

## Blue Cap

### In full swing

H1 profit well ahead of market expectations and confirmation of the successful sale of Biolink are fitting endorsements of Blue Cap's investment strategy. Indeed, more of the same appears on the cards with full-year management guidance of strong momentum, notably in the turnaround of Neschen, as well as new investment opportunities, which the now de-gearred company is well-placed to seize. Despite a buoyant share price (up over 50% since our positive initiation report in July), the rating remains attractive at under 9x 2017e EV/EBITDA on seemingly cautious consensus forecasts.

### H117 profit surprise

Although initial full inclusion of Neschen predictably drove a step change in revenue (+73%) in the half to June, there was justifiable satisfaction in markedly steeper progress at the bottom line. A doubling of EBITDA (yet more impressive at the pre-tax level), adjusted for the Biolink disposal gain, showed not only clear enhancement of 2016 purchases, Neschen and Carl Schaefer precious metals, but lucrative development of existing businesses in Adhesives, Coating and Medical Technology. There was disappointment only in Production Technology as a result of restructuring. The sale of Biolink for c€39m all but cleared net debt at end June.

### Consensus may still be too low

After a bumper H1, Blue Cap's guidance simply of positive full-year profit growth looks conservative, eg H1 EBITDA of €7.4m alone exceeded its €6.8m in FY16. For their part, consensus forecasts of €9m 2017 EBITDA mean just €1.6m outturn in H2, which, even after adjusting for the absence of Biolink profit (estimated €2m), implies at €3.6m a halving in the second half of H1's cum-Biolink EBITDA, which looks unrealistic. 2017 revenue assumptions also appear cautious, if to a lesser extent than profit. It follows that consensus 2018 expectations seem low.

### Valuation: Way to go

Current trading strength apart, the recent exit multiple of Biolink, which we understand to have been a chemical industry premium (c 12x 2016 EBITDA), has highlighted the disparity with Blue Cap's valuation (under 9x EV/EBITDA), even if it is invidious to apply such a multiple across its portfolio. The company has a proven business model and strategy, highly experienced and stable management, and a visible record of financial success and prudence (eg borrowing and dividend policy).

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBITDA (%)
12/15	79.8	5.8	2.0	0.3	0.0	16.6
12/16	96.6	6.8	2.0	0.3	0.0	17.1
12/17e	140.0	9.0*	41.2	9.9	0.0	8.7
12/18e	150.0	10.5	7.1	1.2	0.0	7.1

Source: Blue Cap accounts, consensus estimates. Note: \*Excluding €35.8m exceptional gain on June 2017 disposal of Biolink.

#### Financials

16 October 2017

Price €19.00  
Market cap €76m

#### Share price graph



#### Share details

Code B7E  
Listing Deutsche Börse Scale  
Shares in issue 4.0m  
Net debt at June 2017 €2.9m

#### Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €10-100m.

#### 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.

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## Review of H117 results

Exhibit 1: H117 and FY17e revenue and profit analysis							
€m	H116	H216	FY16	H117	H217e	FY17e	FY18e
<b>Revenue</b>						<b>Guidance: FY17 vs FY16</b>	
<b>Coating technology:</b>							
Existing	8.3	7.8	16.1	9.3		Higher	
Change			+5%	+12%			
Biolink adjustment	-	-	-	-		(8) (our est)	
Neschen	-	3.8*	3.8	30.1		60 (our est)	
<b>Total Coating technology</b>	<b>8.3</b>	<b>11.6</b>	<b>19.9</b>	<b>39.4</b>			
<b>Adhesive technology</b>	<b>19.0</b>	<b>17.7</b>	<b>36.7</b>	<b>18.0</b>		Lower	
Change				-5%			
<b>Precious metals recycling</b>	<b>4.3**</b>	<b>7.1</b>	<b>11.4</b>	<b>6.4</b>		Higher	
<b>Production technology</b>	<b>7.2</b>	<b>12.9</b>	<b>20.1</b>	<b>5.4</b>		Lower	
Change				-25%			
<b>Medical technology</b>	<b>4.2</b>	<b>4.3</b>	<b>8.5</b>	<b>5.2</b>		Higher	
					<b>Implied</b>	<b>Consensus</b>	<b>Consensus</b>
<b>Total revenue</b>	<b>42.9</b>	<b>53.7</b>	<b>96.6</b>	<b>74.4</b>	<b>65.6</b>	<b>140</b>	<b>150</b>
Change				+73%	+15%	+45%	+7%
<b>EBITDA, including Biolink</b>	<b>3.7</b>	<b>3.1</b>	<b>6.8</b>	<b>7.4</b>	<b>3.6</b>	<b>11.0</b>	<b>14.5</b>
Margin	8.6%	5.8%	7.0%	9.9%	4.9%	7.4%	8.7%
Adjustment for Biolink disposal	-	-	-	-	(2.0)	(2.0)	(4.0)
<b>EBITDA, adjusted for Biolink disposal (from H217)</b>	<b>3.7</b>	<b>3.1</b>	<b>6.8</b>	<b>7.4</b>	<b>1.6</b>	<b>9.0</b>	<b>10.5</b>
Depreciation	(1.1)	(1.1)	(2.2)	(1.4)	(0.8)	(2.2)	(2.3)
<b>EBIT</b>	<b>2.6</b>	<b>2.0</b>	<b>4.6</b>	<b>6.0</b>	<b>0.8</b>	<b>6.8</b>	<b>8.2</b>
Net interest	(0.5)	(0.7)	(1.2)	(0.7)	(0.7)	(1.4)	(1.2)
<b>Pre-tax profit - adjusted</b>	<b>2.1</b>	<b>1.3</b>	<b>3.4</b>	<b>5.3</b>	<b>0.1</b>	<b>5.4</b>	<b>7.1</b>
Exceptional items	(0.2)	(1.3)	(1.5)***	35.8****	-	35.8	-
<b>Pre-tax profit - reported</b>	<b>1.9</b>	<b>0.1</b>	<b>2.0</b>	<b>41.2</b>	<b>0</b>	<b>41.2</b>	<b>7.1</b>
Taxation	(0.7)	0.1	(0.6)	(2.0)			
Minorities	(0.1)	(0.1)	(0.2)	(0.1)			
<b>Net income</b>	<b>1.1</b>	<b>0.1</b>	<b>1.2</b>	<b>39.0</b>			

Source: Blue Cap accounts, consensus estimates, Edison Investment Research. Note: \*Including Neschen from December 2016. \*\*From February 2016. \*\*\*Largely restructuring costs. \*\*\*\*Profit on sale of Biolink (€39m proceeds = 12 × estimated €3.8m 2016 EBITDA × 90% holding less c €2m restructuring costs).

While Blue Cap's H1 acquisition-led revenue performance was much as expected, the scale of profit improvement, epitomised by a doubling of EBITDA to €7.4m, was not. Integration of Neschen was necessarily the story of the half as alone it could grow group revenue by two-thirds. Apart from a continued commitment to graphics, documents and industrial applications and likely synergy benefits with Coating Technology, Neschen brought a new sales channel to Blue Cap through its international Filmolux subsidiaries. Management's confidence in making a decent return on the consensus estimated purchase price of €15m looks already to have been proven by efficiencies secured through elimination of substantial consulting expenses, the revision of insurance and energy contracts and leases, and organisational streamlining.

However, as shown in Exhibit 1, it would be wrong to overlook like-for-like H1 progress in core Coating Technology and Medical Technology (double-digit, top-line growth in both) while Precious Metals continues to settle in well and Adhesives benefited from cutting low-margin product. Management admits disappointment at Production Technology (revenue down 25%) owing largely to the delay of a major order at Gämmerler.

## H2 optimism

Guidance for 2017 remains broadly positive, if vague, ie no quantification of expected overall sales growth, as for H1. Nevertheless, management indications of divisional performances suggest good H2 trading momentum, which, coupled with H1's earnings beat, should instil confidence. Indeed,

our interpretation of these trends (see Exhibit 1) makes the consensus revenue forecast of €140m look cautious, even after allowing for the absence of estimated €8m Biolink revenue. Such caution is accentuated at the EBITDA level as the market envisages just €1.6m in the second half, ie a halving of H1's €7.4m outturn if estimated €2m Biolink EBITDA is notionally added back.

For 2018 consensus forecasts appear reasonable in terms of year-on-year improvement, but should start from a somewhat higher base, as discussed.

## **Balance sheet and cash flow**

The disposal of Biolink for €39m has effectively cleared net debt at June (€2.9m). This is historically low for Blue Cap and reinvestment is to be expected. The company policy is not to pay a dividend, preferring to reinvest to fund expansion.

## **Valuation**

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Even after recent share price appreciation and on apparently cautious consensus forecasts, Blue Cap is still attractively rated at under 9x 2017e EV/EBITDA. With Biolink and now Neschen as sharp reminders of successful value creation, there is understandable enthusiasm about the company's next move, which, given strong finances (ungeared), a rapidly improving development record and management ambition, may well be transformative.

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