

Protecting shareholder value

13th December 2018

Strix announced three important updates in relation to its IP and patent protection in an RNS yesterday. This announcement is important both for the quality of the company's growth and for the valuation placed on the company's shares. As a result, we view it positively.

Strix's ability to deliver organic sales volume growth from its core kettle safety devices business and closely related extensions into new products, remain central to the company's investment case. However, the quality of that growth and its implications for valuation require vigorous IP and patent protection.

Strix announced in a 12th December 2018 RNS that it has again successfully defended key patents in China. These announcements covered three actions. First, the company provided information to the authorities that resulted in a raid on a factory in Guangdong province. Electronic kettles due to be exported to South Korea which infringed Strix's IP were seized – i.e. even products not sold in China but simply manufactured there are not allowed to infringe.

Second, the company also brought a claim based on unfair competition against two German importers whose kettles incorporated copies of its controls and connectors. This announcement is important for the longevity of Strix's IP. Even when products are off-patent they may not be copied slavishly to generate a facsimile. Third, the company continues to monitor online activity closely. It was able to secure the delisting from Amazon of an offending webpage in relation to a patent infringement.

Strix hosted sell-side and buy-side site visits to its Isle of Man facilities this year at which it highlighted scope for sharply higher US sales and sustained progress in both regulated and less regulated markets. New Product Development remains active. Its optimistic stance is backed by the 2018 interim results in which volumes advanced by a brisk 7.6%.

Our overall view is that the Strix's organic growth outlook remains positive. There is clear demand for its high specification products and substantial headroom for growth. A vigorous approach to IP and patent protection should help sustain its leading 38% market share in kettle safety devices. For valuation, these kinds of announcements are important. After the recent global stock market weakness, Strix currently trades on a 9.6x 2018 P/E (based on our forecasts) and yields 5.2%, both of which look attractive.

Company Data

EPIC	KETL
Price (last close)	134p
52 week Hi/Lo	178p /121p
Market cap	£259m

Share Price, p



Source: ADVFN

Description

Strix Group Plc (Strix) is a global leader in the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.

Key Financials

	2016A	2017A	2018E	2019E	2020E
Revenue (£'000)	88,653	91,263	96,006	99,428	103,272
Revenue growth	10.9%	2.9%	5.2%	3.6%	3.9%
EBITDA adj (£'000)	33,473	35,117	36,717	38,287	39,577
EPS adj dil (p)	12.8	14.2	14.0	15.2	15.6
DPS (p)	n/a	2.9	7.0	7.7	7.9
EV/EBITDA (x)	9.4	9.0	8.6	8.2	8.0
P/E ratio (x)	10.5	9.4	9.6	8.8	8.6
Yield	n/a	2.2%	5.2%	5.7%	5.9%

Source: Company data and Equity Development estimates

Chris Wickham (Analyst)

020 7065 2690
chris@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk



Head of Corporate

Gilbert Ellacombe

Direct: 0207 065 2698

Tel: 0207 065 2690

gilbert@equitydevelopment.co.uk

Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any person who is not a relevant person under this section should not act or rely on this document or any of its contents. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent, as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Strix Group plc. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Self certification by investors can be completed free of charge at www.fisma.org

ED may in the future provide, or may have in the past provided, investment banking services to the Company. ED, its Directors or persons connected may have in the future, or have had in the past, a material investment in the Company.

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690