

Beta Systems

Technology
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Solid FY20 results driven by acquisitions

Beta Systems, a software provider for data centre intelligence (DCI) and identity access management (IAM), has reported both strong organic and inorganic growth in its FY20 revenues to September. The company raised its FY20 earnings guidance twice last year, driven by strong order intake, especially in the DCI unit, and cost savings. Due to lower expected contract renewals in the DCI unit, FY21 EBITDA is expected to decrease. As a smaller player in the sector, Beta Systems trades at a discount of 22% compared to international peers on an FY20 EV/EBITDA basis.

Organic revenue growth of 8% in FY20

Beta Systems reported solid FY20 results with revenue growth of 35.3% to €72.1m, of which 8% was organic, and 27% driven by the acquisitions of PROXESS in FY19 and Codelab last year. Roughly 85% of revenues are of a recurring nature, but because of IFRS-related accounting rules, reported licence revenues vary with contract renewals. EBITDA (on a post-IFRS 16 basis) increased by 64% to €17.2m, also driven by acquisitions, strong growth in Italy (other Europe segment) and the IFRS 16 implementation.

Pick up in FY22 EBITDA guided after weaker FY21e

Beta Systems maintained its previous 2021 guidance (from 17 September 2020) based on continued growth, especially in its DCI business. Due to a lower number of client contracts up for renewal in the current reporting year with lower upfront revenue recognition, revenue guidance remains at €68–76m. This is in line with FY20, mostly as a result of the positive effect of the acquisition of Codelab, offset by the lower expected revenues in DCI. In FY22, a high volume of customer contracts are up for renewal, which provides Beta Systems the confidence to indicate €15–19m EBITDA, after a guided decrease to €9.2–14.2m in FY21e. The FY21 guidance has a high degree of unpredictability due to COVID-19.

Large EV/EBITDA discount compared to peers

With a market cap of €126m and a limited free float of below 30%, Beta Systems is a small player in the data centre/mainframe space, which is dominated by US and Asian tech giants. At the same time, the fact that Beta Systems is a European company supports the investment case, as government and financial clients appreciate local control of sensitive data. Beta Systems trades at an FY20 EV/EBITDA multiple of 5.5x, implying a discount of 53% compared to global, larger cap peers.

Historical financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/17	49.8	10.8	9.3	1.51	0.0	17.5	N/A
09/18	45.9	5.5	4.3	0.76	0.0	34.7	N/A
09/19	53.3	10.5	9.1	1.26	0.2	21.0	0.8
09/20	72.1	17.2	12.4	1.92	0.2	13.8	0.8

Source: Beta Systems data

Price €26.4
Market cap €126m

Share price graph



Share details

Code	BSS
Listing	Deutsche Börse Scale
Shares in issue	4.8m
Last reported net cash at end FY20, including €34m in deposits	€31.6m

Business description

Beta Systems provides data centre intelligence solutions that enable efficient and secure bulk processing of data and identity access management solutions. The company's headquarters are in Berlin and it has sales and support offices in 13 markets globally. Approximately 65% of sales are derived in the DACH region.

Bull

- Market leader in mainframe environments and DCI in Europe.
- Strong order profile indicates life remains in the mainframe market.
- Strong balance sheet.

Bear

- Mature mainframe market backdrop.
- Subscale IAM business.
- Strong dependence on DACH region.

Analyst

Edwin de Jong +44 (0) 20 3077 5700

tech@edisongroup.com
[Edison profile page](#)

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FY20 driven by acquisitions and contract renewals

Beta Systems Software reported solid FY20 results, with revenue growth of 35.3% to €72.1m, of which 8% was organic, driven by the DACH region and rest of Europe. The acquisitions of PROXESS in July 2019 and Codelab in December 2019 contributed 27pp to revenue growth.

Beta Systems has a business model with highly recurring revenue and is less affected by the COVID-19 crisis. The predominant software rental model means that c 80%+ of the group's licence and maintenance revenues are recurring, while a large portion of the services revenues also have a recurring feature. This takes total recurring revenues to around 85% of the overall total. Even if Beta Systems bills its typical multi-year contract product as a service (the predominant revenue model) on an annual basis, it has to recognise licence and maintenance separately, which means that contract renewals lead to a relatively volatile reported top line.

EBITDA including the IFRS 16 treatment of leases (€2.9m) increased by 64% to €17.2m. All operating segments reported an increase. EBIT grew 41% to €12m. Other Europe and the DACH region were the major contributors to the increase. Net income increased 53% to €9.2m.

In September, Beta Systems reported its first FY21 guidance with revenues of €68–76m and EBITDA of €9.2–14.2m, and with the presentation of the FY20 results, this guidance was reiterated. The guidance includes an anticipated decrease in revenues for the DCI division, due to a lower number of contract renewals. This is expected by the company to reverse in FY22 and is the reason that Beta Systems can already indicate FY22 EBITDA guidance of €15–19m, which at the midpoint is broadly in line with EBITDA in FY20.

Exhibit 1: Financial summary					
€m	2017	2018	2019	2020*	2021e*
	IFRS	IFRS	IFRS	IFRS	Guidance
Revenue	49.8	45.9	53.3	72.1	68–76
o/w licence	18.3	11.8	13.6	18.4	
o/w maintenance	24.1	24.9	28.9	34.3	
o/w services	7.4	8.6	9.6	18.1	
o/w other sales	0	0.6	1.2	1.3	
EBITDA	10.8	5.5	10.5	17.2	9.2–14.2
EBITDA margin	21.70%	12.00%	19.60%	24.00%	
Total opex	-40.8	-42.1	-44.7	-60	
EBIT	9	3.8	8.5	12	3.8–8.8
Profit before tax (as reported)	9.3	4.3	9.1	12.4	
Net income (as reported)	8	4	6	9.2	
EPS (as reported) (€)	1.51	0.76	1.26	1.92	
Operating cash flow	5.3	8.3	8.2	14.5	

Source: Beta Systems accounts. Note: *2020 numbers and management guidance includes IFRS 16.

DCI business on track

Beta Systems broadened and strengthened its client base in the last fiscal year. Good demand for the relatively new Symphony software suite, as well as for business infrastructure control system provider AUCONET, drove revenues. Also, due to many security incidents in the past few months, Beta Systems sees rising demand for its AUCONET product solutions. Furthermore, in the last two years competitors CA and BMC were sold to Broadcom and KKR respectively and this resulted in higher price offerings from these companies, leading to new client wins for Beta Systems. In addition, the fact that Beta Systems is one of the few European companies left in the data centre intelligence space supports the business model, now that European banks and governments are increasingly sensitive over which company controls the data centre data.

Part of Beta Systems' strategy is to expand into other software businesses with the operational cash proceeds from the DCI mainframe business. One of those areas is identity access management (IAM) software for controlling and monitoring access to data and applications according to a client's requirements. Clients are mostly in the financial arena. In terms of winning new customers, FY19/20 was a successful year. Management is also optimistic for the upcoming years, because Beta Systems' Garancy IAM Suite is one of the few true European IAM solutions, and this selling argument has become increasingly important to European customers.

A third division, digitalisation, was established via the acquisition of LYNET Kommunikation in 2018 and has now been strengthened by the acquisition of automotive software company Codelab, which had a more difficult year, given the challenging automotive market.

M&A is a prominent part of Beta Systems' strategy, which can be supported by the strong balance sheet position (net cash was €31.6m at end-September 2020, including deposits).

Trading at a discount on FY20 multiples

With a market cap of €126m and a limited free float of just short of 30% (the majority shareholder Deutsche Balaton controls around 70%), Beta Systems is a small player in the data centre/mainframe space, which is dominated by tech giants mostly from North America and Asia. Its financial position is strong, with a net cash position of €31.6m, comprising €16m debt (of which €6m is interest bearing debt and €10m is lease related), deposits of €34m and €13.6m in cash.

Compared to the larger cap companies (as we are not aware of the similar size peers), Beta Systems trades at a discount of 53% on FY20 EV/EBITDA, based on the current market capitalisation, post-IFRS 16 EBITDA and net cash of €31.6m. On FY21e EV/EBITDA, based on the midpoint of company EBITDA guidance, Beta Systems trades at a discount of 24%, as a result of lower expected profitability.

Exhibit 2: Peer group comparison

Company	Market cap (local CCY m)	P/E (x)			EV/EBITDA (x)		
		2019**	2020e	2021e	2019**	2020e	2021e
Cisco	US\$193,106	14.7	14.5	14.4	9.6	9.7	10.0
IBM	US\$109,128	9.6	14.5	11.1	8.6	10.5	8.4
VMware	US\$61,061	23.0	22.1	20.6	18.2	16.6	14.3
HPE	US\$16,906	7.4	9.9	7.9	5.4	6.4	5.7
Citrix	US\$17,788	25.4	24.1	22.7	18.2	16.5	16.1
Juniper Networks	US\$9,097	16.0	17.9	16.7	9.7	9.9	9.6
Peer average		16.0	17.2	15.6	11.6	11.6	10.7
Beta Systems	€126	21.0	13.8	N/A	8.9	5.5	8.1
Premium/(discount)		31%	(20%)	N/A	(23%)	(53%)	(24%)

Source: Refinitiv. Note: Priced at 28 January 2021. Beta System numbers not calendarised. *Based on the midpoint of company EBITDA guidance. **Pre IFRS 16.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia