

Beta Systems Software

Technology
3 February 2022

FY22 guidance increased

Beta Systems, a software provider for data centre intelligence and identity access management, reported FY21 EBITDA in line with guidance and raised its FY22 guidance. This was partly driven by new client wins and higher sales at existing clients. As a niche player in a sector dominated by giants such as IBM and VMware, Beta Systems trades at a 37% discount to peers on a guided FY22e EV/EBITDA basis. The discount has decreased from 54% in our [last note](#) due to a sharp rise in the share price.

FY21 revenues up 1%, EBITDA down 5%

Beta Systems' FY21 revenues of €73.1m (+1.4% y-o-y) and EBITDA of €16.4m (down 4.7% y-o-y) were in line with management's revised guided revenue range (€70–78m) and EBITDA guidance (€13–20.5m). A lower number of contract renewals at its largest division, Data Center Intelligence (DCI), led to muted revenue growth. The Identity Access Management (IAM) division, featuring the Garancy suite, grew in line with historic rates. Beta Systems' lower FY21 EBITDA was largely caused by higher staff costs, mainly in Europe, driven by M&A and recruitment. EBIT decreased 7.7% to €11.1m and net income was down 11.9% to €8.1m. Operating cash flow, which is a better reflection of the business as it is less sensitive to contract renewals, was up 11.9% to €16.2m. Beta Systems' financial position is very solid: net cash, including cash held at Deutsche Balaton, was stable at €53.8m (was €53.9m at H121).

Higher FY22 EBITDA guidance

Beta Systems has increased its EBITDA guidance for FY22, which already reflected a step up versus FY21 due to the anticipated increase in contract renewals. The new guidance is for EBITDA of €18–26m (previous indication €15–19m), with revenue guidance of €81–89m (FY21: €73.1m). We believe the higher guidance is in part driven by an increase in orders at a large DCI client and a major client win in the IAM division. The guidance implies year-on-year revenue growth of 10.8–21.8% and a 9.8–58.5% increase in EBITDA.

EV/EBITDA FY22e discount decreased

Beta Systems' share price has increased 68% over the last year. Based on the higher market cap, stable net cash and an FY22e EBITDA based on guidance, the FY22e EV/EBITDA is 6.6x. At this multiple, Beta Group trades at a 37% discount to its much larger listed peers. The discount has decreased significantly compared to the 54% discount at the time of our previous note in June 2021. Beta Group is trading at a premium to peers based on FY21 P/E multiples.

Historical financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/18	45.9	5.5	4.3	0.76	0	55.5	0.0
09/19	53.3	10.5	9.1	1.26	0.21	33.5	0.5
09/20	72.1	17.2	12.4	1.92	0.21	22.0	0.5
09/21	73.1	16.4	8.1	1.72	0.21	24.5	0.5

Source: Beta Systems

Price €41.5
Market cap €199m

Share price graph



Share details

Code	BSS
Listing	Deutsche Börse Scale
Shares in issue	4.8m
Last reported net cash at end FY21, including €28m in deposits	€53.8m

Business description

Beta Systems Software 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.
- Robust balance sheet.

Bear

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

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Strong prospects for FY22

Beta Systems reported FY21 revenues of €73.1m (+1.4%) on 19 January, in line with the in August revised guided revenue range of €70–78m. The muted growth in revenue was a result of an anticipated decrease in revenues for its largest division, DCI, due to fewer multi-year contract renewals. DCI includes Data Center Solutions, Auconet (IT operations management) and Document Management (Proxess). The IAM division, which includes the Garancy product suite, grew in line with historic rates with a large new client signing up in October. This new framework contract will start to generate revenues from October this year and management expects it could generate significant revenues annually within a few years.

Beta Systems' largest segment, maintenance revenues are recurring and up 1.6% to €34.8m. Licence revenues, which are also partly recurring because they include the licence part of rental contracts and because of the stickiness of the business, were down 0.9% to €18.3m as a result of the lower number of renewals. Services, which are more volatile, reported revenue growth of 6.7% to €19.3m.

The DACH region, which accounted for 53.8% of total revenues, showed 9% y-o-y revenue growth mostly driven by IAM, while the North America region showed the highest level of growth (+26% y-o-y), driven by an exceptional level of new business at a large client. Western Europe (down 16% y-o-y) and the rest of Europe (down 23% y-o-y) showed a slowdown, driven by the renewal cycle.

EBITDA was down 4.7% y-o-y at €16.4m in line with the guided range of €13.0–20.5m. EBITDA in North America increased, whereas in Western Europe and the rest of Europe it was down. Higher staff expenses, driven by the acquisitions of ATICS and Codelab and recruitment in the DACH region, led to a lower EBITDA margin of 22.4% (was 23.8%). EBIT decreased 7.7% to €11.1m and net income was down 11.9% to €8.1m.

Operating cash flow, which we believe is a better reflection of the business than EBITDA, as it is less sensitive to contract renewals, was up 11.9% to €16.2m. Beta Systems' financial position remained strong with net cash, also reflecting the cash held at Deutsche Balaton, which was stable at €53.8m (H121 €53.9m, FY20 €41.6m).

Exhibit 1: Financial summary

€m	2019	2020*	2021*	Change	2022e*
Year-end 30 September	IFRS	IFRS	IFRS	(%)	guidance
Revenue	53.3	72.1	73.1	1.4	81–89
o/w licence	13.6	18.4	18.3	-0.9	
o/w maintenance	28.9	34.3	34.8	1.6	
o/w services	9.6	18.1	19.3	6.7	
o/w other sales	1.2	1.3	0.7	-44.8	
EBITDA	10.5	17.2	16.4	-4.7	18–26
EBITDA margin	19.6%	23.8%	22.4%		
Total opex	(44.7)	(60.0)	(62.0)	3.3	
EBIT	8.5	12.0	11.1	-7.7	13–21
Profit before tax (as reported)	9.1	12.4	8.1	-34.8	
Net income (as reported)	6.0	9.2	8.1	-11.9	
EPS (as reported) (€)	1.26	1.92	1.72	-10.4	
Operating cash flow	8.2	14.5	16.2	11.9	

Source: Beta Systems accounts. Note: *FY20, FY21 and FY22 guidance and management guidance include IFRS 16.

Beta Systems expects to report a higher EBITDA in FY22 compared to last year (all things being equal), as the lower number of contract renewals at DCI is expected to reverse this year. With the FY20 results, Beta Systems already guided for €15–19m for FY22 EBITDA, but this has now been raised to €18–26m with revenues of €81–89m. The main drivers for the raised guidance are the start of a project with a major new customer in IAM and the significant improvement in the order

book in the digitisation area. Beta Systems' guidance implies revenue growth of 10.8–21.8% and EBITDA growth of 9.8–58.5%. FY22 EBIT guidance stands at €13–21m, up from €11.1m in FY21.

Expanding product portfolio into the cloud

The cooperation between IAM and Codelab, which was acquired in the previous year, was positive. Development activities were extended and led to functional enhancements in the IAM software solution Garancy. Beta Systems is actively working on cloud offerings for the Garancy suite.

In the DCI division, Beta Systems is investing in the modernisation and functional expansion of its product range, regardless of the infrastructure used, whether based on mainframe, open systems (Linux, Unix) or the cloud. Clients can increasingly automate their business processes and may realise cost benefits because applications no longer have to operate in the mainframe environment.

Beta Systems welcomed Mirko Minnich as a new board member on 1 October, as Armin Steiner left at his own request. He has many years of experience in agile software development and proven expertise in the development of cloud products and has taken Mr Steiner's place on the board. The management board further consists of Andreas Huth and Gerald Schmedding. M&A has always been a prominent part of Beta Systems' growth strategy supported by the strong balance sheet position (net cash was €53.8m at end-September 2021, including deposits but excluding IFRS 16-related leases). In the last year there has not been much activity on M&A other than the completed divestment of Lynet (€2.7m) and the add-on acquisition of ATICS for €0.2m.

Discount to global tech firms is decreasing

Beta Systems' market cap has risen significantly in the last year, from €126m to €199m, albeit at very low trading volumes, with no more than a couple of hundred shares changing hands on a regular day. This is also partly driven by the limited free float just below 30% (the majority shareholder Deutsche Balaton controls around 70%).

Beta Systems is a small player in the data centre/mainframe space. The company's closest peers were acquired in the last five years and are not listed: CA Technologies (acquired by Broadcom) and BMC Software (acquired by KKR). As a result, we compare Beta Systems to a set of global infrastructure software companies, including IBM, Cisco, VMWare and Citrix.

Compared to these larger-cap companies (as we are not aware of any similar size peers), Beta Systems trades at a discount of 37% on FY22 EV/guided EBITDA. This discount has decreased compared to our previous note when it was 54%. On FY21 P/E multiples, Beta Group trades at a premium, where it used to trade at a discount to peers.

Exhibit 2: Peer group comparison

Company	Market cap (local CCY m)	P/E (x)			EV/EBITDA (x)		
		2020	2021e	2022e	2020	2021e	2022e
Cisco	US\$234,541	17.3	17.3	16.2	12.0	12.1	11.4
IBM	US\$120,620	15.5	13.5	13.7	10.7	9.2	10.0
VMware	US\$54,286	20.7	18.3	17.9	14.2	12.2	11.7
HPE	US\$20,863	11.9	8.4	7.9	7.1	5.7	5.5
Citrix	US\$13,164	17.3	21.4	20.3	12.3	12.9	13.7
Juniper Networks	US\$10,936	21.7	19.6	16.9	13.2	12.1	10.8
Peer average		17.4	16.4	15.5	11.6	10.7	10.5
Beta Systems	€199	14.9	24.5	N/A	10.0	8.9	6.6*
Premium/(discount)		-14%	49%	N/A	-14%	-17%	-37%

Source: Refinitiv. Note: Priced at 31 January 2022. Beta System numbers not calendarised. *Based on the mid-point of company EBITDA guidance.

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