

Beta Systems

Technology

2 June 2020

Strong demand for data centre intelligence

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 H120 revenues to April. As one of few companies in the sector, the company has raised its FY20 guidance, driven by a strong order intake especially in the DCI unit. As a smaller player in the sector, Beta Systems trades at a discount of c 45% compared to international peers on an EV/EBITDA basis for 2020e.

Organic revenue growth of 10% in H120

Beta Systems reported solid H120 results with revenue growth of 41.5% to €38.1m, of which around 10% was organic, and over 30% driven by the acquisitions of HABEL/Akzentum Group and infinIT Codelab last year. It has a business model with a c 90% recurring nature because of its royalty licensing/maintenance model. EBITDA (post-IFRS 16 basis) increased 65% to €11.4m in H120, driven by acquisitions, strong growth in the Other Europe segment and the IFRS treatment of leases.

FY20 earnings guidance upgraded

In contrast with many other companies in the sector, Beta Systems has raised the upper range of its previous guidance on 7 May based on a good order position, especially in its DCI business and cost control. EBIT guidance is now €7–12m versus €7–10m previously. The new guidance has a higher degree of unpredictability due to the COVID-19 crisis. Revenue guidance was unchanged at €67–74m, implying 26–39% growth, and EBITDA guidance based on the new IFRS 16 rules stands at €11–17m, implying margins of c 19.9% at the midpoint, compared to 19.6% in FY19. Recently launched Symphony software in its DCI operations showed good demand.

Large EV/EBITDA discount compared to peers

With a market cap of €110m 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. However, looking at the strong earnings performance and growth profile, it seems Beta Systems has gained access to an attractive market segment. Trading at an EV/EBITDA for FY20e of around 4.9x, Beta Systems is at a discount of c 45% compared to international peers.

Historical financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/16	46.4	7	5.7	0.99	0.0	23.2	N/A
09/17	49.8	10.8	9.3	1.51	0.0	15.2	N/A
09/18	45.9	5.5	4.3	0.76	0.0	30.3	N/A
09/19	53.3	10.5	9.1	1.26	0.2	18.3	0.9

Source: Beta Systems data

Price

€23

Market cap

€110m

Share price graph



Share details

Code	BSS
Listing	Deutsche Börse Scale
Shares in issue	4.8m
Last reported net cash at Q120, including €33m deposit; pre IFRS16	€43.1m

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 75% 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](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Financials

Beta Systems Software reported revenue growth of 41.5% to €38.1m in H120 to April, mostly driven by the acquisitions of HABEL/Akzentum Group in July 2019 and infinIT Codelab (80% of the shares) in December 2019. Organic growth was robust at around 10% and driven by an increase in the number of customers and increased spending at existing customers, especially in the Other Europe segment, where growth in licences was strong. Good demand for the new Symphony product offering in the DCI operations was also one of the revenue growth drivers.

Beta Systems has a business model with highly recurring revenue and is less affected by the COVID-19 crisis. The predominant 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 more than 90% of the overall total.

EBITDA increased 65% to €11.4m in H120, partly driven by the IFRS 16 treatment of leases (effect in H120 of €1.4m) and by the higher revenues in a controlled cost situation. H119 EBITDA has not been adjusted for the IFRS 16 effect. Acquisitions had a positive effect of €1.2m on EBITDA. EBIT increased 48% to €8.9m, of which 42% organic. Net profit was 57% higher at €6.6m.

In contrast with many other companies, Beta Systems is raising the upper level of its profit guidance, which is based on the strong order position and controlled cost situation. FY20 visibility is relatively high, as turnover in the second half of the fiscal year is traditionally much lower compared to the first half because contract renewals are mostly realised in the first half of the year.

Nevertheless, the company warns the new guidance has a higher degree of unpredictability due to the COVID-19 crisis. In its ad hoc announcement on 7 May 2020, Beta Systems increased its full-year EBITDA projection excluding the IFRS 16 effect to €9–14m from €9–12m and EBIT to €7–12m from €7–10m. Including the effect of IFRS 16, EBITDA guidance is now €11–17m. Full-year sales guidance is maintained at €67–74m.

Exhibit 1: Financial summary

€m	FY18	FY19	H119	H120	Change (%)	2020e* Management guidance
	IFRS	IFRS	IFRS	IFRS		
Revenue	45.9	53.3	26.9	38.1	41.5	67–74
o/w licence	11.8	13.6	8.3	11.3	35.2	
o/w maintenance	24.9	28.9	13.5	17.1	26.6	
o/w services	8.6	9.6	4.7	9.0	93.5	
o/w other sales	0.6	1.2	0.4	0.7	68.8	
EBITDA	5.5	10.5	6.9	11.4	64.7	11–17
EBITDA margin	12.0%	19.6%	25.7%	29.9%		
EBIT	3.8	8.5	6.0	8.9	47.4	7–12
Profit before tax (as reported)	4.3	9.1	6.3	9.0	42.1	
Net income (as reported)	4.0	6.0	4.2	6.6	56.9	
EPS (as reported) (€)	0.76	1.26	0.88	1.38	56.8	

Source: Beta Systems accounts. Note: *Management guidance includes IFRS 16.

Strengthened offering in DCI

Beta Systems strengthened its product portfolio in the DCI division recently through the launch of new Symphony software that it claims received a warm welcome in the market with good demand, although this was not quantified in its half year report. Beta Systems' data centre software is mainly used for reliable and efficient processing of large amounts of data. For instance, Beta Systems' Symphony software is used for IBM's Z mainframe platform. Clients are mostly European and North American and more than half of revenues generated in the DACH region, with many customers from the financial sector.

The DCI market is structurally growing, with long sales cycles and orders typically between €0.1m and €3.0m. Beta Systems' strong order situation reflects a better mainframe market, as big bank and insurance customers seek to optimise and modernise their equipment.

Beta Systems also has identity access management software for controlling and monitoring access to data and applications according to a client's requirements. Clients are mostly in the financial arena. A third division, digitalisation, has been established via the acquisition of LYNET Kommunikation in 2018 and has now been strengthened by the recent acquisition of Co delab.

Beta Systems highlights that it may make further M&A deals, which should be supported by the strong balance sheet position (net cash was €43.1m at end-March 2020 on a pre-IFRS16 basis and including deposits) and operational cash flow of €13.9m in H 120 (H119: €10.6m).

Low valuation compared to peers

With a market cap of €110m and a limited free float of just short of 30% (the majority shareholder is Deutsche Balaton, 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.

However, looking at the strong earnings performance and growth profile, Beta Systems has gained access to an attractive market segment. It trades at an EV/EBITDA for FY20e of c 4.9x, based on the market capitalisation, net cash of €43.1m and the midpoint of FY20 EBITDA guidance. For a company with such a position and compared to the international peers, this reflects a large discount.

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\$188.483	14.4	14.2	14.2	9.7	9.8	10.1
IBM	US\$105.766	9.3	10.7	9.6	8.4	9.2	8.4
VMware	US\$57.083	21.6	20.7	22.3	17.1	15.6	15.7
HPE	US\$13.347	5.9	7.8	6.8	4.4	5.4	5.0
Citrix	US\$16.879	24.0	24.3	22.2	16.7	16.3	15.4
Juniper Networks	US\$7.724	13.6	15.1	13.0	8.1	8.6	8.0
Peer average		14.8	15.5	14.7	10.7	10.8	10.4
Beta Systems	€110	17.6	N/A	N/A	11.7	4.9*	N/A
Premium/(discount)		19%	N/A	N/A	9%	(45%)	N/A

Source: Refinitiv. Note: Priced at 20 May 2020. *Based on the midpoint of company guidance.

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) followed by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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
1,185 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