

Nynomic

Growth in a time of coronavirus

Demand for Nynomic's smart, miniaturised measurement technology is benefitting from the new automated production methodologies often referred to as industry 4.0. Revenue growth in FY20 and FY21 is supported by multi-million-dollar follow-on orders from a longstanding customer involved in automation for medical laboratories. This application is growing 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. This dynamic has encouraged management to raise its medium-term growth target to revenue of €150.0m with an EBIT margin of at least 15%, realised through a combination of organic and inorganic growth.

Record revenues in FY20

Group revenue increased 21% year-on-year in FY20 to €78.6m, an undisclosed amount of which was attributable to acquisitions. There was double-digit growth in all three segments. The strongest growth was in Life Sciences, which benefited from demand for more automated processes in medical laboratories in response to the coronavirus pandemic. EBIT grew by 24% to €8.0m and EBIT margin improved slightly, by 0.2pp to 10.1%. Net debt reduced by €9.5m during FY20 to €5.2m (excluding leases) at the year-end, reflecting two fund-raising exercises in the year, resulting in a 34.6pp drop in gearing to 10.3%.

Management expects further growth in FY21

In February management provided FY21 guidance of over €80.0m in revenues with further EBIT margin expansion. This bullish view is supported by the preliminary Q121 figures and the order book. Group sales jumped 48% year-on-year during Q121 to c €27.0m with EBIT rising by 106% to c €3.7m, representing an EBIT margin of around 14%. The order book reached a new record of €74.1m at end Q121.

Valuation: Trading at a discount to peers

At current levels Nynomic's shares are trading at a discount to the averages for our sample of peers involved in instrumentation on all metrics. However, its 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	46.4	N/A
12/20	78.6	7.3	0.83	0.0	48.7	N/A
12/21e	98.3	13.0	1.57	0.0	25.7	N/A
12/22e	108.8	15.5	1.76	0.0	23.0	N/A

Source: Refinitiv

Measurement instruments

1 June 2021

Price	€40.40
Market cap	€230m

Share price graph



Share details

Code	M7U
Listing	Deutsche Börse Scale
Shares in issue	5.69m
Last reported net debt at end December 2020 (excluding €12.0m lease liabilities)	€5.2m

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

- 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.
- Potential for supply chain dislocation caused by global semiconductor shortage.

Analyst

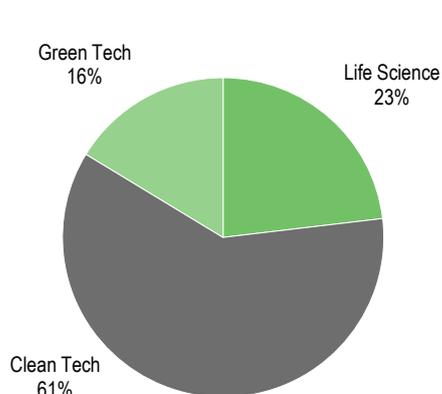
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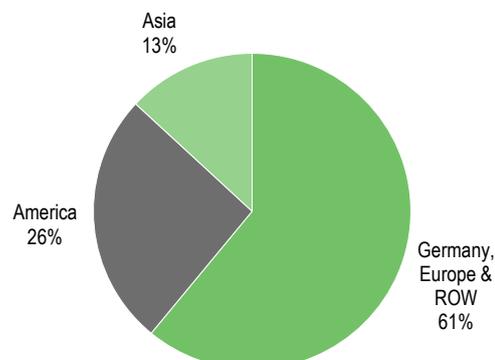
Growth during FY20 despite pandemic

Exhibit 1: Revenues by segment, FY20



Source: Company data

Exhibit 2: Revenues by geography, FY20



Source: Company data

Record sales

Group revenue increased by 21% year-on-year during FY20 to €78.6m, an undisclosed amount of which was attributable to LemnaTec and Sensortherm, both acquired in H219. Total revenues were ahead of management's guidance, which was raised in October following a strong third quarter. There was double-digit growth in all three segments. Revenues attributable to the Life Sciences segment (33% increase) benefitted from rising demand for medical devices including a follow-on order worth €14.0m related to laboratory automation, which was received in mid-May from a long-standing customer. The Clean Tech segment (17% 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.

Cost of materials as a percentage of sales, work-in-progress and finished goods and capitalised work increased by 2.8pp to 40.1% as a result of a change in product mix. Personnel costs increased by 12% reflecting a full year with LemnaTec and Sensortherm in the group. EBIT grew by 24% to €8.0m. EBIT margin (as a percentage of sales) improved slightly, by 0.2pp to 10.1%, in line with management guidance of 10% for the full year. We note that LemnaTec and Spectral Engines are both at relatively early stages of evolution and have the potential for rapid growth but are not profitable yet, which drags on profit margins.

Fund raising activities strengthen balance sheet

Net debt (excluding financial liabilities from leasing) fell by €9.5m in FY20 to €5.2m at the end of the year. Gearing (net debt/equity) dropped by 34.6pp during the period to 10.3%. This was attributable to a capital increase during June 2020, which raised €5.1m from strategic investor Paladin Asset Management through a private placement at €19.95/share and a placing with institutional investors in November 2020, which raised €7.1m (gross) at €28.00/share. While cash generated from operations was strong (€6.4m), this was offset by €5.1m paying an earn-out to the senior shareholder of LayTec and acquiring the outstanding shares in Spectral Engines (25%) and APOS (45%).

Management confident about FY21 and beyond

The group appears relatively unaffected by the global coronavirus pandemic. The individual companies have remained operational throughout the outbreak. The group is protected to some extent by the wide range of markets it serves. 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 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 fundraising activities in June and November, to continue with its 'buy-and-build' strategy.

Record order book

In February management provided FY21 guidance of over €80.0m in revenues with further EBIT margin expansion, while noting continuing the continued uncertainty caused by the coronavirus pandemic and potential supply chain issues associated with shortages of certain semiconductor components. This bullish view is supported by the preliminary Q121 figures and the order book. Group sales jumped by 48% year-on-year during Q121 to c €27.0m with EBIT rising by 106% to c €3.7m, representing an EBIT margin of around 14%. We note that EBIT margin was only 10% in Q120 because of shifts in the product mix, further investments in sales and marketing and macroeconomic influences. The order backlog at the end of FY20 was 112% higher year-on-year at a record €72.6m. This included a further follow-on order in October related to laboratory automation from the long-standing customer, this time worth c €25.0m over a two-year period. This order was placed because the customer worked through the €14.0m order awarded in May well before the end of the two-year term. The surge in demand is partly attributable to the coronavirus pandemic, which has obliged medical laboratories to become more efficient and invest in automation. The order book reached a new record of €74.1m at end Q121.

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, in March 2021 Nynomic announced it was partnering with SCHOTT and Infors to create a system that automates and provides real-time monitoring of fermentation processes in bioreactors. SCHOTT's sensor receptacles have hermetically sealed optical windows that provide a secure interface between Nynomic's process measurement systems and Infors's bioreactors, enabling in-situ bioprocess monitoring without compromising the sterile boundary. This leads to reduced contamination risk and higher process yield. Bioreactors are used in many applications within pharmaceutical and chemical industries including vaccine production. Management notes this initiative will strengthen Nynomic's position in the process analytical technology sector longer term.

As an example of a completely different application, in September 2020 Nynomic announced it was starting another project with Agri Advanced Technologies, which develops specialised application technologies for animal breeding and husbandry. The project aims to create a system that can determine the sex of an unhatched chick using non-invasive spectral measurement technology. This could potentially eliminate the practice of killing male chicks when they hatch.

Valuatio: Trading at a discount to peers

Nynomic's share price has jumped by over 70% 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 discount to the sample mean on all metrics. However, we note that while consensus estimates show Nynomic's revenues growing more quickly than the average of our sample of 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 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. We note that EBIT margin was 15.0% in both FY17 and FY18.

Exhibit 3: Listed peers										
Name	Market cap (€m)	EV/sales FY1 (x)	EV/sales FY2 (x)	EV/sales FY3 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	P/E FY1 (x)	P/E FY2 (x)	EBIT margin FY1 (%)	Revenue CAGR (%)
Halma	11,444	7.7	7.3	6.8	31.2	28.6	46.6	42.2	20.8	3.8
Hexagon	28,279	7.3	6.9	6.5	19.7	18.6	32.2	30.0	27.6	7.1
Jenoptik	1,346	1.8	1.6	1.5	11.5	10.2	19.7	16.1	10.6	9.2
Oxford Instruments	1,371	3.5	3.3	3.1	17.1	16.1	28.0	26.6	17.0	3.4
Spectris	4,256	2.8	2.7	2.5	13.9	12.7	22.9	20.3	15.4	2.1
Vaisala	1,046	2.6	2.5	2.4	15.6	14.0	35.4	31.0	11.3	4.9
Mean		4.3	4.0	3.8	18.2	16.7	30.8	27.7	17.1	5.1
Nynomic	230	2.6	2.3	2.1	14.5	12.5	25.7	23.0	14.0	15.7

Source: Refinitiv. Note: Priced at 26 May 2021.

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