

# **Stratec Biomedical**

## **Digesting acquisitions after Chinese hiccup**

Stratec, a designer and builder of automated OEM diagnostic systems made two acquisitions during 2016. The first (from April), was Diatron, a leading Hungarian OEM manufacturer of differential haematology analysers; 2015 sales were €34m. The second (from July), was DADC, now Stratec Consumables (SC). SC (which is Austrian) designs and manufactures precision consumables for high-end diagnostic systems; 2016 sales may be €17m. Core Stratec sales in 2016 will be affected by a slowdown in China. Guidance is for total 2016 sales of €175-182m and €205-220m in 2017. 2016 EBIT margin should be 16-17% rising slightly in 2017.

### Two 2016 acquisitions

Diatron, acquired in March 2016 for €67m, is a leading OEM manufacturer of differential haematology analysers. Diatron had 2015 sales of c €34m targeting smaller laboratories at lower test per hour rates. Each analyser requires some bulk standardised chemicals. Stratec Consumables (SC) was acquired in July for about €30m. SC designs and sells high-value consumable parts for high-end diagnostics systems. As these systems gain market share and test volume, SC should become increasingly profitable giving Stratec strong recurrent revenues. Stratec management disclosed sales annualised at €17m with slightly positive earnings as volumes need to grow to cover fixed costs. The acquisitions also increase costs with an extra 400 employees (now 960) since March 2016.

## Core business strong but affected by China

Stratec's core business grew steadily in 2015 but was affected in Q116 by a slowdown in orders destined for China and Asia (Stratec sells to major diagnostics companies that then sell or lease the systems to the end customers). H116 sales were €78m including €10.5m from Diatron in Q2. This means that core sales in H1 were €67.5m, down on €70m in H215. The two acquisitions have lower EBIT margin; the Stratec core margin in Q216 was 17.5% vs 16.2% for overall in H116.

## Valuation: Growth boosted by acquisitions

Stratec has a high market cap driven by limited liquidity and a substantial number of shares held by the founding family (about 42%). The dividend was increased to €0.75 in 2015 from €0.70 in 2014. However, core sales growth was 6% in Q2 vs 11% when Diatron is included; SC will only contribute in H2 and will lower the EBIT margin. Management guides to €175-182m in 2016 with 16-17% EBIT margin. In 2017, revenues are guided to €205-220m and the EBIT margin may rise slightly.

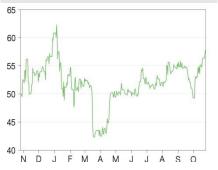
#### **Edison estimates**

| Year<br>end | Revenue<br>(€m) | PBT<br>(€m) | EPS<br>(€) | DPS<br>(€) | P/E<br>(x) | Yield<br>(%) |  |
|-------------|-----------------|-------------|------------|------------|------------|--------------|--|
| 12/14       | 144.9           | 24.1        | 2.16       | 0.70       | 26.1       | 1.2          |  |
| 12/15       | 146.9           | 26.9        | 2.53       | 0.75       | 22.3       | 1.3          |  |
| 12/16e      | 183.5           | 30.5        | 2.49       | 0.80       | 22.7       | 1.4          |  |
| 12/17e      | 220.1           | 36.1        | 2.86       | 0.85       | 19.7       | 1.5          |  |
|             |                 |             |            |            |            |              |  |

Source: Edison Investment Research. 2015 revenues and EBIT as disclosed.



#### Share price graph



#### Share details

| Code                             | SBS    |
|----------------------------------|--------|
| Shares in issue                  | 11.86m |
| Net debt (€m) as at 30 June 2016 | 53.3   |

#### **Business description**

Stratec Biomedical designs and manufactures OEM diagnostic systems. A US subsidiary designs advanced optics and there is a UK software company and Berlin DNA business. Diatron (blood analysers), was consolidated from April and the consumables acquisition is included from July.

#### Bull

- Strong core business with excellent reputation with global diagnostic clients.
- Diatron adds higher volumes in new OEM sector.
- DACC should add reoccurring revenues giving more consistent revenue base.

#### Bear

- China may continue to be a weak area.
- Over reliant on service parts for profits.
- DACC may take some years to deliver profitable revenue streams.

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