

Shekel Brainweigh Ltd

Full-year result summary

Signs of improvement 2H20 and confidence for CY21

Shekel Brainweigh Limited (ASX:SBW) has reported FY20 sales of US\$18.3m, 3% below the PCP but a solid result considering the impacts of COVID on own brand sales (-45%) and business development (travel restrictions). Adjusted FY20 EBITDA losses increased from US\$1.9m to US\$2.6m due mainly to a lower gross margin impacted by FX (NIS/USD). Importantly R&D remained elevated at 18% of sales (or US\$3.3m) as the group continues new product commercialisation, with (7) paid pilots currently in place. Working capital was well controlled, down 500bps to 37% of sales while net cash (ex the working capital facility) post the January capital raising was ~US\$3m (A\$4.0m). Improving 2H20 run-rates and new product launches point to a much better CY21, and we are forecasting 19% sales growth and a modest EBITDA loss as a result, driven by 1) cycling of the 45% own brand sales decline, 2) first “Hubz” vending kit sales expected from Q2CY21, 3) the annualisation of three new scales customers from 2H20, 4) a “FastTrack” self-checkout launch in 2HCY21 and 5) the cycling of a 10% retail self-checkout sales decline. We have fine-tuned our new product sales mix towards the Hubz kits and away from the Innovendi machines and incorporating a higher A\$ and bond yield our DCF valuation is A\$0.35/share.

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).

Many positives moving into CY21

The rate of sales and gross margin declines slowed in 2H20 relative to 1H20 (sales -5% to -1%, gross profit -17% to -3%), suggesting the worst of the COVID and FX impacts are behind us and providing easy comparatives to cycle. New scales customers could provide up to US\$2m or 10% of current sales over CY21, while first time contributions from new products including the “Hubz kits” and “Fast Track” are expected in Q2CY21 and Q4CY21 respectively. Given the above we are forecasting double digit sales growth and a narrowing of EBITDA losses over CY21.

Base case valuation A\$0.35/share fully diluted

Our base case DCF valuation for SBW has increased from \$0.33/share to \$0.35/share on result fine tuning. This valuation incorporates a higher A\$/US\$ (\$0.78c), dilution from the recent equity raise and a WACC of 11.1%, acknowledging the timing and forecast risk associated with new products. 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.

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)	(5.6)	0.60
12/20a	18.3	(4.0)	(4.4)	(0.02)	(4.9)	0.75
12/21e	21.8	(1.0)	(1.2)	(0.00)	(23.3)	0.66
12/22e	25.8	1.4	1.2	0.01	10.5	0.54

Source: Company Data, RaaS Advisory Estimates

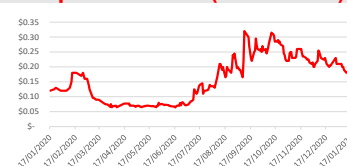
Technology – Hardware/software

4 March 2021

Share details

ASX Code	SBW
Share price at 3 Mar 21	\$0.14
Market Capitalisation	\$21.5M
Shares on issue	153.2M
Enterprise value	\$17.5M
Cash at 30 Jan '20	A\$4.0M
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

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*The author holds shares

CY20 result summary

Our numbers take SBW reported numbers and adjust for:

- **Amortisation** in both the COGS & R&D lines which totalled US\$938k in CY20.
- **AASB16 related depreciation**, adding back cash rental costs to operating costs and excluding AASB16 related depreciation at the depreciation line.
- **Share based payments included in R&D** to a separate cost line item.

The table below summarises the CY20 result by half year using our adjustments. Key observations include:

- **Rate of sales & gross profit declines slowed** in the second half relative to the first (sales -5% to -1%, gross profit -17% to -3%), suggesting the worst of the COVID and FX impacts has past. Three new scales customers in 2H20 and 6% growth in the healthcare segment were offset by a 45% reduction in the group's own brand Healthweigh medical devices and a 10% reduction in retail self-checkout as a major customer changed ordering patterns.
- **R&D spend remains elevated** at US\$3.3m, with the 2H20 spend above 1H20 and the PCP at US\$1.9m on the back of the Hubz development.
- **Amortisation for the first time** with US\$938k spread across both the COGS and R&D lines, and higher than expected as a single project was written off.

Exhibit 1: SBW FY20 earnings summary by half year (US\$)

Variable	1H19	1H20	% Chg	2H19	2H20	% Chg
Sales	8.4	7.9	(5%)	10.4	10.4	(1%)
Gross Profit	3.8	3.2	(17%)	4.4	4.3	(3%)
GP%	45%	40%	(500bps)	42%	41%	(100bps)
Operating costs	5.1	4.6	(9%)	3.8	5.1	33%
R&D (ex SBP)	2.1	1.4	(31%)	0.8	1.9	123%
Other	3.0	3.2	7%	3.0	3.2	8%
EBITDA	(1.3)	(1.5)	18%	0.6	(0.8)	nm
Depreciation	0.1	0.0	(100%)	0.1	0.4	nm
Amortisation	0.0	0.5		0.0	0.5	
EBIT	(1.3)	(1.9)	46%	0.5	(1.6)	nm
(EBITDA margin)	(15.0%)	(18.7%)		5.7%	(7.5%)	
(EBIT Margin)	(15.9%)	(24.5%)		5.0%	(15.9%)	
Share Based Payments	0.4	0.2		0.2	0.3	
Other	0.0	0.0		0.7	0.0	
Reported EBIT	(1.7)	(2.1)	nm	(0.4)	(1.9)	nm

Source: Company financials & RaaS Analysis

CY21 outlook

There are a range of factors pointing to a resumption of sales growth, and a reduction in EBITDA losses over CY21, including:

- **Modest CY20 base**, particularly in the retail self-checkout (customer order patterns expected to moderate) and own brand healthcare products (declined as key customers focused on COVID).
- **Three new scales customers** for a full 12-months with an estimated sales contribution of US\$2m (10% of total FY20 sales alone)
- **First Hubz vending kits expected to be sold by Q2CY21**. The distribution opportunities that the partners bring with a focus on the US and Latin America promise material kit sales.
- **Fast Track launch set for late CY21**. Fast Track overlays existing weighing technology with AI and a camera to identify faster and more accurately the fresh produce on the scale, reducing checkout time while increasing accuracy. We have nothing in our numbers for this initiative as there is little commercial details available.

Our revised new product unit sales numbers are presented in the following table. Innovendi was impacted by COVID related shutdowns but should deliver at least 170 units per year under the Tnuva agreement (1,200 units across 7-years). The Hubz has increased in focus and considering the partners involved should deliver serious volumes going forward. The capsule is likely to see modest unit sales while the concept is firm-ed-up, while smart shelves are likely to be less of a focus near-term.

Exhibit 3: SBW new product sales by units					
Year-end	2019F	2020F	2021F	2022F	2023F
Innovendi - Old	110	99	350	400	400
Innovendi - New	na	41	170	190	200
Hubz Kit - Old	0	50	350	400	400
Hubz Kit - New	0	10	600	1,100	1,500
Smart Shelves - Old	0	50	300	525	900
Smart Shelves - New		50	175	350	900
Capsules - Old	0	0	25	50	100
Capsules - New	0	0	16	36	80

Source: Company Financials & RaaS estimates

New product summary

The micro-market capsule

Recent press has shed significant light on the micro-market capsule currently trialling with development partner Casino Group out of France, who 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 concept 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 16 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.

The Hubz

SBW recently announced the formation of a commercial partnership to produce a second-generation version of the 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.

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, which we refer to as Hubz kits.

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

<https://hubzstores.com/>

SBW will provide the weighing units as an OEM supplier.

Peer comparison

We have updated our assessed peer group to incorporate CY20 results. Our assessed peer group represents small-cap hardware-based technology players utilising an underlying technology to expand into new verticals.

The numbers below are a mixture of FY20 and CY20 results. From a SBW viewpoint:

- **The SBW sales base is very solid** relative to peers being the 3rd largest in FY20, and relative to market cap trading at a significant EV/sales discount to the peer group.
- **Gross margins are around the peer average at 41%.**
- **All peers were loss making (ex-amortisation) in CY20, with SBW losses at the lower end of the range.**
- **While R&D to sales is at the lower end of peers, absolute spend is mid-range given the high sales base.**

Exhibit 4: Peer financial comparison

Company Name	Ticker	Share price (cps)	Mkt Cap (\$m)	Jun-30 Debt/(cash) (A\$m)	CY20 Adj PBT (A\$m)	CY20 sales (A\$m)	CY20 GP%	CY20 WC/Sales	CY20 EV/Sales	CY20 R&D/sales
MicroX *	MX1	0.41	188	-10.3	-10.0	4.3	16%	54%	41.9	58%
Atomos *	AMS	1.00	186	-18.8	-8.1	44.4	40%	29%	3.8	24%
Pivotal Systems	PVS	1.10	132	-2.9	-9.3	28.7	11%	49%	4.5	26%
Elsight	ELS	0.50	67	-10.3	-4.0	2.2	29%	13%	25.2	75%
Revasum	RVS	0.43	44	-1.0	-11.0	20.0	32%	48%	2.2	27%
Mobilicom	MOB	0.07	18	-2.4	-2.8	2.1	65%	5%	7.5	116%
Shekel Brainweigh	SBW	0.15	22	-3.3	-4.0	23.8	41%	37%	0.8	18%

Sources: Company financials, Thomson Reuters *FY20 June year-end, otherwise CY20

Exhibit 3: Financial Summary

Shekel Brainweigh (SBW.ASX)						Share price (2 March 2021)						A\$	0.145				
Profit and Loss (US\$m)						Interim (US\$m)						H119A	H219A	H120A	H220A	H121F	H221F
Y/E 31 Dec	FY18A	FY19A	FY20A	FY21F	FY22F	Revenue	8.4	10.4	7.9	10.4	8.7	13.1					
Revenue	18.7	18.8	18.3	21.8	25.8	EBITDA	(1.6)	(0.3)	(1.6)	(1.0)	(1.3)	1.0					
Gross profit	8.3	8.2	7.4	10.0	12.2	EBIT	(1.7)	(0.4)	(2.1)	(1.9)	(1.7)	0.7					
GP margin %	44.5%	43.7%	40.6%	45.9%	47.2%	NPATA (normalised)	(1.6)	(0.9)	(1.8)	(1.6)	(1.5)	0.8					
EBITDA	(0.3)	(1.9)	(2.7)	(0.3)	2.1	Adjustments	(0.5)	(0.8)	(0.7)	(0.3)	(0.2)	(0.2)					
Depn	(0.2)	(0.2)	(0.4)	(0.2)	(0.2)	NPAT (reported)	(2.1)	(1.6)	(2.5)	(1.9)	(1.8)	0.6					
Amort	0.0	0.0	(0.9)	(0.5)	(0.5)	EPS (normalised)	(0.011)	(0.006)	(0.012)	(0.011)	(0.010)	0.005					
EBIT	(0.5)	(2.1)	(4.0)	(1.0)	1.4	EPS (reported)	(0.015)	(0.012)	(0.016)	(0.012)	(0.012)	0.004					
Interest	(0.7)	(0.3)	(0.4)	(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)	0.0	0.0	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)	(4.4)	(1.2)	1.2	Divisionals	H119	H219	H120	H220F	H220F	H220F					
Significant items	(0.4)	(0.8)	0.0	0.0	0.0	Traditional Scales	8.4	10.4	7.8	10.2	7.5	10.9					
NPAT (reported)	(1.5)	(3.2)	(4.4)	(1.2)	1.2	New Retail	-	-	0.1	0.2	1.2	2.2					
Cash flow (US\$m)						Total Revenue	8.4	10.4	7.9	10.4	8.7	13.1					
Y/E 31 Dec	FY18A	FY19A	FY20A	FY21F	FY22F	Gross profit	3.8	4.4	3.2	4.3	3.9	6.1					
Adj EBITDA inc. rent	0.8	(0.7)	(2.3)	0.1	2.5	Gross Profit Margin %	45.5%	42.2%	39.7%	41.3%	44.9%	46.6%					
Interest	(0.2)	(0.2)	(0.4)	(0.2)	(0.3)	R&D	2.1	0.8	1.4	1.9	1.6	1.4					
Tax	0.0	0.2	0.0	(0.0)	0.0	General & Admin & Other	3.0	3.0	3.2	3.2	3.4	3.4					
Working capital changes	0.5	(0.9)	1.1	(1.4)	(1.4)	One-off costs & Non-cash	0.4	0.9	0.2	0.3	0.2	0.2					
Operating cash flow	1.2	(1.6)	(1.5)	(1.5)	0.9	Total costs	5.4	4.7	4.8	5.3	5.2	5.0					
Mtce capex	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	EBITDA	(1.6)	(0.3)	(1.6)	(1.0)	(1.3)	1.2					
Free cash flow	1.0	(1.8)	(1.8)	(1.9)	0.6	EBITDA margin %	(19.2%)	(3.0%)	(20.6%)	(9.9%)	(14.8%)	8.8%					
Capitalised Software	(0.8)	(1.3)	0.0	0.0	0.0	Margins, Leverage, Returns	FY18A	FY19A	FY20A	FY21F	FY22F						
Acquisitions/Disposals	(0.2)	(0.1)	0.0	0.0	0.0	EBITDA margin %		(1.7%)	(10.2%)	(14.5%)	-1.3%	8.1%					
Other	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.8%)	(11.1%)	(21.9%)	-4.4%	5.5%					
Cash flow pre financing	0.0	(3.2)	(1.8)	(1.9)	0.6	NPAT margin (pre significant items)		(6.2%)	(13.0%)	(24.0%)	-5.5%	4.5%					
Equity	6.1	0.0	0.0	0.0	0.0	Net Debt (Cash)	-	6.25	-	2.57	-	1.48	-	0.70	-	0.85	
Debt	(0.4)	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	33.8%	21.4%	21.7%	10.9%	11.0%					
Net cash flow for year	5.7	(3.2)	(1.8)	(1.9)	0.6	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	17.8%					
Balance sheet (US\$m)						ROA		(2.2%)	(10.6%)	(21.8%)	(5.4%)	6.8%					
Y/E 31 Dec	FY18A	FY19A	FY20A	FY21F	FY22F	ROE		(9.4%)	(25.9%)	(82.5%)	(20.9%)	16.7%					
Cash	6.3	2.6	1.5	0.7	0.9	NTA (per share)		0.11	0.07	0.03	0.03	0.03					
Accounts receivable	5.6	5.8	5.4	6.1	7.0	Working capital		6.9	7.8	6.7	8.1	9.4					
Inventory	3.2	3.5	3.5	4.3	5.2	WC/Sales (%)		37.0%	41.6%	36.6%	37.1%	36.7%					
Other current assets	2.0	1.5	1.7	2.0	2.3	Revenue growth		2.4%	0.9%	(2.7%)	19.2%	18.2%					
Total current assets	17.0	13.4	12.1	13.1	15.3	EBIT growth pa		nm	nm	nm	n/a	(246.5%)					
PPE	0.5	0.6	0.6	0.7	0.8	Pricing		FY18A	FY19A	FY20A	FY21F	FY22F					
Intangibles	2.0	3.2	2.3	1.8	1.4	No of shares (y/e)	(m)	113	139	153	153	153					
Right of Use Asset	0.0	2.4	2.0	1.1	2.7	Weighted Av Dil Shares	(m)	113	139	153	153	153					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	US cps	(0.01)	(0.02)	(0.02)	(0.00)	0.01					
Other non current assets	0.2	0.0	0.0	1.6	2.9	EPS Normalised/Diluted	US cps	(0.01)	(0.02)	(0.02)	(0.00)	0.01					
Total non current assets	2.7	6.2	4.9	5.2	7.8	EPS growth (norm/dil)		nm	nm	nm	nm	-321%					
Total Assets	19.7	19.6	17.0	18.3	23.1	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Accounts payable	1.9	1.5	2.2	2.3	2.7	DPS Growth		n/a	n/a	n/a	n/a	na					
Short term debt	4.0	4.1	4.8	5.8	6.8	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Lease Liability	0.0	1.8	1.6	0.9	2.5	Dividend imputation		0	0	0	0	0					
Other	1.4	2.6	2.7	3.3	3.9	PE (x)		21.2	-	5.6	-	4.9	-	23.3	10.5		
Total current liabilities	7.2	9.9	11.4	12.3	15.9	PE market		12.0	12.0	12.0	12.0	12.0					
Long term debt	0.0	0.0	0.0	0.0	0.0	Premium/(discount)			(146.7%)	(141.2%)	(294.2%)	(12.1%)					
Other non current liabs	0.3	0.3	0.3	0.3	0.3	EV/EBITDA		nm	nm	(5.5)	(53.2)	7.8					
Total long term liabilities	0.3	0.3	0.3	0.3	0.3	FCF/Share	US cps	(0.007)	(0.018)	(0.010)	(0.015)	0.001					
Total Liabilities	7.5	10.2	11.7	12.6	16.2	Price/FCF share		(15.5)	(5.8)	(9.8)	(6.8)	104.8					
Net Assets	12.3	9.5	5.3	5.8	6.9	Free Cash flow Yield		(6.4%)	(17.3%)	(10.2%)	(14.6%)	1.0%					
Share capital	7.7	7.7	7.7	9.4	9.4												
Accumulated profits/losses	2.9	(0.5)	(5.0)	(6.2)	(5.1)												
Reserves	1.3	1.8	2.1	2.1	2.1												
Minorities	0.3	0.4	0.5	0.5	0.5												
Total Shareholder funds	12.3	9.5	5.3	5.8	6.9												

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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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.

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