EDISON

Scale research report - Update

Blue Cap

Financials

10 May 2019

Business as usual

Blue Cap's solid 2018 results were epitomised by a 15% rise in NAV and a positive trading statement. Management confidence in continued operational gains across the board and long-term turnaround potential at Knauer is complemented by an increasing appetite for transformative investments. However, such optimism risks being obscured by the demands of its new major shareholder, PartnerFonds (44%), even if hitherto settled judicially in favour of Blue Cap management, and now looking to be resolved amicably in the interests of all shareholders. Despite more challenging conditions (consensus forecasts have been reduced), the 40% share price discount to NAV (€29.55 at December 2018) appears excessive.

Good H218 momentum

Without the level of corporate activity which distorted first half comparisons, in H218 there was welcome visibility of continued firm underlying progress, notably a 21% rise in EBITDA excluding Knauer (see Exhibit 2 on page 2). This would have been yet higher (maybe on a par with the increase of a third in H1) if WISAP, a thriving business, had not been sold at the end of Q3. Knauer made an initial profit, albeit minor (€0.9m), which is creditable early in its turnaround. EBIT was slightly ahead of plan, if lower y-o-y because of investment costs and initial Knauer depreciation.

On a growth tack

2019 guidance is for much higher revenue thanks largely to a full year of Knauer and a small gain in EBIT, again driven by Knauer (first restructuring benefits offset by a full depreciation charge). Further out, this purchase should allow a step-change in returns, given its size (c €70m sales pa) and Blue Cap's success in turning around temporarily distressed businesses such as Biolink and Neschen. The deal typifies Blue Cap's growing focus on larger companies, as does its disposal of small-cap WISAP to a strategic Chinese investor.

Valuation: Long-term opportunity

Blue Cap's NAV (fair value of portfolio companies less net debt) of €118m at end 2018, highlights potential hidden reserves (c 40% share price discount to NAV) and rapid value creation (15% in 2018 alone). This, and an undemanding rating (under 6x 2020e EV/EBITDA), may reassure amid slowdown and tensions with the major shareholder. Latest deal of size (Knauer) should enthuse, with more in prospect.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	Net profit (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/17	141.8	11.2	39.9*	10.0	1.00	7.3
12/18	176.1	11.5	4.6	1.2	1.00	8.5
12/19e	206.5	13.6	4.6	1.2	1.00	7.6
12/20e	210.5	17.0	6.6	1.7	1.00	5.8

Source: Blue Cap accounts, consensus estimates. Note: *€37m gain on Biolink sale.

Price	**€17.65**
Market cap	**€71m**

Share price graph

Share details

Code	B7E
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net bank debt (€m) at 31 December 2018	27.0

Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €20–100m.

Bull

- Proven business model and management.
- Strong finances set for boost from transformative transactions.
- Economic downturn enhances buying opportunities.

Bear

- Execution risk in resolving problems.
- Valuation risk in identifying acquisitions.
- Dependence on economic conditions, mitigated by diverse business and geographical mix.

Analyst

Richard Finch +44 (0)20 3077 5700

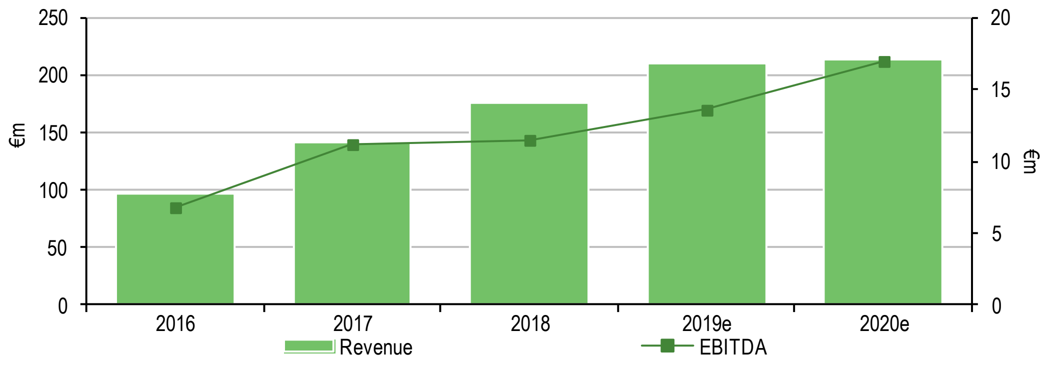
financials@edisongroup.com

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.

Review of 2018 results

Exhibit 1: Revenue and EBITDA



Source: Blue Cap accounts, consensus estimates

2018 was another successful year for Blue Cap as underlying EBITDA, ie excluding Biolink and Knauer, rose by over a quarter (see Exhibit 2). It would have been higher but for the absence of profitable WISAP in Q4, hence flat Medical Technology revenue in H2. Otherwise the replacement of high-margin Biolink (€2.5m EBITDA in H117) with Knauer in its early stages of turnround (€0.5m) explains the apparent pause in overall EBITDA (see Exhibit 1). Net profit of €4.6m included profit from the disposal of WISAP (estimated c €1.8m), substantially exceeded by Knauer restructuring costs.

Exhibit 2: Analysis of revenue and profit

€m	H117	H217	FY17	H118	H218	FY18	2019e Guidance: FY19 vs FY18
Revenue							
Coating technology:							
Neschen	30.1	29.2	59.3	30.6	30.5	61.1	
Change	n/a	n/a	n/a	+2%	+4%	+3%	
Biolink*	9.3	-	9.3	-	-	-	-
Total Coating technology	**39.4**	**29.2**	**68.6**	**30.6**	**30.5**	**61.1**	**Higher**
Adhesive technology	18.0	17.7	35.7	18.7	17.5	36.2	
Change	-5%	Flat	-3%	+4%	-1%	+1%	Higher
Plastics technology (Knauer)**	-	-	-	9.6	28.1	37.7	Higher
Production technology	5.4	9.3	14.7	10.6	7.2	17.8	
Change	-25%	-28%	-27%	+97%	-23%	+21%	Higher
Precious metals recycling	6.4	6.0	12.4	6.3	6.2	12.5	
Change	n/a	-15%	n/a	-1%	+3%	+1%	Higher
Medical technology	5.2	5.0	10.2	5.5	5.1****	10.6	Lower
							Consensus
Total revenue	**74.4**	**67.4**	**141.8**	**81.4**	**94.7**	**176.1**	**210.5**
Change	+73%	+25%	+45%	+9%	+40%	+24%	+20%
EBITDA							13.6
Continuing	4.9	3.8	8.7	6.5	4.6	11.1	
Margin	7.5%	5.6%	6.6%	9.1%	6.8%	8.0%	
Biolink*	2.5	-	2.5	-	-	-	-
Knauer**	-	-	-	(0.4)	0.9	0.5	
Total EBITDA	**7.4**	**3.8**	**11.2**	**6.0**	**5.5**	**11.5**	**13.6**
Margin	9.9%	5.6%	7.9%	7.4%	5.8%	6.5%	6.5%
EBIT	**6.0**	**2.5**	**8.5**	**4.5**	**2.2**	**6.7**	**7.9**
Net profit	**39.0*****	**0.9**	**39.9**	**1.3**	**3.3**	**4.6**	**4.6**

Source: Blue Cap accounts, consensus estimates, Edison Investment Research. Note: *Sold June 2017. **From May 2018. ***Including €37m profit on sale of Biolink. ****WISAP sold September 2018.

Given our H1 results review, we focus here on the second half performance. Integration of Knauer (c 30% of revenue) was, predictably, a key factor. Initial restructuring measures involved mainly the closure of a small and inefficient production site and improvements in the organisational structure, notably in R&D and production. Neschen, the other major turnaround activity, again achieved higher revenue (4%), while stepping up its digitisation strategy and productivity enhancements at its main site. A new CRM system, allowing better sales management and customised campaigns, was also a feature in Adhesives, where second-half revenue was steady.

Elsewhere, as shown in Exhibit 2, Production Technology saw H2 revenue down by a quarter in contrast to the bumper performance (a doubling) in the first half which was largely due to the inclusion of business postponed from the previous year, eg project delays at Gämmerler and client backlog at SMB-David. Medical Technology again did well, notably at em-tec in terms of sensors and its multi-channel platform.

Continued optimism in 2019

Guidance is for a clear rise in revenue, driven by a full year of Knauer (eight months in 2018), and higher EBIT as a result of generally positive trading and increasing reorganisation gains at Knauer. Savings apart, it assumes synergies with its own adhesives and coatings as well as expansion of Knauer in the food sector and new markets, such as pharma and medical. Management also accepts that as ever there is execution risk ie restructuring delays and costs. Only Medical Technology is expected to see lower revenue as the absence of WISAP for nine months is unlikely to be made up even by a buoyant em-tec.

Dispute with major shareholder

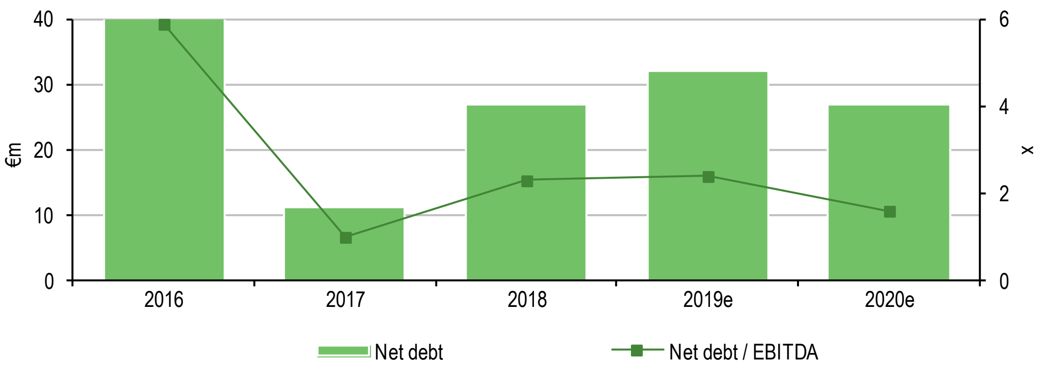
News a year ago of the promised collaboration with like-minded counterpart, PartnerFonds, Blue Cap's new major shareholder (44%) and planned merger partner, was warmly received as it could bring scale and similar corporate targets. PartnerFonds shares Blue Cap's "buy, hold & develop" strategy, targeting medium-sized industrial companies in the DACH region.

A continuation of Blue Cap's strategy was therefore expected but the new shareholder demanded transactions which management regarded as not in the best interests of the company and duly resisted. A court recently confirmed management's position by rejecting the demands of PartnerFonds as unlawful.

The situation is clearly unfortunate but apart from this confirmation for the CEO and advisory board, it remains business as usual for M&A, investment and restructuring personnel engaged on new projects as well as on improvements within portfolio companies. Moreover, the board is working to resolve the dispute with PartnerFonds in a positive way for all shareholders.

Balance sheet and cash flow

Exhibit 3: Net debt and net debt/EBITDA



Source: Blue Cap accounts, consensus estimates, Edison Investment Research

The disposal of Biolink for €39m led to a significant y-o-y reduction in net debt at end 2017. A balance of €11m was historically low for Blue Cap and reinvestment, namely in Knauer, has duly followed (€27m at December 2018). Further significant scope for spend is indicated by positive consensus forecasts (see the table on page 1). This explains last year's reversal by management of its longstanding policy not to pay a dividend, preferring to reinvest to fund expansion.

Valuation

Despite headwinds (macro factors and company-specific) Blue Cap's prospects are positive, both operationally and strategically. The company has a proven business model and strategy, highly experienced management, and a visible record of financial success and prudence (eg borrowing and dividend policy). It is making good progress turning round the latest deal of size (Knauer) and believes that there is opportunity for more of the same. The rating is attractive at under 6x 2020e EV/EBITDA.

NAV (fair value of the portfolio companies included in the businesses less net debt), published for the first time last year by Blue Cap, was €118m at December 2018 (prior year €102m). This is well ahead of the current market cap (c 60% premium). It excludes non-operating assets and liabilities of group holding and real estate companies. Including these assets, the NAV valuation would be even higher.

EDISON

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