

STEMMER IMAGING

Technology

30 April 2018

Record half-year results

STEMMER IMAGING (SI) started its life as a listed company by posting the highest half-year results in its history. We expect further improvement as SI benefits from its broad product portfolio, customisation expertise and extensive customer base across many industries to take advantage of double-digit growth in the machine vision industry. We expect this organic growth to be supplemented with acquisitions, as management has allocated half of the €51m (gross) raised at the IPO in February for this purpose. Management already has an exemplary track record in this area, the most recent acquisition being that of Data Vision this January, which made SI the largest machine vision supplier in the Benelux region.

Double-digit growth in revenues and EBITDA in H118

Revenue grew by 12.6% year-on-year during H118 to €47.4m. SI was able to take advantage of a positive market environment in the machine vision industry because of its broad customer base across numerous application areas. EBITDA climbed by 36.2% to €4.6m, supported by the revenue increase and a 1.6pp improvement in gross margin following a rise in the proportion of proprietary, higher-margin products such as software and services. Net cash increased by €1.6m during the period to €7.1m at the end of December 2017.

Double-digit growth expected in FY18

Citing a buoyant machine vision market driven by a shift in the industrial landscape to a highly automated world where machines communicate with each other using imaging information as key decision-making data, management has provided revenue guidance of €97-100m for FY18. This represents annual growth of 9.9-13.3%. Management expects this to generate a double-digit EBITDA margin, which represents a modest uplift on H117 performance.

Valuation: Trading in line with machine vision peers

SI's FY18 EV/EBITDA multiple is close to the mean for our sample of companies making machine vision components and systems (21.8x vs 20.6x mean), as is its FY18 P/E multiple (32.7x vs 32.6x mean). Since consensus estimates indicate that SI is able to grow at the same pace as other companies in this sector (13.1% CAGR between FY17 and FY19 vs 13.0% mean), a similar rating appears justified.

Consensus estimates

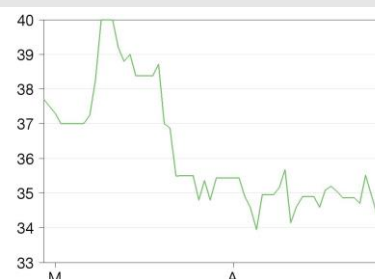
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/16	83.6	4.0	0.56*	0.0	61.4	N/A
06/17	88.3	4.3	0.64*	0.0	53.7	N/A
06/18e	99.8	8.5	1.05	0.0	32.7	N/A
06/19e	113.0	10.7	1.29	0.0	26.6	N/A

Source: Bloomberg. Note: *On number of shares at listing. Adjusted for currency effects, management incentives/bonuses and stock devaluation.

Price €34.37

Market cap €223m

Share price graph



Share details

Code	S9I
Listing	Deutsche Börse Scale
Shares in issue	6.5m
Last reported net cash as at end Dec 2017	€7.1m
Before February placing raising €51m (gross)	

Business description

STEMMER IMAGING Group (SI) is Europe's leading independent provider of machine vision technology solutions to science and industry, selling both directly and indirectly, via system integrators or OEMs.

Bull

- Demand for machine vision solutions growing, driven by increased automation and IIoT.
- Broad supplier base combined with in-house development capability enables SI to offer precisely tailored solutions to customers.
- Not dependent on individual industry sectors.

Bear

- Business model difficult to implement in the US.
- Limited presence in Asia Pacific region at present.
- Meaningful proportion of market purchases directly from component suppliers.

Analysts

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Financials

Record half-year results in H118

STEMMER IMAGING has reported record half-year results for H118. Revenue grew by 12.6% year-on-year to €47.4m, driven primarily by organic growth in Germany and the Benelux region. SI was able to take advantage of a positive market environment in the machine vision industry because of its broad customer base across numerous application areas and industries. Gross margin increased by 1.6pp to 36.7 % because of a rise in the proportion of proprietary, higher-margin products such as software and services from 10.7% of the total to 11.1%. This is in line with management's stated strategy of increasing the proportion of revenues from services. Personnel costs grew by 12.1%, which was in line with revenue growth, reflecting an increase in the number of employees and wage increases. Other operating expenses grew by 11.2%, which was slightly slower than sales. EBITDA climbed by 36.2% to €4.6m as EBITDA margin improved by 1.7pp to 9.6%.

Outlook

Noting that VDMA (German Machinery and Plant Manufacturing Association), the German trade association for machine vision, predicts c 10% market growth during CY18 and citing SI's ability to take advantage of this because of its competitive product portfolio and capacity for innovation, management has provided revenue guidance of €97-100m for FY18. This represents annual growth of 9.9-13.3%. Management expects this to generate a double-digit EBITDA margin, which represents a modest uplift on H117 performance.

Strong balance sheet

Operating cash flow almost doubled to €2.2m despite accommodating a €0.9m increase in inventories, some of which relates to individual large projects delivered towards the period end and will therefore reverse in H218, and a €0.9m reduction in other liabilities that related to the partial payment of a retention bonus. At €0.5m, capital expenditure was at similar levels to H117. As management follows an asset-light model, capital expenditure is typically modest. In H118 expenditure included work required following the lease of a fourth office in Germany. Net cash increased by €1.6m during the period to €7.1m at the end of December 2017. There is no debt on the balance sheet.

Successful IPO

SI AG listed on the Scale index of the Deutsche Börse on 27 February 2018. As part of the listing process it raised €51m (gross) through the issue of 1.5m new shares at €34.0/share, a 30% increase in capital. At the same time, as part of the placement, SI Holding, which had previously held a 100% stake in SI AG, sold 1.5m existing shares (including an over-allotment option), reducing its stake to 54%. The funds raised by the company will be used primarily to finance potential acquisitions and to invest in product development, particularly software.

Progress on execution of strategy

SI has an exemplary track record of identifying and integrating acquisitions (see our February [initiation note](#)). Management intends to continue this strategy, selecting companies that will consolidate its position in existing geographies, expand its footprint or add complementary products, particularly software. The most recent acquisition was Netherlands-based Data Vision in January 2018. Data Vision is a highly specialised provider of machine vision solutions and components. Management expects that the significant overlap between products offered by Data Vision and STEMMER IMAGING will provide substantial purchasing synergies. In addition, it is

likely that Data Vision will be able to win business with much larger companies now that it is part of a bigger group. This happened with Iris Vision, also in the Netherlands, which SI acquired in 2012. The addition of Data Vision's sales team will strengthen the group's presence in the Benelux region. SI is now the largest machine vision supplier in the region measured by revenue. Management expects Data Vision to contribute c €4-5m additional annual revenues. Details of the price paid for Data Vision have not been disclosed.

Valuation

At the end of the first day of trading, the share price was €37.70, which represented a gain of more than 10% on the issue price of €34.00. The share price peaked at €40.61 on 9 March 2018, but has dropped back since then and is currently close to the issue price.

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Exhibit 1: Peer comparison

Company	Market cap (\$m)	Year 1 EV/Sales (x)	Year 2 EV/Sales (x)	Year 1 EV/EBITDA (x)	Year 2 EV/EBITDA (x)	Year 1 P/E (x)	Year 2 P/E (x)	Year 1 EBITDA margin (%)	CAGR (%)
Manufacturers									
Basler	707	3.7	3.1	16.5	14.8	28.5	25.9	22.5	10.1
Cognex Corp	8,365	9.2	7.7	27.4	21.2	33.8	26.1	33.7	17.3
Isra Vision	985	5.1	4.6	18.1	16.0	35.6	31.5	28.2	11.7
Mean		6.0	5.2	20.6	17.3	32.6	27.8	28.1	13.0
Value-add distributors									
Addtech B shares	1,466	1.7	1.6	15.6	14.0	21.3	19.0	11.0	11.2
APC Technology Group	14	0.8	0.7	12.0	9.7	18.8	12.5	6.7	12.8
Diploma	1,915	2.8	2.8	15.5	14.8	22.4	21.2	18.4	4.3
discoverIE GROUP	420	0.9	0.8	11.8	9.7	19.4	16.5	7.3	12.6
Electrocomponents	3,755	1.7	1.6	13.8	12.9	22.1	19.5	12.0	8.8
Solid State	30	0.5	0.5	5.9	6.8	8.4	10.2	8.6	9.1
Mean		1.6	1.5	13.7	12.2	20.8	17.7	10.7	9.8
STEMMER IMAGING	275	2.2	2.0	21.8	17.7	33.1	27.0	10.1	13.1

Source: Bloomberg. Note: Prices as at 25 April 2018. Grey shading indicates exclusion from mean.

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