

31 August 2020

1H20 Results: Shekel Brainweigh weathers COVID-19 Crisis with Continued Progress in Innovative Product Developments

Shekel Brainweigh (ASX: SBW) an advanced weighing technology firm and artificial intelligence innovator announced its financial results for the six-month period ended 30 June 2020 (“1H20”).

Shekel operates within two distinct business segments: the well-established, profitable core business **Shekel Scales**; and the newly separate **Retail Innovation Division**, which houses the Company’s R&D and new product function. This is the first reporting period this division has generated separate revenues.

Six months ended 30 June (US\$ million)	Shekel Scales		Retail Innovation		Shekel Brainweigh Group		
	1H20	1H19	1H20	1H19	1H20	1H19	Change %
Revenue	7.8	8.4	0.1	-	7.9	8.4	-6%
Cost of revenue	(4.6)	(4.6)	(0.5)	-	(5.0)	(4.6)	10%
Gross profit	3.3	3.8	(0.4)	-	2.9	3.8	-24%
<i>Gross margin</i>	42%	45%			37%	45%	-18%
R&D and operating expenses	(3.1)	(3.3)	(2.0)	(2.1)	(5.1)	(5.5)	-6%
EBIT	0.1	0.5	(2.4)	(2.1)	(2.3)	(1.7)	-41%
Finance expenses	(0.2)	(0.6)	-	-	(0.2)	(0.6)	-68%
Tax on income	-	(0.2)	-	-	-	(0.2)	-100%
NPAT	(0.1)	(0.3)	(2.4)	(2.1)	(2.5)	(2.5)	-

Business highlights

Shekel Scales

- Core business unit continued to receive orders from major clients, generating revenue of US\$7.8 million; and delivered a US\$3.3 million gross profit for 1H20.
- Progress with Edgify, a UK based software company, to jointly develop a competitively distinctive high performance visual detection algorithm for cloudless software self-checkout.

Retail Innovation

- Shekel continued to progress with the product development and ‘go to market’ readiness, whilst prudently investing in R&D and actively managing relations with its major partners.
- First revenue recorded from the sale of Innovendi (Shekel’s self service smart micro market system) and proceeds of Proof of Concept product pilots.
- Seven paid product pilots being currently undertaken with very positive feedback from customers, including first order from Australia received during the first half of the year.
- Achieved certification for Innovendi as Market Ready IoT Solutions by Intel®.
- Flagship micro-market project Capsule is in an advanced stage of pilot in Europe, and expected to be open to the public for trial in the second half of 2020.

Corporate Changes

- New management in place: appointment of Mr Arik Schor as Chairman and CEO of Shekel Brainweigh on 31 July 2020. Mr Schor has immense experience specialising in highly intricate operations and logistics systems, and was previously CEO of Tnuva Group (US\$2 billion of revenues) and Hogla-Kimberly. Founder and inaugural CEO Mr Yoram Ben-Porat will remain an Executive Director responsible for all business development.
- Mrs Sophie Raven is stepping down from the Board of Shekel Brainweigh effective 31 August 2020 in order to focus on other business interests. The Board thanks Sophie for her valuable contribution to the Company.

1H20 financial result

The first half of 2020 has been marked by a global pandemic, placing governments and businesses around the world in a survival mode. Shekel, a global company with manufacturing in China, R&D in Israel, and global sales teams, has delivered a healthy result, in an extremely volatile and uncertain environment.

Shekel reported total revenue of US\$7.9 million, down US\$0.5 million or 5 per cent compared to the previous corresponding period in the first half of 2019 (“1H19”). This was a result of decreased orders and a reduction in distribution activity of Healthweigh line due to COVID-19 affecting the healthcare sector.

We are starting to see orders rebound in the second half in the healthcare sector.

In June 2020, the Retail Innovation division recorded its first revenues for the new technology, including US\$93,000 in proceeds from product and Proof of Concept pilots and US\$14,000 from the sale of Innovendi machines and supporting software services.

Cost of revenue was US\$5.0 million, up US\$0.4 million or 10 per cent, driven by higher direct costs. This included: commencement of depreciation of an intangible asset, Smart Shelf (US\$0.2 million) upon receipt of first revenues for this product; and fixed costs.

Gross profit was US\$2.9 million, down US\$0.9 million or 23 per cent. This resulted in a gross margin of 37 per cent, down from 45 per cent in 1H19.

Shekel managed costs down where possible during COVID-19; through furloughs and salary reductions, resulting in total operating costs of US\$5.1 million, down \$0.3 million or 6 per cent.

Statutory net loss after tax was US\$2.5 million, in line with 1H19, as a result of lower finance expenses, down from US\$0.6 million to US\$0.2 million; and an income tax expense of US\$0.2 million in the previous corresponding period.

Cash balance at 30 June 2020 was US\$1.6 million¹.

Global production

In the healthcare market, orders for Shekel’s proprietary incubator sensor weighing technology rose by 17 per cent to 3,604 units, following increased orders from Atom and GE Healthcare. This was offset by COVID-19 induced disruption to distribution of Healthweigh products.

In the retail market, demand for the Company’s self-checkout technology fell by 6,533 units on the 1H19 to 8,189 units, due to a change in ordering policy of one of the OEM customers.

2H20 outlook

There are signs of early recovery in Shekel’s core markets in Europe and US. Post 30 June 2020, the business has seen a resurgence of orders for Shekel’s products , resulting in July 2020 sales exceeding July 2019 sales by approximately 18%. We are encouraged by these results. Shekel’s continued progress in innovative product developments led to new agreements for product pilots for Innovendi and Capsule.

This positions the Retail Innovation platform for growth in 2H20 and into FY21.

The priority for the remainder of 2020 is to continue to ensure adequate liquidity for the company to enable it to thrive in offering autonomous shopping solutions for the future.

However, the macro-economic outlook remains uncertain, and Shekel will continue to be rigorous in its cash management and prudent investing in R&D. Shekel Brainweigh’s established growth platform, and profitable core business supported by professional, dedicated and determined management team and employees will enable the Company to continue to address the challenges of the global pandemic while progressing with the commercialization of its innovative new products.

ENDS

¹ Unconsolidated. Reported cash balance of US\$2.3 million in the statutory financial statements includes US\$0.7 million, which relates to a €400,000 loan under a COVID-19 support scheme from the French government to Shekel’s subsidiary in that country.

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About Shekel Brainweigh (“Shekel” or “the Company”)

Shekel Brainweigh has for over 40 years been a global leader in developing scale and weighing technology. The company provides weighing solutions to the highly regulated retail and healthcare markets via global giants such as G.E Healthcare, Toshiba, Fujitsu, Diebold Nixdorf and others. Utilising its experience in weighing technology, Shekel Brainweigh is developing a suite of new products aimed at meeting the challenges that traditional retailers face today, such as store automation, operational efficiency including overstock and understock inventory issues and enhancing the consumer experience. Shekel’s patented combination of weighing technology with Artificial Intelligence (AI) and Internet of Things (IoT) technology has led to the development of its “Product Aware Technology”. Shekel Brainweigh is committed to continuing to innovate and expand into global markets. To learn more about Shekel Brainweigh, visit <http://www.shekelbrainweigh.com/>

Appendix
Balance sheet

As at (US\$ million)	30 Jun 2020	31 Dec 2019	Change %
Cash and cash equivalents	2.3	2.6	-11%
Trade accounts and other receivables	5.8	7.1	-19%
Inventories	3.6	3.5	4%
Loans to related parties	0.1	0.2	-38%
Total current assets	11.9	13.4	-12%
Right of use assets	2.2	2.4	-9%
Property, plant and equipment	0.6	0.6	12%
Intangible assets	3.0	3.2	-7%
Total non-current assets	5.9	6.2	-6%
Total assets	17.7	19.6	-10%
Short term loans	4.5	4.1	11%
Trade accounts and other payables	4.2	4.0	5%
Total current liabilities	8.7	8.1	8%
Lease liabilities	1.6	1.8	-12%
Employee benefits and other liabilities	0.3	0.3	10%
Total non-current liabilities	1.9	2.1	-9%
Total liabilities	10.6	10.2	4%
Net assets	7.1	9.5	-25%