

Airopack Technology Group AG

Switzerland | Packaging Solutions

FY2017 earnings update

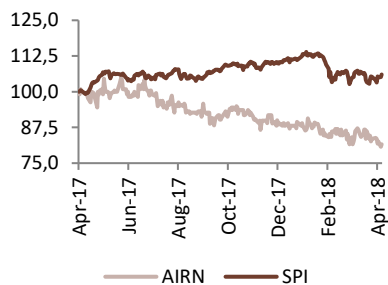
11 April 2018

Company Data

Price:	CHF 8.9
Market Cap:	CHF 177.5mn
Free Float:	49.2%
No. of shares:	19.9mn
Avg. traded volume (3 month):	5,361
Bloomberg:	AIRN SW
Reuters:	AIRN.S
ISIN:	CH0242606942

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2017	2018E	2019E	2020E
Sales	21.5	51.3	92.0	157.8
EBITDA %	(98%)	0%	24%	28%
EBIT %	(167%)	(29%)	7%	16%
Net Margin %	(187%)	(54%)	(7%)	8%
Net Income	(40.1)	(27.8)	(6.7)	12.7
Capex	14.5	5.0	15.0	4.0
EV/EBITDA	(17.2)	6,141.1	16.4	8.2
EV/EBIT	(10.1)	(24.2)	59.3	14.4

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Performance improvements with an eye on future

Sales growth backed by strong volume growth

Airopack reported sales of EUR 21.5 million in 2017, up 90.4% YoY. The strong growth in the top-line was driven by higher volumes, which reached 32.9 million dispensers (~4.5x over 2016 sales volume). The strong volume growth is a result of the steady ramp-up of the production capacity at the Waalwijk facility, where the initial installed annual capacity was 80 million dispensers. In 2017, the company invested in capacity augmentation to harness future growth opportunities.

Net loss contracts slightly

Given the ongoing expansion, higher fixed costs took a toll on the profitability and Airopack reported a loss of EUR 21.0 million at the EBITDA level, albeit lower than in 2016. The increase in operating expenses was driven by personnel costs, which grew 40.4% YoY due to a significantly higher headcount (166 vs. 123 in 2016). Higher D&A expenditure (due to expansion and acquisition of intangibles) and a steep rise in financing costs (~+50% YoY) led to a net loss of EUR 40.1 million as compared to EUR 42.3 million in 2016.

Guidance

Management plans for a two-phase expansion of the installed production capacity to 200 million dispensers by the end of 2018, with the first phase expected to increase capacity to 150 million by the end of 1H 2018.

The company expects to reach EBITDA break-even at a run-rate of 100 million units in 2H 2018, which is substantiated by the gradual rise in sales volumes and significant improvements in EBITDA per million volumes. The company has set an ambitious medium-term goal of a run-rate volume of over 700 million Airopack dispensers annually or around 1.1% of the 66.5 billion-aerosol market size expected in 2018.

The company succeeded in securing several contracts with new customers during 2017, which should result in increased volumes and sales to cover a significant portion of fixed production costs.

Valuation

We remain optimistic about the growth prospects for Airopack. The company has promising plans and aggressive strategies in place to achieve the specified targets, along with a global financing partner. We expect Apollo to continue to support Airopack in its future endeavours to expand its production capacity and in opening new facilities to meet the growing demand for Airopack's products.

We believe the company is on track to ramp-up the production capacity from initial 80 million units to targeted 200 million by 2018-end. Even though the actual production of ~40 million units in FY17 is well below our previously projected production of 90 million units, due to a delay in the initial ramp-up phase of the new production plant, the delay in EBITDA breakeven was partially offset by the depreciation of the CHF/EUR exchange rate. The company has displayed improved operational efficiencies as evident from significant improvement in the gross margin in FY17. Additionally, the company's gross margins has benefited from increasing client-base. We adjust our model assuming a production of 107 million units, which translates to a 53.5% capacity utilisation to achieve breakeven EBITDA in 2H18 and for FY18 on the back of improved gross margins to 61.8%. We foresee EBITDA per million volumes to improve further on the back of higher gross profits driven by efficient consumption of raw materials.

We anticipate further upside to the stock from current price from synergies related to vertical integration of the recently acquired SIPN. Based on a Discounted Cash Flow (DCF) approach, we have arrived at a target price of CHF 13.3 per share, slightly lower than our previous estimate of CHF 13.5 per share. We expect the reduction in top-line due to delayed ramp-up of production will partially be offset by better than expected operational efficiencies. We remain positive on the company considering higher economies of scale and increased market share for the company which is less than ~1% of the total market size of aerosol products (expected to increase at a mid-single digit CAGR until 2023 to over 90 billion) across the globe. Given the trend towards more planet-friendly technologies in future, we believe that Airopack offers a compelling growth story.

FY2017 – Growth investments weigh upon profitability

FY2017 was marked by significantly higher sales volumes, quadrupling over FY2016, thereby lifting sales of Airopack to EUR 13.1 million (FY2016: EUR 3.4 million). Sales from Airosolutions NV, Airopack's subsidiary, grew to EUR 8.4 million (+6% YoY). Geographically, sales in North America surged significantly to EUR 12.7 million (FY 2016: EUR 3.4million), nearly doubling its contribution to overall sales to 59%. On the other hand, sales in Europe grew 11% to EUR 8.7 million (41% of total sales). High stock levels as at YE17 lifted inventories of finished and semi-finished goods by EUR 3.1 million. Change in inventory of finished and semi-finished goods to EUR 4.1 million (FY2016: EUR 0.6 million) helped operating income to grow to EUR 25.6 million (+108% YoY).

Operating expenses rose to EUR 46.6 million (+14.9% YoY), due to higher raw material expenses (+37.7% YoY) and personnel expenses (+40.4% YoY), partially offset by lower other operating expenses (-18.0% YoY). Raw material expenses included an impairment charge of EUR 0.7 million for technical obsolescence of inventory taken over from the former joint venture. Personnel expenses included an increase of EUR 5.8 million pertaining to higher headcount due to production ramp-up of Airopack in The Netherlands. Meanwhile, absence of incidental consulting expenses (EUR 5.0 million) and other incidental cost (EUR 3.5 million) drove other operating expenses lower to EUR 14.6 million.

EBITDA came in at negative EUR 21.0 million (FY2016: negative EUR 28.5 million), while EBIT improved to negative EUR 35.9 million (FY2016 negative EUR 39.9 million) despite of higher depreciation and amortization (D&A) expenses. Rising investment in new assets lifted depreciation charges by EUR 1.9 million, while amortization of goodwill related to the acquisition of the 50% stake in the Airolux AG joint venture resulted in higher amortization costs of EUR 1.5 million.

The company's net result was further impacted by significant increase in financing costs (+46% YoY) to EUR 9.0 million, resulting from funding activities pertaining to the expansion of production capacity and operating losses. Funding secured during the year which included loans from Apollo Funds, thus resulting in higher interest expenses of EUR 9.1 million (FY2016: EUR 4.7 million). Capitalisation of deferred tax asset (EUR 4.9 million) led further to the rise in net loss of EUR 40.1 million (FY2016: loss of EUR 42.3 million).

Rising demand and new contracts compels Airopack to enhance production capacity

During 2017, Airopack manufactured ~ 40 million Airopack dispensers, majorly for Procter & Gamble's (P&G) shave care brand Gillette Fusion, even as the company kept an eye on expansion and product improvement. While the company extended its existing contract with P&G for a further period of two years, it also secured additional contracts with companies such as Edgewell personal care, Morning Glory and Icon Brands, which is a clear endorsement of the product and its technology. In addition, the company is making progress with several new global customers across the EU and the US. New contracts, coupled with rising demand should considerably boost the top-line in 2018. Accordingly, the company approved a plan to expand its production capacity in Waalwijk to 200 million Airopack dispensers annually in two phases during 2018. During the first phase, Airopack plans to reach a run rate capacity of 150 million units by the end of 1H 2018. The second phase of expansion is expected to result in a further expansion of 50 million units run rate capacity by YE18.

Meanwhile, Airosolutions NV is concentrating its efforts on the production and sale of the Airoball Lip Care products produced for Beiersdorf. The company was successful in enhancing the quality control and supply chain security through producing the products in-house, which was earlier outsourced. The success of the product, which was entirely designed and developed by Airopack's R&D team, resulted in extending the application of the product to Beiersdorf's different product lines.

Vertical integration to aid growth

In February 2018, Airopack announced the acquisition of Scholle IPN Equipment B.V. (SIPN), Airopack's production partner for its full range of filling equipment, for an undisclosed price. The acquisition should aid the company meet demand for Airofiller filling equipment resulting from the growing demand for Airopack's products. The company announced that the funding of the acquisition and related working capital needs, coupled with its growth plans has been secured through a combination of EUR 15 million debt facilities and a EUR 30 million revolving lease facility provided by Rabobank. The revolving lease facility should provide additional headroom for the company for further investments in machinery and equipment.

Improved cash flow situation through new financing and fixing IP related outflows

In July 2017, Airopack increased its capital through a private placement of 1,228,955 shares at a price of CHF 10.65 per share, which generated cash inflows of ~CHF 12.7 million. Meanwhile, the company further secured funding of ~EUR 20 million from Apollo Funds to finance its expansion activities and fund operational losses.

In December 2017, Airopack exercised the option to settle the purchase price of the Intellectual Property (IP) pertaining to the technology used in the pressure control devices. This resulted in fixing future cash outflows at certain amounts as compared to sales volume based outflow.

Key changes to our assumptions

We have modified our model to adjust for improved cost efficiency displayed by the company. Accordingly, gross margin is anticipated to expand to over 60% in FY18-19 before moderating to ~52-55% range in FY20-22, as compared to previous average of ~42% in the forecasted period. However, the growth in revenue is expected to get slower than expected earlier for the next few years. We have reduced the forecasted production of Airopack dispensers to 107,000 units as compared to 160,000 units earlier for FY18. Going forward, we have assumed a higher gestation period for ramp-up in utilisation of production capacity of the company, even as the company continues to expand its capacity in line with the growing demand across the globe.

For detailed financial statements and our estimates until 2020E, please refer to the following pages.

DETAILED FINANCIAL STATEMENTS

INCOME STATEMENT

Figures in EUR '000	2015 A	2016 A	2017 A	2018 E	2019 E	2020 E
Sales	7,996	11,282	21,484	51,300	92,000	157,750
Ready to fill				34,800	56,000	88,000
Ready to sell				12,000	28,800	54,000
EQS				4,500	7,200	15,750
Cost of good sold	7,277	11,006	11,892	19,605	35,800	70,075
Raw material expense	7,758	11,611	15,992	19,605	35,800	70,075
Change in inventory of finished and semi finished goods	481	605	4,100	-	-	-
Gross Profit	719	276	9,592	31,695	56,200	87,675
% margin	9.0%	2.4%	44.6%	61.8%	61.1%	55.6%
Personnel expense	4,745	11,422	16,038	17,088	17,600	23,567
Other operating expense	7,310	17,749	14,554	14,548	16,486	19,762
Research and development cost	224	436	1,057	1,321	1,586	1,903
Charges for operation of the production facility	227	157	-	1,026	920	1,578
Office rental and maintenance	828	2,345	4,146	4,975	5,721	6,294
Marketing and public relations	654	739	1,361	1,283	1,840	3,155
Audit, legal and consulting	851	1,365	2,617	2,879	3,109	3,358
Other operating cost	610	1,485	2,665	3,065	3,310	3,475
Incidental consulting expense	1,236	7,753	2,708	-	-	-
Incidental cost other	2,680	3,469	-	-	-	-
Total operating expenses	12,055	29,171	30,592	31,636	34,086	43,329
Other operating income	726	440	-	-	-	-
EBITDA	(10,610)	(28,455)	(21,000)	59	22,114	44,346
% margin	(132.7%)	(252.2%)	(97.7%)	0.1%	24.0%	28.1%
Depreciation	1,244	3,248	5,133	8,970	9,303	11,570
Amortization	741	8,239	9,740	6,012	6,712	7,672
EBIT	(12,595)	(39,942)	(35,873)	(14,923)	6,099	25,104
% margin	(157.5%)	(354.0%)	(167.0%)	(29.1%)	6.6%	15.9%
Interest expense	3,661	6,227	9,096	12,830	12,830	12,430
EBT	(16,256)	(46,169)	(44,969)	(27,753)	(6,732)	12,674
% margin	(203.3%)	(409.2%)	(209.3%)	(54.1%)	(7.3%)	8.0%
Income Taxes	-	(3,852)	(4,871)	-	-	-
Net Income	(16,256)	(42,317)	(40,098)	(27,753)	(6,732)	12,674

BALANCE SHEET

Figures in EUR '000	2015 A	2016 A	2017 A	2018 E	2019 E	2020 E
Cash	2,918	8,340	7,196	16,326	9,492	9,637
Trade accounts receivable	2,941	2,054	5,817	2,108	3,781	6,483
Other receivables	1,128	679	553	1,539	2,760	2,366
Inventories	2,354	3,445	6,006	5,130	9,200	15,775
Prepayments and accrued income	186	458	303	-	-	-
Current Assets	9,527	14,976	19,875	25,103	25,233	34,261
Financial assets	8,927	4,314	9,168	9,168	9,168	9,168
Fixed assets	6,736	28,341	38,425	43,955	39,652	43,082
Intangible assets	7,444	46,265	60,120	54,108	54,396	56,324
Non-Current Assets	23,107	78,920	107,713	107,231	103,216	108,574
Total Assets	32,634	93,896	127,588	132,335	128,449	142,835
Bank overdrafts	510	-	-	-	-	-
Short term portion of financial liabilities	579	3,753	14,601	14,601	14,601	14,601
Trade accounts payable	3,539	3,684	6,343	2,941	5,370	10,511
Other current payables	465	1,239	686	2,215	2,386	3,033
Accrued liabilities and deferred income	1,282	1,606	3,790	3,164	3,409	4,333
Current Liabilities	6,375	10,282	25,420	22,920	25,766	32,478
Financial liabilities	26,103	80,930	125,379	160,379	160,379	155,379
Provisions	-	-	-	-	-	-
Non-Current Liabilities	26,103	80,930	125,379	160,379	160,379	155,379
Share capital	55,276	74,500	81,808	81,808	81,808	81,808
Capital reserves	(13,733)	10,753	17,616	17,616	17,616	17,616
Cumulative translation adjustments	32	912	32	32	32	32
Accumulated losses	(41,419)	(83,481)	(122,667)	(150,420)	(157,152)	(144,478)
Shareholders' equity	156	2,684	(23,211)	(50,964)	(57,696)	(45,022)
Total Liabilities and Shareholders' equity	32,634	93,896	127,588	132,335	128,449	142,835

Source: Research Dynamics

CASH FLOW STATEMENT

Figures in EUR '000	2015 A	2016 A	2017 A	2018 E	2019 E	2020 E
Net Income	(16,256)	(42,317)	(40,098)	(27,753)	(6,732)	12,674
Depreciation, impairments and amortization	1,985	11,487	14,873	14,982	16,015	19,242
Change in provisions	(83)	-	-	-	-	-
Other positions with no impact on liquidity	846	2,200	(173)	-	-	-
Operating cash flow	(13,508)	(28,630)	(25,398)	(12,771)	9,283	31,916
Change in trade accounts receivable	(256)	1,861	(3,763)	3,709	(1,673)	(2,702)
Change in other receivables	(597)	226	107	(986)	(1,221)	394
Change in inventories	(722)	110	(2,561)	876	(4,070)	(6,575)
Change in prepayments and accrued income	(450)	(760)	(386)	303	-	-
Change in trade accounts payable	1,567	(870)	2,731	(3,402)	2,429	5,141
Change in other current payables	371	496	(960)	1,529	172	647
Paid income tax and received tax refunds (net)	118	395	406	-	-	-
Change in accrued liabilities and deferred income	(249)	298	1,826	(626)	245	924
Cash flow from operating activities	(13,726)	(26,874)	(27,998)	(11,370)	5,166	29,745
Purchase of fixed assets	(4,104)	(15,608)	(15,515)	(14,500)	(5,000)	(15,000)
Purchase of intangible assets	-	-	-	-	(7,000)	(9,600)
Sale of fixed assets	-	1,516	300	-	-	-
Payment for the acquisition of consolidated organisatic	-	(25,091)	-	-	-	-
Outflow from long term financial assets	(1,550)	(2,030)	-	-	-	-
Cash flow from investing activities	(5,654)	(41,213)	(15,215)	(14,500)	(12,000)	(24,600)
Inflow / (Outflow) from current financial liabilities third	85	(31,717)	6,491	-	-	-
Inflow / (Outflow) from shareholder loan	(2,824)	62,500	20,000	-	-	-
Inflow / (Outflow) from long-term financial liabilities	13,383	98	361	35,000	-	(5,000)
Inflow from capital increase	10,657	42,636	14,888	-	-	-
Cash flow from financing activities	21,301	73,517	41,740	35,000	-	(5,000)
Total Cash Flow	1,921	5,430	(1,473)	9,130	(6,834)	145
Add: Opening cash balance	956	2,918	8,340	7,196	16,326	9,492
Add: Currency translation impact	41	(8)	329	-	-	-
Closing cash balance	2,918	8,340	7,196	16,326	9,492	9,637

Source: Research Dynamics

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