

23 August 2018

Corp

Ticker BYOT:AIM

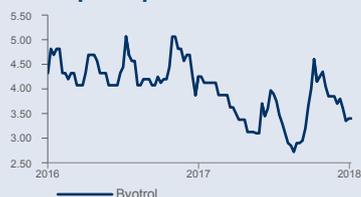
Life Sciences
 Shares in issue (m) 430.9
 Next results H1 Dec

Price 3.4p
 Target price 7.0p
 Upside 106%

Market cap £14.7m
 Net debt/(cash) -£3.9m
 Other EV adjustments £0.0m
 Enterprise value £10.8m

What's changed? **From** **To**
 Adjusted EPS 0.2 -0.0
 Target Price 9.0 7.0

Share price performance



| % | 1M | 3M | 12M |
|--------|------|-------|-------|
| Actual | -8.1 | -24.6 | -20.0 |

Company description

Development of products based on proprietary antimicrobial technology

Mark Brewer

Director of Research
 mbrewer@finncap.com
 020 7220 0556

Sales desk 020 7220 0522

Trading desk 020 7220 0533

* denotes corporate client of finncap

▶ Byotrol*

FY 2018 and transformative acquisition

Full-year results were ahead of expectations, with an adjusted EBITDA of £44k versus an expected £350k loss, but helped by the accounting treatment for the sale of Actizone patents to Solvay. Byotrol also announced the acquisition of Medimark Scientific, which sells infection control products for the Animal Health and Human Healthcare markets. The £4.5m consideration (including a two-year £1.8m earnout), implies an EV/EBITDA of 7.1x. The combination not only creates critical mass, but it brings a strong and proven sales & marketing capability and novel technologies that dovetail with Byotrol's technology-rich portfolio and reduces the execution risk of transitioning the business to a sustainably profitable one. Although we reduce our target price to 7p, this is a fundamentally stronger business – one that is better positioned to exploit its technology platforms.

- ▶ **FY 2017 results ahead of April trading statement** with revenues of £3.1m, adjusted EBITDA of £44k and an adjusted pre-tax loss of £0.2m, which compared with a forecast EBITDA loss of £350k. Revenues included gross income from Actizone, estimated to have been c.£1.3m, compared with c.£1.1m in FY 2017. Net cash at 31 March was £3.9m, which excludes the Actizone payment, the bulk of which was received in April.
- ▶ **Acquisition of Medimark Scientific** for a maximum consideration of £4.5m including £0.4m of debt, £2.30m of which is payable on completion (50/50 cash/equity), with two deferred payments (£0.9m each – 50/50 cash/equity) predicated on achieving £0.5m and £0.65m of EBITDA in FY 2019 and FY 2020. The initial price represents EV/Sales and EV/EBITDA of 1.0x and 7.1x, respectively.
- ▶ **Clear strategic rationale.** Medimark Scientific brings a proven sales & marketing capability to the group, with a track record of delivering profitable growth (2 yr CAGR of 27%). Its strong presence in Animal Health and increasingly in Human Healthcare creates critical mass that reduces the execution risk for the company to move to sustained profitability. Additionally, Medimark brings new technologies, including sporicidal disinfectants that dovetail with Byotrol's technology-rich portfolio.
- ▶ **Forecasts and valuation.** The changes to earnings, which take into account the Actizone income treatment, slower than expected deal flow (alliances, product sales and licences) as management resources were focused on closing this acquisition, consolidation of Medimark and share dilution, result in lower earnings in 2019/20 but higher in 2020/21. We have reduced our target price to 7p. At this level, the stock would trade on FY2020 EV/Sales, EV/EBITDA and P/E of 3.3x, 19.5x, and 28.9x, respectively.

| Key estimates Year end: Mar | | 2016A | 2017A | 2018A | 2019E | 2020E |
|-------------------------------|----|-------|-------|-------|-------|-------|
| Revenue | £m | 2.6 | 3.1 | 3.1 | 5.5 | 8.4 |
| Adj EBITDA | £m | -0.3 | 0.1 | 0.0 | 0.1 | 1.4 |
| Adj EBIT | £m | -0.4 | -0.0 | -0.1 | -0.1 | 1.2 |
| Adj PBT | £m | -0.5 | -0.0 | -0.2 | -0.2 | 1.1 |
| Adj EPS | p | -0.2 | -0.0 | -0.0 | -0.0 | 0.2 |
| DPS | p | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Key valuation metrics | | 2016A | 2017A | 2018A | 2019E | 2020E |
|-----------------------|---|--------|--------|--------|--------|-------|
| EV/EBIT (adj) | x | -28.7 | -619.1 | -82.2 | -154.4 | 8.8 |
| P/E (adj) | x | -21.8 | -297.4 | -72.4 | -97.3 | 14.0 |
| Dividend yield | % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Free cash yield | % | -3.6% | -0.4% | -10.8% | -1.0% | 11.8% |
| Pre-tax ROCE | % | -18.7% | -0.9% | -2.0% | -1.0% | 15.6% |

FY 2018 and transformative acquisition

| Income statement | | 2017A | 2018A | 2019E | 2020E |
|--------------------------------------|-----------|-------------|-------------|-------------|------------|
| Year end: Mar | | | | | |
| Sales | £m | 3.1 | 3.1 | 5.5 | 8.4 |
| Gross profit | £m | 1.8 | 2.0 | 3.0 | 5.4 |
| EBITDA (adjusted) | £m | 0.1 | 0.0 | 0.1 | 1.4 |
| EBIT (adjusted) | £m | -0.0 | -0.1 | -0.1 | 1.2 |
| Associates/other | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest | £m | -0.0 | -0.1 | -0.1 | -0.1 |
| PBT (adjusted) | £m | -0.0 | -0.2 | -0.2 | 1.1 |
| Total adjustments | £m | -0.1 | -0.1 | -0.1 | -0.1 |
| PBT (stated) | £m | -0.1 | -0.3 | -0.3 | 1.0 |
| Tax charge | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported earnings | £m | -0.1 | -0.3 | -0.3 | 1.0 |
| Adjusted earnings | £m | -0.0 | -0.2 | -0.2 | 1.1 |
| Shares in issue (year end) | m | 268.1 | 402.8 | 430.9 | 441.9 |
| EPS (stated) | p | -0.0 | -0.1 | -0.1 | 0.2 |
| EPS (adjusted, fully diluted) | p | -0.0 | -0.0 | -0.0 | 0.2 |
| DPS | p | 0.0 | 0.0 | 0.0 | 0.0 |

| Cash flow | | 2017A | 2018A | 2019E | 2020E |
|--------------------------------------|-----------|-------------|-------------|-------------|------------|
| Year end: Mar | | | | | |
| EBITDA | £m | 0.1 | 0.0 | 0.1 | 1.4 |
| Net change in working capital | £m | 0.1 | -1.6 | -0.1 | 0.5 |
| Other operating items | £m | -0.0 | 0.1 | 0.1 | 0.1 |
| Cash flow from op. activities | £m | 0.2 | -1.5 | 0.1 | 2.0 |
| Cash interest | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash tax | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex | £m | -0.3 | -0.1 | -0.2 | -0.3 |
| Free cash flow | £m | -0.1 | -1.6 | -0.1 | 1.7 |
| Acquisitions / disposals | £m | -0.0 | 0.0 | -1.2 | -0.5 |
| Dividends | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares issued | £m | 0.0 | 4.6 | 0.0 | 0.0 |
| Other | £m | 0.0 | -0.1 | -0.5 | -0.4 |
| Net change in cash flow | £m | -0.1 | 2.9 | -1.8 | 0.9 |
| Opening net cash (debt) | £m | 1.0 | 0.9 | 3.8 | 2.0 |
| Closing net cash (debt) | £m | 0.9 | 3.8 | 2.0 | 2.9 |

| Balance sheet | | 2017A | 2018A | 2019E | 2020E |
|------------------------------|-----------|------------|------------|------------|------------|
| Year End: Mar | | | | | |
| Tangible fixed assets | £m | 0.0 | 0.0 | 0.1 | 0.1 |
| Goodwill & other intangibles | £m | 0.7 | 0.4 | 2.7 | 2.7 |
| Other non current assets | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Net working capital | £m | 0.3 | 2.1 | 2.4 | 2.1 |
| Other assets | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross cash & cash equivs | £m | 1.0 | 3.9 | 2.1 | 2.9 |
| Capital employed | £m | 2.0 | 6.4 | 7.2 | 7.9 |
| Gross debt | £m | 0.4 | 0.0 | 0.2 | 0.0 |
| Net pension liability | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholders equity | £m | 1.6 | 6.4 | 7.0 | 7.9 |
| Minorities | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital employed | £m | 2.0 | 6.4 | 7.2 | 7.9 |

| Growth analysis | | 2017A | 2018A | 2019E | 2020E |
|----------------------|---|--------|---------|--------|--------|
| Year end: Mar | | | | | |
| Sales growth | % | 18.1% | 0.4% | 75.2% | 52.7% |
| EBITDA growth | % | 144.6% | -61.8% | 125.7% | n/m |
| EBIT growth | % | 95.4% | -653.3% | 46.8% | n/m |
| PBT growth | % | 92.7% | -498.6% | 20.7% | 812.7% |
| EPS growth | % | 92.7% | -310.8% | 25.6% | 796.0% |
| DPS growth | % | n/m | n/m | n/m | n/m |

| Profitability analysis | | 2017A | 2018A | 2019E | 2020E |
|------------------------|---|-------|-------|-------|-------|
| Year end: Mar | | | | | |
| Gross margin | % | 56.0% | 64.0% | 54.8% | 64.1% |
| EBITDA margin | % | 3.7% | 1.4% | 1.8% | 16.7% |
| EBIT margin | % | -0.6% | -4.2% | -1.3% | 14.6% |
| PBT margin | % | -1.1% | -6.4% | -2.9% | 13.6% |
| Net margin | % | -1.1% | -6.4% | -2.9% | 13.6% |

| Cash flow analysis | | 2017A | 2018A | 2019E | 2020E |
|-----------------------------------|----|---------|----------|---------|--------|
| Year end: Mar | | | | | |
| Cash conv'n (op cash / EBITDA) | % | 188.5% | n/m | 58.9% | 140.9% |
| Cash conv'n (FCF / EBITDA) | % | -53.8% | n/m | -141.1% | 123.0% |
| U/lying FCF (capex = depn) | £m | 0.1 | -1.6 | -0.1 | 1.8 |
| Cash quality (u/l FCF / adj earn) | % | -252.9% | 811.8% | 66.3% | 158.6% |
| Investment rate (capex / depn) | x | 18.1 | 6.8 | 18.6 | 21.3 |
| Interest cash cover | x | n/a | net cash | n/a | n/a |
| Dividend cash cover | x | n/a | n/a | n/a | n/m |

| Working capital analysis | | 2017A | 2018A | 2019E | 2020E |
|-----------------------------|------|-------|-------|-------|-------|
| Year end: Mar | | | | | |
| Net working capital / sales | % | 9.9% | 66.5% | 42.9% | 25.4% |
| Net working capital / sales | days | 36 | 243 | 156 | 93 |
| Inventory (days) | days | 23 | 22 | 26 | 20 |
| Receivables (days) | days | 100 | 281 | 183 | 117 |
| Payables (days) | days | 88 | 60 | 52 | 44 |

| Leverage analysis | | 2017A | 2018A | 2019E | 2020E |
|--------------------------------|---|----------|---------|----------|---------|
| Year end: Mar | | | | | |
| Net debt / equity | % | net cash | no debt | net cash | no debt |
| Net debt / EBITDA | x | net cash | no debt | net cash | no debt |
| Liabilities / capital employed | % | 19.5% | 0.0% | 2.8% | 0.0% |

| Capital efficiency & intrinsic value | | 2017A | 2018A | 2019E | 2020E |
|--------------------------------------|---|-------|--------|-------|-------|
| Year end: Mar | | | | | |
| Adjusted return on equity | % | -2.1% | -3.1% | -2.3% | 14.4% |
| RoCE (EBIT basis, pre-tax) | % | -0.9% | -2.0% | -1.0% | 15.6% |
| RoCE (u/lying FCF basis) | % | 4.3% | -25.5% | -1.5% | 22.9% |
| NAV per share | p | 0.6 | 1.6 | 1.6 | 1.8 |
| NTA per share | p | 0.3 | 1.5 | 1.0 | 1.2 |

Medimark Scientific acquisition

Introduction

Byotrol is acquiring Medimark Scientific, a high-growth, profitable private company, located in Sevenoaks, Kent, UK. It sells infection control products used on surfaces, instruments and hands for the Animal Health, Human Health, Laboratory, Environment and Retail markets. The maximum acquisition price of £4.1m will be satisfied by way of cash (50% and shares (50%), with £2.3m payable on completion and the balance over the two years to June 2020. In addition, Byotrol will assume c.£0.4m of Medimark's debt. The acquisition represents an EV/Sales of 1.0x (FY 2018), and an EV/EBITDA of 7.1x historic adjusted EBITDA.

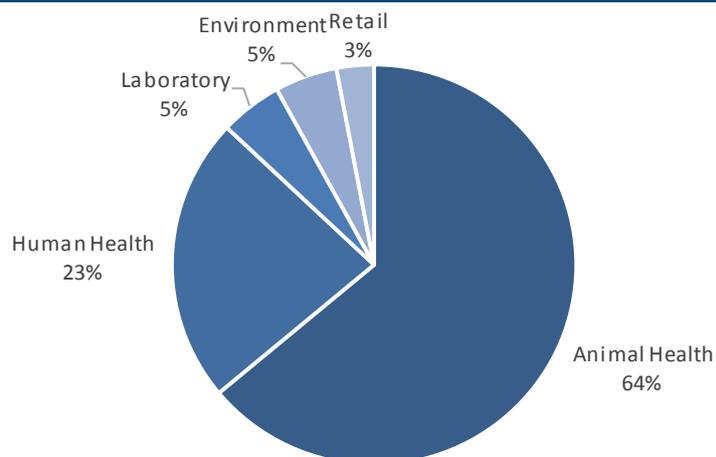
Products and markets

Medimark manufactures and sells a range of infection control products, comprising:

- ▶ High-level disinfectants (HLD4 formula), which have been developed with the Biocidal Products Regulations (BPR) in mind for the Animal health, Human health and Laboratory markets.
- ▶ Sporidical disinfectants, based on hypochlorous acid (trigger spray), which were launched into the Human and Animal Health markets in 2017. Medimark is also developing a sachet wipe.
- ▶ Instrument disinfectants, utilising a range of reprocessing chemistries that include Reprozyme (enzymatic cleaner), Reprodis (HLD4i) and Chemgene (HLD4i) disinfectant wipes. These products are mainly targeted at the veterinary market although, increasingly, have application for dental and other clinical uses.
- ▶ Skin disinfection product range, which includes Esense (alcohol free hand foam that, incidentally, includes Byotrol as an ingredient brand), Vetscrub (anti-bacterial hand wash), Vetscrub CHX (with chlorhexidine), Chemgene Alcolgel (alcohol gel hand disinfectant) and Vetgel (alcohol surgical hand rub).

Figure 1 illustrates the breakdown of revenues by end markets. The Ebiox range of surface, instrument and hand disinfectants, which was acquired in 2017, is used in the Primary Care, Community Care, Dental, Podiatry, and Veterinary markets.

Figure 1: Revenue breakdown – end-markets



Source: finnCap

The three key market segments are represented by:

- ▶ Animal Health has been the largest contributor, representing c.64% of revenues (c.£1.7m) in FY 2018 and having grown 16% in FY 18 with a two-year CAGR of 18%.
- ▶ Human Health is the second largest market, with revenues of c.£0.7m, having grown by 79% in FY 2018 (2-year CAGR of 80%). This segment is expected to sustain a high level of growth over the next couple of years, assisted by the growth from its sporidical disinfectant product range.

Trading history

We present a summary of the past three years' trading history in the table below.

Figure 2: Summary income statement of Medimark Scientific

| Year to end March (£m) | 2016 | 2017 | Growth (%) | 2018 | Growth (%) |
|-------------------------------|-------------|-------------|------------|-------------|-------------|
| Revenues | 1.66 | 1.98 | 19% | 2.66 | 34% |
| Cost of goods sold | -0.66 | -0.77 | | -1.14 | |
| Gross profit | 1.00 | 1.21 | 21% | 1.53 | 26% |
| <i>Gross margin</i> | 60.3% | 61.1% | | 57.2% | |
| Total operating expenses | -0.91 | -1.10 | 21% | -1.19 | 8% |
| EBITDA | 0.09 | 0.11 | 22% | 0.33 | 200% |
| <i>EBITDA margin</i> | 5.4% | 5.4% | | 12.5% | |
| Adjusted EBITDA | | | | 0.38 | |
| <i>Adjusted EBITDA margin</i> | | | | 14.3% | |
| Depreciation | 0.00 | -0.01 | | -0.03 | |
| EBIT | 0.09 | 0.10 | | 0.30 | |
| <i>EBIT margin</i> | 5.4% | 4.9% | | 11.4% | |
| Interest | -0.04 | -0.04 | | -0.05 | |
| Pre-tax profit | 0.05 | 0.06 | | 0.25 | |
| Tax | 0.00 | 0.00 | | 0.00 | |
| Net income | 0.05 | 0.06 | | 0.25 | |

Adjusted EBITDA adds back c.£50k of costs relating to services provided by founding director
Source: Byotrol

The financials are characterised by:

- ▶ **Gross margins**, currently around 57%, but expected to normalise at c.60%, given product mix.
- ▶ **EBITDA margins** of 12.5% in FY 2018, which are expected to rise to 15-20%.
- ▶ **Adjusted EBITDA** of £380k, which adds back c.£50k of costs relating to services provided by one of the founders/directors that will not be incurred in the future. Adjusted EBITDA margins are 14.4%.

Consideration

Byotrol is paying a maximum consideration of £4.5m (including £0.4m of debt) to acquire Medimark Scientific. An initial consideration of £2.3m will be paid on completion, of which £1.15m is cash and £1.15m will be through the issuance of Byotrol shares to the vendor at 4.1p, with balance (£1.8m) through a two-year earnout. Two directors will remain with the business, thus providing complete alignment with Byotrol shareholders and mitigating the execution risk of acquisition.

Maximum consideration is £4.5m, including £0.4m of assumed debt

Figure 3: Consideration – funded by cash and equity

| | Cash (£m) | Shares (£m) | Total (£m) |
|-------------------------------------|--------------|----------------|---------------|
| Initial consideration on completion | 1.15 | 1.15 | 2.30 |
| Deferred consideration (+ 1 year) | 0.45 | 0.45 | 0.90 |
| Deferred consideration (+ 2 year) | 0.45 | 0.45 | 0.90 |
| Total consideration | 2.05 | 2.05 | 4.10 |

Source: finnCap

Two further payments will be paid to the vendors, based on Medimark achieving EBITDA targets in FY 2019 and FY 2020, respectively.

- ▶ An earn-out consideration of £0.9m will be paid in FY 2019, 50% of which will be in cash and 50% in shares. The earnout is predicated on achieving £0.5m of EBITDA, which will be reduced by £9 for every £1 below target. For example, no earnout will be paid if EBITDA is less than £0.4m.
- ▶ An earn-out consideration of £0.9m will be paid in FY 2020, 50% of which will be in cash and 50% in shares. The earnout is predicated on achieving £0.65m of EBITDA, which will be reduced by £9 for every £1 below target.

Implies 1.0x sales and 7.1x EV/EBITDA

Based on the initial consideration of £2.30m, the acquisition price represents historical FY 2018 EV/Sales and EV/EBITDA multiples of 1.0x and 7.1x, respectively. Assuming that the EBITDA conditions for the earnout are met, Byotrol is paying a maximum of 7.4x FY 2019 EV/EBITDA, which falls to 7.0x in FY 2020.

Figure 4: Implied acquisition multiples

| Year end March (£m) | 2018 | 2019 | 2020 |
|----------------------------------|------|------|------|
| Equity value | 2.3 | 3.2 | 4.1 |
| Debt | 0.4 | 0.45 | 0.45 |
| Enterprise value | 2.7 | 3.65 | 4.55 |
| Sales | 2.7 | 2.9 | 3.4 |
| EBITDA | 0.38 | 0.50 | 0.65 |
| Acquisition multiples (x) | | | |
| EV/Sales | 1.0 | 1.3 | 1.3 |
| EV/EBITDA | 7.1 | 7.4 | 7.0 |

Source: finnCap

Building critical mass in both Professional and Animal Health

Strategic rationale for the acquisition

Byotrol has known Medimark for some time; indeed, supplying products to them that culminated in an agreement with Medimark in November 2017 to sell a range of hand sanitisers for the vetcare market under the Esense brand, which includes Byotrol as an ingredient brand. Medimark will bring additional specialist segment expertise to Byotrol, especially in animal and human health, where it has been supplying biocides to customers in the UK for over a decade.

Shareholder alignment, given two-year earnout and significant equity component to acquisition

The timing was pertinent given that Medimark's founder is retiring and stepping down from the business. However, the two executive directors are staying with the business, for a minimum of three years and are incentivised to continue to drive the business for profitable growth, given the two-year earnout (up to £1.8m) linked to EBITDA progression. To secure the full earnout implies 2-year CAGR EBITDA growth of 31%.

Buying an established and proven sales capability

Byotrol has been resource-constrained for some time with a total workforce of 18 persons. Despite the fund raising in 2017, the company has maintained a cautionary discipline in building out its sales & marketing capabilities, acutely aware of the execution risk of expanding too rapidly. This, in turn has had an impact on the rate of growth of business development activities for the group as management's time has been absorbed elsewhere.

Medimark doubles the size of the organisation in terms of personnel, creating a critical mass in the company and strengthening its animal health and professional business segments. It brings an experienced and proven sales & marketing capability, mitigating the execution risk of building one from scratch. Moreover, it frees up management time to sustain business development activities in Consumer, particularly in respect of its EPA-registered, long-lasting antimicrobial surface spray (Byotrol24).

Brings additional disinfectant technology

The acquisition of Medimark also brings additional disinfectant technologies with application in both the Animal Health and Human Healthcare markets, namely: a) HLD4, a proprietary, dilute-to-use, high performance, broad spectrum surface disinfectant, and; b) a new technology based on hypochlorous acid, which has sporicidal activity (a big gap in Byotrol’s existing range).

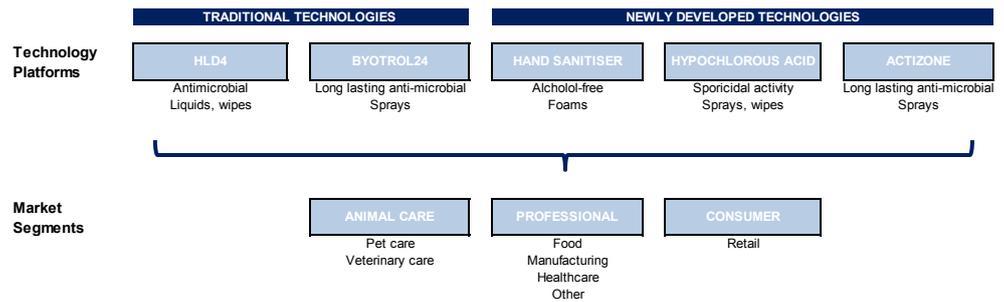
Reduces the execution risk of transitioning to a sustainably profitable business

Medimark has supply chain management and procurement capabilities, which should benefit Byotrol in the future.

The combination of the two companies is expected to create a business with the critical mass to generate sustainable and profitable growth, mitigating many of the risks of building out a de novo sales & marketing capability.

The combined business will comprise four key technology platforms serving three key market segments

Figure 5: Combined technology platform and market segments served



Source: finnCap

Key technology platforms

- ▶ US surface sanitisation for consumer (and in due course, business) markets. The US anti-microbial hard surface cleaner market (consumers & businesses) is estimated to be worth \$1bn, representing c.20% of the entire hard surface \$5bn sanitiser market. A 10% share would imply c.\$100m of revenues, or c.\$3m of revenues/gross profit to Byotrol, if one assumes a blended royalty rate of c.3%. Byotrol24 remains on trial at 10% of the stores of the US mass-merchandise, Target. A successful outcome will lead to a national roll-out and a likely extension into other US retailers.
- ▶ EU surface care – commercialised via Solvay, following the sale of Actizone patents and IP in return for a royalty on all Solvay sales. Byotrol retains the ongoing rights to sell Actizone technologies in finished product form. The global retail market for surface cleaners (ex-US) is estimated by Byotrol to be c.\$18bn, of which c.20% or \$3.6bn is thought to feature anti-bacterial claims. A 5% market share would imply \$180m of revenues and licence revenues to Byotrol of \$5m (£3.5m), assuming a 3% royalty.
- ▶ Hand hygiene – direct sales into healthcare and other institutional markets including via white label.
- ▶ Hypochlorous acid – formulated as a trigger spray, with a sachet wipe in development that is capable of killing bacterial spores, which are resistant to most lower-level disinfectants.

Key market segments:

- ▶ Animal Health – serving the petcare and veterinary segments of the market.
- ▶ Professional – addressing the institutional markets, such as food, manufacturing and healthcare.
- ▶ Consumer – addressing the consumer and retail markets, such as Tesco, Boots and other FMCG companies.

FY results to 31 March 2018

Byotrol released FY 2018 results that were ahead of our forecasts set at the trading update in April. Adjusted EBITDA and pre-tax profit were £390k and £360k higher than our forecasts, achieving EBITDA breakeven (£44k). This increase was attributed primarily to the way in which payments were accrued by Byotrol following the sale of Actizone IP rights to Solvay in March.

Figure 6: Summary income statement

| Year end March (£m) | 2017A | 2018F | 2018A | Delta from forecast (£m) | Growth (%) |
|----------------------------|--------------|---------------|--------------|--------------------------|------------|
| Professional | 1.18 | 1.63 | 0.92 | -0.71 | -22% |
| Petcare | 0.79 | 1.00 | 0.73 | -0.27 | -8% |
| Consumer | 1.15 | 0.88 | 1.49 | 0.62 | 30% |
| Revenues | 3.13 | 3.50 | 3.14 | -0.36 | 0% |
| Cost of goods sold | -1.38 | -1.55 | -1.13 | 0.42 | -18% |
| Gross profit | 1.75 | 1.95 | 2.01 | 0.06 | 15% |
| <i>Gross margin (%)</i> | <i>56.0%</i> | <i>55.7%</i> | <i>64.0%</i> | <i>+800bps</i> | |
| Admin costs | -0.93 | -1.15 | -1.10 | 0.05 | 18% |
| Sales & marketing | -0.39 | -0.80 | -0.55 | 0.25 | 42% |
| R&D | -0.39 | -0.45 | -0.45 | 0.00 | 16% |
| Total Opex | -1.70 | -2.40 | -2.10 | 0.30 | 23% |
| Exceptional items | 0.00 | 0.00 | 0.00 | 0.00 | |
| Share based payments | -0.06 | -0.08 | -0.07 | 0.01 | |
| EBIT | -0.08 | -0.56 | -0.20 | 0.36 | |
| Adjusted EBIT | -0.02 | -0.48 | -0.13 | 0.35 | |
| Depreciation | -0.02 | -0.01 | -0.02 | -0.01 | |
| Amortisation | -0.12 | -0.12 | -0.16 | -0.04 | |
| Adjusted EBITDA | 0.12 | -0.35 | 0.04 | 0.39 | |
| <i>EBITDA margin (%)</i> | <i>3.7%</i> | <i>-10.0%</i> | <i>1.4%</i> | <i>-160bps</i> | |
| Pre-tax Profit | -0.09 | -0.64 | -0.27 | 0.37 | |
| Adj Pre-tax Profit | -0.03 | -0.57 | -0.20 | 0.36 | |
| Adjusted Net Income | -0.03 | -0.57 | -0.20 | 0.36 | |
| Av. Shares in issue (m) | 268.1 | 346.3 | 346.3 | 0.00 | |
| Adj EPS (p) | -0.01 | -0.13 | -0.05 | 0.08 | |
| Stated EPS (p) | -0.03 | -0.19 | -0.08 | 0.11 | |

Source: finnCap

Revenues and gross profit

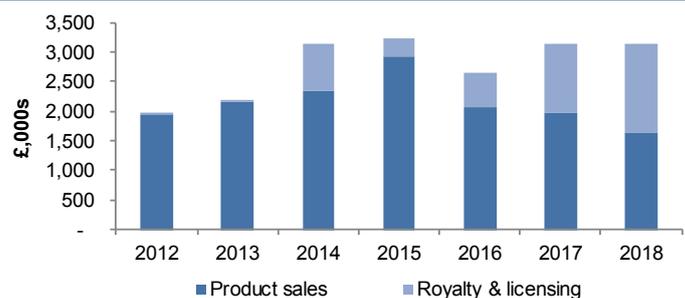
Revenues were flat on FY 2017 and £0.36m lower than expected. The principal variance was in Professional, which saw a continued revenue decline, seen since FY 2015, due to ongoing competitive and regulatory pressures. Product mix changes, excluding royalty payments, however, resulted in an 110bps gross margin improvement to 31.4%.

Figure 7: Revenues by division



Source: finnCap

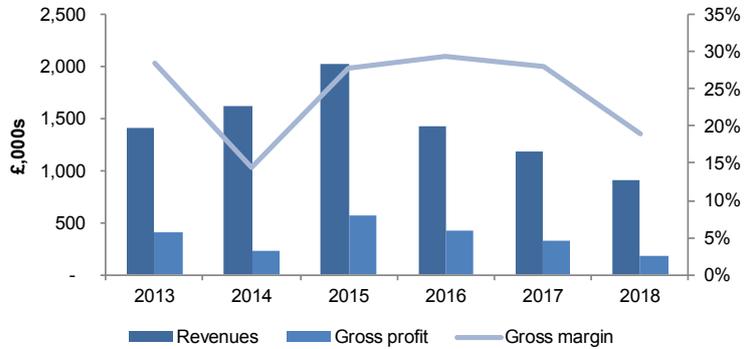
Figure 8: Revenues – product sales and royalties



Source: finnCap

Professional revenues declined 22% to £917k with gross profit and margin falling 47% and 900bps to £174k and 19%, respectively. This was attributed to the ongoing competition and a narrow product range. The acquisition of Medimark should go some way to changing this dynamic.

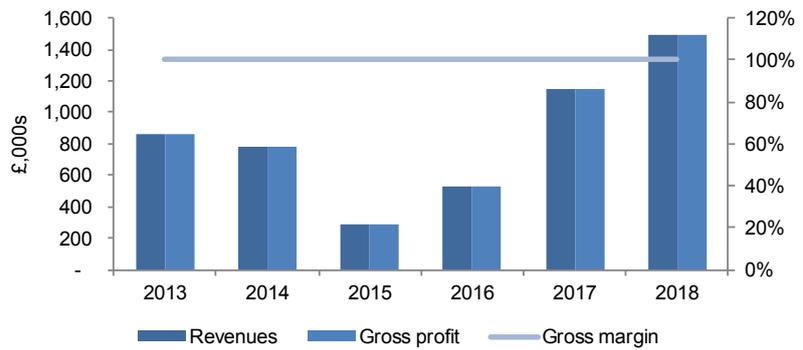
Figure 9: Professional – revenues and gross profit



Source: finnCap

The Consumer business performed strongly, with licence and royalty revenue increasing by 30% to c.£1.49m, the vast majority of which (c.£1.2m) was linked to the sale of Actizone patents and IP to Solvay in March. This was c.£0.5m higher than forecasts.

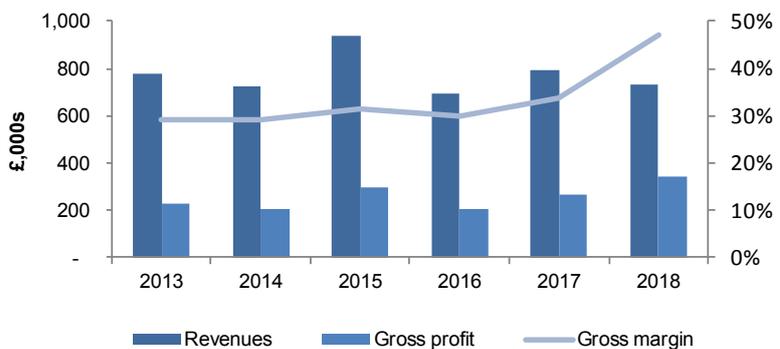
Figure 10: Consumer – revenues and gross profit



Source: finnCap

Petcare revenues declined 8% to £731k, although gross profit increased 28% to £344k with gross margin rising from 34% to 47%, driven by high

Figure 11: Petcare – revenues and gross profit

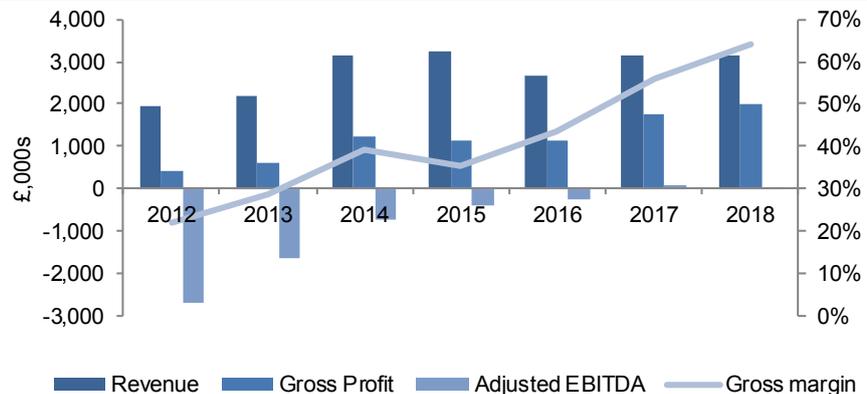


Source: finnCap

Operating profits

Total operating cash expenses increased 23% to £2.1m, which was £0.3m below forecast, and reflected the slower than anticipated buildout of sales & marketing activities for the reasons already cited. This resulted in an adjusted EBIT (excluding share based payments of £67k) loss of £131kk. Consequently, Byotrol generated a small positive adjusted EBITDA of £44k, compared with our forecast of -£350k.

Figure 12: Key income indicators



Source: finnCap

Net cashflow

Year-end net cash was £3.8m, which compared with £0.92m at 31 March 201, and benefiting from the £4.6m net placing proceeds in August 2017. However, it was lower than our forecast of £4.7m, which had assumed a payment of c.£0.75m from Solvay. In fact, Byotrol received a payment of c.£1.0m from Solvay in early April, so the cash position is actually ahead of expectations.

Cash outflow from operations was £1.47k, which compared with our estimate of -£0.5m. The difference is attributed to working capital, which incorporates an increase in accrued income of c.£1.5m. Of this c.£1.0m is thought to relate to the Solvay payment that was received in April.

Figure 13: Cashflow summary

| Year end March (£m) | 2017 | 2018 | 2018 | Growth |
|--|--------------|--------------|--------------|--------------|
| | Actual | Forecast | Actual | (£m) |
| EBITDA | 0.12 | -0.35 | 0.04 | -0.07 |
| Net change in working capital | 0.10 | -0.17 | -1.58 | -1.68 |
| Share based payments | 0.06 | 0.08 | 0.07 | 0.01 |
| Other items | -0.06 | 0.00 | 0.00 | 0.06 |
| Cash flow from operating activities | 0.22 | -0.45 | -1.47 | -1.68 |
| Cash interest | 0.00 | 0.00 | 0.00 | 0.00 |
| Tax paid | 0.00 | 0.00 | 0.00 | 0.00 |
| Capex | -0.28 | -0.16 | -0.13 | 0.15 |
| Free cash flow | -0.06 | -0.60 | -1.59 | -1.53 |
| Disposals | 0.00 | 0.00 | 0.00 | 0.00 |
| Acquisitions | -0.04 | 0.00 | 0.00 | 0.04 |
| Dividends on ord shares | 0.00 | 0.00 | 0.00 | 0.00 |
| Other cash flow items | 0.02 | -0.16 | -0.09 | -0.11 |
| Issue of share capital | 0.00 | 4.58 | 4.58 | 4.58 |
| Net change in cash flow | -0.09 | 3.82 | 2.90 | 2.98 |
| Opening net cash (debt) | 1.01 | 0.92 | 0.92 | -0.09 |
| Closing net cash (debt) | 0.92 | 4.74 | 3.82 | 2.90 |

Source: finnCap

Forecast changes

We have assumed that Medimark contributes to Byotrol from the beginning of September (ie 7 full months) adding an additional £1.5m and £3.4m of sales to our Byotrol forecasts for the years ending March 2019 and 2020, respectively.

We have made the following changes to our forecast for Byotrol as a standalone business before considering the consolidation of the Medimark acquisition. We have reduced our 2019 revenue and EBITDA forecasts by £2.6m and £1.3m, respectively; the principal reasons for which include:

- ▶ The sale of Actizone to Solvay in March 2018 brought forward c.£0.4m of revenues into FY 2018, which had been expected in FY 2019. This is reflected in changes to Consumer revenues. A further significant licence payment is expected in FY 2019, albeit not as large as the c.£1.2m in FY 2018. Byotrol negotiated a guaranteed minimum payment in FY 2020, which is expected to be supplemented by commercialisation royalties from Actizone.
- ▶ The balance of revenue shortfall of c.£2.0m is largely the reflection of management's primary focus on EBITDA, as well as lower low-margin product sales and licence activity. Given the attention given by management to complete the Medimark acquisition, their time devoted to driving deal activity has fallen away, making it less likely that these revenues will materialise in the anticipated time frame, although we have no doubt that they will occur in due course. In addition, product sales in Professional are expected to be about £0.5m lower than expected because of ongoing competitive and regulatory challenges.
- ▶ Gross profit, consequently, is c.£1.6m below previous forecasts, given that much of the revenue shortfall was licence-related. Gross margins, therefore are expected to fall from the 64% level in FY 2018 to c.53% in FY 2019.
- ▶ Operating expenses are expected to be c.£0.3m lower than previously expected, which is a follow through from lower than expected expenses in FY 2018. Moreover, the acquisition of Medimark, which brings an experienced and proven sales & marketing capability, should obviate the need for increasing spend in this area at the rate we had anticipated.
- ▶ A LBITDA of c.£0.17m, consequently, is expected for FY 2019, which rises to around £1.5m in FY 2020.
- ▶ Adjusted pre tax loss of £0.4m in FY 2019 rises to a pre-tax profit of £1.3m in FY 2020.

Figure 14: Forecast changes to underlying Byotrol

| Year end March (£m) | 2019E | | | 2020E | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Old | New | Delta (£m) | Old | New | Delta (£m) |
| Professional | 3.00 | 1.60 | -1.40 | 4.25 | 1.90 | -2.35 |
| Petcare | 1.75 | 1.30 | -0.45 | 2.50 | 1.40 | -1.10 |
| Consumer | 1.80 | 1.10 | -0.70 | 2.90 | 1.70 | -1.20 |
| Revenues | 6.55 | 4.00 | -2.55 | 9.65 | 5.00 | 4.65 |
| Cost of goods sold | -2.85 | -1.87 | 0.98 | -4.15 | -1.63 | 2.53 |
| Gross profit | 3.70 | 2.13 | -1.57 | 5.50 | 3.38 | -2.13 |
| <i>Gross margin (%)</i> | <i>56.5%</i> | <i>53.3%</i> | | <i>57.0%</i> | <i>67.5</i> | |
| Operating expenses | -2.60 | -2.34 | 0.25 | -2.95 | -2.65 | 0.30 |
| Adjusted EBITDA | 1.10 | -0.17 | -1.27 | 2.55 | 0.73 | -1.83 |
| <i>EBITDA margin (%)</i> | <i>16.8%</i> | <i>-4.3%</i> | | <i>26.4%</i> | <i>14.5%</i> | |
| Adjusted EBIT | 0.97 | -0.34 | -1.31 | 2.41 | 0.55 | -1.86 |
| Adj Pre-tax Profit | 0.88 | -0.42 | -1.36 | 2.33 | 0.47 | -1.86 |
| Stated Pre-tax Profit | 0.81 | -0.50 | -1.31 | 2.25 | 0.40 | -1.86 |
| Adjusted Net Income | 0.88 | -0.42 | -1.31 | 2.33 | 0.47 | -1.86 |
| Adj EPS (p) | 0.21 | -0.09 | -0.30 | 0.54 | 0.10 | -0.44 |
| Stated EPS (p) | 0.20 | -0.123 | -0.32 | 0.56 | 0.09 | -0.47 |

Source: finnCap

FY 2018 and transformative acquisition

Figure 15 provides a summary consolidation of the Medimark acquisition.

- ▶ Medimark is consolidated for six months. Revenues for the year ending March 2019 are expected to grow by 9% to £2.9m and then c.17% to £3.4m, boosted by the rollout of its sporicidal disinfectant. Given the historic 27% CAGR revenue growth (c.23% excluding the acquisition of Ebiox), this is not considered challenging.
- ▶ Gross margins for Medimark are expected to be in the 58-60% range, which represents an improvement over the 57% achieved in FY 2018 and reflects product mix benefits. Gross margins have historically been as high as 61%.
- ▶ Operating expenses are expected to show only modest growth in FY 2019, having invested more significantly in the prior two years.
- ▶ Adjusted EBITDA, therefore, is expected to be c.£0.26m, which implies annualised growth of c.48%. This is in line with the earnout agreed with the vendors.
- ▶ We have assumed little if any synergies within the combined group although, potentially, these exist in procurement and supply chain management.
- ▶ An adjusted net loss of £0.3m is expected in FY 2018, rising to a profit of £1.9m in FY 2020.
- ▶ Adjusted EPS for the combined businesses are -0.6p in FY 2019, rising to 0.4p in FY 2020, implying 33% earnings accretion in that year.

Figure 15: Forecasts – including contribution from Medimark

| Year to end March (£m) | Byotrol | | Medimark | | Adjustment | | Byotrol/Medimark | |
|--------------------------|---------|-------|----------|-------|------------|-------|------------------|-------|
| | 2019E | 2020E | 2019E | 2020E | 2019E | 2020E | 2019E | 2020E |
| Revenue | 4.0 | 5.0 | 1.5 | 3.4 | | | 5.5 | 8.4 |
| EBITDA | (0.2) | 0.7 | 0.3 | 0.7 | - | - | 0.1 | 1.4 |
| Adj. EBITDA margin | -4% | 15% | 17.1% | 20.2% | | | 1.6% | 16.9% |
| Adjusted net income | (0.5) | 0.5 | 0.2 | 0.6 | | | (0.3) | 1.1 |
| Fully diluted shares (m) | 429.6 | 429.6 | n/a | n/a | 29.5 | 11.5 | 459.1 | 470.6 |
| EPS (p) | (0.11) | 0.09 | | | | | (0.06) | 0.24 |
| EPS accretion | | | | | | | 83% | 111% |

2019 forecasts include 6-month contribution from Medimark
Source: finnCap

We expect net cash at 31 March 2019 to be c.£2.1m, compared with £3.85m at 31 March 2018.

- ▶ Byotrol to generate free cash of c.£0.2m.
- ▶ Medimark contributes c.£0.1m in the six months that it is consolidated.
- ▶ Other cash outflows include the repayment of £0.2m of the acquired £0.4m debt.
- ▶ Transaction costs of c.£0.1m and similar integration costs.

Figure 16: Net cash bridge – FY 2019

| | £m |
|--------------------------------|-------------|
| Opening net cash | 3.85 |
| Byotrol free cashflow | 0.2 |
| Medimark free cashflow | 0.1 |
| Other | -0.3 |
| Acquisition cash consideration | -1.15 |
| Acquired debt | -0.4 |
| Transaction cost | -0.1 |
| Integration cost | -0.1 |
| Closing net cash | 2.1 |

Source: finnCap

Valuation

Given the slower than expected development of Byotrol's EBITDA, for the reasons already cited (management resources were focused on closing the Medimark acquisition, as opposed to pursuing licensing deals), we are reducing our target price from 9p to 7p. This should not be seen as a diminution of the long-term value of Byotrol's technology and pipeline or underlying Byotrol business but rather due to timing issue and the ongoing transition of the business to a self-sustaining technology-rich profitable company.

At this price, the enterprise value of the company would be c.£26m, which compares with the current c.£11m. Based on our 2020 forecasts, in which Medimark is consolidated for a full year, this would place Byotrol on an EV/Sales of 3.3x, an EV/EBITDA of 19.5x and an adjusted P/E of 28.9x. The higher multiples are justified in our opinion, given the licence business model.

Figure 17: Valuation multiples at target price

| Year end March | 2018A | 2019E | 2020E |
|-----------------------------------|-------------|-------------|-------------|
| Target share price (p) | 8 | | |
| Number of shares in issue (m) | 432.3 | | |
| Market capitalisation (£m) | 34.6 | | |
| add net debt/(cash) (£m) | 3.9 | 1.9 | 3.0 |
| Enterprise value (£m) | 26.4 | 28.4 | 27.3 |
| EV/Sales | 8.4 | 5.2 | 3.3 |
| EV/EBITDA | Nm | Nm | 19.5 |
| EV/EBIT | Nm | Nm | 22.2 |
| EV/CE | 4.1 | 4.1 | 3.5 |
| P/E | Nm | Nm | 29.5 |
| P/E (adjusted) | Nm | Nm | 28.9 |
| Dividend yield | n/a | n/a | n/a |
| Free cash yield | Nm | -1.1% | 5.1% |

Source: finnCap

Both Actizone and its Byotrol24 (EPA-approved long-lasting anti-microbial) represent significant commercial opportunities, which we have estimated could generate licence revenues (gross profit) of c.\$8m (£6m) in due course, assuming a 5% and 10% share of their respective addressable markets. This valuation excludes any value that could be attributed to Byotrol through independent manufacturing agreements that allow Byotrol to market directly to consumers/retailers.

FY 2018 and transformative acquisition

Key shareholders

| | % |
|------------------------|-------|
| Ruffer | 14.9% |
| Walker Crips | 6.9% |
| Amati Global Investors | 6.2% |
| Fidelity International | 6.2% |
| Hargreaves Lansdown | 5.9% |
| Bricon Byotrol | 3.6% |
| Maven Capital Partners | 3.5% |
| Fiske | 3.5% |
| ?What If! Holdings | 3.4% |
| The Share Centre | 3.0% |

Source: Byotrol

Board of directors

| Name | Description |
|----------------|--------------------------|
| John Langlands | Non-executive Chairman |
| David Traynor | Chief Executive Officer |
| Trevor Francis | Chief Technology Officer |
| Till Medinger | Non-executive Director |

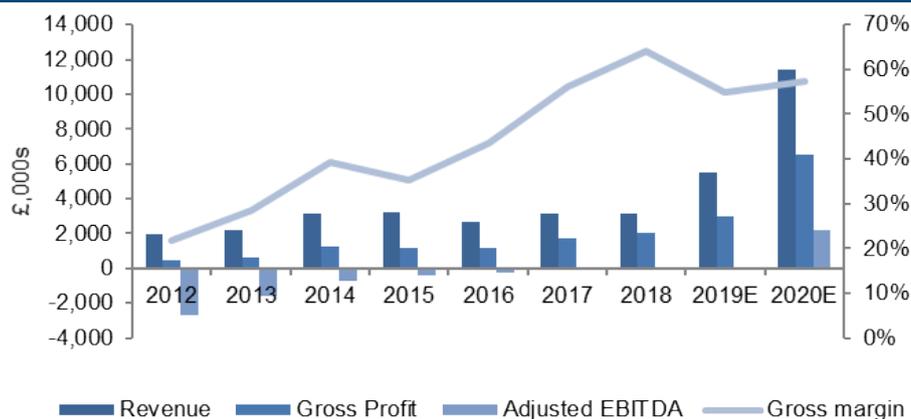
Source: finnCap

Company description

Byotrol develops and sells a range of proprietary antimicrobial technologies (disinfectants) for both business and consumer use, focused on professional, consumer and petcare markets. It is in the middle of significant change, replacing legacy biocidal products that no longer comply with EU regulations with new formulations. The primary focus of the business lies in (i) the development of its consumer surface formula, which was approved by the EPA in the US (June 2017), (ii) the development and commercialisation, through Solvay, of its consumer-targeted surface care formulation (IP and marketing rights (ex-US) were sold to Solvay in March 2018), and (iii) the commercialisation of its novel non-alcohol-based hand sanitiser in the UK and global markets. The acquisition of Medimark brings established sales & marketing capabilities into Byotrol along with experienced management and a new technology disinfectant that will enable Byotrol to sell disinfectants into the Animal Health and Human Health markets with sporicidal claims.

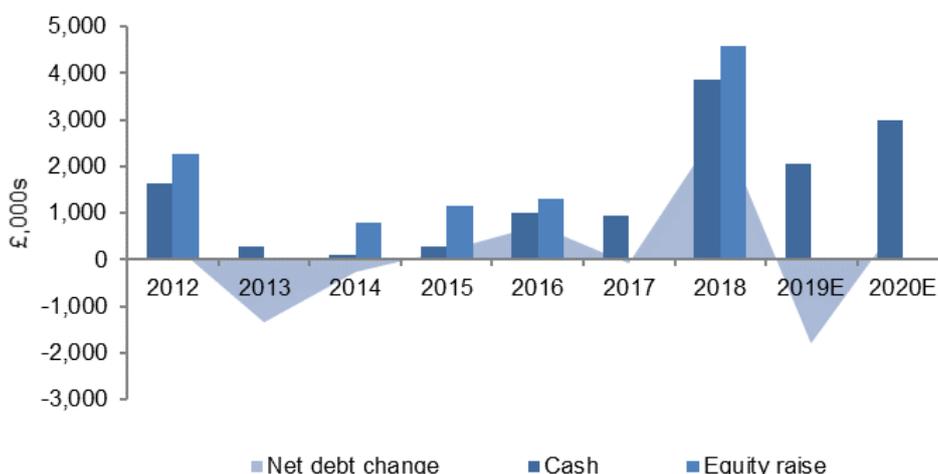
Source: finnCap

Key income indicators



Source: finnCap

Net cash and cash flow



Source: finnCap

FY 2018 and transformative acquisition

| Income statement | | 2016A | 2017A | 2018A | 2019E | 2020E |
|---|----|-------|-------|-------|-------|-------|
| Year end: Mar | | | | | | |
| Sales | £m | 2.6 | 3.1 | 3.1 | 5.5 | 8.4 |
| Cost of sales | £m | -1.5 | -1.4 | -1.1 | -2.5 | -3.0 |
| Gross profit | £m | 1.2 | 1.8 | 2.0 | 3.0 | 5.4 |
| Operating expenses | £m | -1.4 | -1.6 | -2.0 | -2.9 | -4.0 |
| EBITDA (adjusted) | £m | -0.3 | 0.1 | 0.0 | 0.1 | 1.4 |
| Depreciation | £m | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 |
| Amortisation | £m | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 |
| EBIT (adjusted) | £m | -0.4 | -0.0 | -0.1 | -0.1 | 1.2 |
| Associates/other | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest | £m | -0.1 | -0.0 | -0.1 | -0.1 | -0.1 |
| PBT (adjusted) | £m | -0.5 | -0.0 | -0.2 | -0.2 | 1.1 |
| <i>restructuring costs</i> | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>share based payments</i> | £m | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| <i>other adjustments</i> | £m | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total adjustments | £m | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| PBT (stated) | £m | -0.5 | -0.1 | -0.3 | -0.3 | 1.0 |
| Tax charge | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>tax rate</i> | % | n/a | n/a | n/a | n/a | 0.0 |
| Minorities | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported earnings | £m | -0.5 | -0.1 | -0.3 | -0.3 | 1.0 |
| Tax effect of adjustments / other | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted earnings | £m | -0.5 | -0.0 | -0.2 | -0.2 | 1.1 |
| <i>shares in issue (year end)</i> | m | 268.1 | 268.1 | 402.8 | 430.9 | 441.9 |
| <i>shares in issue (weighted average)</i> | m | 250.6 | 268.1 | 346.3 | 416.9 | 436.4 |
| <i>shares in issue (fully diluted)</i> | m | 294.8 | 294.8 | 429.6 | 457.6 | 468.6 |
| EPS (adjusted, fully diluted) | p | -0.2 | -0.0 | -0.0 | -0.0 | 0.2 |
| EPS (stated) | p | -0.2 | -0.0 | -0.1 | -0.1 | 0.2 |
| DPS | p | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Growth analysis (adjusted basis where applicable)

| | | | | | | |
|---------------|---|-------|--------|---------|--------|--------|
| Sales growth | % | 34.9% | 18.1% | 0.4% | 75.2% | 52.7% |
| EBITDA growth | % | 90.3% | 144.6% | -61.8% | 125.7% | n/m |
| EBIT growth | % | 86.5% | 95.4% | -653.3% | 46.8% | n/m |
| PBT growth | % | 83.7% | 92.7% | -498.6% | 20.7% | 812.7% |
| EPS growth | % | 93.1% | 92.7% | -310.8% | 25.6% | 796.0% |
| DPS growth | % | n/m | n/m | n/m | n/m | n/m |

Profitability analysis (adjusted basis where applicable)

| | | | | | | |
|---------------|---|--------|-------|-------|-------|-------|
| Gross margin | % | 43.6% | 56.0% | 64.0% | 54.8% | 64.1% |
| EBITDA margin | % | -9.8% | 3.7% | 1.4% | 1.8% | 16.7% |
| EBIT margin | % | -14.2% | -0.6% | -4.2% | -1.3% | 14.6% |
| PBT margin | % | -17.4% | -1.1% | -6.4% | -2.9% | 13.6% |
| Net margin | % | -17.4% | -1.1% | -6.4% | -2.9% | 13.6% |

FY 2018 and transformative acquisition

| Cash flow | | 2016A | 2017A | 2018A | 2019E | 2020E |
|--|-----------|-------------|-------------|-------------|-------------|------------|
| Year end: Mar | | | | | | |
| EBITDA | £m | -0.3 | 0.1 | 0.0 | 0.1 | 1.4 |
| Net change in working capital | £m | -0.1 | 0.1 | -1.6 | -0.1 | 0.5 |
| Share based payments | £m | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Profit/(loss) on sale of assets | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net pensions charge | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in provision | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other items | £m | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| Cash flow from operating activities | £m | -0.4 | 0.2 | -1.5 | 0.1 | 2.0 |
| Cash interest | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax paid | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex | £m | -0.2 | -0.3 | -0.1 | -0.2 | -0.3 |
| Free cash flow | £m | -0.5 | -0.1 | -1.6 | -0.1 | 1.7 |
| Disposals | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Acquisitions | £m | -0.0 | -0.0 | 0.0 | -1.2 | -0.5 |
| Dividends on ord shares | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other cashflow items | £m | -0.4 | 0.0 | -0.1 | -0.5 | -0.4 |
| Issue of share capital | £m | 1.3 | 0.0 | 4.6 | 0.0 | 0.0 |
| Net change in cash flow | £m | 0.4 | -0.1 | 2.9 | -1.8 | 0.9 |
| Opening net cash (debt) | £m | 0.6 | 1.0 | 0.9 | 3.8 | 2.0 |
| Closing net cash (debt) | £m | 1.0 | 0.9 | 3.8 | 2.0 | 2.9 |

| Cash flow analysis | | | | | | |
|---|----|----------|---------|----------|---------|--------|
| Cash conversion (op cash flow / EBITDA) | % | n/m | 188.5% | n/m | 58.9% | 140.9% |
| Cash conversion (free cash flow / EBITDA) | % | 205.0% | -53.8% | n/m | -141.1% | 123.0% |
| Underlying free cash flow (capex = depreciation) | £m | -0.5 | 0.1 | -1.6 | -0.1 | 1.8 |
| Cash quality (underlying FCF / adjusted earnings) | % | 107.6% | -252.9% | 811.8% | 66.3% | 158.6% |
| Investment rate (capex / depn) | x | 3.9 | 18.1 | 6.8 | 18.6 | 21.3 |
| Interest cash cover | x | net cash | n/a | net cash | n/a | n/a |
| Dividend cash cover | x | n/a | n/a | n/a | n/a | n/m |

FY 2018 and transformative acquisition

| Balance sheet | | 2016A | 2017A | 2018A | 2019E | 2020E |
|---|-----------|------------|------------|------------|------------|------------|
| Year End: Mar | | | | | | |
| Tangible fixed assets | £m | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Goodwill | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other intangibles | £m | 0.6 | 0.7 | 0.4 | 2.7 | 2.7 |
| Other non current assets | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>inventories</i> | £m | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 |
| <i>trade receivables</i> | £m | 0.8 | 0.9 | 2.4 | 2.8 | 2.7 |
| <i>trade payables</i> | £m | -0.6 | -0.8 | -0.5 | -0.8 | -1.0 |
| Net working capital | £m | 0.4 | 0.3 | 2.1 | 2.4 | 2.1 |
| Other assets | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross cash & cash equivalents | £m | 1.0 | 1.0 | 3.9 | 2.1 | 2.9 |
| Capital employed | £m | 2.0 | 2.0 | 6.4 | 7.2 | 7.9 |
| Gross debt | £m | 0.4 | 0.4 | 0.0 | 0.2 | 0.0 |
| Net pension liability | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholders equity | £m | 1.7 | 1.6 | 6.4 | 7.0 | 7.9 |
| Minorities | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital employed | £m | 2.0 | 2.0 | 6.4 | 7.2 | 7.9 |
| Leverage analysis | | | | | | |
| Net debt / equity | % | net cash | net cash | no debt | net cash | no debt |
| Net debt / EBITDA | x | n/a | net cash | no debt | net cash | no debt |
| Liabilities / capital employed | % | 17.8% | 19.5% | 0.0% | 2.8% | 0.0% |
| Working capital analysis | | | | | | |
| Net working capital / sales | % | 15.6% | 9.9% | 66.5% | 42.9% | 25.4% |
| Net working capital / sales | days | 57 | 36 | 243 | 156 | 93 |
| Inventory (days) | days | 30 | 23 | 22 | 26 | 20 |
| Receivables (days) | days | 108 | 100 | 281 | 183 | 117 |
| Payables (days) | days | 81 | 88 | 60 | 52 | 44 |
| Capital efficiency & intrinsic value | | | | | | |
| Adjusted return on equity | % | -27.7% | -2.1% | -3.1% | -2.3% | 14.4% |
| RoCE (EBIT basis, pre-tax) | % | -18.7% | -0.9% | -2.0% | -1.0% | 15.6% |
| RoCE (underlying free cash flow basis) | % | -24.5% | 4.3% | -25.5% | -1.5% | 22.9% |
| NAV per share | p | 0.6 | 0.6 | 1.6 | 1.6 | 1.8 |
| NTA per share | p | 0.4 | 0.3 | 1.5 | 1.0 | 1.2 |

NOTES

NOTES

FY 2018 and transformative acquisition

Research

| | | | | | |
|-----------------|---------------|----------------------|-----------------|---------------|----------------------|
| Mark Brewer | 020 7220 0556 | mbrewer@finncap.com | Guy Hewett | 020 7220 0549 | ghewett@finncap.com |
| David Buxton | 020 7220 0542 | dbuxton@finncap.com | Nik Lysiuk | 020 7220 0546 | nlysiuk@finncap.com |
| Lorne Daniel | 020 7220 0545 | ldaniel@finncap.com | Mark Paddon | 020 7220 0541 | mpaddon@finncap.com |
| Andrew Darley | 020 7220 0547 | adarley@finncap.com | Martin Potts | 020 7220 0544 | mpotts@finncap.com |
| Jeremy Grime | 020 7220 0550 | jgrime@finncap.com | Peter Smedley | 020 7220 0548 | psmedley@finncap.com |
| Raymond Greaves | 020 7220 0553 | rgreaves@finncap.com | Jonathan Wright | 020 7220 0543 | jwright@finncap.com |

Corporate Broking

| | | | | | |
|------------------|---------------|-----------------------|---------------|---------------|----------------------|
| Andrew Burdis | 020 7220 0524 | aburdis@finncap.com | Alice Lane | 020 7220 0523 | alane@finncap.com |
| Richard Chambers | 020 7220 0514 | rchambers@finncap.com | Tim Redfern | 020 7220 0515 | tredfern@finncap.com |
| Camille Gochez | 020 7220 0518 | cgochez@finncap.com | Abigail Wayne | 020 7220 0594 | awayne@finncap.com |
| Nikita Jain | 020 3772 4652 | njain@finncap.com | | | |

Sales

| | | | | | |
|------------------|---------------|-----------------------|----------------|---------------|-----------------------|
| Stephen Joseph | 020 7220 0520 | sjoseph@finncap.com | Louise Talbot | 020 3772 4651 | ltalbot@finncap.com |
| Sunila de Silva | 020 7220 0521 | sdesilva@finncap.com | Malar Velaigam | 020 7220 0526 | mvelaigam@finncap.com |
| Emily Morris | 020 7220 0511 | emorris@finncap.com | Rhys Williams | 020 7220 0522 | rwilliams@finncap.com |
| Stephen Norcross | 020 7220 0513 | snorcross@finncap.com | | | |

Investor Relations

| | | | | | |
|---------------|---------------|-----------------------|------------|---------------|--------------------|
| Lianne Tucker | 020 7220 0527 | ltucker@finncap.com | Lisa Welch | 020 7220 0519 | lwelch@finncap.com |
| Lucy Nicholls | 020 7220 0528 | lnicholls@finncap.com | | | |

Sales Trading

| | | | | | |
|-------------|---------------|---------------------|----------------|---------------|----------------------|
| Kai Buckle | 020 7220 0529 | kbuckle@finncap.com | Danny Smith | 020 7220 0533 | dsmith@finncap.com |
| Mark Fidgen | 020 7220 0536 | mfidgen@finncap.com | Oliver Toleman | 020 7220 0531 | otoleman@finncap.com |

Market Makers

| | | | | | |
|--------------|---------------|---------------------|--------------|---------------|---------------------|
| Steve Asfour | 020 7220 0539 | sasfour@finncap.com | James Revell | 0207 220 0532 | jrevell@finncap.com |
|--------------|---------------|---------------------|--------------|---------------|---------------------|

Investment Companies

| | | | | | |
|-----------------|---------------|-----------------------|---------------|---------------|-----------------------|
| Johnny Hewitson | 020 7220 0558 | jhewitson@finncap.com | Mark Whitfeld | 020 3772 4697 | mwhitfeld@finncap.com |
| Monica Tepes | 020 3772 4698 | mtepes@finncap.com | | | |

* finncap is contractually engaged and paid by the issuer to produce this material on an ongoing basis and it is made available at the same time to any person wishing to receive it.

A marketing communication under FCA Rules, this document has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This research cannot be classified as objective under finncap Ltd research policy. Visit www.finncap.com

The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.



60 New Broad Street

London EC2M 1JJ

Tel 020 7220 0500

Fax 020 7220 0597

Email info@finncap.com

Web www.finncap.com

finncap is registered as a company in England with number 06198898.

Authorised and regulated by the Financial Conduct Authority. Member of the London Stock Exchange

Approved and issued by finncap Ltd for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to Professional customers. Retail customers who receive this document should ignore it. finncap Ltd uses reasonable efforts to obtain information from sources which it believes to be reliable, but it makes no representation that the information or opinions contained in this document are accurate, reliable or complete. Such information and opinions are provided for the information of finncap Ltd's clients only and are subject to change without notice. finncap Ltd's salespeople, traders and other representatives may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to or inconsistent with the opinions expressed herein. This document should not be copied or otherwise reproduced. finncap Ltd and any company or individual connected with it may have a position or holding in any investment mentioned in this document or a related investment. finncap Ltd may have been a manager of a public offering of securities of this company within the last 12 months, or have received compensation for investment banking services from this company within the past 12 months, or expect to receive or may intend to seek compensation for investment banking services from this company within the next three months. Nothing in this document should be construed as an offer or solicitation to acquire or dispose of any investment or to engage in any other transaction. finncap Ltd is authorised and regulated by the Financial Conduct Authority, London E14 5HS, and is a member of the London Stock Exchange.