

8th July 2020

When the tough get going

Successful businesses 'never let a crisis go to waste'. Indeed since an otherwise strong Q1'20 was interrupted by COVID-19, Mpac has further streamlined operations, accelerated R&D and launched new remote equipment diagnostic/acceptance testing, virtual reality & other 'Industry 4.0' services.

Sure these initiatives haven't yet had time to fully feed through into the numbers, especially given access to some client sites has been restricted during the lockdowns. However "**no orders have been cancelled**" due to the pandemic, **new contracts are being signed**, the **backlog stands at a healthy £45.4m** (vs £39.9m LY & £52.2m Dec'19), H1'20 **aftermarket sales were up YoY** (£7.6m LY) and **net cash closed June at £22.1m** (or 110p/share, post £0.9m preference shares vs £18.0m Dec'19) thanks to **tight working capital management** (re debtor days at pre CV19 levels).

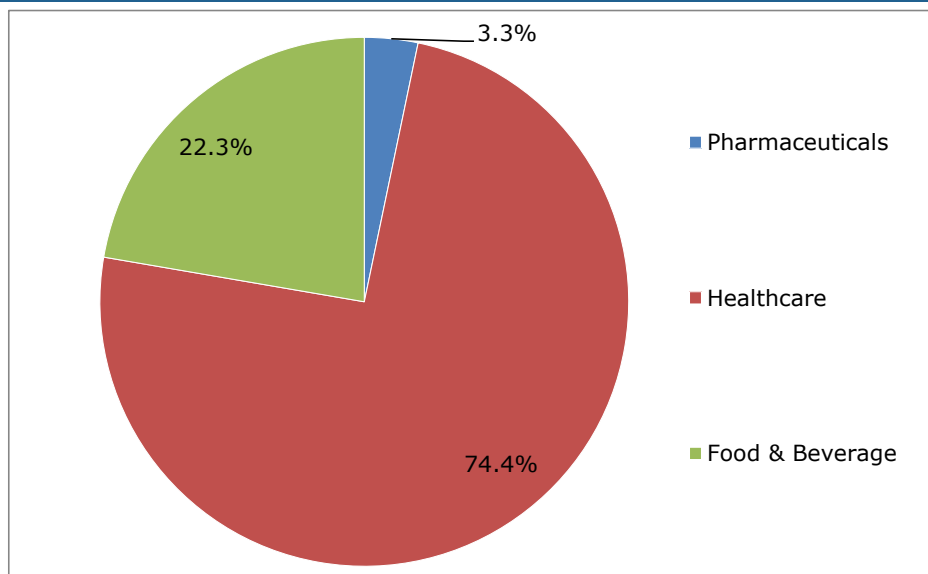
The latter providing both **ample liquidity** to weather the most extreme of scenarios, and optionality (re M&A) if rivals ever become available at attractive prices.

Profitable & cash positive in H1'20

Don't get me wrong, **conditions haven't yet returned to pre-crisis levels** and a handful of shipments were delayed in the first half. Hence our finger-in-the-air 'guesstimate', is that overall H1'20 revenues declined between 20%-25% (H1'19 £45.8m, previous record), delivering adjusted EBIT margins of 5% (vs 10% LY).

Going forward **we believe H2 will be stronger than H1**, underpinned by **a robust orderbook** and "**resilience**" **within the US & Healthcare sector** (see below) - provided of course the global economy continues to reopen. Elsewhere, Europe, Asia & the UK are on an upwards trajectory too, with Food & Beverage not far behind.

2019 revenue (£88.8m) breakdown by customer segment



Source: Equity Development

Company Data

	AIM:MPAC
EPIC	
Price (last close)	245p
52 week Hi/Lo	367p/157p
Market cap	£49.4m
Net cash Jun'20	£22.1m
Share count (incl Treasury)	20.172m
ED valuation/share	Withdrawn
Avg. daily volume	450,000

Share Price, p



Source: Share Cast

Description

Mpac is a specialist provider of **full line, high speed packaging & automation solutions**, employing c. 510 staff.

The group not only develops & manufactures niche factory equipment and robotics, but also undertakes turnkey projects involving the design & integration of such systems. More than 80% of revenues are generated outside of the UK, hence providing a natural hedge against sterling weakness.

Core verticals are Healthcare, Pharmaceutical and Food/Beverage, supporting the likes of 3M, J&J, Nestlé, GSK, P&G, Philips Advent, ConvaTec, AstraZeneca, Unilever, Kellogg's, Diageo, Ferrero, Bausch + Lomb & CooperVision.

Next news: Interims 3rd September 2020

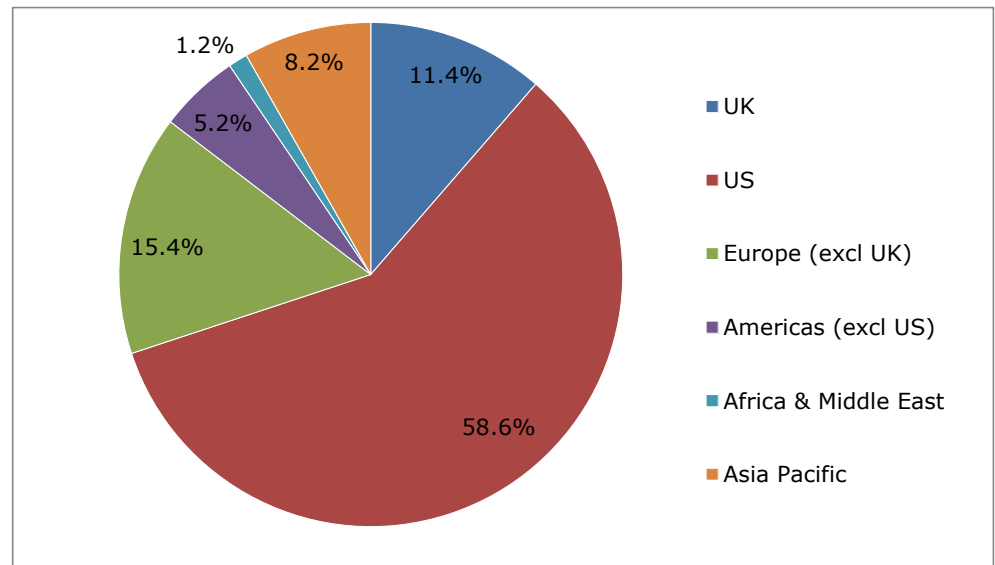
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Best-in-class products and services

Longer term, there is even **scope for Mpac to win market share**, as clients standardise on best-in-class OEMs offering worldwide service (see below) and fully integrated smart factory technologies.

2019 regional sales (£88.8m) split



Source: Equity Development

Shares are attractively priced

In the meantime, **the Board is sensibly cutting its cloth** – namely reducing/deferring capex (£2.3m 2019) and discretionary spend, alongside tapping available government aid programs. Mindful though not to harm strategic design and operational capability.

With regards to valuation, **the stock at 245p remains attractively priced** - trading on a 2019 EV/EBIT multiple of 6.7x (see below) vs 11x–15x typically for peers.

Sure the coronavirus will impact 2020 figures, albeit ultimately we believe Mpac will prosper. Benefitting from secular tailwinds (eg Industry 4.0, Direct-to-consumer deliveries), improving margins, a substantial installed base, positive cashflows and a host of loyal, blue-chip customers.

Range of sector valuation benchmarks pre COVID-19 crisis

	Mpac 2019 Trailing	Typical Packaging equipment & Engineering multiples pre COVID-19	
		Low	High
EV/Sales (pension adjusted)	0.6	1.0	1.5
EV/EBITDA (pension adjusted)	5.3	8.0	12.0
EV/EBIT (pension adjusted)	6.7	11.0	15.0
PER	6.2	14.0	18.0
EBIT margin	8.7%	10.0%	15.0%

Source: Equity Development

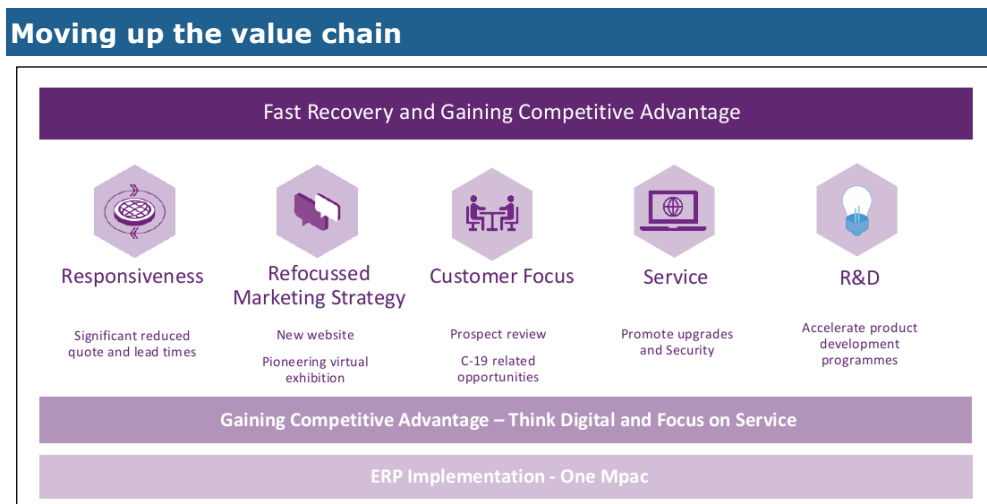
A 'fast recovery plan' is already in motion

Finally, the actuarial deficit on the UK pension scheme (re £35.2m as at the June 2018 triennial valuation) may have climbed slightly over the past 3 months (say by £5m) – reflecting lower gilt yields, higher spreads on corporate bonds and the recent equity market turmoil. Nevertheless, the worst of March’s credit crunch seems to be behind us, thanks to massive central bank intervention and ‘do whatever it takes’ monetary stimulus.

CEO Tony Steels commenting: “**our customers remain active and we continue to win original equipment and service orders** with noticeable resilience in the Healthcare sector and in the Americas region. In addition, as global travel restrictions ease, **we anticipate customer visits and levels of qualified opportunities will increase during the second half.**”

A **fast recovery plan has been developed** to ensure we have a competitive advantage based on our innovative packaging and automation solutions, ‘thinking digital’ and focussing on our on- site service offering once travel restrictions allow.”

Similarly, we hope to **re-instate our forecasts & valuation** at the interims on 3rd September.



Source: Equity Development

Historical results				
Mpac Group plc - continuing (December year end)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s
Closing orderbook	25,500	34,400	53,100	52,200
<i>Growth</i>		34.9%	54.4%	-1.7%
Equipment	28,800	40,400	46,200	69,400
Service	12,700	13,000	12,100	19,400
Turnover	41,500	53,400	58,300	88,800
<i>Equipment</i>		40.3%	14.4%	50.2%
<i>Service</i>		2.4%	-6.9%	60.3%
Total % YoY growth		28.7%	9.2%	52.3%
Equipment	5,400	9,200	9,300	18,200
Service	5,600	5,300	4,700	7,800
Total gross margin	11,000	14,500	14,000	26,000
<i>Equipment</i>	18.8%	22.8%	20.1%	26.2%
<i>Service</i>	44.1%	40.8%	38.8%	40.2%
% gross margin	26.5%	27.2%	24.0%	29.3%
EBITDA	450	2,200	2,200	9,800
<i>% Margin</i>	1.1%	4.1%	3.8%	11.0%
Distribution	-5,300	-5,400	-5,000	-7,200
Administration	-6,600	-7,300	-7,200	-10,300
Other	-300	-500	-400	-800
Adjusted EBIT	-1,200	1,300	1,400	7,700
<i>% Operating Margin</i>	-2.9%	2.4%	2.4%	8.7%
Underlying interest charge	-330	-170	0	-200
Adjusted Profit before Tax	-1,530	1,130	1,400	7,500
Adjusted EPS (p)	-6.0p	4.2p	4.5p	39.5p
<i>EPS growth rate</i>			7.5%	777.7%
Dividend (p)	1.3p	0.0p	0.0p	1.5p
<i>Yield</i>	0.5%	0.0%	0.0%	0.6%
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172
Valuation benchmarks				
<i>P/E ratio</i>		58.5	54.4	6.2
<i>PER (adjusted for pension recovery payments)</i>				
<i>EV/Sales (pension adjusted)</i>	1.25	0.97	0.89	0.58
<i>EV/EBITDA (pension adjusted)</i>		23.5	23.5	5.3
<i>EV/EBIT (pension adjusted)</i>		39.8	36.9	6.7
<i>PEG ratio</i>				
<i>Corporate tax rate</i>	-20.0%	-26.5%	-35.9%	5.2%
<i>EBITDA drop through rate</i>			0.0%	24.9%
<i>Return on equity (%)</i>		1.9%	2.2%	16.6%
Net cash/(debt)	800	29,400	27,000	18,000
Information only - Estimated non-underlying Pension charges				
UK pension recovery payments			-1,900	-1,940
Topup UK pension payments above £5.5m EBIT			0	-726
UK pension admin costs			-900	-1,200
UK tax shield			532	735
US pension recovery payments (net tax shield)			-790	-790
Cashflow effect			-3,058	-3,921
Net cash per share		146	134	89
Net assets / diluted share (p)	175	212	201	235
Shareprice (p)	245p			

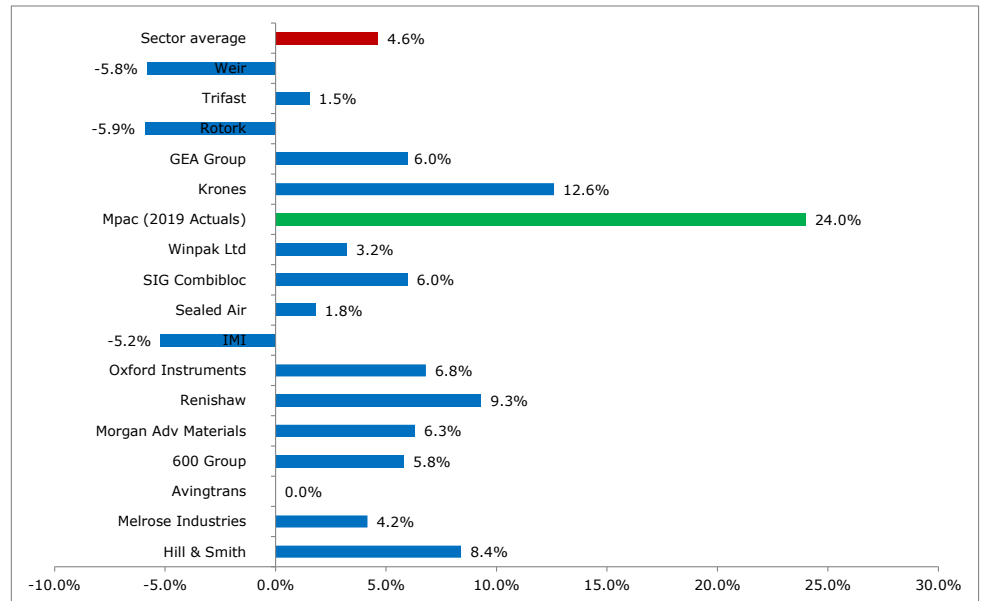
Source: Equity Development. Mpac's EV has been adjusted for pension. The cost of UK PPF levy is included within EBIT.

Key risks

- COVID-19 impacts last longer than expected. Plus in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£403.2m of liabilities as at December 2019) & US (£13.5m of liabilities) defined benefit pension schemes compared to Mpac's market capitalisation.
- Currency exposure, trade tariffs, raw material price increases (eg steel, aluminium) and competition.
- Mpac is smaller than its rivals/clients (eg German and Italian) and could see margins squeezed.
- Slower than expected growth, higher costs and/or lower cash generation.
- Industry suffers occasionally from lumpy orders, protracted customer purchasing decisions and irregular cashflows over the period end.
- Long term trend towards clients outsourcing production to 'low cost' contract manufacturers.
- Continued industry consolidation could impact pricing and margins.

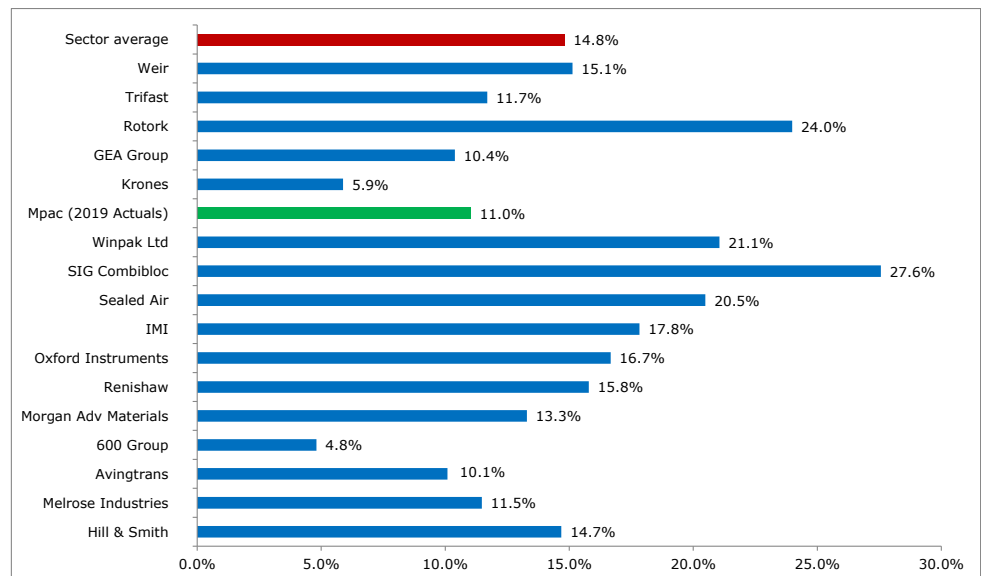
Appendix - Valuation benchmarks & industry KPIs

Current year (CY) + 1 sales growth rates



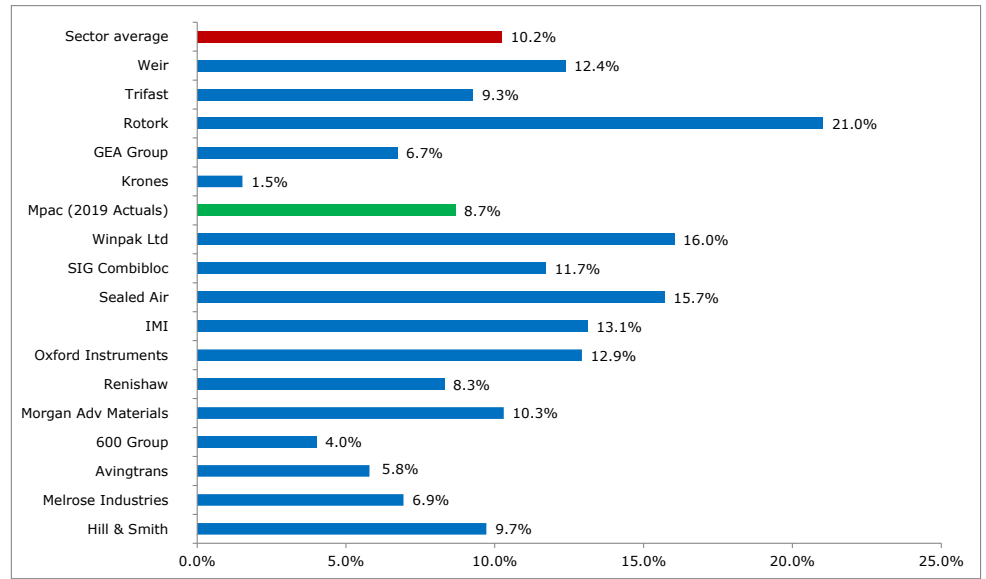
Source: Equity Development. Current year + 1 = 2021

CY EBITDA margins



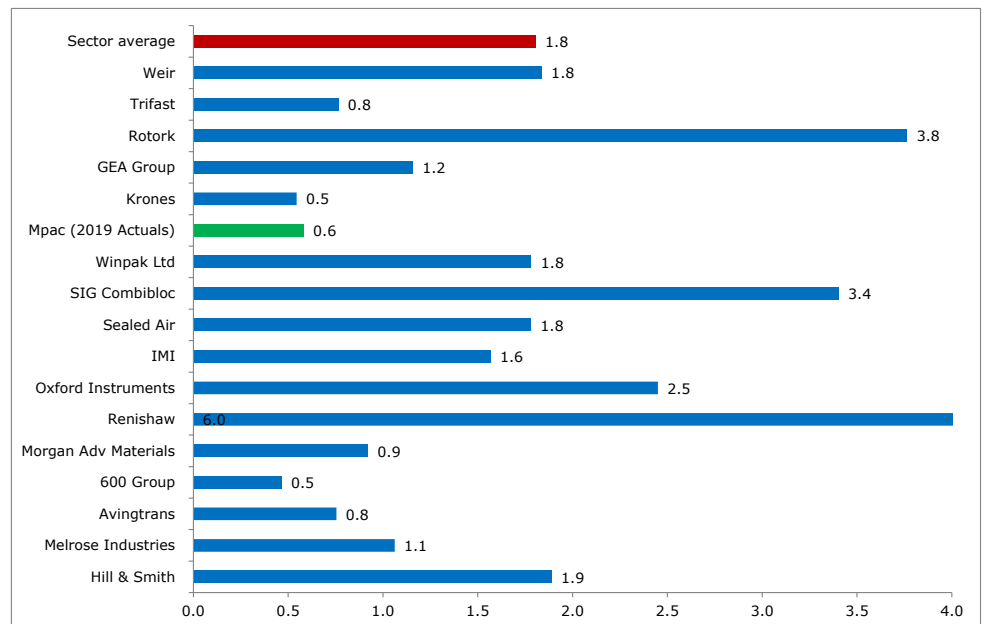
Source: Equity Development

CY EBIT margins



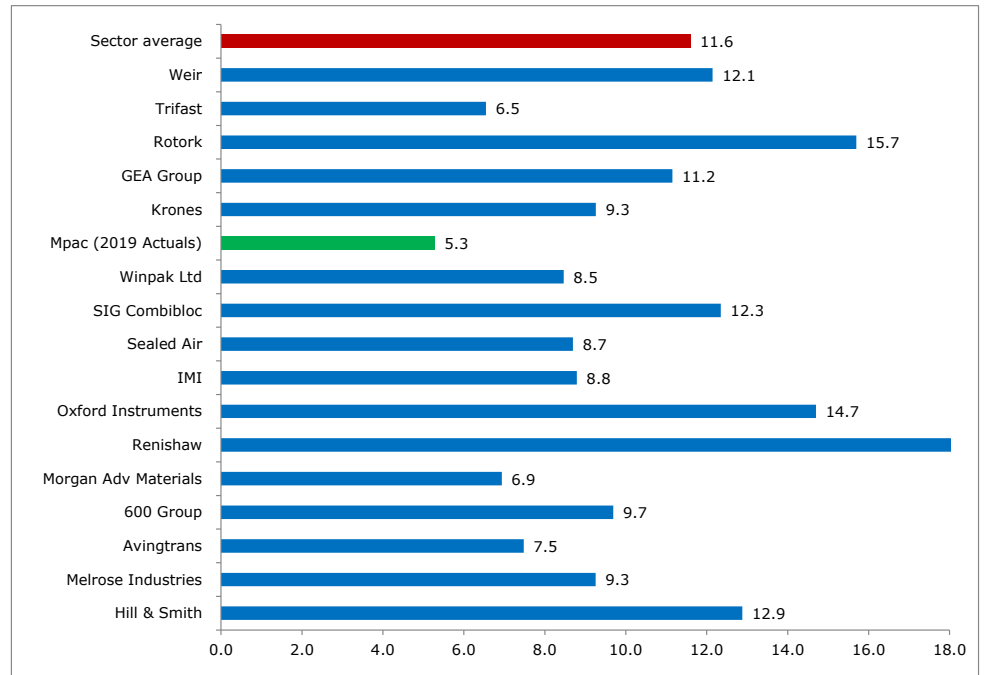
Source: Equity Development

CY EV/Sales multiples



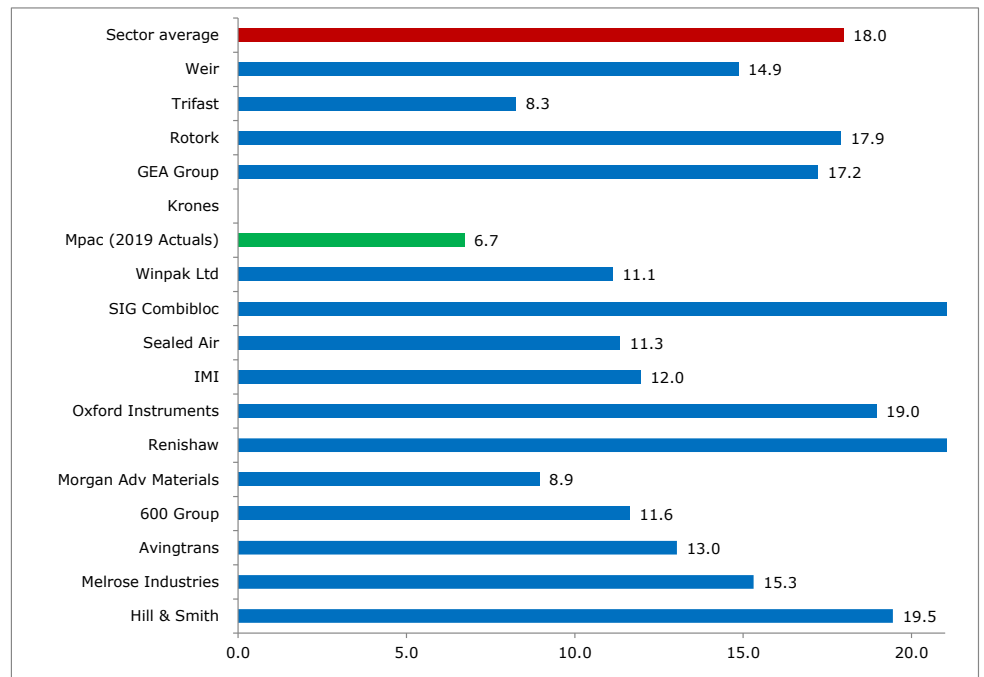
Source: Equity Development. Mpac pension adjusted - 2019 actuals

CY EV/EBITDA multiples



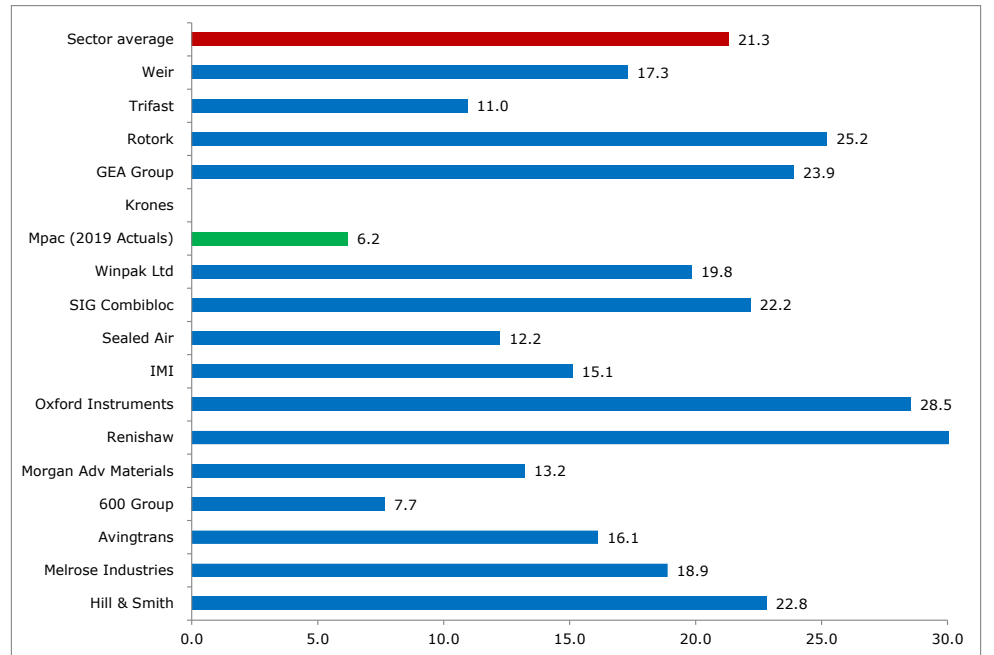
Source: Equity Development. Mpac pension adjusted - 2019 actuals

CY EV/EBIT multiples



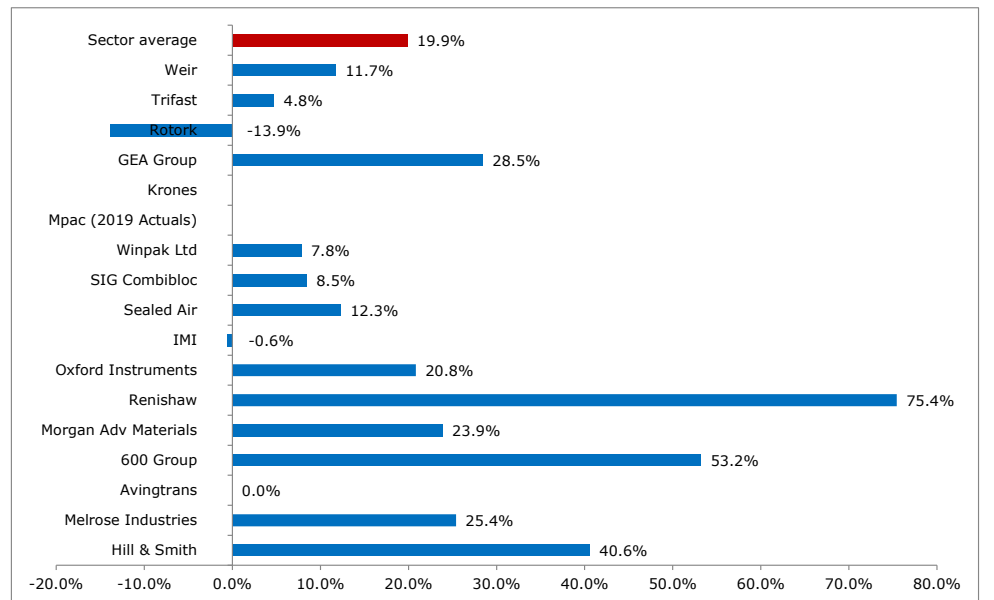
Source: Equity Development. Mpac pension adjusted - 2019 actuals

CY PE ratios



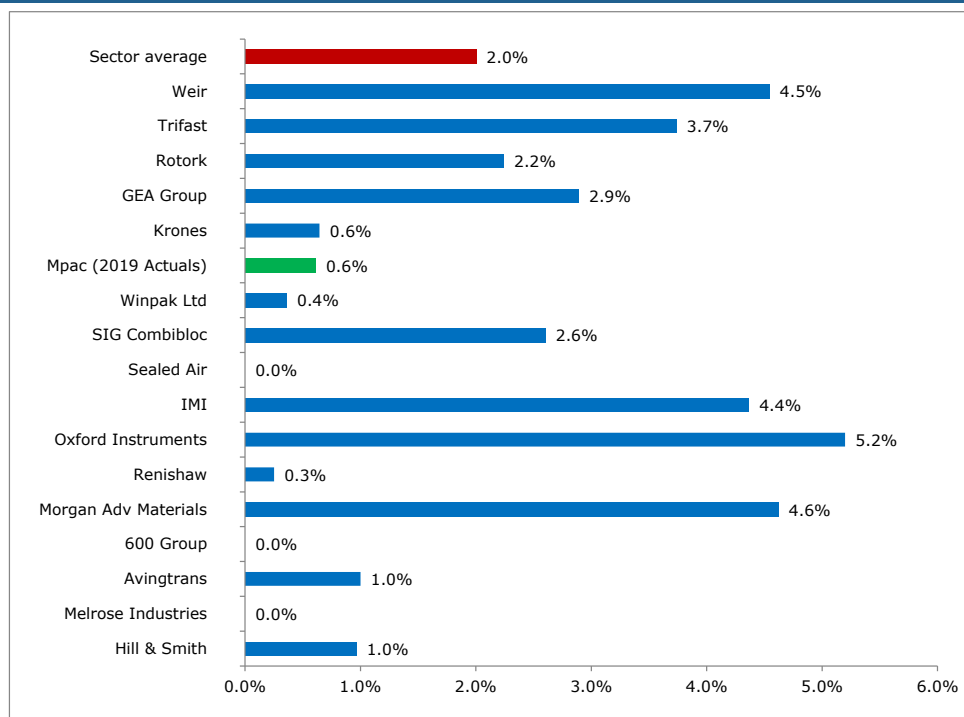
Source: Equity Development. (MPAC 2019 actuals)

Current year (CY) + 1 EPS growth rates



Source: Equity Development. Current year + 1 = 2021

CY dividend yields vs peers



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Hill & Smith	1,275p	£1,013.6	-£202.0	£1,215.6
Melrose Industries	119p	£5,781	-£3,605	£9,386
Avingtrans	250p	£78.5	-£7.5	£86.0
600 Group	10p	£11.2	-£12.1	£23.3
Morgan Adv Materials	238p	£678.3	-£154.0	£832.3
Renishaw	4,180p	£3,043	£94	£2,949
Oxford Instruments	1,370p	£788	£67	£720
IMI	955p	£2,588	-£304	£2,892
Sealed Air	\$33.80	\$5,171	-\$3,348	\$8,519
SIG Combibloc	€ 15.75	€ 5,040	-€ 1,233	€ 6,273
Wipak Ltd	\$30.36	\$1,973	\$483	\$1,490
Mpac (2019 Actuals)	245p	£49.4	£22.1	£31.4
Krones	€ 57.30	€ 1,811	-€ 14	€ 1,825
GEA Group	€ 29.40	€ 5,307	-€ 102	€ 5,409
Rotork	290p	£2,526	£109	£2,417
Trifast	115p	£156.4	-£2.0	£158.4
Weir	1,120p	£2,890	-£1,167	£4,057

Source: Equity Development



Investor Access

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