

artec technologies

Technology
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Positioning for growth

artec spent the 2016/17 period highly focused on modernising its software platform and, as a consequence, revenues dipped by 41% in FY17. However, in recent months, the company has won three prestigious new contracts with high-profile customers in Germany. These contracts provide a significant endorsement of the new platform, and the artec carried out a 10% capital increase to provide working capital to help deliver these contracts. If management can successfully scale the business, we believe there is significant upside in the shares.

FY17 results

FY17 revenue dipped to €1.5m from €2.5m, while the loss before tax increased from €0.4m to €0.8m. The group slipped to a modest net debt position of €154k from net cash of €233k a year earlier. After the period end, artec raised €934k (gross) via a 10% capital increase at €3.95/share.

New strategy

Management has 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.

Guidance

The company says it expects to generate revenue of €3.0-3.2m in FY18 and to be profitable. The plan is to keep tight control on costs as the group accelerates revenues. However, the shift from an upfront licensing model to a recurring SaaS revenue model will hold back profits in the short term, and we estimate that the group will be modestly profitable at the targeted level of revenue.

Valuation: An option on a massive opportunity

The group's target markets are huge and we see artec's modest €10m market capitalisation as an option on management's ability to leverage the company's significant success stories into a more scalable and profitable business model.

Trading history

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	2.4	0.5	0.24	0.0	16.3	N/A
12/15	3.5	1.0	0.22	0.0	17.7	N/A
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

Source: Company accounts

Price €3.90

Market cap €10m

Share price graph



Share details

Code	A6T
Listing	Deutsche Börse Scale
Shares in issue	2.6m
Last reported net debt as at 30 December 2017	€0.15m

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.

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New contracts boost the investment case

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). Its revenues are largely from customised projects and artec can deliver both onsite and hosted (cloud) solutions. 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.

In recent months artec has won 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 German Ministry of the Interior. These wins provide a strong endorsement of the company's new platform, on which it has spent much of its energy developing over the last two years.

New strategy

Management has outlined a new strategy focusing on two markets using their complementary software platforms. It is targeting state agencies and public authorities in the DACH (German-speaking) 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.

Typical features of the complementary platforms XENTAURIX and MULTIEYE that can be used for these targeted markets:

- ultra-fast image data processing;
- seamless integration and management of nearly all available video cameras or signals;
- object-oriented and AI-based video analyses; and
- compliance recording, monitoring and live and time-shifted availability of all TV and IP video and audio content including search term-related video clip creation.

The technology has been developed during the past two years and artec believes that the combination of features gives it a distinct advantage over its competitors. artec is seeking to drive sales by increasing its own salesforce and through developing a partner ecosystem.

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