign to ensure customers are aware of the regulations and understand how their systems can be upgraded to become compliant (ie whether a software upgrade is possible, or whether a new POS system will be required).

On a divisional basis (Exhibit 2), POS systems saw 31% growth over the year and software 69% growth (off of a much smaller base). Goods for resale/service (which includes peripherals) saw only 5% growth. On a geographic basis, sales in Germany made up 73% of the total and grew 29% y-o-y. Sales outside of Germany grew 18% y-o-y. We believe that the higher rate of sales in Germany was the result of the regulatory changes described above.

## **GetHappy – full launch expected in FY18**

Vectron recently announced an update on the GetHappy collaboration with Coca-Cola. The companies jointly marketed the prototype of the app at the Internorga food service and hospitality trade fair in Hamburg in March, and 4,000 hospitality businesses have already pre-registered for the new service. This represents a market share of c 2% in Germany, even before the app is officially launched.

Vectron is finalising development of the app, including taking into account feedback from potential customers. The app will be made available to hospitality businesses from January 2018 and then launched to consumers in April 2018. This is slightly later than originally planned, but gives both parties time to test the service with selected potential customers.

## **Share split in July**

We note that Vectron undertook a share split on 21 July. For every share held, shareholders received an additional three shares. The original share count of 1.65m shares became 6.60m shares. We have adjusted historical and forecast EPS and DPS accordingly.

## **Forecasts and valuation**

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Consensus forecasts are for revenue growth of 17% in FY17 followed by 3% growth in FY18. This does not appear to factor in a large contribution to revenues from the GetHappy initiative, which should go live in FY18, or substantial upgrades of POS systems. As discussed above, the timing of upgrades to POS systems to meet regulatory requirements is uncertain. Upgrades could provide upside potential in FY18, or if customers wait until nearer the 2020 deadline, may drive stronger sales in FY19.

The table below shows Vectron's valuation versus a range of peers, from smaller domestic based POS operators to significantly larger international companies. Vectron currently trades on an FY17 EV/sales ratio of 4.4x, against a median of 3.1x, and an EV/EBITDA of 35.9x, versus the peer median of 10.3x. Clearly, the market is factoring in some level of success for the GetHappy initiative.

**Exhibit 3: Peer valuation multiples**

Company	Quoted ccy	Share price	Market cap (m)	EV (reporting ccy, m)	EV/sales		EV/EBITDA		P/E		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
<b>VECTRON SYSTEMS</b>	€	27.25	180	175	4.4	4.3	35.9	37.0	24.4	21.2	1.0%	1.0%	12.3%	11.6%
<b>Large POS providers</b>														
INGENICO GROUP	€	80.69	5,032	5,216	2.1	1.9	10.2	9.2	17.0	15.2	2.0%	2.3%	20.5%	20.9%
NCR CORPORATION	US\$	36.1	4,384	8,110	1.2	1.2	7.1	6.9	10.7	9.9			17.2%	17.2%
VERIFONE SYSTEMS	US\$	19.3	2,161	2,931	1.6	1.5	10.3	8.8	14.5	12.1	0.0%		15.2%	17.1%
<b>Small/mid-cap POS providers</b>														
AURES TECHNOLOGIES	€	35.1	140	136	1.6	1.5	12.0	10.6	18.4	16.1	1.7%	1.9%	13.2%	13.9%
PAYPOINT PLC	GBp	921.0	628	575	4.1	4.0	9.4	9.2	15.0	14.6	7.0%	7.2%	44.2%	44.1%
UNIVERSE GROUP	GBp	9.3	21	19	0.9	0.8	4.6	4.3	10.3	9.3			19.1%	19.3%
PAX GLOBAL TECHNOLOGY LTD	HK\$	4.4	4,852	3,105	1.0	0.9	5.1	4.6	8.8	7.9	1.7%	1.7%	18.9%	19.1%
<b>mPOS provider</b>														
SQUARE INC - A	US\$	26.1	9,995	9,429	10.0	7.7	71.3	40.1	110.9	61.9	0.0%	0.0%	14.0%	19.3%
<b>Online service providers</b>														
JUST EAT PLC	GBp	685.0	4,662	4,494	8.8	7.2	27.6	20.9	40.8	30.1	0.0%	0.0%	32.0%	34.5%
GRUBHUB INC	US\$	56.8	4,903	4,529	6.9	5.5	25.7	20.0	51.7	41.3	0.0%	0.0%	26.8%	27.7%
TAKEAWAY.COM HOLDING BV	€	40.3	1,738	1,630	10.0	7.4		631.4					-14.4%	1.2%
EAGLE EYE SOLUTIONS GROUP	GBp	255.0	65	64	6.0	4.1							-14.4%	-2.9%
<b>Average</b>					<b>4.5</b>	<b>3.7</b>	<b>18.3</b>	<b>69.6</b>	<b>29.8</b>	<b>21.8</b>	<b>1.5%</b>	<b>1.9%</b>	<b>16.0%</b>	<b>19.3%</b>
<b>Median</b>					<b>3.1</b>	<b>3.0</b>	<b>10.3</b>	<b>9.2</b>	<b>16.0</b>	<b>14.9</b>	<b>0.8%</b>	<b>1.7%</b>	<b>18.1%</b>	<b>19.2%</b>

Source: Bloomberg (prices as at 7 September)

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