

Nynomic

Growth accelerates in H121

Demand for Nynomic's smart, miniaturised measurement technology is benefiting from the new automated production methodologies often referred to as Industry 4.0. Strong revenue growth in both FY20 and H121 was underpinned by multi-million-dollar follow-on orders from a longstanding customer involved in automation for medical laboratories. This particular application has grown rapidly because of the coronavirus pandemic but many other industries are deploying Nynomic's technology to improve efficiency and make better use of natural resources. These trends support management's medium-term growth target of revenue of €150.0m revenues with an EBIT margin of at least 15%, to be realised through a combination of organic and inorganic growth.

Record sales and EBIT during H121

After posting a 21% y-o-y revenue increase in FY20, Nynomic's rate of growth has accelerated. Group revenue increased 46% y-o-y in H121 to €53.7m. There was double-digit growth in all three segments. EBIT grew by 89% to €6.8m. EBIT margin (as a percentage of sales) improved substantially, by 2.8pp to 12.7%. The group moved from €5.2m net debt (excluding financial liabilities from leasing) at end FY20 to €2.1m net cash at end H121. The strong balance sheet supported the acquisition of a 51% stake in Image Engineering in June for an undisclosed sum. The transaction opens up the high-growth market of calibration technology for multi-sensor systems, with a wide range of applications in a variety of industries.

Management raised guidance in August

In August management raised its FY21 guidance to over €90m revenues with further EBIT margin expansion. This guidance is backed by a strong order book totalling €70.3m at end June 2021.

Valuation: Trading at a discount to peers

Nynomic's shares are currently trading at a modest discount to the averages for our sample of peers involved in instrumentation on all metrics. However, while consensus estimates show Nynomic's revenues growing substantially more quickly than any of its peers, its FY1 EBIT margin is below the sample mean. This suggests there is potential for further share price appreciation if management can combine continued revenue growth with meaningful improvement in the operating margin. This should be possible as the investment in product development and sales and marketing for Spectral Engines and LemnaTec translates into profits.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	64.9	5.8	0.87	0.0	59.1	N/A
12/20	78.6	7.3	0.83	0.0	61.9	N/A
12/21e	99.9	13.3	1.60	0.0	32.2	N/A
12/22e	112.9	16.2	1.81	0.0	28.4	N/A

Source: Refinitiv

Measurement instruments

7 September 2021

Price €51.4
Market cap €292m

Share price graph



Share details

Code M7U
Listing Deutsche Börse Scale
Shares in issue 5.7m
Last reported net cash at end June 2021 (excluding €11.4m lease liabilities) €2.1m

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.
- Image Engineering acquisition opens new industry vertical.

Bear

- Continued margin drag of sales and marketing and product development for acquisitions.
- Presence in multiple sectors gives resilience but does not protect against general market weakness.
- Potential for supply chain dislocation caused by global semiconductor shortage.

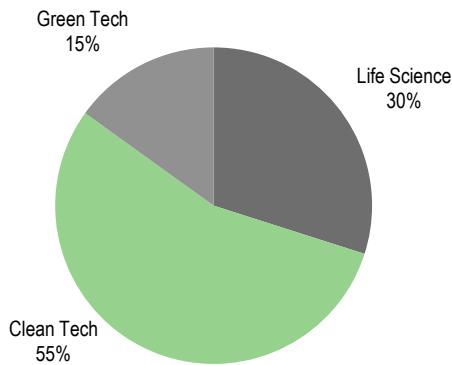
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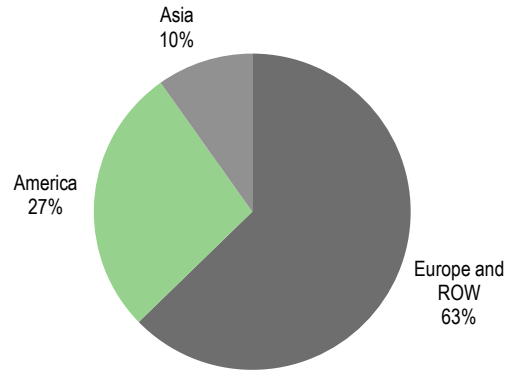
Growth noted during FY20 accelerates in H121

Exhibit 1: Revenues by segment H121



Source: Company data

Exhibit 2: Revenues by geography H121



Source: Company data

Record sales and EBIT during H121

After posting a 21% year-on-year revenue increase during FY20, an undisclosed amount of which was attributable to acquisitions made in the prior year, Nynomic's rate of growth has accelerated. Group revenue increased by 46% year-on-year during H121 to €53.7m. There was double-digit growth in all three segments. Revenues attributable to the Life Sciences segment (99% increase) benefited from rising demand for medical devices including a follow-on order related to laboratory automation that was received in October 2020 from a long-standing customer and was worth c €25.0m over a two-year period. The Clean Tech segment (25% increase) experienced a recovery in demand for equipment for manufacturing semiconductors and electronic equipment. Demand from this segment was weak during H119 because of the global geopolitical climate, which stifled investment and led customers to postpone projects and purchases. Revenues attributable to the Green Tech segment grew by 57%.

Cost of materials as a percentage of sales, work-in-progress and finished goods and capitalised work increased by 5.6pp to 42.9% as a result of a change in product mix. Personnel costs and other operating costs increased by 14% and 32% respectively, reflecting higher revenues. EBIT grew by 89% to €6.8m. EBIT margin (as a percentage of sales) improved substantially, by 2.8pp to 12.7%, supporting management guidance of EBIT margin expansion for the full year.

Strong balance sheet

The group moved from €5.2m net debt (excluding financial liabilities from leasing) at end FY20 to €2.1m net cash at end H121, eliminating gearing (net debt/equity). Cash generated from operations was strong (€9.4m) and capital expenditure, which was attributed to replacing existing office and operating equipment, was only €0.8m. Management does not expect to make any significant investments in either tangible or intangible assets in the existing operating subsidiaries going forward. Instead, any substantial investments will be in the acquisition of strategic stakes in companies such as Image Engineering that take the group into new industry verticals (see below).

FY20 fund-raising activities support new acquisition

The company completed two fund-raising exercises in FY20: €5.1m in June 2020 from strategic investor Paladin Asset Management through a private placement at €19.95/share and €7.1m (gross) in November 2020 from a placing with institutional investors at €28.00/share. The funds raised supported the acquisition of 51% stake in Image Engineering in June 2021 for an

undisclosed sum. Image Engineering is an established company that develops and manufactures test and calibration equipment for cameras and multi-sensor systems. The transaction opens up the high-growth market of calibration technology for multi-sensor systems for the group, with a wide range of applications in a variety of industries. Nynomic expects Image Engineering to generate sales of €5.0–6.0m during FY21 as a whole, around half of which will be consolidated into the group's FY21 revenues.

Management confident about FY21 and beyond

In August management raised its FY21 guidance from the €80m+ revenues with further EBIT margin expansion given in February to over €90m revenues, also with further EBIT margin expansion. Although the guidance came with a note of caution regarding the continued uncertainty caused by the coronavirus pandemic, it is backed by a strong order book totalling €70.3m at the end of June 2021. The level is slightly lower than the record €74.1m reported at end Q121 because the order book includes the large follow-on order received in October mentioned above, which is being worked through.

Management believes 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. In March 2021, management raised its medium-term growth target of €100m sales with an EBIT margin of around 15% to €150.0m revenues, with an EBIT margin of at least 15%. Management intends to realise this goal through a combination of organic and inorganic growth.

Diversity of markets served

One of the key attractions of this stock is the diversity of applications deploying automated production supported by smart, miniaturised measurement technology. For example, earlier this year Nynomic's subsidiary m-u-t became the first manufacturer of near infra-red (NIR) sensors specifically for measuring the amount of nitrogen, phosphorus pentoxide and dry matter ingredients in cattle manure, pig manure, biogas digestate and mixed manure. In June 2021 Nynomic and Novartis formed a partnership to accelerate the detection and reporting of bogus medicines by using a complete solution developed by Nynomic comprising a handheld scanner, smartphone apps and a cloud system for processing the data to authenticate medicines very quickly in the field. In July 2021, subsidiary LayTec extended the capabilities of its Flames metrology system to cover in line monitoring of the thickness of coatings used in roll-to-roll manufacture of organic LED (OLED) and organic photo-voltaic (OPV) films.

Valuation: Trading at a discount to peers

Exhibit 3: Listed peers

Name	Market cap (€m)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	PE FY1 (x)	PE FY2 (x)	EBIT margin FY1 (%)	Revenue CAGR*
Halma	13,517	8.2	7.6	33.2	30.4	49.6	44.9	20.9	8.3%
Hexagon	36,686	9.1	8.3	24.2	22.1	40.3	37.1	27.9	9.4%
Jenoptik	1,752	2.2	2.1	12.3	11.4	23.4	20.7	12.0	9.8%
Oxford Instruments	1,776	4.2	4.0	20.2	19.5	32.2	31.6	17.9	5.4%
Spectris	5,266	3.3	3.1	16.1	14.9	27.8	24.6	15.8	2.2%
Vaisala	1,306	3.2	3.0	19.1	17.1	38.1	34.2	11.4	7.1%
Mean		5.0	4.7	20.9	19.2	35.2	32.2	17.7	7.1%
Nynomic	292	3.1	2.8	17.4	14.7	32.2	28.4	14.3	17.4%

Source: Refinitiv. Note: Priced at 7 September 2021. *FY0–FY3.

Nynomic's share price has risen by around 60% since the announcement of the second major order relating to laboratory automation in October 2020. At current levels, a comparison of Nynomic's prospective consensus multiples with those in our sample of European listed companies involved in instrumentation shows the company is trading at a modest discount to the sample mean on all metrics. However, we note that while consensus estimates show Nynomic's revenues growing substantially more quickly than any of its peers, its FY1 EBIT margin is below the sample mean. This suggests there might be potential for further share price appreciation if management can combine continued revenue growth with sustained improvement in the operating margin. This should be possible as the investment in product development and sales and marketing for Spectral Engines and LemnaTec translates into profits. We note that group EBIT margin was 15.0% in both FY17 and FY18.

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