

# Carclo

Strategy update

## Wipac move into mid-volumes under review

Tech hardware and equipment

12 June 2019

**Price** **20.1p**  
**Market cap** **£15m**

Net debt (£m) at 30 September 2018	35.9
Shares in issue	73.4m
Free float	91.8
Code	CAR
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



### Business description

Carclo is a specialist in high-precision plastic moulding, principally in healthcare, optical and automotive applications. Its two main end-markets are high-volume medical consumables and low-volume, very high-value automotive lighting.

### Analysts

Anne Margaret Crow	+44 (0)20 3077 5700
Dan Ridsdale	+44 (0)20 3077 5729

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

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Carclo has announced that while the Technical Plastics and Aerospace divisions have started FY20 well, the costs associated with ramping up an unprecedented number of new low-volume lighting programmes at Wipac remain unacceptably high. Management is therefore reviewing its decision to move into the mid-volume vehicle market. We place our FY20 estimates and valuation under review until further information is provided when the FY19 results are announced in July.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	138.3	11.0	12.1	0.0	1.7	N/A
03/18	146.2	9.1	9.8	0.0	2.1	N/A
03/19e	140.5	6.3	6.5	0.0	3.1	N/A
03/20e	N/A	N/A	N/A	N/A	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

When Carclo announced it had won its first mid-volume design contract three years ago, it flagged that significant investment in working capital and capacity would be required to penetrate this market segment. Given the current operational issues in the Wipac business, which are taking much longer than anticipated to resolve, adding new premises in the US and additional capacity in the UK to accommodate mid-volume production would distract management attention from the core business. In addition, with profits depressed by Wipac inefficiencies, the capital investment needs for expansion may compromise existing banking covenants.

Consequently, Wipac is working with its mid-volume customers on a plan to refocus the operation back on low-volume vehicle markets, for example supporting them in moving some lighting programmes to alternative suppliers. This move will enable Wipac to focus on improving the efficiency of the low-volume operation. We note that similar initiatives instigated last year to improve the margins in the Technical Plastics division had begun to deliver results in H219.

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia