Strix Group Plc

A marked reduction in debt

30 April 2025

The preliminary results from Strix ticked several boxes, including a significant reduction in indebtedness, profitability ahead of upwardly revised estimates and a refocused Consumer Goods division. The strong momentum experienced during Q4 '24 continued into Q1 '25, albeit this slowed within Kettle Controls during Q2 and reflecting the macroeconomic uncertainty. That said, the Board's guidance on profitability remains unchanged.

Results in line with January's upgrade

- The results for FY24 reflected the volatile nature of the year, helped by the strong finish in December. The outcome was modestly ahead of our upwardly revised adj. PBT estimate of £18.4m. **Significantly, net debt declined £20m to £63.7m**, representing a net debt leverage ratio of 1.87x (FY23: 2.19x) and comfortably within the parameters of the main banking covenant (2.75x) and the Group's preferred target range of 1x-2x. The reduction in debt resulted in downwards pressure on the margin over the base rate charged by its bankers.

- Several products were launched during Q4 '24, particularly by Billi, with all divisions releasing new lines in H1 '25. Coupled with additional distribution agreements to widen the Group's geographic reach across the UK and Europe and the targeting of new channels, we expect momentum to build during H2 across all divisions.

- The Group's overall exposure to the US amounts to just £7m, or 4.6% of projected FY25 revenues. While this may be of concern to investors, retailers are likely to restock when necessary and consumers have little alternative but to buy small kitchen appliances from China, when requiring replacement products. Any peace agreement between Russia and the Ukraine could well remove sanctions and result in orders from the region.

- **We expect the Group to announce a final dividend for FY24, to be issued during H2 '25, which would likely offer an attractive yield at the current share price.**

Fair value significantly ahead of the share price

- In view of the uncertainty attached to global trade currently, we have produced estimates for FY25 only, preferring to add FY26 expectations alongside the interims. As such, a DCF valuation would not be appropriate, and we have relied instead on a peer group comparison models to determine fair value. **At 103p, this stands some 144% above the current share price.**

Forecasts

Yr. to Dec, £m	FY22A	FY23A	FY24A	FY25F
Revenue	108.6	143.8	144.0	151.5
Adj. PBT	22.2	22.3	18.5	18.6
Adj. EPS (p)	10.8	9.2	6.6	6.9
DPS (p)	6.0	0.9	1.3	2.1
Net debt	-87.4	-83.7	-63.7	-63.2
EV/EBITDA	5.6	4.4	4.4	4.5
PER	3.9	4.6	6.4	6.1
Yield %	14.2	2.1	3.0	4.9
Net debt/EBITDA	2.2	2.2	1.9	1.8

Source: Company historics, ED estimates

Company Data

EPIC	KETL.L
Price (last close)	42p
52 weeks Hi/Lo	93p/39p
Market cap	£97.0m
ED Fair Value / share	103p
Net debt (at 31/12/24)	£64.9m

Share Price, p

Source: Investing.com

Description

Strix Group ("Strix") is a global leader in the design, manufacture and supply of kettle controls, heating and temperature controls, steam management and water filtration technologies.

The Group is backed by extensive and patented IP. It continues to innovate within the small domestic appliance and water filtration segments, with a focus on safety, design and sustainability. It has a majority share of its largest market, kettle controls and leading positions within the faster growing personal, domestic and corporate water filtration markets.

Next event

AGM - 10th July 2025

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Refocused for profitable growth in medium term

FY24 preliminary results, half-yearly progression

Year to December, £m	H1 '23	H2 '23	FY23	H1 '24	H2 '24	FY24	Change, yoy
Kettle controls	28.8	41.3	70.1	30.5	38.9	69.5	*-0.9%*
Billi	21.5	19.9	41.3	21.4	21.7	43.1	*4.2%*
Consumer goods	14.7	17.7	32.4	14.2	17.2	31.5	*-2.9%*
Total revenue	64.9	78.9	143.8	66.1	77.9	144.0	*0.1%*
Cost of sales	-41.0	-45.6	-86.6	-39.7	-50.3	-90.0	*3.9%*
Kettle controls GP	10.7	16.6	27.4	11.7	13.5	25.2	*-7.9%*
Billi	10.0	9.3	19.3	10.5	9.5	20.1	*4.1%*
Consumer goods GP	3.3	7.3	10.6	4.2	4.5	8.7	*-17.7%*
Gross profit	23.9	33.2	57.2	26.4	27.6	54.0	*-5.6%*
KC GP%	*37.2%*	*40.3%*	*39.0%*	*38.2%*	*34.8%*	*36.3%*	
Billi GP%	*46.3%*	*47.0%*	*46.7%*	*49.3%*	*44.0%*	*46.6%*	
CG GP%	*22.2%*	*41.2%*	*32.6%*	*29.5%*	*26.1%*	*27.6%*	
Group GP%	*36.9%*	*42.2%*	*39.8%*	*39.9%*	*35.4%*	*37.5%*	
Distribution costs	-5.0	-5.5	-10.6	-5.5	-4.5	-10.0	*-5.6%*
Admin. Expenses	-7.3	-7.3	-14.6	-8.3	-8.6	-16.9	*15.8%*
Total OpEx	-12.3	-12.9	-25.2	-13.8	-13.1	-26.9	*6.8%*
Share of JVs	0.0	0.1	0.1	0.0	0.0	0.0	*-100.0%*
Other op. income	0.2	0.2	0.4	0.2	0.2	0.4	*9.5%*
Adj. EBIT	11.8	20.7	32.5	12.8	14.7	27.5	*-15.6%*
EBIT %	*18.2%*	*26.3%*	*22.6%*	*19.3%*	*18.9%*	*19.1%*	
Net interest	-5.0	-5.2	-10.2	-4.9	-4.0	-9.0	*-12.2%*
Adj. PBT	6.8	15.5	22.3	7.8	10.7	18.5	*-17.1%*
Exceptionals	-1.9	-2.3	-4.2	-11.7	-1.9	-13.5	
Taxation	-1.1	-0.4	-1.5	-1.2	-1.8	-3.0	*95.4%*
Tax %	*16.2%*	*2.8%*	*6.9%*	*15.3%*	*17.0%*	*16.3%*	
Adj. PAT	5.7	15.1	20.8	6.6	8.8	15.5	*-25.5%*
Adj. EPS (p)	2.7	6.5	9.2	2.9	3.7	6.6	*-28.3%*
DPS (p)	0.9	0.0	0.9	0.0	1.3	1.3	*44.4%*
Net debt	-93.1	-83.7	-83.7	-68.8	-63.7	-63.7	*-23.9%*

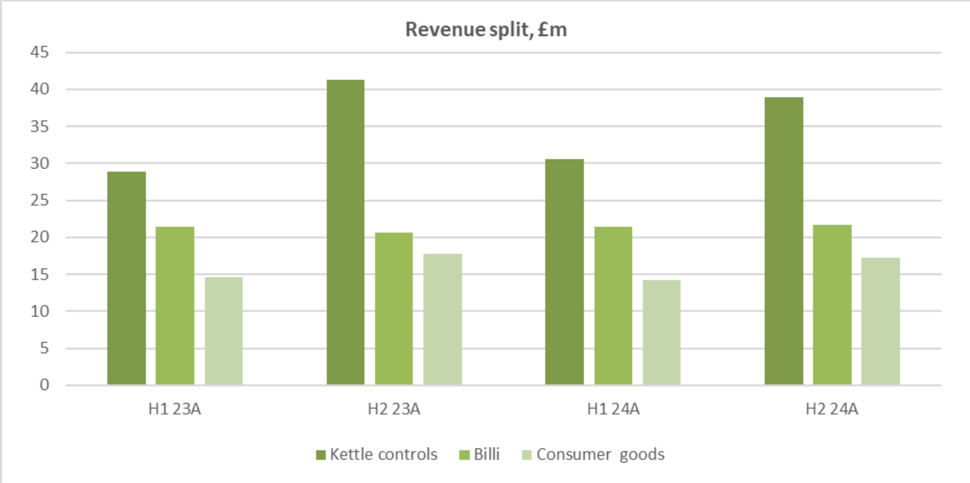
Source: Company

The results for the year to December 2024 were modestly ahead of the upwardly revised expectations at the time of the trading update in January. Revenues increased 1.3% yoy on a constant exchange rates (CER) basis and were broadly static (+0.1%) on actual exchange rates (AER) at £144m (FY23: £143.8m. The weaker Australian dollar and euro were largely responsible for a shortfall on translation in revenues of £1.7m and in adj. PBT of £0.2m.

Activity proved volatile during FY24, reflecting macroeconomic and geopolitical headwinds.

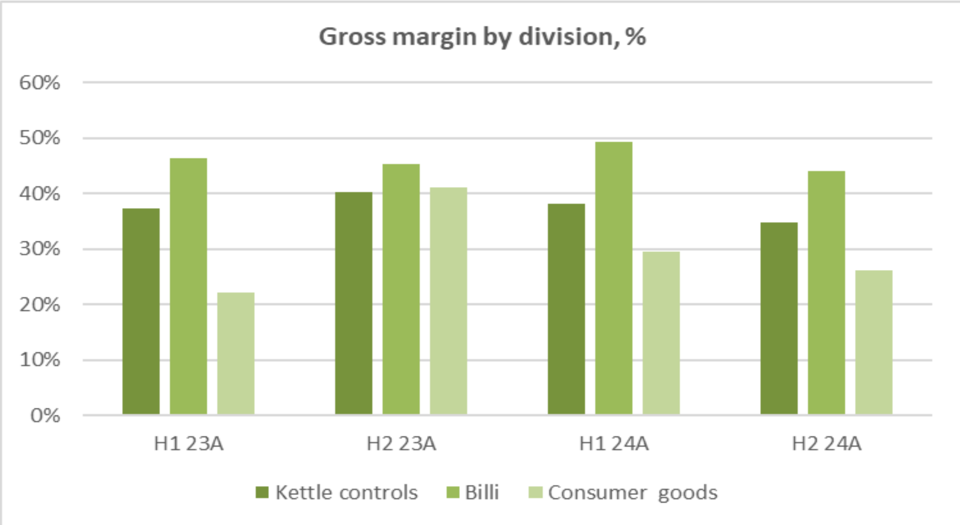
Divisional summary

Revenue by division, H1 '23 to H2 '24, £m



Source: Company

Half-yearly progress in GP% by division



Source: Company

Controls (revenue -0.9% to £69.5m, GP -7.9% to £25.2m)

The Group's largest division by revenues and gross profits, accounting for 48.3% and 46.7% respectively, generated broadly unchanged revenue yoy, declining 0.9% to £69.5m. A restocking by retail customers boosted Q2 revenues within the Controls division, with Q3 hit by an August closure of a minority of its Chinese OEM customers' manufacturing facilities, reflecting weaker demand in regulated kettle control markets (predominantly the UK and Germany). The withdrawal from the Chinese market ahead of the launch of the low-cost control during H2 benefitted the margin mix of revenues, if not volumes during H1.

The launch of the new low-cost control was received well by Chinese customers from Q3 onwards, resulting in volume growth and market share gains. However, the product is dilutive to the margin mix of business.

Several OEMs are currently testing the next generation control (Series Z) in preparation for the launch of new appliances during H2 '25.

Divisional gross margins fell to 34.8% during H2 ‘24, reflecting higher commodity prices, coupled with US dollar weakness.

Billi (revenue +4.2% to £43.1m, GP +3.7% to £20.1m)

Billi enjoys the highest gross margins across the Group, at 46.6% (FY23: 46.9%). Billi benefitted from the Q4 launch of the delayed Multi-Function Tap (MFT) and the introduction of the OmniOne into Europe late in the year, returning it to its traditional low double-digit growth in revenues during Q4.

Further distribution/servicing agreements in the EU have been agreed, taking the total up to seven currently. The regional launch of the MFT is anticipated by period end with shipments commencing during H1 ’25, Billi has leased a new higher capacity manufacturing facility in Australia, with production expected to commence during H2 ’25.

The residential market remains central to divisional growth, emphasised by the following:

- Expansion of its retail partner network, who typically display the multi-taps
- The creation of custom tap finishes and design profiles
- Lower penetration levels than in the commercial sector, and
- Health benefits of drinking filtered water compared to sugary beverages.

Consumer goods (revenues -2.9% to £31.5m, GP -17.7% to £8.7m)

Central to the performance of the Consumer division in FY24 was a reduction of product lines and lower costs. The main sales channel shifted from online to retail, benefitting the margin mix of sales. Gross margins, however, declined in H2 to 26.1% (H1 ’24: 29.5%), due to a broadening of contract manufacturing undertaken on behalf of a baby bottle brand.

Further product launches are in the pipeline, including appliances for the branded baby products supplier; Brita compatible filters (to combat contaminants in the water supply) and a new handheld vacuum sealing machine to keep food fresher for longer. Additional retail customers have been targeted, and a new head of e-commerce was appointed earlier in FY25 to refresh the Group’s approach in a testing sector.

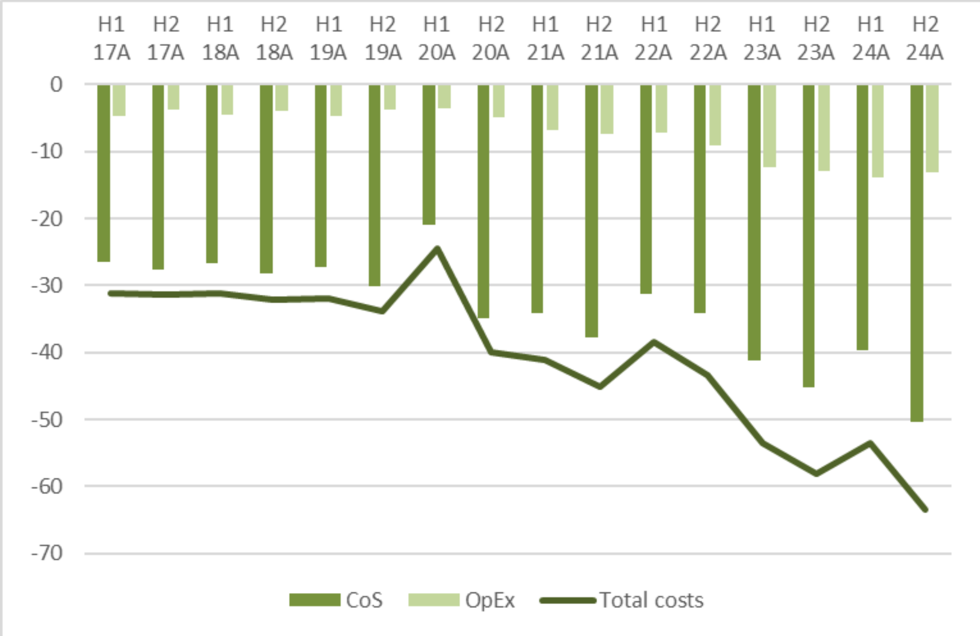
LAICA is to expand into Asia, targeting China initially, with distributors appointed.

Costs rose modestly during FY24

Costs increased by £5.2m or 4.6% yoy to a combined £116.9m. Cost of Goods Sold (COGS) rose 4% to £90m, while OpEx increased 6.8% to £26.9m. The reasons behind the rising costs include:

- Increased commodity costs and a weaker US$, with the uncertain markets reducing the Group’s ability to pass on all the higher prices to customers
- Product launches across Controls/Billi carrying development spend/marketing costs ahead of launch
- Lower margin contract manufacturing services widened for an international baby formula brand
- Several strategic hires were made within the treasury function, within Billi’s leadership team, as well as the commercial and business development teams, and
- The introduction of the new low-cost kettle control reduced the gross margin mix of revenues, albeit regaining market share within the less regulated markets and China.

Half-yearly cost progression, COGS and OpEx, £m

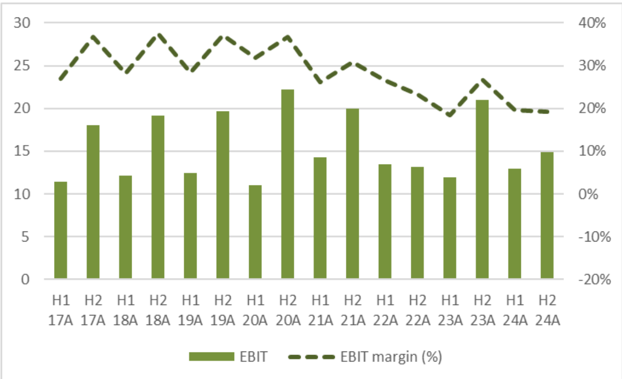


Source: Company

The lower gross margin, coupled with higher OpEx resulted in EBIT margins of 19.1% in FY24, representing a 350-bps shortfall over FY23's outcome. We also highlight the operationally geared nature of the business model, with levels of gross profit feeding through to EBIT close to historic lows. That said, should the kettle control market return to previous highs, we would expect EBIT to increase disproportionately relative to the improvement in revenues.

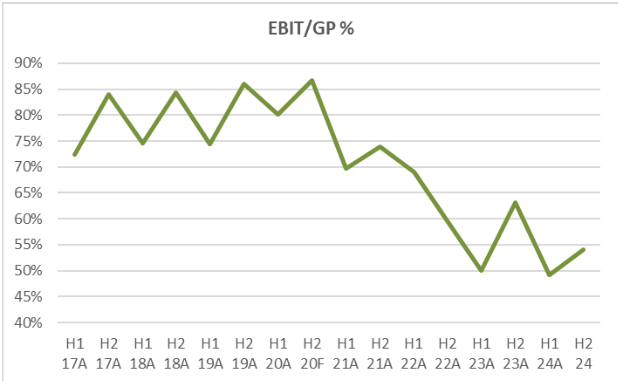
Despite the yoy shortfall in EBIT, the £27.5m levels attained during a challenging year remains 6.2% above levels reported in FY22.

Half-yearly EBIT & margin progression, £m / %



Source: Company

Operationally geared business model, %



Source: Company

Following a reduction in net interest to £9m (FY23: £10.2m), adj. PBT declined by 17.1% yoy to £18.5m. A broad doubling of taxation to £3m and an increase in the weighted average number of shares to 229.8m (FY23: 222.1m) following June's placing, led to adj. EPS declining to 6.6p (FY23: 9.2p).

We discuss the dividend in greater detail within the Financials section.

The one-off adjusting items amounted to a combined £11.9m and reflected the completion of the restructuring and rebasing of the business. By area, this comprised:

- A further rationalisation of product lines within the Consumer Goods division resulted in a £6.4m write-off, to reflect the reduction in value of tooling, inventories, intangibles, licencing, and lower headcount, and

- A portion of manufacturing in Ramsay was transferred to the Group's Chinese facility (lower IP components only) resulting in a partial closure of the facility. The deferral of growth capex to conserve cash resulted in an impairment.

The disposal of the loss-making, industrial farming filtration business, Halopure resulted in a further impairment of £2.8m, in view of the modest nature of the consideration received. The belief held was the turnaround of the business would require time and growth investment was also required.

A further £3.3m was paid out, of which £2.2m related to a commercial settlement with a key Chinese OEM customer, with the remainder to LAICA's vendors and reflecting the transfer of a property in Taiwan.

We discuss indebtedness and cash flow within the Financials section. **Encouragingly, net debt reduced by £20m to £63.7m and the net debt/EBITDA leverage covenant fell to 1.87x (FY23: 2.19x)**.

Valuation

With no meaningful changes to our financial model (adj. PBT/adj. EPS unchanged) and the absence (for now) of FY26 estimates, we view any discounted cash flow model as inappropriate in the circumstances. We therefore rely on peer group comparison models to determine our fair value.

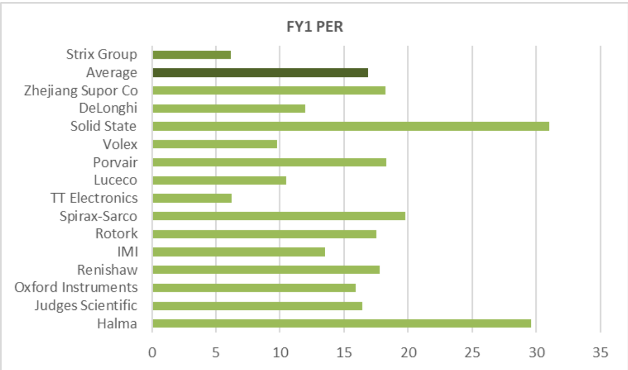
We have utilised a range of peer group comparison models, from FY25 PER, EV/EBITDA, EV/Sales and Price/Book, applying a 10% size related discount to the average rating of its peers. We highlight the average valuation of the above in the table below. We have excluded the Price/Book valuation as this suggests a valuation outlier (above 300p), which would distort the fair value outcome. Rather it is included for illustrative purposes, with all four charts demonstrating the marked difference in ratings compared to its peers.

The reduction in fair value per share from our note in late January (105p) reflects the reduction in sector share prices, due to the uncertainty of global trade flows in early 2025.

Nevertheless, our fair value of 103p per share stands 144% above the current share price.

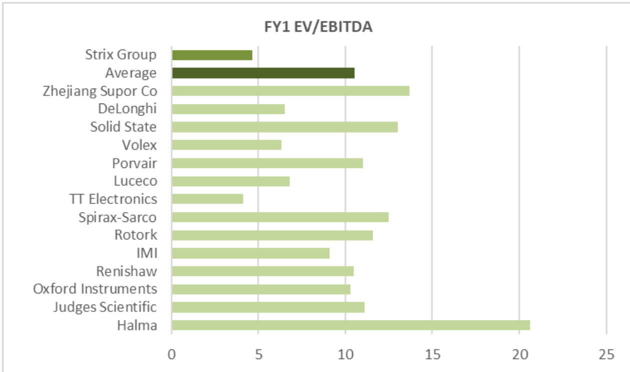
The expected yield for FY25 is also well ahead of the average of its peers (2.7%) at 4.8%, as highlighted in the chart below.

Peer group comparative valn.: FY1 PER (x)



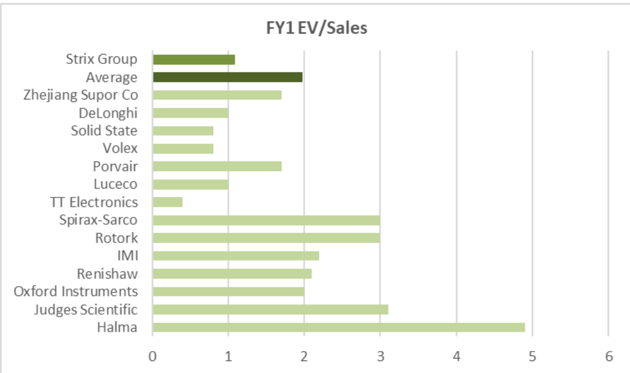
Source: Koyfin

Peer grp. comparative valn.: FY1 EV/EBITDA (x)



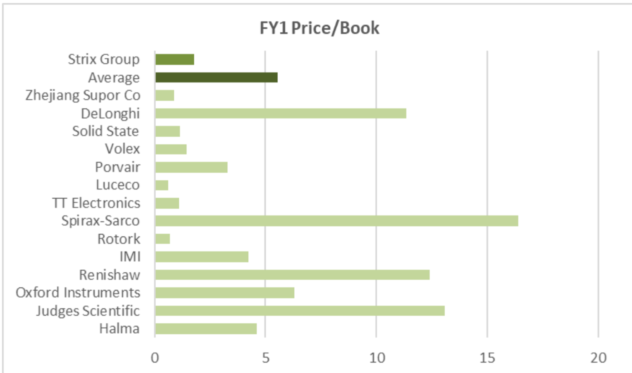
Source: Koyfin

Peer group comparative valn.: FY1 EV/Sales (x)



Source: Koyfin

Peer group comparative valn. FY1 P/Book (x)



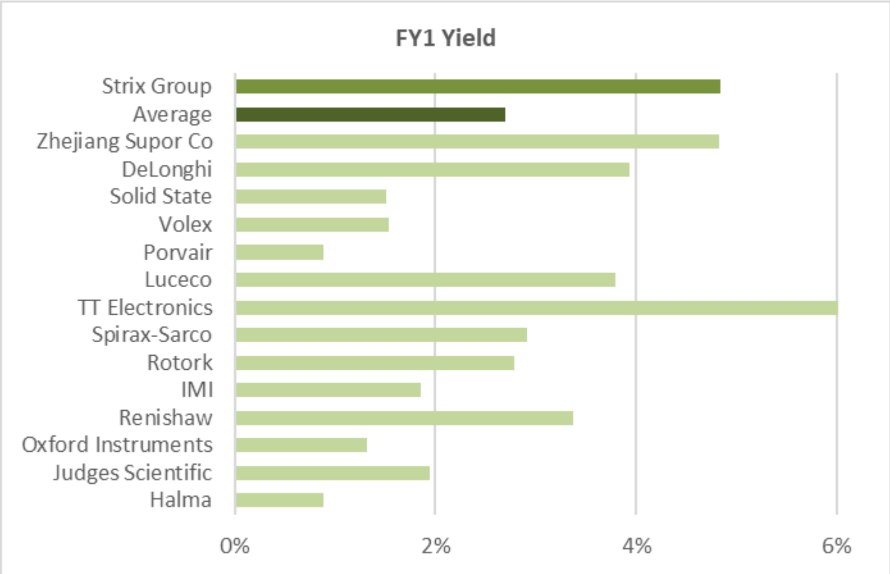
Source: Koyfin

Fair value / share (p)

	ED fair value
PER (x)	105
EV/EBITDA (x)	118
EV/Sales (x)	86
Average	***103.0***

Source: Koyfin, ED

Peer group comparative valuation: FY1 Yield (%)



Source: Koyfin

Financials

We have left our headline estimates unchanged but prefer to delay publishing forecasts for FY26 to coincide with the interim results in September. The latter reflects the current uncertainty in global markets.

Year-to-date, the positive trading experienced during Q4 ’24 continued into Q1 ’25. The new product introductions from Billi have underpinned the return to low double-digit top-line growth, with the distribution agreements across Europe gaining traction.

Momentum within the Controls division has slowed during early Q2 as the Chinese OEMs await greater clarity on tariffs. That said, the Canton Fair in April was busy, with strong interest in the low-cost and next generation controls, as well as in the new Industrial Design Service (a means of embedding the clients for the duration of their product lives).

The smaller Consumer Goods division continues to benefit from a lower cost base and the focus on more profitable products. That said, trading was slower than anticipated during Q1, particularly within the online arena. The Group has recruited a new e-commerce head.

Since the Group’s IPO, H2 accounts for an average of 55.2% of revenues generated annually, with FY20 modestly skewing the figure due to Covid-19 lockdowns. In view of the run-up to Christmas and Chinese New Year, Q3 tends to be significant seasonally for the Group (except in FY24) and as such, we expect the trend to normalise during FY25, all other things being equal.

Exposure to the US

The US accounts for approximately £7m of revenues, generated predominantly within the Controls division. Billi generates no revenue from the country currently, while the Consumer Goods division has only a modest exposure. The majority of the £7m is via retail customers, served primarily by Chinese OEMs.

China is the largest single manufacturer of small kitchen appliances sold internationally. Replicating such infrastructure elsewhere is likely to take time and, as a result, retailers will continue to purchase from China to meet replacement demand, notwithstanding the resultant price hikes due to higher tariffs. We therefore expect any resultant revenue shortfall to be lower than the potential £7m revenues reported in FY24.

Similarly, any peace agreement between Russia and the Ukraine could well result in the removal of sanctions and result in orders flowing from the region.

Growth aspirations

The drivers of growth over the medium term include:

- Product innovation across all three divisions
- New applications for Controls in related appliances
- New routes to market, including a widening of the distribution agreements in place and further geographical expansion (primarily Billi and Consumer Goods)
- Design-in services to OEM customers of the Controls division, further embedding the division into product lifecycles
- Recurring revenue streams, such as consumable sales (Billi and Consumer Goods), rental (Billi) and servicing (Billi), and
- Contract manufacturing, specifically a growing range of baby-related products within the Consumer goods division

Over the medium term we anticipate growth to be superior within the two smaller divisions, Billi and Consumer Goods, while the Controls division remains the cash cow. That said, the kettle controls market remains some way off previous peaks.

Dividend

No dividend was announced within the results. However, previous statements indicated that dividends would resume during FY25, commencing with the payment of a final dividend for FY24. The payment of any such dividend is likely to occur in December '25, alongside the FY25 interim dividend.

Cash flow

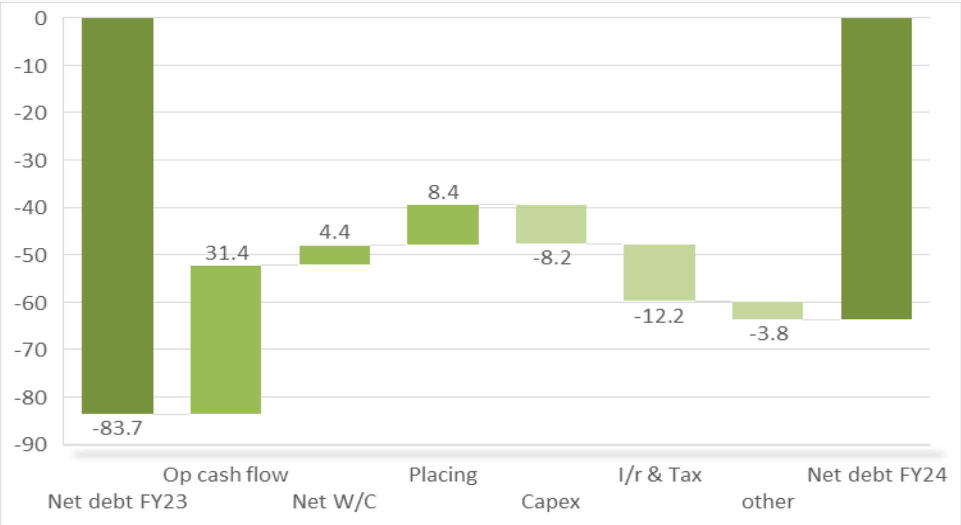
Indebtedness declined £20m to £63.7m during the year, reflecting the following:

- +£31.4m of operating cash flow, representing 114% of EBIT
- Improved treasury and cash collection, generating a positive £4.4m inflow from working capital
- The net proceeds of the 5% share placing in June amounted to £8.3m
- Capex of £8.2m
- Interest and taxation reducing cash by £12.2m
- 'Other' category, generated a collective outflow of £3.8m

The net debt/EBITDA leverage ratio reduced to 1.87x by the year end, from 2.19x at the end of FY23. The adjusted leverage banking covenant increased to 2.75x, from 2.25x in March.

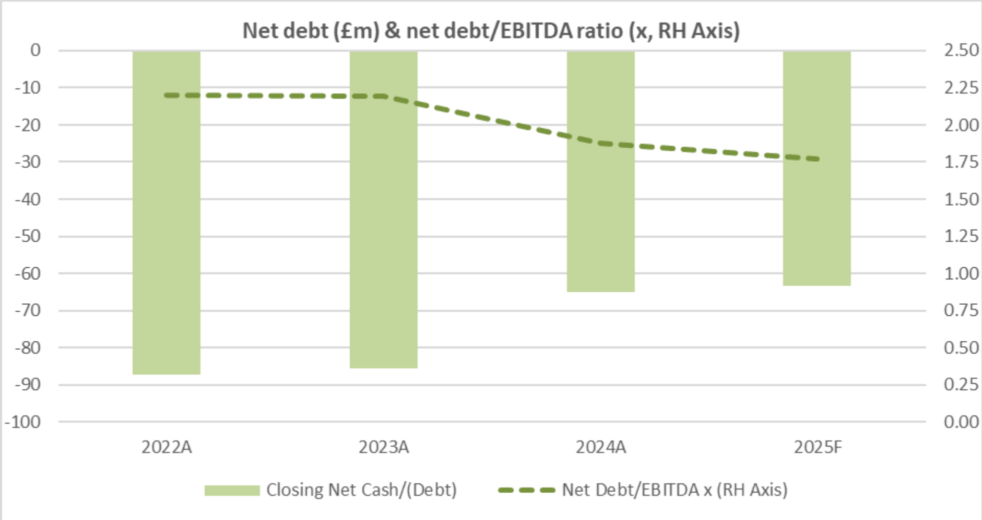
The longer-term target range amounts to 1.0x to 2.0x, with a medium-term target of 1.5x. The combination of the increase in covenant and reduction in net debt levels resulted in a reduction in the interest rate paid, as the ratchet took effect.

Net debt bridge, £m



Source: Company

Net debt (£m) & the debt leverage ratio (x, RH axis)



Source: Company historics, ED estimates

Following the one-year extension to the existing £80m revolving credit facility (RCF) in September, it is the intention to refinance the RCF during Q2 '25 to support the Group's growth aspirations.

Financials

Summary Profit & Loss				
Year to Dec, £m	**2022A**	**2023A**	**2024A**	**2025F**
Kettle controls	68.2	70.1	69.5	71.8
Prem. Filtratn. Systems	3.2	41.3	43.1	47.4
Consumer Goods	37.1	32.4	31.5	32.4
Revenue	108.6	143.8	144.0	151.5
CoGS	-67.1	-86.5	-90.0	-96.9
Gross profit	41.5	57.3	54.0	54.6
Gross margin (%)	*38.2%*	*39.8%*	*37.5%*	*36.0%*
Op costs	-16.4	-25.2	-26.9	-28.9
Other Op. income	0.8	0.4	0.4	0.4
Operating profit	25.9	32.5	27.5	26.1
Op margin (%)	*23.8%*	*22.6%*	*19.1%*	*17.2%*
Net Interest	-3.7	-10.2	-9.0	-7.5
Associates	0.0	0.1	0.0	0.0
PBT (Adjusted)	22.2	22.3	18.5	18.6
Exceptionals	-5.9	-4.2	-13.5	0.0
PBT (Reported)	16.2	18.2	5.0	18.6
Tax	0.8	-1.5	-3.0	-2.4
Adj. PAT	23.0	20.8	15.5	16.2
Minority interests	-0.1	0.0	0.0	0.0
Adj. Earnings	22.9	20.5	15.5	16.2
Reported PAT	17.0	16.7	2.0	16.2
Ordinary Dividends	-13.1	-2.0	-3.0	-4.9
EPS (Adjusted) (p)	10.8	9.2	6.6	6.9
DPS (p)	6.0	0.9	1.3	2.1
Ave no of shares (FD) (m)	212.5	222.1	229.8	234.8

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet				
Year to Dec, £m	**2022A**	**2023A**	**2024A**	**2025F**
Intangible Assets	73.4	71.6	63.0	59.4
Tangible Assets	43.7	46.2	44.1	50.2
Investments/other	3.7	1.0	1.5	1.5
Net Working Capital	19.0	20.9	12.9	18.7
Capital Employed	139.8	139.7	121.5	129.8
Other	-2.8	-3.6	-2.5	-2.5
Net Cash/(Debt)	-87.4	-83.7	-63.7	-63.0
Provisions Liabilities/Charges	-12.3	-10.8	-9.7	-9.7
Net Assets	37.2	41.6	45.6	54.5

Source: Company historics, Equity Development estimates

Summary Cash Flow				
Year to Dec, £m	2022A	2023A	2024A	2025F
Operating profit	25.9	32.5	27.5	26.1
Depn. & Amortn.	6.3	8.7	9.5	9.6
Working capital movement	-2.6	2.3	4.4	-7.0
Other	-6.3	-7.4	-8.9	-1.2
Operating cash flow	23.2	36.2	32.5	27.5
Net Interest	-3.2	-7.4	-8.5	-7.5
Taxation	-1.2	-1.3	-3.7	-2.7
Net capex	-8.6	-8.0	-8.1	-12.0
Operating FCF	10.3	19.4	12.2	5.3
Net (Acquisitions)/Disposals	-39.3	-6.5	-0.6	0.0
Dividends	-17.3	-9.1	0.0	-4.6
Share Issues	10.7	-0.2	8.4	0.0
Minority payment	0.0	0.0	0.0	0.0
Other financial	-0.6	0.0	0.0	0.0
Increase Cash/(Debt)	-36.2	3.7	20.0	0.7
Opening Net Cash/(Debt)	-51.2	-87.4	-83.7	-63.7
Closing Net Cash/(Debt)	-87.4	-83.7	-63.7	-63.0

Source: Company historics, Equity Development estimates

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