Vectron Systems AG *5a,6a,7,11

Rating: BUY
Target price: EUR 10.00
(previously: EUR 9.40)

Current price: 5.00
13.09.23 / XETRA / 11:25 am
Currency: EUR

Key data:

ISIN: DE000A0KEXC7
WKN: A0KEXC
Stock exchange symbol: V3S
Number of shares³: 8.04
Market cap³: 40.90
EnterpriseValue³: 58.85
³ in million / in EUR million
Free float: 58.5

Transparency level:
Open Market
Market segment:
Frankfurt Stock Exchange
(Scale)
Accounting:
IFRS

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 9

Date (time) Completion
13.09.23 (3:02 pm)

Date (time) first transmission:
14.09.23 (09:00 am)

Validity of the price target: until max. 31.12.2024

Company profile

Industry: Software, Technology

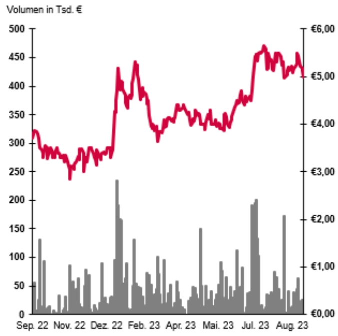
Focus: Software for cash register systems and associated hardware

Employees: approx. 220 FTE (30.06.2023)

Foundation: 2006

Headquarters: Münster

Board of Directors: Thomas Stümmler; Dr Ralf-Peter Simon; Christoph Thye



With more than 250,000 POS systems sold to date, Vectron Systems AG is one of the largest European suppliers of POS solutions. Building on this, the area of apps integrated into POS systems as well as digital and cloud-based services is becoming increasingly important in the catering and bakery sectors. The spectrum of solutions ranges from loyalty and payment functions to omni-channel ordering, online reservations and online reporting. In the retail segment, the wholly owned subsidiary acardo (acardo group AG/acardo activation GmbH) is one of the leading providers of consumer activation tools, such as coupons, cashback solutions and consumer apps in Germany. These are now used in more than 30,000 shops, consisting of grocery shops, drugstores, cinemas and pharmacies. acardo offers its customers a full service--from conception and technical implementation to coupon clearing. Customers include the largest companies in their respective industries, such as EDEKA, Müller, Nestlé, Unilever, Kellogg's, Krombacher, Coca-Cola, PEPSI, Beiersdorf, Hexal, CinemaxX, Cineplex, Universal and Warner Bros.

P&L in EUR million \ FY-end	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Revenues	25.22	36.75	43.18	51.29
EBITDA	-3.86	2.54	5.27	8.55
EBIT before PPA	-5.36	1.04	3.74	7.02
Net profit for the year	-5.27	-0.80	0.59	2.50
Key figures in EUR				
Earnings per share	-0.65	-0.10	0.07	0.31
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/revenues	2.33	1.60	1.36	1.15
EV/EBITDA	neg.	23.14	11.16	6.89
EV/EBIT before PPA	neg.	56.42	15.72	8.39
KGV	neg.	neg.	68.12	16.06
KBV	1.96			

Financial Calendar
15-16.11.23: MKK Munich
27-27.11.23: EK Forum Frankfurt

**last research from GBC:
Date: Publication / Target price in EUR / Rating
25.05.2023: RS / 9.40 / BUY
06.03.2022: RS / 9.40 / BUY
05.01.2023: RS / 9.20 / BUY
13.09.2022: RS / 9.35 / BUY
** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

Note pursuant to MiFID II regulation for research "Minor Non-Monetary Contribution": This research meets the requirements for classification as "Minor Non-Monetary Contribution". For further information, please refer to the disclosure under "I. Research under MiFID II".

H1 2023: "On track": Turnover in line with expectations; EBITDA climbs significantly; GBC-Forecasts raised; Target price raised to €10.00 (previously: €9.40); Rating: BUY

in € m	1ST HY 2021	1ST HY 2022	1ST HY 2023
Revenues	21.36	12.56	18.53
EBITDA	4.88	-0.54	1.66
EBIT	4.20	-1.33	-0.41
After-tax result	3.05	-0.98	-0.47

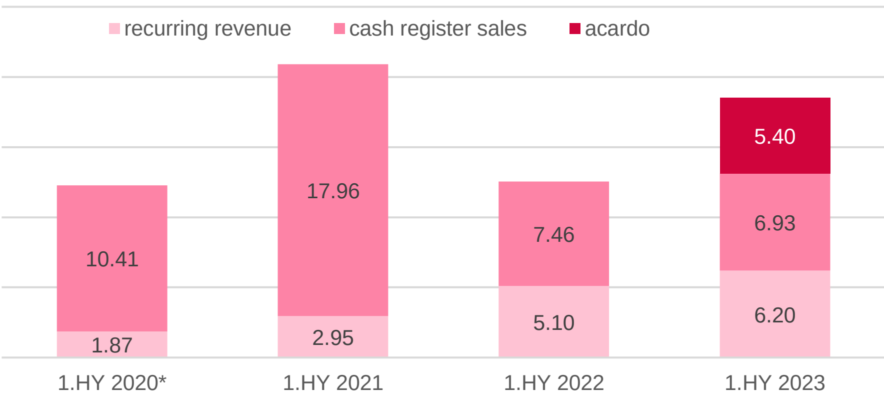
Sources: Vectron Systems AG; GBC AG

Revenue development 1st HY 2023

The first six months of 2023 were marked by the consolidation of acardo group AG, which was acquired on 1st January 2023. acardo sales, which were consolidated for the first time, contributed significantly to a strong increase in sales by 47.6 % to € 18.53 million (previous year: € 12.56 million). While sales in the POS segment (Vectron) increased organically by 4.6 % to € 13.13 million (previous year: € 12.56 million), the couponing segment (acardo) generated sales of € 5.40 million for the first time.

Their organic growth in turnover is in particular a result of their expansion of their digital business, whereby the recurring turnover was further expanded as planned by 21.6% to € 6.20 million (previous year: € 5.10 million). This reflects their corporate strategy, which focuses on the expansion of their digital business, thereby increasing the value added per customer and at the same time improving the predictability of business development. In the first six months of 2023, the number of digital contracts was increased and the company also benefited from the introduction of new digital modules.

Revenue on a half-year basis (in € million)



*Sources: Vectron Systems AG; GBC AG; *according to HGB*

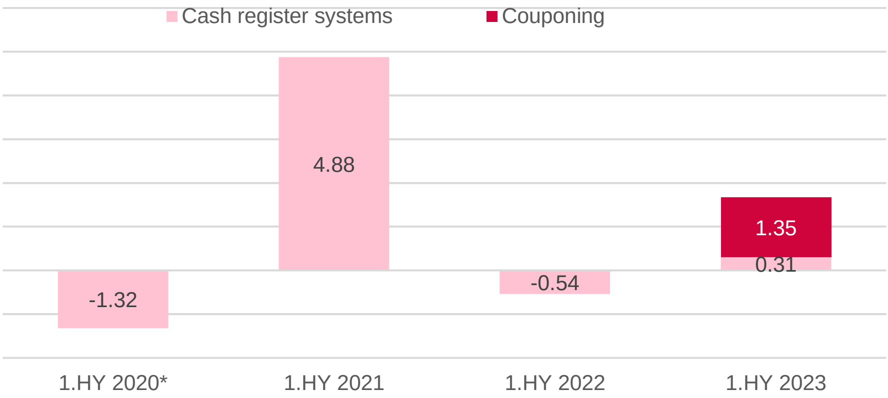
In contrast to the positive revenue trend in their digital business, revenues from cash register sales decreased by -7.1% to € 6.93 million (previous year: € 7.46 million) and thus the recurring revenues in the digital business already account for almost half of the revenues of the POS systems segment. The declining development of pure cash register sales is not surprising after the expiry of the fiscalisation effect and, against this background, the company's decision to outsource the production of its own cash registers to external manufacturers is once again understandable.

Development of earnings in the first half of 2023

With an EBITDA of € 1.66 million (previous year: € -0.54 million) the Vectron Group returned to the profit zone. The newly acquired acardo group AG made the largest contribution to the result with an EBITDA of € 1.35 million and is thus in line with management expectations. At the same time, it shows that the acquisition of acardo group AG has already had a sustainable positive effect on the profitability of the Vectron Group.

Surprisingly positive, on the other hand, was the EBITDA contribution of the POS systems segment, synonymous with the former Vectron, which was also positive at € 0.31 million. According to the company, among other things, the increase in recurring sales led to the improvement in profitability. On the other hand, special effects (e.g. release of provisions) also contributed to this. On a group level, the special effects, according to our estimate, probably amounted to about € 0.50 million.

EBITDA (in € million)



*Sources: Vectron Systems AG; GBC AG; *according to HGB*

The first-time consolidation of the acardo assets led to a significant increase in depreciation to € 2.08 million (previous year: € 0.78 million). Therefore, the EBIT of € -0.41 million (previous year: € -1.33 million) was once again below break-even, but was significantly improved. This also applies to the result for the Q2 period of € -0.47 million (previous year: € -0.98 million).

Balance sheet as at 30.06.2023

in € m	31.12.2021	31.12.2022	30.06.2023
Equity	25.55	20.47	19.99
Equity ratio	53.6%	56.1%	27.5%
Cash and cash equivalents	19.87	12.58	7.43
Working capital	2.43	2.34	0.90
Financial liabilities	16.09	11.61	33.62
Cash flow - operational	10.18	-2.05	4.21
Cash flow - investment	0.06	-0.23	-8.36
Cash flow - financing	1.34	-4.99	-1.00

Sources: Vectron Systems AG; GBC AG

The first-time full consolidation of acardo group AG changes the balance sheet picture of the Vectron group considerably. On the assets side, the disposal of the first purchase price payment in the amount of € 8.71 million reduced the liquid funds significantly to € 7.43 million (31.12.22: € 12.58 million). At the same time, the addition of the acardo assets increased intangible assets by € 10.06 million on the one hand and triggered an addition of goodwill in the amount of € 19.69 million on the other. In addition, current assets also increased significantly, as acardo generally has a high level of receivables and liabilities due to its clearing activities. Trade receivables increased noticeably to € 12.86 million (31.12.22: € 2.58 million). In total, this significantly increased the balance sheet total to € 72.74 million (31.12.22: € 36.51 million).

On the liabilities side, the balance sheet extension is mainly represented by the increase in long-term financial liabilities to € 22.26 million (31.12.22: € 1.63 million). This is primarily the fair value of the outstanding earn-out payments and the deferred fixed purchase prices. Both purchase price components must be paid to the sellers in the 2026 financial year, depending on the operating performance of acardo. At the same time, current liabilities, especially trade payables and other liabilities, also increased significantly to € 19.98 million (31.12.22: € 7.17 million).

The sum of the balance sheet extension and the result-related reduction of equity to € 19.99 million (31.12.22: € 20.47 million) visibly reduced the equity ratio to 27.5 % (31.12.22: 56.1 %).

The positive operating cash flow of € 4.21 million (previous year: € -3.65 million), which is significantly higher than the half-year EBITDA, is a positive development. The reduction of working capital in the amount of € 2.76 million contributed to this in particular. Further possible measures to optimise working capital could lead to the release of additional liquidity, particularly at acardo group AG.

Forecasts and model assumptions

in € m	FY 2022	FY 23e (old)	FY 23e (new)	FY 24e (old)	FY 24e (new)	FY 25e (old)	FY 25e (new)
Revenue	25.22	36.75	36.75	43.18	43.18	51.29	51.29
EBITDA	-3.86	1.82	2.54	5.27	5.27	8.55	8.55
EBIT – before PPA	-5.36	0.32	1.04	3.74	3.74	7.02	7.02
EBIT – as reported	-5.36	0.32	-0.96	3.74	1.74	7.02	5.02
After-tax result	-5.27	0.03	-0.80	1.99	0.59	3.90	2.50

Source: GBC AG

With the publication of the half-year report 2023, the Vectron management has confirmed the guidance published in March 2023. According to this, for the current business year 2023 sales of € 36.0 to 37.8 million and an EBITDA of € 1.3 to 2.2 million are still expected. For the coming financial year 2024, revenues of € 41.0 to 45.5 million and an EBITDA of € 4.0 to 6.2 million are still expected, and for 2025, revenues of € 48.8 to 54.2 million and an EBITDA of € 7.3 to 9.7 million. While the half-year revenues are in line with expectations, the EBITDA increase has been surprisingly strong.

Even though part of the half-year EBITDA of € 1.66 million achieved so far was influenced by special effects of around € 0.50 million, we consider the confirmed company guidance to be conservative. However, this should also take into account the fact that in the second half of 2023 there should no longer be a positive impact on earnings from extraordinary income. Furthermore, we assume that the Vectron board is deliberately acting cautiously against the background of the impending return to the standard Value Added Tax (VAT) of 19% for the catering/gastronomy industry. In the course of the Corona pandemic, the VAT rate, currently limited until 31 December 2023, was lowered to 7%. An increase in the VAT rate could dampen the willingness to invest in the gastronomy sector. In addition, the current economic development in Germany is a risk factor for the second half of 2023.

Nevertheless, we are a little more optimistic and are raising our EBITDA forecast to € 2.54 million (previous GBC forecast: € 1.82 million) in view of the good half-year development. This includes a continued increase in recurring digital revenues, which should benefit from the base effect (higher number of contracts) on the one hand and the rising transaction volume on the other. The upcoming introduction of further digital modules in the second half of the year should also accelerate the increase in recurring revenues.

In our EBIT forecast for the current and the coming financial years, we take into account the PPA depreciation necessary after the first-time full consolidation of the acardo assets. According to our estimates, this should lead to an increase in depreciation of around € 2.0 million annually. Therefore, despite the raised EBITDA forecast, EBIT is likely to be lower than before. Adjusted for PPA depreciation, however, we expect EBIT of € 1.04 million for 2023 (previous forecast: € 0.32 million). For the next two financial years, we are keeping both the revenue and earnings estimates (EBITDA; EBIT before PPA) unchanged. However, PPA amortisation should have a negative impact on EBIT "as reported" and the after-tax result.

As the higher PPA amortisation does not affect cashflow and liquidity, it has no impact on the result of the DCF valuation model. Due to the forecast increase for the current financial year and the regular roll-over effect, we are raising the price target to €10.00 (previously: €9.40). We keep the rating BUY.

Evaluation

Model assumptions

Vectron Systems AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2023 to 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. We expect increases in turnover of 7.5 (previously: 7.5%). We have assumed an EBITDA margin target of 22.0% (previously: 22.0%). This is a consequence of the higher margin level of the acquired company acardo. We have taken into account the tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.5% (previously: 2.5%).

Determination of the cost of capital

The weighted average cost of capital (WACC) of Vectron Systems AG is calculated from the cost of equity and the cost of debt. For the calculation of the equity capital costs, the fair market premium, the company-specific beta as well as the risk-free interest rate have to be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The **currently used value of the risk-free interest rate is 2.0% (previously: 2.0%).**

We set the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.46 is currently determined.

Using the assumptions made, we calculate a cost of equity of 10.01% (previously: 10.01%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 100% for the cost of equity, the weighted average cost of capital (WACC) is 10.01% (previously: 10.01%).

Model result

Due to the roll-over effect, the price target increases to € 10.00 (previously: € 9.40). We continue keep the rating BUY.

DCF model

Vectron Systems AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after estimate phase:

consistency - phase	
Revenue growth	7.5%
EBITDA margin	22.0%
Depreciation to fixed assets	20.0%
Working Capital to revenue	5.7%

final - phase	
Eternal growth rate	2.5%
Eternal EBITA margin	18.0%
Effective tax rate in final phase	30.0%

Three phase DCF - model:

Phase	estimate			consistency					final
in mEUR	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	final value
Revenue	36.75	43.18	51.29	55.13	59.27	63.71	68.49	73.63	
Revenue change	45.7%	17.5%	18.8%	7.5%	7.5%	7.5%	7.5%	7.5%	2.5%
Revenue to fixed assets	1.87	2.33	2.91	3.32	3.71	4.06	4.37	4.63	
EBITDA	2.54	5.27	8.55	12.13	13.04	14.02	15.07	16.20	
EBITDA margin	6.9%	12.2%	16.7%	22.0%	22.0%	22.0%	22.0%	22.0%	
EBITA	-0.96	1.74	5.02	8.60	9.71	10.81	11.92	13.06	
EBITA margin	-2.6%	4.0%	9.8%	15.6%	16.4%	17.0%	17.4%	17.7%	18.0%
Taxes on EBITA	0.29	-0.52	-1.50	-2.58	-2.91	-3.24	-3.58	-3.92	
Taxes to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-0.67	1.22	3.51	6.02	6.80	7.57	8.35	9.14	
Return on capital	-5.6%	5.6%	16.7%	29.4%	34.5%	39.2%	43.3%	46.8%	47.3%
Working Capital (WC)	2.20	2.50	2.90	3.11	3.35	3.60	3.87	4.16	
WC to Revenue	6.0%	5.8%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	
Investment in WC	0.14	-0.30	-0.40	-0.21	-0.23	-0.25	-0.27	-0.29	
Operating fixed assets (OAV)	19.61	18.51	17.61	16.60	15.98	15.69	15.67	15.90	
Depreciation on OAV	-3.50	-3.53	-3.53	-3.53	-3.33	-3.20	-3.14	-3.14	
Depreciation to OAV	17.9%	19.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
Investment in OAV	-13.55	-2.43	-2.63	-2.52	-2.71	-2.91	-3.13	-3.37	
Capital employment	21.81	21.01	20.51	19.71	19.33	19.29	19.54	20.06	
EBITDA	2.54	5.27	8.55	12.13	13.04	14.02	15.07	16.20	
Taxes on EBITA	0.29	-0.52	-1.50	-2.58	-2.91	-3.24	-3.58	-3.92	
Total investment	-13.41	-2.73	-3.03	-18.73	-2.94	-3.16	-3.40	-3.66	
Investment in OAV	-13.55	-2.43	-2.63	-2.52	-2.71	-2.91	-3.13	-3.37	
Investment in WC	0.14	-0.30	-0.40	-0.21	-0.23	-0.25	-0.27	-0.29	
Investment in Goodwill	0.00	0.00	0.00	-16.00	0.00	0.00	0.00	0.00	
Free cashflows	-10.57	2.02	4.01	-9.19	7.18	7.61	8.09	8.62	119.52

Value operating business (due date)	78.14	83.94
Net present value explicit free cashflows	16.86	16.53
Net present value of terminal value	61.28	67.41
Net debt	4.67	3.55
Value of equity	73.47	80.39
Minority interests	0.00	0.00
Value of share capital	73.47	80.39
Outstanding shares in m	8.04	8.04
Fair value per share in EUR	9.14	**10.00**

Cost of capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.46
Cost of equity	10.0%
Target weight	100.0%
Cost of debt	2.8%
Taxshield	0.0%
Taxshield	28.7%
WACC	**10.0%**

Return on Capital	WACC 9.4%	9.7%	10.0%	10.3%	10.6%
46.8%	10.93	10.40	9.91	9.46	9.05
47.0%	10.98	10.44	9.95	9.50	9.09
47.3%	11.03	10.49	**10.00**	9.55	9.13
47.5%	11.09	10.54	10.05	9.59	9.17
47.8%	11.14	10.59	10.09	9.64	9.22

APPENDIX

I.
Research under MiFID II
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2. the research report shall be made available simultaneously to all investment service providers interested in it.

II.
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A specific update of the present analysis(s) at a fixed point in time has not yet been scheduled. GBC AG reserves the right to update the analysis without prior notice.

§ 2 (II) Recommendation/ Classifications/ Rating:
GBC AG has been using a three-stage absolute share rating system since 1 July 2006. Since 1 July 2007, the ratings have referred to a time horizon of at least six to a maximum of 18 months. Previously, the ratings had referred to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are determined according to the ratings described below with reference to the expected return. Temporary price deviations outside these ranges do not automatically lead to a change in the rating, but do give rise to a revision of the original recommendation.

The respective recommendations/ classifications/ ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > = + 10%.
HOLD	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10% and < + 10%.
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Price targets of GBC AG are determined on the basis of the fair value per share, which is determined on the basis of generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share repurchases, etc.

§ 2 (III) Historical recommendations:
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§ 2 (IV) Information basis:
For the preparation of the present analysis(s), publicly available information on the issuer(s) (where available, the three most recently published annual and quarterly reports, ad hoc announcements, press releases, securities prospectus, company presentations, etc.) was used, which GBC considers to be reliable. Furthermore, in order to prepare the present analysis(s), discussions were held with the management of the company(ies) concerned in order to obtain a more detailed explanation of the facts relating to the business development.

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(7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication.
(8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board.
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