

Solid FY19 results ahead of expectations & COVID 19 resilience

19th March 2020

Yesterday Strix announced strong results for FY19, while also demonstrating resilience and managing the impact on its business from COVID19. Strix has delivered £36.9m EBITDA, slightly ahead of our expectations. Total dividends of 7.7p have been announced, which is 10% growth year-on-year (yoy).

Net debt of £26.3m is at multi-year lows, with continued strong cash generation funding both growth capex and new product development.

A year of progress. *'During the year we have continued to execute on our organic and inorganic strategy for growth through the acquisition of HaloSource and the construction of a new factory in China.'* CEO Mark Bartlett

COVID19 update. *'The impact on Strix has thus far been limited ... Strix's products have historically had limited correlation with short term consumer confidence ... our profitability model strategically targets the second half of 2020'.* Manufacturing in China is again at 88% capacity and all of the top 20 OEM customers are back in production.

Strix is the leading player in the global kettle controls market. This is a resilient market, which grew at c. 3% in 2019. The company today highlights stable market share in 2019 across territories, with some market share gain in China.

Diversification and growth. Elsewhere, Strix is seeing healthy growth in Water/Appliances, with plans for a launch programme of over a dozen new products across all categories in 2020. Strix confirms that the new, enlarged manufacturing facility is well on track, and where completion is expected in August 2021.

At a time of major fear in stock-markets, we highlight Net Debt/EBITDA leverage at < 1x, which is a healthy position in current markets, particularly given Strix's strongly cash generative nature and activities in a stable, resilient market.

Forecasts and yield. At this stage we have unsurprisingly tweaked down our FY20 P&L forecasts in the context of a weaker macro backdrop. However, we still forecast yoy dividend growth in 2020 (7.9p dividend, with cover of 1.8x). After the recent sell-off, shares in Strix Group now yield 5.9% which appears compelling.

The Strix share price has fallen by more than a third in 2020. Yet, for those investors with the patience to ride out current macro headwinds, **Strix is a unique strategic asset listed on the UK market, with industry leading margins and many growth initiatives underway.**

Company Data

EPIC	KETL
Price (last close)	131p
52 weeks Hi/Lo	200p/118p
Market cap	£248m

Share Price, p



Source: ADVFN

Description

Strix Group Plc (Strix) 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.

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Strix: FY'19 results

'During the year we have continued to execute on our organic and inorganic strategy for growth through the acquisition of HaloSource and the construction of a new factory in China'.

On 18 March Strix published its FY 19 results for the period ending December 31, 2019. This follows on from the trading update issued on 23rd January. The summary results are highlighted here.

2019 FY			
Dec y/e, £m	2019A	2018A	Change
Revenue	96.9	93.8	3.3%
EBITDA	36.9	36.4	1.4%
Gross profit	39.6	38.9	1.8%
Op.profit	31.5	30.9	1.9%
Op profit ex HaloSource	33.4	30.9	8.1%
PBT	30.2	29.2	3.4%
PAT	28.9	28.3	2.1%
Net debt	26.3	27.5	-4.4%
EPS, p	15.2	14.9	2.0%
DPS, p	7.7	7.0	10.0%

Source: Company Data

At both the EBITDA and net debt level, they are slightly better than we expected.

The company helpfully discloses the impact of the HaloSource acquisition on its financial results. Reassuringly, Strix also reconfirms at this stage its intention to pay **total dividends of 7.7p** per share for FY19, +10% yoy. This should underline the income attractions of this stock.

Financial highlights

In terms of year on year movements (FY 2019 vs FY 2018), we pick out the following:

- £36.9m EBITDA, +2% yoy
- £28.9m adjusted PAT, +2% growth
- net debt at £26.3m, which is better than we expected due to strong cash generation and some favourable capex phasing
- conservative year-end leverage at <1x ND/EBITDA
- confirmation of 7.7p dividend for FY 19 (total dividend), + 10% yoy.

COVID 19 – Strix Management’s comments are fairly encouraging

"We have been extremely proud of the response of our local leaders in China to the unprecedented situation as a result of COVID-19, with minimal impact to date. We currently expect half year results to be in line with last year.

We remain vigilant about the broader implications and the Group is working on several strategic initiatives, including new products and efficiencies, to minimise any impact to full year forecasts."

Elsewhere in this report, we identify how **Chinese factories outside of Hubei are already working back close to full capacity as we approach March / Q1 period end**. We also address our understanding of how resilient the kettle controls market is in particular.

At this stage, there are many global unknowns. **However, we have made only minor downgrades to our FY 20 P&L forecasts**. FY results are characteristically H2-weighted.

Updated Strix Forecasts

Following the FY19 results, we make a number of minor tweaks to our Strix forecast model.

The net result is a modest downgrade to FY20, such now we now assume flat yoy growth in adjusted post tax profit. Previously we were assuming 6% growth. The other key feature to highlight is the increase in FY20 capex, as the company moves towards completion of its new factory facility in China. This is not new news.

Forecast P&L					
Dec y/e, £000's	2017	2018	2019	2020E	2021E
Revenue	91,263	93,769	96,876	98,597	100,944
y.o.y growth	2.94%	2.75%	3.31%	1.78%	2.38%
EBITDA	35,117	36,351	36,904	37,260	38,039
EBIT	29,062	30,861	31,361	31,588	32,235
Adj. PBT	28,304	29,206	30,199	30,323	31,085
Adj PAT	27,517	28,259	28,863	28,959	29,686
EPS (p) basic adj.	14.48	14.87	15.19	15.24	15.62
EPS (p) ful dil. Adj	14.21	14.19	14.23	14.28	14.63
DPS (p)	2.90	7.00	7.70	7.90	8.10
Div yield	2.2%	5.3%	5.9%	6.0%	6.2%
Div cover	0.00	2.03	1.85	1.81	1.81
Net debt/cash	45,889	27,479	26,342	36,568	28,021
P/E (ful dil. Adj)	9.2	9.2	9.2	9.2	9.0
EV/EBITDA	7.20	6.96	6.86	6.79	6.65

Source: ED estimates, Company historic data

2019 Financials and performance in more detail

- 3.3% growth in revenue driven by maintaining market value share in the regulated and less regulated markets at c. 73% and 34% respectively, and growth in the Chinese domestic market to 49% (2018: 45%).
- Adjusted gross profit margin (excluding the effect of HaloSource) increased to 42.3% (2018: 41.5%).
- Adjusted profit before tax + 9.9% yoy to £32.1m and adjusted EBITDA +5.5% to £38.3m (2018: 36.4m), again excluding the newly acquired HaloSource business.
- Adjusted loss before tax from HaloSource was, importantly, in line with expectations at £1.9m. That is to say, + 3.4% Group adjusted profit before tax to £30.2m (2018: £29.2m)
- Adjusted diluted EPS and reported diluted EPS were 14.2p (2018: 14.2p) and 10.6p (2018: 11.6p), respectively. This reflects an increase in the weighted average number of diluted shares.
- Final dividend of 5.1p, giving total dividends of 7.7p for full year 2019 (2018: 7.0p).
- Net debt (excluding the impact of IFRS 16 lease liabilities) reduced to £26.3m, a 4.1% decline from the level at 31 December 2018 (£27.5m).
- Balance sheet. The Group has in place an RCF of £49.0m. Net debt (excluding the impact of IFRS 16 lease liabilities) to adjusted EBITDA ratio was 0.7x (2018: 0.8x).

Operating review

Kettle controls

We estimate that the value of the global kettle control market grew c. 3% to £160m in 2019. It exhibits continued growth potential as global penetration of electric kettles increased to c. 38% of households. Strix has strong value share of the global kettle control market at c. 54%, with growth in the China Market segment and stable market share in the Regulated and Less Regulated segments.

The overall value of the Regulated kettle control market grew by c. 2% to c. £70m.

The key driver behind Regulated market growth was recovering performance in European (excluding UK) markets and ongoing growth in North America where both markets grew >5%. However, sector performance was held back by poor UK performance, on the back of Brexit uncertainty. Strix maintained its value share at c. 73% in the Regulated market.

In the Less Regulated market, we estimate that in 2019 the value of the kettle control market grew by c. 4% to £59m. The key regional drivers behind Less Regulated market growth were CIS and Central Africa which both experienced growth of over 10%, whilst South Africa and Middle East posted flat/negative growth.

In the Chinese market Strix estimates that in 2019 the value of the kettle control market grew by c. 2% to £31m, slightly lower than the c. 3% medium term average annual growth rate. Higher priced multi-cooker appliances are popular and take value share. Strix is doing particularly well here, with share of this sector at 35% (2018: 18%).

Strix continues its rigorous approach to IP protection and safety actions, which is important given the presence of copyists and rogue operators. In 2020 seventeen kettles were removed from online sale and nine unsafe competitor kettles recalled globally.

Water

The water category was strengthened by the acquisition of HaloSource last year, with growth of 6% yoy in 2019. The group also expects approximately 14 new product launches in 2020, including water and appliance categories.

This, together with the factory relocation in China, is why we have slightly increased our capex spend forecasts for 2020. In FY 19 as disclosed, capex was £15.4m. In FY 20, we expect it to be in the low £20ms. Beyond FY20, we expect capex to fall in absolute terms and as a % of revenue. This is not new news.

In our view, these 'growth initiatives' highlight the scope for future value creation at Strix and the astute forward planning of management.

Water Category market opportunities

Water Category

The Global Water Filtration Category is valued at retail at over £8 Billion. With historic focus limited to the UK market, Strix plans to leverage existing technologies and new acquisitions to drive aggressive growth in focus geographies. By the end of 2021 our aim is to launch 16 new products including filters, jugs, bottles and appliances.



2019 Highlights

- Acquisition of Halosource (astrea & Halopure brands).
- Launched water chiller appliance (LUMI).
- Secured global co-brand partnership with signature brand (Philips).
- Development of Next Gen Halopure Technology.

Source: Company

Progress in appliance categories

Strix has developed a portfolio of water, temperature and steam management technologies which have been commercialised in adjacent products and markets. This uses strong relationships with key OEMs, brands and retailers, coupled with consumer research, to increase the focus on innovative products for the future.

This is a very sensible strategy in our view, which is also clearly bearing fruit. The appliance category reported a 25.9% growth in revenue in 2019 and continues to be focussed on delivering product innovation within the appliance market, with a particular emphasis on baby care and "hot water on demand". These are clearly not 'expensive white goods'.

New factory

In terms of China itself, **the company has highlighted the security advantages of moving to 50 years, rather than 20 years, tenure for its new factory location (Zengcheng).** This also underlines the support they receive from the regional Chinese government.

New Chinese Factory



Source: Company

The Group has made significant progress during 2019 in its plans to relocate its manufacturing operations in China to Guangzhou’s Zengcheng district. The company now re-confirms that the construction project is on schedule to meet the expected August 2021 date to be fully operational with costs in line with expectations. £6m of the £15.4m in FY19 capex relates to land and factory. This will step up again in FY20 and is already in our forecasts.

The relocation of the manufacturing facilities in China will support the future growth ambitions of the business and enable the Group to maximise the economic benefit of investment in automation.

New Factory Timeline



Milestones

- All the underground work will be completed by **end of March**.
- The main build construction will be **completed in July**
- Electronic installation and inner building work will be **completed in Nov**
- Trial run and clean up in **Nov and Dec 2020**.
- Target to complete all the construction work and decoration and obtain governmental approval in **Jan 2021**.

Status

- The construction was restarted on Feb 29th with 40% of required workforce and will be ramp up to expected worker level by mid of March due to the impact from Covid-19
- The office layout and design has been finalized with management
- Underground fire fighting water pool and Beam template is under construction.

Capex by Year

2019	£5.7m
2020	£13.1m
2021	£0.7m



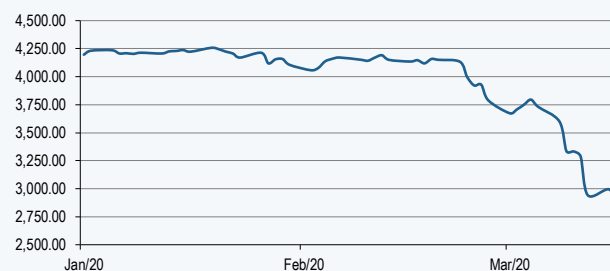
Source: Company

COVID-19 impact assessment

There is no doubt that the single biggest issue facing investors right now is the global COVID 19 pandemic. At the time of going to print, there are many unknowns surrounding the severity and duration of this international emergency.

From March 2nd to March 16th the FTSE AllShare index fell by 23%, from 3707 to 2849. Stock markets across the world have been similarly routed. With safe havens for capital being sought, US 10-year Treasuries are yielding < 1% at present. The prevailing mood amongst investors is one of fear.

FTSE AllShare index 2020 YTD



Source: ADVFN

We can recall in our working lifetime **only two** similar periods of investor panic and mass selling: i) in the months after 9/11 attacks (2001); and ii) The Global Financial Crisis (GFC), after 2008.

It is worth highlighting the following key points about COVID-19:

- The 2019–20 coronavirus outbreak was first identified in [Wuhan, Hubei](#), China, in December 2019
- **WHO (World Health Organization) declared COVID-19 a pandemic on March 11th 2020.** It balanced the certainty that the coronavirus (SARS-CoV-2) will inevitably spread to all parts of the world, with the observation that governments, businesses, and individuals may have the ability to change the disease's trajectory.
- There have already been more than 160,000 confirmed cases of COVID-19 and more than 6,000 deaths from the disease. Older people, especially, are at risk. There is no vaccine of course.
- **More than 140 countries and territories have reported cases, and it is growing fast; more than 80 have confirmed local transmission.** *The virus is highly transmissible.* The US Centers for Disease Control and Prevention estimates that the virus's reproduction number (the number of additional cases that result from an initial case) is between 1.6 and 2.4, much more transmissible than seasonal flu.
- Even as the number of new cases in China is falling (to less than 20, on some days), it is increasing exponentially in Italy for example (doubling every four days). **China's share of new cases has dropped from more than 90% to less than 1% today.**
- **China - extraordinary measures to limit spread.** After the devastating impact of COVID-19 became evident in the Hubei province, China imposed unprecedented measure:

Building hospitals in ten days, instituting a “lockdown” for almost 60m people and significant personal restrictions for hundreds of millions of others, and using broad-based surveillance to ensure compliance—in an attempt to combat the spread. **These measures have been apparently successful in rapidly reducing transmission of the virus, even as the economy has been restarting.**

- *Internationally, governments are imposing unprecedented lockdowns on travel for citizens. Borders are closing. The expectation is this will now last for months, not weeks. Affected citizens are being asked to undertake self-isolation.*
- **At the time of going to print, the wider economic impact is far from clear, though it will clearly be devastating in the short term.** *It remains to be seen whether government fiscal and monetary-policy responses will prove sufficient to break the downward spiral, given there is a demand and supply shock.*
- *In terms of stimulus so far, the Fed has announced it is cutting its benchmark interest rate to near zero and said it would buy \$700bn in Treasury and mortgage-backed securities.* The BoE has likewise cut UK rates. The ECB however did not yet cut rates and has a focus on private sector bonds and injecting more liquidity at even more favourable terms into the banking system
- *For context - the OECD was originally looking for 2.9% global GDP growth yoy in 2020, following 2.9% yoy in 2019. We are now starting to see estimates of up to -5% GDP growth for Q2 2020. This implies flat or negative growth for FY20. The critical assumption however is clearly whether there is a 'V or U' shaped recovery in economic activity, from H2 onwards.*
- China is the world’s second-largest economy. According to its official government statistics, China’s gross domestic product (GDP) growth rate for 2019 was 6.1% yoy. **Negative growth in Q1 has now been reported (for the first time in decades), with a raft of official data coming in predictably weak.** China’s retail sales, for example, fell 20.5% in the first two months of 2020. Likewise, industrial production growth fell 13.5%. Services production growth fell 13%. Industry and services components of GDP make up 85% of the total.
- For many companies around the world, **the most important consideration from the first ten weeks of the COVID-19 outbreak has been the effect on supply chains that begin in or go through China.** As a result of the factory shutdowns in China during Q1, many disruptions have been felt across the global supply chain.
- Outside of Hubei, **in the rest of China, many large companies now report that they are running at more than 90% capacity.** While some real challenges remain, such as lower than usual availability of migrant labour, there is little question that plants are returning back to work quickly.
- Elsewhere in this report Strix comments on their own current experience in China.
- **We note that Nomura Global Markets Research has recently cut its annual China GDP growth forecast in 2020 to 5% from 5.5%.** These forecasts are formed from a baseline scenario under which lockdown measures end at Q1. Clearly this is open to significant revision.

Markets

Turning now to stock-markets and investors. We are now deep into 'bear market territory'. Most stock-market indices are down 25% to 35% in the last few weeks. Albeit from near all-time highs. Funds of all shapes and sizes will be seeing material redemptions. The oil price has tumbled as well, Brent Crude currently below \$31/barrel.

Until recently, equity markets had mostly ignored coronavirus in 2019/20. Why?

First, this was seen as a 'China only' problem, although we are in a hyper-connected world; second, many investors used the template of SARS in 2003, and H1N1 in 2009, and perhaps accepted a short term correction only; third, investors came into the year optimistic about a recovery in the global manufacturing sector after the trade-related weakness of 2019.

According to Goldman Sachs, the taxonomy of different bear markets are then as follows

- **Structural bear markets on average see falls of 57%**, last 42 months and take 111 months to get back to starting point in nominal terms (134 months in real terms).
- **Cyclical bear markets on average see falls of 31%**, last 27 months and take 50 months to get back to starting point in nominal terms (73 months in real terms).
- **Event-driven bear markets on average see falls of 29%**, last 9 months and recover within 15 months in nominal terms (71 months in real terms).

At this stage, this looks like an event-driven bear market, in our view. However, there are ominous points to make:

- **None of other event-driven bear market examples from history were triggered by a virus or other disease outbreak.**

Usually it has been internally market driven (sovereign crisis, LTCM default, program trading collapse or maybe political, etc.). Monetary response has often been more effective whereas this time it's not clear that it will be.

- **None of the previous examples were in periods where the starting point of interest rates has been so low (and in some cases negative).** This could raise the concern in markets that there is less room for an effective policy response.

- **In previous periods when there have been viral shocks, such as SARS,** the equity markets tended to rebound when the second derivative of infections started to level off. As there is no vaccine, and COVID is likely to mutate, this may not be relevant on this occasion.

In terms of UK quoted companies and RNS updates, the standard COVID 19 response we have gauged so far is 'modest impact to date, preparedness to take action, business continuity' ... and a marked reluctance to offer any forward guidance. **Strix, in terms of H1 20 outlook, is unusually clear-cut.**

With all this said, we believe investors are ultimately 'paid to take risk' and will look for bargains and interesting equity opportunities. Not all industries will be affected equally. And many companies will in fact prosper and take market share from enfeebled rivals. Detailed screening is important than ever! In this context we now recap our thesis on the underlying investment proposition for Strix Group.

Strix Group

Strix had already notified the market as to how it was dealing with COVID 19 issues in a previous market statement this year (19th February).

COVID-19 has increased potential to be extremely disruptive. However, we reprint in full the comments below from Strix, enclosed in the FY 19 results presentation.

'The board is closely monitoring the development of COVID-19 and has put in place a number of preventative measures within the Guangzhou manufacturing facility. In order to provide a safe and healthy working environment for our employees the Group has made medical supplies such as face masks, thermometers and sterilisers readily available.

We have also used our newly acquired HaloSource product within the sterilisation zone at the factory entrance to enhance our preventative measures. Globally, the Group is adhering to the latest travel advice provided by the World Health Organisation.

The impact on Strix has thus far been limited with our Guangzhou manufacturing now operating at 88% capacity having only been closed for one extra week in line with a government-imposed policy to extend the mandatory Chinese New Year holiday. All of our top 20 largest OEM customers have resumed production and are continuing to increase capacity.

We expect the kettle control market to be resilient, but we are closely following the effect on global consumer demand.'

We would then pick out the following highlights of where the company has 'self-help' potential, or market fundamentals remain strong:

- Guangzhou facility the focus of additional preventative measures
- OEM customers have resumed production
- Kettle control market is resilient
- Synergistic use of HaloSource technology

Production and Supply Capacity



Precaution measures in place

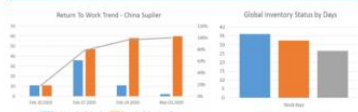
- An emergency response team set up locally during CNY to prepare for the factory opening, led by the COO with close communication with CEO for key decision making
- All the necessary disinfection material prepared such as 75% alcohol sprayer and high quality disinfectant for hand wash etc.
- A disinfection tent was constructed using own Halopure technology for body disinfection at entrance to factory.
- The main building was segregated into individual sections to minimise any cross infection risk within the factory
- Daily reports implemented to assess the status and conduct risk assessment via wechat for all staff
- Daily disinfection by cleaners for all the floors and shuttle buses
- Masks and distance control implemented in the factory and boxed meals provided
- Strict control on any individuals who are exhibiting any symptoms, leveraging on the hospital testing facilities.

Production capacity



- Factory was restarted on Feb 10th with only one weeks delay
- 85% workers returned back against a standard 90% return rate
- 10% of employees have been hired using incentive plans
- Resource secures 100% production capacity.

Supply Chain



- All suppliers have returned to work by 3 March 2020
- All have committed to our demand with additional 2 weeks inventory requested as backup
- Strategic stock (10-12 weeks on hand) reduces risk during the epidemic.

Source: Company

Strix's products have historically had **limited correlation with short term consumer confidence** since kettles are seen by many as a household essential and repeat purchase. The central expectation is that there will be no current noticeable effect on OEM or end market demand.

Separately the company has also confirmed *'the Group is working on several strategic initiatives, including new products and efficiencies, to minimise any impact to full year forecasts'*

In terms of Strix financials, we see following statistics as being most relevant to the investment case:

- Dividend cover of 1.8x, implying a sustainable dividend. We would underline the income attractions, and we still forecast modest growth in FY20.
- ND/EBITDA leverage of c. 1x (forecast), implying well below average financial risk. And well below bank covenant requirements of < 2.5x.
- Cash and facility headroom as at end December 2019 of £22.7m.

Investment case – a recap

Having made these detailed points about COVID-19 and the market backdrop, we now attempt to put Strix PLC into more context.

Strix is an unusual strategic asset in our view, with well-assembled competitive advantage. This is reflected in its market share (in excess of 60% in regulated markets) and high 30% group EBITDA margins. From these high margins, there is significant free cashflow that in turn funds, inter alia, an attractive dividend and growth capex where necessary.

Strix has world-class research & development and operates a lean and agile engineering business, which is a long-term competitive advantage. During 2019 for example, 521 million parts were manufactured at the factory in Ramsey, Isle of Man by a team of only 37 people. With its Isle of Man domicile, Strix also operates a very tax efficient model.

It is however a global service provider (across the value chain), operating in the IoM and China, providing components and value-added services to OEMs, brands and retailers. These components are used to produce water heating appliances (e.g. kettles), filtration technologies and appliances for consumers across the world. The engineering capability is backed up by a rigorous approach to IP protection and safety actions.

Strix has steadily built up market leading capability and know-how in this field since being founded in 1982. Specifically, in kettle controls the market dynamics remain attractive notwithstanding the turbulent geopolitical backdrop, of course beyond the company's control.

Kettles are replaced by households on average **every 3 ½ years** and remain a 'small ticket' in terms of consumer spending habits. However, with **c. 196m appliances globally**, penetration only stands at 35%, implying there is ongoing long-term growth potential.

Long term growth initiatives. In total, 14 new product launches are planned for 2020. Across Kettles, Appliances and Water. With the recent HaloSource deal, there is now clearly room for a new "high ground" to be established over time in purified water.

Strix has a strong track record of achieving global leadership based on what it has achieved in kettle safety devices. This also diversifies revenue.

The group remains well on-track near-term and is continuing to execute on initiatives which should build further value in the long term.

We expect investors to focus once again on the strategic merits of Strix, yield and the upside potential from long-term growth initiatives. And, of course, the lowly trading multiples.

ESG and SRI credentials

An important theme which we are now also developing more clearly in our Strix equity research is that **the Group is closely aligned to the vastly important ESG 'mega-trends' that are reshaping the global economy, business and society**. This is reflected in Strix's evolving business model and the categories of water filtration/cleanliness; health and wellness; energy efficiency; as well as the reduction in use of plastics.

FINANCIALS

Share price in context

The Strix share price was 100p and its market cap £190m at the time of its IPO in August 2017. The share price grew steadily and in H2 19 reached 199p. The current share price is 131p.

In 2020, to date the share price has fallen by over 30%. The broader UK stock-market has fallen 31% this year (mainly from March onwards).

Valuation

There is no well-defined industry peer group for Strix, and hence traditional multiples-based analysis has clear limitations. At the same time, this underlines the company's own scarcity value.

At Equity Development, we have nonetheless established a specialist engineering cohort for relative valuation (see below). This comprises well-known UK listed businesses, including for example Halma and Spirax-Sarco. Note, however, the median market value is in the £billions, whereas Strix is a comparatively small capitalisation.

Our overall conclusion is that Strix appears very inexpensive by the standards of this cohort / peer group, whilst we also flag that many of these names are mid/large caps which would ordinarily trade at a premium.

There has been significant share price weakness across the board in recent months. **The market is pricing in material downgrades. But as we indicate in this report, this is not our forecast action today.** Earnings security is above average in our view. And the market has never seen Strix as a 'high growth' name.

For Strix, both EV/EBITDA and P/E multiples are still comfortably beneath the cohort average (12.9x and 19.3x respectively) while EV/sales of 2.5x reflects the high margins generated.

Balance Sheet

£000's	2017A	2018A	2019A	2020E	2021E
Intangible assets	5,179	4,804	7,069	8,284	9,559
Property, plant and equipment	9,378	11,093	25,525	41,609	45,561
Total non-current assets	14,557	15,897	32,594	49,894	55,120
Inventories	9,165	10,518	9,497	10,497	10,747
Trade and other receivables	7,195	7,254	9,333	10,333	10,616
Receivables from former gp rel parties					
Cash and cash equivalents	10,111	13,521	13,658	13,658	22,204
Total current assets	26,471	31,293	32,488	34,488	43,567
Total assets	41,028	47,190	65,082	84,382	98,687

Source: Company Data and ED estimates

Debt/Cash Summary					
£000's	2017	2018	2019	2020F	2021F
Net debt ex IFRS 16	45,889	27,479	26,342	36,568	28,021
ND / EBITDA	1.3	0.8	0.8	1.0	0.8
Operating cashflow	34,348	35,431	35,345	32,731	37,261
Capex	-5701	-7552	-14923	-22900	-10957
Free cashflow	27,908	26,658	17,719	8,494	25,080

Source: ED estimates and Company Data

Relative Valuation															
Company	Share price	Market cap	Net debt	EV	Sales 2018	Sales 2019	EV/sales	EBITDA 2018	EBITDA 2019	EV/EBITDA	EPS 2018	EPS 2019	P/E 2019	Div 2019	Yield
	(p)	(£m)	(£m)	(£m)	(£m)	(£m)	(x)	(£m)	(£m)	(x)	(p)	(p)	(x)	(pence)	(%)
Discover IE	392	288	30	318	338	439	0.7	29	37	10.8	21.9	25.8	15.2	10.0	2.6%
Halma	1906	7236	196	7432	1076	1210	6.1	252	287	25.9	42.3	46.7	40.8	16.0	0.8%
IMI	786	2141	265	2406	1877	1908	1.3	315	329	7.3	69.1	78.7	10.0	41.0	5.2%
Judges Scientific	3400	211	8	219	75	82	2.7	12	18	12.2	32.8	137.0	24.8	28.5	0.8%
Oxford Instruments	1004	574	109	683	297	333	2.1	56	61	11.2	59.0	58.0	17.3	14.0	1.4%
Renishaw	2950	2145	-52	2093	612	574	3.6	186	133	15.7	168.0	183.0	16.1	60.0	2.0%
Rotork	225	1956	13	1969	693	685	2.9	162	169	11.7	11.9	13.5	16.7	6.0	2.7%
Spirax-Sarco	8905	6557	373	6930	1138	1233	5.6	299	323	21.5	246.0	258.0	34.5	108.0	1.2%
Strix	131	248	28	255	94	110	2.5	36	36	7.5	14.2	14.2	9.2	7.7	5.9%
TT Electronics	149	243	71	314	378	481	0.7	45	56	5.6	13.2	15.7	9.5	7.0	4.7%
Average							2.8			12.9			19.3		2.8%

** Forecasts derived from Capital IQ and other sources



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