

New Chairman's key priorities + a "capsule" update

Shekel Brainweigh Limited (ASX:SBW) conducted an investor call on 20/10/20 to introduce new Executive Chairman Arik Schor and outline the group's (3) key priorities for the next 12-months. They are 1) fix the capital structure of the business to ensure the group has the necessary funding to progress new product developments. This is expected before December 2020 and structure aside is a key re-rating catalyst, 2) Get the core "scales" business back to growth, with the earnings of this division impacted recently by increased R&D spend and loan write-downs which has distorted the underlying profitability of this division. We estimate this division is currently delivering normalised EBIT of ~US\$2.0m, and 3) deliver on new innovation, and in particular the Innovendi vending machine and the "capsule" or "black box" as it is known by French development partner Casino Group (CO.PA). Focus on new product innovation has clearly shifted to Innovendi and the capsule in recent quarters, with a capsule soft launch currently being undertaken in France and full public launch expected in December 2020. This fully autonomous convenience store is expected to roll-out in CY21 and looks a serious technology contender to the Amazon Go concept which has been under development for years. We have modest unit sales of the capsule in our medium-term numbers with clear upside given this launch and the launch partner.

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 (Innovendi Dry, smart shelving and the Micro-market Capsule).

Group near-term priorities

New Chairman Arik Schor has articulated the key strategic priorities for SBW over the next 12 months, which are very much in-line with our current thinking. Raising additional capital to ensure a continuation of new product development is a clear priority and is expected to be finalised over the next 3 months. From a normalised base of ~US\$2.0m EBIT, the company is focused on growing the core business, with new own brand innovations and self-checkout "fast track" innovations on the horizon. Following ~US\$12m in R&D spend over the last 3 years, management is focused on a near-term return in this investment, with new management and organisational structure key to delivering.

Base case valuation A\$0.38/share fully diluted

Our base case DCF valuation is A\$0.38/share (\$53m), with A\$24m alone attributed to the core "scales" business (8x normalised EBIT multiple). New product development is gathering steam and a successful fund raising to continue this momentum is key.

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)	(10.8)	1.27
12/20e	18.9	(2.3)	(2.6)	(0.02)	(12.3)	1.33
12/21e	23.6	0.2	(0.1)	0.00	79.0	1.11
12/22e	26.8	2.0	1.3	0.01	15.9	0.94

Source: Company Data, RaaS Advisory Estimates

Technology – Hardware/software

26 October 2020

Share details

ASX Code	SBW
Share price at 23 Oct	\$0.28
Market Capitalisation	\$39.0M
Shares on issue	139M
Enterprise value	\$35.7M
Cash at 30 Jun '20	\$3.3M
Free float	~20%

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 ~20% 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, Shekel Scales

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

Strategic priorities over the next 12-months

New Chairman Arik Schor has clearly articulated three key priorities for the next 12 months. We outline these priorities and provide context 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.

Assuming a balancing of the working capital facility with working capital and adequate funds to continue new product development/commercialisation we would estimate at least US\$5m in funding is required.

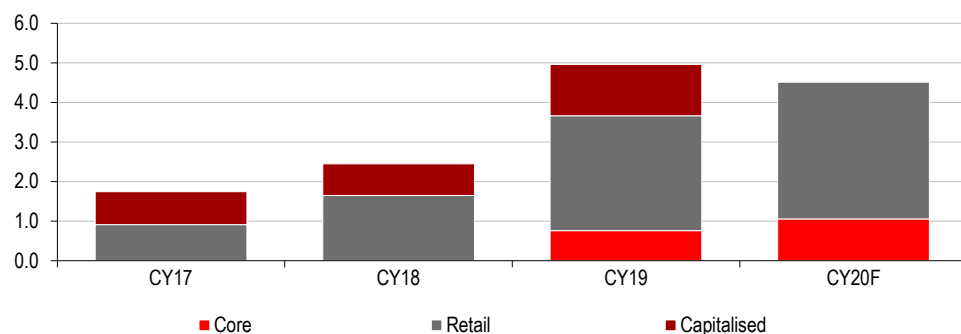
- **Resume growth in the core “scales” business.** The core SBW scales division achieved EBIT of US\$2.5m (A\$3.6m) in CY17. Since then an acceleration in R&D spend for both new products and the Scales division (only separated in CY19), distortions relating to share-based payments and loan write-offs have reduced the earnings visibility of this division.

We estimate underlying EBIT remains between US\$2m and US\$2.5m depending on how R&D is treated but clearly there is growth 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.

- **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 the groups smart shelving and vending machine offerings to firm-up near-term commercialisation options.

The Innovendi vending machine/kit 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 a key near-term option for the scales division.

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.

<https://www.linkedin.com/feed/update/urn:li:activity:6721476539243876352/>

A public launch is expected in December with the deployment of at least 10 containers (RaaS have 20 forecast) expected over CY21 according to Olivier Rego, Director of the Monoprix Brand in a recent article (one of Casinos brands). Other group franchisees are also expected to adopt the technology medium-term.

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.

Relative to the much-flouted Amazon Go concept the “Black Box” has significant competitive advantages when it comes to growing privacy concerns/regulations such as the General Data Protection Regulation in the EU (no cameras), flexibility (portable and smaller in nature) and cost (significantly less capital cost as no cameras are used vs literally hundreds in Amazon Go). The table below provides a summary of the two concepts.

Criteria	Amazon Go	Capsule	Comments
Store entry	Via Amazon App only	Via any DR/CR card	No additional App required
Payment	Via Amazon App only	Via any DR/CR card	No additional App required
Selling Area	Up to 200 SQM	Up to 70 SQM	Capsule much smaller
Cost of fit-out	High (>US\$1m)	Low (US\$0.1m)	Cameras >cost
GDPR/CNIL compliant	NO	YES	Cameras limit Amazon privacy tick
Core technology	Cameras + AI software	Weighing + sensors	Amazon is multi camera reliant
Standalone	No – mall/strip	Yes – own power and 4G	Capsule is portable
Error rate	N/A	<1%	

Source: RaaS estimates

A reminder of our current unit sales assumptions is listed in the table below. Given the second wave of COVID cases through Europe currently there is clear risk to our assumed 2H20 unit sales in the areas most impacted over 1H20, namely own healthcare products and new products.

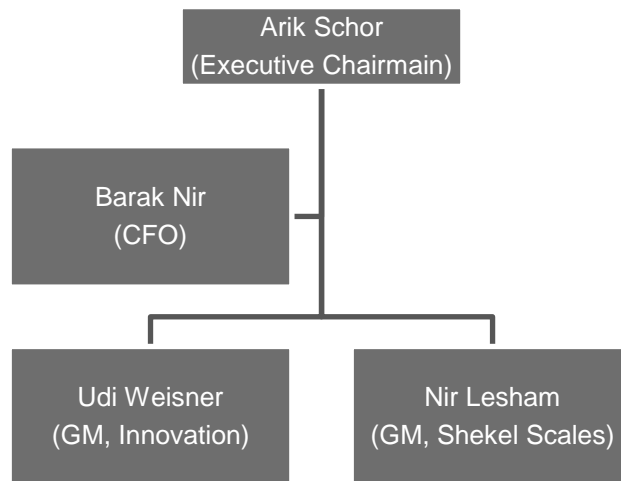
Year-end	2019F	2020F	2021F	2022F	2023F
Self-checkout	34,587	35,285	37,402	39,647	42,025
Healthcare	16,500	14,850	16,038	17,321	18,707
Innovendi	110	99	350	400	400
Innovendi Dry	0	50	350	400	400
Smart Shelves	0	50	300	525	900
Capsule	0	0	25	50	100

Source: Company Financials & RaaS estimates

New management structure

To better implement and achieve the key strategic priorities outlined above SBW have implemented a new management structure, which is detailed in the organisational chart below. This structure is aimed at allowing each division to focus and achieve their respective goals, with overarching strategic and funding at the Executive Chairman and CFO level.

Exhibit 4: SBW management structure



Source: Company financials & RaaS estimates

The key backgrounds of key management are detailed below:

Mr Arik Schor, Executive Chairman, is an experienced senior executive with extensive experience in highly intricate operations and logistics systems. From 2009-2016 Mr Schor was CEO of Thuva Group, the largest food conglomerate in Israel (and SBW's current core customer for Innovendi). Prior to this Mr Schor was CEO of Holga Kimberly, a subsidiary of Kimberly Clarke. Mr Schor is currently an Independent Director of Paz Oil (listed in Tel-Aviv), Chairman of Tadbik (packaging solutions) and Afimilk, and technology company for modern dairy farm and herd management.

Mr Barak Nir, Chief Financial Officer, has over 25-years' experience serving as chair, CEO and chief financial officer for several international private and public companies in the fields of real estate, finance and electronics. Previous roles have included chairman of Eilor, an industrial company in the field of magnetic cores, and CFO of Kiryat Anavim.

Mr Udi Weisner, GM Innovation Division, was appointed in July 2019 and has 20-years of experience leading traditional technology businesses, particularly in the area of IoT and Data Analytics. Prior to Shekel Mr Weisner held executive roles at Afcon Control & Automation (IoT software) and Veriphone Holdings (global electronics payment leader).

Mr Nir Lesham, GM Shekel Scales, has over 20 years experience within the mechanical & industrial engineering, transport safety and public security segments. Of recent note Mr Lesham was a Director in Transportation Safety Division of 3M between 2015-2019, responsible for corporate & strategic development including new sources of revenue for new products in the US market. Prior to this Mr Lesham was Global Business Director of Public Security in the US.

Exhibit 5: Financial Summary

Shekel Brainweigh (SBW.ASX)						Share price (23 October 2020)						AS\$	0.28				
Profit and Loss (US\$m)						Interim (US\$m)						H118A	H218A	H119A	H219A	H120	H220F
YE 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)	(0.015)	0.000					
EBIT	(0.5)	(2.1)	(2.3)	0.2	2.0	EPS (reported)	(0.000)	(0.010)	(0.015)	(0.012)	(0.018)	(0.002)					
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	Divisonals	H118A	H218A	H119	H219	H120	H220F					
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					
NPAT (reported)	(1.5)	(3.6)	(2.6)	(0.1)	1.3	New Retail	-	-	-	-	1.5	1.7					
Cash flow (US\$m)						Total Revenue	8.8	9.9	8.4	10.4	7.9	10.9					
YE 31 Dec	FY18A	FY19A	FY20F	FY21F	FY22F	Gross profit	3.3	5.1	3.8	4.4	3.2	5.1					
Adj EBITDA inc. rent	0.8	(0.7)	(1.5)	1.0	2.9	Gross Profit Margin %	37.2%	51.0%	45.5%	42.2%	39.7%	46.4%					
Interest	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	R&D	0.5	1.1	2.1	0.8	1.7	1.8					
Tax	0.0	0.2	(0.0)	(0.1)	(0.3)	General & Admin & Other	2.2	2.6	3.0	3.0	3.2	3.0					
Working capital changes	0.5	(0.9)	1.2	(1.5)	(1.0)	One-off costs & Non-cash	0.3	1.8	0.4	0.9	0.2	-					
Operating cash flow	1.2	(1.6)	(0.7)	(0.8)	1.3	Total costs	3.1	5.6	5.4	4.7	5.0	4.8					
Mtce capex	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	EBITDA	0.2	(0.5)	(1.6)	(0.3)	(1.9)	0.2					
Free cash flow	1.0	(1.8)	(0.9)	(1.0)	1.1	EBITDA margin %	2.1%	(5.1%)	(19.2%)	(3.0%)	(23.5%)	2.1%					
Capitalised Software	(0.8)	(1.3)	0.0	0.0	0.0	Margins, Leverage, Returns	FY18A	FY19A	FY20F	FY21F	FY22F						
Acquisitions/Disposals	(0.2)	(0.1)	0.0	0.0	0.0	EBITDA margin %		(1.7%)	(10.2%)	(8.7%)	3.7%	10.1%					
Other	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.8%)	(11.1%)	(12.0%)	0.9%	7.5%					
Cash flow pre financing	0.0	(3.2)	(0.9)	(1.0)	1.1	NPAT margin (pre significant items)		(6.2%)	(13.0%)	(13.7%)	-0.5%	4.7%					
Equity	6.1	0.0	0.0	0.0	0.0	Net Debt (Cash)	-	6.25	-	2.57	-	1.50	-	0.30	-	1.20	
Debt	(0.4)	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	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%	18.0%	4.3%	13.0%					
Net cash flow for year	5.7	(3.2)	(0.9)	(1.0)	1.1	EBIT interest cover (x)	(x)	n/a	n/a	n/a	108.7%	12.4%					
Balance sheet (US\$m)						ROA	(2.2%)	(10.6%)	(12.4%)	1.2%	9.8%						
YE 31 Dec	FY18A	FY19A	FY20F	FY21F	FY22F	ROE	(9.4%)	(25.9%)	(37.8%)	(1.8%)	15.7%						
Cash	6.3	2.6	1.5	0.3	1.2	NTA (per share)		0.11	0.07	0.05	0.04	0.04					
Accounts receivable	5.6	5.8	5.1	6.0	6.6	Working capital		6.9	7.8	6.7	8.2	9.2					
Inventory	3.2	3.5	3.5	4.5	5.2	WC/Sales (%)		37.0%	41.6%	35.4%	34.8%	34.2%					
Other current assets	2.0	1.5	1.5	1.9	2.1	Revenue growth		2.4%	0.9%	0.3%	25.0%	13.8%					
Total current assets	17.0	13.4	11.6	12.7	15.1	EBIT growth pa		nm	nm	nm	(109.3%)	851.6%					
PPE	0.5	0.6	0.7	0.7	0.8	Pricing		FY18A	FY19A	FY20F	FY21F	FY22F					
Intangibles	2.0	3.2	2.8	2.3	1.8	No of shares (y/e)	(m)	113	139	139	139	139					
Right of Use Asset	0.0	2.4	1.7	0.9	2.5	Weighted Av Dil Shares	(m)	113	139	139	139	139					
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	0.4	1.7	2.4	EPS Normalised/Diluted	US cps	(0.01)	(0.02)	(0.02)	0.00	0.01					
Total non current assets	2.7	6.2	5.5	5.6	7.5	EPS growth (norm/dil)		nm	nm	nm	nm	398%					
Total Assets	19.7	19.6	17.1	18.3	22.7	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Accounts payable	1.9	1.5	1.9	2.3	2.7	DPS Growth		n/a	n/a	n/a	n/a	na					
Short term debt	4.0	4.1	4.1	5.1	5.8	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Lease Liability	0.0	1.8	1.5	0.7	2.3	Dividend imputation		0	0	0	0	0					
Other	1.4	2.6	2.6	3.2	3.7	PE (x)		40.9	-	10.8	-	12.3	79.0	15.9			
Total current liabilities	7.2	9.9	10.0	11.3	14.4	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			(190.2%)	(202.3%)	558.5%	32.2%					
Other non current liabs	0.3	0.3	0.3	0.3	0.3	EV/EBITDA		nm	nm	(14.4)	29.3	10.0					
Total long term liabilities	0.3	0.3	0.3	0.3	0.3	FCF/Share	US cps	(0.007)	(0.022)	(0.008)	(0.009)	0.006					
Total Liabilities	7.5	10.2	10.2	11.6	14.7	Price/FCF share		(30.0)	(8.9)	(25.5)	(22.7)	30.5					
Net Assets	12.3	9.5	6.9	6.7	8.0	Free Cash flow Yield		(3.3%)	(11.2%)	(3.9%)	(4.4%)	3.3%					
Share capital	7.7	7.7	7.7	7.7	7.7												
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												
Total Shareholder funds	12.3	9.5	6.9	6.7	8.0												

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: 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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