

## Strong performance in line with expectations

11 January 2024

In a Trading Update for the year to 31 December 2023, Mpac Group reports that revenue and (adj.) profit before tax in H2 were substantially above the first half, whilst margins for the year returned towards normal levels. As a result the Group expects FY23 (adj.) PBT to be in line with market expectations and sees FY23 performance as providing a sound platform for continued growth in FY24. Whilst Mpac's shares have recovered somewhat over recent weeks, they still trade on a 32% discount to the market cap-weighted average of their peers<sup>1</sup> and we maintain our Fair Value of 485p/ share, indicative of a FY24 EV/EBITDA multiple of 7.5x.

The Trading Update reflects the expectation of a return to normalised operations following the disruption to supply chains which dominated FY22. For FY23 we expect Mpac to show gross profitability at 28.2% compared to 25.0% a year earlier and 23.9% in H1, i.e. implying a second half margin of c.33%. Our (adj.) EBITDA outlook also implies second half margin improvement to 11.5% compared to 6.4% in H1, and for the year, 9.0% (FY22: 7.0%). For FY24 we expect this margin to further improve to 11.2%, with an increase at gross level to a 31.3% margin.

### Closing order book: £75.0m, +12%YoY

Mpac reports a year-end closing order book of c.£75.0m compared to £67.2m a year earlier, supported by demand from its key markets, food & beverage, healthcare and clean energy, providing good coverage of the consensus FY24 revenue outlook (ED estimate: £115.8m, +8.6%YoY). The H1 closing order book was £77.5m with H1 order intake of £62.4m (H1 22: £32.8m).

### Cash positive

The Group reports a year-end net cash positive position of £2.0m (ED estimate: £2.5m) and expects to remain cash-positive throughout FY24. This contrasts with FY22 in which working capital consumed £17.8m due to the impact of extended supplier lead times on equipment build, requiring recourse to debt facilities. The interim FY23 net cash position was £2.2m.

### Outlook unchanged

Mpac addresses sectors with strong underlying demand and development trends, including increased automation and systems flexibility. In addition to recent acquisitions such as Mpac Switchback in the US food & beverage sector, the Group has diversified into clean energy via the provision of production test facilities for Freyr Battery in Norway, integrated its operations through the One Mpac initiative and continues to augment equipment sales with increased Service provision. At H123 we raised our FY23 revenue outlook by 2% to £106.6m, whilst maintaining (adj.) EBITDA at £9.6m.

#### Company Data

EPIC	<b>AIM: MPAC</b>
Price (last close)	297.5p
52 weeks Hi/Lo	330p/183p
Market cap	£61m
ED Fair Value / share	485p
Proforma net cash	£2.2m

#### Share Price, p



Source: ADVFN

#### Description

Mpac Group is a specialist provider of high-speed packaging and automation systems employing c.500 people. The group comprises: Mpac Langen; Mpac Lambert; and, acquired in 2020, Mpac Switchback.

The Group generates over 90% of revenue internationally. Core customer verticals include the healthcare, food & beverage and clean energy sectors. Clients include: Advent, AstraZeneca, Bausch & Lomb, Dexcom, Diageo, GSK, J&J, Kellogg's, Nestlé, Philips, P&G, 3M, and Unilever.

#### Next event

FY23 results, w/c 18 March

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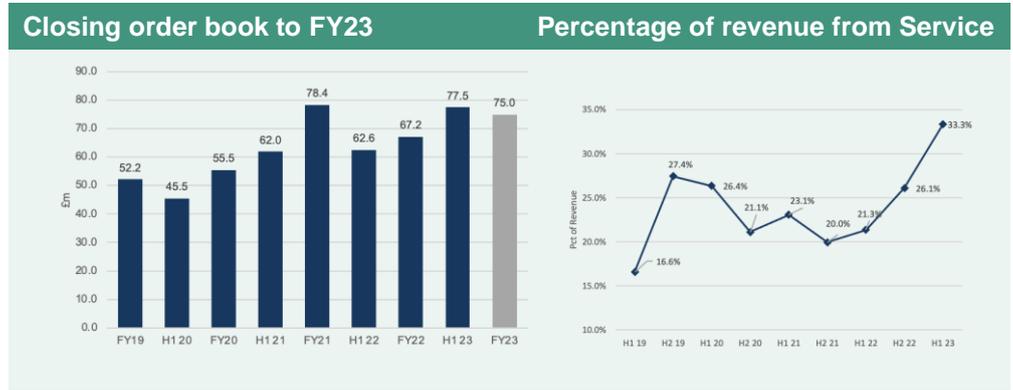
#### Forecasts to FY24

Yr to 31 Dec (£m)	2020	2021	2022	2023E	2024E
Revenue	83.7	94.3	97.7	106.6	115.8
EBITDA (adj)	7.9	11.2	6.8	9.6	13.0
Pre-Tax Profit (adj)	6.3	8.6	3.5	7.0	10.5
EPS (adj, p)	31.4	39.4	13.1	25.8	38.3
Net debt / (Cash)	(14.6)	(13.6)	4.7	(2.5)	(7.6)
P/E	9.5x	7.6x	22.7x	11.5x	7.8x
EV/EBITDA	7.4x	5.3x	8.6x	6.1x	4.5x

Source: Company data, Equity Development estimates. <sup>1</sup> See p.3.

## H1 23 recap: orders rebound, Service revenue on target

At H1 23 the Group recorded revenue of £52.8m, +4.3%YoY, comprising Original Equipment £35.2m, 66.7% of total, -11.6%YoY, and Service, £17.6m, +63.0%YoY. The revenue contribution from the profitable Service segment – equipment upgrades and engineering support – rose to 33.3% of total. We expect this to remain above 27% in line with Mpac’s strategic goals.

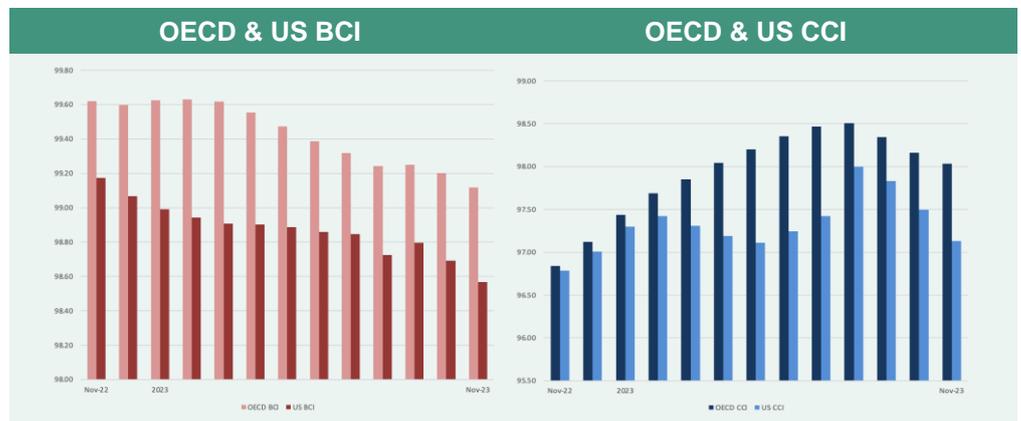


Source: Company data.

## Strong client relationships in a fragmented market

Overall, the global packaging machinery market is forecast to grow at 4.1% CAGR (2022 – 2027) from US\$46.4bn to US\$56.7bn (source: Markets & Markets), driven by factors such as demand for flexible and integrated systems and the introduction of environmentally-friendly packaging materials. Whilst addressing major markets such as food & beverage and healthcare, the sector remains fragmented with no dominant providers. We have in the past tracked two indicators for the direction of overall demand in OECD group countries and the United States, the Business Confidence and Consumer Confidence Indices. We note that as Mpac offers specialised solutions for major producers such as Nestlé, Mars and Diageo, and has close customer relationships, these combine to provide resilience within macro-economic trends. As shown below, in November 2023<sup>2</sup>:

- The OECD BCI stood at 99.12, compared to 99.62 a year earlier, whilst the US BCI stood at 98.57, compared to 99.17 a year earlier; the trend over the past year remains weak
- The OECD CCI stood at 98.03, compared to 96.84 a year earlier, whilst the US CCI stood at 97.13, compared to 96.72 a year earlier. Having recovered up to August 2023, the trend reversed



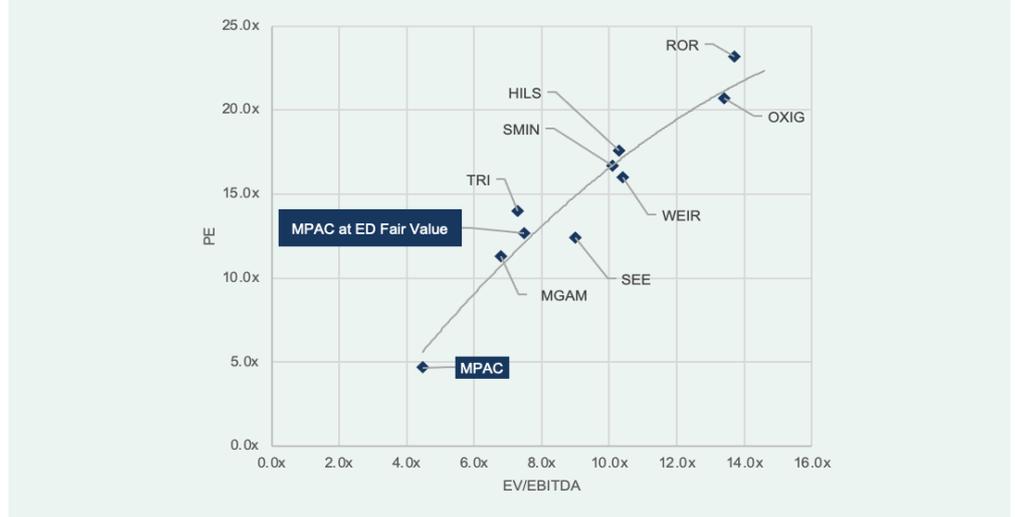
Source: OECD.org, November 2022 – November 2023. <sup>2</sup> November 2023 latest data set.

## Valuation considerations

Below illustrates (i) Mpac's current valuation (EV/EBITDA and PE) based on our FY24 outlook, (ii) valuation based on Equity Development Fair Value (implied EV/EBITDA, PE), and (iii) comparison with peers Smiths Group plc, Weir Group plc, Trifast plc, Rotork plc, Sealed Air Corp., Oxford Instruments plc, Morgan Advanced Materials plc and Hill & Smith plc. Data is based on the +1 year forward consensus earnings outlook (source: Koyfin).

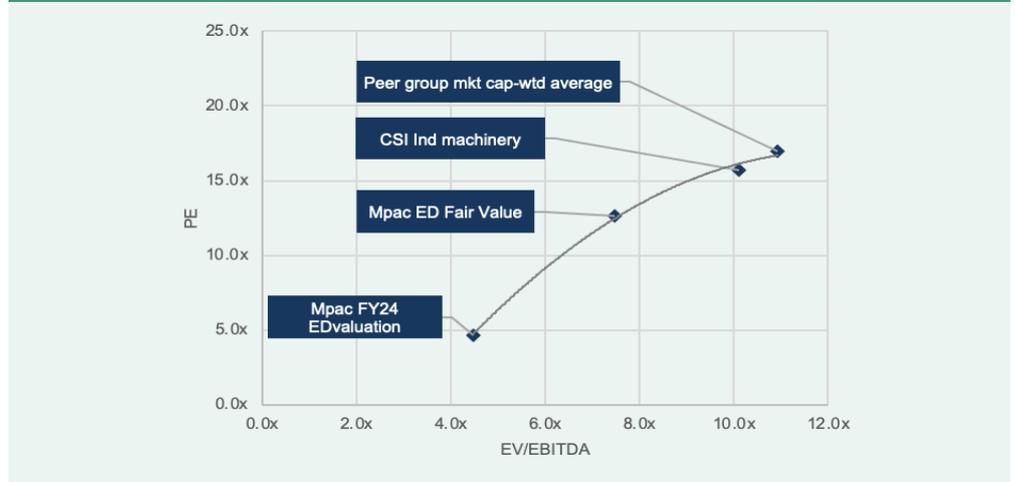
- The overall market cap-weighted EV/EBITDA multiple for the peer group is 10.9x, and PE 17.0x.
- By comparison, the year-to-date average PE at Q3 2023 for the US Industrial Machinery & Components subset of the Capital Goods segment stood at 15.7x (source: csimarket.com)<sup>3</sup>.
- Despite recent share price recovery, our ED Fair Value of 485p implies an Mpac FY24 EV/EBITDA multiple of 7.5x and PE of 12.7x.

### Mpac valuation versus peers



Source: Equity Development estimates, Koyfin. Best fit polynomial shown.

### Mpac valuation versus peer group average and US CSI Ind Machinery av.



Source: Equity Development estimates, Koyfin. Best fit polynomial shown. <sup>3</sup> CSI EV/EBITDA is estimated.

**P&L outlook to FY24 E**

<b>P&amp;L Year to 31 Dec (£m)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>H1 23</b>	<b>FY23E</b>	<b>FY24E</b>
Equipment revenue	64.1	74.1	74.6	35.2	72.0	84.1
Service revenue	19.6	20.2	23.1	17.6	34.6	31.7
<b>Revenue</b>	<b>83.7</b>	<b>94.3</b>	<b>97.7</b>	<b>52.8</b>	<b>106.6</b>	<b>115.8</b>
<b>Gross</b>	<b>24.3</b>	<b>28.9</b>	<b>24.4</b>	<b>12.6</b>	<b>30.1</b>	<b>36.3</b>
<i>Margin</i>	<i>29.0%</i>	<i>30.6%</i>	<i>25.0%</i>	<i>23.9%</i>	<i>28.2%</i>	<i>31.3%</i>
COGS	(59.4)	(65.4)	(73.3)	(40.2)	(76.5)	(79.6)
Distribution	(6.8)	(6.8)	(8.1)	(3.6)	(8.3)	(9.0)
Admin	(9.9)	(12.4)	(11.9)	(6.2)	(13.0)	(14.5)
Other	(1.1)	(0.9)	(0.5)	(0.6)	(1.4)	(1.9)
Sum operating costs	(17.8)	(20.1)	(20.5)	(10.4)	(22.7)	(25.4)
One-off costs	(3.6)	(0.5)	(3.9)	(2.4)	(4.0)	(3.0)
EBIT Reported	2.9	8.3	0.0	(0.2)	3.4	7.9
<b>EBIT Adjusted</b>	<b>6.5</b>	<b>8.8</b>	<b>3.9</b>	<b>2.2</b>	<b>7.4</b>	<b>10.9</b>
<i>Margin</i>	<i>7.8%</i>	<i>9.3%</i>	<i>4.0%</i>	<i>4.2%</i>	<i>6.9%</i>	<i>9.4%</i>
Amortisation	(0.3)	(0.6)	(0.9)	(0.3)	(0.6)	0.0
Depreciation	(1.1)	(1.8)	(2.0)	(0.9)	(1.6)	(2.1)
EBITDA Reported	4.3	10.7	2.9	1.0	5.6	10.0
<b>EBITDA Adjusted</b>	<b>7.9</b>	<b>11.2</b>	<b>6.8</b>	<b>3.4</b>	<b>9.6</b>	<b>13.0</b>
<i>Margin</i>	<i>9.4%</i>	<i>11.9%</i>	<i>7.0%</i>	<i>6.4%</i>	<i>9.0%</i>	<i>11.2%</i>
Financial income	0.0	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)
PBT Reported	2.9	8.2	(0.4)	0.2	3.0	7.5
PBT Adjusted	6.3	8.6	3.5	1.9	7.0	10.5
Tax	1.3	(0.4)	(0.8)	(0.6)	(1.7)	(2.6)
PAT Reported	4.2	7.8	(1.2)	(0.4)	1.3	4.9
<b>PAT Adjusted</b>	<b>6.3</b>	<b>7.9</b>	<b>2.7</b>	<b>1.4</b>	<b>5.3</b>	<b>7.9</b>
Basic wtd. av. shares (m)	20.0	19.9	20.3	20.5	20.5	20.5
Diluted wtd. av. shares (m)	20.1	20.1	20.6	20.6	20.6	20.6
EPS Rptd Basic (p)	21.0	39.2	(5.9)	(2.0)	6.4	23.8
EPS Rptd Dil.(p)	20.9	38.9	(5.8)	(1.9)	6.4	23.7
EPS Adj. Basic (p)	31.6	39.7	13.3	6.8	26.0	38.4
<b>EPS Adj. Dil. (p)</b>	<b>31.4</b>	<b>39.4</b>	<b>13.1</b>	<b>6.8</b>	<b>25.8</b>	<b>38.3</b>

Source: Company data, Equity Development estimates.

**Cashflow outlook to FY24 E**

Cashflow Year to 31 December (£m)	FY20	FY21	FY22	H1 23	FY23E	FY24E
<b>Operating profit</b>	<b>2.9</b>	<b>8.3</b>	<b>0.0</b>	<b>(0.2)</b>	<b>3.4</b>	<b>7.9</b>
One-off items	3.6	0.5	3.9	2.4	4.0	3.0
Amortisation	0.3	0.6	0.9	0.3	0.6	0.0
Depreciation	1.1	1.8	2.0	0.9	1.6	2.1
Other non-cash	0.4	0.4	0.3	0.0	0.0	0.0
Pension	(3.0)	(2.6)	(2.1)	(0.9)	(3.0)	(3.0)
<b>Operating Cash Flow</b>	<b>5.3</b>	<b>9.0</b>	<b>5.0</b>	<b>2.5</b>	<b>6.6</b>	<b>10.0</b>
<b>Working capital</b>						
(Increase)/Decrease inventories	0.2	(2.2)	(3.7)	(0.8)	(5.0)	(1.3)
(Increase)/Decrease in contract assets	(1.7)	(4.4)	(6.4)	(0.6)	(1.0)	(3.0)
(Increase)/Decrease in receivables	(0.6)	1.0	(5.3)	3.7	1.7	(3.6)
Increase/(Decrease) in payables	4.1	(1.1)	2.8	1.7	5.7	3.8
(Increase)/Decrease in contract liabilities	5.4	(0.7)	(5.7)	3.4	5.6	5.6
Increase / Decrease in provisions	0.1	(0.8)	0.5	(0.1)	0.0	0.0
<b>Movement in working capital</b>	<b>7.5</b>	<b>(8.2)</b>	<b>(17.8)</b>	<b>7.3</b>	<b>7.0</b>	<b>1.6</b>
<b>Cash generated by operations</b>	<b>12.8</b>	<b>0.8</b>	<b>(12.8)</b>	<b>9.8</b>	<b>13.6</b>	<b>11.6</b>
Acquisition costs	(0.9)	(0.3)	(0.8)	(0.4)	(0.4)	0.0
Tax (paid)/received	(0.7)	(0.1)	(0.4)	(0.3)	(1.7)	(2.6)
Net cash from operations	11.2	0.4	(14.0)	9.1	11.5	8.9
<b>Investing activities</b>						
Interest received	0.0	0.0	0.0	0.0	0.0	0.0
Sale of PPE	0.2	2.0	0.0	0.0	0.0	0.0
Capitalised R&D	(1.8)	(0.2)	(1.4)	(0.6)	(1.4)	(1.4)
PPE	(1.2)	(1.5)	(1.0)	(0.5)	(1.1)	(1.2)
Acquired cashflow/deferred payment	(10.3)	(0.6)	(0.8)	0.0	0.0	0.0
<b>Net cash used in investing</b>	<b>(13.1)</b>	<b>(0.3)</b>	<b>(3.2)</b>	<b>(1.1)</b>	<b>(2.5)</b>	<b>(2.6)</b>
<b>Net OpFCF</b>	<b>(1.9)</b>	<b>0.1</b>	<b>(17.2)</b>	<b>8.0</b>	<b>9.0</b>	<b>6.4</b>
<b>Financing activities</b>						
Borrowings	0.0	0.0	8.0	(3.0)	(6.4)	0.0
Interest paid	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Purchase own shares	(0.2)	(0.2)	0.0	0.0	(0.5)	(0.4)
Lease payments	(0.9)	(0.9)	(1.1)	(0.4)	(0.9)	(0.5)
Net cash from financing	(1.3)	(1.4)	6.6	(3.7)	(8.2)	(1.3)
<b>Net increase in cash / equivalents</b>	<b>(3.2)</b>	<b>(1.3)</b>	<b>(10.6)</b>	<b>4.3</b>	<b>0.8</b>	<b>5.1</b>
Cash at beginning of year	18.9	15.5	14.5	4.2	4.2	5.0
Forex	(0.2)	0.3	0.3	(0.4)	0.0	0.0
<b>Cash at year end</b>	<b>15.5</b>	<b>14.5</b>	<b>4.2</b>	<b>8.1</b>	<b>5.0</b>	<b>10.1</b>
<b>Net debt / (Cash)</b>	<b>(14.6)</b>	<b>(13.6)</b>	<b>4.7</b>	<b>(2.2)</b>	<b>(2.5)</b>	<b>(7.6)</b>

Source: Company data, Equity Development estimates.

**Balance sheet outlook to FY24 E**

(£m)	FY20	FY21	FY22	H1 23	FY23E	FY24E
<b>Fixed Assets</b>						
Intangible assets	27.4	25.3	25.4	24.3	24.8	24.8
PPE net	5.1	4.0	4.0	4.0	2.5	1.6
Property	0.8	0.8	0.8	0.8	0.8	0.8
Right of use	4.0	5.8	5.0	4.5	5.0	5.0
Employee benefits	14.0	35.7	31.5	35.2	31.5	31.5
Deferred tax, other	1.8	1.4	1.3	1.0	1.3	1.3
<b>Sum Fixed Assets</b>	<b>53.1</b>	<b>73.0</b>	<b>68.0</b>	<b>69.8</b>	<b>65.9</b>	<b>65.0</b>
<b>Current Assets</b>						
Inventories	3.5	5.5	9.6	10.2	14.6	15.9
Trade receivables	32.2	34.5	46.7	44.0	45.0	48.6
Tax assets	0.8	0.6	0.6	0.8	0.6	0.6
Cash, Equivalents	15.5	14.5	4.2	8.1	5.0	10.1
Contract assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Sum Current Assets</b>	<b>52.0</b>	<b>55.1</b>	<b>61.1</b>	<b>63.1</b>	<b>65.2</b>	<b>75.1</b>
Total Assets	105.1	128.1	129.1	132.9	131.1	140.1
<b>Current Liabilities</b>						
Trade payables	(41.1)	(39.5)	(38.4)	(43.6)	(44.1)	(47.9)
Leases	(0.8)	(1.8)	(1.4)	(1.3)	(1.4)	(1.4)
Provisions	(1.4)	(0.6)	(1.0)	(1.0)	(1.0)	(1.0)
Tax, Other	(0.4)	(0.7)	(0.1)	(0.3)	(0.1)	(0.1)
<b>Sum Current Liabilities</b>	<b>(43.7)</b>	<b>(42.6)</b>	<b>(48.9)</b>	<b>(51.2)</b>	<b>(48.6)</b>	<b>(52.4)</b>
Total Assets less Current Liabilities	61.4	85.5	80.2	81.7	82.5	87.6
<b>Long-term Liabilities</b>						
Borrowings	(0.9)	(0.9)	(0.9)	(0.9)	(0.5)	(0.5)
Employee benefits	(3.0)	(2.5)	(2.1)	(1.7)	(3.0)	(3.0)
Tax	(6.8)	(12.5)	(11.1)	(12.4)	(6.8)	(6.8)
Leases	(3.4)	(4.2)	(3.9)	(3.4)	(3.4)	(3.4)
Deferred consideration	(2.9)	0.0	0.0	0.0	0.0	0.0
<b>Sum Long-term liabilities</b>	<b>(17.0)</b>	<b>(20.1)</b>	<b>(18.0)</b>	<b>(18.4)</b>	<b>(13.7)</b>	<b>(13.7)</b>
Total liabilities	(60.7)	(62.7)	(66.9)	(69.6)	(62.3)	(66.1)
Net Assets	44.4	65.4	62.2	63.3	68.8	73.9
<b>Capital &amp; Reserves</b>						
Share Capital	5.0	5.0	5.1	5.1	5.1	5.1
Share Premium	26.0	26.0	26.0	26.0	28.2	28.5
Capital Reserve	5.2	3.7	2.1	2.9	5.2	5.2
Retained earnings	8.2	30.7	29.0	29.3	30.3	35.2
<b>Equity</b>	<b>44.4</b>	<b>65.4</b>	<b>62.2</b>	<b>63.3</b>	<b>68.8</b>	<b>73.9</b>
Net debt / (Cash)	(14.6)	(13.6)	4.7	(2.2)	(2.5)	(7.6)

Source: Company data, Equity Development estimates.



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