Strix Group plc

EQUITY Development

Green shoots now visible

29 March 2023

With FY22 now firmly in the rear-view mirror, Strix is looking forward with more optimism. China is re-opening for business following several COVID-related lockdowns and green shoots have begun to appear. Sales to OEMs have seen a substantial improvement in run-rates during the first two months of FY23 and, while a swallow does not make a summer, we see positive signs, not least the possibility that a recession may well be averted in Western economies. A combination of product launches, the acquisition of the high margin Billi and a cross fertilisation of sales between the consumer brands augurs well for FY23.

This has yet to be reflected in the rating, in our opinion, with our fair value / share rising to 216p. Even following the cut in dividend, the yield offers strong support.

The preliminary results were broadly in-line with our expectations and matched guidance from the pre-close trading update in January. The reduction in revenues and profitability centred on a difficult year within Kettle Controls, which reflected the impact of the sanctions against Russia as Western brands withdrew from the country and several of its neighbours. The underperformance peaked in early Q4 as the combination of the cost-of-living crisis in regulated markets bit (notwithstanding product price increases) and as COVID-related lockdowns resulted in several major customers closing temporarily.

The consumer areas (Water and Appliances) continued their upwards momentum, driven by product launches, new customer listings and distribution agreements, price increases within Water and, in the case of Appliances, the acquisition of Billi. The cross-fertilisation of products between Aqua Optima and LAICA was a further positive. However, despite new customer listings, private label products underperformed. Nevertheless, revenues (+12.8% across both categories) and gross profit (and margins) improved YoY, part-offsetting the malaise in Kettle Controls.

The Group acquired Billi, a manufacturer and distributor of premium boiling, chilled and sparkling filtered water systems in November 2022, thereby filling a gap in the Group's portfolio. Billi is the second largest player in the premium markets of Australia, New Zealand, and the UK. The cash consideration amounted to £38.9m, equating to 3.8x EBITDA, and was part-funded by an equity raise. Completion occurred on the final day of November. The integration of the business is progressing well, with the separate UK entity set to be finalised by early H2. **We expect Billi to have a significant impact on revenues and profitability of the Water and Appliances categories during FY23.**

The outlook is improving…

We expect FY23 to represent an inflection point for the Kettle Controls business. In the YTD, green shoots have appeared, with sales to OEMs rising 18% versus Q4 (which represented a low point in FY22). As COVID-related restrictions have been lifted in China, we expect revenues to improve further as bottlenecks are removed and trading returns to normal patterns. A combination of product launches within Water/Appliances/Billi, new listings (online and retail), and a cross-fertilisation of sales within the wider consumer areas is **expected to result in strong growth in revenues and profitability**.

...although this is yet to be reflected in the rating

Our comparative valuation models suggest that Strix Group is trading on the lowest FY1 EV/EBITDA and PER multiples within its peer group. **Our fair value estimate of 216p/share is backed by a conservative DCF model and represents a significant uplift on the current share price.** Even following the dividend cut, the FY1 yield amounts to 7.1%, with dividend growth slowing to reflect a desire to reduce indebtedness (we estimate the net debt/EBITDA ratio declining to 1.8x in FY23).

Company Data

EPIC	KETL
Price (last close, p)	88.20
52 weeks Hi / Lo (p)	243/75
Market cap (£m)	193
ED Fair Value (p)	**216**
Net debt (Dec 22, £m)	87.4
Avg. daily volume	1.1m

Share Price, p

Source: LSE

Description

Strix Group PLC is a global leader in the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.

The Group acquired Billi in November 2022, comprising Billi Australia Pty Ltd, Billi New Zealand Ltd and certain assets of Billi UK Ltd. Billi is a leading manufacturer and distributor of multifunctional taps.

£m	FY21A	FY22A	FY23E	FY24E
Revenue	119.4	106.9	155.2	169.3
Adj EBITDA	40.5	32.1	48.4	52.4
Adj PBT	32.2	22.2	29.2	34.2
Adj EPS (FD p)	14.9	10.8	12.2	14.1
DPS (p)	8.4	6.0	6.3	6.7
Net debt	(51.2)	(87.4)	(84.8)	(70.9)
EV/EBITDA (x)	6.0	9.0	5.9	5.2
P/E (x)	5.9	8.2	7.2	6.3
Yield (%)	9.5	6.8	7.1	7.6

Source: Equity Development forecasts

David O'Brien (Analyst)
0207 065 2690
david@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

Please refer to the important disclosures shown on the back page and note that this information is **Non-independent** and categorised as **Marketing Material**

Prelims broadly in-line

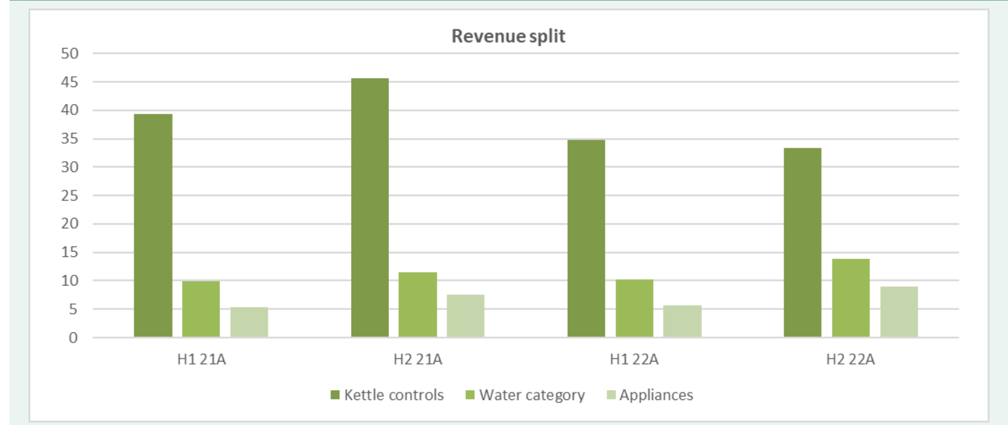
FY22 Prelims – 12 months to 31 December							
£m, unless otherwise stated	**H1 21A**	**H2 21A**	**FY 21A**	**H1 22A**	**H2 22A**	**FY 22A**	**YoY chg. %**
Kettle Controls	39.4	45.7	85.1	34.8	33.4	68.2	-19.8
Water category	10.0	11.4	21.4	10.3	13.9	24.1	12.8
Appliances	5.3	7.6	12.9	5.6	8.9	14.5	12.8
Total Revenue	**54.7**	**64.7**	**119.4**	**50.7**	**56.2**	**106.9**	**-10.5**
Cost of Sales	-34.2	-37.8	-72.0	-31.2	-34.2	-65.4	-9.2
Kettle Controls	16.8	18.9	35.7	15.0	12.9	27.9	-21.7
Water category	2.4	4.5	6.9	2.6	5.3	7.9	13.8
Appliances	1.6	3.3	4.9	1.9	3.8	5.7	17.9
Gross Profit	**20.8**	**26.6**	**47.4**	**19.5**	**22.0**	**41.5**	**-12.4**
Kettle Controls	42.6%	41.3%	41.9%	43.1%	38.7%	40.9%	
Water category	24.3%	39.2%	32.3%	24.9%	38.2%	32.6%	
Appliances	30.4%	42.8%	37.7%	34.2%	42.7%	39.4%	
Gross Margin %	**38.1%**	**41.1%**	**39.7%**	**38.4%**	**39.2%**	**38.8%**	
OpEx	-6.9	-7.4	-14.3	-7.2	-9.2	-16.4	14.8
Other operating income	0.4	0.2	0.6	0.6	0.2	0.8	33.6
Associates	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	**17.4**	**23.1**	**40.5**	**15.9**	**16.2**	**32.1**	**-20.7**
EBITDA %	31.9%	35.7%	34.0%	31.4%	28.9%	30.0%	-11.5
Adjusted EBIT	**14.3**	**19.4**	**33.7**	**12.9**	**13.0**	**25.9**	**-23.2**
EBIT %	26.1%	30.0%	28.2%	25.4%	23.1%	24.2%	
Finance costs	-0.7	-0.8	-1.5	-1.3	-2.4	-3.7	146
Adjusted PBT	**13.6**	**18.6**	**32.2**	**11.6**	**10.5**	**22.2**	**-31.0**
Exceptionals	-4.8	-6.0	-10.7	-3.8	-2.2	-5.9	-44.5
Reported PBT	8.8	12.6	21.4	7.9	8.4	16.2	-24.3
Tax	-0.9	0.0	-0.9	0.0	0.8	0.8	-194
Adjusted PAT	**12.7**	**18.7**	**31.4**	**11.6**	**11.4**	**23.0**	**-26.8**
Minority interests	-0.1	0.0	0.0	-0.1	0.0	-0.1	35.4
Adjusted Earnings	12.6	18.7	31.4	11.5	11.4	22.9	-26.9
Wav. Diluted no. of shares	209.5	209.7	209.7	207.0	212.5	212.5	1.4
Adjusted EPS (p)	5.9	9.0	14.9	5.5	5.3	10.8	-27.5
DPS (p)	2.8	5.6	8.4	2.8	3.3	6.0	-28.1
Net debt	-46.0	-51.2	-51.2	-61.3	-87.4	-87.4	70.7

Source: Company / Equity Development

FY22 preliminary results met expectations of £23m PAT set at the time of the pre-close trading update. Net debt was slightly lower than anticipated at £87.4m (versus guidance of £89m), with the review of the final dividend undertaken, resulting in a 6p pay out for the full year (ED estimate of 6.5p). **Significantly, at the current share price, the historic yield amounts to a generous and markedly above average 6.8.**

Many moving parts to the YoY decline in revenues

Post-Billi, the smaller divisions account for c.47% of revenues



Source: Company, ED

Overall revenues declined 10.5% YoY to £106.9m. The decline within Kettle Controls was partially offset by good growth in the Water and Appliances categories and an initial one-month contribution from Billi. With Billi contributing revenues of £2.7m, the scale of the decline in organic growth amounted to a 12.7% shortfall compared to FY21.

Kettle Controls faced challenges

It proved a difficult year for Kettle Controls, with the war in Ukraine initially and COVID-related lockdowns in China impacting trading. Revenues declined 19.8% to £68.2m, with the divisional share of turnover falling to a more balanced 63.8% of Group revenues (FY21: 71.3%) and, on a proforma basis, taking into account reported FY22 revenues of Billi, a run-rate of c.47%.

The revenue shortfall YoY within Kettle Controls amounted to £16.9m. The economic sanctions resulting from the invasion of Ukraine led to several European premium brand customers ceasing to supply into Russia and the tougher economic environment from such actions spread to territories on its periphery. The lower subsequent shipment volumes were exacerbated by a move in favour of lower priced controls in the region.

Although there were no such restrictions on Chinese OEMs supplying into Russia, the stop-start nature of portions of the Chinese economy during FY22, as several COVID-related lockdowns were implemented, had a marked effect on trading. In fact, two of the Groups five largest OEMs witnessed major interruptions, which prevented Strix from shipping goods during the busiest time of the year, resulting in a marked reduction in divisional revenues and a small sequential fall in H2 (vs H1 22, -3.9%) to the lowest level of revenues since H1 20, as the pandemic began to impact the global economy.

The Regulated market, which accounts for approximately 60% of revenues within Kettle Controls, declined 36% YoY during Q4, albeit the worst of the decline was seen in October. A shallower decline was experienced within the Less Regulated market, which began to deteriorate earlier, during Q3 21. The sanctions against Russia were more keenly felt within this segment of the market.

The lifting of restrictions in China is expected to lead to an improvement in volumes shipped during H1 23, with a positive start YTD – revenues to OEMs improving 18% in January and February compared to the Q4 22 run-rate.

Good progress within the Water category…

The top-line within the Water category increased by 12.8% YoY to £24.1m, with the lion's share delivered organically, as the acquisition of Billi was included for just a month. Growth reflected several online product launches (driving sales of Aqua Optima brand), a broadening of the product range across the UK and Europe, and the signing of additional distributors in Europe, China, the US and Canada. The securing of private label contracts should benefit the division over the medium term, although revenues from private label declined 11% YoY, reflecting a softening in the market due to cost-of-living crisis in H2.

A cross-fertilisation of the customers of Aqua Optima and LAICA continued to progress, with the latter promoting Aqua Optima's products in southern and central Europe. The number of online retailers listing both brands (and private label) rose during H2 and is set to grow further during FY23. Further product launches occurred during H2, including 'Perfect Pour' a new water filtration dispenser initially targeting the US, UK, and Europe, and these are expected to have a greater impact on revenues during FY23.

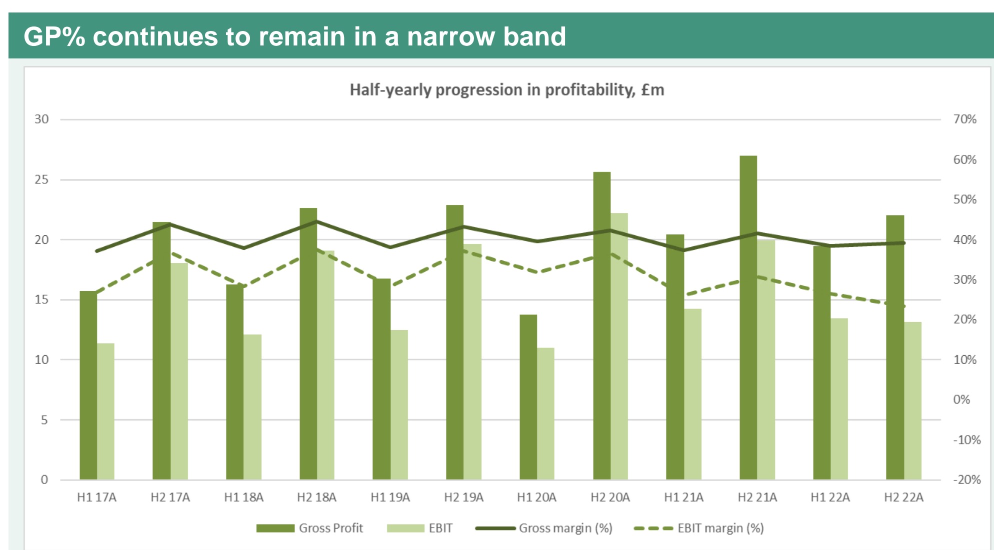
...and within Appliances

Although starting from a lower base, the rate of top-line progression was equally pleasing within the Appliances category, jumping 12.8% to £14.5m. The bulk of the uplift was due to the acquisition of Billi, with core revenues broadly flat (despite strong growth in Aqua Optima), although this outcome compared favourably to a falling market. Organic growth amounted to +6.5% during H1, suggesting that the momentum from FY21 product launches (Aurora, Aurora Hot, Aurora Chilled, Dual Flo, Visione) petering out in more uncertain markets during Q4 as interest rate rises affected consumer sentiment.

Although future product launches are on the cards, the Group-wide efficiency drive has resulted in a more selective marketing approach, with investment spend focused on those products deemed more crucial to medium-term growth and with shorter payback periods.

Gross margin impact restricted, rising sequentially in H2

GP% continues to remain in a narrow band



Source: Company, ED

While gross margins declined by 88 bps to 38.8% in FY22 overall, a combination of several factors, including the acquisition of Billi, resulted in a sequential improvement of 75 bps during H2 to 39.2%. Much of the decline in Kettle Controls gross profit / margin (-£7.7m to £27.9m / -96 bps to 40.9%) was due to the

mix of sales reflecting lower revenues within **Kettle Controls** in regulated markets, with a rising proportion of cheaper controls sold during H2. **However, price increases from May onwards began to offset the supply chain inflation, including the higher procurement and shipping costs endured by the division.**

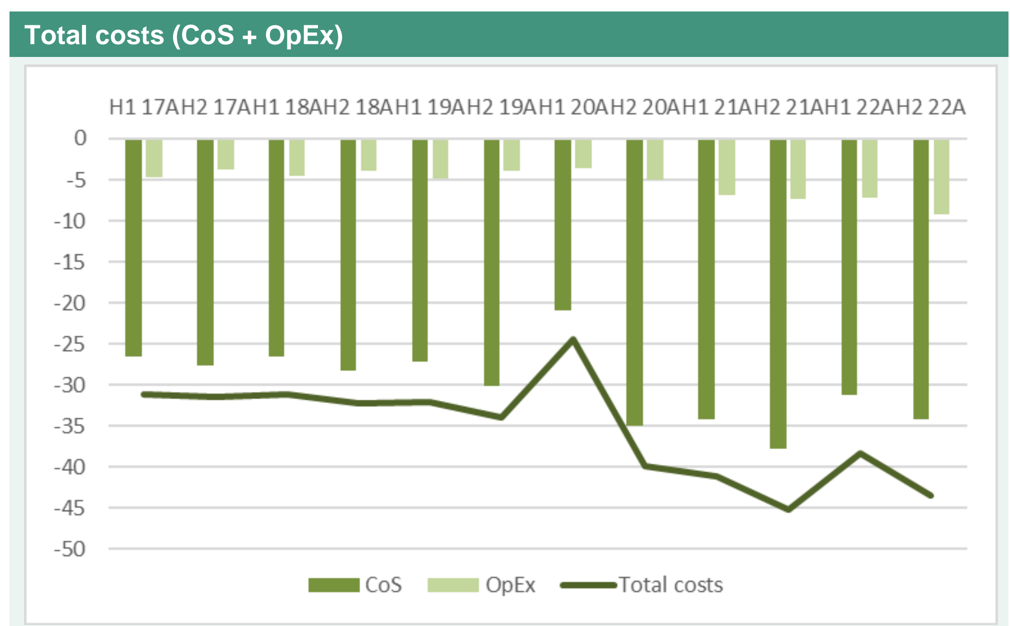
Gross profit / margin improved by £1m / 30 bps to £7.9m / 32.6% within the **Water Category**, reflecting a combination of higher volumes, product price increases and the acquisition of Billi, which has a similar gross margin to the historic levels of Kettle Controls.

A strong gross profit / margin performance was delivered by the **Appliance category**, rising to the highest return across the three categories of the Group during H2 22 at 42.7%. The mix of revenues improved due to the H2 21 product launches and the one-month contribution of Billi. We anticipate a further uplift in FY23 as Billi delivers its full-year maiden contribution.

Investors had concerns about declining gross margins, believing that returns within Kettle Controls were subject to ongoing cost down pressures and that the two smaller divisions were unlikely to make up the shortfall. **The chart above highlights that gross margins in H2 22 of 39.2% remained firmly in the medium to long term range of 37.2% (H1 17) to 44.5% (H2 18). We anticipate the inclusion of Billi for its maiden year in FY23, coupled with a recovery in Kettle Controls (and a FY of higher pricing) should witness a further recovery in margins.**

Rising costs

Total costs (CoS + OpEx)



Source: Company, ED

Significantly, the cost of sales declined 9.2% YoY to £65.4m (FY21: £72.0m) broadly in-line with the fall in revenues. The uncertainty caused initially by the war in Ukraine and latterly the customer plant closures in China, resulted in management actions to reduce costs across the business. **Where possible, products were sourced internally rather than via third parties, thereby leading to a rationalisation of the supply chain and in turn, avoiding significant procurement inflation.**

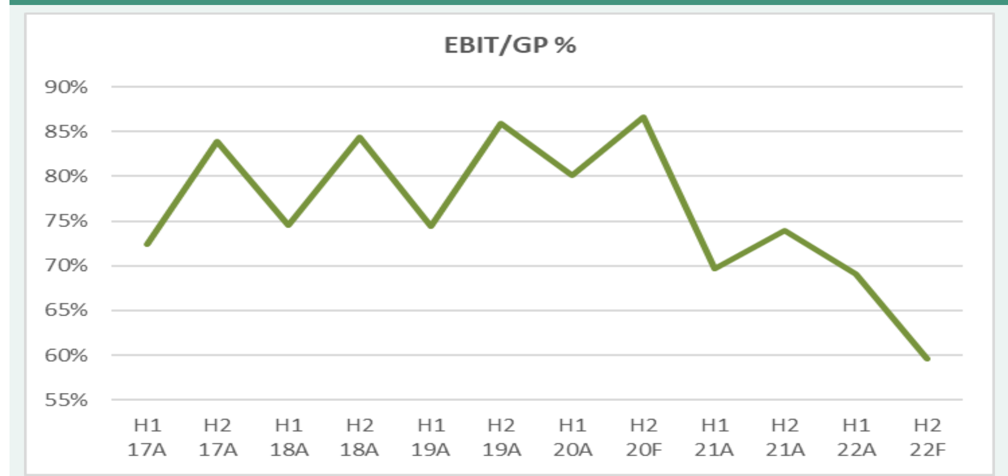
The level of automation in the Chinese production facility increased to 77%, resulting in leaner processes and some redundancies within the facility. The closure of the temporary warehouses and need to ship inventory post-lifting of lockdown restrictions in China will have contributed to the easing of cost of sales ahead of the year end. Also, measures were put in place to reduce inventory, with the purchase of Billi responsible for much of the uplift between levels at the end of H1 and the FY outcome.

However, OpEx increased 14.8% YoY to £16.4m and rose 25.0% in H2 22. The drivers behind the significant increases were:

- **General inflationary pressure, which was more evident in freight, stock handling and carriage costs**
- Advertising and promotion costs for new product launches rose significantly
- Investment in HR in commercial areas
- Salary inflation within the sales & marketing department was particularly high
- The inclusion of Billi for one month was responsible for £0.4m or 4.1% of the 18.1% increase in distribution costs
- Administration costs increased 9.1% to £5.6m, after declining 9.6% YoY during H1, with the addition of Billi responsible for the lion's share of the £0.5m YoY increase.

We think it is significant that the lowest level of H2 revenues since H2 19 has resulted in the proportion of gross profit feeding through to EBIT at its lowest level since IPO. **It is our belief that a recovery in throughput following the lifting of COVID-related restrictions in China should result in rising volumes in H1 23 onwards, with a full-year of price increases continuing to part-offset margin pressure from its supply chain**. We would expect the level of operational gearing from the fulfilment of the backlog of orders to result in improved EBIT margins, particularly in Kettle Controls.

Operational leverage impacting EBIT



Source: Company, ED

The significant increase in OpEx, coupled with the falling revenues within Kettle Controls resulted in EBITDA declining 21% to £32.1m and adjusted EBIT falling 23.2% to £25.9m. Returns fell to 30.1% (FY21: 34.0%) at the EBITDA level and an EBIT margin of 24.2% (FY21: 28.2%).

Interest costs more than doubled to £3.7m (FY21: £1.4m), reflecting a combination of rising debt levels and interest rates, plus the refinancing of the RCF to facilitate the £38.9m consideration for Billi. As a result, adjusted PBT declined 31.1% to £22.2m.

The Group benefitted from a tax credit with tax incentive credits in Italy and a release of the previous year's provisions in China, following the significant investment to complete new manufacturing facility on China. This more than offset the £0.5m tax on overseas profits, resulting in a YoY £1.7m turnaround in tax to a credit of £0.8m. As such, adjusted PAT was in line with expectations at £23.0m.

Adjusted EPS fell 27.5% to 10.8p (FY21: 14.0p), with the FD weighted average number of shares increasing 1.4% to 212.5m and the year-end figure rising to 218.7m, reflecting an issue of shares in part consideration for Billi.

In view of the increase in debt post-Billi and the very high yield expectations at the time, it was our belief that the final dividend was likely to be reduced. **The outcome delivers a 6p dividend per share for the full year, representing a very attractive FY22 yield of 6.8% at the current share price.** The pay-out is covered 1.8x by adjusted EPS. Should our expectation of improving revenues, margins and EPS be confirmed, then we anticipate progressive growth in the dividend in FY23.

The level of exceptional costs reduced markedly to £5.9m (FY21: £9.9m). The key components included:

- £4.0m of M&A costs including consultancy costs associated with the acquisition of Billi and the compensation for the vendor shareholders of LAICA
- £1.2m of COVID-related costs that otherwise would not have been required, including the additional warehouses required during the enforced lockdowns, higher labour costs, infection control costs, exceptional freight costs and the mothballing of certain activities
- £0.9m of restructuring and reorganisation costs relating to the onboarding of a replacement supplier following the flooding of an existing supplier's facility
- External consultants were required to restore the Group's IT capabilities following a cyber incident in February 2022, at a cost of £0.4m
- Exceptional finance costs of £0.2m reflected the reduced level of contingent consideration for LAICA and payable in February 2023
- Share based payments equating to a credit of £0.5m.

Balance sheet and cash flow

Net debt rose to £87.4m, from £51.2m, notwithstanding a reduction of just £1m YoY to £23.2m in operating cash flow. Working capital declined £1.6m during H2, albeit rising £2.6m for the year as a whole and highlighting the focus on cash and cost control as trading became tougher (Ukraine war/Chinese lockdowns).

The £36m increase in indebtedness reflected a combination of the consideration for Billi, a halving of the level of capex to £8.6m (following last year's completion of the new manufacturing facility in China), increase in dividends payable to £17.3m (FY21: £16.5m) and rising interest payable.

The net debt/EBITDA ratio of 2.2x (FY21: 1.3x), is measured on a proforma basis to include both the debt and the level of EBITDA Billi would have generated for the Group had it been acquired at the start of the year. **The net debt/EBITDA covenant on the refinanced RCF stands at 2.75x, suggesting comfortable levels of headroom.** We expect net debt/EBITDA levels to reduce to approx 1.4x by the end of FY24.

The acquisition of Billi had a marked impact on the balance sheet, increasing the level of intangible assets, net debt and working capital (+£6.2m). Net assets increased £11.2m overall to £37.2m.

Financials

Estimate changes

£m	Old FY23E	New FY23E	YoY change, %	Old FY24E	New FY24E	YoY change, %
Revenue	157.1	155.2	-1.2%	171.6	169.3	-1.3%
Adj. EBITDA	50.7	48.4	-4.5%	54.6	52.4	-4.0%
Adj. PBT	30.5	29.2	-4.2%	35.8	34.2	-4.4%
Adj. PAT	26.8	25.8	-3.5%	31.5	30.0	-4.9%
Adj. EPS (p)	12.1	12.2	0.6%	14.2	14.1	-0.7%
DPS (p)	7.0	6.3	-10.0%	8.0	6.7	-16.9%
Net debt	-83.8	-84.8	-1.2%	-74.4	-70.9	4.7%

Source: Equity Development

We chose not to adjust estimates at the time of the January pre-close trading update, preferring to wait until we had some indication of trading in the early part of FY23. Given that the FY22 outcome was modestly below our expectations, it was inevitable that we would need to fine-tune estimates for FY23 and FY24, notwithstanding evidence of green shoots within Kettle Controls. Should greater evidence of recovery feed through during H2 we would seek to revise our financial expectations upwards.

We have reduced our dividend expectations disproportionately relative to the fine tuning elsewhere. This reflects several factors, including the cut to the final dividend being greater than our estimate and, the focus on reducing indebtedness. **That said, we expect dividend cover of 1.8x in FY22 to rise to 1.9x in FY23 and 2.1x in FY24, as growth in the level of pay out remains below the progress in EPS. Nevertheless, the yield on our FY23 dividend expectation amounts to a very generous 7.1%.**

We think there are several positives which augur well for the outlook for the current year and beyond, including:

- Green shoots are apparent, with demand from OEMs for Kettle Controls increasing 18% YTD during Q1 23, traditionally the quietest quarter of the year
- The re-opening of the Chinese economy following the lifting of lockdown restrictions, resulting in access to all customers (two of the top five OEMs previously were forced to close their facilities), with all backlogs potentially cleared by Q2
- A subsequent Improvement in volumes within Kettle Controls is expected to lead to a recovery in returns, aided by a full year of price increases
- The launch of the new Series Z kettle controls before the year end, combined with updated kettle features, focusing on cost benefits for the customer, design trends and energy savings
- A more focused approach to product launches which commenced in H2 22, is likely to result in improved returns within the Water and Appliance categories
- Six new customer/distribution agreements signed during FY22, which are expected to benefit Aqua Optima and LAICA during FY23
- The launch of the Ontario beverage station (hot, chilled and sparkling water, plus coffee) and the Aurora coffee machine in the UK, Europe and North American markets
- New filters and filter bags within the Water category
- The cross-selling of Aqua Optima and LAICA countertop products into Billi's commercial and regional markets

- A maiden full year contribution of Billi, which has been integrated into the Water and Appliance categories. Billi sells premium products in the hot tap market and traditionally trades at margins similar to those reported historically within Kettle Controls
- We anticipate new product launches at Billi, not least an integrated tap during Q2 and a sparkling water tap during H2, which are expected to benefit revenues across all markets, not least residential
- Billi has a strong order pipeline, recently securing its largest ever contract in New Zealand (a hospital in the north of the Island) and a solid Q1 outlook in the UK and RoW regions, with greater visibility in Australia
- Billi has moved into the residential market, although this forms a relatively small but growing portion of the business
- Distribution agreements have been signed across several Asian markets, expanding the reach of Billi
- There remains scope for further integration benefits, not least in procurement, marketing, distribution, retail and in manufacturing efficiency/capacity utilisation.

Exceptional costs of c. £2.2m are anticipated in FY23, relating to the integration of Billi (including the new infrastructure in the UK), restructuring costs and share-based payments.

We expect expenditure to rise in FY23, reflecting the improvement in its markets. However, a key focus continues to be the rapid pay down of indebtedness.

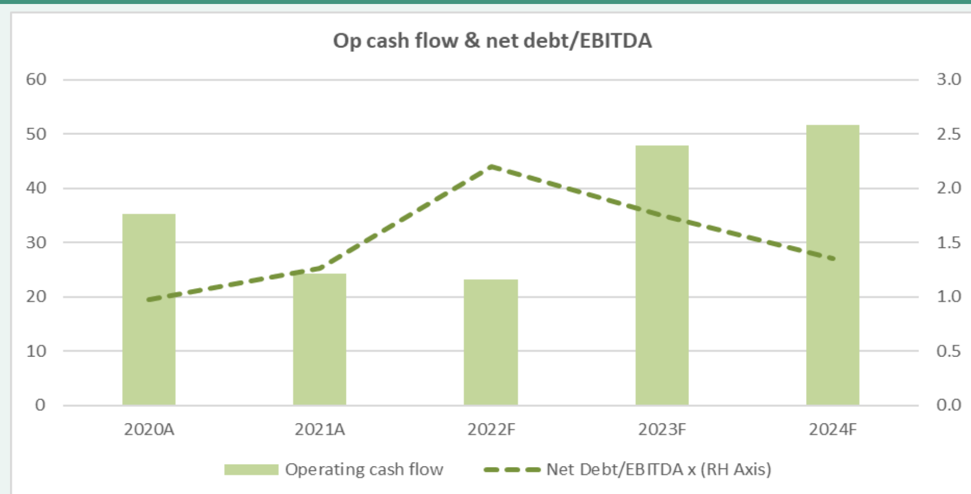
Just as rising automation and insourcing of components reduced the level of supply chain inflation during FY22, we think there is scope to source components for Billi's products from either of the Group's plants in China or Italy.

We believe that capex, having been kept on a tight rein during FY22, is likely to rise during FY23, in part owing to the necessity to separate Billi UK from its previous parent and set up new infrastructure, including head office, showroom, IT and a new ERP system. That said, we do not expect capex to reach the highs of FY20 and FY21 when the Group built its new Chinese manufacturing facility.

Working capital will be kept on a relatively tight rein, although the inventory will have to grow to facilitate the recovery within Kettle Controls. We expect debtor days to decline from a high of 66 days in 2022 (distorted by the acquisition of Billi – which included the closing balance of trade debtors but not the year's revenues). However, the purchase of Billi is likely to move the average DSOs above FY21's 41 days.

One should bear in mind that in FY22 (mostly under the control of its previous parent) Billi delivered adjusted PBT of £5.6m, in a time of uncertainty when its previous parent was a forced seller to comply with regulators to enable a larger merger. As such, **we would anticipate operational cash flow to improve markedly, resulting in the Group's indebtedness being paid down rapidly**, notwithstanding the £7.4m final deferred consideration payable to LAICA. We think net debt is likely to decline to £84.8m by the end of FY23 and £70.9m at the end of FY24. On this basis, we expect net debt/EBITDA to decline to 1.8x by the end of FY23 and to 1.4x a year later, well within covenants and which is expected to result in the margin above the SONIA rate declining.

Operating cash flow and net debt/EBITDA



Source: Equity Development

Summary Profit & Loss

Year to Dec, £m	2020A	2021A	2022F	2023F	2024F
Kettle controls	79.8	85.1	68.2	71.0	74.0
Water products	11.7	21.4	24.1	43.9	50.4
Appliances	3.7	12.9	14.5	40.3	44.9
Revenue	95.31	119.41	106.92	155.17	169.33
CoGS	-55.9	-72.0	-65.4	-91.3	-100.0
Gross profit	39.4	47.4	41.5	63.9	69.3
Gross margin (%)	41.4%	39.7%	38.8%	41.2%	41.0%
Operating costs	8.5	14.3	16.4	25.6	27.9
Other Operating income	1.1	0.6	0.8	0.7	0.7
Operating profit	32.0	33.7	25.9	38.9	42.1
Operating margin (%)	33.6%	28.2%	24.2%	25.1%	24.9%
Net Interest	-1.2	-1.4	-3.7	-9.7	-7.9
Associates	0.1	-0.1	0.0	0.0	0.0
PBT (Adjusted)	30.9	32.2	22.2	29.2	34.2
Exceptionals	-5.5	-10.7	-5.9	-2.2	0.0
PBT (Reported)	25.5	21.5	16.2	27.0	34.2
Tax	-1.4	-0.9	0.8	-3.4	-4.3
Adj. PAT	29.5	31.4	23.0	25.8	30.0
Minority interests	0.0	0.0	-0.1	0.0	0.0
Adj. Earnings	29.5	31.3	22.9	25.9	30.0
Reported PAT	24.0	20.6	17.0	23.7	30.0
Ordinary Dividends	-16.0	-17.3	-13.1	-13.8	-14.5
EPS (Adjusted) (p)	14.3	14.9	10.8	12.2	14.1
DPS (p)	7.9	8.4	6.0	6.3	6.7
Ave no of shares (FD) (m)	206.4	209.7	212.5	212.5	212.5

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2020A	2021A	2022F	2023F	2024F
Operating profit	32.1	33.7	25.9	38.9	42.1
Depreciation & Amortisation	6.0	6.9	6.3	9.5	10.3
Working capital movement	-1.6	-11.4	-2.6	-0.6	-0.8
Other	-1.2	-4.9	-6.3	0.0	0.0
Operating cash flow	35.2	24.2	23.2	47.8	51.6
Net Interest	-3.4	-2.7	-3.2	-9.7	-7.9
Taxation	-0.9	-1.9	-1.2	-1.3	-3.8
Net capex	-17.4	-15.4	-8.6	-13.5	-12.0
Operating FCF	13.5	4.2	10.3	23.4	27.9
Net (Acquisitions)/Disposals	-6.7	-1.6	-39.3	-7.4	0.0
Dividends	-15.3	-16.5	-17.3	-13.3	-14.0
Share Issues	3.8	0.0	10.7	0.0	0.0
Minority payment	-0.1	-0.3	0.0	0.0	0.0
Other financial	-6.0	0.2	-0.6	0.0	0.0
Increase Cash/(Debt)	-10.9	-14.0	-36.2	2.6	13.9
Opening Net Cash/(Debt)	-26.3	-37.2	-51.2	-87.4	-84.8
Closing Net Cash/(Debt)	-37.2	-51.2	-87.4	-84.8	-70.9

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2020A	2021A	2022F	2023F	2024F
Intangible Assets	29.6	30.5	73.4	71.0	68.3
Tangible Assets	37.2	39.5	43.7	50.1	54.5
Investments/other	0.1	3.3	3.7	3.7	3.7
Net Working Capital	4.4	15.9	18.5	19.0	19.8
Capital Employed	71.4	89.1	139.2	143.8	146.3
Other	-2.8	-2.6	-2.8	-2.8	-2.8
Net Cash/(Debt)	-37.2	-51.2	-87.4	-84.8	-70.9
Provisions Liabilities/Charges	-9.3	-4.7	-12.3	-12.3	-12.3
Net Assets	22.0	30.7	36.7	43.9	60.3

Source: Company historics, Equity Development estimates

Valuation

We think that Strix has been overlooked by investors following a troubled year. However, we expect revenues and profitability to reach an inflection point in FY23 and with it cash flow. We have updated our discounted cash flow model using what we believe to be conservative assumptions, in particular, a discount rate of 8.75% and a terminal growth rate of 2.25%.

The model suggests a value / share of 232p.

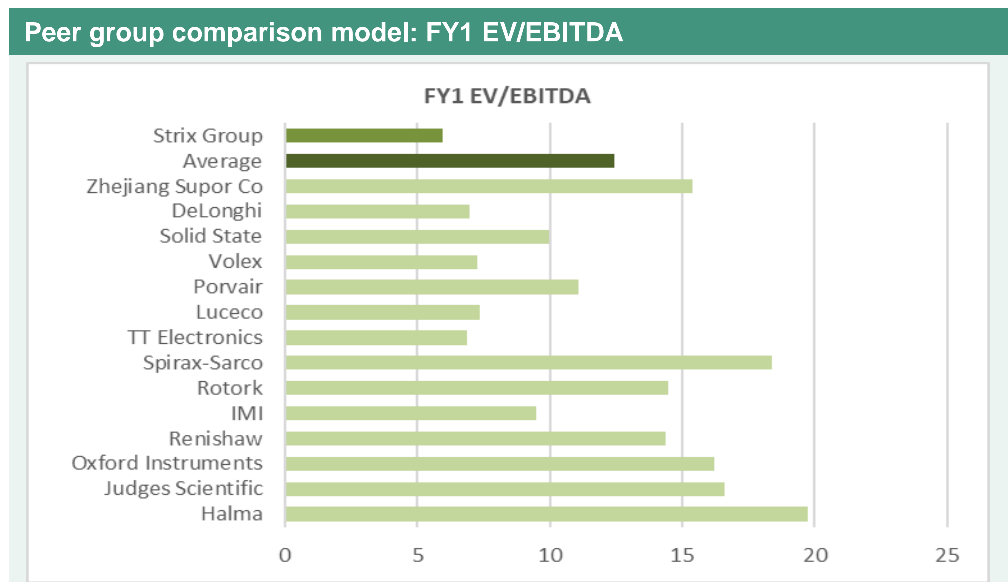
Strix Group DCF calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Free cash flow	30.6	34.2	38.3	39.2	40.1	41.0	41.9	42.8	43.8	44.8
WACC (%)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Timing factor	0.08	1.08	2.08	3.08	4.08	5.08	6.08	7.08	8.08	9.08
Discount rate	0.99	0.91	0.84	0.77	0.71	0.65	0.60	0.55	0.51	0.47
Present value	30.4	31.3	32.2	30.3	28.4	26.7	25.1	23.6	22.2	20.9
Sum of discounted cash flows	271.2									
Terminal growth rate (%)	2.25									
Terminal value	321.5									
Net debt	-84.8									
Equity value	508.0									
No. of shares (m)	218.7									
Value per share	232.3									

Source: Equity Development

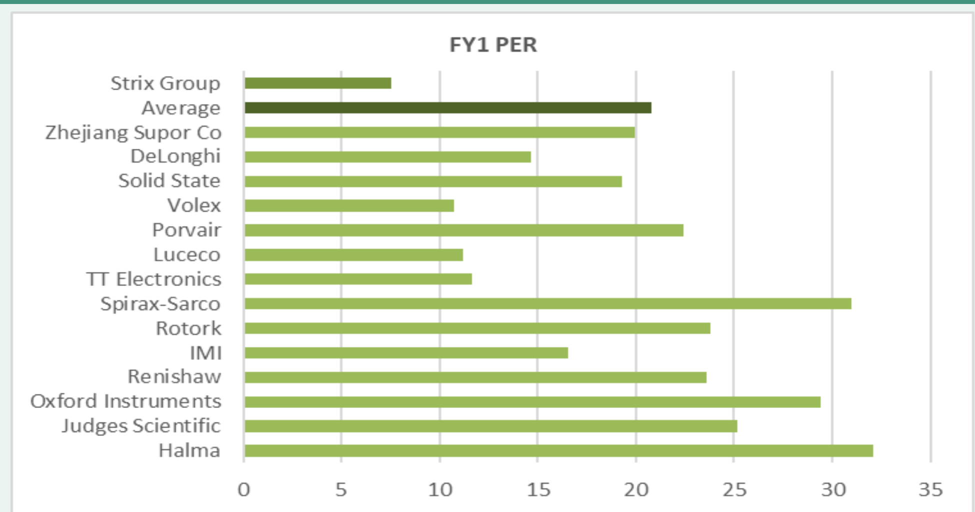
We have utilised a comparative peer group valuation model using FY1 EV/EBITDA, FY1 PER and FY1 yields in the charts below. **We think the charts highlight that on both a FY1 EV/EBITDA and FY1 PER basis, Strix has the lowest valuation of its peers, yet it has by far and away the highest yield.**

Peer group comparison model: FY1 EV/EBITDA



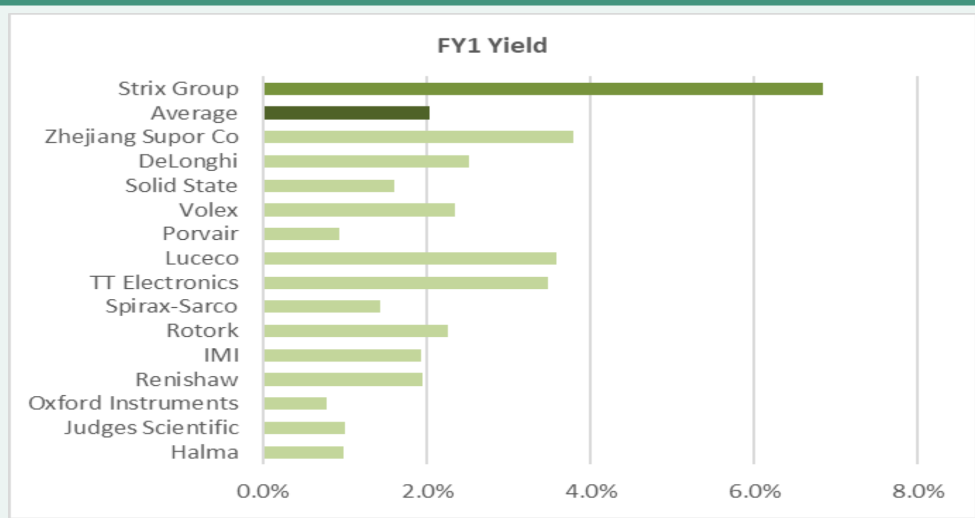
Source: MarketScreener, ED

Peer group comparison model: FY1 PER



Source: MarketScreener, ED

Peer group comparison model: FY1 Yield



Source: MarketScreener, ED

In deriving fair value, we have applied a 15% size related discount for Strix into our peer group valuations. The average of the three valuation models (including DCF) suggests a fair value of 216p / share. The current share price stands just 23% above post-IPO lows.

We note that at 7.1% on a forward looking basis, the Group's yield is at a sizeable premium to its peers, further emphasising the attractions of the Group to investors.

Fair value

	FY23 fair value	FY24 Fair value
DCF	232	232
PER	215	226
EV/EBITDA	200	201
Average	215.9	219.8

Source: ED

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690