

XAAR TECHNOLOGY

15 July 2022

XAAR.L

191p

Market Cap: £149.8m

SHARE PRICE (p)



12m high/low 273p/145p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£12.6m (at 30/06/22)
Enterprise value	£137.2m
Index/market	LSE
Next news	Interim Results Sept. 22
Shares in Issue (m)	78.4
Chairman	Andrew Herbert
Chief Executive	John Mills
CFO	Ian Tichias

COMPANY DESCRIPTION

Xaar manufactures specialist industrial and commercial digital printheads, used in a variety of applications.

<https://www.xaar.com>

XAAR IS A RESEARCH CLIENT OF PROGRESSIVE

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Firmly back on the growth trajectory

Xaar's H1 trading update for 6M ended 30th June 2022, issued yesterday, confirms that the group is trading well, with increased revenues, improving margins, costs under control and new products launching to schedule. Xaar is clearly back onto a robust growth trajectory. We are maintaining our forecasts and look forward to the interims in September as an opportunity find out more about how the momentum is building.

- Revenues and profits growth in line with expectations** - The statement confirms that after a strong H1, performance for the full year at PBT level is seen as being in line with expectations. Revenues for H1 are expected to be approx. £37m – 41% up YoY and 14% up on an organic basis before the FFEI and Megnajet. The strong revenue growth has been accompanied by increased gross margins and effective actions on costs.
- Investment continues** – Net Cash as at 30th June was £12.6m, down from the year end figure of £15.3m. This is consistent with our forecasts, given the acquisition of Megnajet, the ongoing capital investments and the requirement to increase working capital to protect Xaar from supply chain issues and to ensure that customers' requirements are met.
- Trading encouraging on all fronts** - The core printhead division has traded well, with European and US growth offsetting the Covid related slowdown in China. The product print business, eps, has seen both revenue and margin growth.
- Product development going to plan** - The statement confirms that not only has trading performance been good, but so has progress with new product development. A new printbar product was launched in H1 by FFEI, but most importantly the company remains on track to launch the much-anticipated aqueous printhead product in Q4 2022.
- Price increases, not just cost cutting** - The statement refers to management actions to mitigate the impact of cost increases – not least of which is the fact that Xaar has successfully put through sales price increases. This is a timely and reassuring reminder that it has products, skills and technologies that customers value and are willing to pay up for.

Xaar offers investors a clear, understandable tech growth story with a near \$1bn addressable market opportunity and a management team that is demonstrating its ability to execute. We continue to question whether the value of this combination is fully reflected in the share price.

FYE DEC (€M)	2019	2020	2021	2022E	2023E
Revenue	49.4	48.0	59.3	73.3	81.6
Adj EBITDA	-4.9	0.1	3.2	5.6	8.8
Fully Adj PBT	-8.0	-3.9	-0.6	1.4	4.4
Fully Adj Dil EPS (p)	-15.1	-5.2	-0.1	1.7	5.6
EV/Sales (x)	2.8x	2.9x	2.3x	1.9x	1.7x
EV/EBITDA (x)	-28.3x	2213.4x	43.1x	24.4x	15.6x
PER (x)	N/A	N/A	N/A	110.2x	33.8x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Financial Summary: Xaar

Year end: December (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	49.4	48.0	59.3	73.3	81.6
Adj EBITDA	(4.9)	0.1	3.2	5.6	8.8
Adj EBIT	(7.9)	(3.7)	0.6	1.6	4.7
Reported PBT	(10.9)	(4.3)	1.0	0.9	3.9
Fully Adj PBT	(8.0)	(3.9)	(0.6)	1.4	4.4
NOPAT	(2.9)	(3.1)	0.0	1.1	3.6
Reported EPS (p)	(18.7)	(5.7)	0.9	1.1	5.0
Fully Adj Dil EPS (p)	(15.1)	(5.2)	(0.1)	1.7	5.6
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(13.2)	(4.3)	(2.2)	(3.4)	6.5
Free Cash flow	(9.8)	(2.8)	(2.1)	(3.4)	6.5
FCF per share (p)	(12.5)	(3.6)	(2.6)	(4.4)	8.3
Acquisitions	(0.6)	(0.6)	(1.4)	(9.6)	(6.3)
Disposals	0.0	0.0	9.2	0.0	0.0
Shares issued	0.0	0.0	0.2	0.0	0.0
Net cash flow	0.3	(4.7)	5.1	(13.0)	0.2
Overdrafts / borrowings	(4.0)	(2.6)	(9.7)	(8.7)	(7.3)
Cash & equivalents	24.8	18.0	25.1	12.0	12.2
Net (Debt)/Cash	20.8	15.4	15.3	3.3	4.9
NAV AND RETURNS					
Net asset value	70.3	56.2	68.8	70.2	74.6
NAV/share (p)	89.8	71.7	87.8	89.6	95.2
Net Tangible Asset Value	41.0	29.6	44.4	43.3	44.7
NTAV/share (p)	52.3	37.8	56.7	55.3	57.1
Average equity	101.1	63.2	62.5	69.5	72.4
Post-tax ROE (%)	(112.8%)	(28.0%)	17.8%	1.2%	5.3%
METRICS					
Revenue growth		(2.8%)	23.5%	23.7%	11.4%
Adj EBITDA growth		(101.3%)	5033.9%	76.9%	56.2%
Adj EBIT growth		(52.7%)	(115.3%)	180.6%	191.6%
Adj PBT growth		(50.8%)	(85.4%)	(337.7%)	225.7%
Adj EPS growth		(65.3%)	(98.5%)	(2267.0%)	225.7%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		(7.8%)	1.0%	2.2%	5.7%
VALUATION					
EV/Sales (x)	2.8	2.9	2.3	1.9	1.7
EV/EBITDA (x)	-28.3	2213.4	43.1	24.4	15.6
EV/NOPAT (x)	-47.0	-44.3	-4562.2	124.8	38.3
PER (x)	N/A	N/A	N/A	110.2	33.8
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(6.6%)	(1.9%)	(1.4%)	(2.3%)	4.3%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

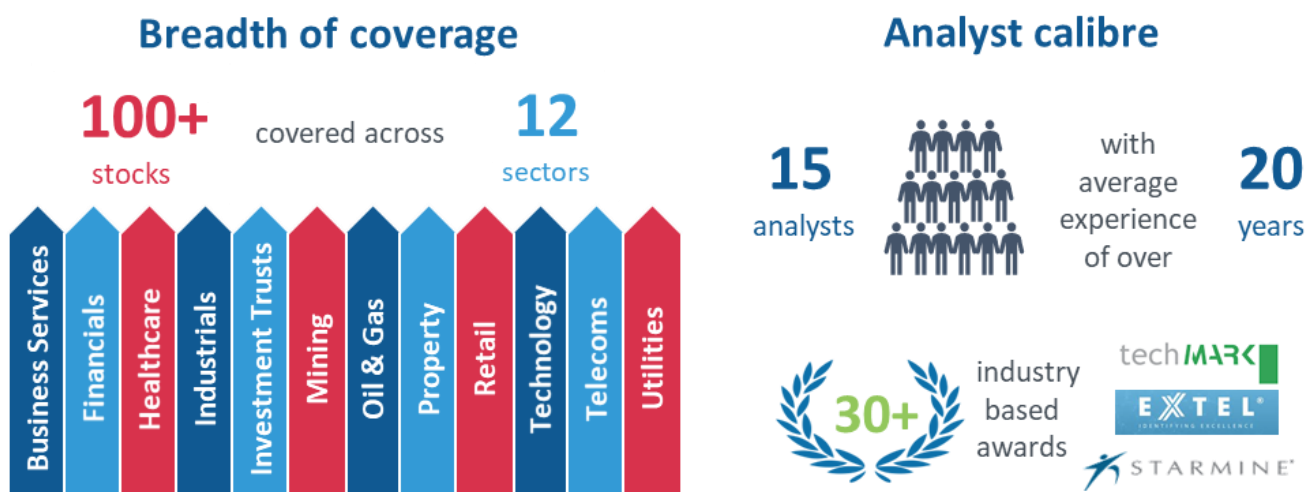
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