

## Blue Cap

### Locking in growth

Blue Cap is gearing up for further expansion by joining forces with like-minded counterpart, PartnerFonds, its new major shareholder (44%) and planned merger partner. Meanwhile it continues to please, both in terms of trading and its eye for transformative investment. H217 delivered strong momentum, notably at reinvigorated Neschen, with EBITDA up by a quarter (likely doubling y-o-y, as in H1, but for sale of Biolink). For 2018, guidance of progress across the board is complemented by the largest purchase to date (Knauer-Uniplast) and associated turnaround potential. Dividend initiation despite continued investment marks Blue Cap's success.

### H217 shows bumper first half was no fluke

Although H1 seemed a hard act to follow, the half to December broadly matched its doubling of EBITDA, after adjusting for the absence of Biolink profit (our estimate €2m). €11.2m for the full year comfortably beat the post-H1 consensus forecast of €9m, which had appeared cautious. Turnaround at newly included Neschen was again the driver but existing operations were enhanced in Adhesives, Medical Technology and Precious Metals Recycling. While post-H1 guidance did not quantify expected sales growth, it is creditable that H2 divisional trends were as management had indicated and consensus for FY17e of €140m was exceeded. Biolink's sale for c €39m drove sharply lower net debt (€11m vs €40m in 2016).

### Forecasts raised on another breakthrough deal

Despite optimism about organic growth, the purchase of Knauer should allow a step-change in returns, given its size (c €70m sales pa) and Blue Cap's success in turning around temporarily distressed businesses such as Biolink and Neschen. Knauer is a long-established manufacturer of plastic packaging for the food industry (c three billion pots pa), indeed a leader in the dairy sector (yogurt). The deal typifies Blue Cap's growing focus on larger companies (revenue €30m+ per year), as does its current disposal of small-cap WISAP to a strategic Chinese investor.

### Valuation: Attractive

Blue Cap is securing growth opportunities, both now and for the longer term. Value creation at Biolink and Neschen justifies optimism about Knauer, while the proposed PartnerFonds tie-up could bring scale and similar corporate targets. Despite selling his 44% stake, Blue Cap's founder remains CEO and will be the largest individual shareholder in PartnerFonds.

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	Net Profit (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/16	96.6	6.8	1.2	0.3	0.00	20.6
12/17	141.8	11.2	39.9*	10.0	1.00	9.9
12/18e	181.0	12.7	4.9	1.2	0.75	9.8
12/19e	216.0	15.4	6.3	1.6	1.00	8.3

Source: Blue Cap accounts, Bloomberg consensus estimates. Note: \*Including €37m exceptional gain on the June 2017 disposal of Biolink.

#### Financials

20 June 2018

Price **€24.80**  
Market cap **€100m**

#### Share price graph



#### Share details

Code	B7E
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net debt at end December 2017	€11.3m

#### 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.

#### Analyst

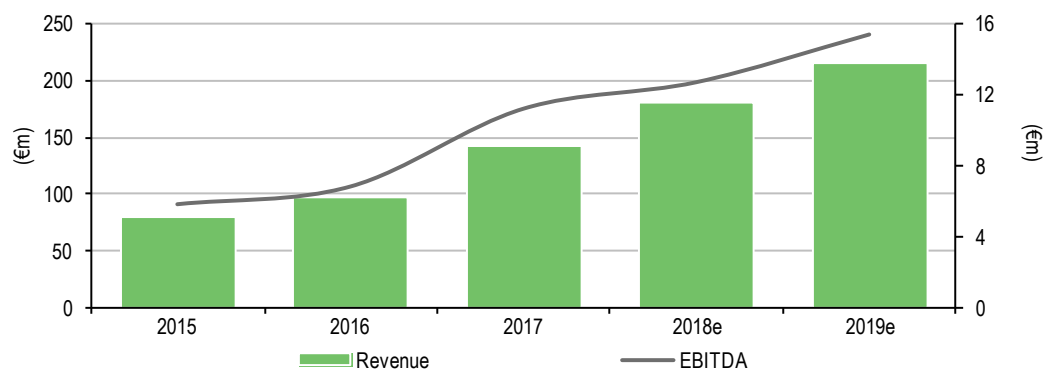
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## Review of 2017 results

**Exhibit 1: Revenue and EBITDA**



Source: Blue Cap accounts, Bloomberg consensus estimates

By any measure 2017 was a success for Blue Cap. A sharp pick-up in revenue (+47%) after several years of consolidation drove an even steeper improvement in EBITDA despite the mid-year disposal of Biolink (we estimate €2m profit forgone). In addition, the exit multiple of Biolink at an assumed chemical industry premium (c 12x 2016 EBITDA) confirmed Blue Cap's turnaround skills and readiness to deal at the right price. Net profit of almost €40m, driven by gain on sale of Biolink, prompted the initiation of dividends and a sustainable payout policy. Strong finances (net debt of €11m or only 1x FY17 EBITDA) gave plenty of scope for profitable reinvestment.

**Exhibit 2: Analysis of revenue and profit**

€m	H116	H216	FY16	H117	H217	FY17	2018e Guidance: FY18 vs FY17
<b>Revenue</b>							
<b>Coating technology:</b>							
Neschen*	-	3.8	3.8	30.1	29.2	59.3	Higher
Biolink**	8.3	7.8	16.1	9.3	-	9.3	-
<b>Total Coating technology</b>	<b>8.3</b>	<b>11.6</b>	<b>19.9</b>	<b>39.4</b>	<b>29.2</b>	<b>68.6</b>	<b>Lower</b>
<b>Adhesive technology</b>	19.0	17.7	36.7	18.0	17.7	35.7	Higher
Change				-5%	Flat	-3%	
<b>Knauer***</b>	-	-	-	-	-	-	C 40
<b>Production technology</b>	7.2	12.9	20.1	5.4	9.3	14.7	Higher
Change				-25%	-28%	-27%	
<b>Precious metals recycling****</b>	4.3	7.1	11.4	6.4	6.0	12.4	Higher
<b>Medical technology</b>	4.2	4.3	8.5	5.2	5.0	10.2	Higher*****
							<b>Consensus</b>
<b>Total revenue</b>	<b>42.9</b>	<b>53.7</b>	<b>96.6</b>	<b>74.4</b>	<b>67.4</b>	<b>141.8</b>	<b>181.0</b>
Change				73%	25%	45%	28%
<b>EBITDA</b>	<b>3.7</b>	<b>3.1</b>	<b>6.8</b>	<b>7.4</b>	<b>3.8</b>	<b>11.2</b>	<b>12.7</b>
Margin	8.6%	5.8%	7.0%	9.9%	5.6%	7.9%	7.0%
<b>EBIT</b>	<b>2.6</b>	<b>2.0</b>	<b>4.6</b>	<b>6.0</b>	<b>2.5</b>	<b>8.5</b>	<b>9.0</b>
<b>Net profit</b>	<b>1.1</b>	<b>0.1</b>	<b>1.2</b>	<b>39.0*****</b>	<b>0.9</b>	<b>39.9</b>	<b>4.9</b>

Source: Blue Cap accounts, consensus estimates, Edison Investment Research. Note: \*From December 2016. \*\*Sold June 2017. \*\*\*From May 2018. \*\*\*\*From February 2016. \*\*\*\*\*Including €37m profit on sale of Biolink at end June 2017. \*\*\*\*\*Does not take account of proposed sale of WISAP, due by end Q3.

Given our H1 results review, we focus here on the second half performance. Integration of Neschen (c 75% of revenue) was, predictably, the key factor. Apart from a continued commitment to graphics, documents and industrial applications, Neschen brought a new sales channel to Blue Cap through its international Filmolux subsidiaries. Its H2 revenue was effectively flat, with management's focus on making a decent return on the consensus estimated purchase price of

€15m through efficiencies from the elimination of substantial consulting expenses, the revision of insurance and energy contracts and leases, and organisational streamlining.

Elsewhere, as shown in Exhibit 2, overall top-line performance in H2 was also steady. Medical Technology again stole the show with a double-digit percentage rise in revenue, while Adhesives' profit (if not revenue) benefited from cutting low-margin product. Management admits disappointment at Production Technology (sales down 28%) owing largely to project delays at Gämmerler and consolidation at SMB-David.

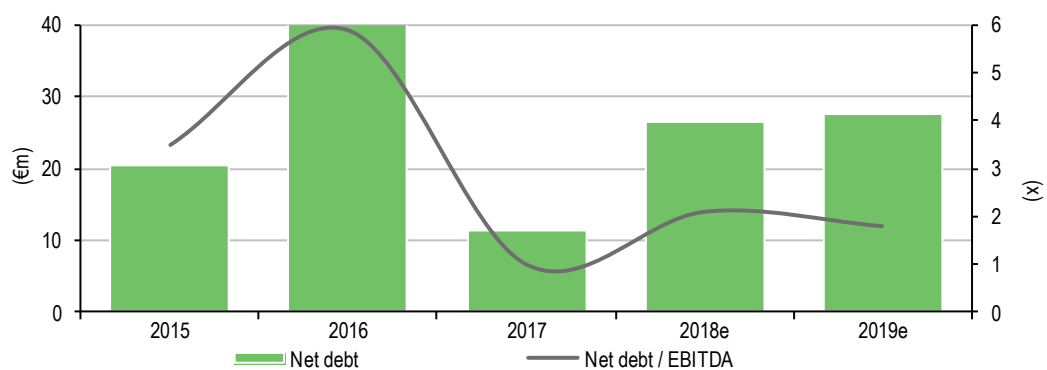
Adding back our €2m estimate of aforementioned Biolink forgone profit to H2 EBITDA gives €5.8m, vs €3.1m in H216, hence our reference to broadly a doubling of notional EBITDA on a par with the gain in H1, albeit in both halves flattered by the first full inclusion of Neschen.

### Ever bolder acquisitions raise the stakes

Just as the integration of Neschen was the operational story of 2017, so the focus is now on absorbing Knauer. Financial detail is scarce as Knauer is private, but Blue Cap disclosure of a "low double-digit" € millions consideration paid for annual revenue of c€68m suggests similar, if slightly larger than Neschen. Management appears confident about the benefits of reorganisation and efficiencies but points out that these are early days and measures still have to be finalised. Savings apart, it expects synergies with its own adhesives and coating as well as expansion of Knauer in the food sector and new markets eg pharma and medical. As shown in Exhibit 2, our assumption of c €40m revenue in 2018 for Knauer (included from mid-May) suggests consensus expectation of c 5% higher sales from the rest of Blue Cap, thereby recouping an estimated €9m in Biolink revenue forgone in the first half. This is consistent with recent guidance of top-line growth in all divisions on a like-for-like basis. We note that this does not take account of the newly announced proposal to sell Medical Technology's WISAP to a Chinese specialist in endoscopic devices. Completion is not expected until late Q3, so the transaction should not be material to overall 2018 trading profit.

### Balance sheet and cash flow

**Exhibit 3: Net debt and net debt/EBITDA**



Source: Blue Cap accounts, Bloomberg consensus estimates, Edison Investment Research

The disposal of Biolink for €39m led to a significant y-o-y reduction in net debt at end 2017. Exhibit 3 shows this (€11.3m) to be historically low for Blue Cap and reinvestment, namely in Knauer, duly followed. Further significant scope for spend is indicated by consensus forecasts, possibly enhanced by WISAP proceeds. This explains management's reversal now of its longstanding policy not to pay a dividend, preferring to reinvest to fund expansion.

## Valuation

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Even after recent share price appreciation (c 50% since April), Blue Cap is still attractively rated at under 10x 2018e consensus EV/EBITDA. 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). There is enthusiasm about the company's latest deal of size (Knauer) and clear opportunity for more of the same. This is reinforced by the new collaboration with PartnerFonds, which shares its "buy, hold & develop" strategy, targeting medium-sized industrial companies in the DACH region.

NAV (fair value of the portfolio companies included in the businesses less net debt), published for the first time by Blue Cap, was €102m at December 2017. This is similar to the current market cap but of course excludes Knauer as well as non-operating assets and liabilities of group holding and real estate companies. Including these assets, the NAV valuation would be even higher

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