

6 December 2022

Buy

Ticker VNET:AIM

Software & Computer Services

Shares in issue (m) 28.8

Next results FY Jun

Price 62.5p

Target price 210.0p

Upside 236%

Market cap £18.0m

Net debt/(cash) £3.6m

Other EV adjustments £0.0m

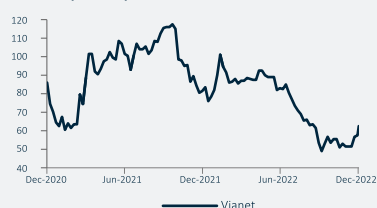
Enterprise value £21.6m

What's changed? From To

Adjusted EPS - 1.7

Target price - 210.0

Share price performance



%	1M	3M	12M
Actual	21.4	21.4	-23.3

Company description

Vianet's integrated platform enables hospitality and vending customers to optimise their operations

Michael Hill

Director of Research
mhill@finncap.com
020 7220 0554

Andrew Darley

Head of Research
adarley@finncap.com
020 7220 0547

Sales desk 020 7220 0522

Trading desk 020 7220 0533

* denotes corporate client of finnCap



Primed to capitalise on untapped potential

We initiate coverage of Vianet with a target price of 210p. The investment case is focused upon scaling its proprietary platform, which optimises the operations of customers within the complementary areas of hospitality and vending. In Smart Zones (c60% of FY22 revenue), the Q4 23 launch of the SmartDraught platform will create value in its 90% share of the leased & tenanted market, expand the UK addressable market by c4x, and accelerate expansion in the US. In Smart Machines (c40% of FY22 revenue), evolution of SmartVend and the award-winning solutions will further differentiate the platform, and enable expansion from the current vending footprint of c34k machines into 300k in the UK market, 3m in Europe, and 15m worldwide. The group's proprietary hardware creates high switching costs and very low levels of churn, and 3-5 year contracts deliver recurring revenue of over 80%. Following investment to develop the cloud-based platform, we expect the scaling of SaaS solutions will drive gross margin from c65% to over 70% in the medium term, create strategically valuable data, and deliver platform economies of scale. At 63p, shares are trading at a major discount on only 5x 12-month forward EV/EBITDA with +29% NTM EBITDA growth, vs finnCap Tech 40 and Next 50 peers on 14-18x with +12-17% growth. We value Vianet at 210p or 14x FY24 EV/EBITDA, and following today's H1 results, we look forward to the group launching and evolving SmartDraught and SmartVend, new customer wins, and strong operating and financial momentum through FY23 and beyond.

- **H1 results establish a platform for growth** – Today's H1 results highlight revenue growth of +13% to £7.2m, recurring revenue growth of +17% to £6.2m, and adjusted EBITDA growth of +29% to £1.5m. Ahead of the launch of SmartDraught, Smart Zones delivered resilient +12% revenue growth to £4.2m, and continued focus on cost delivered divisional adjusted EBITA growth of +38% to £1.8m. Smart Machines achieved record H1 revenue of £3.0m, as the rejuvenated commercial team won 44 new contracts on 3-5 year terms for the division's award-winning solutions. The group is on track to achieve FY23 market expectations, and will evaluate the resumption of a dividend at the FY23 results in June.

- **Valuation** – From p15, we compare Vianet's share price performance and valuation to peers in the finnCap Tech indices. Since January 2019, the share price is -40% compared to our indices at +20-70%, and despite the evolution of the software platform into SmartDraught and SmartVend, and the end of pandemic lockdowns, the share price has continued to underperform the indices through 2022. We do not believe the group's potential is reflected in a valuation of 1x 12-month forward EV/Sales with NTM Sales growth of +14%, 5x 12-month forward EV/EBITDA with +29% NTM EBITDA growth, or 6% 12-month forward EFCF yield, which compares to peers trading on 12-month forward multiples of 2-3x EV/Sales with +13-17% sales growth, 14-18x EV/EBITDA with +12-17% EBITDA growth, and 3% EFCF yield. We look forward to the group delivering and potentially exceeding forecasts, which we expect will catalyse a re-rating towards peers.

Key estimates		2020A	2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar	Mar
Revenue	£m	16.3	8.4	13.2	15.9	17.8
Adj EBITDA	£m	4.7	-0.1	2.9	3.5	4.6
Adj EBIT	£m	2.6	-2.4	0.2	0.6	1.7
Adj PBT	£m	2.5	-2.4	0.0	0.5	1.5
Adj EPS	p	8.9	-5.3	1.3	1.7	5.1
DPS	p	1.7	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022A	2023E	2024E
EV/EBIT (adj)	x	8.2	-9.2	128.4	33.2	12.4
P/E (adj)	x	7.0	-11.8	46.9	36.5	12.3
Dividend yield	%	2.7%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	5.4%	-9.3%	-1.2%	0.6%	8.7%
Pre-tax ROCE	%	8.7%	-7.7%	0.6%	2.2%	5.5%

Primed to capitalise on untapped potential

Income statement		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Sales	£m	8.4	13.2	15.9	17.8
Gross profit	£m	5.1	8.6	10.1	11.6
EBITDA (adjusted)	£m	-0.1	2.9	3.5	4.6
EBIT (adjusted)	£m	-2.4	0.2	0.6	1.7
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	-0.1	-0.1	-0.2	-0.2
PBT (adjusted)	£m	-2.4	0.0	0.5	1.5
Total adjustments	£m	-0.4	-0.2	-0.2	-0.2
PBT (stated)	£m	-2.8	-0.2	0.3	1.3
Tax charge	£m	0.9	0.4	0.0	0.0
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-2.0	0.2	0.3	1.3
Adjusted earnings	£m	-1.5	0.4	0.5	1.5
Shares in issue (year end)	m	29.0	28.8	28.8	28.9
EPS (stated)	p	-6.8	0.6	1.1	4.3
EPS (adjusted, fully diluted)	p	-5.3	1.3	1.7	5.1
DPS	p	0.0	0.0	0.0	0.0

Growth analysis		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Sales growth	%	-48.6%	57.9%	20.5%	12.1%
EBITDA growth	%	-102.6%	n/m	22.8%	31.3%
EBIT growth	%	-189.2%	107.1%	286.2%	167.0%
PBT growth	%	-195.2%	101.2%	n/m	221.4%
EPS growth	%	-159.7%	125.1%	28.3%	198.3%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Gross margin	%	60.5%	64.8%	63.5%	65.1%
EBITDA margin	%	-1.5%	21.6%	22.0%	25.8%
EBIT margin	%	-28.2%	1.3%	4.1%	9.7%
PBT margin	%	-28.7%	0.2%	2.9%	8.4%
Net margin	%	-18.4%	3.0%	3.1%	8.4%

Cash flow		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
EBITDA	£m	-0.1	2.9	3.5	4.6
Net change in working capital	£m	1.4	-0.3	-0.7	-0.2
Other operating items	£m	-0.2	-0.1	-0.1	-0.1
Cash flow from op. activities	£m	1.1	2.4	2.7	4.3
Cash interest	£m	-0.1	-0.1	-0.2	-0.2
Cash tax	£m	0.0	0.0	0.0	0.0
Capex	£m	-2.6	-2.5	-2.4	-2.5
Other items	£m	-0.1	-0.0	-0.0	0.0
Free cash flow	£m	-1.7	-0.2	0.1	1.6
Acquisitions / disposals	£m	0.0	0.0	0.0	0.0
Dividends	£m	0.0	0.0	0.0	0.0
Shares issued	£m	0.0	-0.1	0.0	0.0
Other	£m	-0.0	-0.0	0.0	0.0
Net change in cash flow	£m	-1.7	-0.3	0.1	1.6
Opening net cash (debt)	£m	-1.0	-2.7	-3.0	-2.9
Closing net cash (debt)	£m	-2.7	-3.0	-2.9	-1.3

Cash flow analysis		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Cash conv'n (op cash / EBITDA)	%	n/m	84.0%	78.1%	93.5%
Cash conv'n (FCF / EBITDA)	%	n/m	-7.7%	3.2%	34.0%
U/lying FCF (capex = depn)	£m	-1.3	-0.5	-0.3	1.2
Cash quality (u/l FCF / adj earn)	%	84.1%	-115.9%	-65.6%	80.0%
Investment rate (capex / depn)	x	4.6	5.0	5.2	4.8
Interest cash cover	x	21.0	17.4	14.9	17.9
Dividend cash cover	x	n/a	n/a	n/m	n/m

Working capital analysis		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Net working capital / sales	%	11.1%	9.7%	12.4%	12.2%
Net working capital / sales	days	41	35	45	45
Inventory (days)	days	62	43	38	38
Receivables (days)	days	120	74	50	49
Payables (days)	days	142	82	43	43

Balance sheet		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Tangible fixed assets	£m	3.4	3.3	3.4	3.6
Goodwill & other intangibles	£m	24.0	23.8	23.2	22.7
Other non current assets	£m	0.2	0.4	0.4	0.4
Net working capital	£m	0.9	1.3	2.0	2.2
Other assets	£m	0.0	0.0	0.0	0.1
Other liabilities	£m	-0.1	0.0	-0.0	-0.1
Gross cash & cash equivs	£m	1.9	1.6	1.1	2.7
Capital employed	£m	30.4	30.3	30.2	31.6
Gross debt	£m	4.6	4.6	4.0	4.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	25.8	25.7	26.2	27.6
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	30.4	30.3	30.2	31.6

Leverage analysis		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Net debt / equity	%	10.5%	11.8%	11.0%	4.8%
Net debt / EBITDA	x	n/a	1.1	0.8	0.3
Liabilities / capital employed	%	15.2%	15.2%	13.3%	12.7%

Capital efficiency & intrinsic value		2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar
Adjusted return on equity	%	-6.0%	1.5%	1.9%	5.4%
RoCE (EBIT basis, pre-tax)	%	-7.7%	0.6%	2.2%	5.5%
RoCE (u/lying FCF basis)	%	-4.3%	-1.5%	-1.1%	3.8%
NAV per share	p	89.1	89.3	90.7	95.2
NTA per share	p	6.1	6.6	10.1	16.8

Investment case

Smart Zones

- As the SmartDraught software platform scales, we expect Smart Zones will deliver strong financial growth through expanding into new segments of the UK hospitality market, expanding in the US and Europe, and expanding into adjacent verticals.

Solutions & technology

- The Smart Zones division (c60% of FY22 group revenue) provides integrated software and hardware solutions that enable hospitality venues to:
 - Track core beer flow, drinks, and customer payments data from numerous devices.
 - Analyse a wide range of data points on a single cloud-based platform.
 - Leverage the platform to enhance the efficiency of their operations.
- The solutions include:
 - **Flow meters** – Vianet’s flow meters are installed within beer lines in hospitality venues such as pubs, clubs, hotels, and restaurants, and enable customers to collect real-time data and insights on every drink poured from each tap. The existing Intelligent Flow Meter (IFM) device collects data on a range of indicators such as beer flow, temperature, fluid density, and line cleaning regimes, to establish the effectiveness and efficiency of the beer operation. Further technology investment in temperature and line cleaning systems is enabling Vianet to deploy its standard flow meter, which reduces the entry cost for customers, and will support new customer wins across each of the group’s target markets.
 - **Communications hub and payment systems** – Vianet’s 4G LTE communications hub enables one device to collate data from numerous data-gathering devices such as flow meters, inventory trackers, payment systems, and utility meters, then communicates the data onto Vianet’s cloud-based platform. The communications hub is compatible with both Vianet and third-party devices, which enables Vianet’s platform to collect and analyse a wide range of data to provide insights.
 - **Cloud-based software platform** – Vianet has developed proprietary software to process the data collected, then present actionable insights so that customers can enhance their operational effectiveness, efficiency, and profitability. The current iDraught platform was launched in 2008, and has focused upon optimising pouring yield, temperature, waste management, and till yield/EPOS shrinkage. Following launch in Q4 23, Vianet will focus on scaling the modular **SmartDraught** platform, which enables customers to manage more areas of their premises through the SmartInsight dashboard, adds new features, and increases the appeal of Vianet’s platform to independent owners, managed venues, and brands. The platform readily integrates through APIs into other software systems, and is cloud-based in Microsoft Azure after Vianet completed its transition to the cloud in May 2022. Existing iDraught customers will be able to convert to SmartDraught as its capabilities continue to expand, and management will focus on selling SmartDraught into new venues in the independent and managed segments of the market, as well as developing Brand insights.

Total addressable market and market share

- The core market for Smart Zones is the leased and tenanted sub-sector of the UK hospitality market:
 - Leased and tenanted venues, such as pubs, are operated by individual tenants for corporate landlords, which are typically pub companies. Vianet’s strength in this segment reflects the group’s original focus on monitoring the volume and quality of drinks served by tenants for pub companies, in managing compliance of the beer tie.
 - There are currently c11k leased venues within the UK hospitality market, which compares to Smart Zones predominantly UK customer base of c10k. Since 2008 the number of UK leased venues has declined from c19k, which has impacted the Smart Zones customer base given Vianet’s strength in the segment.

- We are not aware of any competitors for Smart Zone's core solutions in the UK hospitality market, and there are many venues operating without a solution, as the upfront cost has been a barrier despite the attractive return on investment.
- As Vianet expands the capabilities of the SmartDraught platform in the coming 12 months, we expect Vianet **will increase its UK total addressable market by c4x**, through targeting the c32k company-owned managed, and individually owned independent, hospitality venues in the UK.
- We also expect the greater range, volume, and quality of data collected by SmartDraught will increase the data insights that the platform can provide to major drinks and TV companies, and enhance their understanding of market, regional, and site performance. Vianet's initial work with the Oxford Partnership has already led to early traction from brands buying yearly subscription data.
- Beyond the UK, Vianet has developed European and US operations, including relationships with complementary solutions in the US, where it can target c50k bars and chains. As SmartDraught scales, we expect management will focus on expanding the US operations through FY23 and beyond, and we note that it already has several leads with national operators.
- Beyond the hospitality market, Smart Zones' technology is applicable to numerous fields where the flow, quality, and/or temperature of liquids can be monitored to enhance operations. Management is pursuing opportunities including catering, forecourts, and oil & gas, and we note that the modular design of the proprietary platform will enable agile customisation for applications in new fields. Successful scaling of Smart Zones into new verticals could drive transformational revenue growth for the group, while further diversifying the revenue mix from Smart Zones and Smart Machines.

Smart Machines

- We expect Smart Machines will scale by winning new customers and expanding with existing customers, as its differentiated solutions and the evolving SmartVend platform, will capitalise on the global opportunity to upgrade unattended retail vending and coffee machines.

Solutions & technology

- The Smart Machines division (c40% of FY22 group revenue) provides integrated software and hardware solutions to enable owners of unattended retail machines to:
 - ▶ Collect digital payments from customers.
 - ▶ Track product and payments data on a single cloud-based platform.
 - ▶ Leverage the platform to enhance the efficiency of their operations.
- It is complementary to Smart Zones, and features:
 - ▶ **Contactless payment devices** – To enable payments for unattended vending machines, Vianet has developed contactless payment devices that facilitate payments with the most secure PCI level 1 compliance, and transfer funds into an owners account within 24 hours. It is supported by leading industry partners Elavon, Worldpay, and NMI, and benefits from the PCI Master Merchant service, which speeds up the onboarding of customers and enhances the cost-effectiveness of the payment process for customers. The new SmartContact Pro All-In-One device also features a touch screen display, and integrated telemetry capabilities.
 - ▶ **Telemetry devices** – Vianet's telemetry devices are easy to install, can be installed on virtually any machine, and offer both LAN and SIM capabilities so that they can connect to a network in many locations. They transmit real-time and granular inventory, sales, and payment data through firmware that securely encrypts all data. Customers can then remotely view and analyse a wide range of data on the SmartVend software platform.

Cloud-based software platform – The **SmartVend** platform was developed and launched in 2020, and enables customers to optimise their operations through data-driven, actionable insights. The platform's capabilities are expanding in phases, with functionality ranging from insights into machine efficiency and product/stock success, to analysing payments data and exporting it through APIs, to scheduling engineer routes to minimise the carbon footprint and

boost profitability. The launch of the finance phase of the roadmap in 2023 will integrate with the customer's chosen finance package, and accelerate migrations onto SmartVend. The platform is cloud-based following the group's migration to the cloud in May 2022, and management is developing more cloud-native features to enable customers to maximise the value of the data collated by the platform. The feature-rich new platform and already award-winning solutions create a strong selling proposition, and we look forward to developments that can further differentiate SmartVend, drive new customer wins, and deliver strong financial growth.

Total addressable market and market share

- Smart Machines is currently focused on the UK and Europe, with a small presence in the US. The H1 23 footprint of c34k machines (with c52k connected devices) compares to c300k machines in the UK, a further 3m machines in mainland Europe, and c15m machines worldwide.
- As less than 30% of global machines currently have connectivity, there is ample scope for Vianet to win new contracts from existing and new customers, as they upgrade machines from cash to contactless technology, and recognise how data insights can enhance their performance. Future Market Insights highlights global market growth in intelligent vending machines from \$10.6bn in 2022 to \$37.3bn in 2032, and the global coffee machine market is expected to scale to \$11bn by 2027.
- Within the market, Smart Machines already works with major customers such as Compass, Jacobs Douwe Egberts, and Lavazza, who signed a new 3-year contract in January 2022 for Vianet's solutions in 3,000 units in Lavazza's UK managed estate, and preferred supplier access to a further 10,000 machines in Lavazza's direct estate.
- The Lavazza contract followed a rigorous tender process, and Smart Machines is able to differentiate from peers due to the:
 - ▶ **Investment in facilitating payments**, where it is PCI level 1 compliant, and can offer faster payment terms than peers such as Nayax, which is a Nasdaq listed, Israel based competitor.
 - ▶ **Investment in the integrated SmartVend**, with Vianet being able to offer customers an increasingly capable software suite that enables the management of stock levels, service schedules, payments, and finance/accounting from one platform. SmartVend is the only independent, fully owned, end-to-end solution that we are aware of in the group's markets, and following the launch of the latest SmartVend phase in November 2022, we expect Vianet's momentum with new and existing customers will continue to build through 2023.
- Beyond the UK and Europe, we expect Smart Machines will expand in the US and other global markets in the medium term. The modular SmartVend platform will support the division scaling into new markets, as it can be easily customised to accommodate new currencies, features, and languages.
- We also expect that management will continue to explore opportunities in adjacent markets such as car washes, charging points, ticket machines, laundromats, arcade games, and photobooths, and note that the SmartVend platform and existing hardware would readily facilitate expansion into these verticals. The November 2022 partnership with Suresite will also accelerate Vianet's expansion into these new markets.

Structural position

- The complementary Smart Zones and Smart Machines divisions benefit from:
 - ▶ **High switching costs** – The upfront costs to install Vianet's equipment leads to very low levels of churn of less than 2% in both divisions from a revenue perspective, excluding premises or machines that have closed down. As Vianet continues to expand the capabilities of SmartDraught and SmartVend, we expect the functionality of the software platform will further increase the costs of switching to an alternative and inferior solution, and enhance customer retention.

- ▶ **Early mover advantage and strong reputation** – Through providing beer flow monitoring to hospitality customers for over 15 years, and supporting vending customers migrate to digital solutions for over 10 years, the group has developed a deep understanding of customers, and focused investment to meet and exceed their needs. The two Vending Industry Awards that SmartVend won for 'Best Payment System' and 'Best Supplier Website' in 2022, highlight that the group's expanding solutions are already resonating with customers.
- ▶ **Proprietary technology** – Throughout the disruption caused by COVID-19, management has continued to invest in developing the group's software and hardware. The PCI level 1 compliance of the payments system and the expanding capabilities and insights of the software platform are not matched by the group's peers, and we expect that the investment in the platform will drive new customer wins in new and existing segments in the coming years.
- ▶ **Platform economies of scale** – Following the group's migration into the cloud in May 2022, and the ongoing expansion of SmartDraught and SmartVend, the group is only at the start of realising platform economies of scale. As momentum continues to build in the coming years, we expect the software platform will drive greater levels of high gross margin SaaS revenue, which will drive strong growth in EBITDA and cash.
- ▶ **Strategically valuable data** – Following the upgrades to SmartVend and SmartDraught, Vianet can aggregate the data flowing through its cloud-based platform, and provide insights to customers, industry bodies, governments, and other stakeholders. We expect the initial relationship with the Oxford Partnership will only be the start of an attractive new revenue stream, which will further enhance the group's reputation, and potentially increase the group's value as part of a larger platform.

Financials (p8)

- Vianet generates recurring revenue of 80-90%, and we expect the growth of SmartVend and SmartDraught will enable the group to at least achieve £17.8m of revenue in FY24.
- The increased cost of hardware due to the global shortage of semiconductors has reduced group gross margin to c65%, and as conditions normalise and the software platform scales, we expect gross margin will increase to over 70% in the medium term.
- On our conservative revenue forecasts, we expect adjusted EBITA will increase to £4.1m in FY24 from £2.4m in FY22, and the platform is primed to deliver economies of scale.
- We expect a return to EFCF generation in FY23, and as the net debt position reduces, we watch for the board resuming shareholder returns by potentially announcing a dividend at FY23 results.
- Our forecasts are in line with consensus, and we look forward to the group capitalising upon the platform's potential to deliver upside to our forecasts.

Catalysts

- We look forward to Vianet demonstrating strong operating and financial momentum at its FY23 trading update and results, material new customer wins and/or partnership agreements, and attractively valued M&A opportunities.

Valuation (p15)

- Vianet is trading at a major discount to our tech indices across numerous metrics, and since January 2019 its share price is -40% compared to our indices at +20-70%.
- Vianet's finCap Tech 40 and Next 50 peers are trading on 12-month forward multiples of 2-3x EV/Sales with +13-17% NTM Sales growth, 14-18x EV/EBITDA with +12-17% NTM EBITDA growth, and 3% EFCF yields.

- We value Vianet at 210p based on 14x FY24 EV/EBITDA, and it currently trades on 12-month forward multiples of 1x EV/Sales with NTM Sales growth of 14%, EV/EBITDA of 5x with NTM EBITDA growth of +29%, and an EFCF yield of 6%.

Management, board, and major shareholders (p19)

- Vianet's major shareholders include the CEO & Chairman owning over 17%, and a range of institutional investors.
- Vianet benefits from a strong leadership team and board, with extensive experience of technology, hospitality, vending, and public markets.
- Our Vianet Need to Know table on p20.

Financials

Vianet generates recurring revenue of 80-90%, and we expect the growth of SmartVend and SmartDraught will enable the group to at least achieve £17.8m of revenue in FY24

Both of Vianet's divisions generate recurring revenue from contracts with a typical duration of 3-5 years, and equipment revenue to cover the costs of Vianet installing equipment within a premises or on a machine. Revenue is split with:

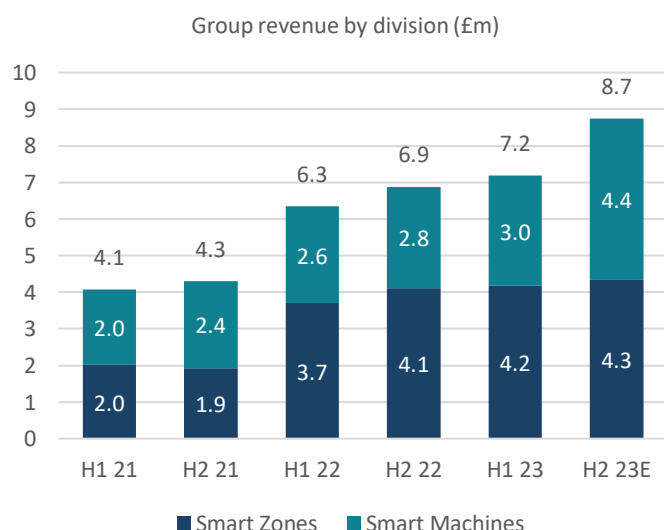
- **88% from recurring revenue in FY22** – Vianet's recurring revenue includes contracts for service packs, licenses, contracted data provision, compliance contracts, and rentals. The strong growth in connected device installations by Smart Machines has driven recurring revenue for the division to 77% of FY22 revenue, while recurring revenue for Smart Zones was 96% in FY22.

As Smart Machines and Smart Zones win new customers in the coming years, we expect recurring revenue will move towards 80% by FY24, as Vianet will initially install capital-based equipment for new customers. The greater installed base will then fuel growth in contracted recurring revenue in the medium term, especially as the SmartDraught and SmartVend platforms add more value for customers, and enable the group to scale SaaS revenue.

We note that the decline in recurring and group revenue in FY21 was due to Vianet voluntarily agreeing to support Smart Zones customers with contract variations through the mandatory lockdown periods of the pandemic, by reducing service fees by up to 70%. The 3-5 year contracts with customers remained in place, and Smart Zones has now returned to billing customers 100%.

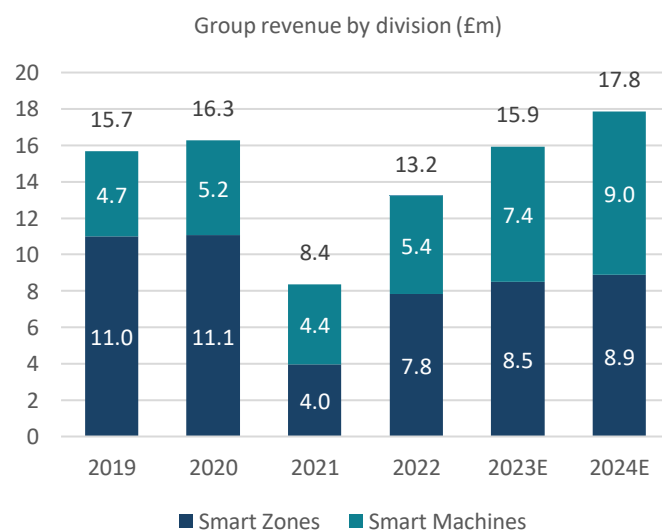
- **Over 90% generated in GBP** – Most customers pay for their solutions in GBP, with some small customers in the US and Europe paying in USD and EUR. As the group scales in the US in the coming years, we expect an increase in the number of customers paying in USD, and note that Vianet will be able to naturally hedge the USD revenue through the increase in USD opex to drive US growth.
- **Only two customers accounting for over 10% of group revenue** – In FY22, two Smart Zones customers individually accounted for over 10% of group revenue, and combined they generated £3.04m or 23% of FY22 revenue. Both customers only moved above 10% of group revenue in FY22, and only one Smart Machines customer accounted for over 10% of group revenue in FY21. As both Smart Zones and Smart Machines scale in the coming years, we expect the group will move to no customers accounting for over 10% of group revenue, unless there is a contract win to install a large number of devices upfront.

Figure 1: We expect Smart Machines will drive H2 23 revenue to £8.7m from £4.3m in H2 21



Source: finnCap

Figure 2: After voluntarily reducing service fees in response to COVID-19, we expect FY24 revenue will surpass FY20



Source: finnCap

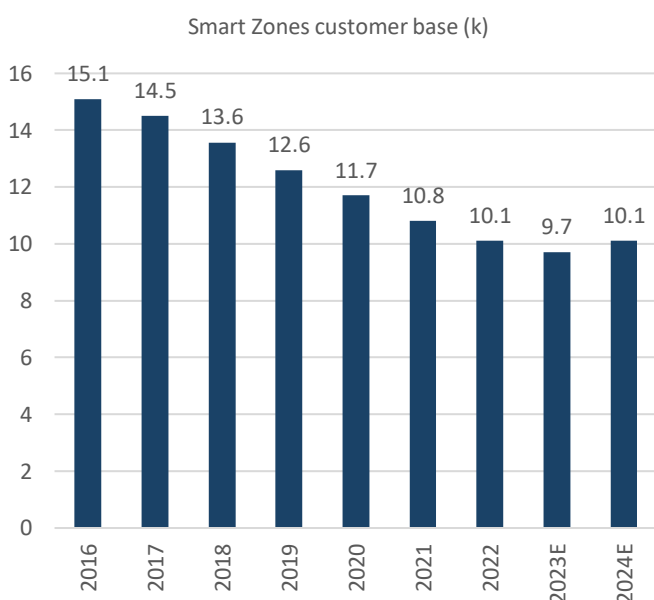
Primed to capitalise on untapped potential

To drive our group revenue forecasts, we model the KPIs for each division, and split the revenue between recurring and installation.

Within Smart Zones, we expect that the scaling of SmartDraught in 2023 will drive a return to growth in the number of premises in FY24, as the SmartDraught proposition will enable Vianet to expand into UK independent and managed venues. We expect the division's core leased market is likely to continue to see some venues close in FY23 and FY24, which has been responsible for the decline in the customer base since 2016.

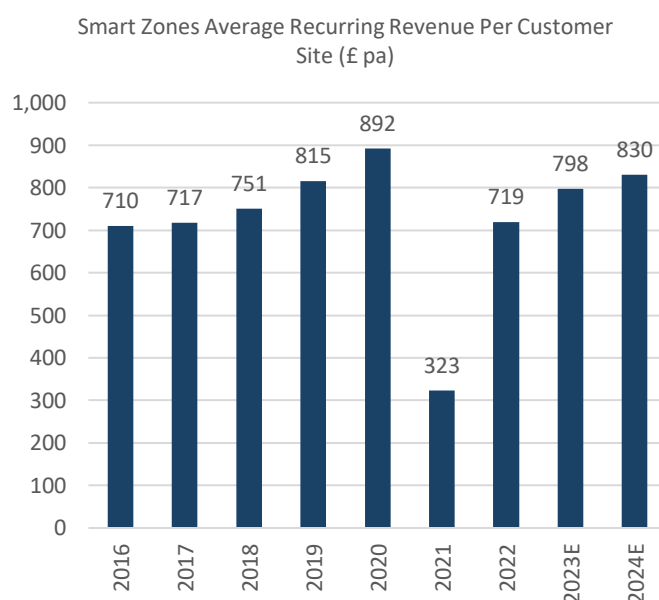
In our forecasts for Average Recurring Revenue Per Customer Site (ARRPC), we conservatively do not include an increase beyond the ARRPC generated by the group in FY20. As the capabilities of SmartDraught create more value for customers, we expect management is likely to have the opportunity to increase software pricing, which will generate a higher level of high gross margin SaaS revenue, strong operational gearing, and upside to our forecasts.

Figure 3: While the Smart Zones customer base has declined due to venues closing, we expect expansion into the managed and independent segments will deliver a return to growth in FY24



Source: finnCap

Figure 4: We conservatively assume that ARRPC does not return to FY20 levels, and expect that the expanding capabilities of SmartDraught will create opportunities to increase ARRPC

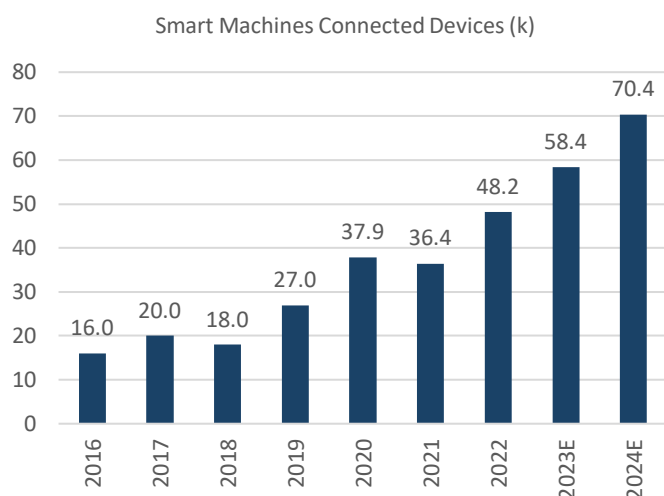


Source: finnCap; Note we derive Average Recurring Revenue Per Customer Site by estimating the average customer base over the period

Within Smart Machines, we expect the award-winning solutions will continue to win new customers and expand with existing customers, which will drive the number of connected devices from c48k in FY22 to over 70k in FY24.

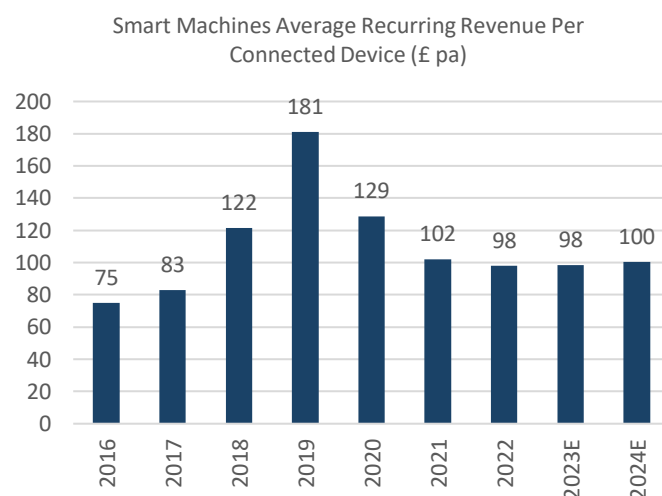
Similarly to Smart Zones, we conservatively assume that the increasing capabilities of SmartVend will not drive an increase in the Average Recurring Revenue Per Connected Device (ARRPCD) in our forecasts. As customers recognise the value of the new modules being deployed, we expect that ARRPCD has the potential to increase to the levels seen in FY18-20, which would deliver operationally geared upside to our current forecasts.

Figure 5: We expect Smart Machines' footprint will continue to scale, with new contract wins from both new and existing customers



Source: finnCap

Figure 6: We conservatively assume that ARRPCD remains at c£100, and note that SmartVend could increase ARRPCD beyond the levels seen in FY18-FY20



Source: finnCap; Note we derive Average Recurring Revenue per Connected Device by estimating the average device number over the period

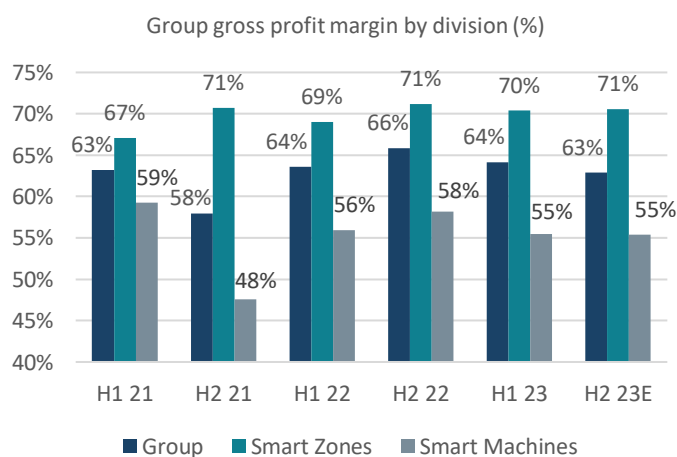
The increased cost of hardware due to the global shortage of semiconductors has reduced group gross margin to c65%, and as conditions normalise and the software platform scales, we expect gross margin will increase to over 70% in the medium term

The main costs included in the group's gross profit are the costs of hardware, engineer installation and customer support costs, and the payments system costs within Smart Machines.

Since 2020 the group's gross margin has been impacted by the global semiconductor shortage, particularly in Smart Machines, where gross margin has fallen from over 70% in FY19 to c50-60% from FY21.

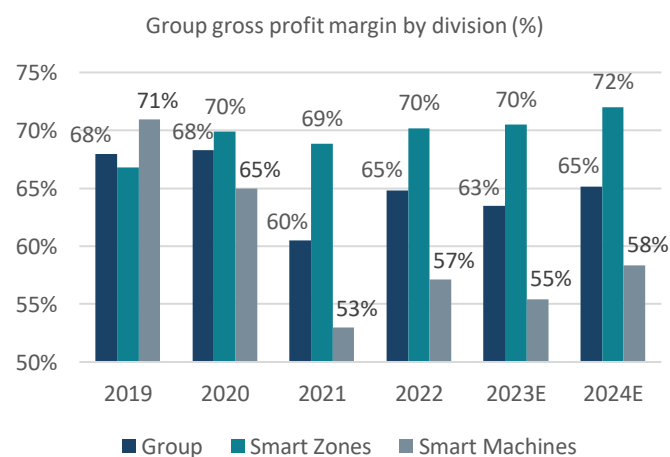
Through this period, management has strategically focused on offering attractive equipment pricing to core customers to scale the recurring revenue footprint, and deliver the platform's medium-term potential. We expect management will continue to opportunistically source chips, and strategically choose to either continue pricing to expand the recurring revenue footprint, or pass through costs to customers.

Figure 7: The group's gross profit margin has been impacted by increased equipment costs due to the global shortages of semiconductors, particularly in Smart Machines



Source: finnCap

Figure 8: We continue to expect a group gross margin of c65% in our forecasts to FY24, and note that higher gross margin software revenue could drive upside to our forecasts



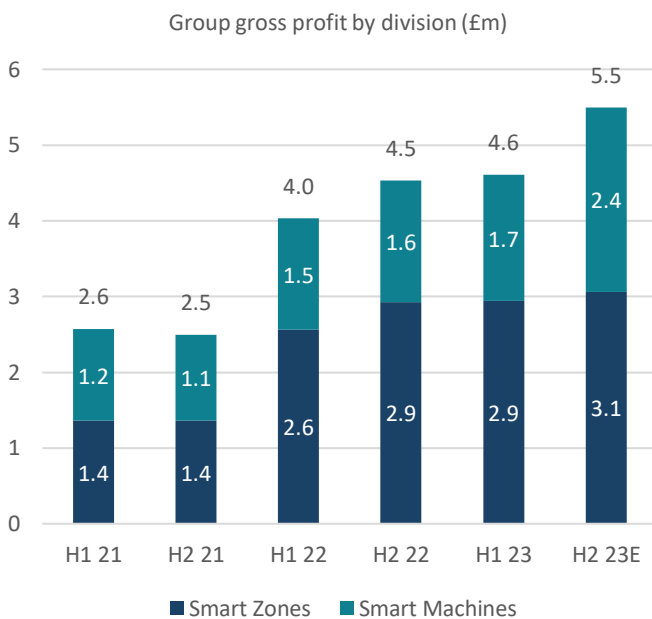
Source: finnCap

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As component prices normalise in the coming years, and the group can expand the contribution of recurring revenue from its software, we expect that gross margin will increase to over 70% in the medium term.

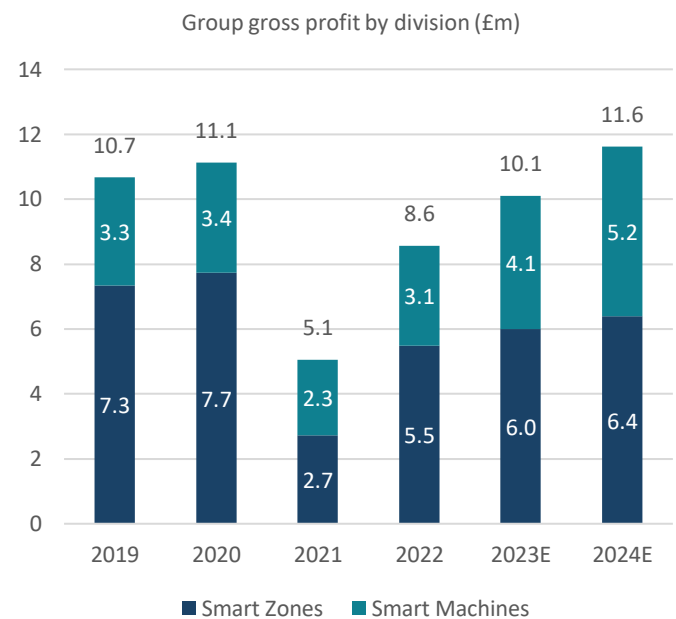
In our conservative forecasts, a gross profit margin of 65% leads to FY24 gross profit exceeding the pre-pandemic level of £11.1m in FY20.

Figure 9: We expect Smart Machines orders in H2 23 will drive gross profit to £5.5m



Source: finnCap

Figure 10: We expect FY24 gross profit will exceed FY20, with Smart Machines approaching 50% of group gross profit



Source: finnCap

On our conservative revenue forecasts, we expect adjusted EBITA will increase to £4.1m in FY24 from £2.4m in FY22, and the platform is primed to deliver economies of scale

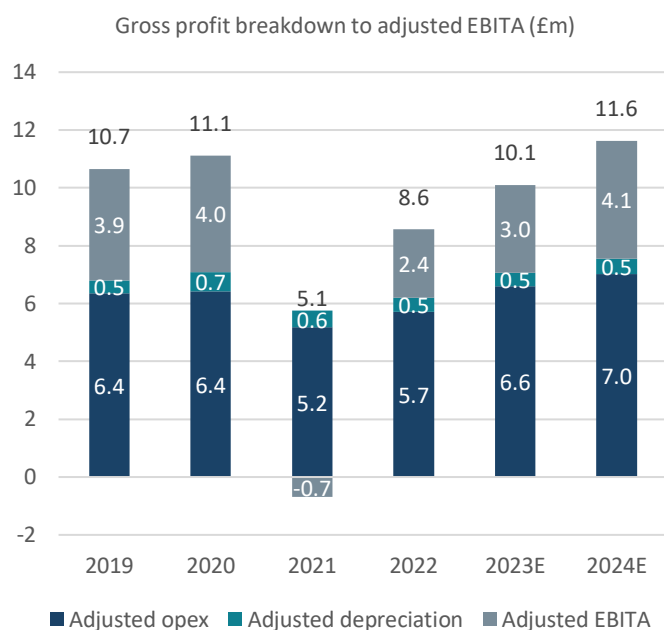
Through the disruption caused by COVID-19, management took the opportunity to regroup, reorganise, and re-energise the business, so that it is primed to deliver strong growth in revenue and EBITA through the 2020s.

Following capex investments in technology over the past 3 years, we expect that opex will scale as the divisions expand their sales, marketing, and commercial teams to capitalise on the upgraded platform's potential.

We note that our revenue forecasts conservatively do not include a substantial acceleration in the group's performance, and that greater traction from high margin software revenue would gear strongly to our adjusted EBITA forecasts. We have also included the opex required to expand further into the US, but conservatively not included any incremental revenue from the US expansion.

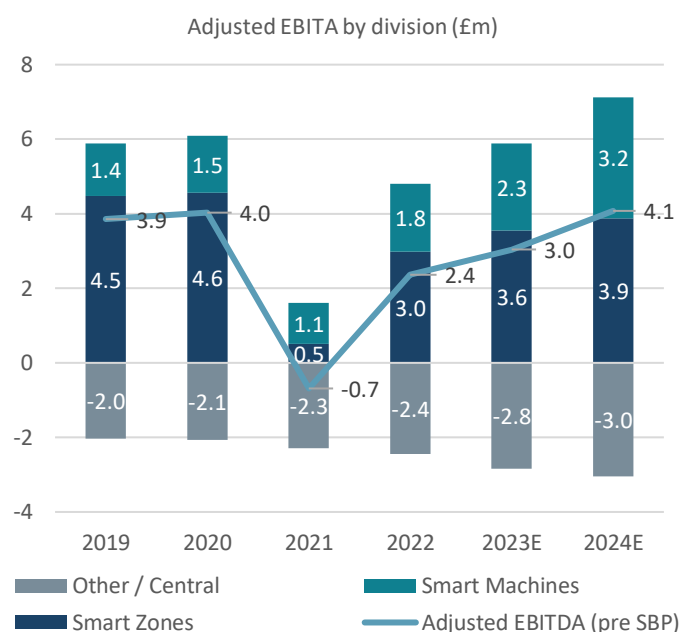
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Figure 11: After reducing opex in response to COVID-19, we expect opex will increase to capitalise on the opportunities in the coming years



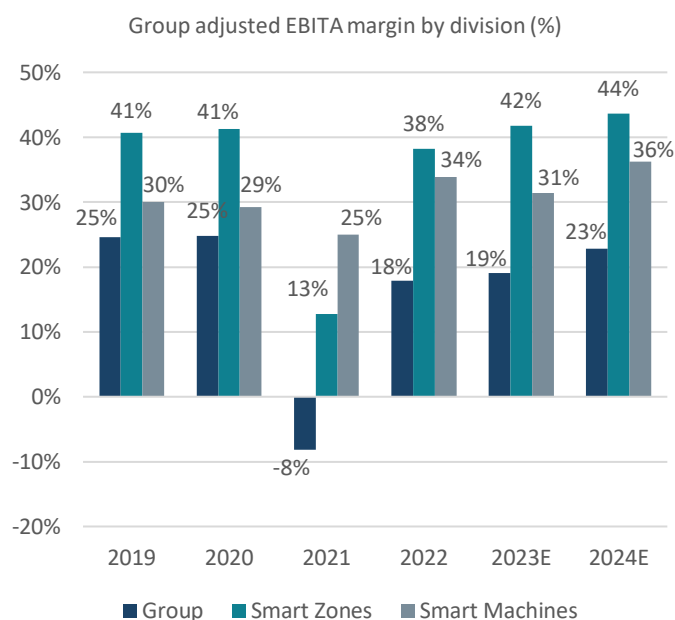
Source: finnCap

Figure 12: While including the opex required for expansion, the limited revenue upside in our forecasts leads our FY24 adjusted EBITA to be approximately equal to FY20



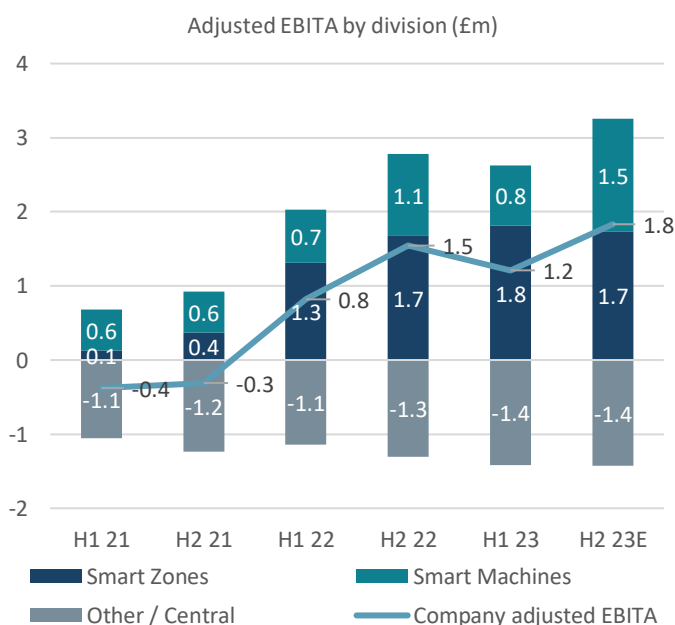
Source: finnCap

Figure 13: As revenue scales, we expect the FY24 EBITA margin will start to reflect the platform's economies of scale



Source: finnCap

Figure 14: We expect H2 23 to show similar seasonality to H2 22, with a material increase in the performance of Smart Machines



Source: finnCap

We expect a return to EFCF generation in FY23, and as the net debt position reduces, we watch for the board resuming shareholder returns by potentially announcing a dividend at FY23 results

Since 2020, management has strategically invested c£2.5-3.0m in capex, including £1.9-£2.3m of development costs to migrate to the cloud and upgrade the software platform. Following this period of investment, we expect capex will moderate to c£2.5m, as the group increases opex to win new customers and drive revenue growth.

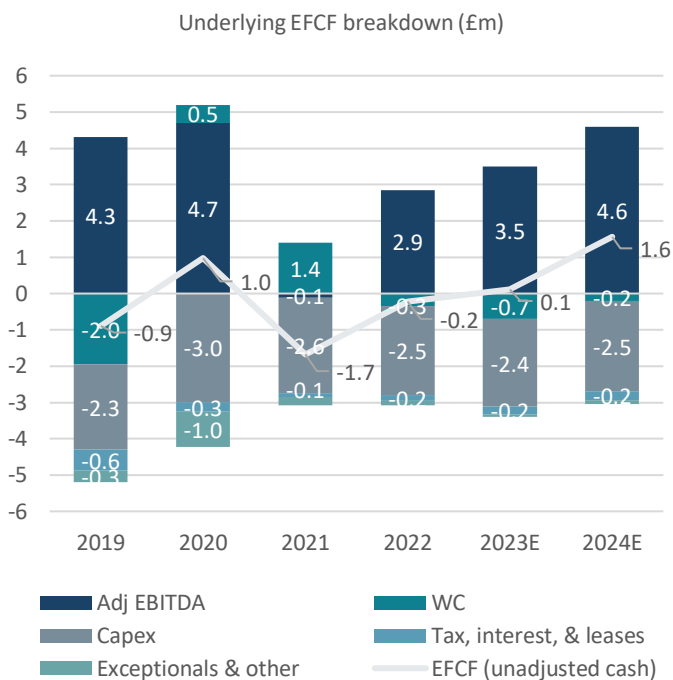
Primed to capitalise on untapped potential

In response to the impacts of the pandemic in FY21, management took strong measures to manage the group's working capital and protect the group's cash, and in our forecasts we assume <£1m of working capital outflows as the group invests in inventory and scales its revenue.

£8.5m of tax losses mean that we do not expect the group to pay cash tax to FY24 on our conservative forecasts, and we include c£0.2m of interest payments from the group's current net debt position.

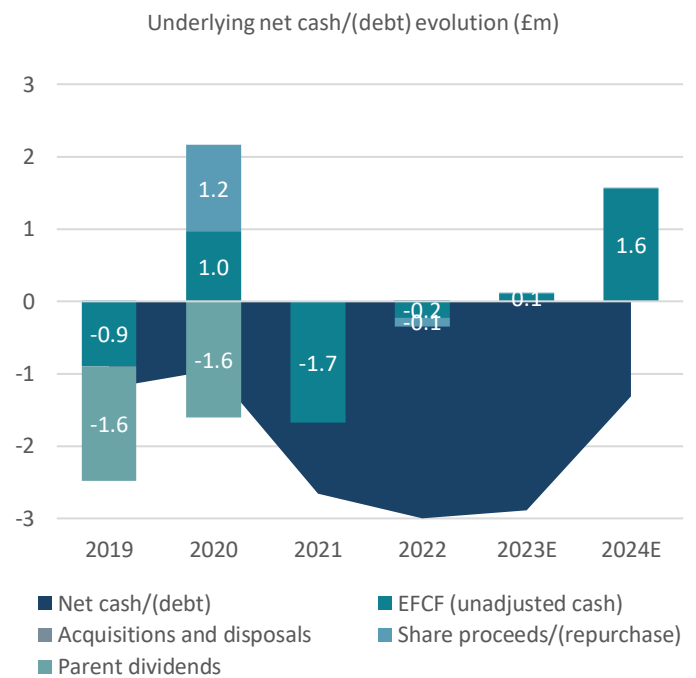
After two challenging years through COVID-19, we expect a return to EFCF generation in FY23, which will initially be used to reduce net debt. While continuing to monitor potential M&A opportunities, we expect the Board will evaluate resuming shareholder returns through a dividend at the FY23 results in June.

Figure 15: We expect a return to EFCF generation in FY23, with capex moderating to c£2.5m pa, and EBITDA scaling to £3.5m



Source: finnCap

Figure 16: As the net debt position improves, we expect the board will evaluate a resumption of the dividend at FY23 results



Source: finnCap

Our forecasts are in line with consensus, and we look forward to the group capitalising upon the platform's potential to deliver upside to our forecasts

Figure 17: finnCap forecasts relative to consensus estimates for Vianet

		fC v C			fC			Cons		
		2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Group revenue	£m	0.0%	0.1%	0.2%	13.2	15.9	17.8	13.2	15.9	17.8
Reported growth	%				57.9%	20.5%	12.1%	57.9%	20.3%	11.9%
Gross profit	£m	34.5%	0.0%	0.2%	8.6	10.1	11.6	6.4	10.1	11.6
Gross margin	%				64.8%	63.5%	65.1%	48.2%	63.5%	65.2%
Adj EBITDA (pre SBP)	£m	0.0%	0.1%	0.0%	2.9	3.5	4.6	2.9	3.5	4.6
Adj EBITDA margin	%				21.6%	22.0%	25.8%	21.6%	22.0%	25.8%
Adj EBITA	£m	0.0%	-0.3%	0.9%	2.4	3.0	4.1	2.4	3.1	4.0
Adjusted EPS (diluted)	p	90.4%	0.6%	0.0%	1.3	1.7	5.1	0.7	1.7	5.1
Net debt/(cash)	£m	-0.9%	15.4%	87.7%	3.0	2.9	1.3	3.0	2.5	0.7

Source: finnCap

Valuation

Vianet is trading at a major discount to our tech indices across numerous metrics, and since January 2019 its share price is -40% compared to our indices at +20-70%

Figure 18: Since the inception of the finnCap Tech indices in 2014, Vianet was outperforming until the COVID-19 lockdowns in March 2020, and is now c3x lower than the indices

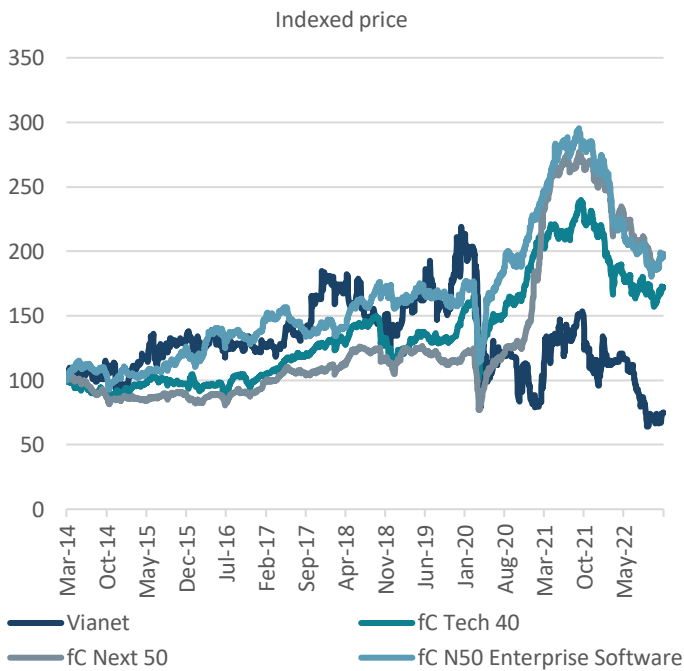


Figure 19: Despite the evolution of its software platform into SmartVend and SmartDraught, and the end of COVID lockdowns, the share price has underperformed the indices through 2022

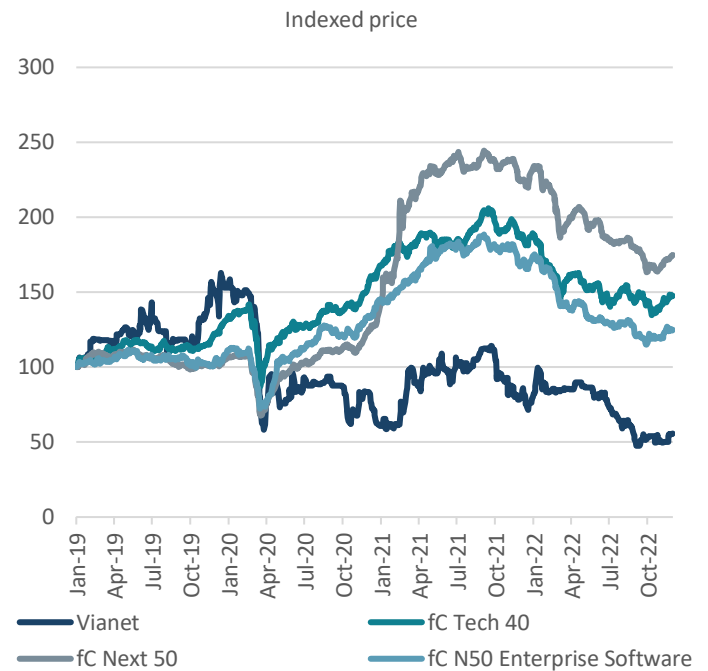


Figure 20: Following the removal of forecasts in 2020-21, the group has not yet regained a valuation in line with the fc N50 Enterprise Software sub-index, at 2-2.5x NTM EV/Sales

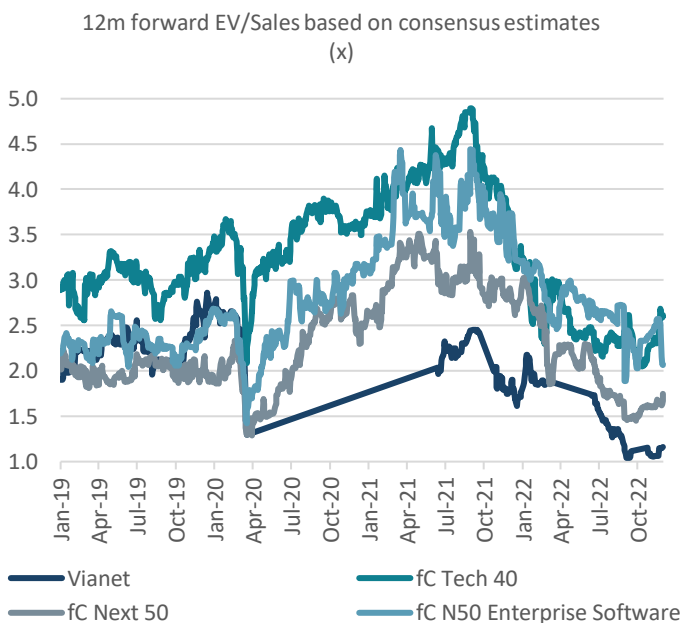
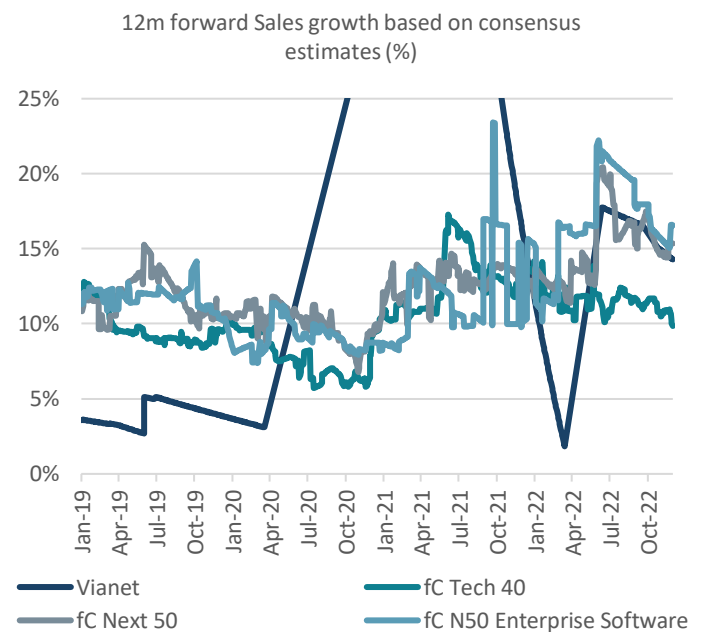


Figure 21: However, NTM Sales growth is expected to be in line with the N50 Enterprise Software sub-index, and ahead of the +10% growth of the fc Tech 40



Primed to capitalise on untapped potential

Figure 22: As markets have de-rated and focused on profitability and cash generation, Vianet is trading at a c50% discount to the wider market, based on the limited forecast data available

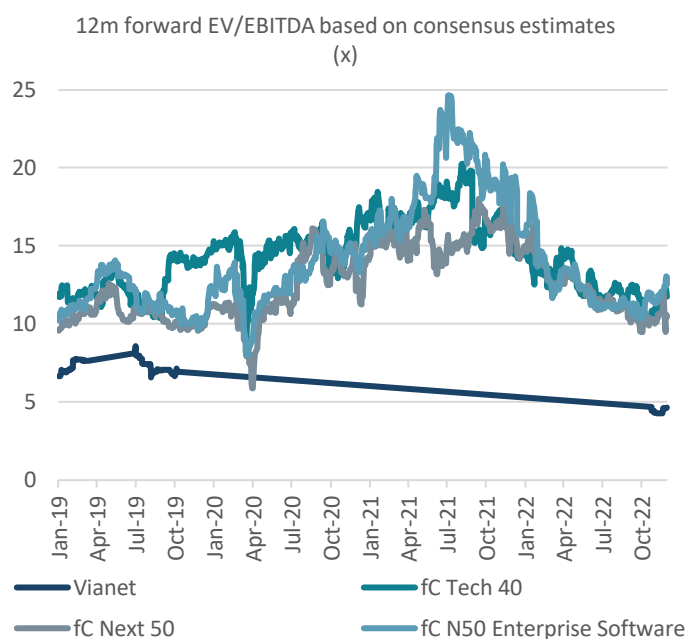


Figure 23: Issues with market data systems collecting forecasts are hiding that the group is expected to deliver NTM EBITDA growth of +29%, which is substantially ahead of the indices

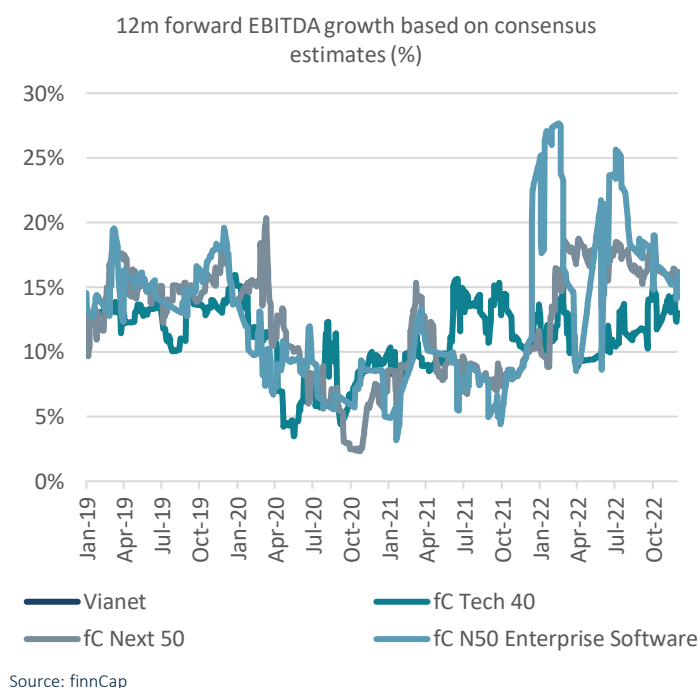


Figure 24: Investor focus on cash generation makes Vianet's 6% EFCF yield look undervalued relative to the indices on c0-4%

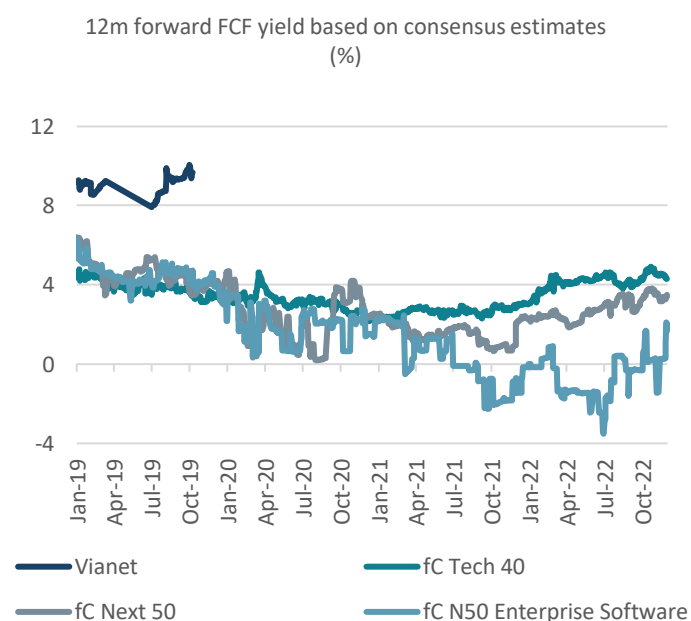
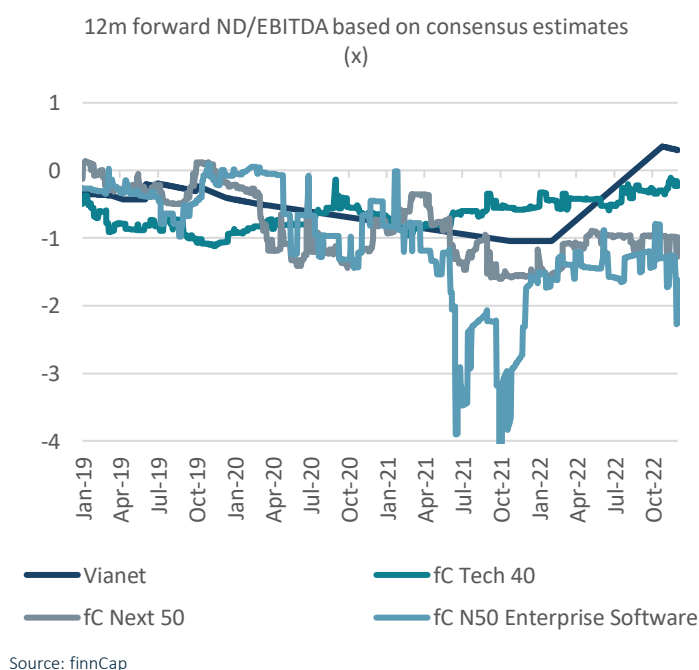


Figure 25: We expect Vianet's net debt position will return towards net cash by March 2024, in line with the indices



Vianet's finnCap Tech 40 and Next 50 peers are trading on 12-month forward multiples of 2-3x EV/Sales with +13-17% NTM Sales growth, 14-18x EV/EBITDA with +12-17% NTM EBITDA growth, and 3% EFCF yields

Figure 26: Valuation of Vianet's finnCap Tech 40 and Next 50 peers (table shows 12-month forward multiples and growth rates of 12-month forward estimates vs the last 12 months; index and peer figures are median)

	Sec Ccy	Mkt Cap (£m)	EV/Sales	Sales Growth	EV/EBITDA	EBITDA Growth	P/E	EPS Growth	FCF Yield
Aferian	£	78	1.0	1.4%	5.4	4.8%	15.4	7.5%	8.7%
Big Technologies	£	772	13.2	16.5%	22.4	17.0%	32.9	16.9%	3.0%
Corero	£	53	2.2	25.6%	20.9	123.5%	33.6	nm	0.3%
Microlise	£	194	2.3	14.0%	17.7	12.2%	42.9	10.0%	2.0%
Oxford Metrics	£	117	2.6	23.1%	11.9	33.9%	27.4	69.2%	3.6%
Quartix	£	148	4.7	11.0%	22.5	11.2%	27.8	13.8%	3.1%
Quixant	£	111	1.0	10.8%	8.7	19.5%	14.7	22.6%	5.0%
Seeing Machines	£	261	4.7	31.6%	nm	nm	nm	nm	-6.3%
Thruvision	£	33	2.1	20.1%	nm	nm	nm	nm	-1.8%
fC T40 & N50 integrated software & hardware peers		117	2.3	16.5%	17.7	17.0%	27.8	15.3%	3.0%
Bango	£	148	3.5	58.8%	14.5	179.9%	39.9	nm	-0.1%
Boku	£	395	5.9	9.9%	19.0	15.5%	36.7	16.5%	3.1%
Eckoh	£	111	2.8	13.1%	12.1	17.0%	19.4	9.2%	4.8%
Fonix	£	196	3.0	9.1%	15.3	9.7%	21.4	8.4%	4.3%
PCI-PAL	£	34	1.8	29.2%	nm	nm	nm	nm	-5.3%
fC T40 & N50 payments peers		148	3.0	13.1%	14.9	16.3%	29.1	9.2%	3.1%
1Spatial	£	54	1.8	17.7%	9.3	15.0%	18.7	43.7%	4.3%
ActiveOps	£	57	1.8	7.7%	nm	nm	nm	nm	0.1%
Cerillion	£	347	8.5	16.1%	21.0	12.3%	30.4	8.5%	2.9%
D4t4	£	96	2.4	12.9%	13.4	26.0%	23.3	30.8%	7.4%
Eagle Eye	£	161	4.5	12.5%	22.8	11.1%	54.0	106.8%	2.5%
Eleco	£	60	1.7	9.2%	9.8	-1.9%	24.5	-3.5%	3.2%
ENGAGE XR	£	38	4.2	98.7%	nm	nm	nm	nm	-3.9%
essensys	£	32	0.4	30.3%	nm	nm	nm	nm	
IQGeo	£	123	3.8	39.2%	18.4	308.1%	43.3	nm	3.1%
Tracsis	£	285	3.5	9.7%	16.5	12.3%	25.1	12.7%	4.8%
fC T40 & N50 enterprise & specialist software peers		78	2.9	14.5%	16.5	12.3%	25.1	21.8%	3.1%
fC Tech 40		362	2.6	9.8%	11.8	13.0%	21.4	8.7%	4.3%
fC Next 50		57	1.7	15.3%	10.4	15.1%	22.5	11.9%	3.6%
Nasdaq Composite			3.2	6.7%	14.1	6.7%	24.5	13.9%	4.1%

Source: finnCap

We value Vianet at 210p based on 14x FY24 EV/EBITDA, and it currently trades on 12-month forward multiples of 1x EV/Sales with NTM Sales growth of 14%, EV/EBITDA of 5x with NTM EBITDA growth of +29%, and an EFCF yield of 6%

Figure 27: Vianet multiples at the current and target price, and Next Twelve Month (NTM) growth of the relevant financials

			NTM			At current:			At target:		
			Growth			12m fwd			12m fwd		
						2023			2023		
						2024			2024		
Diluted Shares outstanding	m					29.2		29.3	29.2		29.3
Market cap (diluted)	£m					18.4		18.5	61.4		61.5
Underlying net debt/(cash) inc leases	£m					2.9		1.3	2.9		1.3
Other EV adjustments	£m					0.0		0.0	0.0		0.0
Rolling Group EV	£m					21.3		19.8	64.3		62.9
Adj net cash/(debt) /share	p					-9.9		-4.5	-9.9		-4.5
EV/Sales	x	14.4%				1.2	1.3	1.1	3.7	4.0	3.5
EV/EBITDA	x	29.0%				4.8	6.1	4.3	14.9	18.3	13.7
EV/EBIT	x	179.9%				14.6	32.8	11.4	45.6	99.0	36.3
EV/OpFCF (unadj cash)	x	405.4%				14.3	55.4	10.4	44.6	167.2	33.1
FCFF yield	%	103.4%				6.4%	3.9%	7.6%	2.0%	1.3%	2.4%
P/E (adjusted, diluted)	x	153.0%				15.7	36.8	12.3	52.2	122.8	41.2
P/E (reported, diluted)	x	246.5%				19.1	57.3	14.5	63.5	190.9	48.5
EFCF yield (underlying)	%	203.1%				7.4%	3.9%	9.0%	2.2%	1.2%	2.7%
EFCF yield (unadj cash)	%	20026.1%				6.0%	0.6%	8.5%	1.8%	0.2%	2.5%
Dividend yield	%					0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adj ND/EBITDA exc leases	x	29.0%				0.4	0.8	0.3	0.4	0.8	0.3

Source: finnCap

Management, board, and major shareholders

Vianet's major shareholders include the CEO & Chairman owning over 17%, and a range of institutional investors

Figure 28: Major Vianet shareholders

Shareholder	%
James Dickson (CEO & Chairman)	17.8%
Gresham House	17.7%
Liontrust Asset Management	8.7%
AXA Investment Managers UK	6.0%
Interactive Investor Trading	5.2%
Hargreaves Lansdown Asset Management	3.8%
City Asset Management	3.5%
Teviot Partners	3.3%
Canaccord Genuity Group	3.2%

Source: finnCap

Vianet benefits from a strong leadership team and board, with extensive experience of technology, hospitality, vending, and public markets

CEO and Chairman – James Dickson

Prior to joining Brulines in 2003, James had worked in the brewing industry since 1990. Following an MBA at IMD, Lausanne in 1989 he joined Scottish & Newcastle, where he held several posts including Operations Director, and National Account Director for Pub Groups and Wholesalers. In 1997 James joined Whitbread as UK Dispense Director before being appointed Marketing & Sales Director for Heineken.

CFO – Mark Foster

A KPMG-trained qualified accountant of c30 years, having worked in the electricity industry (National Power plc), Leased and Tenanted Pub industry (Pubmaster Ltd), wholesale distribution of industrial threaded fasteners and hand tools (Harrison and Clough Ltd) through to his current CFO role of the last 18 years, which includes the Group's company secretarial, health and safety, people and development and central support services departments. Mark is actively involved in the community, a keen sportsman and crooked Boro supporter.

NED – Stella Panu

Stella was a founding Partner of Maven Capital Partners UK LLP, an investment management company, created after a management buyout of the private equity business of Aberdeen Asset Management plc in 2009, and led the business through to its sale in July 2021. Maven has a focus on venture growth and innovation and during her time at Maven, Stella led the AIM Investment team and was the lead investor in private equity across Maven. Having previously been at AAM and Seymour Pierce Ltd and had seats on numerous company boards, Stella brings with her a wealth of private equity M&A and AIM experience. Stella has also previously worked for Price Waterhouse Coopers, The World Bank, and Raiffeisen Investment Fund and holds a degree in Economics and an MA in Applied Economics and Statistics.

NED – Dave Coplin

Dave Coplin is an established technology industry veteran and has worked across a wide range of industries and organisations providing strategic advice and guidance around the intersection of a modern society and technology. Dave provides Vianet with strategic insight and guidance across the IOT and big data spectrum as we look to further develop the delivery of ground-breaking insight and actionable data, which enables customers to transform business performance.

Our Vianet Need to Know table

Figure 29: Vianet Need to Know

Offices	Stockton-on-Tees
Revenue model	>80% recurring revenue from contracts with a typical duration of 3-5 years, and equipment revenue to cover the costs of installations within a premises or on a machine
Revenue split	In FY22: c60% / £7.8m from Smart Zones, c40% / £5.4m from Smart Machines
Number of customers	c10k customer sites in Smart Zones, and c34k machines in Smart Machines
Staff	143 (FY22 average)
IPO	26/10/2006 (AIM) as Brulines, and changed its name to Vianet in April 2012
Latest M&A activity	Acquired Vendman in October 2017 for up to £4.25m in cash (£2m initial, £2.25m earn-out)
Year end	March
Website	https://vianetplc.com/investors/investing-in-vianet/

Source: finnCap

Income statement		2020A	2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar	Mar
Sales	£m	16.3	8.4	13.2	15.9	17.8
Cost of sales	£m	-5.2	-3.3	-4.7	-5.8	-6.2
Gross profit	£m	11.1	5.1	8.6	10.1	11.6
Operating expenses	£m	-6.4	-5.2	-5.7	-6.6	-7.0
EBITDA (adjusted)	£m	4.7	-0.1	2.9	3.5	4.6
Depreciation	£m	-0.7	-0.6	-0.5	-0.5	-0.5
Amortisation	£m	-1.4	-1.7	-2.2	-2.4	-2.3
EBIT (adjusted)	£m	2.6	-2.4	0.2	0.6	1.7
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	-0.1	-0.1	-0.1	-0.2	-0.2
PBT (adjusted)	£m	2.5	-2.4	0.0	0.5	1.5
<i>restructuring costs</i>	£m	-0.6	-0.1	-0.1	-0.1	-0.1
<i>share based payments</i>	£m	-0.1	-0.1	-0.1	-0.1	-0.1
<i>other adjustments</i>	£m	0.6	-0.2	-0.0	-0.0	0.0
Total adjustments	£m	-0.1	-0.4	-0.2	-0.2	-0.2
PBT (stated)	£m	2.4	-2.8	-0.2	0.3	1.3
Tax charge	£m	0.0	0.9	0.4	0.0	0.0
<i>tax rate</i>	%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>0.0</i>
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	2.4	-2.0	0.2	0.3	1.3
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	£m	2.6	-1.5	0.4	0.5	1.5
<i>shares in issue (year end)</i>	<i>m</i>	<i>29.0</i>	<i>29.0</i>	<i>28.8</i>	<i>28.8</i>	<i>28.9</i>
<i>shares in issue (weighted average)</i>	<i>m</i>	<i>28.4</i>	<i>29.0</i>	<i>28.9</i>	<i>28.8</i>	<i>28.9</i>
<i>shares in issue (fully diluted)</i>	<i>m</i>	<i>28.7</i>	<i>29.0</i>	<i>29.3</i>	<i>28.9</i>	<i>29.3</i>
EPS (adjusted, fully diluted)	p	8.9	-5.3	1.3	1.7	5.1
EPS (stated)	p	8.5	-6.8	0.6	1.1	4.3
DPS	p	1.7	0.0	0.0	0.0	0.0

Growth analysis (adjusted basis where applicable)						
Sales growth	%	3.8%	-48.6%	57.9%	20.5%	12.1%
EBITDA growth	%	9.3%	-102.6%	n/m	22.8%	31.3%
EBIT growth	%	-0.9%	-189.2%	107.1%	286.2%	167.0%
PBT growth	%	-1.6%	-195.2%	101.2%	n/m	221.4%
EPS growth	%	5.0%	-159.7%	125.1%	28.3%	198.3%
DPS growth	%	-70.2%	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	68.3%	60.5%	64.8%	63.5%	65.1%
EBITDA margin	%	28.9%	-1.5%	21.6%	22.0%	25.8%
EBIT margin	%	16.2%	-28.2%	1.3%	4.1%	9.7%
PBT margin	%	15.5%	-28.7%	0.2%	2.9%	8.4%
Net margin	%	15.7%	-18.4%	3.0%	3.1%	8.4%

Cash flow		2020A	2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar	Mar
EBITDA	£m	4.7	-0.1	2.9	3.5	4.6
Net change in working capital	£m	0.5	1.4	-0.3	-0.7	-0.2
Share based payments	£m	0.0	0.0	0.0	0.0	0.0
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	-1.0	-0.2	-0.1	-0.1	-0.1
Cash flow from operating activities	£m	4.2	1.1	2.4	2.7	4.3
Cash interest	£m	-0.1	-0.1	-0.1	-0.2	-0.2
Tax paid	£m	-0.0	0.0	0.0	0.0	0.0
Capex	£m	-3.0	-2.6	-2.5	-2.4	-2.5
Other items	£m	-0.1	-0.1	-0.0	-0.0	0.0
Free cash flow	£m	1.0	-1.7	-0.2	0.1	1.6
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	0.0	0.0	0.0	0.0	0.0
Dividends on ord shares	£m	-1.6	0.0	0.0	0.0	0.0
Other cashflow items	£m	-0.3	-0.0	-0.0	0.0	0.0
Issue of share capital	£m	1.2	0.0	-0.1	0.0	0.0
Net change in cash flow	£m	0.2	-1.7	-0.3	0.1	1.6
Opening net cash (debt)	£m	-1.2	-1.0	-2.7	-3.0	-2.9
Closing net cash (debt)	£m	-1.0	-2.7	-3.0	-2.9	-1.3

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	90.0%	n/m	84.0%	78.1%	93.5%
Cash conversion (free cash flow / EBITDA)	%	20.7%	n/m	-7.7%	3.2%	34.0%
Underlying free cash flow (capex = depreciation)	£m	1.9	-1.3	-0.5	-0.3	1.2
Cash quality (underlying FCF / adjusted earnings)	%	74.3%	84.1%	-115.9%	-65.6%	80.0%
Investment rate (capex / depn)	x	4.4	4.6	5.0	5.2	4.8
Interest cash cover	x	37.5	21.0	17.4	14.9	17.9
Dividend cash cover	x	0.6	n/a	n/a	n/m	n/m

Balance sheet		2020A	2021A	2022A	2023E	2024E
Year end:		Mar	Mar	Mar	Mar	Mar
Tangible fixed assets	£m	3.8	3.4	3.3	3.4	3.6
Goodwill	£m	17.9	17.9	17.9	17.9	17.9
Other intangibles	£m	5.5	6.2	6.0	5.4	4.8
Other non current assets	£m	0.5	0.2	0.4	0.4	0.4
<i>inventories</i>	£m	1.5	1.4	1.6	1.7	1.9
<i>trade receivables</i>	£m	3.5	2.8	2.7	2.2	2.4
<i>trade payables</i>	£m	-2.7	-3.3	-3.0	-1.9	-2.1
Net working capital	£m	2.3	0.9	1.3	2.0	2.2
Other assets	£m	0.0	0.0	0.0	0.0	0.1
Other liabilities	£m	-1.3	-0.1	0.0	-0.0	-0.1
Gross cash & cash equivalents	£m	1.7	1.9	1.6	1.1	2.7
Capital employed	£m	30.5	30.4	30.3	30.2	31.6
Gross debt	£m	2.8	4.6	4.6	4.0	4.0
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	27.7	25.8	25.7	26.2	27.6
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	30.5	30.4	30.3	30.2	31.6

Leverage analysis						
Net debt / equity	%	3.8%	10.5%	11.8%	11.0%	4.8%
Net debt / EBITDA	x	0.2	n/a	1.1	0.8	0.3
Liabilities / capital employed	%	9.1%	15.2%	15.2%	13.3%	12.7%

Working capital analysis						
Net working capital / sales	%	14.3%	11.1%	9.7%	12.4%	12.2%
Net working capital / sales	days	52	41	35	45	45
Inventory (days)	days	33	62	43	38	38
Receivables (days)	days	79	120	74	50	49
Payables (days)	days	61	142	82	43	43

Capital efficiency & intrinsic value						
Adjusted return on equity	%	9.2%	-6.0%	1.5%	1.9%	5.4%
RoCE (EBIT basis, pre-tax)	%	8.7%	-7.7%	0.6%	2.2%	5.5%
RoCE (underlying free cash flow basis)	%	6.2%	-4.3%	-1.5%	-1.1%	3.8%
NAV per share	p	95.6	89.1	89.3	90.7	95.2
NTA per share	p	14.9	6.1	6.6	10.1	16.8

Primed to capitalise on untapped potential

Research					
Mark Brewer	020 7220 0556	mbrewer@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Michael Hill	020 7220 0554	mhill@finncap.com
Kimberley Carstens	020 7220 0548	kcarstens@finncap.com	Charlie Long	020 3772 4683	clong@finncap.com
Michael Clifton	020 3772 4682	mclifton@finncap.com	Stephen McGarry	020 7220 0550	smcgarry@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Nigel Parson	020 7220 0544	nparson@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com	Jonathan Wright	020 7220 0543	jwright@finncap.com
Equity Capital Markets					
Andrew Burdis	020 7220 0524	aburdis@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Sunila de Silva	020 7220 0521	sdesilva@finncap.com
Barney Hayward	020 7220 0518	bhayward@finncap.com	Charlotte Sutcliffe	020 7220 0513	csutcliffe@finncap.com
Alice Lane	020 7220 0523	alane@finncap.com	Harriet Ward	020 7220 0512	hward@finncap.com
Sales					
Mark Chellingworth	020 7220 0516	mchellingworth@finncap.com	Jonathon Webb	020 7220 0511	jwebb@finncap.com
James Fletcher	020 3772 4657	jfletcher@finncap.com	Ruth Watts	020 7220 0520	rwatts@finncap.com
Louise Talbot	020 3772 4651	ltalbot@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Investor Relations					
Brittany Henderson	020 7220 0592	bhenderson@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com	Helen Worrall	020 3772 4652	hworrall@finncap.com
Brittany Stevens	020 3772 4653	bstevens@finncap.com			
Sales Trading					
Kai Buckle	020 7220 0529	kbuckle@finncap.com	Mark Fidgen	020 7220 0536	mfidgen@finncap.com
Charlie Evans	020 7220 0531	cevans@finncap.com	Daniel Smith	020 7220 0533	dsmith@finncap.com
Market Makers					
Steve Asfour	020 7220 0539	sasfour@finncap.com	Oliver Ratcliff	020 7220 0530	oratcliff@finncap.com
Jamie Dunleavy	020 7220 0534	jdunleavy@finncap.com	James Revell	020 7220 0532	jrevell@finncap.com
Investment Companies					
Johnny Hewitson	020 7220 0558	jhewitson@finncap.com	Pauline Tribe	020 7220 0517	ptribe@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com

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1 Bartholomew Close

London EC1A 7BL

Tel 020 7220 0500

Fax 020 7220 0597

Email info@finncap.com

Web www.finncap.com

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