

Sale of Healthweigh offers further valuation support

Shekel Brainweigh Limited (ASX:SBW) has announced the sale of its Healthweigh business, an own-brand manufacturer/distributor of a range of healthcare and fitness scales including Physician, Special Needs, Portable and Baby/Neonatal, to its key US distributor Rice Lake Weighing Systems. The sale price of US\$3.43m represents 1.1x annual revenue of US\$3.1m, which is consistent with RaaS estimates. If we valued the balance of SBW's revenue (US\$28.8m – US\$3.1m = US\$25.7m) at 1.1x we derive a valuation for SBW ex-Healthweigh of A\$0.216/share (US\$25.7m by 1.1x = US\$28.3m/0.68 (AUDUSD) = A\$41.6m/192m shares = A\$0.216). We view Healthweigh as the lowest growth and most competitive business within the SBW portfolio, so the 1.1x revenue should be seen as a base case, in our view. SBW intends to reduce debt with the proceeds (A\$5m) to strengthen the balance sheet. As a reminder SBW has started the CY22 year strongly with H1 CY22 sales growth of 23%, gross profit growth of 17% and a lower annualised cash burn. The company has also managed working capital exceptionally well relative to its hardware peer group. We expect continue momentum in the seasonally stronger H2 CY22.

Business model

SBW produces weighing scale hardware and 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 larger market opportunities, potentially higher gross margins and some recurring SaaS-style revenue from data analytics. New products include automated vending machines Innovendi and Hubz, an autonomous micro-market capsule and weighing systems for smart shopping carts, while products nearing commercialisation include Fast Track, product recognition software/hardware for retail self-checkouts.

Valuation validation – A\$0.216/share base case

We view the Healthweigh business as the lowest growth and least focused on division within the SBW portfolio. A sale will free up management time and company resources for the core Retail OEM, Healthcare OEM and Retail Innovation products. From a valuation perspective the US\$3.43m sale price or 1.1x revenue implies a base valuation for the balance of the SBW portfolio of A\$0.216/share by our calculations. We say base case as we view the growth prospects, positioning and technology behind OEM Retail (including Fast Track), OEM Healthcare (highly specialised) and Retail Innovation (early stages) superior to Healthweigh.

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

Our base-case DCF valuation for SBW remains \$0.37/share before any adjustments for the sale of Healthweigh. This valuation is supported by the sale of Healthweigh (at least \$0.216/share) and our FY21a divisional EBIT valuation for the Scales division of A\$34.5m (8x EBIT or \$0.18/share), which implies a negative value for the Retail Innovation division.

Historical earnings and RaaS Advisory estimates on a reported basis (in US\$m unless otherwise stated)

Year end	Revenue	Adj. EBIT	Adj. NPAT	EPS (c)	PER (x)	EV/sales(x)
12/20a	18.3	(4.0)	(4.4)	(0.02)	(3.1)	0.47
12/21a	23.1	(3.6)	(4.0)	(0.02)	(2.8)	0.62
12/22e	28.9	(2.0)	(2.4)	(0.01)	(6.2)	0.65
12/23e	33.5	2.1	1.9	0.01	5.2	0.57

Source: Company data, RaaS Advisory estimates

Technology – Hardware & Software

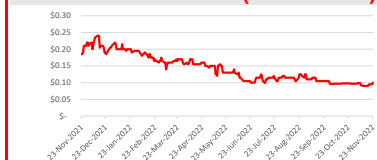
23 November 2022

Share Details

ASX code	SBW
Share price (22-Nov)	\$0.09
Market capitalisation	\$17.2M
Shares on issue	191.7M
Enterprise value	\$21.5M
Net debt at Jun-30 #	A\$4.3M
Free float	~27%

Includes convertible note, excludes WC facility

Share Performance (12 months)



Upside Case

- Rapid uptake in contactless vending solutions
- Retailers adopt SBW's solutions to contactless retail checkout
- 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

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*The analyst holds shares

Exhibit 1: Financial Summary

Shekel Brainweigh (SBW.ASX)						Share price (22 November 2022)						A\$	0.090
Profit and Loss (US\$m)						Interim (US\$m)							
YE 31 Dec	CY19A	CY20A	CY21A	CY22F	CY23F	Revenue	H120A	H220A	H121A	H221A	H122A	H222F	
Revenue	18.8	18.3	23.1	28.9	33.5	7.9	10.4	10.6	12.5	13.1	15.8		
Gross profit	8.2	7.4	9.5	11.5	15.0	(1.6)	(1.0)	(1.6)	(1.3)	(2.4)	1.1		
GP margin %	43.7%	40.6%	41.1%	40.0%	44.8%	(2.1)	(1.9)	(1.9)	(1.7)	(2.8)	0.7		
EBITDA	(1.2)	(2.7)	(2.9)	(1.3)	2.8	(1.8)	(1.6)	(1.9)	(1.6)	(2.7)	0.8		
Depn	(0.2)	(0.4)	(0.2)	(0.3)	(0.2)	(0.7)	(0.3)	(0.9)	(2.0)	0.7	(0.2)		
Amort	0.0	(0.9)	(0.5)	(0.5)	(0.5)	(2.5)	(1.9)	(2.8)	(3.6)	(2.0)	0.6		
EBIT	(1.4)	(4.0)	(3.6)	(2.0)	2.1	(0.012)	(0.011)	(0.012)	(0.010)	(0.015)	0.005		
Interest	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)	(0.016)	(0.012)	(0.018)	(0.020)	(0.011)	0.003		
Tax	(0.0)	(0.0)	(0.0)	0.0	0.0	0.000	0.000	0.000	0.000	0.000	0.000		
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
NPAT pre significant item	(1.7)	(4.4)	(4.0)	(2.4)	1.9	Operating cash flow	na	na	na	na	na	na	
Significant items	(1.5)	0.0	(2.5)	0.0	0.0	Free Cash flow	na	na	na	na	na	na	
NPAT (reported)	(3.2)	(4.4)	(6.4)	(2.4)	1.9	Divisonals	H120	H220	H121A	H221F	H122F	H222F	
Cash flow (US\$m)						Traditional Scales	7.8	10.2	10.2	12.0	12.1	14.1	
YE 31 Dec	CY19A	CY20A	CY21A	CY22F	CY23F	New Retail	0.1	0.2	0.4	0.5	1.0	1.7	
Adj EBITDA inc. rent	0.0	(2.3)	(2.0)	(0.5)	2.8	Total Revenue	7.9	10.4	10.6	12.5	13.1	15.8	
Interest	(0.2)	(0.4)	(0.3)	(0.3)	(0.2)	Gross profit	3.2	4.3	4.2	5.3	4.9	6.6	
Tax	0.2	0.0	0.0	(0.0)	0.0	Gross Profit Margin %	39.7%	41.3%	39.7%	42.2%	37.3%	42.1%	
Working capital changes	(0.9)	1.1	(3.0)	(1.4)	(1.6)	R&D	1.4	1.9	1.6	2.1	1.8	1.7	
Operating cash flow	(0.9)	(1.5)	(5.4)	(2.3)	1.0	General & Admin & Other	3.2	3.2	4.1	3.7	4.8	3.8	
Mtce capex	(0.2)	(0.3)	(0.5)	(0.6)	(0.6)	One-off costs & Non-cash	0.2	0.3	0.7	0.8	0.7	-	
Free cash flow	(1.1)	(1.8)	(5.9)	(2.8)	0.4	Total costs	4.8	5.3	6.4	6.6	7.3	5.5	
Capitalised Software	(1.3)	0.0	(0.4)	0.0	0.0	EBITDA	(1.6)	(1.0)	(2.2)	(1.3)	(2.4)	1.1	
Acquisitions/Disposals	(0.1)	0.0	0.0	0.0	0.0	EBITDA margin %	(20.6%)	(9.9%)	(20.5%)	(10.7%)	(18.0%)	7.0%	
Other	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		CY19A	CY20A	CY21A	CY22F	CY23F	
Cash flow pre financing	(2.5)	(1.8)	(6.3)	(2.8)	0.4	EBITDA margin %		(6.5%)	(14.6%)	-12.6%	-4.3%	8.3%	
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(7.3%)	(21.9%)	-15.6%	-7.1%	6.3%	
Debt	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		(9.3%)	(24.1%)	-17.1%	-8.2%	5.6%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)	-	2.57	-	1.48	4.02	6.78	6.37
Net cash flow for year	(2.5)	(1.8)	(6.3)	(2.8)	0.4	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm	
Balance sheet (US\$m)						ND/ND+Equity (%)	(%)	21.4%	21.7%	188.5%	105.1%	152.8%	
YE 31 Dec	CY19A	CY20A	CY21A	CY22F	CY23F	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	11.4%	
Cash	2.6	1.5	2.0	0.7	1.1	ROA		(14.1%)	(21.8%)	(17.2%)	(7.6%)	6.9%	
Accounts receivable	5.8	5.4	7.6	8.7	9.8	ROE		(18.5%)	(82.5%)	(209.7%)	(716.9%)	85.0%	
Inventory	3.5	3.5	4.9	5.9	7.0	NTA (per share)		0.07	0.03	0.01	-0.01	0.00	
Other current assets	1.5	1.7	1.2	1.4	1.6	Working capital		7.8	6.7	9.8	11.1	12.7	
Total current assets	13.4	12.1	15.8	16.8	19.5	WC/Sales (%)		41.6%	36.6%	42.2%	38.6%	37.9%	
PPE	0.6	0.6	0.8	1.1	1.5	Revenue growth		0.9%	(2.7%)	26.2%	25.0%	16.1%	
Intangibles	3.2	2.3	2.0	1.6	1.1	EBIT growth pa		nm	nm	n/a	n/a	(203.6%)	
Right of Use Asset	2.4	2.0	6.3	7.9	7.1	Pricing		CY19A	CY20A	CY21A	CY22F	CY23F	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	139	153	152	179	191	
Other non current assets	0.0	0.0	0.0	1.5	2.9	Weighted Av Dil Shares	(m)	139	153	152	179	191	
Total non current assets	6.2	4.9	9.1	12.0	12.5	EPS Reported	US cps	(0.01)	(0.02)	(0.02)	(0.01)	0.01	
Total Assets	19.6	17.0	24.9	28.8	31.9	EPS Normalised/Diluted	US cps	(0.01)	(0.02)	(0.02)	(0.01)	0.01	
Accounts payable	1.5	2.2	2.8	3.5	4.0	EPS growth (norm/dil)		nm	nm	nm	n/a	-218%	
Short term debt	4.1	4.8	4.0	4.9	5.7	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Lease Liability	1.8	1.6	5.9	7.7	6.9	DPS Growth		n/a	n/a	n/a	na	na	
Other	2.6	2.7	3.6	4.5	5.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total current liabilities	9.9	11.4	16.2	20.6	21.9	Dividend imputation		0	0	0	0	0	
Convertible Note	0.0	0.0	6.0	7.5	7.5	PE (x)	-	4.9	-	3.1	-	6.2	5.2
Other non current liabs	0.3	0.3	0.7	0.3	0.3	PE market		18.0	18.0	18.0	18.0	18.0	
Total long term liabilities	0.3	0.3	6.8	7.8	7.8	Premium/(discount)		(127.1%)	(117.0%)	(115.7%)	(134.4%)	(70.9%)	
Total Liabilities	10.2	11.7	23.0	28.5	29.7	EV/EBITDA		nm	(3.0)	(5.0)	(13.7)	6.8	
Net Assets	9.5	5.3	1.9	0.3	2.2	FCF/Share	US cps	(0.013)	(0.010)	(0.046)	(0.020)	0.002	
Share capital	7.7	7.7	9.9	10.7	10.7	Price/FCF share		(5.0)	(6.1)	(1.4)	(3.2)	29.4	
Accumulated profits/losses	(0.5)	(5.0)	(11.5)	(13.8)	(12.0)	Free Cash flow Yield		(19.9%)	(16.5%)	(72.2%)	(31.5%)	3.4%	
Reserves	1.8	2.1	3.0	3.0	3.0								
Minorities	0.4	0.5	0.5	0.5	0.5								
Total Shareholder funds	9.5	5.3	1.9	0.3	2.2								

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

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