

Nynomic

Diversity drives strong H120 revenue growth

Despite the uncertainty caused by the coronavirus pandemic, management believes that Nynomic is comparatively robust because of the diversity of markets served and its global customer-base. Longer term, demand for Nynomic's smart, miniaturised measurement technology is likely to benefit from the new automated production methodologies often referred to as industry 4.0.

Resilient H120 performance

Group revenue increased by 26% year-on-year during H120 to €36.9m, with growth in all three segments. This was attributable to rising demand for medical devices, a partial recovery in demand for equipment for manufacturing semiconductors and electronic equipment and acquisitions made in H219. EBIT was stable at €3.6m because of the higher employee costs associated with the acquisitions and investment in sales and marketing and product development. EBIT margin (as a percentage of sales) reduced by 2.4pp to 9.9%, in line with current management guidance for the full year. In June Nynomic raised €5.1m through a private placement.

Record order book underpins continued growth

The group appears relatively unaffected by the global coronavirus pandemic. In August 2020 management reiterated FY20 guidance of over €70.0m revenues with an EBIT margin of over 10%. Management is also maintaining its medium-term growth target of €100m sales with an EBIT margin of around 15%. The H120 results and record order book (€45.1m) at the period end indicate that the company is on track to meet management guidance.

Valuation: Trading at a discount to peers

The share price has risen by 44% since the start of the year, helped by the announcement of a large medical contract in mid May. 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 mean on all metrics. However, we note that Nynomic's EBIT margin is also below the sample mean. This indicates there is potential for further share price appreciation if management can combine continued revenue growth with an improvement in the operating margin.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	68.9	11.6	1.71	0.0	15.1	N/A
12/19	64.9	5.8	0.87	0.0	29.7	N/A
12/20e	73.0	7.5	0.93	0.0	27.7	N/A
12/21e	81.2	11.3	1.43	0.0	18.0	N/A

Source: Refinitiv

Measurement instruments

1 September 2020

Price €25.80
Market cap €137m

Share price graph



Share details

Code M7U
Listing Deutsche Börse Scale
Shares in issue 5.3m
Net debt at end June 2020 €18.7m

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 and Sensortherm open new industry verticals.

Bear

- Buy-and-build strategy resulting in higher levels of debt.
- Continued margin drag of sales and marketing and product development for Spectral Engines.
- Presence in multiple sectors gives resilience but does not protect against general market weakness.

Analyst

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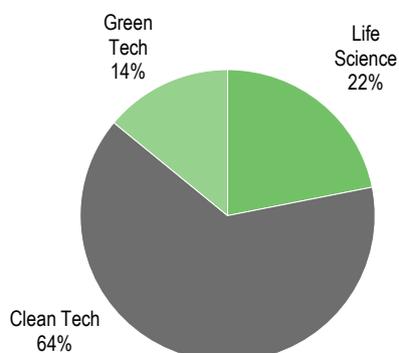
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Financials

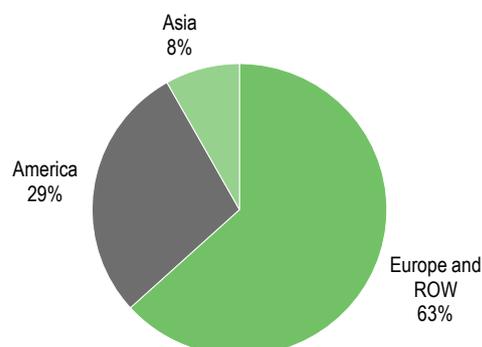
H120 performance relatively unaffected by pandemic

Exhibit 1: Revenues by segment, H120



Source: Company data

Exhibit 2: Revenues by geography, H120



Source: Company data

Group revenue increased by 26% year-on-year during H120 to €36.9m with growth in all three segments, an undisclosed amount of which was attributable to acquisitions made in H219. Revenues attributable to the Life Sciences segment (24% increase) benefitted from rising demand for medical devices while the Clean Tech segment (34% increase) experienced a partial 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 had stifled investment and led customers to postpone projects and purchases.

Cost of materials as a percentage of sales, work-in-progress and finished goods and capitalised work increased by 3.7pp to 37.3% as a result of a change in product mix. Personnel costs increased by 21% reflecting the additional 46 employees from the acquisitions of LemnaTec and Sensortherm (see below). EBIT was stable at €3.6m because of the higher employee costs and planned investment in sales and marketing and product development. A substantial amount of this investment was in Spectral Engines (see below) and LemnaTec, both of which are at relatively early stages of evolution and have the potential for rapid growth but are not profitable yet. EBIT margin (as a percentage of sales) reduced by 2.4pp to 9.9%, in line with current management guidance for the full year.

Net debt (including financial liabilities from leasing) fell by €1.5m during H120 to €18.7m at the end of the period. Gearing (net debt/equity) dropped by 15.4pp during the period to 46.1%, in part due to the capital increase during June 2020 which raised €5.1m from strategic investor Paladin Asset Management through a private placement at €19.95/share. Investment in replacing operating and office equipment was only €0.6m and management does not expect there to be any substantial requirement for investment in equipment in future. In line with its stated strategy, the group acquired the outstanding shares in Spectral Engines (25%) and APOS (45%).

Management confident about FY20 and beyond

The group appears relatively unaffected by the global coronavirus pandemic. The individual companies have remained operational throughout the outbreak. While management recognises the potential for adverse effects on both procurement and sales, there have not been any significant delivery bottlenecks or order cancellations so far. The group is protected to some extent by the wide range of markets it serves, with stronger demand from the healthcare and pharmaceutical markets offsetting weakness elsewhere. Noting that some of its competitors serving individual market niches may not have the balance sheet strength to survive the effects of the pandemic, management

believes that the economic turmoil may present opportunities to acquire additional businesses serving new industry verticals. In contrast, Nynomic has the balance sheet strength and financing ability, as demonstrated by the June fundraising, to continue with its 'buy-and-build' strategy.

In March management provided guidance of over €70.0m in revenues with an EBIT margin of 10–15%. The revenue guidance was reiterated in May and again in August, though EBIT guidance was revised to 'over 10%' in May. The EBIT guidance was repeated in August, acknowledging the amount of investment in sales and marketing and product development. This bullish view is supported by the order book. Order intake grew by 49% during H120 to €47.7m, resulting in an order backlog at the end of the period that was 19% higher year-on-year at a record €45.1m. This includes a follow-on order worth €14.0m over two years related to laboratory automation which was received in mid May from a long-standing customer in the Life Sciences segment.

While noting the uncertainties created by the coronavirus pandemic, 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 is therefore sticking with its medium-term growth target of €100m sales with an EBIT margin of around 15%.

Acquisitions take group into new verticals

LemnaTec takes group into high-growth segment in agriculture

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.

Sensortherm takes group into high-growth segment in infra-red measurement technology

In September 2019 Nynomic acquired 100% of the shares in Sensortherm. Sensortherm specialises in applications for non-contact, high-precision and fast temperature determination such as controlling the process temperature in laser systems for additive manufacturing. Its pyrometers deploy digital signal processing techniques for speed of analysis.

Spectral Engines gives route into B2C markets

Nynomic acquired a 75% stake in Spectral Engines in May 2018 for an undisclosed sum with the intention of accessing the B2C market for the first time. At the time management allocated €10–15m for further technology and market development in the new subsidiary. 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 artificial intelligence (AI) techniques to interpret it. The technology is suitable for smart industry, smart agriculture, smart home and portable applications. Given the strategic significance of this subsidiary, Nynomic acquired the remaining 25% stake in Spectral Engines for an undisclosed sum in May 2020, ahead of schedule.

Valuation

Nynomic's share price slumped during the panic selling at the start of the coronavirus pandemic, falling to €12.0 on 16 March. Nynomic's share price has recovered since then and is now 44% higher than at the start of 2020, boosted in part by the announcement of the large medical order in mid May. At current levels, a comparison of Nynomic's prospective consensus EV/sales, EV/EBITDA and P/E multiples with those in our sample shows that the company is trading at a discount to the sample mean on all metrics. However, we note that Nynomic's EBIT margin is also below the sample mean. This suggests that there might be potential for further share price appreciation if management can combine continued revenue growth with meaningful improvement in the operating margin, which should be possible as the investment in product development and sales and marketing for Spectral Engines and LemnaTec translates into profits.

Exhibit 3: Listed peers

Name	Market cap (€m)	ytd performance (%)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE 1FY (x)	PE 2FY (x)	EBIT margin 1FY (%)	Revenue CAGR (%)
Halma	9,451	6.9	6.7	6.3	28.6	25.7	42.5	37.6	19.4%	4.5%
Hexagon	20,312	13.8	6.0	5.6	17.7	15.4	29.5	25.6	23.9%	2.5%
Isra Vision	1,082	27.5	6.5	5.8	19.7	17.5	43.5	37.2	20.6%	11.1%
Jenoptik	1,392	(4.2)	1.8	1.6	12.8	9.8	28.0	19.4	7.9%	3.2%
Oxford Instruments	948	(2.6)	2.7	2.6	16.5	14.6	31.3	26.6	12.4%	0.8%
Spectris	3,307	(11.0)	2.2	2.1	12.9	11.2	24.6	19.3	11.9%	-3.2%
Vaisala	983	4.6	2.6	2.5	16.1	14.6	39.7	34.7	10.5%	1.9%
Mean		5.0	4.1	3.8	16.0	13.8	34.2	28.6	15.2%	3.0%
Nynomic	130	43.7	2.1	1.9	13.7	10.1	27.7	18.0	11.3%	9.0%

Source: Refinitiv. Note: Prices at 27 August 2020. Grey shading indicates exclusion from mean.

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