

## Equity raising to support new product delivery

Shekel Brainweigh Limited (ASX:SBW) has addressed one of the key priorities for the group and announced the successful completion of a A\$2.1m (US\$1.6m) capital raise at \$0.16/share plus attaching options. The raise will be used for HR recruitment to promote the Go to Market of Shekel's range of new products and should suffice until further progress is made on the group's two other priorities, being a resumption of growth in the core scales business and the delivery of new product sales. To this point SBW recently formed a JV with Imbera Cooling (refrigeration) and Parlevel Systems (vending management software) to produce the Hubz, a new generation version of the Innovendi to be manufactured & distributed in the US & Latin America. This adds to other new products in the market including Innovendi, the Micro-market Capsule or "Black Box" currently in trial with Casino France and Smart Shelves. Given COVID disruptions and the recent nature of these alliances/trials it is unlikely we will see significant progress in new product unit sales until the middle of CY21. Our numbers are unchanged, but downside risk exists for new product sales assumptions in 2H20 and 1H21, which we will review post the CY20 result in February. Our DCF valuation has been adjusted to reflect the 1) 7% appreciation of the A\$ and 2) the 10% increase in shares on issue.

### Business model

SBW produces weighing scale hardware/software that is employed by OEMs for self-checkout and healthcare applications requiring speed and accuracy. Prices received from customers are typically fixed, and gross margins are in-line with that achieved by most OEM equipment suppliers. The group is looking to extend this market leading technology into new verticals, opening up larger market opportunities, potentially higher gross margins and some recurring SaaS style revenue from data analytics. One of the new verticals (Innovendi vending machines) is in commercialisation while others are nearing commercialisation (Micro-market Capsule and the Hubz).

### Raise partially addresses capital structure

The US\$1.6m raise is lower than that required to maintain recent R&D spend and provide working capital for growth, but enough to provide a buffer until the group can demonstrate commercial traction for new products, and renewed growth for the core scales business, both key priorities for new management and both significantly impacted by COVID disruptions over CY20. In our view, the simple equity structure of the raise should aid liquidity and is only modestly (10%) dilutive.

### Base case valuation A\$0.33/share fully diluted

Our base case DCF valuation for SBW has decreased from \$0.38/share to \$0.33/share, impacted by the higher A\$/US\$ (\$0.72c to \$0.77c or 2cps) and the dilution from the equity raise (3cps). We continue to highlight investors are paying nothing for the "new retail" division if the underlying core scales business is valued at 8x our estimated underlying EBIT, while our DCF valuation incorporates a high (10.8%) WACC acknowledging timing/forecast risk.

#### Historical earnings and RaaS Advisory estimates on a reported basis

Year end	Revenue (US\$m)	EBIT (US\$m)	NPAT (US\$m)	EPS (c)	PER (x)	EV/sales(x)
12/19a	18.8	(2.1)	(2.4)	(0.02)	(7.3)	0.82
12/20e	18.9	(2.3)	(2.6)	(0.01)	(10.5)	0.97
12/21e	23.6	0.2	(0.1)	0.00	65.0	0.75
12/22e	26.8	2.0	1.3	0.01	13.1	0.62

Source: Company Data, RaaS Advisory Estimates

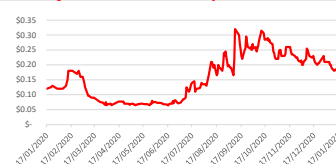
## Technology – Hardware/software

21 January 2021

### Share details

ASX Code	SBW
Share price at 18 Jan	\$0.19
Market Capitalisation	\$29.0M
Shares on issue	153.2M
Enterprise value	\$25.7M
Cash at 30 Jun '20	\$3.3M
Free float	~27%

### Share performance (12 months)



### Upside Case

- Strong growth expected in the group's core self-checkout and healthcare markets
- New verticals have commenced commercialisation, with significant opportunities.
- Mix shift to recurring SaaS fees will increase gross margins and lower days receivables

### Downside Case

- Low liquidity with ~27% free float
- Currency translation from USD and AASB16 adds complexity for investors
- Near term ROE likely to be impacted by R&D expenditure

### Management

Arik Schor	Executive Chairman
Barak Nir	Chief Financial Officer
Udi Weisner	GM, Innovation Division
Nir Lesham	GM, Scales Division

### Company contact

Danny Nadri Australian Manager

danny@shekelbrainweigh.com

### RaaS Advisory contact details

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

\*The author holds shares

## Update on strategic priorities

New Chairman Arik Schor clearly articulated three key priorities for the next 12 months in October 2020.

Those priorities and their current status are updated below:

- **Raise capital.** SBW had US\$2.3m (A\$3.1m) cash on hand as at June-30 2020 and a working capital facility of US\$4.4m which exceeded net receivables by ~US\$2m.

The recently announced raise of US\$1.6m goes some way to addressing this shortfall but more funds may be needed for working capital should new product sales accelerate.

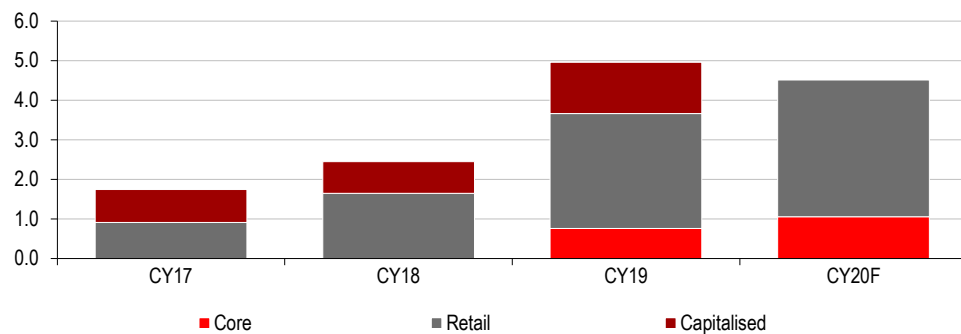
- **Resume growth in the core “scales” business.** The core SBW scales division achieved EBIT of US\$2.5m (A\$3.6m) in CY17. Since then, an acceleration in R&D spend and loan write-offs have reduced the earnings visibility of this division, while underlying unit sales have slowed.

We estimate underlying EBIT is around US\$2m depending on how R&D is treated but clearly there is upside from a more focused business. New management and the launch of new own brand health products should provide a big impetus heading into CY21 off a COVID impacted base for a product that is undeniably market leading.

- **Deliver on new product innovation.** Based on the chart below ~US\$12m has been invested on new product development over the last 3 years if both P&L and capitalised software expenditure are considered. There have been trials with multiple retailers, manufacturers and technology partners across a range of products to explore near-term commercialisation options.

The Innovendi vending machine, the Hubz (discussed next page) and the Micro Market Capsule (discussed next page) have become the clear near-term focus, while the “fast track” application (using cameras and AI to identify fresh produce faster) to existing self-checkout units is still in play despite the termination of the Edgify MOU due to an alleged breach of the non-compete obligations.

**Exhibit 1: SBW R&D spend (US\$m) including capitalised software**



Source: Company financials & RaaS estimates

## The “capsule” or “black box” update

Recent press has shed significant light on the micro-market capsule or “Black Box” as it has been termed by development partner Casino Group out of France. The Casino group operates >11,000 multi-banner stores across France and Latin America.

A prototype capsule was recently soft launched in France following 18-months in development, with a video link showcasing the concept below.

[The Casino Group prototype capsule video](#)

The product was launched to the public in December but a strict COVID lockdown in France shortly after has limited the trial data. Intentions in related media articles were for Casino to deploy at least 10 containers (RaaS has 20 forecast) over CY21, but this is clearly contingent on COVID developments.

It is envisaged these capsules will be placed near existing Monoprix convenience stores for restocking ease and to relieve these stores in peak traffic periods. Significant cannibalisation is not expected. Locations such as train stations, airports (eventually!), campuses and hospitals are also high on the list of locations. Depending on the location monthly turnover is expected to range from €30k to €60k.

## The Hubz

SBW recently announced the formation of a commercial partnership to produce a second generation version of the company owned/produced Innovendi called the HUBZ. Key partner details include:

- **Imbera Cooling**, an established refrigeration player and a world leader in commercial refrigeration in operations since 1941.
- **Parlevel Systems**, a San Antonio based Vending Management System provider of the Parlevel Box telemeter, offering reliable cellular connection, customer scheduling and payment options.

Like the Innovendi the Hubz is a refrigerated vending machine capable of stocking a wide range of products for use in a wide range of locations, including medical centers, shared office spaces, hotels, convenience stores, shopping malls, transport hubs, apartment blocks and universities.

The unit is expected to be manufactured and sold across the US and Latin America utilising established distribution channels. SBW has highlighted via third party research that the US Intelligent Vending Machine market had an estimated value of US\$1.9m in 2020.

SBW will provide the weighing units as an OEM supplier. We had previously forecast Innovendi “kits” to be sold in addition to Innovendi units and this commercial partnership should more than support underlying “kit” unit sale assumptions.

First unit sales are expected by April 2021, with a link to the initial Hubz website below.

<https://hubzstores.com/>

**Exhibit 2: Financial Summary**

Shekel Brainweigh (SBW.ASX)						Share price (20 January 2021)						A\$	0.19				
Profit and Loss (US\$m)						Interim (US\$m)						H118A	H218A	H119A	H219A	H120	H220F
Y/E 31 Dec	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	8.8	9.9	8.4	10.4	7.9	10.9					
Revenue	18.7	18.8	18.9	23.6	26.8	EBITDA	0.2	(0.5)	(1.6)	(0.3)	(1.9)	0.2					
Gross profit	8.3	8.2	8.2	11.2	13.1	EBIT	0.1	(0.6)	(1.7)	(0.4)	(2.2)	(0.1)					
GP margin %	44.5%	43.7%	43.6%	47.4%	48.7%	NPATA (normalised)	(0.0)	(1.1)	(1.6)	(0.9)	(2.1)	0.0					
EBITDA	(0.3)	(1.9)	(1.6)	0.9	2.7	Adjustments	0.0	0.0	(0.5)	(0.8)	(0.4)	(0.2)					
Depn	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	NPAT (reported)	(0.0)	(1.1)	(2.1)	(1.6)	(2.5)	(0.2)					
Amort	0.0	0.0	(0.5)	(0.5)	(0.5)	EPS (normalised)	(0.000)	(0.010)	(0.011)	(0.006)	(0.014)	0.000					
EBIT	(0.5)	(2.1)	(2.3)	0.2	2.0	EPS (reported)	(0.000)	(0.010)	(0.015)	(0.012)	(0.016)	(0.001)					
Interest	(0.7)	(0.3)	(0.3)	(0.2)	(0.3)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	0.1	(0.0)	(0.0)	(0.1)	(0.5)	Imputation	0.0	0.0	0.0	0.0	0.0	0.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	na	na	na	na	na	na					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
NPAT pre significant items	(1.2)	(2.4)	(2.6)	(0.1)	1.3	<b>Divisionals</b>	<b>H118A</b>	<b>H218A</b>	<b>H119</b>	<b>H219</b>	<b>H120</b>	<b>H220F</b>					
Significant items	(0.4)	(1.2)	0.0	0.0	0.0	Traditional Scales	8.8	9.9	8.4	10.4	6.4	9.2					
<b>NPAT (reported)</b>	<b>(1.5)</b>	<b>(3.6)</b>	<b>(2.6)</b>	<b>(0.1)</b>	<b>1.3</b>	New Retail	-	-	-	-	1.5	1.7					
<b>Cash flow (US\$m)</b>						Total Revenue	<b>8.8</b>	<b>9.9</b>	<b>8.4</b>	<b>10.4</b>	<b>7.9</b>	<b>10.9</b>					
<b>Y/E 31 Dec</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>												
Adj EBITDA inc. rent	0.8	(0.7)	(1.5)	1.0	2.9	Gross profit	3.3	5.1	3.8	4.4	3.2	5.1					
Interest	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	Gross Profit Margin %	37.2%	51.0%	45.5%	42.2%	39.7%	46.4%					
Tax	0.0	0.2	(0.0)	(0.1)	(0.3)	R&D	0.5	1.1	2.1	0.8	1.7	1.8					
Working capital changes	0.5	(0.9)	1.2	(1.5)	(1.0)	General & Admin & Other	2.2	2.6	3.0	3.0	3.2	3.0					
Operating cash flow	1.2	(1.6)	(0.7)	(0.8)	1.3	One-off costs & Non-cash	0.3	1.8	0.4	0.9	0.2	-					
Mtce capex	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	Total costs	<b>3.1</b>	<b>5.6</b>	<b>5.4</b>	<b>4.7</b>	<b>5.0</b>	<b>4.8</b>					
Free cash flow	1.0	(1.8)	(0.9)	(1.0)	1.1	<b>EBITDA</b>	<b>0.2</b>	<b>(0.5)</b>	<b>(1.6)</b>	<b>(0.3)</b>	<b>(1.9)</b>	<b>0.2</b>					
Capitalised Software	(0.8)	(1.3)	0.0	0.0	0.0	EBITDA margin %	2.1%	(5.1%)	(19.2%)	(3.0%)	(23.5%)	2.1%					
Acquisitions/Disposals	(0.2)	(0.1)	0.0	0.0	0.0	<b>Margins, Leverage, Returns</b>		<b>FY18A</b>	<b>FY19A</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>					
Other	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		(1.7%)	(10.2%)	(8.7%)	3.7%	10.1%					
Cash flow pre financing	0.0	(3.2)	(0.9)	(1.0)	1.1	EBIT margin %		(2.8%)	(11.1%)	(12.0%)	0.9%	7.5%					
Equity	6.1	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		(6.2%)	(13.0%)	(13.7%)	-0.5%	4.7%					
Debt	(0.4)	0.0	0.0	0.0	0.0	Net Debt (Cash)	-	6.25	- 2.57	- 1.50	- 2.28	- 3.17					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm					
Net cash flow for year	5.7	(3.2)	(0.9)	(1.0)	1.1	ND/ND+Equity (%)	(%)	33.8%	21.4%	18.0%	20.1%	23.6%					
<b>Balance sheet (US\$m)</b>						EBIT interest cover (x)	(x)	n/a	n/a	n/a	108.7%	12.4%					
<b>Y/E 31 Dec</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>	ROE		(2.2%)	(10.6%)	(12.4%)	1.1%	8.8%					
Cash	6.3	2.6	1.5	2.3	3.2	ROE		(9.4%)	(25.9%)	(37.8%)	(1.3%)	12.2%					
Accounts receivable	5.6	5.8	5.1	6.0	6.6	<b>NTA (per share)</b>		0.11	0.07	0.04	0.05	0.05					
Inventory	3.2	3.5	3.5	4.5	5.2	<b>Working capital</b>		6.9	7.8	6.7	8.2	9.2					
Other current assets	2.0	1.5	1.5	1.9	2.1	<b>WC/Sales (%)</b>		<b>37.0%</b>	<b>41.6%</b>	<b>35.4%</b>	<b>34.8%</b>	<b>34.2%</b>					
<b>Total current assets</b>	<b>17.0</b>	<b>13.4</b>	<b>11.6</b>	<b>14.7</b>	<b>17.1</b>	<b>Revenue growth</b>		2.4%	0.9%	0.3%	25.0%	13.8%					
PPE	0.5	0.6	0.7	0.7	0.8	<b>EBIT growth pa</b>		nm	nm	nm	(109.3%)	851.6%					
Intangibles	2.0	3.2	2.8	2.3	1.8	<b>Pricing</b>		<b>FY18A</b>	<b>FY19A</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>					
Right of Use Asset	0.0	2.4	1.7	0.9	2.5	No of shares (y/e)	(m)	113	139	153	153	153					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	113	139	153	153	153					
Other non current assets	0.2	0.0	0.4	2.0	2.8	EPS Reported	US cps	(0.01)	(0.02)	(0.01)	0.00	0.01					
<b>Total non current assets</b>	<b>2.7</b>	<b>6.2</b>	<b>5.5</b>	<b>5.9</b>	<b>7.9</b>	EPS Normalised/Diluted	US cps	(0.01)	(0.02)	(0.01)	0.00	0.01					
<b>Total Assets</b>	<b>19.7</b>	<b>19.6</b>	<b>17.1</b>	<b>20.6</b>	<b>25.0</b>	EPS growth (norm/dil)		nm	nm	nm	nm	398%					
Accounts payable	1.9	1.5	1.9	2.3	2.7	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Short term debt	4.0	4.1	4.1	5.1	5.8	DPS Growth		n/a	n/a	n/a	n/a	na					
Lease Liability	0.0	1.8	1.5	0.7	2.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Other	1.4	2.6	2.6	3.2	3.7	Dividend imputation		0	0	0	0	0					
<b>Total current liabilities</b>	<b>7.2</b>	<b>9.9</b>	<b>10.0</b>	<b>11.3</b>	<b>14.4</b>	PE (x)		27.8	- 7.3	- 10.5	65.0	13.1					
Long term debt	0.0	0.0	0.0	0.0	0.0	PE market		12.0	12.0	12.0	12.0	12.0					
Other non current liabs	0.3	0.3	0.3	0.3	0.3	Premium/discount			(161.2%)	(187.9%)	441.7%	8.8%					
<b>Total long term liabilities</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	EV/EBITDA		nm	nm	(12.1)	23.8	7.5					
<b>Total Liabilities</b>	<b>7.5</b>	<b>10.2</b>	<b>10.2</b>	<b>11.6</b>	<b>14.7</b>	FCF/Share	US cps	(0.007)	(0.022)	(0.007)	(0.008)	0.006					
<b>Net Assets</b>	<b>12.3</b>	<b>9.5</b>	<b>6.9</b>	<b>9.0</b>	<b>10.3</b>	Price/FCF share		(20.4)	(6.0)	(19.1)	(17.0)	22.8					
Share capital	7.7	7.7	7.7	10.0	10.0	Free Cash flow Yield		(4.9%)	(16.5%)	(5.2%)	(5.9%)	4.4%					
Accumulated profits/losses	2.9	(0.5)	(3.1)	(3.2)	(2.0)												
Reserves	1.3	1.8	1.8	1.8	1.8												
Minorities	0.3	0.4	0.4	0.4	0.4												
<b>Total Shareholder funds</b>	<b>12.3</b>	<b>9.5</b>	<b>6.9</b>	<b>9.0</b>	<b>10.3</b>												

Source: RaaS Advisory

# 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: 26<sup>th</sup> 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](mailto: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](http://www.afca.org.au); Email: [info@afca.org.au](mailto: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.

#### DISCLAIMERS and DISCLOSURES

This report has been commissioned by Shekel Brainweigh Ltd prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2021 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved