

5th August 2019

Shekel Brainweigh

Game changing table expands with Edgify MOU

Shekel Brainweigh (ASX:SBW) has announced an MOU with UK software company Edgify to jointly combine their core technology competencies, advanced weighing and visual recognition respectively, to develop visual recognition capabilities/software for self-checkout systems. The ultimate vision is a product that speeds up the selection process at a self-checkout machine (particularly relating to fresh produce), that can be retro-fitted to BOTH Shekel based OEMs and competitor OEMs, and incorporated in new Shekel OEM systems going forward. It is envisaged the software will not require expensive servers, cloud storage or cameras to operate, while fees will be SaaS based for other OEM manufacturers. Fresh produce substitution is a major cost for retailers employing self-checkout systems, and it is hoped this technology can reduce such losses and improve the ROE of machine investment.

Business model

Shekel Brainweigh 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 now looking to extend this market leading weighing technology into new verticals, opening up larger market opportunities, potentially higher gross margins and some recurring SaaS style revenue from data analytics.

Quality partners continue to build

We initiated on SBW on June 3 with a base case DCF valuation of \$0.51/share. Our initiation report can be downloaded [here](#). One of the key focus points of the initiation was the quality of existing and new customers partnering with Shekel to explore the use of their market leading weighing technology in new verticals. As a reminder, EXISTING customers include the likes of Toshiba, Fujitsu, Diebold Nixdorf, Data Logic, Tnuva (a subsidiary of Bright Food in China) and GE Healthcare. Potential new partners include Madix Shelving in the US and a number of market leading PAID trial partners in the retail space across both the US and Europe. Management continues to be strengthened in anticipation of new verticals, and we would expect further partnership announcements to continue.

Base case valuation of \$0.51/share or \$70.5m

Our DCF valuation is \$0.51/share or \$70.5m, using a WACC of 12.6% and terminal growth rate of 2.2%. From a valuation perspective we have SBW trading at an EV/Revenue of 0.4x against a "peer" group of hardware/software OEM suppliers with new vertical aspirations of between 2.0x-5.0x or an 80%-90% discount.. Considering the strength of existing/new partners and the potential of new targeted verticals we feel this discount is totally unwarranted. Looking at valuation another way, adjusting for the R&D costs of developing new products we estimate the core SBW business of supplying advanced weighing systems to OEM customers is trading on ~3.0x EBITDA.

Historical earnings and RaaS Advisory estimates (in US\$m)

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	P/E (x)	EV/Sales (x)
12/18a	18.7	(0.3)	(1.2)	(0.01)	20.5	0.26
12/19e	20.3	0.9	0.2	0.00	25.1	0.37
12/20e	23.9	2.4	1.3	0.01	8.3	0.30
12/21e	28.2	4.5	2.9	0.02	4.2	0.19
12/22e	31.7	6.6	4.6	0.04	2.8	0.05

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e, FY21e and FY22e

Share details

ASX Code	SBW
Share Price	\$0.14
Market Capitalisation	\$19.5M
Number of shares	139M
Enterprise Value	~\$10.7M
Sector	Technology
Free Float	20%

Share price performance (since float)



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 20% free-float
- Currency translation from USD adds complexity for Investors
- Near term ROE likely to be impacted by R&D expenditure

Catalysts

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

Comparative companies (Australia & NZ)

AMS, ELS, IKE, MOB, MX1, PVS, RVS

Substantial Shareholders

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

RaaS Advisory contacts

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

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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

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