

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 end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
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.

Healthcare equipment

Price €56.41
Market cap €669m

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.

Analyst

Dr John Savin +44 (0)20 3077 5735
healthcare@edisongroup.com

Stratec Biomedical is a client of Edison Investment Research Limited

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2016 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.