

On track in CY21 and confidence building for CY22+

Shekel Brainweigh Limited (ASX:SBW) has reported YTD CY21 sales growth for its core Scales Division of 22%, and an “open order book” at the end of October of US\$6.8m, which is 1.4x the same period last year. These two factors have SBW on track to meet our 2HCY21 Scales division sales estimates. Confidence continues to build around the Retail Innovation Division with SBW receiving an initial order for 67 “Hubz” vending machines from Belgium company Smart Technics BV, a subsidiary of Colruyt Group (EBR:COLR), for delivery by the end of CY21. The company also continues to see good progress in a number of “Smart Bay” trials and is readying its new “Fast Track” produce identification software for commercial demonstration at the National Retail Federation (NRF) retail conference and expo in New York in January 2022. Together with continued Innovendi sales under the Tnuva contract, this also places SBW on-track to meet our Retail Innovation divisional 2HCY21 sales estimates and provides further validation for new products. As a result, our CY21 sales and earnings estimates remain unchanged, as does our DCF of \$0.37/share. Using a sum-of-the-parts valuation for CY21 we continue to highlight that the Retail Innovation Division is assigned little value at current prices.

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 revenues from data analytics. One of the new products (“Innovendi” vending machines) is in commercialisation while others are close (“Autonomous Micro-Market Capsule” and the “Hubz”, a second-generation autonomous vending machine).

The sales outlook continues to build for CY22 and beyond

The core Scales Division continues to record solid sales growth (+22% YTD October) and had an open order book in October to deliver our implied Q4 CY21 sales estimates for Scales. New and returning customers together with new innovations promise further growth in CY22. Following a number of pilot trials and product refinement, SBW has received its biggest “Hubz” order to date - 67 units from Smart Technics BV (part of the Colruyt Group of Belgium), and together with ongoing Innovendi sales goes a long way to meeting our CY21 sales estimates. Progress continues to be made in “Capsule” and “Smart Bay” pilots and a commercial launch of “Fast Track” is slated for January 2022. The company last week gave a presentation at the [Coffee Microcaps forum](#) outlining these developments.

Base-case valuation A\$0.37/share supported by Scales profit

Our base-case DCF valuation for SBW remains \$0.37/share. Using our adjusted CY21 EBIT forecast for the Scales Division, and applying an 8x multiple, we derive a valuation of A\$25.0m alone, equal to the current market cap and implying little value to the Retail Innovation Division despite multiple products in the market. A \$0.37/share DCF implies a fully-diluted market cap of A\$64m.

Historical earnings and RaaS Advisory estimates on a reported basis

Year end	Revenue (US\$m)	Adj. EBIT (US\$m)	Adj. NPAT (US\$m)	EPS (c)	PER (x)	EV/Sales(x)
12/20a	18.3	(4.0)	(4.4)	(0.02)	(6.5)	1.08
12/21e	23.5	(3.0)	(3.5)	(0.02)	(7.1)	1.02
12/22e	27.3	1.1	0.5	0.01	23.3	0.90
12/23e	32.2	2.3	1.9	0.02	9.1	0.75

Source: Company data, RaaS Advisory estimates

Technology – Hardware & Software

23rd November 2021

Share details

ASX code	SBW
Share price	\$0.19
Market capitalisation	\$29.0M
Shares on issue	153.2M
Enterprise value #	\$29.8M
Net debt at Jun-30 #	A\$0.8M
Free float	~27%

adjusted for convertible note

Share Performance (12 months)



Upside Case

- Recovery from COVID-induced decline in core self-checkout and healthcare products
- Key global retailers adopt SBW's solution to contactless retail checkouts
- Mix shift to recurring SaaS fees will increase gross margins and lower days receivables

Downside Case

- Low liquidity with ~27% free float
- New products fail to gain significant traction
- Low share price at Convertible Note conversion date (March 2023)

Management

Arik Schor	Executive Chairman
Barak Nir	Chief Financial Officer
Nir Lesham	GM, Innovation & 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 analyst holds shares

Implications for H2 CY21 Estimates

We are currently forecasting 24% H2 CY21 total sales growth and a modest improvement in EBIT and EBITDA relative to the PCP, numbers which are much improved relative to the first half. Key points to note following the release of the core Scales division sales up to October 2022 include:

- Total sales include the Core Scales division, consolidated sales from a 60% owned French distributor and sales from the new Retail Innovation division. Updated sales growth rates to October 2021 refers to just the core Scales division, and as a result are not comparable with the half-yearly divisional numbers which include the French distributor.
- **22% Scales sales growth to October 2021**, and our best guess read a continuation of double-digit sales growth for the 4-months to October 2021.
- **Open orders in October 2021 are 140% above** the same time in October 2020 at \$6.8m against \$2.8m. This represents ~100% of our implied sales estimate for the Scales division in Q4 CY21.
- **Historical H2 seasonality** should see H2 CY21 sales and EBIT well above H2 CY20. The group has averaged a 45%/55% H1/H2 historical sales split and such a split in CY21 would see sales around US\$13m, and operating leverage at the cost line.
- **First significant “Hubz” vending order for delivery by Q4 CY21.** There have been several trials orders across multiple players (~25 units) since launch in Q2 CY21 which has resulted in continued fine tuning of the product. One of these trials has resulted in an initial contract for 67 “Hubz” vending machines for Belgium company Smart Technics BV, a subsidiary of Colruyt Group (EBR:COLR) for delivery by December 2021. Together with continued Innovendi deliveries under the Tnuva contract (1,200 units across 7-years) our 2HCY21 sales estimates for the Retail Innovation division are covered and would represent another half-year record.
- **“Fast Track” set for commercial launch January 2022.** “Fast Track” overlays existing weighing technology with AI and a camera to identify the fresh produce faster and more accurately, reducing checkout time while increasing accuracy. This product will be marketed directly to retailers and is expected to be showcased and ready for commercial sale at the NRF retail conference and expo in New York in January 2022. We have nothing in our numbers for this initiative as there is little commercial details available.
- **Progress on “Smart Bays” continues.** While the “Hubz” and “The Capsule” have taken the limelight in recent quarters as far as product innovation is concerned, management continue to progress with various trials of their “Smart Bay” technology.

Exhibit 1: H2 CY21 SBW earnings estimates			
Line item (US\$)	H2 CY20a	H2 CY21f	% Change
Sales	10.4	12.8	24%
Gross profit	4.3	5.3	23%
GP%	41%	41%	
Operating costs	5.1	6.0	19%
R&D (ex-SBP)	1.9	1.8	-3%
Other	3.2	4.2	31%
EBITDA	-0.8	-0.7	-7%
Depreciation	0.4	0.1	
Amortisation	0.5	0.2	
EBIT	-1.6	-1.1	-36%
(EBITDA margin)	-7.5%	-5.6%	
(EBIT Margin)	-15.9%	-8.3%	
Share-based payments/other	0.3	0.0	
Other	0.0	0.0	
Reported EBIT	-1.9	-1.1	-44%

Sources: Company financials and RaaS estimates

Valuation

Sum of the parts

We utilise the disclosure of the divisional splits between the Scales and the New Retail divisions to highlight the value within SBW currently. Using CY21 divisional estimates (H1 actuals and H2 estimates) we derive a valuation of the group's Scales business of A\$25m (8x CY21f EBIT).

This implies a valuation of the Retail Innovation Division of just A\$3.9m despite having multiple products in paid pilots and early stages of commercialisation.

Exhibit 2: SBW divisional valuation				
Line item	H1 CY21a	H2 CY21f	CY21f	Comment
Reported EBIT (US\$)	0.6	1.2	1.8	H1 CY21 as reported, H2 CY21 RaaS estimate
Adjusted EBIT (US\$)	1.1	1.2	2.3	H1 CY21 adjusted for one-offs
Assessed EBIT multiple			8.0x	
Valuation (US\$)			18.6	
Valuation (A\$) (@A\$0.74)			25.1	Converting US\$ valuation into A\$ at \$0.74
Current market cap (A\$)			29.0	
Implied value New Retail Division (A\$)			3.9	

Sources: Company financials and RaaS estimates

Discounted cash flow

Our DCF remains A\$0.37/share with key assumptions listed below:

- **Share price at CN conversion (March 2023) of \$0.42/share**, which represents our current undiluted DCF. At this price the conversion price would be \$0.37/share (25% discount) and the dilution ~12%;
- **Discount rate 10.4%** incorporating a beta of 1.2x and RFR of 2.0%;
- **Medium-term growth rate** outside the forecast period of 10%;
- **Terminal growth** rate of 2.2%; and
- **Sustainable gross margin 49%** against ~41% in CY21, aided by higher-margin SaaS and data analytic fees and some recoupment of margin following input costs pressures in CY21.

Exhibit 3: SBW base-case DCF valuation	
Parameters	Outcome
Discount Rate / WACC	10.4%
Beta	1.2x
Terminal growth rate assumption	2.2%
Sum of PV	\$16.7m
PV of terminal value	\$45.0m
PV of enterprise	\$61.8m
Debt (cash)	(\$2.4m)
Net value - shareholder	\$65.1m
No. of shares on issue	173m
NPV (\$ per share)	\$0.37

Source: RaaS estimates

Exhibit 4: Financial Summary (Calendar Year)

Shekel Brainweigh (SBW.ASX)						Share price (19 November 2021)						A\$		0.190				
Profit and Loss (US\$m)						Interim (US\$m)						H120A	H220A	H121A	H221F	H122F	H222F	
Y/E 31 Dec	CY19A	CY20A	CY21F	CY22F	CY23F	Revenue	7.9	10.4	10.6	12.8	11.7	15.6						
Revenue	18.8	18.3	23.5	27.3	32.2	EBITDA	(1.6)	(1.0)	(1.6)	(0.7)	(0.3)	2.0						
Gross profit	8.2	7.4	9.5	12.7	15.4	EBIT	(2.1)	(1.9)	(1.9)	(1.1)	(0.6)	1.7						
GP margin %	43.7%	40.6%	40.5%	46.5%	47.8%	NPATA (adjusted)	(1.8)	(1.6)	(1.9)	(1.1)	(0.7)	1.6						
EBITDA	(1.2)	(2.7)	(2.3)	1.7	3.0	Adjustments	(0.7)	(0.3)	(0.9)	(0.2)	(0.2)	(0.2)						
Depn	(0.2)	(0.4)	(0.2)	(0.2)	(0.2)	NPAT (reported)	(2.5)	(1.9)	(2.8)	(1.4)	(0.9)	1.4						
Amort	0.0	(0.9)	(0.5)	(0.5)	(0.5)	EPS (adjusted)	(0.012)	(0.011)	(0.012)	(0.007)	(0.004)	0.010						
EBIT	(1.4)	(4.0)	(3.0)	1.1	2.3	EPS (reported)	(0.016)	(0.012)	(0.018)	(0.009)	(0.006)	0.009						
Interest	(0.3)	(0.4)	(0.5)	(0.6)	(0.4)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000						
Tax	(0.0)	(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	(1.7)	(4.4)	(3.5)	0.5	1.9	Divisionals	H120	H220	H121A	H221F	H221F	H221F						
Significant items	(1.5)	0.0	(0.6)	0.0	0.0	Traditional Scales	7.8	10.2	10.2	12.0	10.6	13.6						
NPAT (reported)	(3.2)	(4.4)	(4.1)	0.5	1.9	New Retail	0.1	0.2	0.4	0.9	1.2	2.0						
Cash flow (US\$m)							Total Revenue	7.9	10.4	10.6	12.8	11.7	15.6					
Y/E 31 Dec	CY19A	CY20A	CY21F	CY22F	CY23F													
Adj EBITDA inc. rent	0.0	(2.3)	(2.2)	1.7	3.0	Gross profit	3.2	4.3	4.2	5.3	5.3	7.4						
Interest	(0.2)	(0.4)	(0.5)	(0.6)	(0.4)	Gross Profit Margin %	39.7%	41.3%	39.7%	41.2%	45.0%	47.6%						
Tax	0.2	0.0	(0.0)	(0.0)	0.0	R&D	1.4	1.9	1.6	1.8	1.2	1.0						
Working capital changes	(0.9)	1.1	(1.9)	(1.3)	(1.6)	General & Admin & Other	3.2	3.2	4.1	4.2	4.4	4.4						
Operating cash flow	(0.9)	(1.5)	(4.6)	(0.2)	1.0	One-off costs & Non-cash	0.2	0.3	0.7	-	-	-						
Mtce capex	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)	Total costs	4.8	5.3	6.4	6.0	5.6	5.4						
Free cash flow	(1.1)	(1.8)	(5.0)	(0.6)	0.5	EBITDA	(1.6)	(1.0)	(2.2)	(0.7)	(0.3)	2.0						
Capitalised Software	(1.3)	0.0	(0.4)	0.0	0.0	EBITDA margin %	(20.6%)	(9.9%)	(20.5%)	(5.6%)	(2.3%)	12.9%						
Acquisitions/Disposals	(0.1)	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		CY19A	CY20A	CY21F	CY22F	CY23F						
Other	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		(6.5%)	(14.5%)	-9.8%	6.4%	9.2%						
Cash flow pre financing	(2.5)	(1.8)	(5.4)	(0.6)	0.5	EBIT margin %		(7.3%)	(21.9%)	-12.8%	3.9%	7.1%						
Equity	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		(9.3%)	(24.0%)	-14.9%	1.7%	5.9%						
Debt	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)	-	2.57	-	1.48	2.62	3.20	2.67					
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	(2.5)	(1.8)	(5.4)	(0.6)	0.5	ND/ND+Equity (%)	(%)	21.4%	21.7%	2532.0%	1407.7%	(121.7%)						
Balance sheet (US\$m)							EBIT interest cover (x)	(x)	n/a	n/a	n/a	56.7%	17.3%					
Y/E 31 Dec	CY19A	CY20A	CY21F	CY22F	CY23F	ROA		(14.1%)	(21.8%)	(16.0%)	4.7%	8.8%						
Cash	2.6	1.5	2.4	1.8	2.3	ROE		(18.5%)	(82.5%)	(138.7%)	15.4%	38.9%						
Accounts receivable	5.8	5.4	6.5	7.3	8.4	NTA (per share)		0.07	0.03	0.01	0.01	0.01						
Inventory	3.5	3.5	4.6	5.5	6.6	Working capital		7.8	6.7	8.6	9.9	11.5						
Other current assets	1.5	1.7	2.1	2.4	2.7	WC/Sales (%)		41.6%	36.6%	36.6%	36.1%	35.6%						
Total current assets	13.4	12.1	15.6	17.0	19.9	Revenue growth		0.9%	(2.7%)	28.1%	16.6%	17.7%						
PPE	0.6	0.6	0.7	0.9	1.2	EBIT growth pa		nm	nm	n/a	(135.3%)	116.0%						
Intangibles	3.2	2.3	2.2	1.8	1.3	Pricing		CY19A	CY20A	CY21F	CY22F	CY23F						
Right of Use Asset	2.4	2.0	1.2	2.7	1.8	No of shares (y/e)	(m)	139	153	153	153	153						
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	139	153	153	153	153						
Other non current assets	0.0	0.0	0.8	2.1	3.6	EPS Reported	US cps	(0.01)	(0.02)	(0.02)	0.01	0.02						
Total non current assets	6.2	4.9	4.9	7.4	7.9	EPS Normalised/Diluted	US cps	(0.01)	(0.02)	(0.02)	0.01	0.02						
Total Assets	19.6	17.0	20.5	24.4	27.8	EPS growth (norm/dil)		nm	nm	nm	-131%	155%						
Accounts payable	1.5	2.2	2.5	2.9	3.4	DPS	cps	0.000	0.000	0.000	0.000	0.000						
Short term debt	4.1	4.8	5.7	6.7	7.8	DPS Growth		n/a	n/a	n/a	na	na						
Lease Liability	1.8	1.6	1.0	2.5	1.6	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Other	2.6	2.7	3.5	4.1	4.8	Dividend imputation		0	0	0	0	0						
Total current liabilities	9.9	11.4	12.7	16.1	17.7	PE (x)	-	10.3	-	6.5	-	7.1	23.3	9.1				
Convertible Note	0.0	0.0	5.0	5.0	5.0	PE market		18.0	18.0	18.0	18.0	18.0						
Other non current liabs	0.3	0.3	0.3	0.3	0.3	Premium/(discount)		(157.1%)	(136.0%)	(139.6%)	29.3%	(49.3%)						
Total long term liabilities	0.3	0.3	5.3	5.3	5.3	EV/EBITDA		nm	(7.5)	(10.9)	13.8	8.4						
Total Liabilities	10.2	11.7	18.0	21.4	23.0	FCF/Share	US cps	(0.013)	(0.010)	(0.036)	(0.004)	0.003						
Net Assets	9.5	5.3	2.5	3.0	4.9	Price/FCF share		(10.6)	(12.8)	(3.7)	(34.9)	38.3						
Share capital	7.7	7.7	9.0	9.0	9.0	Free Cash flow Yield		(9.4%)	(7.8%)	(26.9%)	(2.9%)	2.6%						
Accumulated profits/losses	(0.5)	(5.0)	(9.1)	(8.7)	(6.8)													
Reserves	1.8	2.1	2.2	2.2	2.2													
Minorities	0.4	0.5	0.5	0.5	0.5													
Total Shareholder funds	9.5	5.3	2.5	3.0	4.9													

Source: RaaS estimates

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: 6th May 2021

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 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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