

## Blue Cap

Industrials

17 May 2021

### Better revenues and margin expected in FY21

Blue Cap showed a strong performance in 2020, which was dominated by the coronavirus pandemic. Revenues rose by 3% y-o-y to €233m, while the adjusted EBITDA margin improved 120bp y-o-y to 7.6%, fuelled by cost savings and the positive development in the Plastics segment. For FY21, Blue Cap expects revenues of €255–265m and an adjusted EBITDA margin of 8–9%. Group NAV increased 9% y-o-y to €153.9m. The current share price reflects a discount of 30% to NAV per share of €38.58.

### Higher revenues and profitability in FY20

Blue Cap achieved a revenue increase of 3% y-o-y to €233m in FY20, mainly driven by the acquisition of con-pearl in September 2019. Organically, the decline in revenues was 7%, a clear improvement from the decline of 12% in H120, which was significantly affected by the pandemic. Cost-saving measures across the group, initiated after the start of the pandemic, and restructuring benefits at con-pearl drove a year-on-year improvement of 120bp in the adjusted EBITDA margin to 7.6%. Blue Cap's financial position also improved, with the equity ratio up 720bp y-o-y to 40.5% and net debt/EBITDA declining to 1.6x from 3.4x last year. The company will pay a dividend per share of €1.00 (basic dividend of €0.75 plus €0.25 for the successful sale of em-tec).

### FY21 should show continued improvements

In Q121, revenues declined 14% y-o-y due to the impact of the pandemic and consolidation effects (divestment of em-tec). The adjusted EBITDA margin showed an improvement of 140bp y-o-y to 8.1%, fuelled by cost savings and a positive development in the Plastics segment. With the comparison base becoming easier from Q221 and Hero contributing from March (annualised revenue of €35m), Blue Cap expects FY21 revenues of €255–265m (or 9–14% growth y-o-y) and an adjusted EBITDA margin of 8–9% (2020: 7.6%).

### Valuation: Discount to NAV of 30%

The NAV for each of Blue Cap's segments is based on internal DCF models. The NAV declined 18% y-o-y to €106m, mainly due to the sale of em-tec and a decline in Coatings, Adhesives and Production. This was offset by the higher NAV of Plastics after significant restructuring effects. Group NAV rose 9% y-o-y to €153.9m, driven by proceeds from the sale of em-tec and the change to fair value accounting of Inheco (42% stake) instead of book value. Inheco benefited from the significant increase in investment in the area of laboratory automation related to the coronavirus. Blue Cap is trading at a discount of 30% to NAV per share of €38.58.

#### Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA (€m)	Net profit (€)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/19	225.6	14.3	2.8	0.71	0.75	9.6
12/20	233.0	17.6	16.5	4.15	1.00	6.8
12/21e	257.3	20.1	6.2	1.55	0.75	10.2
12/22e	282.7	25.0	8.7	2.18	0.75	8.2

Source: Blue Cap, Refinitiv

Price €27.00  
Market cap €108m

#### Share price graph



#### Share details

Code B7E  
Listing Scale (Frankfurt), m:access (Munich)  
Shares in issue 4.0m  
Net debt at 31 December 2020 €28m

#### Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €30–80m. Blue Cap currently has nine shareholdings.

#### Bull

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

#### Bear

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

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## Strong margin improvement in FY20

In FY20, Blue Cap's revenues increased 3% to €233m, driven by the full year consolidation of con-pearl (acquired in September 2019), thereby offsetting the organic revenue decline of 7% due to the pandemic. In 2020, Blue Cap made several portfolio changes. In April, it divested its medical subsidiary em-tec (net proceeds of €24m) and in July announced the insolvency of production subsidiary SMB-David (4% of revenues in 2019 and loss-making).

Adjusted EBITDA increased 23% to €17.6m, mainly driven by cost savings, which were initiated after the start of the COVID-19 pandemic, and the strong contribution of con-pearl. Adjusted EBITDA margin improved by 120bp y-o-y to 7.6%. We calculate EBITDA margin as a percentage of revenues, whereas Blue Cap uses total income. Performance in the second half was much stronger than in the first, when adjusted EBITDA dropped 21% to €6.0m.

Adjusted EBIT rose 31% to €8.9m, also due to the much better results of medical technology manufacturer Inheco. The results from participations increased from €0.4m to €1.4m. Inheco benefited from the pandemic with its products for the so-called PCR test to detect coronavirus infection and through the development of vaccines and medicines.

Pre-tax adjustments amounted to €10.5m, with positive income of €26.9m mainly coming from the book profit on the sale of em-tec of €21m, the book profit on the sale of real estate of €1.5m and the release of provisions of €1.5m. A range of negatives (totalling €16.3m) included costs related to the insolvency of SMB-David of €3m.

### Exhibit 1: Blue Cap FY20 results

€m	FY19	FY20	% change
Revenues	225.6	233.0	3%
Total income	224.1	232.0	4%
EBITDA reported	15.0	34.5	
<b>EBITDA adjusted</b>	<b>14.3</b>	<b>17.6</b>	<b>23%</b>
<b>EBITDA adjusted, margin</b>	<b>6.4%</b>	<b>7.6%</b>	
Result participations	0.4	1.4	
EBIT reported	4.6	21.4	
EBIT adjusted	6.8	8.9	31%
Net financial income	(1.9)	(1.9)	
Adjustments/exceptionals	(2.5)	10.5	
Income taxes	0.4	(1.1)	
Net profit	2.8	16.5	
EPS (€)	0.71	4.15	

Source: Blue Cap

In November 2020, Blue Cap sold two real estate assets, in accordance with its strategy of divesting properties that it is not using. The properties were sold for low single-digit million amounts. Blue Cap's equity ratio increased to 40.5% (versus 33.3% in FY19), mainly due to the higher results and proceeds from the sale of em-tec. Net debt declined from €48.9m in 2019 to €28.4m in 2020, with net debt/adjusted EBITDA improving from 3.4x in 2019 to 1.6x in 2020 (internal covenant is 2.75x).

The company proposes a dividend of €1.00 per share in FY20, up from €0.75 last year. The total dividend consists of the basic dividend of €0.75 per share topped up with a special dividend of €0.25 per share to distribute the proceeds of the successful sale of em-tec to its shareholders.

## Segment performance: Strong results in Plastics

The pandemic affected several of Blue Cap's business units (see Exhibit 2). Coatings reported lower revenues due to the loss of business with exhibition stand builders and cancelled events. H220 was much better, driven by catch-up effects in the area of industrial coating solutions, as well as the development of new applications, eg social distancing stickers. Cost savings limited the

decline in adjusted EBITDA margin to 30bp y-o-y. Adhesives faced lower sales in the graphics area and in adhesive application systems, but cost savings resulted in a 60bp y-o-y higher adjusted EBITDA margin. Production was hit the hardest, including the insolvency of SMB-David. Adjusted EBITDA turned into a loss of €1.9m (2019: profit of €0.4m), with a reduced loss in H220 after the loss of €1.4m in H120.

Plastics and Precious Metals reported higher results. Revenues in Plastics rose 38%, largely due to the full-year contribution of con-pearl, which also had a strong Q4 fuelled by orders in e-commerce (large quantities of individually assembled sheets for reusable transport packaging). Further cost savings and efficiency gains at con-pearl were achieved by adjusting production and personnel capacities and streamlining administrative structures. In July, the con-pearl plant in Bremen ceased operations and was shut down. Driven by these measures and positive order development, Plastics' adjusted EBITDA jumped from €1.7m last year to €9.5m, driving a margin boost of 700bp to 9.4%. Precious metals benefited from the higher gold price and higher trade volumes and reported revenue growth of 37% and 59% higher EBITDA, driving a 40bp y-o-y better margin.

The 'other' segment includes the results from em-tec until April 2020 and holding costs. In H120, em-tec contributed €4.2m in revenues (FY19: €10.5m) and €0.7m in adjusted EBITDA (FY19: €1.4m).

**Exhibit 2: Results by segment FY20**

€m	Companies included	FY19	FY20	% change
Coatings	Neschen	62.2	54.5	-12.5%
Adhesives	Planatol	35.7	30.8	-13.8%
Plastics	Uniplast, con-pearl	72.8	100.7	38.4%
Production	Gämmerler, nokra, SMB-David (until June 2020)	21.6	10.6	-50.7%
Precious metals	Carl Schaefer	23.2	31.8	37.4%
Other, including intercompany	em-tec (until April 2020)	10.2	4.6	-55.1%
<b>Total revenues</b>		<b>225.6</b>	<b>233.0</b>	<b>3.3%</b>
Coatings		5.8	4.9	-15.7%
Adhesives		3.1	2.8	-7.4%
Plastics		1.7	9.5	N/A
Production		0.4	-1.9	N/A
Precious metals		0.6	1.0	59.4%
Other, including holding and intercompany		2.8	1.3	-51.8%
<b>Total EBITDA adjusted</b>		<b>14.3</b>	<b>17.6</b>	<b>22.9%</b>
Coatings		9.3%	9.0%	
Adhesives		8.6%	9.2%	
Plastics		2.4%	9.4%	
Production		1.8%	-17.7%	
Precious metals		2.6%	3.0%	
<b>Adjusted EBITDA margin *</b>		<b>6.4%</b>	<b>7.6%</b>	

Source: Blue Cap, Edison Investment Research. Note: \*as a percentage of revenues

## Outlook: Higher revenues and better margins

In 2021 so far, Blue Cap made two acquisitions. In January, it acquired a 71% stake in Hero for around €11m. Hero develops and manufactures high-quality plastic parts and assemblies for car interiors and the household appliance industry. According to Blue Cap, Hero's 2020 revenues were €34.7m and it has more than 200 employees. In April, con-pearl acquired the assets of Recyclast (from the estate of Fischer, which went into insolvency) for a low single-digit million amount. Recyclast specialises in the production of regranulates from various plastics. con-pearl now has two independent recycling sites in keeping with its strategy to further expand in the recycling business, in order to secure the supply of high-quality recyclates in sufficient quantity.

In April, Blue Cap sold em-tec's building and premises for a mid-single digit million amount, thereby further reducing the number of properties it does not use itself.

For FY21, Blue Cap expects revenues of €255–265m and an adjusted EBITDA margin of 8–9%. This guidance includes the contribution of Hero from March and the absence of revenues from em-tec and SMB-David (estimated at €5m). In Q121, revenues declined by 14% to €55.9m, due to the continuing effects of the pandemic and consolidation effects. The adjusted EBITDA margin improved by 140bp y-o-y to 8.1%, within the guidance range for the full year.

Blue Cap also set medium-term targets, which include expanding its portfolio from the current nine companies to 12–15 companies and increasing group NAV to more than €200m, up from €154m in 2020. Management also wants to increase its market cap to more than €200m compared to the current €108m, but that is of course also influenced by external factors. The stock market currently values Blue Cap at a discount of around 30% when comparing the market cap to group NAV.

Management remains focused on M&A, with its market screening aimed at realising one to two new acquisitions every year plus add-on acquisitions. Blue Cap appears to be focusing less on the two remaining production companies due to their small size. In April 2021, Blue Cap announced a refocus of Gämmerler as a result of consolidation pressure in the printing industry. The focus will be on the profitable service and spare parts business. The restructuring at Gämmerler requires a lower single-digit million amount in costs.

There is no news about the large shareholder Partnerfonds (45.6% stake in Blue Cap), which announced mid-2020 the start of its liquidation from January 2021, including its holdings. According to Partnerfonds, there is no targeted date for the sale of the Blue Cap stake. The complete transfer/sale of the shares in Blue Cap will most likely take place at the end of the liquidation process, which could take a few years.

## Valuation

Blue Cap values its business units using a discounted cash flow model based on approved budget plans of the portfolio companies for 2021–23 and extrapolation for 2024–25. Blue Cap has kept the average perpetual growth rate stable at 1.5% compared to year-end 2019 and increased the WACC to 6.6% compared to 6.1% at year-end 2019. The WACC is determined for each business unit based on individual peer groups. Exhibit 3 shows the development of the NAV of Blue Cap.

The DCF-based NAV of the business units declined by 18% y-o-y to €106m, due to the divestment of em-tec and the lower valuations of Coatings, Adhesives and Production due to the reduced business outlook and higher WACC. The almost doubling in the valuation of Plastics, driven by the major profitability improvement at acquired company con-pearl, was not enough to compensate for the decline at other units. Group NAV rose by 9% y-o-y to €154m, mainly due to the change in valuation method for minority stake Inheco from book value to market value (impact of c €23m) and the swing from net debt to net cash fuelled by the proceeds of the sale of em-tec. Group NAV per share increased by 9% y-o-y to €38.58, which compares to the current share price of €27.00, reflecting a discount of 30%.

Segments	FY19	FY20	Change y-o-y
Coatings	60.9	42.9	-29.6%
Adhesives	15.9	11.9	-25.2%
Plastics	22.1	42.3	91.4%
Production	12.2	3.2	-73.8%
Medical (divested per April 2020)	14.0	0.0	-100.0%
Precious metals	3.5	5.6	60.0%
NAV Business units	128.6	106.0	-17.6%
Holding net cash / (net debt)	(2.8)	9.9	
Real Estate value (book value minus debt)	12.4	11.9	
Minority stakes (market value in 2020 versus book value in 2019)	3.0	26.1	
NAV Blue Cap Group	141.2	153.9	9.0%
NAV per share (€)	35.48	38.58	8.7%

Source: Blue Cap

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