

## Positive start to 2020 with strong visibility

There's just one thing on investors' lips at the moment – coronavirus. How this will effect society, stocks, sectors and GDP. Clearly this is splitting opinion. Yet equally the number of new cases in China is abating, & the economy is slowly getting back on its feet. The rest of the world too now has a model how to work with, while central banks are reducing interest rates & pumping money into the financial system, until a vaccine can be found.

## COVID-19 unlikely to be an issue

So what about Mpac? Well, **management** already have a **good track record** at handling these type of macro issues. Today posting **"excellent" 2019 numbers** (see below) despite last year's US/China trade war, Brexit uncertainty & the UK General Election.

What's more, the Board guided towards a **positive start to 2020** underpinned by c. **£75m of revenue cover**, and believe currently **the coronavirus shouldn't materially impact profits**.

## Transformational year and on track for 2020

Sure there is some supply-chain/demand exposure within AsiaPac (8% of 2019 revenues), but these can be managed. Moreover the **vast majority of Mpac's top line growth is coming from Healthcare (74%) within the US (58%)**. And besides, there may actually be a mini silver lining, given some competitors are located in Northern Italy, where several towns are in lock-down, potentially affecting operations.

### 2019 bookings climbed 37% (18% LFL) to £87.6m

Summary Financials (£'000s)	FY18	H1'19	H2'19	Act FY19	Est FY20	Est FY21
<b>Closing orderbook</b>	<b>53,100</b>			<b>52,200</b>	<b>52,000</b>	<b>54,000</b>
Equipment	46,200	38,200	31,200	69,400	71,625	77,355
Service	12,100	7,600	11,800	19,400	23,875	25,785
<b>Revenues</b>	<b>58,300</b>	<b>45,800</b>	<b>43,000</b>	<b>88,800</b>	<b>95,500</b>	<b>103,140</b>
Reported % growth rate	9.2%	62.4%	42.9%	52.3%	7.5%	8.0%
Equipment	9,300	10,400	7,800	18,200	17,906	19,958
Service	4,700	2,700	5,100	7,800	9,192	10,185
<b>Gross Profit</b>	<b>14,000</b>	<b>13,100</b>	<b>12,900</b>	<b>26,000</b>	<b>27,098</b>	<b>30,143</b>
% margin	24.0%	28.6%	30.0%	29.3%	28.4%	29.2%
Operating expenses (excl D&A)	-11,800	-7,700	-8,500	-16,200	-17,122	-18,198
<b>Adjusted EBITDA (post SBPs)</b>	<b>2,200</b>	<b>5,400</b>	<b>4,400</b>	<b>9,800</b>	<b>9,976</b>	<b>11,944</b>
% margin	3.8%	11.8%	10.2%	11.0%	10.4%	11.6%
Depreciation	-600	-700	-1,200	-1,900	-2,043	-2,207
Amortisation of intangibles (non acqn)	-200	-100	-100	-200	-200	-200
<b>Adjusted EBIT (post SBPs)</b>	<b>1,400</b>	<b>4,600</b>	<b>3,100</b>	<b>7,700</b>	<b>7,732</b>	<b>9,538</b>
% margin	2.4%	10.0%	7.2%	8.7%	8.1%	9.2%
Net interest	0	-100	-100	-200	-200	-200
<b>Adjusted PBT</b>	<b>1,400</b>	<b>4,500</b>	<b>3,000</b>	<b>7,500</b>	<b>7,532</b>	<b>9,338</b>
Tax	-503	-300	687	387	-1,055	-1,307
<b>Adjusted earnings</b>	<b>897</b>	<b>4,200</b>	<b>3,687</b>	<b>7,887</b>	<b>6,478</b>	<b>8,030</b>
<b>Adjusted EPS (pence)</b>	<b>4.5p</b>	<b>21.0p</b>	<b>18.5p</b>	<b>39.5p</b>	<b>32.3p</b>	<b>39.8p</b>
EPS growth %	7.5%			777.7%	-18.3%	23.3%
<b>Dividend</b>	<b>0.0p</b>	<b>0.0p</b>	<b>1.5p</b>	<b>1.5p</b>	<b>3.0p</b>	<b>3.3p</b>
<b>Net cash / (debt) - Ex IFRS16</b>	<b>27,000</b>	<b>9,600</b>	<b>18,000</b>	<b>18,000</b>	<b>19,474</b>	<b>21,639</b>
Net cash per share	134p	48p	89p	89p	97p	107p

Source: Equity Development

4th March 2020

### Company Data

	AIM:MPAC
EPIC	
Price (last close)	305p
52 week Hi/Lo	375p/130p
Market cap	£61.5m
Net cash Dec '19	£18.0m
Share count (incl Treasury)	20.172m
ED valuation/ share	350p
Avg. daily volume	30,000

### Share Price, p



Source: Web Financial

### Description

Mpac is a specialist provider of **full line, high speed packaging & automation solutions**, employing c. 510 staff.

Here the group not only develops & manufactures niche factory equipment and robotic solutions, but also undertakes turnkey projects involving the design & integration of such systems. More than 80% of revenues are generated outside of the UK, hence providing a natural hedge against further sterling weakness.

Core verticals are Healthcare, Pharmaceutical and Food/Beverage, supporting the likes of 3M, J&J, Nestlé, GSK, P&G, Philips Advent, ConvaTec, AstraZeneca, Unilever, Kellogg's, Diageo, Ferrero, Bausch + Lomb & CooperVision.

**Next news:** AGM May 2020

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## 75% revenue cover for our 2020 forecast

Elsewhere, after strong **pipeline conversion in H2**, forward visibility is robust with the **backlog closing Dec'19 at £52.2m** (vs £53.1m LY) - split across a **wide customer base**, and **skewed towards higher margin healthcare orders**

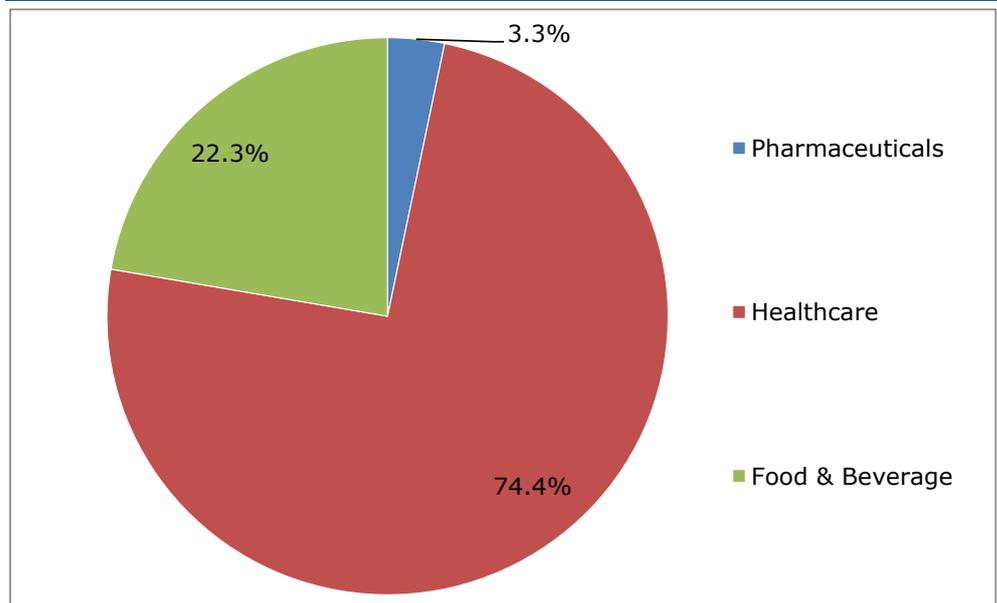
On top, there's £2m/month of repeat service business – which taken together generates approx £75m of cover (or 78%) vs our £95.5m 2020 turnover target. As always though, investors should bear in mind that there can be some lumpiness over period ends.

## Turnover jumps 52% (24% organically) to £88.8m

Diving a little deeper, **2019 sales jumped 52% to £88.8m** (24% LFL) thanks to the **synergistic £15m Lambert acquisition** (2019 PAT of £2.3m on £16.5m revs) in May'19, alongside **buoyant original equipment (OE) demand in North America**, a **standout performance from Healthcare** (+227% to £66.1m), introduction of **new technologies** (eg Track & Trace) and **consistent contract execution** (re One-Mpac model).

Divisionally, OE turnover came in at £69.4m (+50.2%) vs £19.4m for Service (+60.3%), with the latter contributing 40.2% gross margins (vs 26.2% OE). Looking ahead, we believe the OE vs Service split will rise to 75:25 in 2020, reflecting proportionally greater demand for spares, maintenance, upgrades and diagnostics.

### 2019 revenue (£88.8m) break-down by target market



Source: Equity Development

## Reinstatement of dividend

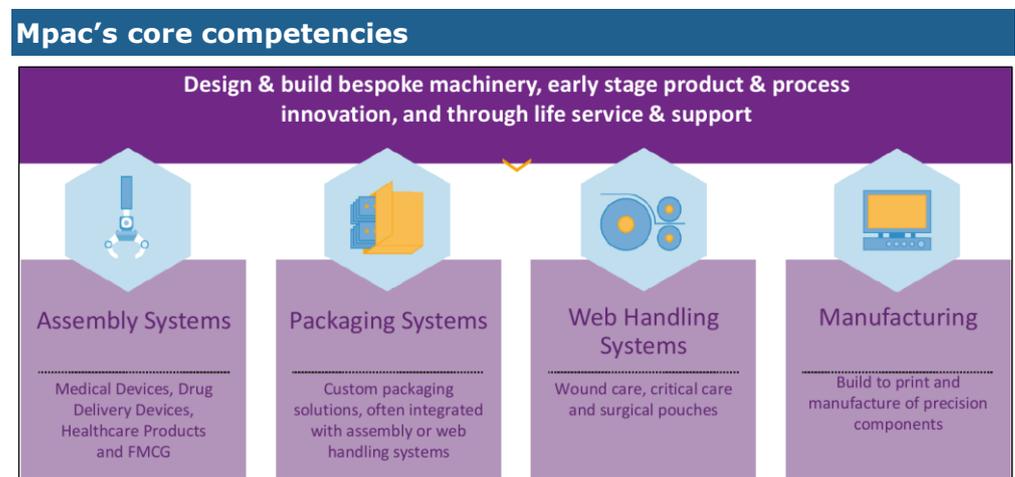
**Adjusted EBIT & EPS climbed to £7.7m** (£1.4m LY) & **39.5p** (4.5p) respectively, due to **favourable economies of scale, operating leverage** (25% EBITDA drop through rate) and **product mix** (re completing more 'repeat' vs one-off agreements, which reduced customisation, commissioning & implementation costs). Additionally LY, £1.1m of one-off charges were required to resolve 2 legacy contracts that have now been signed off by the associated clients.

Similarly, H2 cashflows were aided by a working capital unwind & the receipt of upfront customer deposits – leaving **yearend net funds at a healthy £18.0m** (£9.6m Jun'19), equivalent to 89p/share.

Hence in light of the **balance sheet strength**, the Board has recommended a **final dividend of 1.5p** (yield 0.5%), which we predict could double to 3p in 2021.

## Lambert was a strategic master stroke

**Strategically, the group has made significant progress too.** In particular, the £15m Lambert deal was transformational. Not only enabling Mpac to realise cost (eg procurement) & X-selling synergies, but also providing the necessary expertise to offer clients “**full end-to-end packaging and automation**” solutions. Something that will become increasingly important, as supply chains migrate to Industry 4.0 and deliver more products direct to the consumer.



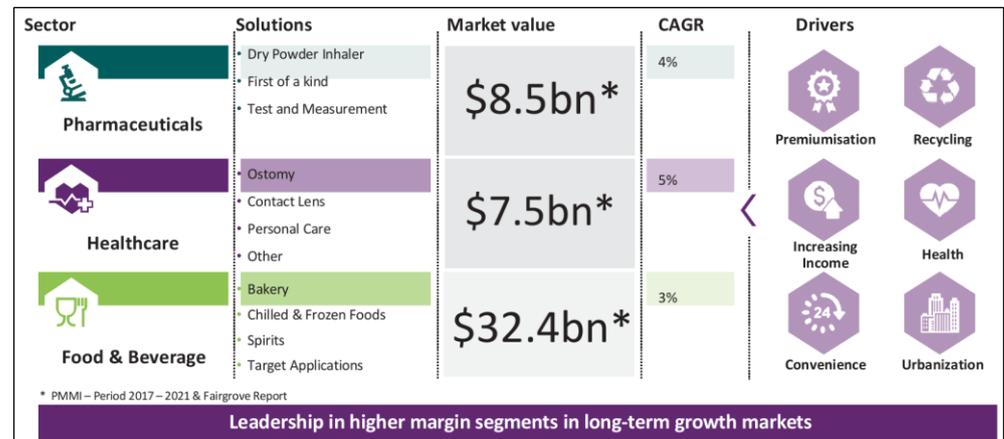
Source: Company

## Active new product development programs

Indeed **Mpac has put innovation at the heart of its growth strategy.** Developing and delivering cutting-edge features such as ‘overall equipment effectiveness’ monitoring, predictive maintenance, video instructions and facilitating connectivity, via multiple devices through an enhanced HMI (human machine interface). These enhancements will be further showcased at trade shows throughout 2020, where “**initial customer reaction has been extremely positive**”.

But that’s not all. Many customers are adopting **new recyclable and biodegradable packaging** materials in order to lower their environmental/carbon footprints - which might also **lead to a secular upgrade cycle** within Mpac’s core Healthcare, Pharmaceutical & Food/Beverage verticals (see below).

### Large & growing addressable growth markets



Source: Company

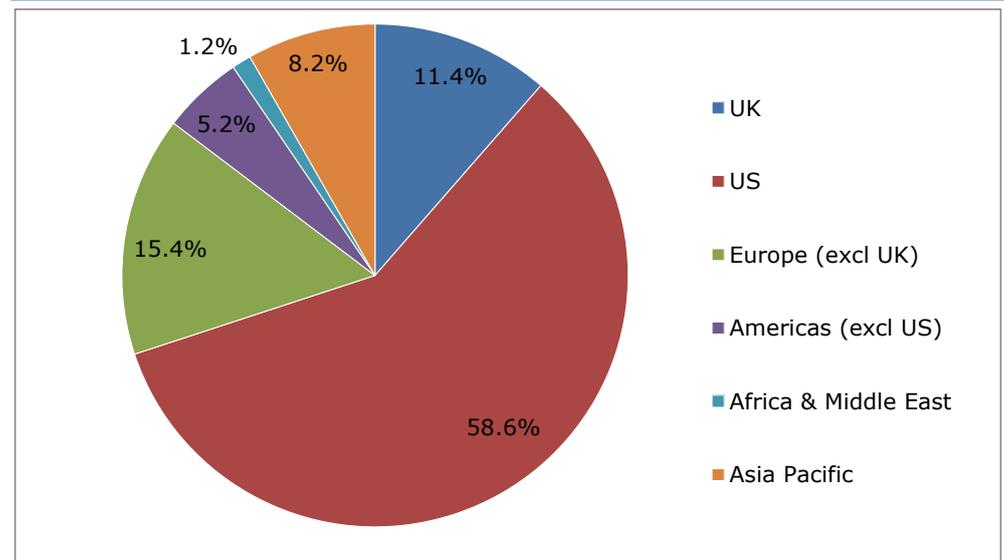
### Coronavirus should not impact 2020 results

Shifting gears to COVID-19, **the company** remains in close contact with its supply chain partners in China/AsiaPac, and **does not currently expect any major difficulty**. Nonetheless, certain customers are implementing travel bans on their staff, which has the potential to temporarily delay shipments and/or acceptance for a handful of projects.

So what does this all mean? Well, **we’ve nudged up our 2020 EBIT to £7.7m** (vs £7.5m B4) on the back of the slightly better out-turn, and held both the revenue at £95.5m & **350p/share valuation**. Notwithstanding a slight forex headwind (excluding last week), mirroring £ strength vs the \$ & € (c.88% of turnover derived overseas).

### No change to our 350p/share valuation

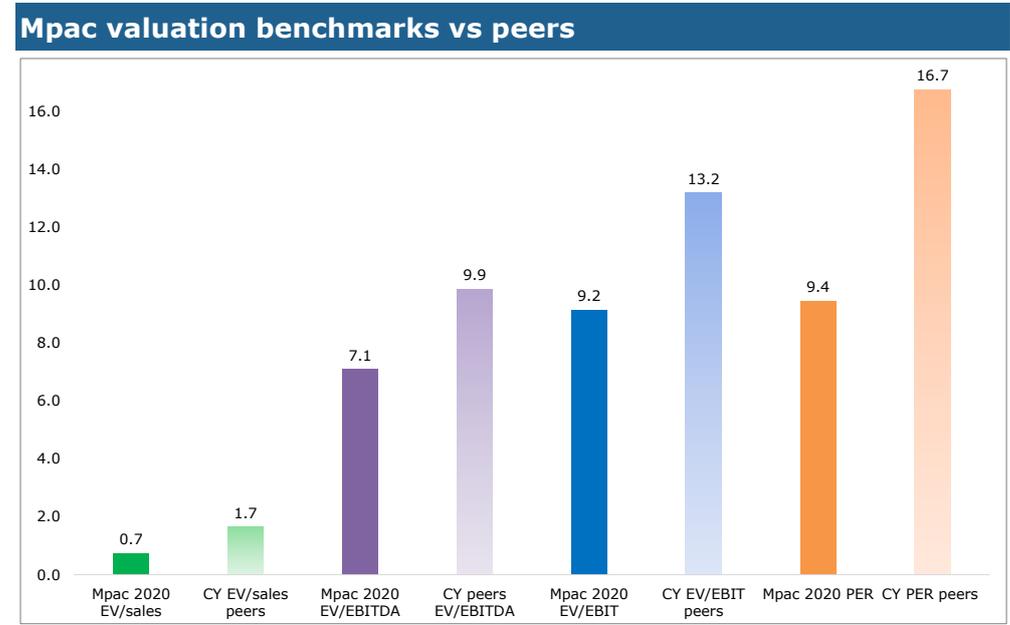
#### 2019 regional sales (£88.8m) split



Source: Equity Development

Plus, if the **Board's goal of 10% LFL sales growth and 10%+ EBIT margins** (est. 8.1% 2020) can be achieved, then we could see the shares push considerably north of 350p. Especially given the wide disparity of Mpac's rating vs engineering/packaging peers (see below) with the **stock trading on a modest 2020 PER of 9.4x** vs 16.7x for the sector.

## Stock trades at a material discount to peers



Source: Equity Development

## US pension deficit halved to £3.1m

With regards to the balance sheet, **net assets closed Dec'19 at £47.5m** (or 235p/share) with the **UK defined pension surplus flat at £20.4m** (£20.5m), after neutralising lower bond yields (re retirement obligations) with fixed income assets.

On the other hand, the **US pension deficit dropped to £3.1m** vs £6.2m LY, on the back of a successful exercise to offer scheme members alternatives for their benefits and robust investment returns. Additionally **we reckon all UK and US pension recovery payments should have ceased by Dec'24**, or perhaps earlier.

## Prospects remain positive

CEO Tony Steels commenting: "**2019 was a transformational year**. The Group completed the acquisition of Lambert Automation and has successfully executed its integration into the organisation. **Organic growth in order intake and revenue from Original Equipment and Service was in excess of management targets set in our strategic plans.**

We have ended the year with a **high-quality closing order book and with an increasingly healthcare-orientated customer base**. The management team are focused on building upon this platform to deliver further organic growth, to leverage an ambitious new product development roadmap and to provide an enhanced service offering to our customers. We continue to evaluate potential complementary acquisition opportunities.

***The 2020 financial year has started well and in line with market expectations. The Group intends to continue the development of the 'One Mpac' business model and accordingly the Board believes that the Group's future prospects remain positive".***

## Key risks

- As demonstrated in past recessions, capital equipment volumes are typically exposed to the cyclical nature of the global economy.
- The large size of the UK (£403.2m of liabilities as at December 2019) & US (£13.5m of liabilities) defined benefit pension schemes compared to Mpac's market capitalisation.
- Currency exposure, trade tariffs, raw material price increases (eg steel, aluminium) and competition.
- Mpac is smaller than its rivals/clients (eg German and Italian) and could see margins squeezed.
- Slower than expected growth, higher costs and/or lower cash generation.
- Industry suffers occasionally from lumpy orders, protracted customer purchasing decisions and irregular cashflows over the period end.
- Long term trend towards clients outsourcing production to 'low cost' contract manufacturers.
- Continued industry consolidation could impact pricing and margins.

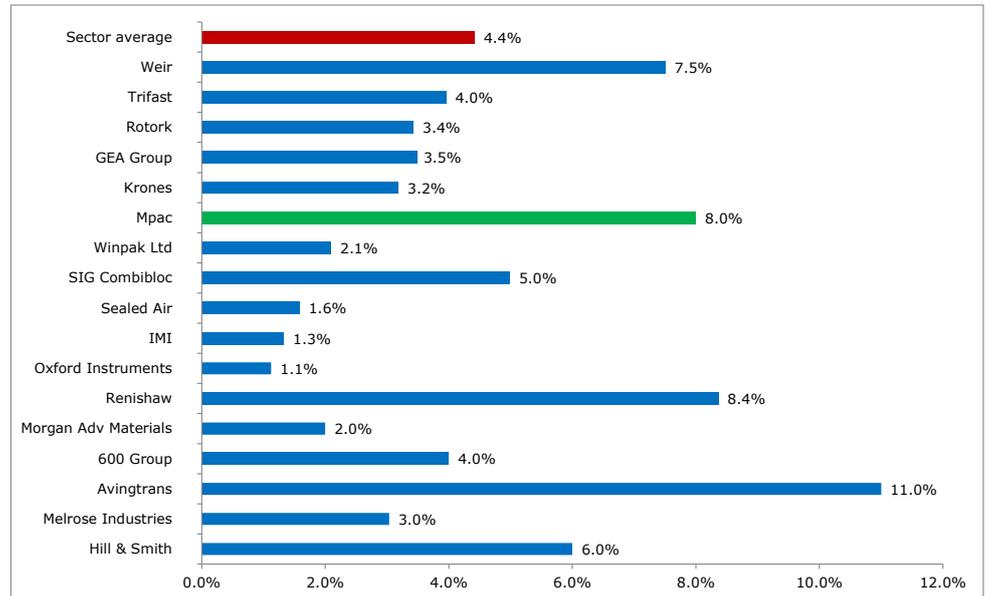
## Adjusted financial projections

Mpac plc - continuing (December year end)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
<b>Closing orderbook</b>	<b>25,500</b>	<b>34,400</b>	<b>53,100</b>	<b>52,200</b>	<b>50,000</b>	<b>54,000</b>	<b>58,320</b>	<b>62,986</b>	<b>68,024</b>	<b>73,466</b>
<i>Growth</i>		34.9%	54.4%	-1.7%	-4.2%	8.0%	8.0%	8.0%	8.0%	8.0%
Equipment	28,800	40,400	46,200	69,400	71,625	77,355	83,543	90,227	97,445	105,241
Service	12,700	13,000	12,100	19,400	23,875	25,785	27,848	30,076	32,482	35,080
<b>Turnover</b>	<b>41,500</b>	<b>53,400</b>	<b>58,300</b>	<b>88,800</b>	<b>95,500</b>	<b>103,140</b>	<b>111,391</b>	<b>120,302</b>	<b>129,927</b>	<b>140,321</b>
<i>Equipment</i>		40.3%	14.4%	50.2%	3.2%	8.0%	8.0%	8.0%	8.0%	8.0%
<i>Service</i>		2.4%	-6.9%	60.3%	23.1%	8.0%	8.0%	8.0%	8.0%	8.0%
<b>Total % YoY growth</b>		<b>28.7%</b>	<b>9.2%</b>	<b>52.3%</b>	<b>7.5%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>
Equipment	5,400	9,200	9,300	18,200	17,906	19,958	21,972	23,730	25,628	27,678
Service	5,600	5,300	4,700	7,800	9,192	10,185	11,139	12,030	12,993	14,032
<b>Total gross margin</b>	<b>11,000</b>	<b>14,500</b>	<b>14,000</b>	<b>26,000</b>	<b>27,098</b>	<b>30,143</b>	<b>33,111</b>	<b>35,760</b>	<b>38,621</b>	<b>41,710</b>
<i>Equipment</i>	18.8%	22.8%	20.1%	26.2%	25.0%	25.8%	26.3%	26.3%	26.3%	26.3%
<i>Service</i>	44.1%	40.8%	38.8%	40.2%	38.5%	39.5%	40.0%	40.0%	40.0%	40.0%
<b>% gross margin</b>	<b>26.5%</b>	<b>27.2%</b>	<b>24.0%</b>	<b>29.3%</b>	<b>28.4%</b>	<b>29.2%</b>	<b>29.7%</b>	<b>29.7%</b>	<b>29.7%</b>	<b>29.7%</b>
<b>EBITDA</b>	<b>450</b>	<b>2,200</b>	<b>2,200</b>	<b>9,800</b>	<b>9,976</b>	<b>11,944</b>	<b>13,771</b>	<b>15,207</b>	<b>16,781</b>	<b>18,504</b>
<i>% Margin</i>	1.1%	4.1%	3.8%	11.0%	10.4%	11.6%	12.4%	12.6%	12.9%	13.2%
Distribution	-5,300	-5,400	-5,000	-7,200	-7,635	-8,123	-8,643	-9,196	-9,785	-10,411
Administration	-6,600	-7,300	-7,200	-10,300	-10,883	-11,579	-12,320	-13,109	-13,948	-14,841
Other	-300	-500	-400	-800	-848	-903	-960	-1,022	-1,087	-1,157
<b>Adjusted EBIT</b>	<b>-1,200</b>	<b>1,300</b>	<b>1,400</b>	<b>7,700</b>	<b>7,732</b>	<b>9,538</b>	<b>11,187</b>	<b>12,433</b>	<b>13,801</b>	<b>15,302</b>
<i>% Operating Margin</i>	-2.9%	2.4%	2.4%	8.7%	8.1%	9.2%	10.0%	10.3%	10.6%	10.9%
Underlying interest charge	-330	-170	0	-200	-200	-200	-200	-200	-200	-200
<b>Adjusted Profit before Tax</b>	<b>-1,530</b>	<b>1,130</b>	<b>1,400</b>	<b>7,500</b>	<b>7,532</b>	<b>9,338</b>	<b>10,987</b>	<b>12,233</b>	<b>13,601</b>	<b>15,102</b>
<b>Adjusted EPS (p)</b>	<b>-6.0p</b>	<b>4.2p</b>	<b>4.5p</b>	<b>39.5p</b>	<b>32.3p</b>	<b>39.8p</b>	<b>46.8p</b>	<b>52.2p</b>	<b>55.3p</b>	<b>59.9p</b>
<i>EPS growth rate</i>			7.5%	777.7%	-18.3%	23.3%	17.7%	11.3%	6.0%	8.3%
<b>Dividend (p)</b>	<b>1.3p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>1.5p</b>	<b>3.0p</b>	<b>3.3p</b>	<b>3.8p</b>	<b>4.2p</b>	<b>4.8p</b>	<b>5.4p</b>
<i>Yield</i>	0.4%	0.0%	0.0%	0.5%	1.0%	1.1%	1.2%	1.4%	1.6%	1.8%
Reported sharecount (Ks - incl Treasury)	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172	20,172
<b>Valuation benchmarks</b>										
<i>P/E ratio</i>		72.9	67.8	7.7	9.4	7.7	6.5	5.8	5.5	5.1
<i>PER (adjusted for pension recovery payments)</i>					21.9	16.4	13.2	11.6	11.2	5.6
<i>EV/Sales (pension adjusted)</i>	1.71	1.33	1.21	0.80	0.74	0.69	0.64	0.59	0.54	0.50
<i>EV/EBITDA (pension adjusted)</i>		32.2	32.2	7.2	7.1	5.9	5.1	4.7	4.2	3.8
<i>EV/EBIT (pension adjusted)</i>		54.5	50.6	9.2	9.2	7.4	6.3	5.7	5.1	4.6
<i>PEG ratio</i>						0.33	0.37	0.52	0.92	0.61
<i>Corporate tax rate</i>	-20.0%	-26.5%	-35.9%	5.2%	-14.0%	-14.0%	-14.0%	-14.0%	-18.0%	-20.0%
<i>EBITDA drop through rate</i>			0.0%	24.9%	2.6%	25.8%	22.1%	16.1%	16.4%	16.6%
<i>Return on equity (%)</i>		1.9%	2.2%	16.6%	12.0%	13.0%	13.2%	12.8%	12.0%	11.5%
<b>Net cash/(debt)</b>	<b>800</b>	<b>29,400</b>	<b>27,000</b>	<b>18,000</b>	<b>19,474</b>	<b>21,639</b>	<b>21,929</b>	<b>25,109</b>	<b>28,168</b>	<b>37,007</b>
<b>Information only - Estimated non-underlying Pension charges</b>										
UK pension recovery payments			-1,900	-1,940	-1,981	-2,022	-2,065	-2,108	-2,152	0
Topup UK pension payments above £5.5m EBIT			0	-726	-737	-1,332	-1,877	-2,288	-2,739	0
UK pension admin costs			-900	-1,200	-1,224	-1,248	-1,273	-1,299	-1,325	-1,351
UK tax shield			532	735	749	875	991	1,082	1,181	257
US pension recovery payments (net tax shield)			-790	-790	-514	-540	-567	-595	-625	0
<b>Cashflow effect</b>			<b>-3,058</b>	<b>-3,921</b>	<b>-3,707</b>	<b>-4,269</b>	<b>-4,791</b>	<b>-5,208</b>	<b>-5,660</b>	<b>-1,095</b>
<b>Net cash per share</b>		<b>146</b>	<b>134</b>	<b>89</b>	<b>97</b>	<b>107</b>	<b>109</b>	<b>124</b>	<b>140</b>	<b>183</b>
Net assets / diluted share (p)	175	212	201	235	268	307	354	406	462	522
<b>Shareprice (p)</b>	<b>305</b>									

Source: Equity Development. Mpac's EV has been adjusted for pension. The cost of UK PPF levy is included within EBIT.

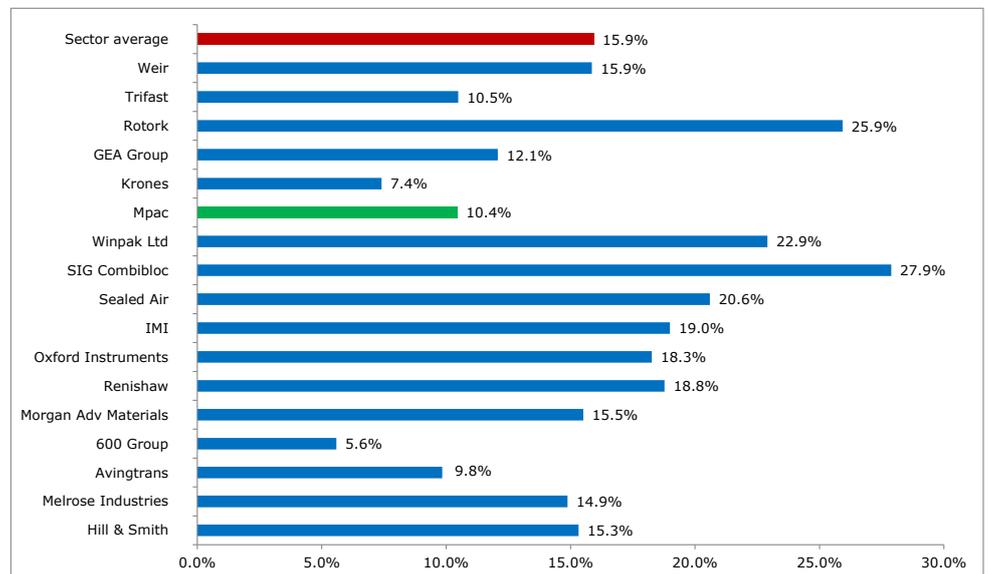
## Appendix - Valuation benchmarks & industry KPIs

### Current year (CY) + 1 sales growth rates



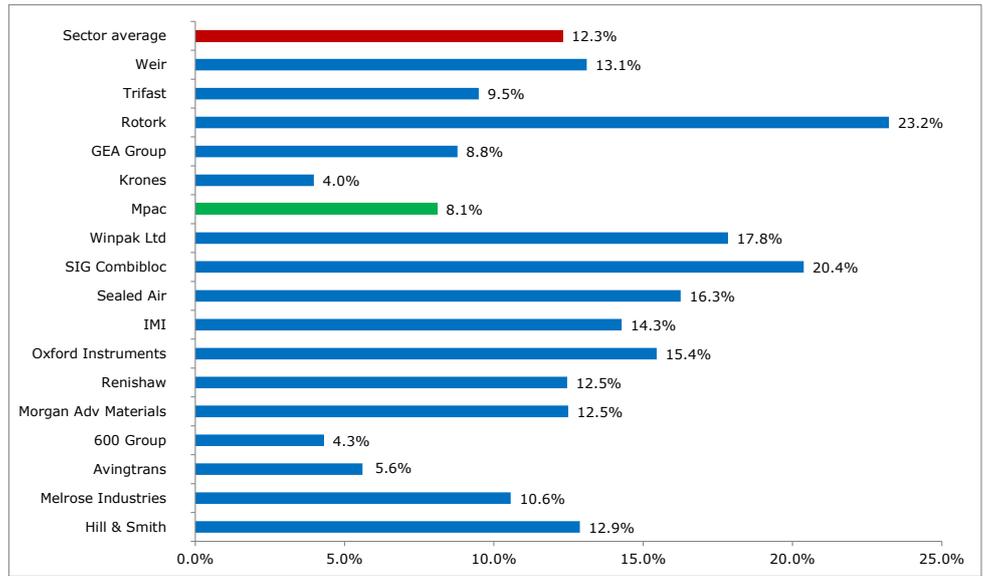
Source: Equity Development. Current year = 2020

### CY EBITDA margins



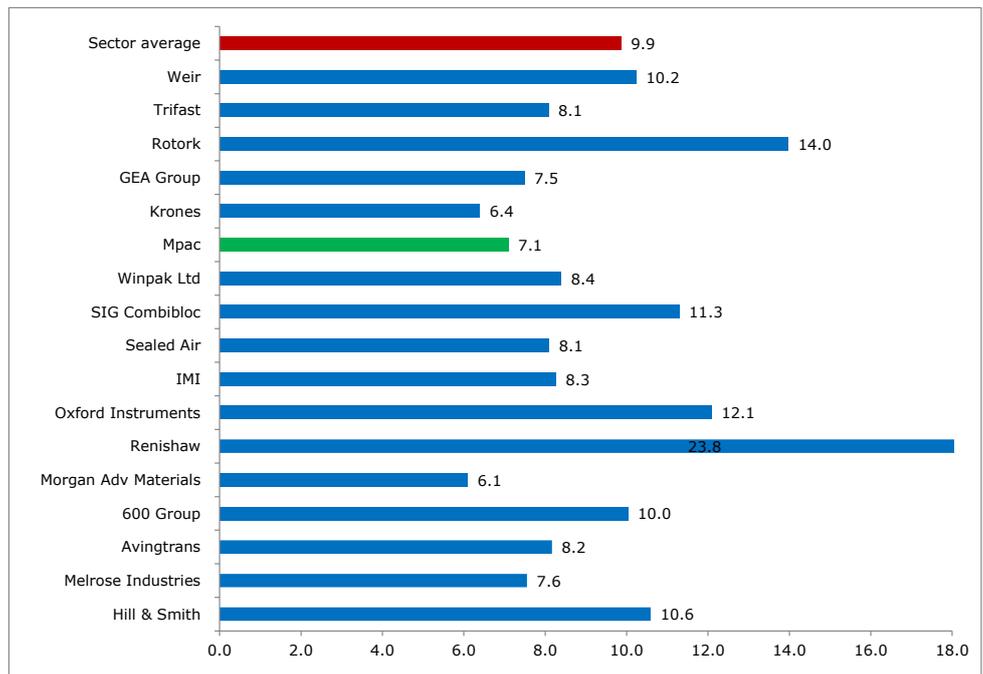
Source: Equity Development

### CY EBIT margins



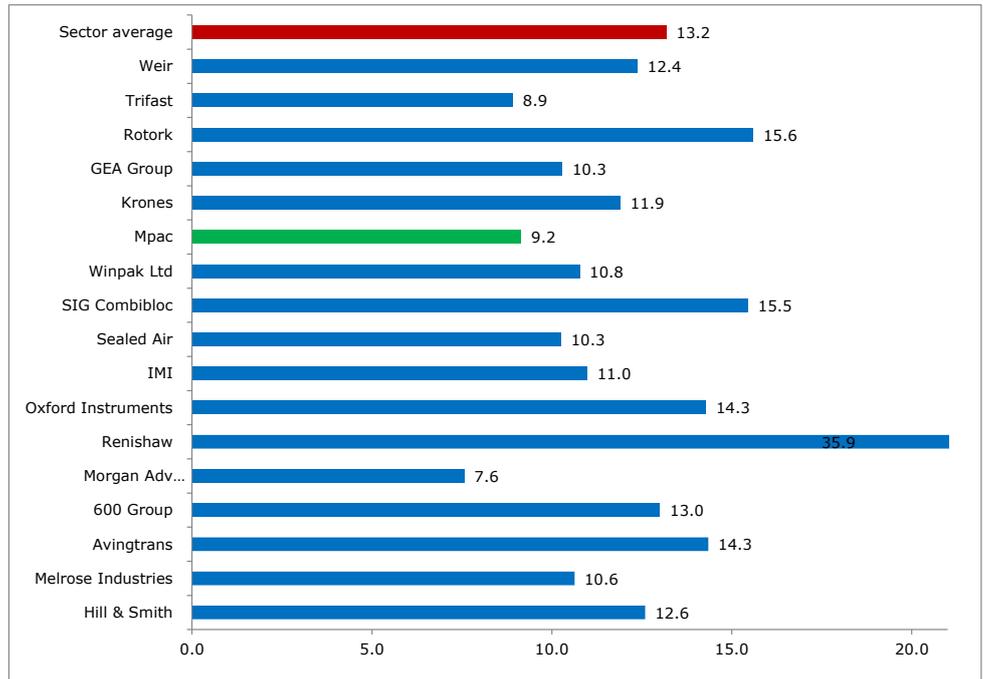
Source: Equity Development

### CY EV/EBITDA multiples



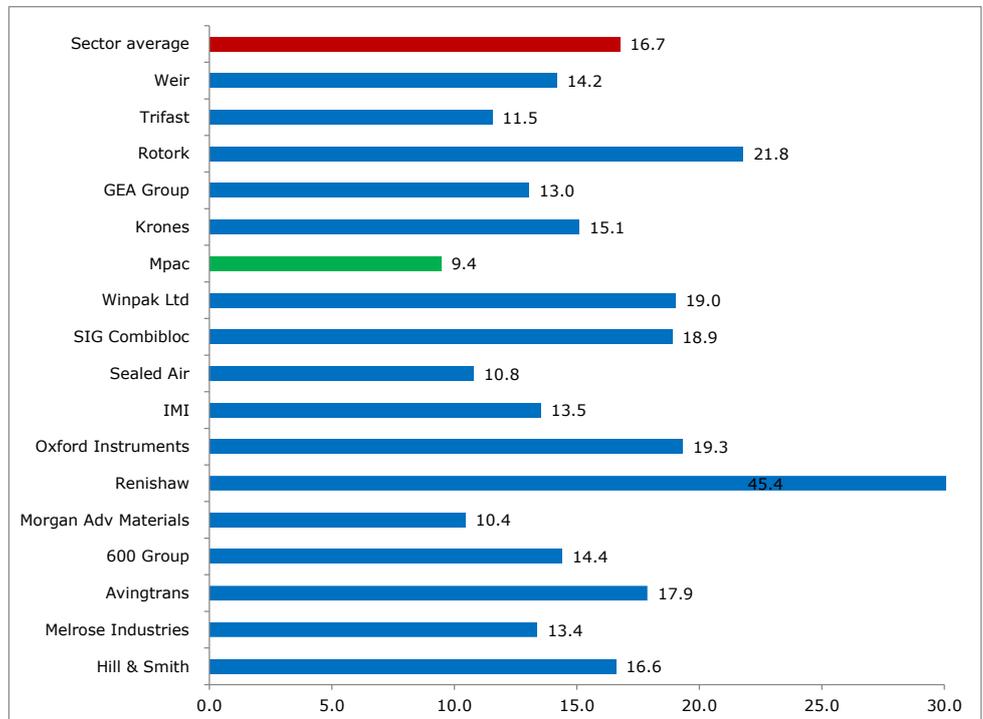
Source: Equity Development. Mpac pension adjusted

### CY EV/EBIT multiples



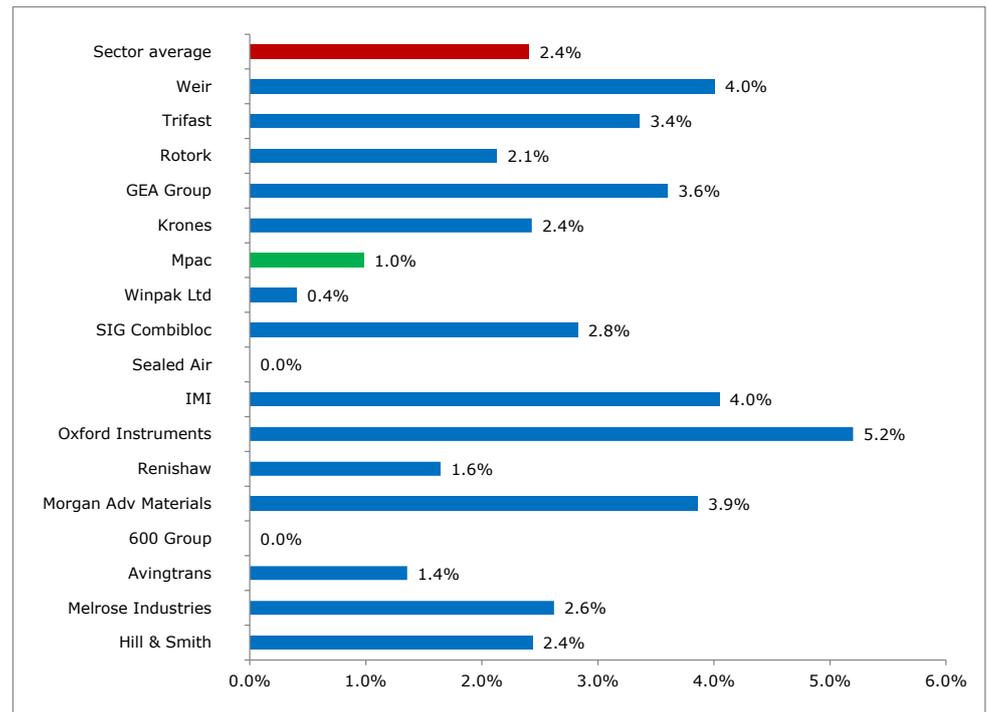
Source: Equity Development. Mpac pension adjusted

### CY PE ratios



Source: Equity Development.

### CY dividend yields vs peers



Source: Equity Development

### Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Hill & Smith	1,375p	£1,091.8	-£107.1	£1,198.9
Melrose Industries	206p	£10,007	-£2,805	£12,812
Avingtrans	295p	£92.6	-£7.8	£100.4
600 Group	14p	£16.9	-£18.2	£35.1
Morgan Adv Materials	285p	£812.3	-£157.0	£969.3
Renishaw	3,405p	£2,479	£71	£2,408
Oxford Instruments	1,410p	£809	£24	£786
IMI	1,030p	£2,791	-£274	£3,065
Sealed Air	\$31.50	\$4,788	-\$3,430	\$8,218
SIG Combibloc	€ 14.16	€ 4,531	-€ 1,342	€ 5,873
Winpak Ltd	\$34.60	\$2,249	\$503	\$1,746
Mpac	305p	£61.5	£18.0	£43.5
Krones	€ 57.20	€ 1,808	-€ 110	€ 1,918
GEA Group	€ 23.60	€ 4,260	-€ 270	€ 4,530
Rotork	305p	£2,657	£120	£2,537
Trifast	128p	£156.9	-£14.4	£171.3
Weir	1,270p	£3,277	-£1,157	£4,434

Source: Equity Development



## Investor Access

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