

Vectron Systems

Technology
13 September 2019

Evolving the business model

Vectron saw a continuation of the weak demand environment for its point-of-sale (POS) solutions in H119, although revenues have improved every quarter since the trough in Q318 and management expects regulatory tailwinds to boost demand from Q4. More digital services partnerships were signed in H1 and the company launched a bundled POS system/digital services offering in June as part of its plan to shift to a digital business model and build a base of recurring revenues.

H119 saw further revenue decline and wider loss

Revenues declined 13.5% y-o-y to €12.0m in H119, as demand for Vectron's POS systems remained weak. We note, however, that H119 revenues were 9.7% higher than in H218. This resulted in an EBITDA loss of €1.0m, compared to a loss of €0.9m a year ago. The company noted that a third of employees are focused on the development of the new digital business model. Management expects the imminent application of new German cash register regulations to support an uptick in demand from Q4.

Partnership model to provide digital services

Last year the company decided it was too expensive to develop digital services such as loyalty, reservations and ordering from scratch. Instead, it is partnering with third-party providers, integrating their services with its POS systems. During H1, it signed up table reservation and food ordering providers and in June launched a bundled service that integrates them alongside the DeutschlandCard loyalty scheme with its Duratec POS system to provide a comprehensive service to customers. The company aims to reduce the dependence on one-off POS system sales and increase the level of recurring revenues from the provision of digital services to its customer base.

Valuation: Factors in improved demand in FY20

Consensus forecasts for FY19 have been reduced post-results to reflect the level of demand and profitability in H119. FY20 estimates are unchanged, we believe reflecting a step up in demand for POS systems as well as a growing contribution from digital services. On an FY20 basis, Vectron trades in line with POS system providers. We feel that evidence of a pick-up in demand for POS systems and/or evidence of increasing adoption of digital services should act as triggers for share price upside.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	32.4	1.7	0.16	0.06	68.1	0.6
12/18	24.8	(5.5)	(0.59)	N/A	N/A	N/A
12/19e	26.9	(2.6)	(0.31)	0.03	N/A	0.2
12/20e	48.1	7.1	0.65	0.13	16.8	1.2

Source: Company reports, analyst reports on Vectron Systems website.

Price €10.9

Market cap €79m

Share price graph



Share details

Code	V3S
Listing	Deutsche Börse Scale
Shares in issue	7.3m
Last reported net cash at 30 June	€3.0m

Business description

Vectron Systems produces high-end, proprietary POS systems for the hospitality sector. It is diversifying into providing systems designed for online marketing services, which has been given impetus recently through partnerships with DeutschlandCard and Metro.

Bull

- Flexible, comprehensive POS systems.
- Strong position in DACH hospitality market.
- Partnership with DeutschlandCard.

Bear

- Dependent on the German economy.
- Management owns more than 50% of Vectron.
- Low level of recurring revenues.

Analyst

Katherine Thompson +44 203 077 5730

tech@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H119 results

Exhibit 1: Half-yearly results

€m	H118	H119	y-o-y
Revenues	13.89	12.01	(13.5%)
Changes in inventory of finished goods & WIP	(0.27)	(0.39)	44.6%
Other income	0.20	0.16	(18.3%)
Material costs	(6.11)	(4.91)	(19.7%)
Personnel costs	(4.95)	(4.50)	(9.1%)
Other operating expenses	(3.63)	(3.40)	(6.3%)
EBITDA	(0.87)	(1.03)	17.9%
Depreciation and amortisation	(0.22)	(0.22)	0.1%
Operating profit	(1.09)	(1.24)	14.3%
Interest expense	(0.03)	(0.09)	169.0%
PBT	(1.12)	(1.34)	19.1%
Tax	0.35	(0.01)	(102.3%)
Net income	(0.77)	(1.34)	74.3%
Operating margin	(7.8%)	(10.4%)	(2.5%)
EBITDA margin	(1.3%)	(5.7%)	(4.4%)

Source: Vectron Systems

Exhibit 2: Half-yearly divisional revenues

€m					y-o-y change			
	H118	H218	FY18	H119	H118	H218	FY18	H119
POS systems	8.29	6.26	14.55	7.29	(35.3%)	(15.5%)	(28.0%)	(12.1%)
Germany	6.12	4.53	10.65	5.47	(35.4%)	(14.5%)	(27.9%)	(10.6%)
Other EU	2.06	1.62	3.68	1.77	(35.7%)	(17.7%)	(28.9%)	(14.0%)
International	0.10	0.12	0.22	0.04	(27.0%)	(14.9%)	(20.9%)	(59.0%)
Software	1.16	0.89	2.05	1.09	(31.4%)	(14.1%)	(24.9%)	(6.4%)
Germany	0.77	0.64	1.41	0.79	(33.5%)	(6.9%)	(23.6%)	1.8%
Other EU	0.36	0.23	0.58	0.29	(31.7%)	(30.5%)	(31.2%)	(19.4%)
International	0.04	0.02	0.06	0.01	260.0%	(13.6%)	71.9%	(63.9%)
Goods for resale/service	4.43	3.80	8.23	3.63	(7.8%)	(18.1%)	(12.9%)	(18.0%)
Germany	3.44	2.81	6.25	2.84	(1.2%)	(22.7%)	(12.2%)	(17.6%)
Other EU	0.96	0.95	1.92	0.78	(24.9%)	3.1%	(13.2%)	(19.0%)
International	0.03	0.03	0.06	0.02	(26.8%)	(58.9%)	(47.4%)	(40.0%)
Total revenues	13.88	10.94	24.83	12.01	(28.1%)	(16.3%)	(23.3%)	(13.5%)

Source: Vectron Systems

Vectron reported a 13.5% revenue decline year-on-year in H119. While quarterly revenues declined on a year-on-year basis (Q119 -21%, Q219 -5%), on a sequential basis, revenues were 5% higher in both quarters.

Lull before next stage of regulation kicks in

Regulation is being introduced in many countries to reduce the incidence of tax fraud arising from the under-reporting of sales made via electronic cash registers (known as fiscalisation). In Germany, from the start of 2017 new GoBD¹/GDPdU² legislation imposed rules on the production and storage of financial materials such as electronic receipts and ensures verifiability of all the documents that are produced. At the end of 2016, the law on the protection against manipulation of digital background recordings (Gesetz zum Schutz vor Manipulationen an digitalen Grundaufzeichnungen) came into force. This prescribes that all cash registers must be fitted with a certified technical security device (TSE) from 1 January 2020. Under transitional arrangements, systems that cannot be retrofitted may be used until the end of 2022. Detailed technical requirements for this law were in draft format for some time, with the final version only published in

¹ GoBD: Grundsätze zur ordnungsmässigen Führung und Aufbewahrung von Büchern, Aufzeichnungen und Unterlagen in elektronischer Form sowie zum Datenzugriff (Principles for the proper management and retention of books, records and records in electronic form and for data access)

² GDPdU: Grundsätze zum Datenzugriff und zur Prüfbarkeit digitaler Unterlagen (Principles of data access and the auditability of digital documents)

August. This has meant that TSE manufacturers have not been able to finalise the design and certification of their devices until now – they are predicting their devices will be available from Q419.

The Austrian government approved similar measures as of 2016; it requires all taxable businesses to issue customers with a receipt and maintain a data collection log of all transactions. Furthermore, since April 2017 all POS systems must be protected against manipulation by a tamperproof security device.

All new Vectron POS products are fully compliant with both sets of regulations. Many older Vectron systems can be made compliant via a software upgrade. Those customers using very old Vectron machines may need to upgrade to new machines (we note that Vectron systems have a typical life of seven to 10 years). The first phase of upgrades was seen in 2016 and 2017, with demand reverting back to previous levels in 2018 and H119. To meet the 2020 regulations, the company expects a proportion of its customer base will need to upgrade their existing POS infrastructure to remain compliant.

However, it is very difficult to predict the timing of the revenue opportunity, as many customers may wait as long as possible to upgrade their current POS systems before they are deemed non-compliant by the German or Austrian authorities. In addition, due to delays in the availability of TSEs, it is possible the government may delay the enforcement of the law until later in 2020.

Costs contained despite digital investment

Despite H1 revenues being €1.88m lower y-o-y, the EBITDA loss only increased by €0.16m, partly due to lower material costs but also due to lower staff and other admin costs. Around one-third of employees are engaged in the development of the new digital business model, making up c €1.9m of costs in H119. Overall, the company reported a net loss of €1.34m, slightly higher than the net loss of €0.77m reported a year ago.

The company closed H119 with gross cash of €13.8m and net cash of €3.0m, having raised €5m from the issue of 661k shares in February and paid €0.2m at the beginning of H1 to buy out the remaining 25% of Posmatic.

Business update

Launch of combined digital offering

In May, Vectron signed partnerships with two digital companies: resmio for table reservations and rbNext Systems (Restablo.de) for food ordering. In both cases, the partners' online services will be integrated into Vectron's POS systems.

In June, Vectron formally launched its digital offering. This combines Vectron's Duratec POS system (its value brand targeted at the lower and mid-price segments) with resmio and Restablo.de as well as Deutschlandcard for loyalty. The overall cost to customers should be less than buying each component separately in the open market.

Vectron is also developing a digital offering for its main Vectron-branded POS system. The company wants to transition all of its customers to the combined digital offering to expand its recurring revenue stream.

bonVito turns a profit

Vectron has a subsidiary, bonVito, which operates Vectron's online services platform. This enables customers to offer loyalty schemes, couponing, vouchers, reservations, orders and online payment solutions integrated with their Vectron cash registers. bonVito is used in more than 5,200 stores (up from 4,972 at end FY18) and has four million regular loyalty card users. Vectron has not historically

consolidated bonVito, instead accounting for it as a financial investment. The company announced that for H119, bonVito became profitable for the first time, generating EBITDA of €0.3m.

New data-archiving partnership

In June, Vectron signed a co-operation agreement with DATEV, a German financial accounting software and services provider. This will enable Vectron's customers to digitally transfer their POS data to DATEV's accounting software in the correct DFKA³ taxonomy, making it easier for them to meet legal requirements for cash management (according to the GoBD legislation companies are required to archive their cash data for a period of 10 years). Vectron will charge a monthly fee for this service.

Outlook and forecasts

Management expects demand to improve from Q419. This is partly due to the timing of the regulations coming into force in 2020 and because the company will only have access to the TSEs required that make POS systems compliant from Q4.

Consensus forecasts for FY19 were cut post results, with FY19 revenues reduced by 7% and EBITDA reduced from -€0.4m to -€1.5m. Based on H119 revenues of €12.0m, this implies H219 revenues of €14.9m. As Q2 revenues were higher than Q1 revenues and management expects demand to pick up from Q4, in our view this appears reasonable. FY20 forecasts clearly factor in a pick-up in demand for POS systems and we expect there is also an element of digital services factored into forecasts.

Exhibit 3: Consensus forecasts

€m	FY19e	FY20e
Revenues	26.9	48.1
EBITDA	(1.5)	8.3
EBIT	(2.6)	7.1
EPS (€)	(0.31)	0.65
DPS (€)	0.03	0.13
Revenue growth	8%	79%
EBITDA margin	-5.4%	17.2%
EBIT margin	-9.7%	14.8%

Source: Analyst reports on Vectron website (as at 3 September)

Valuation

On an EV/EBITDA and P/E basis, in FY20 Vectron is trading more in line with POS providers than with online marketing services providers. This assumes that Vectron can achieve consensus revenues and profitability, which we believe factor in a combination of increased demand for POS systems and a growing digital services business. Evidence of either is likely to be the main trigger for share price upside.

³ DFKA: Deutscher Fachverband für Kassen- und Abrechnungssystemtechnik e.V. (German association for cash and accounting system technology)

Exhibit 4: Peer group valuation

Company	Quoted ccy	Share price	Market cap (m)	EV (rep ccy, m)	EV/Sales (x)		EV/EBITDA (x)		P/E (x)		Div yield		EBITDA margin	
					CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Vectron Systems	EUR	10.9	79	76	2.8	1.6	N/A	9.2	N/A	16.8	0.2%	1.2%	-5.4%	17.2%
POS system providers														
Ingenico Group	EUR	89.48	5,691	7,586	2.3	2.1	12.9	11.8	18.1	16.4	1.5%	1.7%	17.6%	18.2%
NCR Corp	USD	33.0	3,972	7,666	1.2	1.1	7.2	6.9	11.7	10.5	N/A	N/A	16.0%	16.4%
Aures Technologies	EUR	19.5	78	81	0.7	0.6	6.3	5.1	10.7	9.2	4.2%	4.6%	10.8%	12.2%
PayPoint plc	GBp	922.0	627	593	4.9	4.7	9.1	8.8	14.1	13.5	9.0%	8.3%	53.9%	54.1%
Universe Group	GBp	5.1	13	11	0.5	0.4	3.6	3.1	25.6	10.3	0.0%	0.0%	13.4%	13.4%
mPOS provider														
Square Inc	USD	61.5	26,256	25,985	11.4	8.5	62.9	41.3	79.7	55.3	0.0%	0.0%	18.2%	20.7%
Online marketing services														
Just Eat	GBp	760.0	5158	5260	5.1	4.1	28.0	22.0	105.6	50.7	0.0%	0.0%	18.0%	18.6%
GrubHub	USD	62.8	5732	5848	4.3	3.4	24.2	16.8	49.6	31.3	0.0%	0.0%	17.6%	20.0%
Takeaway.com	EUR	80.9	4942	5145	12.5	9.2	282.1	60.7	N/A	108.2	0.0%	0.0%	4.4%	15.2%
Eagle Eye Solutions Group	GBp	169.5	43	45	2.7	2.2	65.6	20.4	N/A	N/A	0.0%	0.0%	4.1%	10.6%
Delivery Hero	EUR	45.4	8548	7840	6.3	4.1	N/A	N/A	N/A	N/A	0.0%	0.0%	-31.3%	-9.8%
Average					4.7	3.7	50.2	19.7	39.4	33.9	1.5%	1.5%	13.0%	17.2%
Median					4.3	3.4	18.6	14.3	21.9	16.4	0.0%	0.0%	16.0%	16.4%

Source: Vectron estimates as per Exhibit 3, all other companies Refinitiv (as at 10 September)

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia