# artec technologies

## New strategy is beginning to deliver

artec returned to the black in H118 as revenues more than doubled. The results reflect the impact of the three significant contract wins announced earlier this year. These wins came in the wake of the 2016/17 period that artec spent modernising its software platform and the strong momentum has been continuing, with further new business added in recent weeks in the public sector security segment. If management can sustain the momentum, we believe there is significant upside in the shares.

| Price | €5.10 |
|---|---|
| Market cap | €13m |

**Share price graph**



### H118 results: Swings from loss to €0.2m EBITDA

H118 revenue surged by 136% to €1.4m, and artec returned to a small operating profit (EBIT) of €49k from a €565k loss in H117. The group ended June with a modest cash position of €2k. In February, artec raised €934k (gross) via a 10% capital increase at €3.95/share in order to provide working capital to deliver on major recent contract wins. This impact is reflected in trade debtors, which rose from €0.4m to €1.1m over the six months.

### Evolving strategy

Earlier this summer, management outlined a new strategy focused on targeting state agencies and public authorities in the DACH (German-speaking) countries, while also offering scalable cloud/SaaS offerings to the media and broadcast sector. artec seeks to build its sales through a partnering approach. With regard to technology, it offers a Buy, Build, Partner approach, ie as well as developing some of its own IP, it will partner other software vendors to take advantage of established solutions that can be bolted onto its MULTIEYE and XENTAURIX platforms, and will also consider acquiring small vendors with innovative solutions.

### Positive new business wins continues

artec says that it has enjoyed healthy sales successes in recent weeks in the public sector security end market. Wins include a Luxembourg security agency which has ordered an in-house cloud solution for active video management. Separately, a local authority in Germany has ordered artec face recognition (MULTIEYE face) for use as an offline face recognition system to analyse video archives.

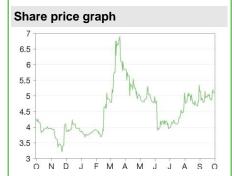### Valuation: An option on a massive opportunity

artec's target markets are large and we see its modest €13m market capitalisation as an option on management's ability to leverage the company's significant success stories/case studies into a more scalable and profitable business model.

### Share details

| | |
|---|---|
| Code | A6T |
| Listing | Deutsche Börse Scale |
| Shares in issue | 2.6m |
| Last reported net debt (€m) at 30 June 2018 | 0.0 |

### Business description

artec technologies develops and produces software and systems solutions for the transmission, recording and analysis of video, audio and metadata in networks or on the internet.

### Bull

- Strong customer list and some excellent case studies.
- Heavily invested in IP, through many years of experience, supported by a German patent.
- Shifting to a more scalable cloud/SaaS business model.

### Bear

- Small scale and limited staff resources for projects.
- Small balance sheet position, with limited cash resources.
- Volatile trading record.

### Analyst

Richard Jeans          +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

### Consensus estimates

| Year end | Revenue (€m) | EBITDA (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/16 | 2.5 | (0.1) | (0.13) | 0.0 | N/A | N/A |
| 12/17 | 1.5 | (0.4) | (0.34) | 0.0 | N/A | N/A |
| 12/18e | 3.2 | 0.1 | (0.05) | 0.0 | N/A | N/A |
| 12/19e | 5.0 | 1.5 | 0.43 | 0.0 | 11.9 | N/A |

Source: Thomson Reuters

# Technology for video security and media analysis

artec technologies is a specialist in the recording and storage of audiovisual information. The company operates in two market segments with two key products, which are based around the same core technology – video security (MULTIEYE) and media analysis systems (XENTAURIX). Approximately 60% of the business is currently in security with the balance in media and broadcast.

artec integrates third-party technologies into its platforms and the functionality includes number plate recognition, facial recognition, sentiment analysis, ratings analysis and video fingerprinting. The platform also incorporates artificial intelligence (AI) from Finnish AI specialist Valossa and artec's XENTAURIX AI platform was demonstrated last month at the IBC trade show in Amsterdam. artec constantly seeks to add new functionality and intends to have social media recording and analysis on the platform shortly.

Revenues have traditionally been from customised projects and artec can deliver both onsite and hosted (cloud) solutions. The company delivers its hosted cloud solutions from a large co-located datacentre in Germany. Historically, video surveillance was the predominant target market, although the focus has been shifting to media analysis systems. This is due to the Chinese domination of video surveillance with commoditised products (although artec has found a new niche in public sector security after recent terror attacks), along with artec's recent successes in the media analysis systems end-market.

# New business momentum continues

artec reported that it has enjoyed healthy sales success in recent weeks in the public sector security vertical. Recent customer wins include a Luxembourg security agency which has ordered an in-house cloud solution for active video management. The system will be installed on the customer's intranet and configured according to the customer's requirements. A particular interest is on the central evaluation of videos of mobile emergency services and vehicles. Separately, a local authority in Germany has ordered artec face recognition (MULTIEYE face) for use as an offline face recognition system to analyse video archives at speeds of up to 12 times during searches.

Earlier this year, artec announced three major contracts, including XENTAURIX contracts with a major German publishing house and a German state media office and a combined MULTIEYE/ XENTAURIX contract win with the German ministry of the interior. In wake of the win with the German state media office, artec is very confident it can sell its solution to the other 13 state media offices. We note that European regulation, including the EU's GDPR (general data protection regulation) makes it increasingly difficult for foreign peers to compete. Additionally, within the public security segment, European authorities strongly prefer to deal with European suppliers.

Management says it is receiving ongoing demand from the public sector security environment in Germany and abroad. This ongoing sales momentum provides a strong endorsement of the company's new platform, on which it has spent much of its energy developing over 2016 and 2017.

# Evolving business model

artec is targeting two primary markets – security and media & broadcast - using its complementary software platforms. artec's USP is that it can offer similar technologies, such as face recognition, to these two sectors and it does not see competitors offering in both these sectors. artec is targeting state agencies and public authorities in the DACH countries with a law enforcement video surveillance management system and video intelligence applications. It is also offering scalable

cloud/SaaS offerings to the media and broadcast sector. Additionally, artec is investigating the financial sector (predictive investing based on social media analysis).

Customers typically will sign long-term (three to four-year) contracts when the software is installed on-premise. artec now also offers a pay as you go (PAYG) mode while it is also evolving a hybrid approach. Under the PAYG model, customers upload video to the cloud-based platform for analysis. artec anticipates monthly revenues in the range of €1k to €25k per customer. The PAYG solution involves minimal investment from the customer while in-house solutions typically require a tender. Consequently, management is confident it can grow the cloud revenue to €1.2m in the near future.

With regard to technology, it offers a Buy, Build, Partner approach ie as well as developing some of its own IP, it will partner other software vendors to take advantage of established solutions that can be bolted onto its MULTIEYE and XENTAURIX platforms, and will also consider acquiring small vendors with innovative solutions.

## Valuation: Good value relative to Nasdaq peer

Veritone (Nasdaq: VERI) is a key competitor and operates a similar model to artec, integrating third-party solutions into its platform. This compares with IBM Watson, the sector leader, which develops its own solutions. Veritone has a market capitalisation of $176m and trades on c 4.6x FY18 revenues, falling to c 3.1x in FY19. However, Veritone remains heavily loss-making. Meanwhile, artec trades on c 3.7x FY18 revenues, falling to c 2.4x in FY19 while being profitable.