

## Blue Cap

Industrials

10 September 2021

### Strong margin improvement in H121

Blue Cap reported a strong set of results in H121. Revenues rose 6% y-o-y to €121m and the adjusted EBITDA margin improved 330bp y-o-y to 8.4%. After the acquisition of HY-LINE in early August, Blue Cap updated its FY21 guidance to revenues of €265–275m and an adjusted EBITDA margin of 8–9%. Group NAV increased by 1% to €155m, as the contribution from acquisitions was offset by higher net debt. Driven by the strong performance and several acquisitions, the discount to group NAV declined from 30% at end FY20 to 17% currently.

### Clear effect of portfolio expansion

Blue Cap reported a 6% y-o-y increase in revenues to €121m in H121, completely driven by the acquisition of Hero from March 2021. The divisions showed large differences in performance, with Plastics (53% of H121 revenues) and Adhesives (14%) showing a good recovery in results, but a weaker performance in the other three divisions: Coatings, Metals and Production. Overall adjusted EBITDA jumped 74% to €10.5m, driven by cost savings initiated last year, good organic performance at Plastics and Adhesives and the contribution from Hero, which brings above average margins. The adjusted EBITDA margin increased by 330bp to 8.4%, within the guidance range for the full year.

### Plastics and Adhesives drive growth in FY21

Blue Cap expects continued positive developments in the Plastics and Adhesives divisions, while the other three are expected to report lower revenues compared to FY20. On 5 August, together with the HY-LINE acquisition (annual revenues of €40–50m), Blue Cap updated its FY21 guidance to revenue of €265–275m (or 14–18% growth) and an adjusted EBITDA margin of 8–9% (FY20: 7.6%). On 12 August, Blue Cap increased its share capital by just under 10% by issuing new shares, partly using the gross proceeds of €10.8m to refinance the HY-LINE acquisition.

### Valuation: Discount to group NAV declined in H121

In H121, the NAV of the business units rose 12% to €119m, compared to year-end FY20, due to the strong performance in Plastics, including the acquisition of Hero. Group NAV, which includes net debt at group level, minority participations and book value of real estate, was stable at €155m as the increase in Plastics was offset by higher net debt due to acquisitions. Blue Cap's shares have performed well in the year to date, +65% to €29.20, driven by the strong FY20 results as well as several acquisitions, the last of which came after the mid-year NAV reporting date. Blue Cap is currently trading at a discount of 17% to the group NAV on 30 June 2021.

#### Consensus estimates

Year end	Revenue (€m)	Adj. EBITDA (€m)	Net profit (€)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/19	225.6	14.3	2.8	0.71	0.75	9.6
12/20	233.0	17.6	16.5	4.15	1.00	6.8
12/21e	269.6	23.0	3.6	0.82	0.88	9.1
12/22e	328.0	29.8	8.6	1.94	1.00	7.0

Source: Blue Cap, Refinitiv

Price €29.20  
Market cap €128m

#### Share price graph



#### Share details

Code B7E  
Listing Scale (Frankfurt), m:access (Munich)  
Shares in issue 4.4m  
Net debt at 30 June 2021 €60m

#### Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €30–80m. Blue Cap currently has 10 shareholdings.

#### Bull

- Proven business model and management.
- Strong finances set for boost from transformative transactions.
- Economic downturn could provide buying opportunities.

#### Bear

- Execution risk in restructuring processes.
- Valuation risk in identifying acquisitions.
- Dependence on economic conditions, mitigated by diverse business and geographical mix.

#### Analyst

Johan van den Hooven +44 (0)20 3077 5700  
[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Strong growth in EBITDA in H121

In H121, Blue Cap's revenues increased 6% to €121m, driven by the acquisition of Hero (consolidated from March, contributing €13.6m to revenues). Overall results were affected by ongoing lockdown measures and supply chain constraints due to the shortage of electronics components.

Since the beginning of 2020, Blue Cap has made several portfolio changes, which had an impact on the development of results in H121. In April 2020, it divested its medical subsidiary em-tec (net proceeds of €24m) and in July 2020 it announced the insolvency of production subsidiary SMB-David (4% of revenues in 2019 and loss-making). These two companies had combined revenues of around €5m in H120, which did not reoccur in H121. Blue Cap made two acquisitions in H121, the first of which was a 71% stake in Hero (consolidation from 1 March). Hero develops and manufactures high-quality plastic parts and assemblies for car interiors and the household appliance industry. According to Blue Cap, Hero has annual revenues of around €40m and has more than 200 employees. In April, subsidiary con-pearl acquired the assets of Recyplast (from the estate of Fischer, which went into insolvency) for a low single-digit million amount. Recyplast specialises in the production of regranulates from various plastics. con-pearl now has two independent recycling sites via which it secures the supply of high-quality recyclates in sufficient quantity.

Adjusted EBITDA increased 74% to €10.5m, mainly driven by the cost savings initiated last year, strong organic performance at Plastics and Adhesives and the contribution of Hero, which carries an above average margin (mid-teens on an annual basis). The adjusted EBITDA margin (as a percentage of total income) improved 330bp y-o-y to 8.4%, within the guidance range of 8–9% for the full year.

The share in profit of associates increased from €0.6m in H120 to €1.1m in H121, after reporting €1.4m for FY20. These results mainly come from medical technology manufacturer Inheco, which benefited from the pandemic with its products for the so-called PCR test to detect coronavirus infection and through the development of vaccines and medicines.

Pre-tax adjustments/exceptionals amounted to -€1.9m (eg restructuring and advisory costs), compared to last year's income of €16.5m, which was largely due to proceeds from the divestment of em-tec. As a result of the swing in these adjustments, EPS came in lower than last year at €0.36.

<b>Exhibit 1: Blue Cap H121 results</b>				
€m	H120	H121	% change	
Revenues	113.9	120.8	6%	
Total income	119.1	124.6	5%	
<b>EBITDA adjusted</b>	6.0	10.5	74%	
<b>EBITDA adjusted, margin</b>	5.0%	8.4%		
Share in profit/(loss) of associates	0.6	1.1	100%	
EBIT adjusted	1.3	5.3	295%	
Net financial income	(1.3)	(1.1)	-14%	
Adjustments/exceptionals	16.5	(1.9)	-111%	
Income taxes	(1.0)	(0.6)	-38%	
Net profit	15.6	1.5	-91%	
EPS (€)	3.92	0.36	-91%	

Source: Blue Cap

Blue Cap's financial position remained strong in H121, with an equity ratio of 37% and net debt/EBITDA at 1.7x, well below the internal covenant of 2.75x.

## Growth still driven by Plastics division

In an ever-challenging market environment, the results for each segment varied significantly (see Exhibit 2). The Plastics division was again the main driver of growth and overall results and now represents more than 50% of total revenues. con-pearl benefited from strong order flow and the

reorganisation measures taken last year, while the acquisition of Hero from March significantly contributed to results. Uniplast faced significant price increases in raw materials but has been able to pass these on to its customers. The Plastics division now realises the highest EBITDA margin within Blue Cap, ie 11%. The Adhesives division also had a good first half of the year, despite supply chain constraints, and showed strong revenue growth and much better margins (particularly from April onwards).

The three other segments all faced the impact of the prolonged pandemic. Coatings reported lower volumes in products for exhibitions and other graphic applications, while also losing an important customer in industrial applications. In Metals, the volume of scrap gold delivered was below last year's level. Production was affected by project delays and postponements, and reported 67% lower revenues of €1.8m, which was also due to the deconsolidation of SMB-David as at 30 June 2020. However, the operating loss at Production improved compared to last year due to reorganisation effects at Gämmerler (now focusing on the profitable service and spare parts business) and the deconsolidation of loss-making SMB-David.

The 'other' segment includes em-tec results up to April 2020 and holding costs. In H120, em-tec contributed €4.2m in revenues and €0.7m in adjusted EBITDA.

<b>Exhibit 2: Results by segment H121</b>				
€m	Companies included	H120	H121	% change
Plastics	Uniplast, con-pearl, Hero, Recyplast	48.1	64.1	33%
Coatings	Neschen	26.3	25.4	-3%
Adhesives	Planatol	14.7	17.5	19%
Metals	Carl Schaefer	15.2	11.8	-22%
Production	Gämmerler, nokra, SMB-David (until June 2020)	5.5	1.8	-67%
Other, including intercompany	em-tec (until April 2020)	4.2	0.2	-95%
<b>Total revenues</b>		<b>113.9</b>	<b>120.8</b>	<b>6%</b>
Plastics		2.5	7.2	N/A
Coatings		2.6	1.9	-28%
Adhesives		0.7	1.8	155%
Metals		0.5	0.3	-43%
Production		-1.4	-1.1	N/A
Other, including holding and intercompany		1.0	0.3	-69%
<b>Total EBITDA adjusted</b>		<b>6.0</b>	<b>10.5</b>	<b>74%</b>
Plastics		5.1%	11.0%	
Coatings		9.1%	7.1%	
Adhesives		4.8%	10.2%	
Metals		3.4%	2.5%	
Production		-23.3%	-55.3%	
<b>Adjusted EBITDA margin*</b>		<b>5.1%</b>	<b>8.4%</b>	

Source: Blue Cap. Note: \*As a percentage of total income.

## Outlook: Growth supported by more acquisitions

On 5 August, Blue Cap announced the acquisition of a 93% stake in HY-LINE Verwaltungs, which has annual revenues of €40–50m and a purchase price in the lower third of the double-digit million range. During the last few years, HY-LINE has transformed from a distributor of electronic components into a product and system provider with an increased focus on technical consulting and development competence. Management expects HY-LINE to increase Blue Cap's EBITA and earnings per share by 20% or more in the first full year after consolidation (1 September 2021).

On 12 August, Blue Cap announced that it had increased its share capital by just under 10% by issuing new shares at a price of €27.02. Total gross proceeds of €10.8m will be partly used to refinance the acquisition of HY-LINE and for further growth of Blue Cap.

After the announcement of the HY-LINE acquisition, Blue Cap provided new revenue guidance for FY21 of €265–275m, up from €255–265m. The new forecast combines the lower end of the

previous guidance range and the contribution from HY-LINE. Guidance for adjusted EBITDA margin was maintained at 8–9% (FY20: 7.6%).

In the medium term, Blue Cap aims to expand its portfolio from the current 10 companies to 12–15 companies and increase group NAV to more than €200m, up from €155m at mid-FY21.

Management is also aiming to increase its market cap to more than €200m compared to the current €128m, but that is of course also influenced by external factors.

In May 2020, Blue Cap's largest shareholder, PartnerFonds (44.6% stake), announced the start of its liquidation, including all its holdings. In the long term, its shares in Blue Cap also will be sold, without PartnerFonds having a deadline for completion of the whole process.

## Valuation

Blue Cap values its different divisions using a discounted cash flow model based on the approved budget planning of the portfolio companies for 2021–23 and their extrapolation for the years 2024–25. It has kept the average perpetual growth rate stable at 1.5% compared to year-end 2020 and lowered the WACC to 6.5% compared to 6.6% at year-end 2020. The WACC is determined for each business unit based on individual peer groups. Exhibit 3 shows the development of Blue Cap's NAV.

The DCF-based NAV of the business units increased by 12% to €118.8m on 30 June 2021 compared to year-end FY20, mainly driven by the further increase in value of the Plastics division, which now also includes Hero (valued at its acquisition cost, in line with the guidelines for private equity valuations). Metals showed a decline as a result of lower trading volumes and margins, but this subsidiary only accounts for 3% of the NAV. Group NAV only increased by 1% to €155m on 30 June 2021, compared to year-end FY20, as Blue Cap's net cash position turned into net debt due to the financing of acquisitions. Group NAV of €155m on 30 June 2021 compares to the current market cap of €128m.

<b>Exhibit 3: Blue Cap NAV (€m)</b>			
<b>Segments</b>	<b>FY20</b>	<b>H121</b>	<b>Change</b>
Plastics	42.3	56.9	35%
Coatings	42.9	42.8	0%
Adhesives	11.9	12.5	5%
Metals	5.6	4.0	-29%
Production	3.2	2.6	-19%
<b>NAV business units</b>	<b>106.0</b>	<b>118.8</b>	<b>12%</b>
Holding net cash/(net debt)	9.9	(1.9)	
Real estate value (book value minus debt)	11.9	9.2	
Minority participations (at market value)	26.1	29.1	
<b>NAV Blue Cap Group</b>	<b>153.9</b>	<b>155.2</b>	<b>1%</b>
NAV per share (€)	38.58	38.82	1%

Source: Blue Cap

## General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the 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 Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia