

Shekel Brainweigh

The weigh of the future

Shekel Brainweigh (ASX: SBW) is a global market leader in weighing sensor technology with an established, profitable core business in Shekel Scales, a core load cell technology used by tech giants such as Toshiba, Fujitsu, DataLogic and GE Healthcare. This technology is recognised as best in class for its accuracy (2.5% error) and speed (10x faster than competitors). SBW has extended its deep IP portfolio with the development and, now commercialisation, of its product-aware surface technology, initially for the retail sector through autonomous vending machines and smart shelving. The Israel-based company listed on the ASX in August 2018, raising \$10.15m at \$0.35/share, to fund the continued development of its product aware surface technology into more applications and industries. The current price of \$0.20/share suggests that the market is applying a compound annual growth rate (CAGR) of 11% to SBW's free cashflows for the next 10 years, which is lower than the 15% CAGR forecast for the global automated vending machines market alone and does not reflect the many other potential uses for this technology in other industries.

Strategy

Shekel Brainweigh has been developing advanced weighing technology for more than 40 years and counts Toshiba, Fujitsu, Datalogic, Diebold-Nixdorf and GE Healthcare as its main customers, servicing both the retail and healthcare sectors, the latter in incubators for premature infants. SBW is focused on the continued expansion of its profitable core business together with commercialisation of its product aware surface technology. The initial target for the surface technology is the retail sector and its pursuit of autonomous retailing. Automated vending machines market are forecasted by third party industry researchers to grow at a CAGR of 15% to US\$15b by 2025. SBW has had its first commercial order for its fully autonomous vending machine, Innovendi, from Tnuva Group, Israel's largest dairy supplier, which ordered 100 units immediately and agreed to buy a minimum 1,200 fully automated vending machines over a seven-year period. The company is concurrently working with GE Healthcare to use its product aware surface technology in next generation incubators and with major retailers to use this technology as a solution for autonomous retail and inventory management.

CY18 result

SBW reports on a calendar year basis and in US dollars. FY18 revenues increased 2.75%, while underlying EBITDA, excluding listing expenses and share based payments was US\$1.8m, down from US\$2.6m the year before, largely due to a 170% increase in research and development investment to US\$2.5m. Significantly, unit sales of the company's self-checkout systems experienced strong growth with major customers such as Toshiba (46% increase in units to 18,816) and Fujitsu (up 158% to 12,461), accompanied by a 20% increase in sales to GE Healthcare's incubator systems.

Reverse DCF implies lower than industry growth

We have undertaken a reverse DCF of Shekel Brainweigh to determine what CAGR in free cashflows is implied in the current share price of A\$0.20/share. We used a discount rate of 15% and 2% terminal rate and applied the analysis to SBW's FY18 FCF after tax and capex. Our analysis yields a 11% CAGR in 10-year FCFs, which in our view does not reflect the company's exposure to the growth rates forecasted for the global market for autonomous retail or the many other likely potential uses of its product aware surface technology. Retail and healthcare are just the first two industries in SBW's sights.

Earnings history (US\$m)

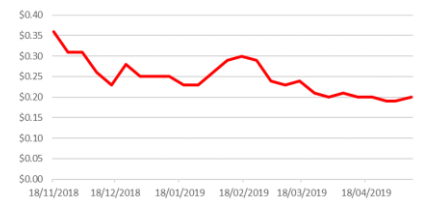
Y/E	Revenue	Gross Profit	EBITDA Adj*	EBIT Adj*	NPAT*	EPS(c)*	PE (x)	EV/EBITDA (x)
12/16	15.5	5.5	1.1	0.9	0.5	n.a	n.a	n.a
12/17	18.2	7.7	2.6	2.4	1.9	n.a	n.a	n.a
12/18	18.7	8.3	1.8	1.6	0.9	0.7	29.6	12.1

Source: Company data *Adjusted for transaction costs associated with IPO in FY18, share based payments

Share details

ASX Code	SBW
Share Price	\$0.20
Market Capitalisation	\$27.8M
Number of shares	139M
Enterprise Value	\$21.5M
Sector	Technology
Free Float	20%

Share price performance (since float)



RaaS RAP 5-point score* = 3/5

Revenue increasing (1); EPS increasing (0); Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- Chosen by Intel to join a select group of global players on the Open Retail Initiative to find autonomous retail technology solutions
- Product-aware surface technology secured its first commercial success ahead of expectations
- Many more uses for SBW's surface technology beyond smart shelving and autonomous vending machines including advanced incubator solutions

Downside Case

- Low liquidity with only 20% free-float
- Currency translation from USD adds complexity for investors
- ROCE likely to be impacted near term by increased R&D expenditure

Catalysts

- Automated vending machine roll-out in FY19
- Integration of product-aware shelving to retailers

Comparative companies (Australia & NZ)

FLC, IKE, MOB

Substantial Shareholders

Axel Partner VI LLC 37.21%,
Consepta (2006) Ltd 25.34%;
Beit-Keshet Agricultural Co-operative Society 16.59%

RaaS Advisory contacts

Finola Burke	+61 414 354 712 finola.burke@raasgroup.com
John Burgess	+61 410 439 723 john.burgess@raasgroup.com

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMER and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363) on behalf of Shekel Brainweigh, which has recently engaged RaaS to prepare research reports on the company. RaaS will be paid for the research it produces by way of a monthly retainer. This disclaimer and disclosure should be read in conjunction with RaaS Advisory's Financial Services Guide on the previous two pages or at www.raasgroup.com. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; neither RaaS Advisory nor Shekel Brainweigh can guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory is a Corporate Authorised Representative under AFSL licence No 456663. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Past performance is not a guarantee of future performance. To the maximum extent permitted by law, RaaS Advisory, its affiliates, the respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. Copyright 2019 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.