EDISON

Scale research report - Update

Nynomic

Measurement instruments

21 May 2019

Expanding photonics platform

The acquisition of LayTec helped drive revenue growth slightly ahead of the German sensors and measurement market during FY18, though Spectral Engines is not yet profitable, resulting in static EBIT margins. LayTec takes the group into a new, high growth industry vertical while Spectral Engines adds B2C activity.

Acquisitions support record revenue levels

Group revenue rose by 11% year-on-year to a record €67.1m in FY18 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 remained at 15%. Group EBIT increased by 11% year-on-year to €10.1m, while EPS rose more quickly, by 39% to €1.35, reflecting a reduction in the level of non-controlling interest. The group moved from €15.8m in net cash at the end of FY17 to €9.6m in net debt at the end of FY18. Operating cash flow reduced because of the release of provisions and a substantial (€8.0m) increase in working capital. The company spent €24.4m on acquiring LayTec, a 75% stake in Spectral Engines and the outstanding shares in Avantes, financed primarily through new loans.

Management reiterates FY19 guidance

In May management reiterated its FY19 guidance for group revenue to be slightly above the previous year's level with an EBIT margin in the range of c 12–15%. Spectral Engines is expected to continue to drag on profits in the short term as the group invests in technology and market development. In the medium term, management expects revenue and earnings growth to remain steady, with stable double-digit EBIT margins. 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.

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 most metrics. We note that Nynomic's 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 (%)
12/17	60.7	9.1	0.97	0.0	21.3	N/A
12/18	67.1	10.1	1.35	0.0	15.3	N/A
12/19e	69.7	9.5	0.99	0.0	20.9	N/A
12/20e	75.6	11.3	1.25	0.0	16.6	N/A

Source: Company data, consensus (based on two estimates)

Price	**€20.7**
Market cap	**€105m**

Share price graph

Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.1m
Last reported net debt (€m) at end December 2018	9.6

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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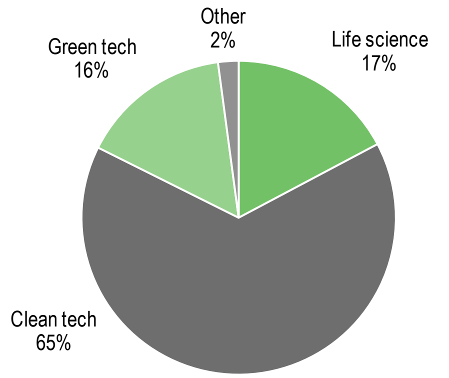
Financials

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 has taken the group into new industry verticals, rounding out its offer of complete systems and addressing the B2C (business to consumer) 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.

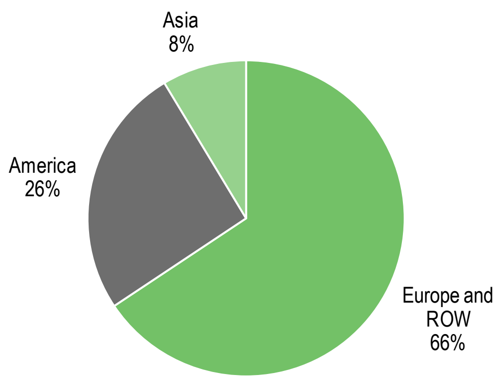
Revenues by segment/division

Exhibit 1: Revenues by segment FY18



Source: Company data

Exhibit 2: Revenues by geography FY18



Source: Company data

LayTec acquisition drives revenue growth

Group revenue rose by 11% year-on-year to a record €67.1m in FY18, driven primarily by acquisitions. This was faster than the market, which the AMA Association for Sensors and Measurement estimates grew by 10%. The life science segment reported a 30% year-on-year increase in revenues and the green tech segment 21%; the other two segments reported only mid single-digit rises. Revenues from North America declined by 31% because of an anticipated reduction in purchases by a major customer. The 35% increase in revenues from Europe was primarily the result of the LayTec acquisition. Management was pleased to note that revenues from Asia almost doubled.

Cost of materials as a percentage of sales, work-in-progress and finished goods declined by 9.1 percentage points to 33.4% 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 was stable at 15%. Group EBIT increased by 11% year-on-year to €10.1m, while EPS (excluding non-controlling interests) rose more quickly, by 39% to €1.35, reflecting management's programme to reduce the level of non-controlling interest.

Although EBIT was stronger year-on-year, operating cash flow reduced from €9.0m to €2.2m because of the release of provisions including those related to tax (€0.9m) and a substantial (€8.0m) increase in working capital. €24.4m was spent on acquiring LayTec (payment was delayed from November 2017 when Nynomic took its majority stake in the company, to LayTec's 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 2017 when the transaction was announced, until the FY17 results were available in H118). Consideration for these acquisitions was financed primarily through €18.2m of loans. The group moved from a net cash position (€15.8m at the end of FY17) to one of net indebtedness (€9.6m at the end of FY18).

Management reiterates FY19 guidance

In May management reiterated its FY19 guidance. It expects group revenue to be slightly above the previous year's level, with an EBIT margin in the range of c 12–15%. This includes investment in technology and market development for Spectral Engines which is expected to drag on profits in the short term. In the medium term, management expects to see continued steady revenue and earnings growth and stable double-digit EBIT margins. The order book at end FY18 was lower than the previous year (€35.3m vs €41.2m). Management attributes this to a change in customer ordering behaviour towards shorter order cycles. 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.

Progress on execution of strategy

Entry into new industry vertical

Nynomic purchased a majority (75%) stake in LayTec in November 2017 and the outstanding shares in March 2018. 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. During FY18 the first strategic contract in the field of smart home applications, which was with Bosch-Siemens-Hausgeräte for the supply of MEMS-based spectral sensors, was concluded.

Valuation

Exhibit 3: 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 (%)	Revenue CAGR (%)
Halma	7,846	5.8	5.4	24.4	22.5	35.1	32.2	20.5%	9.1%
Hexagon	15,434	4.3	4.1	12.8	11.8	19.6	17.9	25.3%	6.9%
Isra Vision	707	4.3	3.8	13.4	12.0	27.6	24.5	21.9%	10.3%
Jenoptik	1,740	2.0	1.9	12.6	11.6	20.6	19.2	11.5%	5.2%
Oxford Instruments	772	2.2	2.1	12.1	11.6	19.0	17.8	15.4%	4.5%
Spectris	3,445	2.0	1.9	10.7	10.1	14.8	13.8	15.5%	3.1%
Vaisala	559	1.4	1.3	10.3	9.5	24.0	19.8	8.2%	7.5%
Mean		**3.1**	**2.9**	**12.0**	**12.7**	**20.9**	**18.8**	**16.9%**	**6.7%**
Nynomic	105	1.6	1.5	10.2	8.8	20.9	16.6	13.6%	6.1%

Source: Consensus (based on two estimates). Note: Prices at 16 May 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 most metrics. We note that Nynomic's EBIT margin is below the sample mean. This indicates to us that there is potential for further share price appreciation if management can combine meaningful improvement in the operating margin, which should be possible when Spectral Engines becomes profitable, with continued revenue growth.

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