

# Vianet Group plc

12 December 2023

Price

79p

Ticker

[VNET](#)

Market Cap.

£23m

Net Debt (Cash)

£2.1m (1H FY24)

Free Float

80%

3mo Av. Daily Volume

23k

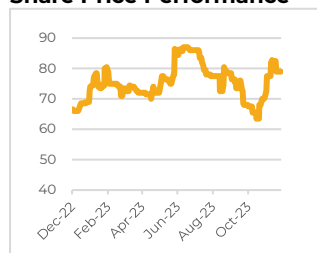
Brokers

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.

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## 1H FY24 results – As expected, 2H FY24 stronger

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

Vianet has published interim results to 30 September, reporting adjusted pre-tax profit of £29k (1H FY23 loss of £107k), excluding BMI post-acquisition costs. The results were in line with management's expectations while guidance that the results are on track to meet expectations for the full year was reiterated. That implies a stronger 2H FY24, aided by further contract wins and a pick up in business, particularly as the switch over from 3G to 4G gathers pace. The balance sheet was strengthened with net debt falling to £2.1m (£3.4m at YEFY23) benefitting from the receipt of a £0.9m tax rebate and higher operating cash generation. No interim dividend was declared but management indicated that there would be a FY24 final dividend. Vianet's share price has responded positively to the trading statement which previewed this performance. Even so, on our unchanged forecasts for EPS we continue to expect that Vianet should approach FY20 levels of pre-tax profit by FY25 when it would be trading on an undemanding sub-13x P/E.

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 set to be completed by summer 2024. The SmartDraught platform is a market leading beverage and bar management system which enables the drinks retailing industry to eliminate POS shrinkage and reduce waste, whilst driving quality, consumer experience and sales. This enhanced platform was launched in 2023 and has been upgraded with the integration of the recently acquired Beverage Metrics (BMI) business.

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 BMI business adding BMI's inventory platform to Vianet's SmartDraught draft beer management solution, adding BMI's US customer base, and accelerating the US hospitality road map by 12-18 months.

For 1H FY24, Vianet generated revenue of £7.19m (1H FY23 £7.18m) with an increase in recurring revenue to 87% (1H FY23 86%) and a 7.8% jump in gross margin to 69% (1H23 64%). Excluding BMI acquisition costs of £0.2m, adjusted operating profit jumped 24% to £1.5m. Operating cash generation increased to £1.29m (1H FY23 £0.71) with strong cash conversion of over 105% of EBITDA. Net debt fell to £2.1m (£3.4m at YEFY23 and £3.6m at 1H FY23)

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 with the BMI acquisition. While the 1H FY24 revenue performance YoY was modest, resulting from a higher proportion of rental sales upgrading 3G to 4G, the margin performance improved. Management remain very positive about the future and expect a significant pick up in 2H FY24. On our unchanged EPS forecasts, we continue to expect that Vianet should approach FY20 levels of pre-tax profit by FY25 when it would be trading on an undemanding sub-13x P/E.

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	15,315	70%	3,361	1.86	42.5x	7.4x
2025 e	17,153	70%	4,597	6.25	12.6x	4.9x

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

## Divisional highlights

The Smart Zones division, which serves the hospitality industry, generated a resilient overall performance, given the cost of living pressures on the customer base. Revenue was broadly in line YoY while the adjusted operating profit margin slipped to 41% from 43%. However, net of the BMI c£0.2m post-acquisition operating costs – like for like margin was c4% up year on year helped by the strength of recurring revenue and reduced cost of operation, as reflected in the positive improvement in gross margin.

Despite suffering from the impact on sales from the transitional delay in the 3G to 4G network upgrade, the Smart Machines division, which serves the unattended retail business, marginally increased revenue but succeeded in improving its adjusted operating profit margin to 34% from 27%. While the Smart Machines division is the smaller of the two, it is increasingly the driver to growth for Vianet, pending the potential acceleration of growth to come in the US hospitality market, following the BMI acquisition (Figure 1).

**Figure 1: Divisional performance (£k)**

Division	1H FY24A	1H FY23A	YoY	FY23A
<b>Smart Zones</b>				
Revenue	4,144	4,175	-1%	8,163
Adj operating profit	1,711	1,814	-6%	3,789
Adj segment result	1,384	1,519	-9%	3,174
Reported profit before tax	1,153	1,456	-21%	2,968
<b>Smart Machines</b>				
Revenue	3,050	3,006	1%	5,952
Adj operating profit	1,048	814	29%	2,013
Adj segment result	866	652	33%	1,667
Reported before tax	866	633	37%	1,648

Source: Vianet, CAG Research.

### Smart Machines

Smart Machines expanded its installed base by 5.9% YoY to 55.6k connected units. The division secured 37 new contracts and renewed eight existing ones, mainly on five-year agreements. That was a demonstration of the successful implementation of Vianet's 'Retain & Gain' strategy in response to the 3G switch-off in favour of 4G which is forcing vending customers to upgrade their machines as well as offering new opportunities to provide value added data services.

Vianet 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. The expansion into the forecourt sector marks a significant diversification milestone for the company.

### Smart Zones

Vianet saw a deceleration in the closure rate of pubs with the reduction in the core UK installation base limited to 150 contracted sites bringing the total number of UK sites to 9,720.

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.

The main event for the division in 1H FY24 was the BMI acquisition for £0.6m which has been integrated with Vianet's draught monitoring platform to create an advanced beverage management solution, bringing BMI's US estate of 120 revenue generating sites together with its inventory monitoring technology platform.

Vianet believes the acquisition of BMI has accelerated its hospitality roadmap in the US by 12-18 months. The acquisition has also facilitated a partnership with a prominent alcohol procurement provider in the US and laid the groundwork with major US chains, setting the stage for profitable expansion into the enormous US market by FY25.

## Investment case summary

Item	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.
<b>Tail winds from Market Trends</b>	COVID has accelerated the rise of contactless payments, as well as 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	2021 a	2022 a	2023 a	1H24 a	2024 e	2025 e
<b>Revenue</b>	<b>8,369</b>	<b>13,215</b>	<b>14,115</b>	<b>7,194</b>	<b>15,315</b>	<b>17,306</b>
Revenue growth YoY	-48.6%	57.9%	6.8%	0.2%	8.5%	13.0%
<b>Gross Profit</b>	<b>5,062</b>	<b>8,561</b>	<b>9,378</b>	<b>4,991</b>	<b>10,705</b>	<b>12,097</b>
Gross margin	60.5%	64.8%	66.4%	69.4%	69.9%	69.9%
<b>Reported EBIT</b>	<b>(2,772)</b>	<b>(36)</b>	<b>658</b>	<b>(95)</b>	<b>891</b>	<b>2,347</b>
Adjustments	343	121	122	330	330	200
<b>Adj. EBIT</b>	<b>(2,429)</b>	<b>85</b>	<b>780</b>	<b>235</b>	<b>1,221</b>	<b>2,547</b>
Adj EBIT margin	-29.0%	0.6%	5.5%	3.3%	8.0%	14.7%
<b>Adj EBITA</b>	<b>(687)</b>	<b>2,363</b>	<b>3,105</b>	<b>1,297</b>	<b>3,361</b>	<b>4,597</b>
Adj EBITA margin	-8.2%	17.9%	22.0%	18.0%	21.9%	26.6%
Depr. & amortisation	2,232	2,684	2,773	2,619	2,619	2,519
<b>Adj. net profit</b>	<b>(1,612)</b>	<b>308</b>	<b>283</b>	<b>159</b>	<b>876</b>	<b>2,059</b>
Margin	-19.3%	2.3%	2.0%	2.2%	5.7%	11.9%
<b>DPS (GBp)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.50</b>	<b>0.00</b>	<b>0.75</b>	<b>1.25</b>

£'000	2021 a	2022 a	2023 a	1H24 a	2024 e	2025 e
<b>Revenue</b>	<b>8,369</b>	<b>13,215</b>	<b>14,115</b>	<b>7,194</b>	<b>15,315</b>	<b>17,306</b>
Cost of revenue	(3,307)	(4,654)	(4,737)	(2,203)	(4,610)	(5,209)
<b>Gross profit</b>	<b>5,062</b>	<b>8,561</b>	<b>9,378</b>	<b>4,991</b>	<b>10,705</b>	<b>12,097</b>
Gross margin	60.5%	64.8%	66.4%	69.4%	69.9%	69.9%
G&A Expenses	(6,092)	(6,319)	(6,395)	(4,024)	(7,674)	(7,700)
Intangible asset amortisation	(1,669)	(2,195)	(2,254)	(1,042)	(2,100)	(2,000)
Share-based payments	(73)	(83)	(71)	(20)	(40)	(50)
<b>Reported EBIT</b>	<b>(2,772)</b>	<b>(36)</b>	<b>658</b>	<b>(95)</b>	<b>891</b>	<b>2,347</b>
Reported EBIT margin	-33.1%	-0.3%	4.7%	-1.3%	5.8%	13.6%
<b>Reported EBITDA</b>	<b>(540)</b>	<b>2,648</b>	<b>3,431</b>	<b>1,466</b>	<b>3,510</b>	<b>4,866</b>
Interest expense	(50)	(138)	(206)	(76)	(200)	(160)
<b>Profit before tax</b>	<b>(2,822)</b>	<b>(174)</b>	<b>452</b>	<b>(171)</b>	<b>691</b>	<b>2,187</b>
Income Tax	867	361	(291)	0	(145)	(328)
<b>Reported net profit</b>	<b>(1,955)</b>	<b>187</b>	<b>161</b>	<b>(171)</b>	<b>546</b>	<b>1,859</b>
Adjusted net profit margin	-23.4%	1.4%	1.1%	-2.4%	3.6%	10.7%
Shares Out - Basic (k)	28,953	28,949	28,809	29,353	29,353	29,753
Shares Out- Diluted (k)	28,953	29,330	28,876	29,353	29,353	29,753
<b>Reported EPS - Basic</b>	<b>(6.75)</b>	<b>0.65</b>	<b>0.56</b>	<b>(0.58)</b>	<b>1.86</b>	<b>6.25</b>
<b>Reported EPS – Diluted</b>	<b>(6.75)</b>	<b>0.64</b>	<b>0.56</b>	<b>(0.58)</b>	<b>1.86</b>	<b>6.25</b>

Source: Vianet, CAG Research.

## Balance sheet – 31st March year end

£'000	2021 a	2022 a	2023 a	1H24 a	2024 e	2025 e
Goodwill	17,856	17,856	17,856			
Other intangibles	6,184	5,976	5,425	23,495		
P, P, & E	3,391	3,262	3,370	3,249		
Deferred tax asset	26	386	0	0		
<b>Total non-current assets</b>	<b>27,457</b>	<b>27,480</b>	<b>26,651</b>	<b>26,744</b>		
Inventories	1,431	1,573	2,275	2,371		
Receivables	2,758	2,690	3,781	3,295		
Cash	1,894	1,583	69	1,323		
<b>Total current assets</b>	<b>6,083</b>	<b>5,846</b>	<b>6,125</b>	<b>6,989</b>		
<b>Total assets</b>	<b>33,540</b>	<b>33,326</b>	<b>32,776</b>	<b>33,733</b>		
Payables	3,257	2,983	2,348	2,892		
Leases	53	25	70	50		
Borrowings	1,265	2,310	1,925	206		
<b>Total current liabilities</b>	<b>4,575</b>	<b>5,318</b>	<b>4,343</b>	<b>3,148</b>		
Other payables	86	0	0	0		
Leases	0	0	122	124		
Borrowings	3,290	2,273	1,517	3,209		
Deferred tax liabilities	0	0	827	827		
<b>Total non-current liabilities</b>	<b>3,376</b>	<b>2,273</b>	<b>2,466</b>	<b>4,160</b>		
<b>Total liabilities</b>	<b>7,951</b>	<b>7,591</b>	<b>6,809</b>	<b>7,308</b>		
Share capital	2,895	2,880	2,880	2,955		
Share premium	11,709	11,711	11,711	11,737		
Capital redemption	0	15	15	15		
Share based payment reserve	437	499	563	583		
Merger reserve	310	310	310	818		
Retained profit	10,238	10,320	10,488	10,317		
<b>Total equity</b>	<b>25,589</b>	<b>25,735</b>	<b>25,967</b>	<b>26,425</b>	<b>26,869</b>	<b>28,462</b>
<b>Net debt/(cash) - IAS 17</b>	<b>2,661</b>	<b>3,000</b>	<b>3,373</b>	<b>2,092</b>	<b>1,534</b>	<b>(766)</b>
<b>Net debt/(cash) - IFRS 16</b>	<b>2,714</b>	<b>3,025</b>	<b>3,565</b>	<b>2,266</b>	<b>1,682</b>	<b>(693)</b>

Source: Vianet, CAG Research.

## Cash flow – 31st March year end

£'000	2021 a	2022 a	2023 a	1H24 a	2024 e	2025 e
Net (loss) income	(1,955)	187	161	(171)	546	1,859
Net Interest Payable	50	138	206	76	200	160
Income Tax Credits	(867)	(361)	291	0	145	328
Amort of Intangibles	1,669	2,195	2,254	1,042	2,100	2,100
Depreciation	563	489	519	273	519	519
Contingent consideration Release	0	(76)	0	0	0	0
Impairment of P, P, E, & Businesses	126	83	24	23	0	0
Tax receivable	0	0	922	0	0	0
Share Based Payments, Goodwill, LTIP Tax	73	83	71	20	40	50
<b>Operating cash flow before delta working capital</b>	<b>(341)</b>	<b>2,738</b>	<b>4,448</b>	<b>1,263</b>	<b>3,550</b>	<b>5,016</b>
Inventories	60	(142)	(702)	(96)		
Accounts Receivable	786	68	(1,091)	(418)		
Accounts Payable	547	(267)	(618)	540		
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>1,052</b>	<b>2,397</b>	<b>2,037</b>	<b>1,289</b>	<b>3,550</b>	<b>5,016</b>
Income tax (paid)/received	0	0	0	922	922	0
<b>Net cash flow</b>	<b>1,052</b>	<b>2,397</b>	<b>2,037</b>	<b>2,211</b>	<b>4,472</b>	<b>5,016</b>
Cash Flows From Investing Activities						
Purchases of P, P, & E	(268)	(465)	(651)	(175)	(500)	(500)
Capitalised Dev. Costs	(2,312)	(1,975)	(1,699)	0	(1,000)	(1,700)
Purchase of Intangibles	(36)	(12)	(4)	(695)	(700)	(15)
Sale of P, P, & E	0	22	0	0	0	0
<b>Net Cash used in Investing Activities</b>	<b>(2,616)</b>	<b>(2,430)</b>	<b>(2,354)</b>	<b>(870)</b>	<b>(2,200)</b>	<b>(2,215)</b>
Cash Flows From Financing Activities						
Net Interest	(50)	(138)	(206)	(76)	(200)	(160)
Lease Repayment	(64)	(28)	(65)	(49)	(75)	(75)
Borrowings Repaid	(319)	(1,289)	(992)	(2,297)	(2,297)	
Contingent Consideration Paid	(31)	(16)	(16)	0	0	0
New Borrowings	3,540	0	0	3,440	3,440	
Dividends Paid	0	0	0	0	(221)	(266)
Issue of Shares	0	2	0	32	32	0
New leases	0	0	231	31	31	
Cancellation/Disposal of Shares	0	(126)	0	0	0	
<b>Net cash Provided by Financing Activities</b>	<b>3,076</b>	<b>(1,595)</b>	<b>(1,048)</b>	<b>1,081</b>	<b>710</b>	<b>(501)</b>
(increase)/decrease in net debt - IAS 17	(1,709)	(339)	(373)	1,279	1,839	2,300
(increase)/decrease in net debt - IFRS 16	(1,645)	(311)	(539)	1,297	1,883	2,375

Source: Vianet, CAG Research

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