

XAAR

TECHNOLOGY

29 November 2023

XAAR.L

177p

Market Cap: £138.7m

SHARE PRICE (p)



12m high/low 212p/165p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£3.7m (at 28/11/23)
Enterprise value	£135m
Index/market	LSE
Next news	Trading Update, January
Shares in issue (m)	78.6
Chairman	Andrew Herbert
CEO	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

ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevens@progressive-research.com



www.progressive-research.com

Market malaise drags into 2024

Xaar has released a trading update for 2023 that includes cautious commentary around 2024. The group is expecting a strong end to the year in terms of profitability, albeit with depressed revenue levels. Sales pressures are expected to continue in 2024 and, combined with downward pressure on prices and cost inflation, are likely to lead to a materially reduced level of profitability. We alter our estimates for both years to reflect the update. Although the group is clearly navigating tough markets, we continue to see long-term value in the new products and markets that recent investments have delivered.

- 2023 profit ahead, on lower revenues.** The end of 2023 is expected to deliver a profit performance slightly ahead of our (and consensus) expectations, with adjusted PBT of between £2.5m and £3.0m for the year. The group has, however, delivered this profit through a combination of high-margin sales and lower-than-anticipated costs, neither of which are likely to recur materially into 2024.
- 2024 to be impacted.** Given the lower-than-expected current run rate, the group has lowered its expectations for 2024. The main cause is a more cautious environment for capital spending (the stage at which Xaar's products are normally designed in). This appears to be an issue in most international markets, but we believe is particularly acute in the key market of China. With the H1 results in September, Xaar had flagged that it was hoping for a recovery in these drivers of demand.
- Changes to estimates.** We adjust 2023 to reflect today's update and make material downgrades to 2024. On our revised estimates, Xaar remains profitable at the adjusted PBT level in 2024, albeit with revenue reduced 11% and adjusted PBT cut c.90% relative to our previous estimates. Essentially we are forecasting a return to the sales levels of 2022, but with higher volumes of product required to reach these revenues, and with a material level of cost inflation in the meantime; these factors combine to dramatically reduce profitability. We detail the downgrades overleaf.
- Long-term position still strong.** Having recently attended a highly positive product showcase event, and met a number of customers and partners, we remain upbeat about the group's offering and the long-term potential of both existing and new markets. Product (printhead, ink and overall system) advances are opening new markets to print technology, and once markets recover we believe that Xaar will be very well placed.

FYE DEC (£M)	2020	2021	2022	2023E	2024E
Revenue	48.0	59.3	72.8	71.1	72.9
Adj EBITDA	0.1	3.2	6.2	7.1	3.7
Fully Adj PBT	-3.9	-0.6	2.8	2.7	0.4
Fully Adj Dil EPS (p)	-5.2	-0.1	5.0	3.6	0.8
EV/Sales (x)	2.8x	2.3x	1.9x	1.9x	1.9x
EV/EBITDA (x)	2177.4x	42.4x	21.8x	18.9x	36.6x
PER (x)	N/A	N/A	35.6x	48.8x	233.7x

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.

Further detail and forecast changes

In our view, the group is being impacted by a number of factors, none of which were significant enough to materially reduce 2023 profitability, but all of which are expected to continue or worsen into 2024:

- High interest rates leading to infrastructure and investment delays and cancellations among customers.
- The ceramics market remaining tough globally, especially in China.
- Product launches by customers and partners taking longer to achieve than anticipated.
- Modest concerns around Israel (where two of the group's customers are based) although the region has remained relatively robust despite the Israel / Hamas war.
- Ongoing challenges in raising product prices, despite continued cost inflation across multiple areas – raw materials, wages and component prices.

The group heralded the importance of the China market and new product rollouts at the time of its H1 2023 results in September (see our [note](#)). We believe it is these expectations that have now been reassessed in the light of ongoing market pressures.

'Despite the lifting of COVID related restrictions in China, sales volumes in the Printhead business continue to be affected, but we expect market conditions in the sectors in which we operate to improve during H2 2023 and this, coupled with increased customer product launches, will drive higher demand for Xaar printheads.'
– Xaar, 19 September 2023

We make changes to our forecasts for 2023 and 2024 as shown below. We hope that by cutting expectations aggressively and early, the group will be able to establish a forecast base from which it can build over time, with the potential for upgrades if China recovers rapidly or global macro sentiment improves.

Changes to estimates

£m unless stated	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	79.6	71.1	-11%	81.7	72.9	-11%
Adj EBITDA	6.9	7.1	3%	8.1	3.7	-54%
Fully Adj PBT	2.5	2.7	8%	4.2	0.4	-90%
Fully Adj Dil EPS (p)	3.2	3.6	14%	5.4	0.8	-86%
Cash	7.2	5.3	-27%	9.5	6.9	-27%

Source: Company information, Progressive Equity Research estimates

Long-term potential remains

As described above, we remain enthusiastic about the group's long-term opportunities. The new products and systems (as demonstrated in the recent product demonstration day – see our [note](#)) appear to offer materially better functionality to customers, with more-viscous inks delivering better print quality, with faster print speeds (based on faster drying times) and lower environmental impact. We will, as planned, revisit this opportunity with another note in the new year.

Financial Summary: Xaar

Year end: December (£m unless shown)

	2020	2021	2022	2023E	2024E
PROFIT & LOSS					
Revenue	48.0	59.3	72.8	71.1	72.9
Adj EBITDA	0.1	3.2	6.2	7.1	3.7
Adj EBIT	(3.7)	0.6	2.5	3.3	1.0
Reported PBT	(4.3)	1.0	0.8	2.3	0.0
Fully Adj PBT	(3.9)	(0.6)	2.8	2.7	0.4
NOPAT	(3.1)	0.0	2.6	2.3	0.2
Reported EPS (p)	(5.7)	0.9	2.3	3.0	0.0
Fully Adj Dil EPS (p)	(5.2)	(0.1)	5.0	3.6	0.8
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(4.3)	(2.2)	(5.6)	0.7	4.3
Free Cash flow	(2.8)	(2.1)	(5.5)	0.7	4.3
FCF per share (p)	(3.6)	(2.6)	(7.0)	0.9	5.5
Acquisitions	(0.6)	(1.4)	(8.7)	(3.0)	(2.7)
Disposals	0.0	9.2	0.0	0.0	0.0
Shares issued	0.0	0.2	0.4	0.0	0.0
Net cash flow	(4.7)	5.1	(17.1)	(2.2)	1.6
Overdrafts / borrowings	(1.1)	(1.2)	(1.0)	(1.0)	(1.0)
Cash & equivalents	18.0	25.1	8.5	6.3	7.9
Net (Debt)/Cash	16.9	23.8	7.5	5.3	6.9
NAV AND RETURNS					
Net asset value	56.2	68.8	71.8	73.9	74.5
NAV/share (p)	71.7	87.8	91.6	94.4	95.2
Net Tangible Asset Value	29.6	44.4	53.3	53.4	50.3
NTAV/share (p)	37.8	56.7	68.1	68.1	64.2
Average equity	63.2	62.5	70.3	72.9	74.2
Post-tax ROE (%)	(28.0%)	17.8%	2.3%	3.1%	0.0%
METRICS					
Revenue growth	(2.8%)	23.5%	22.8%	(2.3%)	2.5%
Adj EBITDA growth	(101.3%)	5033.9%	94.9%	15.0%	(48.2%)
Adj EBIT growth	(52.7%)	(115.3%)	336.3%	31.9%	(68.3%)
Adj PBT growth	(50.8%)	(85.4%)	(594.2%)	(5.0%)	(83.5%)
Adj EPS growth	(65.3%)	(98.5%)	(6308.0%)	(27.2%)	(79.1%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	(7.8%)	1.0%	3.4%	4.6%	1.4%
VALUATION					
EV/Sales (x)	2.8	2.3	1.9	1.9	1.9
EV/EBITDA (x)	2177.4	42.4	21.8	18.9	36.6
EV/NOPAT (x)	-43.5	-4488.0	51.0	58.9	704.4
PER (x)	N/A	N/A	35.6	48.8	233.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(2.0%)	(1.5%)	(4.0%)	0.5%	3.1%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

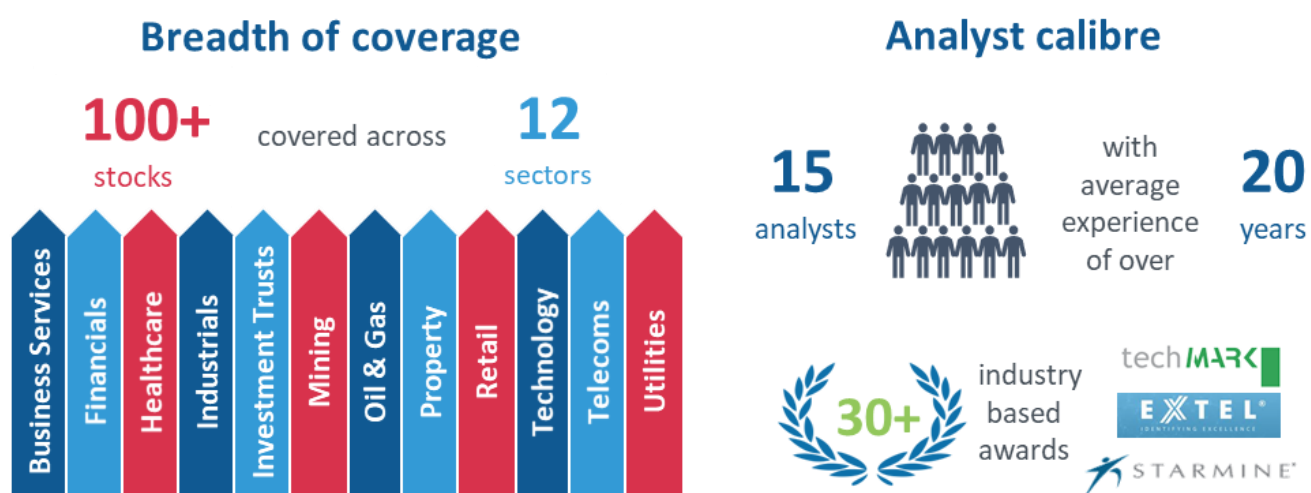
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com