

Vectron Systems AG ^{*5a,6a,7,11}

Rating: BUY

Target price: EUR 10.00
(previously: EUR 10.10)

Current price: 6.78
23.02.24 / XETRA / 5:36 pm
Currency: EUR

Key data:

ISIN: DE000A0KEXC7
WKN: A0KEXC
Stock exchange symbol: V3S
Number of shares³: 8.04
Market cap³: 54.50
EnterpriseValue³: 73.15
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 4

Date (time) Completion:
26.02.24 (10:15 am)

Date (time) first transmission:
26.02.24 (11:30 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 Thyje

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	37.40*	43.18	51.29
EBITDA	-3.86	3.00*	5.27	8.55
EBIT before PPA	-5.36	1.50	3.74	7.02
Net profit for the year	-5.27	-0.53	0.59	2.50

*preliminary figures

Key figures in EUR

Earnings per share	-0.65	-0.07	0.07	0.31
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/revenues	2.90	1.96	1.69	1.43
EV/EBITDA	neg.	24.39	13.87	8.56
EV/EBIT before PPA	neg.	48.77	19.54	10.43
KGV	neg.	neg.	92.37	21.78
KBV	2.66			

Financial Calendar

14.05.2024: Annual Report 2023
19.06.2024: AGM
02.09.2024: Half-Year Report 2024

**last research from GBC:

Date: Publication / Target price in EUR / Rating
25.10.2023: RS / 10.10 / BUY
14.09.2023: RS / 10.00 / BUY
25.05.2023: RS / 9.40 / BUY
06.03.2022: RS / 9.40 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

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Preliminary figures for 2023: Sales and earnings development in line with expectations, rating: BUY

in € m	FY 22	FY 23e	FY 24e	FY 25e
Revenue	25.22	37.4*	43.18	51.29
EBITDA	-3.86	3.0*	5.27	8.55
EBIT – before PPA	-5.36	1.50	3.74	7.02
EBIT – as reported	-5.36	-0.50	1.74	5.02
After-tax result	-5.27	-0.53	0.59	2.50

Source: GBC AG; *preliminary figures

Vectron Systems AG (Vectron for short) published its preliminary figures for the past fiscal year 2023 on 21 February 2024. With sales revenue of € 37.4 million (previous year: € 25.2 million), the company not only significantly exceeded the previous year's figure by 48%, but also returned to its growth path as expected. This figure was in the upper half of the sales guidance, which forecast sales in a range of € 36.0 million to € 37.8 million. Our forecast (GBC estimate: € 38.6 million) was also almost achieved.

According to our calculations, Vectron sales increased by 11% to € 28.0 million (previous year: € 25.2 million). The main reason for the sales growth in the Vectron division (POS systems and digital services) was the further increase in recurring income by 53% to € 13.2 million (previous year: € 8.6 million), which now accounts for 47% (previous year: 34%) of total sales in this division. This clearly reflects the company's focus on expanding its digital business in particular. Accordingly, Vectron has outsourced hardware production to external partners. The sales of acardo group AG (acardo), which was acquired on 1 January 2023, also contributed to the overall increase in sales. According to our findings, the inorganic contribution to sales is likely to have exceeded €10 million.

Thanks to the expansion of the digital business and the earnings contribution of the acquired acardo, the turnaround was achieved with EBITDA of € 3.0 million (previous year: € -3.9 million). At the same time, the preliminary EBITDA was at the upper end of the guidance raised in October, which had forecast EBITDA in a range of € 2.2 million to € 3.2 million. Our EBITDA estimate (GBC forecast: € 3.2 million) was also almost achieved. EBITDA should be characterised by extraordinary income from the reversal of provisions.

Even if this is a one-off effect, a disproportionately high improvement in earnings should still be achieved in the current financial year 2024. On the one hand, the expansion of the digital business will be accompanied by higher margins. On the other hand, the cost-cutting measures introduced in the hardware area are not expected to take full effect until 2024. The expansion of the digital business and thus of recurring sales will also make the company less dependent on external fluctuations in demand. Vectron has not yet felt any negative effects from the VAT increase for the catering industry. On the contrary, digital services are likely to be in greater demand against the backdrop of staff shortages in the sector.

The acquisition of acardo should also make a significant contribution to sales and earnings in the current 2024 financial year. The couponing specialist announced the expansion of its couponing network by a further 3,500 stores at the beginning of the year, making it the largest check-out couponing network in Germany. Against this backdrop, Vectron's guidance should remain valid and we are maintaining our estimates for the financial years 2024 and 2025.

Valuation

Model assumptions

Vectron Systems AG was valued by us using a three-stage DCF model. Starting with the specific estimates for the years 2023 - 2025 in phase 1, the forecast from 2026 to 2030 in the second phase is based on value drivers. We expect sales to increase by 7.5% (previously: 7.5%). We have assumed an EBITDA margin target of 22.0% (previously: 22.0%). We have recognised the tax rate at 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetuity. In the terminal value, we assume a growth rate of 3.0 % (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. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuation and Economics (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth out short-term market fluctuations, the average yields of the previous three months are used and the result is rounded to 0.25 basis points. The risk-free interest rate currently used is 2.50 % (previously: 2.00 %).

We use the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of equity 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, the cost of equity is calculated at 10.51% (previously: 10.01%) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of equity costs of 100%, the weighted average cost of capital (WACC) is 10.51% (previously: 10.01%).

Model result

As part of the DCF valuation model, we have determined a target price of € 10.00 (previously: € 10.10). The marginal reduction in the target price is due to the increase in the risk-free interest rate and thus the weighted cost of capital. On the other hand, we have raised the perpetual growth rate by 0.5% due to inflation, which has had the effect of increasing the price target. We continue to assign the BUY rating.

Vectron Systems AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after estimate phase:

consistency - phase		final - phase	
Revenue growth	7.5%	Eternal growth	3.0%
EBITDA margin	22.0%	Eternal EBITA margin	18.5%
Depreciation to fixed assets	20.0%	Effective tax rate in final phase	30.0%
Working Capital to revenue	5.7%		

Three phase DCF - model:

Phase in mEUR	estimate			consistency					final final va- lue
	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	
Revenue	37.40	43.18	51.29	55.13	59.27	63.71	68.49	73.63	
Revenue change	48.3%	15.5%	18.8%	7.5%	7.5%	7.5%	7.5%	7.5%	3.0%
Revenue to fixed assets	1.91	2.33	2.91	3.32	3.71	4.06	4.37	4.63	
EBITDA	3.00	5.27	8.55	12.13	13.04	14.02	15.07	16.20	
EBITDA margin	8.0%	12.2%	16.7%	22.0%	22.0%	22.0%	22.0%	22.0%	18.5%
EBITA	-0.50	1.74	5.02	8.60	9.71	10.81	11.92	13.06	
EBITA margin	-1.3%	4.0%	9.8%	15.6%	16.4%	17.0%	17.4%	17.7%	18.5%
Taxes on EBITA	0.11	-0.52	-1.50	-2.58	-2.91	-3.24	-3.58	-3.92	
Taxes to EBITA	22.4%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-0.39	1.22	3.51	6.02	6.80	7.57	8.35	9.14	
Return on capital	-3.3%	5.6%	16.7%	29.4%	34.5%	39.2%	43.3%	46.8%	49.1%
Working Capital (WC)	2.20	2.50	2.90	3.11	3.35	3.60	3.87	4.16	
WC to Revenue	5.9%	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	3.00	5.27	8.55	12.13	13.04	14.02	15.07	16.20	
Taxes on EBITA	0.11	-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	-10.29	2.02	4.01	-9.19	7.18	7.61	8.09	8.62	122.97

Value operating business (due date)	77.54	83.67
Net present value explicit free cashflows	16.46	16.17
Net present value of terminal value	61.08	67.50
Net debt	4.39	3.27
Value of equity	73.15	80.40
Minority interests	0.00	0.00
Value of share capital	73.15	80.40
Outstanding shares in m	8.04	8.04
Fair value per share in EUR	9.10	10.00

Cost of capital:

Risk free rate	2.5%
Market risk premium	5.5%
Beta	1.46
Cost of equity	10.5%
Target weight	100.0%
Cost of debt	2.8%
Taxshield	0.0%
Taxshield	28.7%
WACC	10.5%

Return on Capital	WACC				
	9.9%	10.2%	10.5%	10.8%	11.1%
48.6%	10.93	10.40	9.91	9.46	9.05
48.8%	10.98	10.45	9.96	9.51	9.09
49.1%	11.03	10.50	10.00	9.55	9.13
49.3%	11.09	10.54	10.05	9.59	9.17
49.6%	11.14	10.59	10.09	9.64	9.21

APPENDIX

I.

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Other person involved in this study:

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