

Vianet Group plc

Initiation Note

6th December 2022

Price

63p

Ticker

[VNET](#)

Market Cap.

£18m

Net Debt (Cash)

£3,561k (1H23)

Free Float

80%

3mo Av. Daily Volume

30k

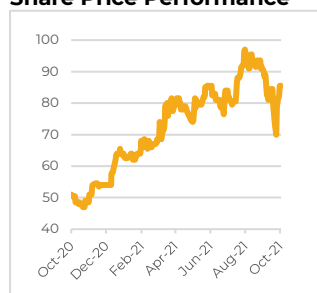
Brokers

Cenkos Securities

Index

FTSE AIM All-Share

Share Price Performance



Source: Bloomberg

Vianet is a leading B2B provider of remote services to operators of vending machines, pubs, and self-service/"unattended" retail locations around the UK, US, and Europe. It connects its >300 customers to their c.215k devices, offering contactless payment services, vending management software, draught beer monitoring, and a broad suite of performance monitoring & analytics to maximise device performance.

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Market Leading, High Contracted Recurring Revenue Business with Multiple Growth Opportunities

Vianet is a business that uses connected devices to collect and analyse data from pubs/leisure venues and "unattended retail" assets such as snack & can, and coffee vending machines. This data is used to provide insights into potential operating efficiencies, waste reduction, and revenue uplift opportunities to the owners and operators of these businesses.

It enjoys an enviable blue chip customer base and between 85% and 90% of revenue is recurring in most years as a result of multi-year contracts and low attrition rates. Further, more than 90% of operating profit generally converts into cash, and in our view net debt will soon be below 1x EBITDA.

There is plenty of opportunity for growth, with limited competition, in its UK, European, and US markets due to white space in both segments. Key will be getting new pub operators to understand how much impact the data and insights can have, and how quick the payback on investment is – generally only a few months. The cashless trend is also showing no sign of abating, and this drives demand for Vianet's products in the vending space.

Based on our estimates, we believe the dividend is likely to return, albeit in a small way, in FY24, around July. Management has been clear that its priority is stability and growth, and it will only pay an amount that is comfortably covered by cash and profit.

We expect catalysts to arise from both current verticals, including the growth of contactless payment and telemetry insight, which present significant land grab opportunities. We would also expect markets to appreciate any news of the solidification and extension of Vianet's position in the massive US market. Finally, we would hope for a positive reaction to any news around trials in new verticals, such as contactless on self-service equipment on petrol forecourts and industrial laundrettes.

SWOT Table

Strengths	Weaknesses
<ul style="list-style-type: none"> 88% of revenues are contracted recurring, leading to strong earnings visibility Customer base is strong, largely blue-chip Market and technical leader in its verticals Operating leverage in Market Insight reports Strong balance sheet, with net debt due to fall below 1x EBITDA Strong cash generation, with >90% operating cash conversion Arguably the only end to end SmartVend system in the marketplace 	<ul style="list-style-type: none"> Not yet unlocked the US market yet, and other players have failed to scale there before, but the opportunity is very real
Opportunities	Threats
<ul style="list-style-type: none"> Growth into new verticals Growth alongside existing partners through wider roll outs of SmartDraught and SmartVend, and more cross sales Strain on pubs has them seeking cost saving measures Vending market likely to grow at 13.4% CAGR to 2032 Existing customer and supplier relationships have enabled small (so far) moves into other verticals like fuel forecourts and industrial kitchens 	<ul style="list-style-type: none"> Pub closures reduce addressable market, even as more pub operators recognise the value of the data and insights Vianet provides Pub market weakness may result in 'panic' and therefore capex freezes Global semiconductor shortage has impacted supply and cost base, but may be easing

At a Glance (Yr. to March)	Revenue, £'000	% Recurring	Gross Margin	EBITDA, £'000	Adj. EPS, \$c	EV/EBITDA*
2020 a	16,282	92%	68%	4,580	8.55	6.2x
2021 a	8,369	89%	60%	(197)	(6.75)	N/A
1H22 a	6,340	83%	64%	1,028	(1.15)	N/A
2022 a	13,215	88%	65%	2,769	0.65	10.1x
1H23 a	7,181	86%	64%	1,411	(0.27)	N/A
2023 e	15,858	90%	64%	3,478	2.16	5.9x
2024 e	17,840	90%	64%	4,357	5.34	4.4x

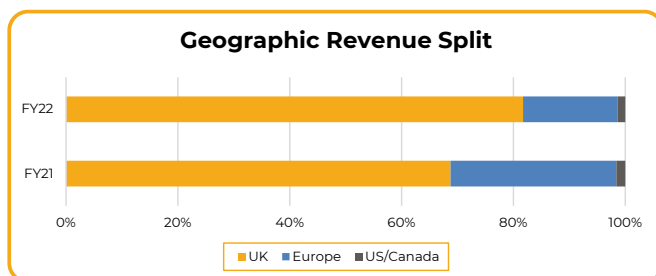
Source: Bloomberg, Capital Access Forecast, & Company Data

* Uses FX rate and Closing Price on date of FY results announcements

Background

Established in 1995 and listed on AIM in 2006, Vianet provides important visibility and data-led insights to the owners and operators of pubs/leisure venues and “unattended retail” assets such as snack and can, and coffee vending machines. It does this through the provision of Internet of Things (“IoT”) smart devices that collect data from its customers’ assets, which is sent to Vianet’s cloud-hosted platform where it is processed and analysed to provide insight into waste, yield, compliance, till variance, optimisation of machine placement, product insights, and more.

The business operates two core business lines: first, it helps bars and venues monitor and optimise their stock and operations, particularly draught beer, which results in improved quality, increased revenue, and reduced waste. Further up the supply chain, Vianet can also help landlords identify where tied pubs are sourcing their beer outside of their binding contracts (the Beer tie), and act as a compliance service to encourage such pubs to comply with the stipulated terms.



In practice, this means installation of sensors (in a novel, low cost way relative to competitors; on which more later) in beer lines to monitor flow & temperature, and central processors/sender units to relay information back to Vianet’s cloud servers. Customers can access this information on their phones via a web portal and iOS/Android app, which may soon also monitor wines and spirits inventory: by taking photos of bottles, the app can determine how many shots have been poured, and reconcile this (or not, if there’s theft/waste!) with orders that have gone through the register.

Second, it facilitates remote connection, analysis, and optimisation of unattended retail and coffee vending machines and other “unattended retail” assets. These assets include snack machines, car washes, laundrettes, coffee machines, “pay at pump” fuel pumps, and EV chargers.

Using the operator of a network of vending machines as an example, Vianet would add a telemetry-device and a contactless payment reader to each machine, the data from which would be sent back to Vianet’s cloud servers and analysed. The operator of those vending machines can then, to a very granular level of detail, understand the precise demand for each product therein, identify low- and high-performing machines and sites, and enjoy a live view of the stock level of each product in each machine. This data can also be analysed to help the vendor spot trends and optimise their estate in any number of ways, including product planograms much as a supermarket would do, as well as enhancing their sustainability agenda should they wish to.

At Vianet’s last year end, it had over 300 customers and nearly 215k connected devices in its markets in the UK, Europe, and the US. The UK represents by far Vianet’s largest market 82% in FY22. The Rest of Europe, of which 99% is from the Netherlands, provides <20% of group revenue and the US only 1-2% at present: though in our opinion this represents a promising growth opportunity.

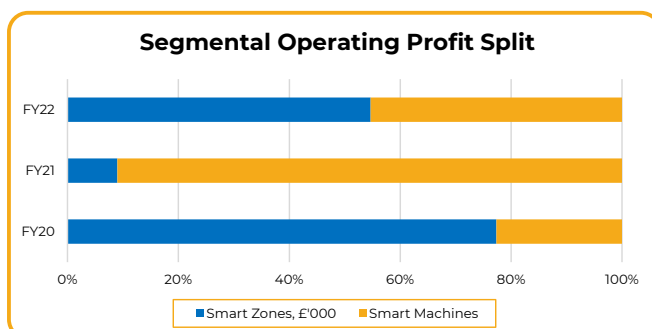
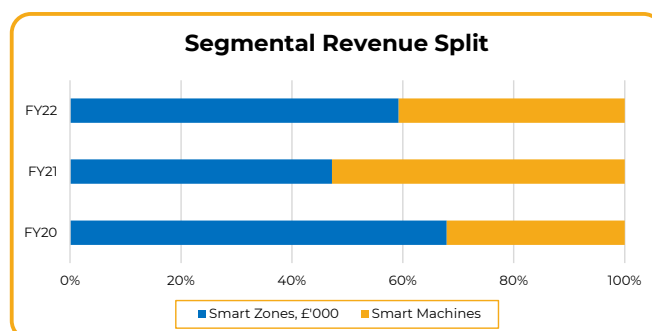
Business Model

Vianet’s business is purely B2B, selling telemetric and remote asset management software, hardware, and analytics, mostly on a subscription basis (86% of group revenue is recurring), with some up-front hardware sales in some circumstances. Hardware includes the sensors required to monitor stocking, sensors to monitor beer flow, sender units to transfer data to its cloud storage facility, and a leading-edge contactless payment capability.

It also receives a fixed monthly fee for reconciliation of the transactions, cash, and the payment fees charged to its customers, before passing the remainder on to the relevant processing bank.

The core benefits to Vianet’s customers include operational efficiencies such as a reduction in wasted time & costs associated with operating unattended retail vending and coffee machines and hospitality outlets. Additionally, Vianet’s contactless system adheres to the Payment Card Industry Data Security Standard (PCI DSS) Level 1 – the highest level of compliance – as well as providing much faster fund forwarding than peer payment systems, improving customers’ cashflow.

Vianet’s vending machine services business is accounted for under the Smart Machines segment, and the hospitality business under Smart Zones. Both segments enjoy a blue-chip customer base that includes Stonegate, Punch, Franke, Star Pubs & Restaurants, Compass Group, BaxterStorey, Lavazza, JDE, Chilis, Outback Restaurants, and many more.



Smart Machines

Smart Machines KPIs	FY20	FY21	FY22	1H23
New Connected Devices	12,059	7,215	12,895	6,306
Net New Devices	10,904	(316)	10,622	4,311
Total Connected Devices	37,873	37,557	48,179	52,490

Vianet's brand in this segment, SmartVend, provides end-to-end, cloud-based solutions for the management of unattended vending and coffee machines and other "unattended retail" locations. This includes the provision of hardware and software for real time stock & usage monitoring, a contactless payment solution, software management applications, and data & subsequent insights to improve the operational efficiency, stock control, sales, and cash flow of its customers' machine, as well as insight to aid customer ESG agendas. The payment hardware consists, in its basic form, of a combined contactless payment and telemetry terminal, or the use of a single device that includes onscreen messaging.

The product suite is adaptable and covers multiple use cases, for example SmartContact Pro is for public use and can integrate cameras and media on areas such as petrol forecourts. SmartContact itself is robust for tough work environments like factories, and is built to ensure reliability with negligible failure rates. SmartMetrics is available as a standalone module for free-to-user vending such as office coffee machines.



SMARTCONTACT
PRO

CONTACTLESS & TELEMETRY

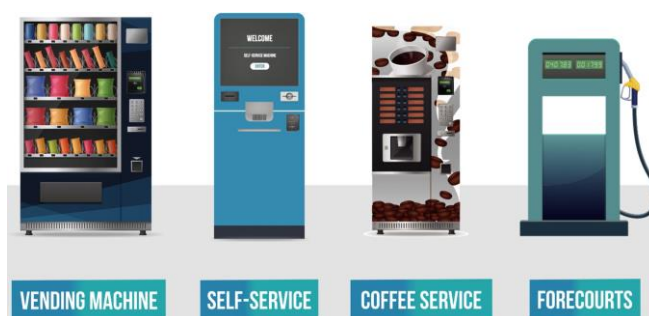
ALL IN ONE TERMINAL


Customers can access extremely granular real-time data, as well as Vianet's insights, via a smartphone app and a web-based portal. This enables them to optimise their portfolio of assets and its stock/offers to maximise sales and profitability. Efficiency savings can be significant. A good example is a snack & can vending machine operator. If their entire portfolio is on Vianet, then re-stocking is precise: operators need only take the actual stock needed to replenish each machine. SmartVend also plans the most efficient route between any machines that are to be re-stocked. This saves time, money, and reduces the operator's carbon footprint.

The contactless offering is also clearly advantageous: the average customer saw a 50% YoY increase in sales once contactless was introduced, and Mastercard estimates there will be a 300% increase in global contactless transactions by 2026. The fees are also low, starting at 1.2%: much lower than cash handling costs and lower than most contactless peers. There's also the benefit that funds are received by the operator as quickly as 24 hours after the transaction. This is faster than many standalone contactless payment solution providers, let alone physical cash handling solutions. The payments themselves are handled by specialists like Worldpay and Elavon.

Relationships tend to be long term, typically 5 years, and churn is extremely low. Smart Machines benefits from a significant and broad-based blue chip partner list, including Royal Mail, Amazon, Nespresso, Sodexo, Lavazza, Mars, Nestle, Compass, Tchibo, JDE, Franke, and more. As a result, income visibility is high in this segment, where recurring revenues exceeded 77% of sales in FY22.

One customer, for example, has signed a multi-year contract to retrofit a large proportion of its UK vending machines estate with Vianet hardware. Profit protection is a key focus. Its cashless sales increased by 45% and both cash shrinkage, and repair costs were significantly reduced following the transition. As such, we would expect that as this customer builds on its portfolio by buying further vending machines, it will purchase payment/telemetry units and services for them from Vianet. Lavazza, per the case study table below, is looking to maximise the efficiency of its estate of 'DIY' installations: machines operated, stocked, and cleaned by their host venues rather than by Lavazza itself. Vianet's solutions would clearly assist in this goal.



<div>  <div>Case Study Details - Lavazza</div> </div>	
Background	Lavazza is contracted to provide the opportunity to access 10k DIY installations – that is, installations whereby the host venues operate, stock, and clean the machines themselves
Problem	Customer revenue isn't maximised, as often hosts aren't prioritising restocking of coffee and similar vending machines
Vianet Solution	Lavazza thus wants to retrofit a telemetry and contactless service across its entire estate. Vianet's SmartVend will facilitate auto-ordering for re-stocking, improved response to breakdowns, increased sales, improved cashflow, and increased machine uptime
Opportunity - Core	Convert the 10k UK DIY estate opportunity to operate on SmartVend platform and the insights it gives
Opportunity - Potential	German estate includes c.25k machines, which Vianet could also ultimately convert
Opportunity - Potential	Lavazza could ultimately design SmartVend into its machines and become a de-facto distributor

A scaling moment for this segment came with the acquisition of Vendman Systems for an overall payment of £2.5m including deferred consideration of £0.53m) in October 2017. Vendman was a strategic acquisition that had strong relationships in, and knowledge of, the vending machine sector - particularly for ERP services - and represented an opportunity to access their customers for real time data through Vianet's telemetry and contactless services. Vendman provided ERP services detailing weekly data to operators of cash-based vending machines. To support this journey, its systems needed development to scale, which has all been fed into the SmartVend solution development and technology. Vendman provided this machine performance data via handheld devices instead of Vianet's cloud- and app-based portals – and Vendman lacked a contactless payment module. Vendman had also under-invested in its technology, and was losing market share as a result. The combination of these businesses facilitated daily real time updates for operators, as well as enabling a transition to cashless operation and online portal access - significantly reducing reconciliation effort and making their vending outlets more modern and convenient. In our view, this combination meant for the first time there was a complete, end-to-end offering encompassing fully remote telemetry, real-time data, contactless payments, operational vending machine management, and business insight.

Growth Strategy: Aside from the expected deepening and broadening of existing customer relationships, Vianet is keen to enter 5 new verticals – likely candidates include EV charging, laundromats, petrol forecourts, food courts, and restaurants. Whilst the Food Service vertical isn't generally unattended, the same data on stock and sales is very useful given the limited space and time each food stand has, and the fact that (in the UK at least) they almost all offer cashless options anyway. In the next 3 years, Vianet aims to add 5 new industrial IoT customers in these new verticals.

Monthly SmartVend Transactions

7.0m & £7m value

Vianet remains entrepreneurial, and there are organic options that could arise from its relationships on the SmartZones side of the business – for example the addition of vending machines in pubs to help (i) alleviate pressure on the bar at peak times (drinkers could order cans or bottles, and coffee, from machines instead of waiting in long queues) and (ii) diversify the venues' income sources.

Encouraging machine manufacturers to install its hardware at source is also a key strategy, and whilst tough given global semi-component supply issues, we believe it is achievable. Machine manufacturers are most bothered about selling complete products, but some have already been won over by the reliability of Vianet's contactless unit. Franke, Nespresso, Jura, Tchibo, Bianchi Vending, and DarenthMJS are all existing or potential clients for at-source installation of Vianet's hardware, representing an opportunity of some 13k units in the next 3 years. The business model here is that the manufacturer purchases the hardware, and the operator has the option to enter a contract (more recurring revenue) to access Vianet's additional services such as telemetry, data recording, and insight. This would clearly represent significant additional sales potential for these services, not only at the point of sale, but also through reducing friction should operators wish to adopt these services.

There's potentially a virtuous circle here, because the more operators/users Vianet attracts, the more pressure there will be on manufacturers to offer its hardware built-in, so the more operators it will attract. Manufacturers do listen to operator requirements when they design their machines. We don't yet have a feel for how powerful this could be, but it's an interesting potential growth source.

Vianet also aims to launch a brand and marketing insight service to generate at least £250k of revenue by 2025. This could potentially scale much more, and for limited cost. A good use case for this would be complementary purchases: a Vianet telemetry system could, for example, tell operators that when someone buys a Red Bull, they buy a Snickers alongside it. But perhaps this only pertains in one region. In another region, the complementary pairing might be Red Bull and plain crisps. This granularity could help optimise stock levels, make the machines most attractive to users in specific areas, and encourage higher spend. Vitally, it allows the entrepreneurial operator to experiment and record accurate results as well as benefit from existing understanding from Vianet's network of vending machines. At this scale, the data Vianet can provide could be extremely compelling. The industry hasn't woken up to this level of consumer understanding yet, although it's a well-recognised route to competitive advantage in supermarkets.

Its objective under these strategies is to reach >100k connected devices by 2025, contributing over £4m of profit to the group.

Estimated Vending Market 2032

\$37.7bn

Market - At one end of the vending machine market are small operators who literally estimate stock usage by travelling to their locations with a pen and paper, and who don't feel pressured to gather and understand data or generate insights. At the other, are the Lavazzas and Compass Groups, who have massive scale and are keen to understand and

optimise their asset bases.

In 2022, global spend in the intelligent vending machine market is estimated to total some \$10.6bn, which is expected to rise to \$37.3bn in the next 10 years. This growth is likely to be driven by:

- increasing IoT adoption, which allows real-time remote monitoring of every asset – facilitating real-time error spotting and repair planning much better than periodic manual inspections. This improves revenue generation and the consumer experience by increasing uptime. Real-time monitoring also reduces wastage, fraud, & theft, and improves energy efficiency.
- increased contactless payments. There is pressure from government to reduce fraud and tax evasion and from consumers for increased convenience. Cash-only machines find themselves missing more and more opportunities as the use of cash declines.
- the increasing return to the office drives more use of free (at point of use) vending machines, serving coffee, other drinks, snacks, etc.
- the growth of omni-channel unattended retail, such as Amazon and Walmart automated shopping experiences.

More locally, there are an estimated 300k vending machines in the UK and a further 50k in the Republic of Ireland. Given that c.82% Vianet's Smart Machines business is in the UK, and it has over c.50k connected devices on c 34k machines using its systems, we can surmise that its share of the total addressable market in the UK is likely between 10% and 15%. Given that Coffee machines are also in the revenue mix (although we don't know what percentage) alongside vending machines, its share of the total addressable market in the UK is likely lower still. This leaves plenty of opportunity to go for the land grab that exists,

through both taking market share with its superior offering, and taking white space given that a large majority of these machines are not “intelligent” at this stage.

Globally the coffee machine market is estimated to be \$8.6bn in 2022, growing to \$11bn by 2027; a 5% CAGR. Key drivers of this growth include:

- rising coffee consumption across global markets.
- technological improvements making coffee machines more reliable and less costly, although at present high maintenance costs remain a constraining factor limiting wider adoption.
- the increasing return to the office drives more use of free (at point of use) coffee machines.

Competition – One of the reasons customers are sticky is that the cost to change provider outweighs the cost of continuing with Vianet by some margin, whether that be an outright purchase or rental of the equipment. However, in our view the main point is that Vianet offers a truly value-add service that the competition has been unable to replicate across all the services Vianet offers.

Vianet's hardware is highly resilient and reliable, and although (like any technology) some tech upgrades do occur periodically, the core functionality of the equipment has been in place with customers for 15 years. Most updates are in the firmware, although modems must also be kept up to date: this is particularly important in Smart Machines, where transaction speed is a key part of performance expectations. Most machines are now progressing to 4G LTE compatible at this point in time.

It's also industry-leading: SmartContact Pro has won awards such as the “Vendies 2022 Best Payment System”, beating Nayax, who had won this award in each of the previous 7 years.

There are many private payment system competitors, and several telemetry providers, but few others appear to offer a full end-to-end solution for vending machines. Israeli company Nayax (NYAX, also listed on NASDAQ) is probably the closest competitor, its core offering being payment systems with some recent development in telemetry solutions with the same “plug and play retrofit” capability as Vianet. Whilst the capabilities are similar, Vianet offers much faster return of funds, a focused customer experience team in the UK supporting its customers, and funds transmitted through Vianet's PCI 1 compliant process don't move internationally as they appear to do with some competitors. These points may be a consideration for some potential customers.

Cantaloupe is a large US payments peer that also offers similar contactless payment services to Vianet. Data is becoming increasingly important in the US market, and one strategy is to win telemetry and insight services in the US.

Key Differentiators – First amongst these is the payments handling. Vianet is PCI Level 1 compliant, which is the highest level of payments compliance and requires regular reports, external audits and network strength checks. It signals that Vianet has stringent internal checks and controls, security, and processes.

Vianet currently returns funds to vendors much faster than its peers – cashless funds are usually paid over within 24-48 hours.

Smart Zones

Smart Zones KPIs	FY20	FY21	FY22
New Pub Installations	121	61	252
Pub Technology Upgrades	2,518	137	1,053

This segment, through its existing BMS & iDraught brands and its new SmartDraught brand, provides the leisure, pub, brewery, and broader hospitality sector with hardware and software to manage beer, wine, and spirits stocks & sales. It has deployed connected devices across c.10k pubs and bars across its geographies.

By way of background, Vianet's historic data suggests that c.2/3 of pubs and bars have issues with excessive beer pouring waste, and that c.2% of drinks don't get charged through the till at all. Additionally, c.26% of beer taps pour fewer than 20 pints per week, which is concerning given how vital the bar-front real estate is. Worse still, it indicates that c.1/3 of pints of draught beer are served through beer lines which are overdue cleaning: customers notice this, and Vianet's data suggests sales drop off if beer lines aren't cleaned regularly. Indeed, it has found that a line cleaning cycle greater than 4 weeks costs c.7% loss of draught sales compared to a 2-week cleaning cycle. All these problems can be identified and addressed with better data and analytics.

Vianet's solution provides exactly that. Physically, it primarily involves fitting flow meters linked to a central processor to read and send flow, temperature, pour length, and quality data to its cloud servers. This means the system knows exactly what volume of beer has been poured at what temperature. This setup also links to the point-of-sale system, allowing easy, real-time reconciliation of the

SMARTDRAUGHT Case Study	
Background	Large managed pub operator with 26 locations
Problem	The group was experiencing waste and wanted to optimise its profitability
Vianet Solution	Installed flow monitoring hardware and provide insights
Outcome 1	98% of beer poured through clean pipes, up from 75%
Outcome 2	7pp added to margins
Outcome 3	£5k monthly cost saving meant a mere 2-month payback period on the investment

number of drinks poured vs. the number charged for. The customer can access data and any insights derived therefrom, via an app and an online dashboard.

The key benefits of this solution include:

- improved product quality – the head on a beer depends on the cleanliness of the lines and the pour temperature, so optimising those can reduce waste and provide a better customer experience
- increased sales through reducing customers lost to poor beer experiences
- reduced product waste from re-pours and over-pours
- reduced point of sale shrinkage from staff giveaway/theft
- ability to optimise real estate: for example, if a bar has 3 Carling taps but 90% of sales come from 2 of them, the third can safely be reassigned to a different beer or removed reducing tech service costs
- identification of bad pouring (too much or too little head) and therefore training requirements
- optimised staffing by highlighting busiest and quietest periods
- identification of pipes cleaning requirements. Dirty pipes result in flatter beer with no head, which means more liquid goes into the pint glass and it doesn't taste right-increasing product costs from overfill and re-pours, and reducing customer satisfaction
- identifying stock levels per keg leading to automatic stock re-ordering which reduces overhead costs.

Vianet also provides a compliance offering. It helps landlords to detect when their tied pubs are buying beer illegally from third parties by monitoring delivery/pour and comparing it with expected delivery and purchases. Where this happens, Vianet can even act as the “face” of the landlords, bringing about enforcement action itself to preserve the often-long-term relationships between brewer, landlord, and operator.

Beer taps pouring <20 pints/week

c.26%

Recurring revenue in this segment comes from weekly service packs (which include field service and data audits), compliance visits (to check and nudge when pubs are believed to be using beers not bought from their landlord), equipment rental, and market data insight subscriptions. Non-Recurring revenue is derived from hardware sales, ad hoc data reporting, ad hoc compliance visits, and ad hoc market insights.

The hardware, as in Smart Machines, is robust and reliable so aside from some periodically required tech upgrades, it can last for decades.

Its blue-chip customers base includes Heineken, Punch Pubs, Greene King, and Stonegate Pub Company as examples. Contracts tend to be for 3 years, some longer, and renewal rates approach 100%. There are other flow rate sensors, but they're a lot more expensive (perhaps as much as 4x) and less reliable because the computing hardware is included in each sensor. Vianet, on the other hand, has removed this duplication and complexity by moving the computing capacity from multiple sensors to a single central unit. Pubs will have a sensor on each of their multiple beer lines, so the cost saving can be material.

Growth Strategy – the existing brands are in the process of being replaced by a single, “SmartDraught” brand with added functionality, including inventory/stock management to inform operators of things like the number of pints left in each keg. Additionally, this new iteration will include spirit stock management: the operator photographs open spirit bottles, and the app will accurately estimate the amount that's been poured since the last photo was submitted. It can then reconcile this with the point-of-sale data to detect giveaway and inform re-stocking decisions.

SmartDraught can monitor line temperature, line cleaning, cellar temperature, liquid flow, and the POS in one multi-platform (iOS & Android phone apps, or Honeywell hardware) dashboard. Operators can therefore see all pours, payments, and inventory levels, and use this to predict re-stocking requirements and timings. It can be set up to work with multiple suppliers and automatically generate purchase orders when inventory reaches a certain level.

It also adopts LoRa (a radio comms technique, the name being a portmanteau of “Long Range”) wireless communication so flow sensors can be placed on lines in temporary outdoor bars, which is a clever adaptation in light of a post-COVID trend towards outdoors drinking.

A key feature of SmartDraught will be its “plug and play” nature, ensuring it's easy to self-install. This would open up the smaller bar/restaurant & independent market, where installation costs for the old system have been prohibitively expensive.

The minimum viable product (“MVP”) version of SmartDraught is already in the market, and Vianet understands the importance of quality execution – its biggest roll out so far was 4k bars in 12 months with Enterprise Inns (now Stonegate), which was successful in part because Vianet uses its own engineers to ensure standards are maintained. It achieves 95% SLA adherence, which will no doubt enhance the customers long term relationship

Service Level Agreement Adherence

c.95%

Additionally, and similarly to Smart Machines, Vianet is going to pursue growth in its data and insights business lines. There's huge operating leverage here, with any incremental sales dropping straight to the bottom line. It's merely requires delivering another copy of an existing digital report to a new client

This data opportunity is significant – sales data can be overlaid with regional demographics, mobile data, and GDPR compliant card spend data to build a much more detailed picture that can inform the business decisions of Vianet's customers. One live example is a large entertainment company that's looking to understand how to use flow data and demographics to re-price its pub operator charges. It currently uses the rateable value of the pub building itself to set them, but that's a blunt proxy. There's also opportunity in areas such as promotion feedback: brewers would benefit from knowing how many beers are sold before and after a World Cup promotion, for example. SmartDraught will be able to provide information on how many drinks were sold in the first half, at half time, or second half of a match – this will be key insight during the current 2022 World Cup which all core customers have asked for insight on. The aggregated data could also inform on how each team's performance in a tournament impacted sales in any given region. Needless to say, there are myriad use cases for a granular, widely sourced set of flow data, and given Vianet's industry relationships it should be able to generate an impactful level of revenue, in our view.

Market - Of key importance here is that the fortunes of Vianet are not as closely tied to pub sector success or weakness as the market appears to believe. Clearly closures will impact the addressable market, and additionally there may be some degree of “panic” that reduces willingness to look at new capex or taking on new equipment/service leases in the short term. However, given the sub-1-year payback profile Vianet reports its customers enjoy, there should still be significant demand from pubs that do survive but feel

squeezed and note Vianet has not as yet made serious roads into Managed, Independent and Brand markets – SmartDraught should open these doors.

More than 500 pubs closed in 2021, of which 290 were demolished or converted for other use so we can assume they are not coming back. By June 2022 there were c.45k pubs in the UK, of which c. 23k are independent, c.11k Managed and c.11k L&T. According to Altius the total number is down by 7k since 2012, but in 2019 (prior to the pandemic effect) the number of pubs actually went up for the first year in a decade. Therefore, whilst at present energy and other input prices are combining with weaker consumer spend to cause serious problems in the sector, the underlying trend may have been broken. It is not lost on Vianet that their core customers are PE owned who see these as core assets for growth, and Vianet's services can help deliver the returns on their estates they aspire to.

In Vianet's target markets there are over 0.5m branded outlets, with Vianet's 0.10m outlets suggesting a market share of c.23% - the remainder can mostly, in our opinion, be considered white space due to the lack of a competing offering, so there's plenty of opportunity to grow.

The brewing market is highly concentrated, with the top 4 breweries/brand owners providing c.2/3 of beers poured by volume. Rolling SmartDraught out to those who own venues (Heineken, Greene King, and Marstons), as well as upselling and cross selling other parts of its offering, may provide reliable growth.

Vianet is particularly strong in leased and tenanted pubs (of which there are c.11k in the UK: Vianet has a presence in 91% of them), but has much less presence in managed pubs. In the UK there are c.10k managed pubs, of which, again, the majority pour beer from the top 4 brand owners, suggesting Vianet is only present in <5%, suggesting further opportunity to grow alongside existing partners.

Finally, there are c.11k independent pubs in the UK, of which Vianet services <2% and we estimate 95% have no meaningful data capture system. These are harder to get to and we assume have higher sales costs than the larger chains, but represent another material growth opportunity – particularly as their margins tighten. The quick payback period for a Vianet installation, which is counted in months rather than years, must make it a very attractive proposition at the current time.

In the US, there's a cultural difference in that the national operators, including fast casual dining operations, focus more on food, and don't necessarily worry about beer efficiency. That makes it hard to gain the attention of the key decision makers. However, it's a market worth pursuing – there are some 70k bars/nightclubs, 25k fast casual venues, and 100k independents & hotel chain bars. Vianet's approach to the US is much like the UK and Europe: to pitch SmartDraught with enhanced features that reduce the cost and difficulty of maintenance. Before COVID Vianet was present in 300 sites, but unfortunately the damage done to AMC by COVID took 250 of these. Vianet is in discussion with US partners who provide complementary products and where SmartDraught fills market gaps.

Competition – There would appear to be no direct competitors providing the services that SmartZones does in the UK. There are some smaller US companies offering similar services (including Bev Metrics and Bar Analytics but they've not managed to scale despite the c.50k unmonitored bars in the US due to the significant investment needed in reliable, accurate and robust monitoring systems.

Vianet's Smart Zones businesses spent considerable resources supporting customers during the pandemic, discounting fees during mandatory lockdown periods and providing enhanced insights & new reporting tools allowing them to make better-informed decisions. This enabled them to optimise revenues while minimising costs. At present, Vianet reports increased interest in these new analytics and insights, and it continues to develop new services to help its customers survive and thrive, in so far as that's possible, in the current environment. We believe that even were a competitor to appear in the UK, there would be significant brand loyalty as a result of this and the proven reliability of its systems.

Data integrity and quality also represent a barrier to entry, as any data recorded needs to be court admissible for enforcement efforts against pubs or staff.

Key Differentiators – a focus on hardware and installation costs as discussed above, combined with the analysis and insight makes this a unique offering.

Key Risks

- Pub market weakness is the obvious risk. Whilst pubs remain open, they're incentivised to optimise their operations – but once they're closed, there's clearly no space for SmartZones to get involved. This was exacerbated by COVID: more than 500 pubs closed in 2021, of which 290 were demolished or converted for other use. By June 2022 there were 39,970 pubs in the UK, down by 7,000 since 2012 according to Altus Group. However, in 2019 (clearly prior to the pandemic effect) the number of pubs actually went up for the first year in a decade. Therefore, whilst at present energy and other input prices are combining with weaker consumer spend to cause serious problems in the sector, the underlying trend may have been broken.
- The global semi-conductor supply chain is causing problems, and management has set a cautious tone on component pricing in 2023. However, there are signs that capacity is catching up, and that ceteris paribus there could even be a glut in the coming years. TSMC, for example, plans to spend \$100bn over the next 3 years to expand its chip fabrication capacity. Meanwhile Micron plans to invest \$100bn in a large chip manufacturing complex in New York, and the Japanese government plans to invest c.\$315m into Micron's manufacturing subsidiary in Japan.
- We see minimal IP risk: the combined payment/telemetry panels are designed in house, so Vianet owns all the IP – they're built under contract by third parties. Flow meters are bought in, but Vianet has a long-term relationship with the supplier.
- Additionally, whilst no revenue concentration numbers are provided, both divisions serve some very large customers, which may represent meaningful portions of group revenue.

Should churn increase or renewals fall, particularly amongst a few of the larger customers, revenue visibility could fall quickly – but there's no sign of that at present, as the retention rate in Smart Machines is 84% and SmartZones 87%.

Key Management

James Dickson, Chair/CEO - BSc, MBA, Chartered Director (Executive Chairman from April 2013). James has worked in the brewing industry since 1990, joining before joining Brulines in 2003. 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 he joined Whitbread as UK Dispense Director before being appointed Marketing & Sales Director for Heineken. James provides a very deep and broad understanding of the pub and brewing trade.

Mark Foster, CFO – Mark has CFO at Vianet for 18 years, and has been a qualified accountant for c.30 years. He's worked in multiple sectors, including the electricity industry at National Power plc; the Leased and Tenanted Pub industry (with Pubmaster Ltd); and the wholesale distribution of industrial threaded fasteners & hand tools (Harrison and Clough Ltd). Mark's multi-industry experience ensures the availability of new and innovative ideas.

Between them and their Executive, the management team own 19.11% of the equity, mainly with James Dickson at 17.79%, ensuring they are highly aligned with shareholders.

ESG

Fundamentally, although Vianet's products both tend to increase the revenue of their customers (and therefore often total consumption), they also reduce waste through bad pints, overpour, stock expiry, route planning, stock needed to be carried and hence size of replenishment vehicle needed to be deployed, and more. Fundamentally, reducing waste must be considered a net positive for the environment.

Internally, the business doesn't manufacture anything and so doesn't release significant amounts of carbon – 66 tonnes in FY22. That notwithstanding, it is still trying to improve and has implemented various projects with the aim of reducing this to 20 tonnes per annum by 2023 – including installation of a solar project.

As a people business, we don't consider its employees or society to face significant risks. Any involvement with alcohol may cause problems for some ESG focused investors, but we remind investors that Vianet isn't directly involved in the production, selling, or marketing of alcoholic products – it provides data insight on customer products and services and so positively influences their use.

Its governance policies are in line with what we would expect from a UK corporate, with a mixed board of executive and non-executive directors. At present the Chair is acting CEO, but this is not a permanent feature of the board, and there is usually a clear division of responsibilities between the two roles.

Financial Statement Highlights/Characteristics

Some key points we would highlight within the financials of this business include the high level of contracted recurring revenue, the fact that revenue is not positively correlated with negative hospitality spend, and that the dividend could resume as soon as 2023. We investigate in more detail below.

P&L – 88% of revenue is contracted and recurring, a number that's been boosted in recent years by the signing of several large 3-5-year contracts. The proportion of contracted recurring revenue in the mix can be impacted by the growth rate of Smart Machines, which derives a larger proportion of its revenue from one-off sales relative to Smart Zones. Incidentally, whilst there was a large shift to rental revenue in Smart Machines 2018/2019, this has since slightly reversed as the larger customers now being won prefer to pay for their equipment up front. As such, the revenue mix will remain fluid but the absolute number for recurring revenue will increase: as at September 2022 it has increased by c.£400k year on year in Smart Machines.

Revenue in Smart Zones in FY21 did decline as customers were offered 70% discount to normal rates to assist them through the mandatory lockdown COVID periods, with contract variations. All customers are back to full invoicing value today.

Vianet enjoys 3-5-year contracts, with Smart Machines tending to be 5-year and Smart Zones 3-year. Upon expiry the contracts tend to roll on: some of their largest customers have been with the company for 15-18 years in Smart Zones. Churn rates are low in both divisions: Machines renewal rates, whilst not published, are very high - with much of what churn exists mainly driven by operators discovering (often thanks to Vianet's data and insights!) some machines within their portfolios that are no longer viable, and pulling them out of service. Operators often find new locations for these though, so the business tends to return.

It's important to recognise that weakness in the hospitality market does not correspond to weakness in Vianet – in fact, the opposite can obtain, as the need to protect margins, reduce waste, and optimise operations, makes its data offering even more important. The market often appears to misunderstand this based on the performance of the share price since inflation kicked in. Clearly pub closures mean reduced deployment opportunities, but for those pubs that remain open, Vianet makes more sense the weaker markets are, and we have commented on the market opportunities Vianet is pursuing, which are significant.

Normalised Group Operating Profit is a key metric for management. It's essentially adjusted EBITA, pre-share-based payments. Depreciation tends to be in the £500k-£600k range in a normal year, and is primarily from P, P, & E relating to rented assets. Amortisation is generally higher, having ranged from £1.4m to £2.2m in the last 3 years, and consists primarily of amortisation of capitalised development costs, alongside minimal software and trademark amortisation.

Exceptional items recently have come from staff rationalisation and the release of deferred consideration from the Vendman acquisition.

Interest is paid on Vianet's £4.6m of borrowings (£131k in FY22), and is at 1%-4% above the base rate. This implies a combined margin of 2.7% over the 0.1% base rate in the year to March 2022.

With £8.5m of losses carried forward, Vianet does not expect to attract corporation tax for some time. It also benefits from R&D relief ahead of corporation tax, helping to preserve the LCF position.

Dividend - management is keen to return to the dividend list, and we believe the dividend could resume as early as July 2023, albeit at a lower level than the pre-COVID years. This will depend on cash generation, as management are not willing to pay a dividend out of debt, preferring a conservative, sustainable policy. Whilst we stress this is a low conviction call, we forecast the full year dividend to be 0.5p and 1.0p per share in FY23 and FY24, respectively, resulting in a payout ratio of 23% in 19% against our estimated EPS in those years.

During FY22 Vianet undertook a **share buyback** programme, which reduced the shares outstanding by 146.5k, or 0.5%.

The **Balance Sheet** is strong, with the Vendman debt (£2m) having been fully repaid in 1Q22, reducing combined cash interest and repayments by £0.5m/year. Since the last was paid in 2021, there is no further contingent consideration outstanding on the Vendman transaction. During the pandemic Vianet did take on a COVID Business Interruption Loan for £3.5m. At the H1 results on 6th December, gross debt was c£3.8m including overdraft and net debt £3.5m, [a significant progression in terms of gross debt from £4.6m at FY22, and on track for our estimate that the company will be close to a net cash position by the end of FY24. Further, net debt/EBITDA is likely, on our forecasts, to be under 1x next year.

Vianet has an overdraft of up to £1.5m available, which renews annually at the end of May. It is currently c.£1.2m drawn, in line with its usual level of utilisation for the time of year. Vianet renewed all its banking arrangement in May 2022 to May 2023, and the bank has indicated support will continue well beyond that date. Alongside this, Vianet is looking at a more flexible banking facility that would give longer term visibility on facilities rather than the current annual renewal.

There is negligible problem with bad debt – debtor days are stable and relatively low at 53 for 1H23. This is well within terms, as some larger customers enjoy 60–90-day payment terms.

Cash Flow – Adjusted operating profit (which is EBITA excluding share-based payments, which are small: usually either side of c.£100k) fairly consistently converts to cash from operations. Excluding working capital this is around the 90% level as can be seen in the following table. It was hit during FY21, which given the March year end was a year highly impacted by COVID-19.

Cash Conversion	2018 a	2019 a	2020 a	2021 a	2022 a	1H23 a
Operating Profit (adj. EBITA)	3,621	3,855	4,031	(687)	2,363	1,210
Cash Generated before working cap.	3,523	3,990	3,722	(341)	2,738	1,426
Conversion	97%	104%	92%	50%	116%	118%
Cash Generated after working cap.	2,974	2,036	4,216	1,052	2,397	710
Conversion	82%	53%	105%	-153%	101%	59%

The capex cycle mostly involves intangible assets – i.e., developing the technology. This is accounted for using a 5-year amortisation cycle, and spend has come to c.£2m/year for the last 3 years. This should drop to c.£1.5m to £1.7m the short term, and may drop further if a steady state is realised. Management has indicated that this could be in the £1.2m-1.3m range. However, the company remains flexible and entrepreneurial, so if there's potential for a decent commercial return, investment will be made, and the amortisation policy is under review given the long-term reliability of its product base.

Recent News

In June 2022, Vianet won two awards, "Best Payment Systems" and "Best Supplier Website" at the vending machine industry's "Vendies" awards ceremony. The former, won against international competition, is a significant achievement as it recognises its new all-in-one contactless payment and telemetry solution, 'SmartContact Pro'. This was introduced to the unattended retail market as contactless payment reached new highs of demand throughout the pandemic.

The latter award recognised Vianet's improved website, launched in November 2021, which enhanced the communication of its products & services, improved the user journey, and introduced a streamlined login area for remote access to service dashboards.

Whilst industry awards may seem minor, they are very well attended by suppliers, and in particular the payments award should drive recognition of its solution and may attract attention from the larger payment providers in the market. If a company sells the best product for a reasonable price, it should be well placed to grow its customer base as the market comes to learn about it.

1H23 results were very positive, and supports our FY23 estimates. A strong recovery in Smart Zones following the re-opening of the hospitality sector being complemented by solid growth in both new business and unit sales at Smart Machines – which saw the latter's estate reach 52.5k units. Recurring contracted revenues were 86% of sales, and adjusted operating profit was up 48% to £1.21m. The more widely recognised EBITDA was up 38% at £1.37m. This fed down to a significant reduction in loss per share, to 27p from £1.15p in 1H22.

Summary Outlook/Forecasts

We expect YOY growth in FY23 and FY24, as the company both leaves behind the COVID discounts it offered to many customers, and benefits from the accelerating trend towards cashless purchases.

We expect gross margin to remain at its c.64% level, as (i) much revenue is subscription-based and (ii) cost increases resulting from chip shortages level off and/or are passed on to customers.

We would expect operating profit and EBITA to turn strongly positive in FY23, adding some £700k over FY22 and mirroring the seasonality seen last year - meaning a small loss in 1H23 is not worrying from a full year perspective.

Interest is paid on its £4.6m of borrowings was £131k in FY22, implying a combined spread of 2.7% over the 0.1% base rate in the year to March 2022. Our estimates assume lower gross debt level and higher base rates, leading to interest charges of c.£170k and £140k in FY23 and FY24, respectively.

This should all lead to the first positive PBT since COVID began, and there remains a significant tax loss to ensure a 0% tax rate for FY23 and FY24: in fact, our estimates suggest there should still be >£1m of tax loss protection left at the end of FY24.

Estimate EPS of 2.16p in FY23 and 5.34p in FY24 would result in payout ratios of c.23% and 19%, respectively, if out 0.5p and 1.0p dividend estimates proves accurate.

Leverage should decline over the forecasting period, with net debt falling below 1x EBITDA in FY23 and to c.0.2x in FY24, from 1.1x in FY22.

£'000	2022 a	1H23 a	2023 e	2024 e
Revenue	13,215	7,181	15,858	17,840
Growth	58%	13%	20%	13%
Of which recurring	11,629	6,176	14,272	16,056
EBITDA	2,769	20%	3,478	4,357
Margin, %	21%	1,210	22%	24%
Adj. EBITA	2,363	17%	3,072	3,951
Margin, %	18%	(65)	19%	22%
Adj. PBT	(53)	-1%	625	1,539
Margin, %	0%	(0.12)	4%	9%
Adj. EPS, GBp	1.06	7,181	2.16	5.34
Dividend, GBp	--	--	0.50	1.00

Valuation & Peers

We have chosen a small group of peers we consider to be as directly comparable as possible to Vianet's position as a provider of telemetry & contactless payment software & hardware. The limited amount of direct competition has forced us to look abroad, to Nayax, listed in Tel Aviv, and Paysafe, listed in the US. We believe these are a better fit for the end markets and business profile than a broader basket of SaaS stocks would be: particularly as a large component of growth is likely to be driven by contactless payment handling. Vianet has, after all, been profitable for some time – with the exception of pandemic years. It's no "Jam tomorrow" tech story, it's an established business with impressive cash conversion.

Vianet's shares have outperformed the peer average over the last month, quarter, and year – being the highest performer in our group of peers in the last one- and three-month periods.

Share Price Performances (comparative group)	Share Price	1M	3M	12M
Vianet	62.5	21.4%	21.4%	-23.3%
Nayax	6,378	-24.4%	-29.2%	-44.5%
Paypoint	524.0	-9.7%	-16.0%	-14.2%
Paysafe	1.5	17.2%	-5.1%	-55.6%
PCI-Pal	52.5	-0.9%	1.0%	-19.8%
Peer Average		0.7%	-5.6%	-31.5%

Source: Bloomberg

Its valuation against the same peer group can be found below. If sales grow according to our expectations into 2024, the Price/Sales and EV/EBITDA ratios start to look considerably cheaper than the peer group.

Peer	Ticker	Next Year End	EV	P/Sales		2022-2024 Sales CAGR	EV / EBITDA	
				2023e	2024e		2023e	2024e
Nayax	NYAX IT	31/12/2022	1,996	3.4x	2.5x	43%	N/A	N/A
Paypoint	PAY LN	31/03/2023	384	3.2x	3.1x	-8%	6.5x	5.9x
Paysafe	PSFE US	31/12/2022	3,508	2.4x	2.2x	3%	8.6x	7.7x
PCI-Pal	PCIP LN	30/06/2023	29	2.0x	1.5x	29%	N/A	12.8x
MEAN			1,479	2.7x	2.3x	17%	7.6x	8.8x
Vianet	VNET LN	31/03/2023	21	1.3x	1.2x	16.1%	6.0x	4.8x

Potential Catalysts

We expect catalysts to arise from both existing verticals, including the growth of contactless payments and telemetry insight, which present significant land grab opportunities.

We would also expect markets to appreciate any news of the solidification and extension of Vianet's position in the massive US market.

Finally, we would hope for a positive reaction to any news around trials in new verticals, such as contactless petrol forecourts and industrial laundrettes.

Investment Case Summary

Investment Case Summary	Details
Recurring Revenue	This is generally around 80%-90% of revenue, all contracted, making visibility and planning capability extremely high.
High Cash Conversion	Usually around 90% of EBITA is converted to operating cashflow.
Sticky Customers	Very low turnover and high retention rates in both segments. Several large landlords have been SmartZone customers for more than 15 years, for example.
Tail winds from Market Trends	COVID has accelerated the rise of contactless payments, as well placing unfortunate strain (along with the cost-of-living crisis) on pubs and bars - this forces optimisation efforts. The payback period is short (sometimes only months), so Vianet is well positioned to benefit from helping pubs improve their draught beer handling.
Limited competition	There appears to be nobody else in the UK that offers an end-to-end service for vending machines, and nobody offers anything remotely like SmartZones. There are some small US competitors to Smart Zones, as well as some large payment processors like Cantaloupe, Inc (CTLP on NASDAQ) and Nayax (NYAX on the Tel Aviv Exchange).
US Expansion Opportunity	50k bars in the US, though at present they don't tend to focus on draught beer - more on food. Management estimates c.20% of each barrel is wasted/unaccounted for in the till. This is a significant opportunity if bar operators begin to understand it.
Pub Weakness Represents Opportunity	Pubs and bars are under higher cost pressure than ever before, combined with consumer spend weakness. It is therefore imperative that they optimise their operations to reduce waste and maximise sales. Vianet is a way to achieve this, with a sub-1-year payback period on its installations.
Telemetry Upside	Telemetry connectivity gives customers access to core data insights to help unlock efficiencies and profit, which is becoming ever more important – both in terms of customers' margins and improving green credentials.

Appendices

Profit & Loss Highlights – 31st March year end

£'000	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
DPS, GBp	0.00	0.00	0.00	0.00	0.00	0.50	1.00
Revenue	4,066	8,369	6,340	13,215	7,181	15,858	17,840
Revenue Growth YoY	-47%	-49%	56%	58%	13%	20%	13%
Gross Profit	2,569	5,062	4,034	8,561	4,607	10,149	11,418
Gross Margin	63%	60%	64%	65%	64%	64%	64%
Reported EBIT	(1,404)	(2,772)	(304)	(36)	(44)	794	1,673
Adjustments	142	343	38	121	42	--	--
Adj. EBIT	(1,262)	(2,429)	(266)	85	(2)	794	1,673
Margin	-31%	-29%	-4%	1%	0%	5%	9%
Adj. EBITA	(377)	(687)	819	2,363	1,210	3,072	3,951
Margin	-9%	-8%	13%	18%	17%	19%	22%
Depr. & Amortisation	1,146	2,232	1,294	2,684	--	2,684	2,684
Adj. EBITDA	(116)	(197)	1,028	2,769	(2)	3,478	4,357
Margin	-3%	-2%	16%	21%	0%	22%	24%
Adj. PBT	(1,294)	(2,479)	(325)	(53)	(65)	625	1,539
Margin	-32%	-30%	-5%	0%	-1%	4%	9%
Adj. Net Profit	(1,264)	(1,612)	(295)	308	(35)	625	1,539
Margin	-31%	-19%	-5%	2%	0%	4%	9%

£'000	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
Revenue	4,066	8,369	6,340	13,215	7,181	15,858	17,840
Cost of revenue	(1,497)	(3,307)	(2,306)	(4,654)	(2,574)	(5,709)	(6,422)
Gross profit	2,569	5,062	4,034	8,561	4,607	10,149	11,418
Gross Margin	63.2%	60.5%	63.6%	64.8%	64.2%	64.0%	64.0%
G&A Expenses	(3,088)	(6,092)	(3,253)	(6,319)	(3,439)	(7,077)	(7,467)
Intangible Asset Amortisation	(837)	(1,669)	(1,050)	(2,195)	(1,170)	(2,195)	(2,195)
Share-Based Payments	(48)	(73)	(35)	(83)	(42)	(83)	(83)
Reported EBIT	(1,404)	(2,772)	(304)	(36)	(44)	794	1,673
Margin	-34.5%	-33.1%	-4.8%	-0.3%	-0.6%	5.0%	9.4%
Interest expense	(32)	(50)	(59)	(138)	(63)	(169)	(135)
PBT	(1,436)	(2,822)	(363)	(174)	(107)	625	1,539
Income Tax	30	867	30	361	30	--	--
Effective tax rate	N/A	N/A	N/A	N/A	N/A	0%	0%
Net Profit	(1,406)	(1,955)	(333)	187	(77)	625	1,539
Margin	-34.6%	-23.4%	-5.3%	1.4%	-1.1%	3.9%	8.6%
Shares Out - Basic	28,953	28,953	28,954	28,949	28,809	28,949	28,809
Shares Out - Diluted	29,126	28,953	28,954	29,330	28,809	29,330	29,189
Reported EPS - Basic	(4.86 p)	(6.75 p)	(1.15 p)	0.65 p	(0.27 p)	2.16 p	5.34 p
Reported EPS - Diluted	(4.83 p)	(6.75 p)	(1.15 p)	0.64 p	(0.27 p)	2.13 p	5.27 p

Segments

Smart Zones, £'000	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
Revenue	2,025	3,953	3,715	7,831	4,175	9,198	8,028
Growth (YoY)	N/A	N/A	83%	98%	12%	17%	-13%
% of Group	50%	47%	59%	59%	58%	58%	45%
% Recurring	N/A	92%	N/A	96%	93%	90%	90%
Adj. Operating Profit	(76)	85	1,008	1,887	1,814	2,158	1,986
% of Group	6%	-3%	-379%	2220%	150%	272%	119%
Margin	-4%	2%	27%	24%	43%	23%	25%
PBT	(107)	(24)	952	1,750	1,456	2,527	2,055
% of Group	7%	1%	-262%	-1006%	-1361%	404%	134%
Margin	-5%	-1%	26%	22%	35%	27%	26%

Smart Machines	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
Revenue	2,041	4,416	2,625	5,384	3,006	6,660	9,812
Growth (YoY)	N/A	N/A	29%	22%	15%	24%	47%
% of Group	50%	53%	41%	41%	42%	42%	55%
% Recurring	N/A	86%	N/A	77%	76%	75%	80%
Adj. Operating Profit	430	858	601	1,564	814	1,914	3,143
% of Group	-34%	-35%	-226%	1840%	67%	241%	188%
Margin	21%	19%	23%	29%	27%	29%	32%
PBT	377	688	573	1,588	633	2,415	3,506
% of Group	-26%	-32%	-158%	-913%	-592%	387%	228%
Margin	18%	16%	22%	29%	21%	36%	36%

Corporate/Tech	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
Revenue	--	--	--	--	--	--	--
Adj. Operating Profit	(1,616)	(3,372)	(1,875)	(3,366)	(1,418)	(3,278)	(3,456)
% of Group	128%	139%	705%	-3960%	-117%	-413%	-207%
PBT	(1,706)	(2,822)	(1,888)	(3,512)	(2,196)	(4,317)	(4,022)

Group	1H21 a	2021 a	1H22 a	2022 a	1H23 a	2023 e	2024 e
Revenue	4,066	8,369	6,340	13,215	7,181	15,858	17,840
Adj. Operating Profit	(1,262)	(2,429)	(266)	85	1,210	794	1,673
PBT	(1,436)	(2,158)	(363)	(174)	(107)	625	1,539

Cash Flow

£'000	2020 a	1H21 a	2021 a	1H22 a	2022 a	1H23 a
Cash Flows From Operating Activities						
Net (loss) income	2,431	(1,406)	(1,955)	(333)	187	(77)
Reconciliation of Income to Cash Flow						
Net Interest Payable	113	32	50	59	138	63
Income Tax Credits	(28)	(30)	(867)	(30)	(361)	(30)
Amort of Intangibles	1,390	837	1,669	1,050	2,195	1,170
Depreciation	674	309	563	244	489	243
Contingent consideration Release	(1,088)	--	--	--	(76)	-
Impairment of P, P, E, & Businesses	3	7	126	67	83	15
Share Based Payments, Goodwill, LTIP						42
Tax	227	48	73	35	83	
Inventories	178	(28)	60	(97)	(142)	(273)
Accounts Receivable	125	1,035	786	66	68	(258)
Accounts Payable	191	389	547	337	(267)	(185)
Net Cash (Used in) Provided by Operating Activities	4,216	1,193	1,052	1,398	2,397	710
Cash Flows From Investing Activities						
Purchases of P, P, & E	(730)	(131)	(268)	(211)	(465)	(260)
Capitalised Dev. Costs	(1,941)	--	(2,312)	--	(1,975)	--
Purchase of Intangibles	(79)	(1,185)	(36)	(966)	(12)	(936)
Sale of P, P, & E	--	--	--	--	22	--
Net Cash used in Investing Activities	(2,750)	(1,316)	(2,616)	(1,177)	(2,430)	(1,196)
Cash Flows From Financing Activities						
Net Interest	(113)	(32)	(50)	(59)	(138)	(63)
Lease Repayment	(141)	(45)	(64)	(18)	(28)	(12)
Borrowings Repaid	(661)	--	(319)	(606)	(1,289)	(558)
Contingent Consideration Paid	(552)	--	(31)	--	(16)	--
New Borrowings	--	3,540	3,540	--	--	--
Dividends Paid	(1,604)	--	--	--	--	--
Issue of Shares	200	--	--	2	2	--
Cancellation/Disposal of Shares	988	--	--	--	(126)	--
Net cash Provided by Financing Activities	(1,883)	3,463	3,076	(681)	(1,595)	(633)
FX Impact	--	--	--	--	--	--
Net Increase in Cash & Equivalents	(417)	3,340	1,512	(460)	(1,628)	(1,119)
Cash @ Period Start	798	381	381	1,893	1,893	266
Cash @ Period End	381	3,721	1,893	1,433	265	(853)
FCF	1,466	(123)	(1,564)	221	(33)	(486)
FCF/Share	5.16	(0.42)	(5.40)	0.76	(0.11)	(1.69)

Balance Sheet

£'000	2020 a	1H21 a	2021 a	1H22 a	2022 a	1H23 a
Gross Debt	2,681	4,874	4,555	4,448	4,583	4,010
Net Debt (Cash)	953	1,153	2,661	2,516	3,000	3,561
Net Debt/Adj. EBITDA	0.2x		N/A		1.1x	
Gross Profit/Assets	0.33x		0.15x		0.26x	
Net Debt (Cash)/Equity	0.0x	0.0x	0.1x	0.1x	0.1x	0.1x
Capital Employed	29,134	30,979	28,965	28,297	28,008	27,567
ROCE	8.6%		N/A		N/A	
ROE	8.8%		N/A		1.2%	
ROA	7.2%		N/A		0.9%	

£'000	2020 a	1H21 a	2021 a	1H22 a	2022 a	1H23 a
Goodwill	17,856	--	17,856	--	17,856	--
Other Intangibles	5,505	23,708	6,184	23,956	5,976	23,597
P, P, & E	3,795	3,610	3,391	3,290	3,262	3,265
Deferred Tax Asset	--	510	26	265	386	416
Total non-current assets	27,156	27,828	27,457	27,511	27,480	27,278
Inventories	1,491	1,519	1,431	1,530	1,573	1,846
Receivables	3,544	2,509	2,758	2,692	2,690	2,948
Cash	1,728	3,721	1,894	1,932	1,583	449
Total current assets	6,763	7,749	6,083	6,154	5,846	5,243
Total assets	33,919	35,577	33,540	33,665	33,326	32,521

Payables	2,710	3,098	3,257	3,593	2,983	2,798
Leases	64	34	53	34	25	13
Borrowings	2,011	1,466	1,265	1,741	2,310	2,143
Total current liabilities	4,785	4,598	4,575	5,368	5,318	4,954
Other Payables	117	117	86	86	--	--
Leases	35	20	--	--	--	--
Borrowings	670	3,408	3,290	2,707	2,273	1,867
Deferred Tax Liabilities	841	1,111	--	--	--	--
Total non-current liabilities	1,663	4,656	3,376	2,793	2,273	1,867
Total liabilities	6,448	9,254	7,951	8,161	7,591	6,821

Share Capital	2,895	2,895	2,895	2,895	2,880	2,880
Share Premium	11,709	11,709	11,709	11,711	11,711	11,711
Capital Redemption	--	--	--	--	15	15
Share based Pmt. Reserve	364	412	437	472	499	541
Merger Reserve	310	310	310	310	310	310
Retained Profit	12,193	10,997	10,238	10,115	10,320	10,243
Total equity	27,471	26,323	25,589	25,504	25,735	25,700
Total equity and liabilities	33,919	35,577	33,540	33,665	33,326	32,521

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