

# ÅAC Microtec

Q1 results

## Low volumes induce quarterly volatility

Management states that Q119 results were broadly according to plan, although on an underlying basis (excluding prior period acquisition costs) both net sales and EBITDA were slightly lower. ÅAC made modest progress, but Clyde saw a reduction due to business mix combined with lower platform sales in the period. Now that financing is being addressed by the underwritten rights issue, the main challenge for management is to execute on the growing backlog. Given the lumpy nature of revenues in the current low-volume platform environment, we maintain our estimates as we expect volumes to grow as the year progresses.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/17	13.3	(27.3)	(0.86)	0.0	N/A	N/A
12/18	77.9	(37.2)	(0.55)	0.0	N/A	N/A
12/19e	120.8	(8.5)	(0.12)	0.0	N/A	N/A
12/20e	200.4	27.5	0.36	0.0	16.6	N/A

Note: Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. Clyde Space consolidated for 11 months in FY18. All pre-rights issue.

## Q1 a period of low platform deliveries

Q1 results reflect lower platform deliveries at Clyde, where net sales of SEK7.5m were down 25% despite an extra month's contribution, and healthy growth for subsystems at ÅAC where sales rose 16% to SEK7.4m. Group net sales were down 9% to SEK14.9m (Q118: SEK16.4m). Platform sales were down a third, with subsystems sales up 3%, and the adverse mix at Clyde saw its EBITDA contribution fall SEK4.7m to a loss of SEK4.5m, excluding the SEK8.8m of acquisition expenses from Q118. ÅAC in Sweden reduced its EBITDA loss by SEK1.8m to SEK2.0m. The group finished the period with net cash of SEK10.1m and an unused overdraft facility of SEK5.0m. The rights issue, which was approved by the EGM, will raise up to SEK82.5m, of which SEK67.5m is underwritten.

## Market appears supportive, execution is key

The additional funds should enable the company to cover working capital requirements as volumes grow, as well as seeking new opportunities in the market. The SEK54m ORBCOMM deal that was signed after the period end provides ÅAC's first space-as-a-service deal. Its funding appears to be front end loaded, but terms on other projects may be less favourable. Management must now focus on attracting key personnel with the talents and skills to enable it to ramp up production as new satellite orders are obtained, including what are expected to be the first constellation orders.

## Valuation: Still at an early growth stage

We will review our numbers once the result of the rights issue is confirmed but, as stated previously, we expect the loss per share for FY19 would be reduced by c 24% given the increased weighted average share count if fully subscribed, and the FY20 EPS would fall by around 29% to SEK0.25. The additional funds should facilitate future growth and higher return, as ÅAC improves cash flow organically.

## Aerospace & defence

9 May 2019

Price **SEK6.12**

Market cap **SEK421m**

SEK9.58/US\$1

Net cash (SEKm) at 31 March 2019 10.1

Shares in issue 68.7m

Free float 71%

Code AAC

Primary exchange Nasdaq FN Premier

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 7.0 67.0 (13.5)

Rel (local) 7.2 56.6 (15.9)

52-week high/low SEK8.0 SEK3.0

## Business description

Based in Sweden, ÅAC Microtec is a world leader in nanosatellite end-to-end solutions, subsystems and platforms after merging with Clyde Space in Scotland. The merged company also supplies a range of technology components to other small satellite manufacturers globally.

## Next events

AGM 23 May 2019

H1 results 22 August 2019

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## Q119 summary

The Q18 results are summarised below:

<b>Exhibit 1: ÅAC Microtec first quarter results summary</b>			
<b>SEKm</b>	<b>Q118</b>	<b>Q119</b>	<b>% change</b>
ÅAC	6.422	7.429	16%
Clyde	9.999	7.509	(25%)
<b>Net sales</b>	<b>16.421</b>	<b>14.938</b>	<b>(9%)</b>
Satellite platforms	5.447	3.659	(33%)
Subsystems	10.974	11.279	3%
<b>Net sales</b>	<b>16.421</b>	<b>14.938</b>	<b>(9%)</b>
Other operating income	0.471	2.497	430%
Development work capitalised	0.800	0.927	16%
<b>Group income</b>	<b>17.692</b>	<b>18.362</b>	<b>4%</b>
Raw materials & subcontractors	(4.6)	(7.2)	56%
Personnel costs	(12.1)	(12.5)	4%
Other external expenses	(4.5)	(5.4)	19%
Other operating expenses	(0.0)	0.2	
<b>EBITDA adjusted</b>	<b>(3.5)</b>	<b>(6.5)</b>	<b>86%</b>
Acquisition expenses	(8.8)	0.0	
<b>EBITDA reported</b>	<b>(12.2)</b>	<b>(6.5)</b>	<b>(47%)</b>
Depreciation and Amortisation	(3.4)	(3.5)	2%
<b>EBIT</b>	<b>(15.636)</b>	<b>(9.931)</b>	<b>(36%)</b>
<b>PBT</b>	<b>(15.7)</b>	<b>(10.2)</b>	<b>(35%)</b>
<b>Net income</b>	<b>(15.3)</b>	<b>(10.1)</b>	<b>(34%)</b>
<b>EPS (SEK)</b>	<b>(0.27)</b>	<b>(0.15)</b>	<b>(44%)</b>
Net cash at period end	53.6	10.1	(81%)

Source: Company reports

It should be noted that Clyde was consolidated for the full period in Q119 and for only two months in Q118.

We still expect more satellite platforms to be delivered by Clyde in 2019 than in 2018, so the expectation is that sales and profitability should improve as the year progresses, albeit that as volumes are still low quarterly performance is likely to reflect variable delivery rates.

The incoming CEO, Luis Gomes, joined at the start of May from Surrey Satellite Technology (SSTL), where he has been for the last 21 years. The company has also appointed Anita Bernie as a non-executive director. She has a background in spacecraft design and engineering, having worked in Airbus and SSTL, and in her current role as leading strategy and execution at KISPE Space Systems. In addition, the CEO of ÅAC North America is to step down, with group CSO Craig Clark temporarily filling the role until a replacement is appointed.

**Exhibit 2: Financial summary**

	SEKm	2017	2018	2019e	2020e
Year end December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		13.3	77.9	120.8	200.4
Own work capitalised and other operating income		4.2	11.3	5.2	5.2
Group income		17.5	89.2	126.0	205.7
EBITDA		(21.4)	(28.5)	0.9	33.6
Operating Profit (before amort. and except.)		(21.7)	(28.8)	0.5	33.0
Intangible Amortisation		(5.6)	(8.0)	(9.0)	(5.6)
Exceptionals		0.0	(6.4)	(5.3)	(5.3)
Other		0.0	0.0	0.0	0.0
Operating Profit		(27.3)	(43.3)	(13.8)	22.1
Net Interest		(0.0)	(0.3)	(0.0)	0.0
Profit Before Tax (norm)		(27.3)	(37.2)	(8.5)	27.5
Profit Before Tax (FRS 3)		(27.3)	(43.6)	(13.8)	22.2
Tax		(0.0)	0.9	0.7	(2.2)
Profit After Tax (norm)		(27.3)	(36.4)	(8.0)	24.7
Profit After Tax (FRS 3)		(27.3)	(42.7)	(13.1)	19.9
Average Number of Shares Outstanding (m)		31.7	65.6	68.7	68.7
EPS - fully diluted (SEK)		(0.86)	(0.55)	(0.12)	0.36
EPS - normalised (öre)		(86.17)	(55.34)	(11.68)	35.92
EPS - (IFRS) (SEK)		(0.9)	(0.7)	(0.2)	0.3
Dividend per share (öre)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		(161.1)	(36.6)	0.8	16.7
Operating Margin (before GW and except.) (%)		(163.3)	(37.0)	0.5	16.5
<b>BALANCE SHEET</b>					
Fixed Assets		16.3	396.8	384.4	376.4
Intangible Assets		15.9	392.6	380.4	372.8
Tangible Assets		0.4	4.2	4.0	3.6
Investments		0.0	0.0	0.0	0.0
Current Assets		46.0	46.4	59.7	110.4
Stocks		1.9	6.5	10.0	16.3
Debtors		3.6	10.1	18.1	30.1
Cash		37.2	12.2	5.0	24.0
Other		3.3	17.5	26.6	40.1
Current Liabilities		(16.4)	(25.8)	(41.1)	(63.9)
Creditors		(14.4)	(25.8)	(41.1)	(63.9)
Short term borrowings		(2.0)	0.0	0.0	0.0
Long Term Liabilities		(1.0)	(2.5)	(1.2)	(1.1)
Long term borrowings		0.0	(1.2)	0.0	(0.0)
Other long term liabilities		(1.0)	(1.3)	(1.2)	(1.1)
Net Assets		44.9	414.9	401.8	421.8
<b>CASH FLOW</b>					
Operating Cash Flow		(24.9)	(40.3)	(4.2)	25.2
Net Interest		(0.0)	(0.3)	(0.0)	0.0
Tax		(0.0)	0.8	0.4	(2.7)
Capex		(4.0)	(1.6)	(2.3)	(3.4)
Acquisitions/disposals		(9.5)	(376.2)	0.0	0.0
Financing		0.1	393.5	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(38.4)	(24.1)	(6.1)	19.0
Opening net debt/(cash)		(73.5)	(35.2)	(11.0)	(5.0)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.1	(0.0)	0.0	0.0
Closing net debt/(cash)		(35.2)	(11.0)	(5.0)	(24.0)

Source: Company reports, Edison Investment Research estimates. Note: All numbers pre-rights issue.

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