

## Mutares

**Industrials**
**21 April 2020**

### Opportunities in a distressed environment

Mutares (MUX) specialises in restructuring distressed companies and expects new opportunities to arise amid the current crisis caused by the coronavirus outbreak. STS's plants located in China have returned to operations and MUX's focus in terms of current restructuring actions is in benefiting from the end of lockdown and improved economic activity. In 2019, MUX was particularly active in M&A, with 10 investments announced, including six new platforms. These resulted in significant gains on bargain purchases and a solid EPS increase. Consequently, management recommended a €1.00 dividend per share for FY19, translating into an attractive 9.3% yield. MUX's liquidity was strengthened with the recent €50m bond issue.

### Building scale limits short-term profitability

With a record number of acquisitions agreed in FY19, MUX crossed the €1bn revenue mark and it expects to achieve more than €1.5bn once all investments are consolidated for a full year. The bottom line has been supported by gains on bargain purchases (albeit non-cash) and EPS increased 43% y-o-y to €1.37. Meanwhile, the automotive sector suffered from a weak macro environment in FY19 which, coupled with a large number of portfolio assets being in a realignment phase following recent acquisitions, led to adjusted EBITDA of only €7.5m (0.7% margin). We note that y-o-y EBITDA comparability is limited due to first-time adoption of IFRS 16.

### Turmoil creates opportunities

The coronavirus outbreak has weighed on financial markets, raising concerns of a lengthy economic slowdown. While the German industrial sector was already subject to slowdown, we note that MUX has exceptional experience in restructuring companies operating in unfavourable conditions. To date, it has achieved a 2.2x cash multiple on its realised investments, with proceeds regularly distributed to shareholders. Shareholders' interests are supported by strong management ownership (40% stake).

### Valuation: Trading below book value

MUX proved relatively resilient to the broader market sell-off. Its valuation is supported by the declaration of a hefty dividend for FY19 (9.3% yield) and the announcement that this level is expected to be sustained in FY20. MUX trades at 0.89x P/BV (FY19), with a FY20e P/E of 8.9x, although current consensus consists of only one estimate.

#### Consensus estimates\*

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	865.1	14.8	0.96	1.00	11.3	9.3
12/19	1,015.9	16.7	1.37	1.00	7.9	9.3
12/20e	1,950.0	26.6	1.22	1.20	8.9	11.1
12/21e	2,100.0	27.9	1.36	1.30	7.9	12.0

Source: Refinitiv, 15 April 2020. Note: \*Based on the estimates of one analyst from SMC Research.

**Price** €10.8  
**Market cap** €167m

#### Share price graph



#### Share details

Code	MUX
Listing	Deutsche Börse Scale
Shares in issue	15.2m
Last reported net cash at end-FY19	€22.2m

#### Business description

Founded and listed in 2008, Mutares acquires special situation companies that are underperforming and can be turned around through financial and operational restructuring. It currently owns multiple companies across three focus industries.

#### Bull

- Exposure to a portfolio of potentially high-growth recovery companies actively managed by experienced industry professionals.
- Prospect of high dividends following exits.
- Company specialises in underperforming companies amid global downturn.

#### Bear

- Exposure to German industrial sector experiencing headwinds from economic slowdown.
- Turnaround investments are inherently risky.
- Risk associated with narrow sector focus.

#### Analyst

Milosz Papst +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Financials: Earnings reflect high investment activity

Mutares operates a model based on acquiring majority interests in distressed companies and conducting exits following successful turnarounds. At the same time, it consolidates the entities in full, making its financial results characteristic of an industrial conglomerate. Newly acquired companies normally contribute negatively to overall EBITDA, while mature investments generate profits. Consequently, MUX's exceptionally high activity in terms of new investments in FY19 translated into lower group profitability. While it reported a 69% y-o-y increase in adjusted EBITDA to €7.6m, we note that this was supported by a €19.8m positive effect from the adoption of IFRS 16 (as former operating lease expenses are now recognised as financial expense).

With ten new acquisitions (including four add-ons to existing investments) Mutares has built a scale of over €1bn in revenues (up 17% y-o-y). The reported EBITDA amounted to €79.2m (up 61% y-o-y), which was driven mostly by €102.6m income from bargain purchases (FY18: €32.3m), which Mutares recognises as a consequence of performing acquisitions at a price below the balance sheet value of net assets. At the bottom line, Mutares delivered €20.8m in net profit ex-minorities (FY18: €14.7m) which translates to €1.37 EPS (up 43% y-o-y).

### Exhibit 1: FY19 financial highlights

€m unless otherwise stated	FY19	FY18*	Y-o-y (%)
<b>Revenues</b>	<b>1,015.9</b>	<b>865.1</b>	<b>17%</b>
Reduction or increase of finished goods and work in progress	(3.9)	0.1	N/M
Other operating income	119.1	107.4	11%
Cost of materials	(622.6)	(532.4)	17%
Personnel expenses	(291.8)	(244.7)	19%
Other operating expenses	(137.5)	(146.4)	-6%
<b>EBITDA</b>	<b>79.2</b>	<b>49.1</b>	<b>61%</b>
EBITDA margin	7.8%	5.7%	212 bps
o/w Income from bargain purchases	102.6	32.3	218%
o/w Restructuring and other non-recurring expenses	(31.0)	(28.6)	8%
o/w Deconsolidation effects	0.0	40.9	N/M
<b>Adjusted EBITDA</b>	<b>7.5</b>	<b>4.5</b>	<b>67%</b>
Adjusted EBITDA margin	0.7%	0.5%	23 bps
D&A	(53.0)	(29.7)	78%
Interest and similar income	1.5	0.5	200%
Interest and similar expenses	(11.0)	(5.1)	116%
<b>Pre-tax profit</b>	<b>16.7</b>	<b>14.8</b>	<b>13%</b>
Income taxes	0.0	(2.8)	N/M
Minority adjustment	(4.1)	(2.7)	52%
<b>Group share of consolidated income</b>	<b>20.8</b>	<b>14.7</b>	<b>41%</b>
Net margin	2.0%	1.7%	35 bps
<b>EPS (€)</b>	<b>1.37</b>	<b>0.96</b>	<b>43%</b>

Source: Mutares accounts. Note: \*FY18 figures are not fully comparable due to IFRS 16 adoption in FY19.

Mutares ended 2019 with a net cash position of €22.2m (down from €41.7m at end-FY18), stemming from €57.5m of financial debt (FY18: €66.4m) and €79.7m held in cash (FY18: €108.1m). It is important to note that these figures are mostly attributable to the portfolio companies, while at end FY19 Mutares had c €10m of cash at holding level. Post reporting date, Mutares closed two acquisitions agreed in FY19 and announced two further deals.

MUX completed a €50m bond issue in January 2020. The proceeds will be used to support acquisitive growth of its portfolio companies. The bonds bear interest of three-month Euribor + 6%, paid quarterly, and mature in February 2024. They are listed on the Open Market of the Frankfurt Stock Exchange. Mutares plans to introduce dual listing on the Oslo Stock Exchange and, depending on market conditions, may increase the issue to €80m.

## Growth driven by engineering and technology

Mutares ended 2019 with 14 portfolio companies, six of which were added to the portfolio during the year. In FY19, these delivered combined adjusted EBITDA of €13.1m before the effects of corporate consolidation. While Mutares did not perform any exits during 2019, comparable FY18 results partially reflect companies deconsolidated over the course of that year (BSL, Artmadis and Zanders). These contributed €80m to the top line and -€10.0m to adjusted EBITDA in FY18. In Exhibit 2 below we present MUX's portfolio breakdown by investment stage. We note that the companies acquired in 2019 contributed to the consolidated results for only part of FY19. MUX's portfolio can be categorised in three groups in terms of development stage, each significantly different in its contribution to the group's results.

**Exhibit 2: Portfolio breakdown by phase at end-FY19 (€m)**

Phase	Companies	FY19 revenues	FY19 adjusted EBITDA
Realignment	BEXity, keeeper, KICO, Plati, PrimoTECS, TréfilUnion	97.6	(13.6)
Optimisation	Cenpa, Donges, Gemini Rail	330.5	1.4
Harvesting	Balcke-Dürr, Elastomer, Eupec, Klann, STS	587.7	25.3
Corporate consolidation	-	-	(5.4)
<b>Mutares</b>	-	<b>1,015.9</b>	<b>7.5</b>

Source: Mutares

Mutares groups its portfolio companies into three main industries: Automotive & Mobility, Engineering & Technology, and Goods & Services. The **Automotive & Mobility** sector remained under pressure over FY19, with global vehicle sales volumes declining in the major markets. The segment delivered €450.4m in revenues (up 3% y-o-y), but growth was mostly driven by first-time consolidation of new companies (Plati and KICO). The segment reported adjusted EBITDA of €15.6m, down 11% y-o-y and lower 63% y-o-y when adjusted for the impact of IFRS 16. STS delivered 81% of the segment's revenues and its €17.6m adjusted EBITDA partially offset the losses of early-stage investments. The coronavirus outbreak has led STS to expect a further deterioration in results in 2020. In late 2019, Mutares announced the acquisition of **PrimoTECS**, which was closed in January. The company operates in Northern Italy as a supplier to the mobility industry, with sales of c €120m pa. It was acquired for €1 (which is a common practice by Mutares for platform investments). The profit on a bargain purchase will be recognised in FY20.

The **Engineering & Technology** segment became MUX's largest exposure in terms of revenues in FY19, posting 61% y-o-y growth to €482.0m. This was assisted by two new investments through the execution of the buy-and-build strategy. For a detailed description of earlier investments in FY19, see [our previous notes](#). Nevertheless, the segment posted an improvement in adjusted EBITDA (€4.7m profit vs €1.0m loss in FY18). However, after adjusting for the IFRS 16 impact, we arrive at a comparable EBITDA loss of €4.4m. Management states that while the optimisation phase of Donges Group is proceeding according to plan, its adjusted EBITDA in FY19 was still negative due to new add-ons. Donges Group is exposed to the construction market, which is not yet affected by the broader slowdown, as highlighted by the recently won €25m contract. In 2020, Balcke-Dürr announced the acquisition of **Loterios** for €1. Loterios designs and manufactures pressure equipment for a variety of industries. It is based in Italy and posted sales of €17m in FY19.

The **Goods & Services** segment comprises five platform investments, three of which (keeper, TréfilUnion and BEXity) were acquired in 2019. This led to 71% growth in FY19 revenues to €83.5m and significant income on bargain purchases. The adjusted EBITDA figure reduced to a €7.3m loss, as new companies are still in the realignment phase. While the segment comprises companies with a variety of products and strategies, we note that these are closely related to MUX's core competencies in the broader industrials sector. The household plastic products manufacturer keeper has already performed its first add-on acquisition of the napkin business from **Metsä** Tissue Corporation for €3, which was closed in February 2020. Mutares highlighted that following the coronavirus outbreak, it managed to switch Metsä's production line to toilet paper to meet increased demand amid social distress. This unexpected advance has driven keeper's

realignment ahead of schedule. **BEXity** offers transport logistics and warehousing services in Austria. The acquisition was only finalised in December 2019 and resulted in a €28.3m gain on bargain purchase. Mutares started its restructuring plan, but the process has been hampered by a rapid decline in demand. In FY19, the company posted revenues of €213m. The acquisition of **Nexive** was announced in 2020 and is expected to close in Q2/Q320. The company is the second largest mail and parcel provider in Italy with c €230m in annual revenues. It will be purchased from PostNL, which retains 20% ownership. Mutares has agreed to cover up to €5m obligations arising from the purchase agreement.

**Exhibit 2: Segment details**

Segment	Revenues (€m)			Adjusted EBITDA (€m)			Adjusted EBITDA (€m) excl IFRS 16		
	FY19	FY18	y-o-y	FY19	FY18	y-o-y	FY19	FY18	y-o-y
Automotive & Mobility	450.4	437.0	3%	15.6	17.5	(11%)	6.4	17.5	(63%)
Engineering & Technology	482.0	298.6	61%	4.7	(1.0)	N/M	(4.4)	(1.0)	N/M
Goods & Services	83.5	48.7	71%	(7.3)	3.3	N/M	(8.8)	3.3	N/M
Corporate consolidation	0.0	0.0	-	(5.4)	(6.5)	(17%)	(5.4)	(6.5)	N/M
<b>Current portfolio</b>	<b>1,015.9</b>	<b>784.2</b>	<b>30%</b>	<b>7.6</b>	<b>14.5</b>	<b>(43%)</b>	<b>(12.2)</b>	<b>14.5</b>	<b>N/M</b>
Deconsolidated investments	-	80.9	N/A	-	(10.0)	N/A	-	(10.0)	N/A
<b>Mutares</b>	<b>1,015.9</b>	<b>865.1</b>	<b>17%</b>	<b>7.6</b>	<b>4.5</b>	<b>69%</b>	<b>(12.2)</b>	<b>4.5</b>	<b>N/M</b>

Source: Mutares accounts.

## FY20 outlook

In 2020, Mutares expects to remain active in new investments, especially in the second half of the year. While some portfolio companies experience liquidity crunches to various extents, the holding-level net cash position was strengthened by the recent bond placement. Management highlights that it is applying for public support where possible. While the length of the lockdown and its impact on the economy is unclear, management remains optimistic about the 2020 results, encouraged by the fact that its Chinese plants have already returned to full capacity. Given the FY19 investments, management expects FY20 revenues to grow to over €1.5bn at group level.

The company recommends paying a DPS of €1.0 from FY19 profits (in line with last year), subject to approval at the AGM scheduled for 18 May 2020. At present, management expects MUX to pay a €1.0 DPS from FY20 profits as well. While distributing a dividend ahead of expected investment opportunities may seem surprising, management highlights that it targets distressed companies acquired for a negligible price. It expects some exits in 2020.

## Valuation: 5.6x money multiple on existing portfolio

Mutares stopped calculating the NAV of its portfolio holdings from FY19, with shareholder returns being its main performance indicator. Having said that, we have analysed MUX's book value per share (BVPS) total return (TR) and P/BV multiple. MUX normally acquires companies for a price visibly below book value. Its current portfolio consists largely of new (loss-making) holdings and it trades at a P/BV below 1.0x (currently 0.89x). Mutares posted a BVPS TR of 11% in FY19 and a four-year TR of 22% pa (based on our estimates).

Mutares unlocks cash from its investments on successful complete exit, as well as dividends, consulting fees and partial exits throughout the holding period. At the same time, it supports its portfolio companies financially during the restructuring process. For the previous 20 exited investments, Mutares realised an average cash multiple of 2.2x, which includes insolvent businesses. For current portfolio holdings held longer than 12 months (as at end-September 2019), Mutares has so far realised a 5.6x cash return on invested capital. However, we note that Mutares deconsolidated two insolvent companies in FY18, which are not reflected in the current multiple. The current portfolio companies are still generating cash flow for Mutares, as illustrated by the recently announced sale of the profitable Polish subsidiary of Balcke-Dürr.

---

## General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

---