

artec technologies

Technology

11 October 2021

Uncertain outlook persists for H221

artec's H121 results showed a 12% y-o-y fall in net revenues to €1.14m, as the group continues to suffer from the economic impact of the pandemic. Global supply chains remain under stress, leading to difficulty in sourcing hardware and project delays. Although management remains positive for FY21, this increases the uncertainty for the FY21 outcome, with projects liable to slip into H122 from the seasonally busiest quarter, Q4. Good cost control with expenses restricted under COVID-19 offset these factors, meaning that H121 EBITDA was up marginally to €0.07m, with the H121 EPS loss in line with H120 at €0.10 per share. Gross cash rose to €0.53m, although artec is considering a further bond issue to support investment.

H121 results: 12% fall in revenues, flat profit

An extended sales cycle, together with hardware supply issues, resulted in a drop in sales of c 12% to €1.14m in H121. This was partly offset by a reduction in costs, with cost of materials falling as a percentage of total output to 29.5%. With no trade fairs, reduced marketing and limited travel costs due to the pandemic, H121 operating expenses fell to €0.21m (H120: €0.35m). As a result, artec reported H121 EBITDA of €0.07m, with the PAT loss in line with H120 at €0.27m. Benefiting from a €0.4m loan from KfW in H121, gross cash rose to €0.53m.

Outlook: H121 looks very much like H120

With COVID-19 issues starting to recede, management continues to face the challenges of an uncertain global economic outlook in FY21, with an extended sales cycle and persistent supply chain issues. Where possible, artec is prioritising the software component of projects over hardware installation. Management remains optimistic for an influx of new orders, but we note the absence of the usual discussion around new contracts coming through in Q421. With business as usual not expected before FY22, new orders may well slip into H122 from Q421.

Valuation: Growing recurring revenue base

In our opinion, given both the continuing impact of the pandemic and supply chain challenges, consensus forecasts for FY21 look optimistic. artec trades on 2.2x consensus FY21e EV/revenues and 20x EV/EBITDA (around half that of European software peers), falling to 11x consensus FY22e EV/EBITDA. artec continues to trade substantially below capacity but, assuming both security and media segments can deliver on their potential, the group's medium-term prospects remain strong. Given sustained growth following the SaaS transition, this could lead to a share price uplift over the medium term, as artec moves more into line with its peers.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	P/E (x)
12/19	2.01	(0.16)	(0.42)	0.00	N/A	N/M
12/20	3.08	0.91	0.06	0.00	10.4	55.2
12/21e	4.22	0.46	(0.02)	0.00	20.5	N/M
12/22e	5.59	0.84	0.24	0.00	11.2	13.8

Source: Refinitiv

Price €3.31
Market cap €9m

Share price graph



Share details

Code	A6T
Listing	Deutsche Börse Scale
Shares in issue	2.86m
Net cash (€m) as at 30 June 2021	0.13

Business description

artec technologies develops cloud-based software solutions for the recording and analysis of video and audio, in two sectors: video security technology and crime prevention; and broadcast media.

Bull

- IP-based, patent-protected technology solutions.
- Operational diversification from serving DACH security and international media sectors.
- Growing list of reference clients in the security sector across the DACH region.

Bear

- Scale and growth potential limited by operational and resourcing constraints.
- Economic uncertainty clouding revenue visibility.
- Volatile trading history, with financial outcome subject to contract delays.

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Business review: Business as usual to resume in FY22

As has been seen in the H121 results, artec continues to suffer from the economic impact of the pandemic, with global supply chains under stress, leading to difficulty in sourcing hardware and project delays, exacerbated by slow decision making by potential clients. This increases the uncertainty for the FY21 outcome, although given the seasonality of the business, with the majority of revenues in FY20 being received in the last two months of the year, management remains positive for the FY21 outcome.

With hardware delivery timelines prohibitive for timeline tenders, artec has started to separate hardware installation from software implementation and training. This is intended to ensure that higher-margin software projects can be delivered in the current year, although it comes at the expense of lower-margin hardware revenues, sourced directly by the client. The hardware component of tenders is typically between a quarter and a third of overall tender value.

In terms of products, artec's video security solution, MULTIEYE, now offers a number of software modules including: MULTIEYE BOS Manager for situation centres and security control centres, data protection-compliant video surveillance (MULTIEYE PrivacyShield), MULTIEYE licence plate recognition, as well as cash register data acquisition and recording, and MULTIEYE PeopleCounter, for measuring customer footfall in retail outlets.

In H121, artec expanded the functionality of BOS Manager, testing the integration of drone surveillance, as well as offering customers the integration of face and object recognition technologies to improve the monitoring of major events. In Q421, artec's partner, Vivotek, plans to roadshow Multieye STORM, artec's mobile surveillance system, offering mobile surveillance towers and camera equipment alongside artec's cloud platform. artec expects this activity to lead to sales in the DACH region. For BOS Manager, artec has stated it is in advanced negotiations with several state authorities, which could lead to additional orders being placed in Q421, artec's seasonally strongest quarter.

On the media side of the business, XentauriX, among other contracts, has won an order to support manned space travel, to be implemented in H221. After 18 months, trade fairs are starting to resume, with artec notably presenting at Cabsat 2021 (26–28 October) in Dubai, in partnership with Ariston. The restarting of trade fairs boosts artec's prospects for FY22. In addition to its core activities, artec is exploring the opportunities offered by blockchain to secure the group's video technology and ensure the integrity of video data, with various prototypes undergoing testing.

With these developments and the ongoing discussions with new and existing customers, management is optimistic for an influx of new orders but, given the uncertainties noted above, these orders may slip from Q421 into H122. Management does not expect normal business to resume until FY22.

Financial review: H121 looks similar to H120

Management continues the transformation of artec's business model towards a recurring revenue, SaaS-based model in both the security and media sectors.

The extended sales cycle noted above, particularly for international orders, together with hardware supply issues, resulted in a drop in sales of c 12% to €1.14m in H121 (H120: €1.30m). Including capitalised costs (H121: €0.24m, H120: €0.31m), total output fell by 14% to €1.39m (H120: €1.61m). Cost of materials as a percentage of total output fell to 29.5% (H120: 31.4%), with personnel expenses falling marginally to €0.73m (H120: €0.76m) as average staff numbers fell from

29 to 21 people (excluding interns). With no trade fairs, reduced marketing and limited travel costs due to the pandemic, H121 operating expenses fell to €0.21m (H120: €0.35m).

Despite the reduced revenues and as a result of reduced costs, artec reported a small y-o-y improvement in H121 EBITDA to €0.07m (H120: €0.04m), with an EBIT loss of €0.25m in line with the H120 loss of €0.25m. The H121 PAT loss was also in line with H120 at €0.27m (H120: €0.27m).

In a credit review in June 2021, the Deutsche Bundesbank raised artec's credit rating from BBB- to BBB. After raising a €0.4m loan from KfW in H121, as at 30 June 2021, gross cash amounted to €0.53m (H120: €0.12m).

Lingering impact of the pandemic raises FY21 uncertainty

Arrtec is still experiencing the impact of the COVID-19 pandemic, in particular in its international business, where sales have suffered from travel restrictions and the absence of trade fairs. Supply chain issues have created capacity bottlenecks that remain a concern for timely delivery of hardware components in FY21. Management is actively managing the issue, prioritising the software component of projects at the expense of hardware sales. As a result of the drawn-out sales cycle, slow contract awards and hardware shortages slowing contract execution, we believe there is a material risk of revenue slippage from Q421 into H122.

Management also announced in July 2021 it is considering the issue of a blockchain-based security token, potentially in the form of a convertible bond, that would allow artec to diversify its financing and target new investor groups. Proceeds would be used to fund continuing investment, as well as funding a potential increase in inventories to mitigate hardware supply issues.

Valuation: Upside potential in the medium term

artec has no clear peers; however, with the quoted European software peer group showing strong revenue growth and a positive outlook, this group trades in a range of c 4–5x EV/sales and 15–20x EV/EBITDA in FY21e. Palantir, a US\$48bn market cap US big data analytics company focused on the security sector, which is now starting to move into public sector contracts in the UK and Europe, offers parallels to the security side of artec's business and trades on c 20x EV/sales and 96x EV/EBITDA in FY21e. Another US business, Veritone, which operates a similar model to artec, integrating third-party solutions into its platform, trades on c 6x revenues in FY21e, despite being loss-making for the foreseeable future.

The group's prospects in the medium term remain strong. However, in our opinion, given both the continuing impact of the pandemic and supply chain challenges, consensus forecasts for FY21 look optimistic. artec trades on 2.2x consensus FY21e EV/revenues and 20x EV/EBITDA, falling to 11x EV/EBITDA in FY22e. It continues to trade substantially below capacity but, assuming that both the security and media segments can deliver on their potential, there is scope for sustained profit progression as the group's recurring revenue base grows. This could lead to a share price uplift over the medium term, as artec moves more into line with its European software peer group.

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