EDISON Scale research report - Update

Nynomic

Measurement instruments

4 September 2019

H119 affected by geopolitical climate

The current geopolitical environment resulted in a reduction in Nynomic's revenue and EBIT during H119. This was anticipated by management, which reiterated its guidance for only modest FY19 revenue growth. Longer term, the investment case remains intact, with demand for smart, miniaturised measurement technology supported by the new automated production methodologies loosely aggregated as industry 4.0.

Geopolitical environment affected H119 performance

H119 group revenue of €29.3m represented a 19% year-on-year decline. Management had anticipated this decline, which was attributable to the uncertainty created by the current global geopolitical climate which is stifling investment, particularly in equipment for manufacturing semiconductors and electronic equipment. The drop in revenues resulted in a reduction in EBIT from €6.4m to €3.6m, while the EBIT margin declined by 5.5pp to 12.3%. EPS fell by 37% to €0.53. Net debt (including €4.8m financial liabilities from leasing in H119 vs nil in H118) increased by €3.8m to €13.4m during H119.

Management reiterates FY19 guidance

Management reiterated its FY19 guidance in August, which is for modest revenue growth to €67.0–70.0m and approximately €8.0–10.5m EBIT. This anticipates a second-half recovery, which is backed by the record order backlog at end June 2019 (€38.0m vs €35.3m at end FY18). Management believes that the group remains well positioned for the medium and long term, with demand for its smart, miniaturised measurement technology supported by the new automated production methodologies loosely aggregated as industry 4.0. It has therefore reiterated its medium-term growth target of €100m sales with an EBIT margin of around 15%.

Valuation: Trading at a discount to peers

The share price has declined by 19% from a high of €25.6 in February. A comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample of European-listed companies involved in instrumentation shows the company is trading at a discount to the sample mean on all metrics. We note that Nynomic's EBIT margin is also below the sample mean. This indicates there is potential for share price appreciation if management can combine continued revenue growth with an improvement in the operating margin.

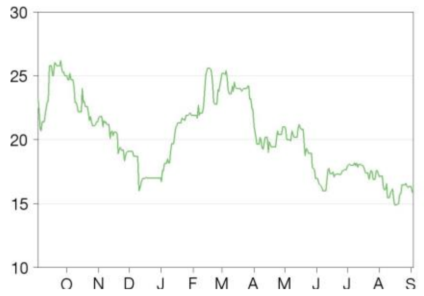
Consensus estimates (adjusted to exclude outdated estimates)

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	60.7	9.1	0.97	0.0	16.3	N/A
12/18	67.1	10.1	1.35	0.0	11.7	N/A
12/19e	68.1	8.0	0.88	0.0	18.0	N/A
12/20e	78.5	10.6	1.21	0.0	13.1	N/A

Source: Refinitiv, Edison Investment Research

Price	€15.85
Market cap	€81m

Share price graph



Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.1m
Last reported net debt at end June 19	€13.4m

Business description

Nynomic is an integrated provider of photonics solutions based on a common technology platform. It uses non-contact optical technology to create customised systems for OEMs, which are deployed in the clean tech, green tech and life science sectors.

Bull

- Ability to provide customised solutions for OEMs.
- Addresses high-growth emerging markets.
- LemnaTec opens new industry vertical.

Bear

- Dependent on customer activity to drive sales.
- Spectral Engines acquisition a drag on margin growth.
- While presence in multiple sectors gives resilience, this does not protect against general market weakness.

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Edison profile page

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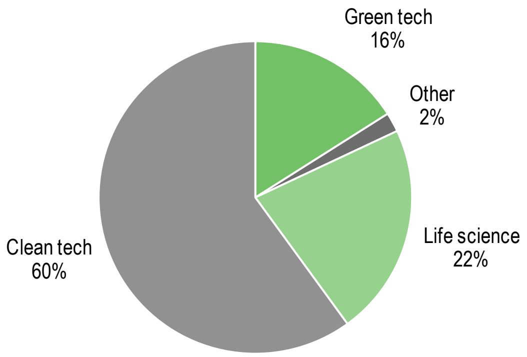
Financials

Having created a cash-generative, profitable platform between 2014 and early 2016, management is adding to the product portfolio through a sequence of acquisitions. This strategy has taken the group into new industry verticals, most recently into the agricultural phenotyping sector through the acquisition of LemnaTec in August 2019, rounded out its offer of complete systems and addressed the B2C (business to consumer) sector for the first time with the acquisition of Spectral Engines in May 2018. As well as moving up the value chain, management is hoping to improve margins by selling more products under brand names owned by subsidiaries and focusing on scalable products.

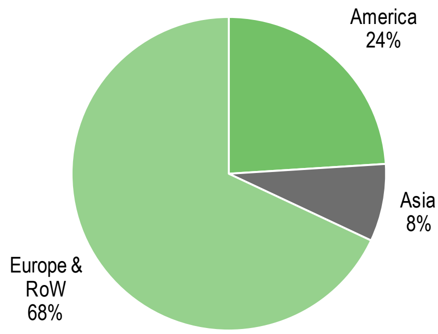
H119 performance affected by global uncertainty

Exhibit 1: Revenues by segment H119



Source: Company data

Exhibit 2: Revenues by geography H119



Source: Company data

Group revenue declined by 19% year-on-year during H119 to €29.3m. While the life science segment reported a 29% year-on-year increase in revenues, the substantially larger clean tech segment showed a 31% year-on-year decrease. Management had anticipated this decline, which was attributable to the uncertainty created by the current global geopolitical climate which is stifling investment, particularly in equipment for manufacturing semiconductors and electronic equipment. In contrast, H118 revenues benefitted from strong demand from the semiconductor industry.

Cost of materials as a percentage of sales, work-in-progress and finished goods declined by 7.3pp to 34.1%, reflecting a change in product mix. Personnel costs were similar to the prior year period, despite bearing the costs of the 25 full-time staff with the Spectral Engines start-up for a full six months. After adjusting for the impact of the adoption of IFRS16, other operating costs were at a similar level to the prior year period as well. The reduction in EBIT from €6.4m to €3.6m is therefore attributable to the drop in revenues. The EBIT margin declined by 5.5pp to 12.3%. EPS fell by 37% to €0.53.

Net debt (including €4.8m financial liabilities from leasing in H119 – nil in H118) increased by €3.8m to €13.4m during H119. Gearing (net debt/equity) rose by 8.8pp year-on-year to 41.3%, distorted by the adoption of IFRS16 in H119. Operating cash flow benefitted from a €3.1m drop in receivables. Investment in tangible and intangible assets was a relatively modest €0.8m.

Management reiterates FY19 guidance

In August, management reiterated its FY19 guidance, while noting that the results are likely to be towards the lower end of the original target range. Guidance is for FY19 group revenue slightly ahead of the previous year's level ie €67.0–70.0m vs € 67.1m in FY18. This anticipates a second-half recovery, which is backed by the level of orders received during H119 (€32.0m compared with

€26.8m in H118) and the record order backlog at end June 2019 (€38.0m vs €35.3m at end December 2018). Guidance is for an EBIT range of approximately €8.0–10.5m ie an EBIT margin in the range of c 12–15%. This is lower than the 15% achieved in FY18 because the investment in technology and market development for Spectral Engines is expected to drag on profits in the short term.

While noting the current macroeconomic slowdown, management believes that the group remains well positioned for the medium and long term, with demand for its smart, miniaturised measurement technology supported by the new automated production methodologies loosely aggregated as industry 4.0. It has therefore reiterated its medium-term growth target of €100m sales with an EBIT margin of around 15%.

LemnaTec acquisition takes group into high-growth new vertical

In August 2019 Nynomic acquired the business operations of LemnaTec, a specialist in the development of hardware and software systems for automated, high throughput digital plant phenotyping. These systems use non-invasive, contact-free sensors to measure external characteristics such as the size, shape and colour of plants to determine in real-time how quickly their shoots or roots are growing. The systems also record physiological parameters such as the water and nutrient content of the leaves or photosynthesis rates. This information is used to breed new variants of plants that are adaptable to climate change, particularly to drought and extreme weather conditions. The systems can be deployed in open fields and greenhouses as well as in the laboratory and are used by corporations such as Bayer Crop Science, BASF and Corteva, as well as international research institutions and universities. LemnaTec also provides analytical methods for detecting plant diseases and infestation by insects and other pests. Its solutions for digital seed testing are used in the seed industry and by gene banks to determining germination rate, germination quality and seed quality.

LemnaTec is based in Aachen, Germany, where it has over 20 employees. Management expects it to generate €5–7m sales in FY20. The acquisition takes the group into the agriculture industry, which is a high-growth market segment within the photonics industry. It is consistent with management's strategy of entering into new market verticals through acquisition. Details of the consideration payable has not been disclosed other than it being in the 'middle six-digit' range.

Valuation

Exhibit 3: Listed peers

Name	Market cap (€m)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	Year 1 EBIT margin (%)	Revenue CAGR (%)
Halma	8,266	5.8	5.4	23.4	21.9	34.2	31.7	21.2%	7.6%
Hexagon	14,210	4.1	4.0	12.6	11.7	19.1	17.5	24.8%	4.9%
Isra Vision	725	4.4	3.9	13.7	12.3	28.4	25.4	21.9%	10.6%
Jenoptik	1,258	1.5	1.5	9.8	9.2	16.6	15.5	10.8%	3.9%
Oxford Instruments	835	2.2	2.2	12.3	11.8	19.4	18.4	15.4%	3.0%
Spectris	2,972	1.8	1.7	9.6	9.0	13.7	12.7	15.3%	3.3%
Vaisala Oyj	656	1.7	1.6	11.6	10.5	25.5	22.7	8.8%	7.0%
Mean		**3.1**	**2.9**	**11.6**	**10.8**	**20.4**	**18.7**	**16.9%**	**5.8%**
Nynomic	83	1.4	1.2	10.1	7.9	18.6	13.5	12.6%	8.7%

Source: Refinitiv, Edison Investment Research. Note: Prices at 2 September 2019. Grey shading indicates exclusion from mean.

The share price has declined by 19% from a high of €25.6 in February. At current levels, a comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample of European-listed companies involved in instrumentation shows that Nynomic is trading at a discount to the sample mean on all metrics. We note that Nynomic's EBIT margin is also below the sample mean. This indicates to us that there is potential for further share price appreciation if management can combine continued revenue growth with meaningful improvement in the operating margin, which should be possible when Spectral Engines becomes profitable.

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