

1 November 2023

Price

64p

Ticker

[VNET](#)

Market Cap.

£19m

Net Debt (Cash)

£3.4m (FY23)

Free Float

80%

3mo Av. Daily Volume

16k

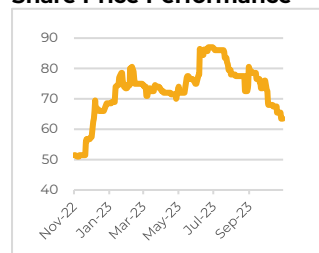
Brokers

Cavendish

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. Vianet, provides contactless payment services, vending management software, draught beer monitoring, and a broad suite of performance monitoring & analytics.

Colin Smith

+44 20 7082 5522

[Email the Analyst](#)

## 1H FY24 trading update – positive outlook

### International provider of actionable data and insight via connected devices

Vianet has issued a trading statement ahead of publication of the 1H24 results scheduled for 12 December. Revenue for the half was £7.19m with an increase in recurring revenue to 87% and a jump in gross margin to 69%. Vianet was profitable in the half, excluding £0.2m in support for the recently acquired Beverage Metrics business in the US. The results were in line with management's expectations and are expected to pick up significantly in 2H24 as a result of new contract wins, and an acceleration in the roll-out of 3G replacement. Consequently, we leave our current EPS forecast unchanged and continue to expect that Vianet should return to FY20 levels of pre-tax profit by FY25 when it would be trading on a low 10x PE.

Vianet's SmartVend platform provides a comprehensive end-to-end vending machine management system, including contactless payment solutions and business intelligence for unattended vending machines including remote access to maximise operational efficiency. The SmartVend solution was launched in 2022 and provides significantly enhanced capability over Vianet's previous systems with migration of existing customers to the new platform ongoing. The SmartDraught platform is a market leading beverage and bar management system which enables the drinks retailing industry to reduce waste and shrinkage, whilst driving quality, consumer experience and sales. This enhanced platform was launched in 2023. In March of this year, Vianet announced a partnership with Vendekin Technologies to incorporate Vendekin's QR code-based mobile payment solutions into Vianet's offering. In May, Vianet acquired the operations of the Beverage Metrics business adding BMI's inventory platform to Vianet's SmartDraught draft beer management solution and adding BMI's US customer base.

For the half to September, Vianet generated revenue of £7.19m (1H23 £7.18m) with an increase in recurring revenue to 87% (1H23 86%) and a 7.8% jump in gross margin to 69% (1H23 64%). The company expects to report a pre-tax loss of £171k, net of a £200k impact from the Beverage Metrics business or a pre-tax profit on a like-for-like basis of £29k (1H23 loss of £106k). The balance sheet has been strengthened with the previously announced receipt of £0.9m from HMRC and the re-financing with HSBC is now complete, further strengthening liquidity.

Growth in revenue from the Smart Machines business to £3.05m in the half was modest YoY due to delays in the roll-out of 3G replacement which will force significant upgrade investment by vending operators.

Vianet recently won a significant order with Suresite to supply c800 Trio IQ Smart Contact Pro devices for forecourt use and expects a pick up in delivery of 4G LTE readers for 2H24.

Revenue from the Smart Zones business was essentially flat YoY but Vianet expects 2H24 to benefit from the extension of existing agreements and new contracts further to the successful launch of a new insights and reporting portal developed in conjunction with the Oxford Partnership

Having seen revenue halve from FY20 levels as a result of the impact of Covid on the hospitality sector, Vianet is now staging a strong recovery. The company has accelerated its planned growth into the enormous US hospitality market by 12-18 months with the Beverage Metrics acquisition. While the 1H24 revenue performance was modest, management remain very positive about the future and expect a significant pick up in 2H24. Consequently, we trim our FY24 revenue forecast but with a higher gross margin, our earnings forecast is unchanged.

At a Glance (Yr. to March)	Revenue, £'000	Gross Margin	EBITA, £'000	EPS (GBp)	P/E*	EV/EBITDA*
2021 a	8,369	60%	(687)	(6.75)	n/a	n/a
2022 a	13,215	65%	2,363	0.64	151.4x	13.2x
2023 a	14,115	66%	3,105	0.56	125.4x	7.6x
2024 e	16,515	66%	3,426	1.86	34.1x	5.9x
2025 e	20,148	65%	5,005	6.23	10.2x	3.5x

Source: Bloomberg, Vianet, CAG Research. \* Uses average annual share price for historic periods, current price for forecasts.

### Investment Case Summary

Investment Case Summary	Details
<b>Recurring Revenue</b>	This is generally around 80%-90% of revenue, all contracted, making visibility and planning capability extremely high.
<b>High Cash Conversion</b>	Usually around 90%+ of EBITA is converted to operating cashflow.
<b>Sticky Customers</b>	Very low turnover and high retention rates in both segments. Several large landlords have been SmartZone customers for more than 15 years, for example.
<b>Tail winds from Market Trends</b>	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.
<b>Limited competition</b>	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).
<b>US Expansion Opportunity</b>	US total addressable market of 382,000 licensed on-premise bars. Elements of Vianet's comprehensive beverage management solution, such as inventory are applicable to all bars. . Where draught beer is present 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.
<b>Pub Weakness Represents Opportunity</b>	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.
<b>Telemetry Upside</b>	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.

## Profit & loss highlights – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
<b>Revenue</b>	<b>16,282</b>	<b>8,369</b>	<b>13,215</b>	<b>14,115</b>	<b>16,515</b>	<b>20,148</b>
Revenue growth YoY	N/A	-48.6%	57.9%	6.8%	17.0%	22.0%
<b>Gross Profit</b>	<b>11,118</b>	<b>5,062</b>	<b>8,561</b>	<b>9,378</b>	<b>10,850</b>	<b>12,995</b>
<i>Gross margin</i>	68.3%	60.5%	64.8%	66.4%	65.7%	64.5%
<b>Reported EBIT</b>	<b>2,515</b>	<b>(2,772)</b>	<b>(36)</b>	<b>658</b>	<b>976</b>	<b>2,705</b>
Adjustments	1	343	121	122	250	200
<b>Adj. EBIT</b>	<b>2,516</b>	<b>(2,429)</b>	<b>85</b>	<b>780</b>	<b>1,226</b>	<b>2,905</b>
Adj EBIT margin	15.5%	-29.0%	0.6%	5.5%	7.4%	14.4%
<b>Adj EBITA</b>	<b>4,031</b>	<b>(687)</b>	<b>2,363</b>	<b>3,105</b>	<b>3,426</b>	<b>5,005</b>
Adj EBITA margin	24.8%	-8.2%	17.9%	22.0%	20.7%	24.8%
Depr. & amortisation	2,064	2,232	2,684	2,773	2,619	2,519
<b>Adj. net profit</b>	<b>2,431</b>	<b>(1,612)</b>	<b>308</b>	<b>283</b>	<b>795</b>	<b>2,041</b>
<i>Margin</i>	14.9%	-19.3%	2.3%	2.0%	4.8%	10.1%
<b>DPS (GBp)</b>	<b>1.70</b>	<b>0.00</b>	<b>0.00</b>	<b>0.50</b>	<b>0.75</b>	<b>1.25</b>

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
<b>Revenue</b>	<b>16,282</b>	<b>8,369</b>	<b>13,215</b>	<b>14,115</b>	<b>16,515</b>	<b>20,148</b>
Cost of revenue	(5,164)	(3,307)	(4,654)	(4,737)	(5,664)	(7,152)
<b>Gross profit</b>	<b>11,118</b>	<b>5,062</b>	<b>8,561</b>	<b>9,378</b>	<b>10,850</b>	<b>12,995</b>
<i>Gross margin</i>	68.3%	60.5%	64.8%	66.4%	65.7%	64.5%
G&A Expenses	(7,088)	(6,092)	(6,319)	(6,395)	(7,674)	(8,190)
Intangible asset amortisation	(1,390)	(1,669)	(2,195)	(2,254)	(2,100)	(2,000)
Share-based payments	(125)	(73)	(83)	(71)	(100)	(100)
<b>Reported EBIT</b>	<b>2,515</b>	<b>(2,772)</b>	<b>(36)</b>	<b>658</b>	<b>976</b>	<b>2,705</b>
<i>Reported EBIT margin</i>	15.4%	-33.1%	-0.3%	4.7%	5.9%	13.4%
<b>Reported EBITDA</b>	<b>4,579</b>	<b>(540)</b>	<b>2,648</b>	<b>3,431</b>	<b>3,595</b>	<b>5,224</b>
<i>Interest expense</i>	(113)	(50)	(138)	(206)	(250)	(250)
<b>Profit before tax</b>	<b>2,402</b>	<b>(2,822)</b>	<b>(174)</b>	<b>452</b>	<b>726</b>	<b>2,455</b>
Income Tax	28	867	361	(291)	(182)	(614)
<b>Reported net profit</b>	<b>2,430</b>	<b>(1,955)</b>	<b>187</b>	<b>161</b>	<b>545</b>	<b>1,841</b>
<i>Reported net profit margin</i>	14.9%	-23.4%	1.4%	1.1%	3.3%	9.1%
Shares Out - Basic (k)	28,410	28,953	28,949	28,809	29,209	29,509
Shares Out- Diluted (k)	28,692	28,953	29,330	28,876	29,276	29,576
<b>Reported EPS - Basic</b>	<b>8.55</b>	<b>(6.75)</b>	<b>0.65</b>	<b>0.56</b>	<b>1.86</b>	<b>6.24</b>
<b>Reported EPS – Diluted</b>	<b>8.47</b>	<b>(6.75)</b>	<b>0.64</b>	<b>0.56</b>	<b>1.86</b>	<b>6.23</b>

Source: Vianet, CAG Research

## Balance sheet – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Goodwill	17,856	17,856	17,856	17,856		
Other intangibles	5,505	6,184	5,976	5,425		
P, P, & E	3,795	3,391	3,262	3,370		
Deferred tax asset	0	26	386	0		
<b>Total non-current assets</b>	<b>27,156</b>	<b>27,457</b>	<b>27,480</b>	<b>26,651</b>		
Inventories	1,491	1,431	1,573	2,275		
Receivables	3,544	2,758	2,690	3,781		
Cash	1,728	1,894	1,583	69		
<b>Total current assets</b>	<b>6,763</b>	<b>6,083</b>	<b>5,846</b>	<b>6,125</b>		
<b>Total assets</b>	<b>33,919</b>	<b>33,540</b>	<b>33,326</b>	<b>32,776</b>		
Payables	2,710	3,257	2,983	2,348		
Leases	64	53	25	70		
Borrowings	2,011	1,265	2,310	1,925		
<b>Total current liabilities</b>	<b>4,785</b>	<b>4,575</b>	<b>5,318</b>	<b>4,343</b>		
Other payables	117	86	0	0		
Leases	35	0	0	122		
Borrowings	670	3,290	2,273	1,517		
Deferred tax liabilities	841	0	0	827		
<b>Total non-current liabilities</b>	<b>1,663</b>	<b>3,376</b>	<b>2,273</b>	<b>2,466</b>		
<b>Total liabilities</b>	<b>6,448</b>	<b>7,951</b>	<b>7,591</b>	<b>6,809</b>		
Share capital	2,895	2,895	2,880	2,880		
Share premium	11,709	11,709	11,711	11,711		
Capital redemption	0	0	15	15		
Share based payment reserve	364	437	499	563		
Merger reserve	310	310	310	310		
Retained profit	12,193	10,238	10,320	10,488		
<b>Total equity</b>	<b>27,471</b>	<b>25,589</b>	<b>25,735</b>	<b>25,967</b>	<b>26,868</b>	<b>28,444</b>
<b>Net debt/(cash) - IAS 17</b>	<b>953</b>	<b>2,661</b>	<b>3,000</b>	<b>3,373</b>	<b>1,517</b>	<b>(1,101)</b>
<b>Net debt/(cash) - IFRS 16</b>	<b>1,052</b>	<b>2,714</b>	<b>3,025</b>	<b>3,565</b>	<b>1,634</b>	<b>(1,059)</b>

Source: Vianet, CAG Research

## Cash flow – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Net (loss) income	2,431	(1,955)	187	161	545	1,841
Net Interest Payable	113	50	138	206	250	250
Income Tax Credits	(28)	(867)	(361)	291	182	614
Amort of Intangibles	1,390	1,669	2,195	2,254	2,100	2,100
Depreciation	674	563	489	519	519	519
Contingent consideration Release	(1,088)	0	(76)	0	0	0
Impairment of P, P, E, & Businesses	3	126	83	24	0	0
Tax receivable	0	0	0	922	0	0
Share Based Payments, Goodwill, LTIP Tax	227	73	83	71	100	100
<b>Operating cash flow before delta working capital</b>	<b>3,722</b>	<b>(341)</b>	<b>2,738</b>	<b>4,448</b>	<b>3,695</b>	<b>5,424</b>
Inventories	178	60	(142)	(702)		
Accounts Receivable	125	786	68	(1,091)	922	
Accounts Payable	191	547	(267)	(618)		
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>4,216</b>	<b>1,052</b>	<b>2,397</b>	<b>2,037</b>	<b>4,617</b>	<b>5,424</b>
Cash Flows From Investing Activities						
Purchases of P, P, & E	(730)	(268)	(465)	(651)	(500)	(500)
Capitalised Dev. Costs	(1,941)	(2,312)	(1,975)	(1,699)	(1,700)	(1,700)
Purchase of Intangibles	(79)	(36)	(12)	(4)	(15)	(15)
Sale of P, P, & E	0	0	22	0	0	0
<b>Net Cash used in Investing Activities</b>	<b>(2,750)</b>	<b>(2,616)</b>	<b>(2,430)</b>	<b>(2,354)</b>	<b>(2,215)</b>	<b>(2,215)</b>
Net Interest	(113)	(50)	(138)	(206)	(250)	(250)
Lease Repayment	(141)	(64)	(28)	(65)	(75)	(75)
Borrowings Repaid	(661)	(319)	(1,289)	(992)		
Contingent Consideration Paid	(552)	(31)	(16)	(16)	0	0
New Borrowings	0	3,540	0	0		
Dividends Paid	(1,604)	0	0	0	(221)	(266)
Issue of Shares	200	0	2	0	0	0
New leases	0	0	0	231		
Cancellation/Disposal of Shares	988	0	(126)	0		
<b>Net cash Provided by Financing Activities</b>	<b>(1,883)</b>	<b>3,076</b>	<b>(1,595)</b>	<b>(1,048)</b>	<b>(546)</b>	<b>(591)</b>
(increase)/decrease in net debt IAS 17	244	(1,709)	(339)	(373)	1,856	2,619
<b>(increase)/decrease in net debt - IFRS 16</b>	<b>385</b>	<b>(1,645)</b>	<b>(311)</b>	<b>(539)</b>	<b>1,931</b>	<b>2,694</b>

Source: Vianet, CAG Research

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**Capital Access Group**

32 Cornhill

London

EC3V 3SG

[www.capitalaccessgroup.co.uk](http://www.capitalaccessgroup.co.uk)