EDISON

Scale research report - Update

Nynomic

Measurement instruments

5 September 2018

Acquisitions support record H118 revenues

The recent acquisition of LayTec helped drive 16% growth in revenues in H118, though Spectral Engines is not yet profitable, resulting in a drag on EBIT margin and only very modest EBIT growth. Strategically, the pair take Nynomic into a new, high-growth industry vertical and B2C activity.

LayTec acquisition drives revenue growth

Group revenue rose by 16% year-on-year during H118 to a record €36.3m with acquisitions accounting for most of the growth. However, Spectral Engines, which was acquired in May, is not yet profitable, so the group's EBIT margin decreased from 18% to 16%. Group EBIT increased by 2% year-on-year to €5.8m, while EPS rose more quickly, by 8% to €0.69, reflecting a reduction in the level of non-controlling interest. Operating cash flow was negative because of the release of provisions and a substantial increase in working capital, some of which will reverse in H218. €19.4m was spent on acquiring LayTec, a 75% stake in Spectral Engines and the outstanding shares in Avantes, financed primarily through loans. The group moved from €15.8m net cash at end FY17 to €7.3m net debt at end H118.

Management confirms FY18 guidance

Noting that the net order backlog at end H118 (€31.8m) was at the level to be expected for the time of year, management reiterated the guidance originally given in March of c €66.0–68.0m sales in FY18 and c €10.0m EBIT. This includes the LayTec and Spectral Engines acquisitions.

Valuation: Trading at a discount to peers

The share price has more than doubled over the last year. A comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample of Europe-listed companies involved in instrumentation shows it trading at a discount to the sample mean on all metrics. We note that consensus estimates show Nynomic growing more quickly than the mean for our sample, although the EBIT margin is 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

Year end	Revenue (€m)	EBIT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	54.5	6.8	0.76	0.0	29.3	N/A
12/17	60.7	9.1	0.97	0.0	23.0	N/A
12/18e	67.0	10.0	1.07	0.0	20.8	N/A
12/19e	73.0	11.1	1.22	0.0	18.3	N/A

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

Price	**€22.30**
Market cap	**€114m**

Share price graph

Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.1m
Last reported net debt (€m) end June 2018	7.3

Business description

Nynomic (previously 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.

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 in 2018.
- Dilutive impact of shares issued as part consideration for LayTec.

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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 is taking the group into new industry verticals, rounding out its offer of complete systems and addressing the B2C sector for the first time. As well as moving up the value chain, management is hoping to improve margins by selling more product under brand names owned by subsidiaries and focusing on scalable products.

LayTec acquisition drives revenue growth

Group revenue rose by 16% year-on-year during H118 to a record €36.3m. Acquisitions accounted for just over €4.0m of the €4.9m increase. Cost of materials as a percentage of sales declined by 1.6pp to 41.3% in part due to successful pricing negotiations, as well as the favourable effect of acquisitions. However, personnel costs and other operating expenses both increased as a percentage of sales, reflecting the fact that Spectral Engines, which became part of the group in May, is not yet profitable, so EBIT margin decreased from 18% to 16%. Group EBIT increased by 2% year-on-year to €5.8m, while EPS (excluding non-controlling interests) rose more quickly, by 8% to €0.69, reflecting management's programme to reduce the level of non-controlling interest.

Although EBIT was at record levels, operating cash flow was negative because of the release of provisions including those related to tax (€1.9m) and a substantial (€6.7m) increase in working capital, some of which will reverse in H218. €19.4m was spent on acquiring LayTec (payment was delayed from November when Nynomic took its majority stake in the company, to the full-year results becoming available in H118), a 75% stake in Spectral Engines and the outstanding 25% stake in Avantes (payment for this was also delayed from November when the transaction was announced, until the FY17 results were available in H118). Consideration for these acquisitions was financed primarily through €18.4m of loans. The group moved from a net cash position (€15.8m at end FY17) to one of net indebtedness (€7.3m at end-H118).

Management reiterates FY18 guidance

Demand for the group's high-end, non-contact and non-destructive measuring technology continues to rise, supported by the new automated production methodologies loosely aggregated as industry 4.0. Noting that the net order backlog at end H118 (€31.8m) was at the level to be expected at that time of year, management reiterated the guidance originally given in March of c €66.0-68.0m sales in FY18 and c €10.0m EBIT. This includes the investment that will be made developing Spectral Engines. Management has allocated €10-15m for further technology and market development for Spectral Engines, which will be financed through existing cash resources and bank loans.

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%.

Progress on execution of strategy

Entry into new industry vertical

Nynomic purchased a majority stake in LayTec in November 2017. 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. The acquisition gives the group a strong presence in a new, well-defined and growing industry vertical and expands its presence outside Europe. It gives LayTec faster and more direct access to the group's technology. Management sees significant potential to improve LayTec margins by applying best practice from the rest of the group across the entire operation.

Entry into B2C market

Spectral Engines makes MEMS-based (microelectromechanical systems) spectral sensors, opening a route for manufacturing high volumes of extremely small, cost-effective spectrometers. These sensors measure material content such as moisture, fat, protein, hydrocarbons, textiles, polymers and pharmaceutical ingredients, including narcotics. The sensor technology 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 the group access to consumer applications for the first time.

Valuation

The share price has more than doubled over the last year. 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 Nynomic trading at a discount to the sample mean on all metrics. We note that consensus estimates show Nynomic growing more quickly than the mean for our sample although the EBIT margin is below the sample mean. This indicates there is potential for further share price appreciation if management can combine meaningful improvement in the operating margin with continued revenue growth.

Exhibit 1: Listed peers

Name	Market cap (€m)	EV/sales FY1 (x)	EV/sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	P/E FY1 (x)	P/E FY2 (x)	Year 1 EBIT margin (%)	CAGR (%)
Halma	6,001	5.0	4.7	20.9	19.6	29.6	27.6	20.6%	5.9%
Hexagon Ab-B	18,255	5.5	5.1	17.1	15.5	25.1	22.6	25.0%	7.0%
Isra Vision	1,186	7.4	6.5	24.4	21.7	52.0	43.3	20.6%	13.6%
Jenoptik	1,928	2.3	2.2	15.0	13.5	25.9	23.2	11.5%	7.2%
Oxford Instruments	612	1.9	1.8	10.5	9.9	16.4	15.2	15.0%	4.0%
Spectris	3,036	1.9	1.8	11.1	10.2	15.6	14.1	14.9%	3.5%
Vaisala	701	1.9	1.8	13.7	11.4	23.7	18.9	11.3%	4.0%
Mean		**3.7**	**3.4**	**16.1**	**14.5**	**26.9**	**23.6**	**17.0%**	**6.5%**
Nynomic*	121	1.6	1.4	8.3	6.9	22.2	19.5	14.9%	9.1%

Source: Bloomberg. Prices at 29 August 2018. Note: *Based on consensus estimates.

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