Trackwise Designs

Fundraising supports EV contract

Placing, subscription and open offer

Tech hardware & equipment

Trackwise Designs has announced a fund-raising programme that will raise up to £7.0m (gross) at 80p/share to help provide the working capital needed to support a previously announced order for improved harness technology (IHT) worth up to £54m from a UK electric vehicle (EV) manufacturer. Management notes that FY21 group revenues are expected to be approximately £8.0m because of weaker demand for its advanced printed circuits boards (PCBs) so we have downgraded our FY21 and FY22 EBITDA estimates by 16% and 25% respectively.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
12/19	2.9	0.5	0.1	0.8	0.0	115.6
12/20	6.1	0.8	(0.4)	1.4	0.0	66.1
12/21e	8.0	0.7	(1.0)	(1.2)**	0.0	N/A
12/22e	20.8	3.2	0.4	2.0**	0.0	46.3

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

Investment to support contracted revenues

Trackwise has conditionally raised £6.0m through an oversubscribed placing and subscription at 80p/share. The company is also raising up to a further £1m through an open offer to qualifying shareholders, also at 80p/share. The latest date for applications under the open offer to be received is 4 January 2022.The funds raised will be used for growth working capital and capital expenditure. The fundraising, excluding a first tranche of shares which have already been issued, requires shareholder approval at a general meeting which will be held on 5 January 2022. The fund-raising supports an order worth up to £54m over four years from a UK EV manufacturer. Management expects this programme to start ramping up in H122, backed by purchase orders of £0.4m for Q122 and £2.4m for Q222. IHT for the contract will primarily be manufactured at the new Stonehouse site, which is scheduled to commence production at the end of Q122 and to be fully operational by June 2022.

IHT growth accelerating

For the 10 months ended October 2021, Trackwise generated total revenues of £6.6m (unaudited) compared with £6.1m in the year ended December 2020 (FY20). IHT revenues contributed £1.1m compared with £0.6m in the whole of FY20. EBITDA (adjusted for exceptional items and share-based payments) was £0.9m compared with £0.8m in FY20. The order book at the end of October 2021 was £3.3m, of which £1.3m was for delivery in the remainder of FY21, leading to management guidance of c £8.0m total revenues for FY21.

Valuation: IHT growth potential not fully priced in

Our peer multiples-based analysis shows Trackwise trading on EV/Sales and EV/EBITDA multiples for year 2 that are below the peer average. This suggests that at current levels the potential growth in sales and EBITDA associated with the EV opportunity is not fully priced in.

23 December 2021

Price	**92.5p**
Market cap	**£28m**

Net debt (£m) at 31 October 2021 (excluding IFRS 16 lease liabilities and prior to December 2021 fundraising)	2.4
Shares in issue (following first tranche of December fund-raising)	30.2m
Free float	64.1%
Code	TWD
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(45.4)	(59.9)	(61.4)
Rel (local)	(45.5)	(61.0)	(66.2)
52-week high/low		363.1p	92.5p

Business description

Trackwise Designs is a UK manufacturer of specialist products using printed circuit technology. These include a lightweight replacement for conventional wiring harnesses known as IHT and advanced PCBs: microwave and radio frequency, short flex, flex rigid and rigid multilayer products.

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Changes to estimates

Exhibit 1: Revisions to estimates

£m		2020	2021e			2022e		
		Actual	Old	New	Change	Old	New	Change
Revenues		6.1	9.0	8.0	-11.1%	22.1	20.8	-5.9%
EBITDA		0.8	0.9	0.7	-16.1%	4.3	3.2	-25.2%
Normalised PBT		(0.4)	(0.7)	(1.0)	36.3%	1.9	0.4	-79.2%
Normalised basic EPS (p)		1.42	(1.0)	(1.2)	29.8%	6.3	2.0*	-67.7%
Net debt/(cash)		(8.8)	2.8	4.6	67.7%	2.3	3.5	50.6%

Source: Company data, Edison Investment Research. Note: *On number of shares after issue of first tranche of shares associated with December 2021 fund-raising.

We have made the following adjustments to our estimates:

- The advanced printed circuit board (APCB) order book at the end of October 2021 was £2.7m, including £1.1m for FY21 delivery, and APCB revenues up to the end of October were £5.6m. We therefore reduce our estimate for FY21 APCB revenues from £7.8m to £6.8m and our FY22 estimate from £8.3m to £7.0m. The reduction is attributable to weaker demand from two significant customers, both of which are related to supply chain issues in the wider electronics industry.
- The IHT order book at the end of October 2021 was £0.5m, of which £0.1m was for delivery in FY21 and IHT revenues up to the of October 2021 were £1.1m, so we leave our estimate of £1.2m IHT revenues in FY21 unchanged. We also leave our estimate of £13.8m IHT revenues in FY22, of which £13.0m is attributable to the EV OEM, unchanged, while noting upside potential for over £19m of IHT deliveries to the EV OEM during the year. We also note that the contract with the EV OEM provides for penalty payments to Trackwise if the OEM does not take a minimum volume of IHT circuits each year during the duration of the contract. At current prices, this minimum volume represents FY22 revenues significantly greater than £13m.
- Gross margin during the 10 months ended October 2021 was only 16%, indicating a further decline from the 29.0% reported in H121, which we understand is attributable to inefficiencies linked to coronavirus-related personnel absences. We therefore cut our FY21 gross margin estimate from 32.4% to 22.8%. As the Stonehouse site will not be fully operational until June 2022, some of the manufacturing steps will be outsourced up to that point, with a negative impact on gross margin. We therefore reduce our FY22 gross margin estimate from 33.0% to 30.7%.
- We model the dilutive impact on EPS and positive impact on cash flow of only the first tranche of shares, which has increased the number of shares in issue to 30.2m (and raised £1.1m gross), as these did not need shareholder approval to be issued. Assuming that shareholder approval for the fundraising is obtained, the 7.5m shares issued to satisfy the placing and subscription (which include the first tranche of shares and will potentially raise a total of £6.0m gross) will take the total number of shares in issue to 36.3m, diluting FY22 EPS to 1.7p/share. If the open offer is fully taken up, this will result in the issue of a further 1.3m new shares, taking the total in issue to 37.5m, potentially raising £7.0m gross in total and diluting FY22 EPS to 1.6p/share.
- Noting that the company has received a total of £0.6m in R&D tax credits so far this year, we raise our FY21 cash tax estimate from £0.3m to £0.6m.
- We have increased FY21 working capital requirements to reflect changes in supplier payment terms and a shift to prepayments, as well as higher levels of holdings of key materials.

- We have changed the way we present capital expenditure financed through asset leases and now include that within the capital expenditure total in the cash flow rather than excluding it for clarity.

Valuation

Peer multiples

The share price has dropped sharply from the 145p level immediately prior to the announcement of the fund-raising at 80p/share. Our analysis shows Trackwise's prospective multiples based on (1) the number of shares once the first tranche associated with the placing and subscription have been issued; (2) the total number of shares in issue assuming that the issue of additional shares associated with the placing and subscription is approved (this includes the first tranche of shares but excludes any shares from the open offer); and (3) the total number of shares if the issue of additional shares is approved and the open offer is fully taken up. This total includes all the new shares associated with the placing and subscription. Looking at the multiples for scenarios (2) and (3) we note that Trackwise is trading on EV/Sales and EV/EBITDA multiples for year 2 that are below the peer average. This suggests that at current levels (92.5p/share), the potential growth in sales and EBITDA associated with the EV opportunity, which our estimates show as contributing to much stronger revenue growth than any of the sample between FY20 and FY22, is not fully priced in. We note that the IHT business has the potential to deliver growth that is faster than the average for our sample not just for the period covered by our estimates, but for at least several years beyond that. The peer multiples-based approach therefore fails to recognise the potential of the IHT activity in the longer term.

Exhibit 2: Peer multiples

Name	Market cap ($m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	CAGR*	EBITDA margin 1FY	EBITDA margin 2FY
AT & S	1,895	1.4	1.4	5.7	6.0	35.8	21.3	21.9%	24.0%	23.2%
CMK	354	0.7	0.6	8.1	5.5	24.4	11.2	8.9%	8.2%	11.5%
Compeq Manufacturing	1,842	0.9	0.8	5.1	4.6	11.1	9.7	5.2%	17.7%	18.3%
Ibiden	8,092	2.4	2.2	7.7	6.4	21.9	18.2	15.8%	31.1%	34.1%
KCE Electronics	3,183	7.1	6.0	29.3	22.2	43.6	30.8	24.3%	24.1%	27.1%
Meiko Electronics	983	1.2	1.1	8.8	8.1	12.4	10.7	14.6%	13.6%	13.4%
Tripod Technology	2,285	1.0	0.9	5.6	4.8	10.3	9.5	8.8%	17.4%	19.0%
TTM Technologies	1,474	0.8	0.8	6.8	6.3	11.4	10.1	4.1%	12.5%	13.0%
Unimicron Technology	11,557	3.3	2.7	15.3	10.5	27.8	20.8	18.8%	21.5%	26.0%
Zhen Ding Technology	3,325	0.8	0.8	4.8	4.1	10.0	8.7	12.8%	17.6%	18.7%
Mean		**2.0**	**1.7**	**9.7**	**7.9**	**20.9**	**15.1**		**18.8%**	**20.4%**
Trackwise Designs after issue of first share tranche (1)	37	2.2	0.9	25.2	5.6	N/A	45.4	85.2%	8.9%	15.4%
Trackwise Designs after issue of shares from placing and subscription (2)	45	2.3	0.9	26.3	5.9	N/A	54.6	85.2%	8.9%	15.4%
Trackwise Designs assuming full uptake of open offer (3)	46	2.4	0.9	26.5	5.9	N/A	56.4	85.2%	8.9%	15.4%

Source: Refinitiv, Edison Investment Research. Note: Prices at 20 December 2021. *CAGR is compound average growth in revenue between year 0 and year 2.

Scenario analysis

Although we do not present detailed estimates for FY23 and beyond, we have created a scenario analysis to indicate what group revenues and profits would look like for different levels of utilisation of the new Stonehouse site. These scenarios assume that gross margins for the APCB and IHT activities remain at FY22 levels, that the incremental indirect costs are £0.1m for each additional £1.0m of IHT revenues and that the capital cost of a second production line at Stonehouse is

£8.0m, funded through bank borrowings, though management may opt for another financing mechanism. The scenarios modelled are:

- **A**: FY22 estimates (ie £13.0m IHT revenues attributable to the EV OEM and £0.8m other IHT revenues).
- **B**: £17.0m IHT revenues attributable to the EV OEM, which is towards the upper bound of the range specified in the agreement, and £0.8m other IHT revenues.
- **C**: £17.0m IHT revenues attributable to the EV OEM, which is towards the upper bound of the range specified in the agreement, plus £7.5m revenues attributable to medical customers, which assumes that one of the major medical device OEMs uses IHT across a single catheter model, and £0.3m other IHT revenues.
- **D**: £32.0m IHT revenues, which could be achieved either by supplying circuits to another EV OEM or for several additional catheter models. This level of volume fully utilises the initial production line in the new Stonehouse facility.
- **E**: £54.8m IHT revenues, which could be achieved by supplying circuits to another EV OEM and for multiple catheter models. At this level of volume, a second production line at Stonehouse would be fully utilised as well.

Exhibit 3: Scenario analysis (£m)

Scenario	A	B	C	D	E
IHT revenue	13.8	17.8	24.8	32.0	54.8
Total revenue	20.8	24.8	31.8	39.0	61.8
EBITDA	3.2	4.1	5.8	7.5	12.9
Normalised PBT	0.4	1.3	3.0	4.7	9.4
Normalised PAT	0.6	1.4	2.7	4.1	7.9
Additional capex	0.0	0.0	0.0	0.0	8.0

Source: Edison Investment Research

The current EV customer is adopting a micro-factory model and intends to build two small factories in the United States in addition to its factory in the UK. It is therefore possible that Trackwise may decide to construct an IHT facility close to one of these factories rather than expanding the Stonehouse facility, or to license the technology to a manufacturing partner that already has facilities close to those of the EV OEM.

Exhibit 4: Financial summary

£m	2019	2020	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	2.9	6.1	8.0	20.8
Cost of Sales	(1.8)	(4.4)	(6.2)	(14.4)
Gross Profit	1.1	1.7	1.8	6.4
EBITDA	0.5	0.8	0.7	3.2
Operating Profit (before amort. and excepts.)	0.2	(0.2)	(0.6)	0.8
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0
Exceptionals	(0.0)	(0.1)	0.0	0.0
Share-based payments	(0.2)	(0.2)	(0.2)	(0.2)
Reported operating profit	(0.1)	(0.5)	(0.8)	0.6
Net Interest	(0.1)	(0.2)	(0.3)	(0.4)
Exceptionals	0.0	1.1	0.0	0.0
Profit Before Tax (norm)	0.1	(0.4)	(1.0)	0.4
Profit Before Tax (reported)	(0.1)	0.4	(1.2)	0.2
Reported tax	0.1	0.8	0.6	0.3
Profit After Tax (norm)	0.1	0.3	(0.4)	0.6
Profit After Tax (reported)	(0.0)	1.2	(0.6)	0.5
Average Number of Shares Outstanding (m)	14.7	20.7	28.6	30.2
EPS - normalised (p)	0.8	1.4	(1.2)	2.0
EPS - normalised fully diluted (p)	0.8	1.4	(1.2)	2.0
EPS - basic reported (p)	(0.3)	6.0	(1.9)	1.6
Dividend (p)	0.0	0.0	0.0	0.0
Revenue growth (%)	(16.2)	108.8	32.1	159.8
Gross Margin (%)	37.9	28.3	22.8	30.7
EBITDA Margin (%)	17.8	12.7	8.9	15.4
Normalised Operating Margin	6.9	N/A	N/A	3.7
BALANCE SHEET				
Fixed Assets	6.8	14.7	24.5	23.7
Intangible Assets	4.3	6.5	7.2	7.8
Tangible Assets	2.5	8.2	17.3	15.9
Investments & other	0.0	0.0	0.0	0.0
Current Assets	3.1	18.5	13.3	15.5
Stocks	0.6	2.0	3.3	3.4
Debtors	1.7	1.8	3.3	4.2
Cash & cash equivalents	0.6	13.9	5.9	7.1
Other	0.3	0.8	0.8	0.8
Current Liabilities	(1.4)	(3.0)	(1.5)	(2.2)
Creditors	(1.0)	(2.0)	(0.4)	(1.1)
Tax and social security	0.0	0.0	0.0	0.0
Short term borrowings (including lease liabilities)	(0.3)	(1.1)	(1.1)	(1.1)
Other	0.0	0.0	0.0	0.0
Long Term Liabilities	(2.5)	(5.3)	(10.7)	(10.7)
Long term borrowings (including lease liabilities)	(1.3)	(4.1)	(9.5)	(9.5)
Other long term liabilities	(1.3)	(1.2)	(1.2)	(1.2)
Net Assets	6.0	24.9	25.7	26.3
Minority interests	0.0	0.0	0.0	0.0
Shareholders' equity	6.0	24.9	25.7	26.3
CASH FLOW				
Operating Cash Flow	0.5	0.8	0.7	3.2
Working capital	0.1	(0.6)	(4.3)	(0.4)
Exceptional & other	0.0	(0.6)	0.0	0.0
Tax	0.0	0.7	0.6	0.3
Net operating cash flow	0.6	0.3	(3.0)	3.1
Capex	(2.7)	(3.2)	(11.2)	(1.6)
Acquisitions/disposals	0.0	(1.6)	0.0	0.0
Net interest	(0.1)	(0.2)	(0.3)	(0.4)
Equity financing	0.0	17.3	1.1	0.0
Dividends	0.0	0.0	0.0	0.0
Other	0.2	0.1	0.0	0.0
Net Cash Flow	(2.0)	12.7	(13.4)	1.2
Opening net debt/(cash)	(2.3)	1.0	(8.8)	4.6
FX	0.0	0.0	0.0	0.0
Other non-cash movements	(1.3)	(2.9)	0.0	0.0
Closing net debt/(cash)	1.0	(8.8)	4.6	3.5
Lease liabilities	0.7	2.6	8.0	8.0
Closing net debt/(cash) excluding lease liabilities	0.3	(11.3)	(3.3)	(4.5)

Source: Company accounts, Edison Investment Research

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