EDISON Scale research report - Update

m-u-t (Nynomic)

Measurement instruments

1 June 2018

Efficient photonic solutions

m-u-t has followed a record-beating FY16 with another record-beating year, as it delivers non-contact measurement systems to OEMs across a very broad range of applications in the clean tech, life science and green tech sectors. We expect demand to continue to grow, since m-u-t's products are key building blocks of the remote-controlled, continuous online measurement systems at the heart of Industry 4.0 networks. FY18 has started well, with sales rising by 12% y-o-y during Q118 to €18.3m and EBIT by 14% to €3.3m, representing an 18% EBIT margin.

Buy-and-build strategy delivering growth

Group revenues increased by 11.4% y-o-y during FY17, to a record €60.7m. This resulted in strong growth in both EBIT (33% rise to a record €9.1m) and EPS (28% improvement to €0.97/share). EBIT margin rose by 2.4pp to 15.0%. Net cash grew by €10.6m to €15.8m. This cash level has given plenty of scope for acquisitions: the outstanding 25% stake in Avantes in November 2017, a 100% stake in LayTec, the final tranche of which was acquired in March 2018, and a 75% stake in Spectral Engines in May 2018. The terms of these transactions have not been disclosed.

Acquisitions strengthen portfolio

In May, management reiterated its FY18 guidance of c €66.0–68.0m sales and c €10m EBIT, which includes the recent acquisitions. LayTec, which generated c €6.5m sales in FY17, develops measurement equipment used for in-situ process control in the manufacture of light-emitting diodes (LEDs) and semiconductor lasers, giving the group a strong presence in a new, well-defined and growing industry vertical. Spectral Engines makes miniaturised spectrometers that can be made in the volumes and at the price point required for consumer applications, opening up the B2C market.

Valuation: Trading at a discount to peers

A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European-listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics (EV/sales 1.5x vs 3.4x for sample, EV/EBITDA 8.2x vs 15.5x, P/E 21.9x vs 25.4x). Consensus estimates show m-u-t growing more quickly than the mean for our sample, while the improvement in EBIT margin is taking it close to the sample mean. This indicates potential for share price appreciation if the improvement in margin achieved in FY17 can be sustained.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	54.5	6.8	0.76	0.0	30.8	N/A
12/17	60.7	9.1	0.97	0.0	24.1	N/A
12/18e	67.0	10.0	1.07	0.0	21.9	N/A
12/19e	73.0	11.1	1.22	0.0	19.2	N/A

Source: Bloomberg. Note: *After deducting minority interest.

Price	€23.4
Market cap	€119m

Share price graph

Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.1m
Last reported net cash as at December 2017	€15.8m

Business description

m-u-t 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. The group will be known as Nynomic from July 2018 onwards.

Bull

- Ability to provide customised solutions for OEMs
- Addresses high-growth emerging markets.
- Multiple sectors give resilience.

Bear

- Dependent on customer activity to drive sales.
- Spectral Engines acquisition a drag on margin growth.
- Dilutive impact of shares issued as part consideration for LayTec.

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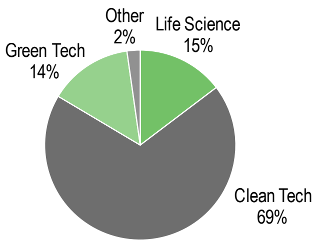
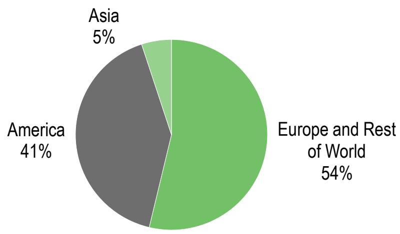
FY17 performance

Exhibit 1: Analysis of FY17 revenue by division



Source: Edison Investment Research, m-u-t

Exhibit 2: Analysis of FY17 revenue by geography



Source: Edison Investment Research, m-u-t

Between 2014 and early 2016, management implemented a programme of activities intended to transform m-u-t from a loss-making, debt-laden group of companies into an integrated platform capable of delivering profitable, cash-generative growth. It cut costs throughout the organisation, sold off or closed unprofitable operations and focused activities on providing a full service offer for OEMs in Europe, North America and Asia. Having created a cash-generative, profitable platform, it is now adding to the product portfolio through acquisition, taking the group into new industry verticals and addressing the B2C sector for the first time.

The FY17 results clearly demonstrate the success of this strategy. Group revenues increased by 11.4% year-on-year to a record €60.7m. This was ahead of management's guidance of €59.0m, which had been raised in both July and November, and underlying market growth, which management estimates grew by c 5%. Clean tech sales jumped by 26% because of a spectroscopy application in the semiconductor segment, which was also behind a 40% hike in sales to North America. This positive effect offset an anticipated 30% drop in life science sales that resulted from one key customer destocking and another reducing volumes. Green tech sales grew by 20%. The ability to achieve revenue growth at group level, despite short-term setbacks in the Life Sciences division, highlights the importance of engaging with multiple OEMs across a wide range of market segments. Importantly, the revenue growth resulted in much stronger growth in both EBIT (33% rise to a record €9.1m, in line with €9.0m guidance) and EPS (28% improvement to €0.97/share). EBIT margin rose by 2.4pp, to 15.0%, reflecting higher sales at an improved average gross margin (56.4% vs. 55.1%). Management is hoping to improve margins further by selling more product under brand names owned by subsidiaries, eg Avantes' AvaSpec-Mini and LayTec's EpiTT epitaxy measurement tool, and focusing on scalable products.

The group was highly cash-generative during the period because the group already has the infrastructure it needs to support good growth. On top of record operating profits, only €0.6m was required for office and operating equipment (less than the €1.1m charge for depreciation and amortisation). Net cash increased by €10.6m to €15.8m. This level of cash has given plenty of scope for management to continue with the 'buy-and-build' strategy it has pursued since 2007.

Favourable outlook

Management has reiterated the FY18 guidance it provided in March of c €66.0–68.0m sales and c €10m EBIT, which includes recent acquisitions LayTec and Spectral Engines. This view is backed by a strong order book: €41.2m at end-FY17, compared with €31.0m a year previously. In the medium term, management expects to see continued steady revenue and earnings growth and stable double-digit EBIT margins, reaching €100m with a target EBIT margin of around 15%. The year has started well, with sales rising by 12% y-o-y during Q118 to €18.3m and EBIT by 14% to €3.3m, representing an 18% EBIT margin.

Recent acquisitions

LayTec develops measurement equipment used for in-situ process control in the manufacture of LEDs and vertical cavity surface emitting lasers (VCSELs), other compound semiconductor devices and solar cells. Based in Berlin, the nature of its market means that 85% of its installations are outside Europe. The acquisition is a good addition as it gives a strong presence in a new, well-defined and growing industry vertical. (VCSELs are the enabling technology behind face recognition in the iPhone X, for example. Please refer to our IQE note from September 2017 for other applications.) It gives LayTec faster and more direct access to m-u-t technology. In 2017, LayTec generated approximately €6.5m sales. Details of the transaction, which included a cash component satisfied through the group's existing cash resources and new shares, have not been disclosed. However, we note that purchase price obligations totalling €14.5m relating to the acquisition of shares in 2017 were reported under other provisions (which includes the outstanding stake in Avantes as well as LayTec) and 285k new shares were issued in February as part-payment for LayTec.

Spectral Engines is based in Helsinki, Finland. It makes MEMS-based (microelectromechanical systems) spectral sensors, opening a route for manufacturing high volumes of extremely small, cost-effective spectrometers that measure material content such as moisture, fat, protein, hydrocarbons, textiles, polymers and pharmaceutical ingredients, including narcotics. This is complemented by a cloud-based platform for processing data from the sensors and applying AI to interpret it. The technology is suitable for smart industry, smart agriculture, smart home and portable applications. The acquisition gives m-u-t access to consumer applications for the first time. Details of the transaction were not disclosed. We note that management has allocated €10–15m for further technology and market development, which will be financed through existing cash resources and bank loans.

Valuation

The share price has increased by over 60% during the past 12 months. A comparison of m-u-t's prospective EV/sales, EV/EBITDA and P/E multiples with those in our sample of European-listed companies involved in instrumentation shows m-u-t trading at a discount to the sample mean on all metrics. We note that consensus estimates show m-u-t growing more quickly than the mean for our sample, while the improvement in EBIT margin is taking it close to the sample mean. This indicates potential for share price appreciation if the improvement in margin achieved in FY17 can be sustained.

Exhibit 3: Listed peers

Name	Market cap (€m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE 1FY (x)	PE 2FY (x)	Year 1 EBIT margin (%)	CAGR (%)
Halma	5,795	5.0	4.7	21.3	19.5	30.9	27.9	20.6%	6.9%
Hexagon Ab-B	16,858	5.2	4.8	16.1	14.7	23.5	21.3	25.0%	6.3%
Isra Vision	977	6.2	5.5	21.9	19.2	43.1	38.2	20.6%	11.6%
Jenoptik	2,089	2.5	2.4	16.3	15.1	27.7	25.1	11.4%	6.9%
Oxford Instruments	591	1.9	1.8	10.6	10.3	16.9	15.8	14.9%	-2.4%
Spectris	3,751	2.2	2.1	12.2	11.3	17.8	16.4	15.1%	3.1%
Vaisala	805	2.2	2.0	14.2	12.1	23.9	20.1	12.5%	4.4%
Viscom	220	2.0	1.9	11.4	10.9	19.1	18.3	15.8%	13.5%
Mean		3.4	3.2	15.5	14.1	25.4	22.9	17.0%	6.3%
m-u-t*	121	1.6	1.4	8.3	6.9	22.2	19.5	14.9%	9.1%

Source: Bloomberg. Prices at 23 May 2018. Note: *based on consensus estimates.

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