

Mpac Group PLC



18 September 2024

Earnings enhancing acquisition broadens capabilities

Mpac is acquiring the entire issued share capital of Boston Conveyor & Automation, Inc., ("BCA"), a US-based supplier of robotic automation and conveyor equipment for the Food, Life Sciences and general industry sectors, for a total of US\$17m (£12.9m¹). The purchase comprises US\$11m in cash, sourced from the Group Revolving Credit Facility, plus US\$6m from the issue of Mpac shares. The Group's lender has agreed to increase the RCF by £5m to £25m, ensuring that the Group will continue to have a strong balance sheet with significant undrawn borrowing facilities available to fund its ongoing development and working capital.

Following strong H1 results ([Positive momentum delivers strong results](#)), the acquisition of BCA adds a full range of primary and secondary packaging systems expertise, pick-and-place lines, conveyor systems and turnkey systems, notably with hygienic design requirements. Operating upstream to Mpac's current offering, BCA expands the Group's positioning in its core Food & Beverage, Healthcare and Clean Energy sectors, adds geographical reach and offers opportunities to grow both Original Equipment sales and Service revenue. The acquisition provides a significant growth opportunity into EMEA through Mpac's sales presence, a geography previously unaddressed by BCA.

Boston Conveyor & Automation

Based in Newburyport, Massachusetts, BCA was founded in 2017 by Jim Laverdiere (sole shareholder, who will remain as President) and employs 50 staff. For the (trailing) 12 months 31 May 2024 BCA recorded revenue of US\$14.0m (£10.6m¹) and (adj.) EBITDA of US\$2.8m (£2.12m), a 20% margin. The terms of the acquisition indicate a multiple of EBITDA paid of 6.1x. At 31 December 2023, BCA recorded (unaudited) net assets of US\$1.4m and US\$1.0m cash, with revenue for the year of US\$1.4m and PBT of US\$1.0m.

Positive earnings impact: Fair Value raised to 550p/share

The acquisition of BCA is immediately earnings-accretive to the Group, adding 2% to FY24 revenue (pro rata) and 8% and 10% respectively to our FY25 revenue and (adj.) EBITDA outlook. We take the opportunity to introduce forecasts for FY26, indicative of 19% FY23-26 (adj.) EBITDA CAGR.

BCA brings its own technology, revenue stream, market access and client base, as well as the opportunity to exploit synergies via Mpac's own market presence and the addition of Service revenue opportunities. The acquisition is a key milestone, contributing towards the Group's 5-year strategy to double revenue, including acquisitions focussing on the Healthcare and Food & Beverage verticals.

We extend our outlook to FY26 and raise our fair value to 550p/share, indicative of a FY25 EV/EBITDA of 6.7x, which remains at a significant discount to the peer group average of 10.6x.

Forecasts to FY26

Yr to 31 Dec (£m)	2021	2022	2023	2024E	2025E	2026E
Revenue	94.3	97.7	114.2	122.8	141.1	150.6
EBITDA (adj)	11.2	6.8	10.7	13.5	16.5	18.1
Pre-Tax Profit (adj)	8.6	3.5	7.1	10.5	12.6	14.4
EPS (adj, p)	39.4	13.1	26.2	37.7	45.2	52.4
Net debt / (Cash)	(13.6)	4.7	(2.1)	5.5	5.0	(4.7)
P/E	11.0x	33.1x	16.6x	11.5x	9.6x	8.3x
EV/EBITDA	7.8x	12.8x	8.1x	6.5x	5.3x	4.8x
EBITDA (adj.) mrg	11.9%	7.0%	9.4%	11.0%	11.7%	12.0%
Fair Value EV/EBITDA				8.2x	6.7x	6.1x
Fair Value PE				14.6x	12.2x	10.5x

Source: Company data, Equity Development estimates.¹ US\$:£ exchange rate, 1.32034:1.00.

Company Data

EPIC	AIM: MPAC
Price (last close)	430p
52 weeks Hi/Lo	550p/190p
Market cap	£88m
ED Fair Value / share	550p
Proforma net debt	£4.9m

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; Mpac Switchback; Mpac BCA.

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

FY Trading Update, January 2025

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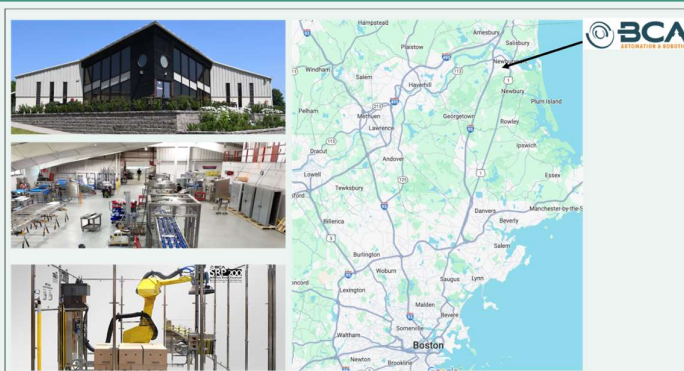
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Boston Conveyor & Automation

Boston Conveyor & Automation provides an extensive overview of its operations, technical expertise and service offerings on its website (<https://bostonconveyorandautomation.com/>) including extensive client data sheets for its conveyor systems, card placers and hygiene-specific designs, illustrated below.



BCA location on US East Coast



Source: Company data.

BCA systems offering



Source: Company data.

As shown, BCA reports a range of major names in the Food and Healthcare sectors. This includes several of Mpac's established clients.

Boston Conveyor & Automation, major client names



Source: Company data.

Positive impact on earnings and medium-term outlook

We estimate that the acquisition of BCA will have a **two-fold positive impact on Mpac's Group earnings**: via the contribution from BCA's own market presence and client base, and via the opportunity in the medium-term to cross-sell OE (equipment) and add Service revenue streams across Mpac's own expanding market presence. We estimate:

- In FY24, a £2.8m uplift to revenue, pro rata for the remainder of the Mpac financial year. Assuming integration costs we retain our (adj.) EBITDA outlook at £13.5m.
- In FY25, an additional £10.6m revenue contribution from BCA, and +£1.4m in (adj.) EBITDA.

BCA acquisition positive impact on earnings outlook

Estimates prior to BCA

Yr to 31 Dec (£m)	2023	2024E	2025E	2026E
Revenue	114.2	120.0	130.5	145.9
EBITDA (adj)	10.7	13.5	15.1	16.3
Pre-Tax Profit (adj)	7.1	10.5	12.2	13.6
EPS (adj, p)	26.2	38.4	44.0	49.5
Net debt / (Cash)	(2.1)	(4.1)	(6.1)	(15.1)
(adj.) EBITDA mrg	9.4%	11.2%	11.6%	11.2%

Estimates post-BCA

Yr to 31 Dec (£m)	2023	2024E	2025E	2026E
Revenue	114.2	122.8	141.1	150.6
EBITDA (adj)	10.7	13.5	16.5	18.1
Pre-Tax Profit (adj)	7.1	10.5	12.6	14.4
EPS (adj, p)	26.2	37.7	45.2	52.4
Net debt / (Cash)	(2.1)	5.5	5.0	(4.7)
(adj.) EBITDA mrg	9.4%	11.0%	11.7%	12.0%

Change, vs prior estimates

	2024E	2025E
Revenue	2%	8%
EBITDA (adj)	0%	9%
Pre-Tax Profit (adj)	0%	4%
EPS (adj, p)	-2%	3%

Source: Company data, Equity Development estimates.

As a result of the acquisition, we estimate:

- A year end FY24 cash position at £11.7m, with net debt of £5.5m.
- Dilutive effect of equity raise of US\$6.0m (estimated at £4.54m, US\$1.30234:£1.00) resulting in 1.059m new shares: 5.2%.

Attractive valuation; out-performance

Below we update Mpac's current valuation (EV/EBITDA and PE) based on our FY25 outlook and updated ED Fair Value of **550p/share**, compared to peers:

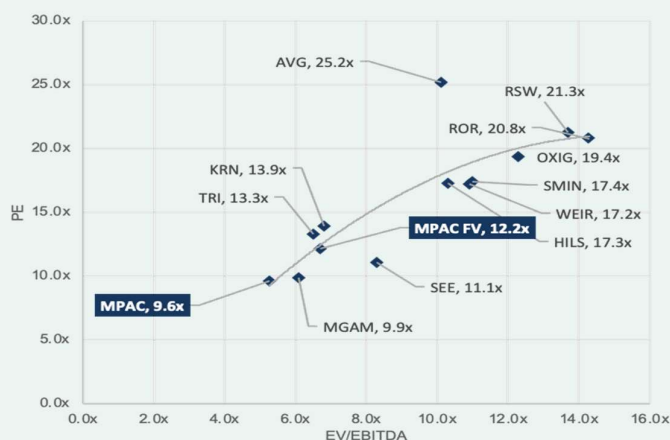
- Smiths Group plc, Weir Group plc, Trifast plc, Rotork plc, Sealed Air Corp., Oxford Instruments plc, Renishaw plc, Morgan Advanced Materials plc, Avingtrans plc, Hill & Smith plc and Krones AG.

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 10.6x, and PE, 16.7x.
- **Our Fair Value of 550p** implies a Mpac FY25E EV/EBITDA multiple of 6.7x and PE of 12.2x.

As the chart illustrates, Mpac's relative positioning remains at an indicative discount to its peers.

Mpac valuation versus peers



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

As shown, on a relative basis (year-to-date rebased at 100.0), Mpac has outperformed the selected peer group.

Mpac relative performance year-to-date



Source: Google Finance, LSE.

SUMMARY FINANCIALS

P&L						
Year to 31 Dec (£m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equipment revenue	74.1	74.6	82.4	89.4	103.7	111.0
Service revenue	20.2	23.1	31.8	33.4	37.4	39.6
Revenue	94.3	97.7	114.2	122.8	141.1	150.6
Gross	28.9	24.4	31.6	37.8	43.7	46.8
Margin	30.6%	25.0%	27.7%	30.8%	31.0%	31.1%
COGS	(65.4)	(73.3)	(82.6)	(85.0)	(97.3)	(103.7)
Distribution	(6.8)	(8.1)	(8.8)	(9.2)	(10.3)	(11.3)
Admin	(12.4)	(11.9)	(14.6)	(15.6)	(17.5)	(18.2)
Other	(0.9)	(0.5)	(0.4)	(2.0)	(2.1)	(2.0)
Sum operating costs	(20.1)	(20.5)	(23.8)	(26.8)	(29.9)	(31.5)
One-off costs	(0.5)	(3.9)	(3.9)	(3.0)	(3.0)	(3.0)
EBIT Reported	8.3	0.0	3.9	8.1	10.8	12.4
EBIT Adjusted	8.8	3.9	7.8	11.1	13.8	15.4
Margin	9.3%	4.0%	6.8%	9.0%	9.8%	10.2%
Amortisation	(0.6)	(0.9)	(0.8)	(0.5)	(0.6)	(0.6)
Depreciation	(1.8)	(2.0)	(2.1)	(1.9)	(2.1)	(2.1)
EBITDA Reported	10.7	2.9	6.8	10.5	13.5	15.1
EBITDA Adjusted	11.2	6.8	10.7	13.5	16.5	18.1
Margin	11.9%	7.0%	9.4%	11.0%	11.7%	12.0%
Financial income	0.0	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.2)	(0.4)	(0.7)	(0.6)	(1.2)	(1.0)
PBT Reported	8.0	0.2	4.7	7.5	9.6	11.4
PBT Adjusted	8.6	3.5	7.1	10.5	12.6	14.4
Tax	(0.4)	(0.6)	(2.0)	(2.6)	(2.9)	(3.6)
PAT Reported	7.6	(0.4)	2.7	4.8	6.7	7.8
PAT Adjusted	7.9	2.7	5.3	7.8	9.7	10.8
Basic wtd. av. shares (m)	19.9	20.3	20.5	20.5	20.5	20.5
Diluted wtd. av. shares (m)	20.1	20.6	20.5	20.8	21.5	20.6
EPS Rptd Basic (p)	38.2	(2.0)	13.2	23.6	32.8	37.9
EPS Rptd Dil.(p)	37.9	(1.9)	13.2	23.3	31.2	37.8
EPS Adj. Basic (p)	39.7	13.3	26.2	38.3	47.5	52.6
EPS Adj. Dil. (p)	39.4	13.1	26.2	37.7	45.2	52.4

Source: Company data, Equity Development estimates.

Cashflow						
Year to 31 Dec (£m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating profit	8.3	0.0	3.9	8.1	10.8	12.4
One-off items	0.5	3.9	3.9	3.0	3.0	3.0
Amortisation	0.6	0.9	0.8	0.5	0.6	0.6
Depreciation	1.8	2.0	2.1	1.9	2.1	2.1
Other non-cash	0.4	0.3	0.0	0.0	0.0	0.0
Pension	(2.6)	(2.1)	(2.3)	(3.0)	(3.0)	(3.0)
Operating Cash Flow	9.0	5.0	8.4	10.5	13.5	15.1
Working capital						
(Increase)/Decrease inventories	(2.2)	(3.7)	(1.7)	(4.0)	(4.2)	0.8
(Increase)/Decrease in contract assets	(4.4)	(6.4)	1.7	0.1	0.1	0.1
(Increase)/Decrease in receivables	1.0	(5.3)	(0.3)	(5.4)	(7.7)	(1.1)
Increase/(Decrease) in payables	(1.1)	2.8	1.8	6.7	7.5	3.9
(Increase)/Decrease in contract liabilities	(0.7)	(5.7)	(0.1)	(0.1)	(0.1)	(0.1)
Increase / Decrease in provisions	(0.8)	0.5	3.3	0.0	0.0	0.0
Movement in working capital	(8.2)	(17.8)	4.7	(2.7)	(4.4)	3.5
Cash generated by operations	0.8	(12.8)	13.1	7.7	9.1	18.6
Acquisition costs	(0.3)	(0.8)	(0.8)	0.0	0.0	0.0
Tax (paid)/received	(0.1)	(0.4)	(1.1)	(2.6)	(2.9)	(3.6)
Net cash from operations	0.4	(14.0)	11.2	5.1	6.2	15.0
Investing activities						
Acquisition	0.0	0.0	0.0	(12.9)	0.0	0.0
Sale of PPE	2.0	0.0	0.0	0.0	0.0	0.0
Capitalised R&D	(0.2)	(1.4)	(1.5)	(1.5)	(1.5)	(1.5)
PPE	(1.5)	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)
Acquired cashflow/deferred payment	(0.6)	(0.8)	0.0	0.0	0.0	0.0
Net cash used in investing	(0.3)	(3.2)	(2.6)	(15.6)	(2.7)	(2.8)
Net OpFCF	0.1	(17.2)	8.6	(10.5)	3.4	12.2
Financing activities						
Borrowings	0.0	8.0	0.0	8.3	0.0	0.0
Interest paid	(0.3)	(0.3)	(0.7)	(0.6)	(1.2)	(1.0)
Purchase own shares	(0.2)	0.0	0.0	(0.6)	(1.2)	(1.0)
Lease payments	(0.9)	(1.1)	(1.1)	(0.5)	(0.5)	(0.5)
Net cash from financing	(1.4)	6.6	(1.8)	11.2	(2.9)	(2.5)
Net increase in cash / equivalents	(1.3)	(10.6)	6.8	0.7	0.5	9.7
Cash at beginning of year	15.5	14.5	4.2	11.0	11.7	12.3
Forex	0.3	0.3	0.0	0.0	0.0	0.0
Cash at year end	14.5	4.2	11.0	11.7	12.3	21.9
Net debt / (Cash)	(13.6)	4.7	(2.1)	5.5	5.0	(4.7)

Source: Company data, Equity Development estimates.

Balance sheet

Year to 31 Dec (£m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Fixed Assets						
Intangible assets	25.3	25.4	24.0	23.5	22.9	22.3
PPE net	4.0	4.0	4.1	3.4	2.5	1.6
Property	0.8	0.8	0.8	0.8	0.8	0.8
Right of use	5.8	5.0	5.9	5.9	5.9	5.9
Employee benefits	35.7	31.5	32.2	32.2	32.2	32.2
Deferred tax, other	1.4	1.3	0.9	0.9	0.9	0.9
Sum Fixed Assets	73.0	68.0	67.9	66.7	65.2	63.7
Current Assets						
Inventories	5.5	9.6	11.1	15.1	19.3	18.6
Trade receivables	34.5	46.7	46.8	52.2	59.9	61.1
Tax assets	0.6	0.6	1.1	1.1	1.1	1.1
Cash, Equivalents	14.5	4.2	11.0	11.7	12.3	21.9
Contract assets	0.0	0.0	0.0	0.0	0.0	0.0
Sum Current Assets	55.1	61.1	70.0	80.1	92.6	102.7
Total Assets	128.1	129.1	137.9	146.8	157.8	166.4
Current Liabilities						
Trade payables	(39.5)	(38.4)	(43.8)	(50.5)	(58.0)	(61.9)
Leases	(1.8)	(1.4)	(1.3)	(1.3)	(1.3)	(1.3)
Provisions	(0.6)	(1.0)	(0.9)	(0.9)	(0.9)	(0.9)
Tax, Other	(0.7)	(0.1)	(0.9)	(0.9)	(0.9)	(0.9)
Sum Current Liabilities	(42.6)	(48.9)	(54.9)	(61.6)	(69.1)	(73.0)
Total Assets less Current Liabilities	85.5	80.2	83.0	85.2	88.7	93.4
Long-term Liabilities						
Borrowings	(0.9)	(0.9)	(0.9)	(9.2)	(9.2)	(9.2)
Employee benefits	(2.5)	(2.1)	(1.8)	(3.0)	(3.0)	(3.0)
Tax	(12.5)	(11.1)	(11.4)	(6.8)	(6.8)	(6.8)
Leases	(4.2)	(3.9)	(4.9)	(3.4)	(3.4)	(3.4)
Deferred consideration	0.0	0.0	0.0	0.0	0.0	0.0
Sum Long-term liabilities	(20.1)	(18.0)	(19.0)	(22.4)	(22.4)	(22.4)
Total liabilities	(62.7)	(66.9)	(73.9)	(84.0)	(91.5)	(95.4)
Net Assets	65.4	62.2	64.0	62.8	66.3	71.0
Capital & Reserves						
Share Capital	5.0	5.1	5.1	5.1	5.1	5.1
Share Premium	26.0	26.0	26.0	18.5	15.3	12.3
Capital Reserve	3.7	2.1	3.8	5.2	5.2	5.2
Retained earnings	30.7	29.0	29.1	33.9	40.7	48.4
Equity	65.4	62.2	64.0	62.8	66.3	71.0
Net debt / (Cash)	(13.6)	4.7	(2.1)	5.5	5.0	(4.7)

Source: Company data, Equity Development estimates.



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