

XAAR TECHNOLOGY

18 November 2022

XAR.L

199p

Market Cap: £155.9m

SHARE PRICE (p)



12m high/low 273p/145p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£12.7m (at 30/06/22)
Enterprise value	£143.2m
Index/market	LSE
Next news	Trading update, Jan.'23
Shares in Issue (m)	78.4
Chairman	Andrew Herbert
Chief Executive	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

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Aquinox – a turning point in inkjet technology

Xaar announced on Wednesday the release of its Aquinox printhead for use with water-based inks. This is a major step forward for Xaar and for aqueous inkjet printing. Aquinox is the latest printhead to work on Xaar's ImagineX platform and helps open up new markets, most notable packaging and textiles. It also enables Xaar to take advantage of increasing demands in other markets, notably ceramics.

- Aquinox – meeting the challenges of aqueous inks.** Competitors have had aqueous inkjets for a while, but their progress has been held back by the challenges of reliability and robustness. It appears that Xaar has met those challenges. Aquinox has an internal redesign, new materials and a new drive system. It also features Xaar's ink recirculation technology, helping to ensure that nozzles don't dry and clog when ink is not jetted.
- Textiles and packaging – £100m market opportunity.** The textile and packaging digital inkjet markets present, in management's view, a £100m addressable market opportunity, and the release of Aquinox is a major step in opening this up.
- Handling more colourful, thicker inks.** Aquinox handles fluids with a viscosity of up to 100cP (versus 25cP for most competing products), enabling the use of inks with a wider range of colours and greater strength and depth. Thicker inks can also mean less energy and time for drying.
- Ink suppliers on board; printer manufacturers to follow.** Xaar has worked extensively with ink suppliers and developers to ensure Aquinox works with their current, and we believe, future inks. We expect that it won't be long before we hear that printer manufacturers are exploring Aquinox's capabilities and building it into their development plans.
- A new advantage in ceramics too.** In recent years, there has been increasing attention paid to aqueous inks in the ceramics markets, to cut down on environmental unfriendly and costly oil-based inks. So Aquinox should help Xaar gain further traction and market share in ceramics too.
- ESG double whammy gains.** Aquinox is also a major step forward in ESG terms. Water is more environmentally friendly than alternative solvents and dilutants in terms of the materials used and, as noted above, thicker inks generally mean less energy is used in printing and drying.

FYE DEC (£M)	2019	2020	2021	2022E	2023E
Revenue	49.4	48.0	59.3	73.3	81.6
Adj EBITDA	-4.9	0.1	3.2	5.6	8.8
Fully Adj PBT	-8.0	-3.9	-0.6	1.4	4.4
Fully Adj Dil EPS (p)	-15.1	-5.2	-0.1	1.7	5.6
EV/Sales (x)	2.9x	3.0x	2.4x	2.0x	1.8x
EV/EBITDA (x)	-29.5x	2309.9x	45.0x	25.4x	16.3x
PER (x)	N/A	N/A	N/A	114.7x	35.2x

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.

Financial Summary: Xaar

Year end: December (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	49.4	48.0	59.3	73.3	81.6
Adj EBITDA	(4.9)	0.1	3.2	5.6	8.8
Adj EBIT	(7.9)	(3.7)	0.6	1.6	4.7
Reported PBT	(10.9)	(4.3)	1.0	0.9	3.9
Fully Adj PBT	(8.0)	(3.9)	(0.6)	1.4	4.4
NOPAT	(2.9)	(3.1)	0.0	1.1	3.6
Reported EPS (p)	(18.7)	(5.7)	0.9	1.1	5.0
Fully Adj Dil EPS (p)	(15.1)	(5.2)	(0.1)	1.7	5.6
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(13.2)	(4.3)	(2.2)	(3.4)	6.5
Free Cash flow	(9.8)	(2.8)	(2.1)	(3.4)	6.5
FCF per share (p)	(12.5)	(3.6)	(2.6)	(4.4)	8.3
Acquisitions	(0.6)	(0.6)	(1.4)	(9.6)	(6.3)
Disposals	0.0	0.0	9.2	0.0	0.0
Shares issued	0.0	0.0	0.2	0.0	0.0
Net cash flow	0.3	(4.7)	5.1	(13.0)	0.2
Overdrafts / borrowings	(4.0)	(2.6)	(9.7)	(8.7)	(7.3)
Cash & equivalents	24.8	18.0	25.1	12.0	12.2
Net (Debt)/Cash	20.8	15.4	15.3	3.3	4.9
NAV AND RETURNS					
Net asset value	70.3	56.2	68.8	70.2	74.6
NAV/share (p)	89.8	71.7	87.8	89.6	95.2
Net Tangible Asset Value	41.0	29.6	44.4	43.3	44.7
NTAV/share (p)	52.3	37.8	56.7	55.3	57.1
Average equity	101.1	63.2	62.5	69.5	72.4
Post-tax ROE (%)	(112.8%)	(28.0%)	17.8%	1.2%	5.3%
METRICS					
Revenue growth		(2.8%)	23.5%	23.7%	11.4%
Adj EBITDA growth		(101.3%)	5033.9%	76.9%	56.2%
Adj EBIT growth		(52.7%)	(115.3%)	180.6%	191.6%
Adj PBT growth		(50.8%)	(85.4%)	(337.7%)	225.7%
Adj EPS growth		(65.3%)	(98.5%)	(2267.0%)	225.7%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		(7.8%)	1.0%	2.2%	5.7%
VALUATION					
EV/Sales (x)	2.9	3.0	2.4	2.0	1.8
EV/EBITDA (x)	-29.5	2309.9	45.0	25.4	16.3
EV/NOPAT (x)	-49.1	-46.2	-4761.0	130.2	40.0
PER (x)	N/A	N/A	N/A	114.7	35.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(6.3%)	(1.8%)	(1.3%)	(2.2%)	4.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

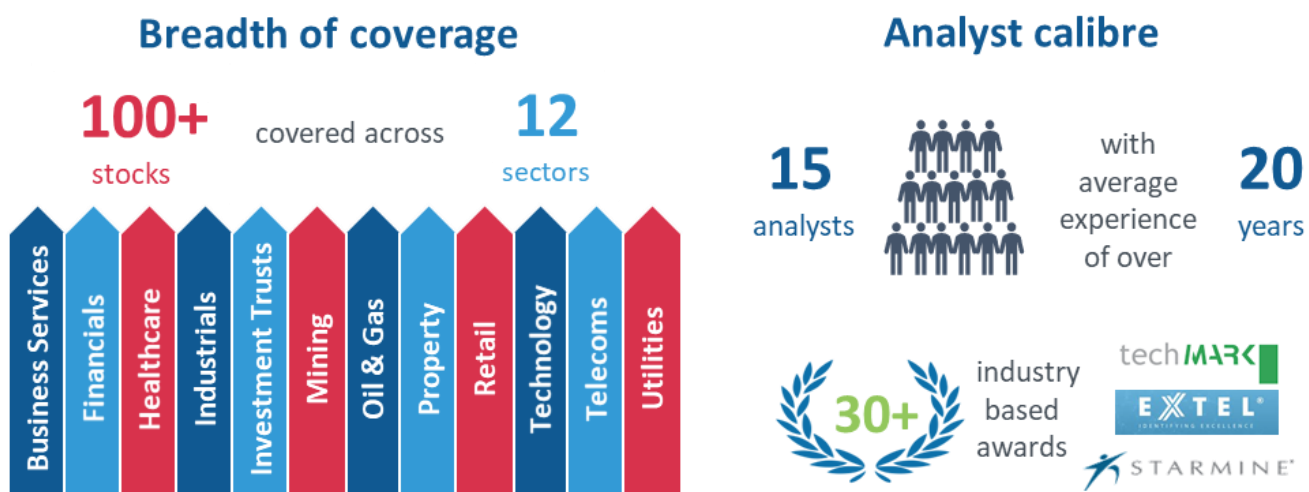
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