

Carr's Group

Acquisition

STABER acquisition strengthens engineering IP

Carr's Group has acquired STABER GmbH for a net consideration of €6.75m (£6.0m). This brings key IP used in the Engineering division's remote handling products in house. We make minor adjustments to our FY18 PBT and EPS estimates and reiterate our indicative valuation of 161p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/14	429.0	17.0	13.2	3.4	10.7	2.4
08/15	411.6	18.1	14.0	3.7	10.1	2.6
08/16e	403.2	18.1	13.9	3.8	10.2	2.7
08/17e	332.2	14.6	10.7	21.4**	13.2	15.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Including 17.54p special dividend.

Acquisition secures innovative IP

STABER designs and manufactures fine mechanical components and modules for high-end robotic systems. The modules incorporate special gearing systems that permit the very precise control of movement required for remote handling devices. Importantly, as the modules do not depend on external cabling or hydraulic systems, there is no restriction on rotational movement. Wälischmiller and STABER have worked closely for over 50 years, with STABER providing parts for Wälischmiller's Telbot and master-slave manipulators. Recently, STABER played a key part in helping Wälischmiller develop the Demo 2000 Telbot used for remote inspection and cleaning of tanks in the oil and gas market, an application area where equipment must meet stringent certification requirements.

Acquisitions earnings neutral in first year

The acquisition has occurred after the FY16 year-end. It is not expected to have any impact on revenues because Wälischmiller is STABER's main customer. STABER recorded adjusted EBITDA of €0.67m for the year ended December 2015. Management expects any incremental profit generated during FY17 from bringing STABER in house to be offset by transaction-related expenses, so we leave our FY17 profit estimates unchanged. We raise our FY18 adjusted PBT estimate by £0.3m to £15.3m and our EPS estimate by 0.2p to 11.2p. This analysis excludes the benefit of bringing STABER in house to work on near-term Telbot opportunities and longer-term strategic development projects. The net consideration, €4.75m (£4.2m) on completion, €2.0m (£1.8m) deferred consideration payable by end June 2018, will be financed from funds realised from the disposal of the Food division in September.

Valuation: 161p indicative valuation reiterated

As the acquisition is not immediately earnings enhancing, we reiterate our indicative valuation of 161p. This is based on a sum-of-the parts valuation, as presented in our September [update note](#). However, we note that this acquisition highlights how management is shifting the group's focus from low-margin, asset-intensive activities such as flour milling to higher-margin, IP-rich activities.

Consumer staples

26 October 2016

Price **141.50p**
Market cap **£129m**

£/€1.125

Net debt (£m) at end February 2016 27.0

Shares in issue 91.2m

Free float 78%

Code CARR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
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Abs	(5.7)	(0.4)	(7.2)
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Rel (local)	(6.8)	(4.7)	(14.0)
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52-week high/low	172.1p	137.0p
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Business description

Carr's Agriculture division serves farmers in the North of England, South Wales, the Borders and Scotland, the US, Germany and New Zealand. The Engineering division offers remote handling equipment and fabrications to the global nuclear and oil and gas industries.

Next events

Prelims	14 November 2016
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Exhibit 1: Financial summary

	£m	2014	2015	2016e	2017e	2018e
Year-end Aug						
PROFIT & LOSS						
Revenue		429.0	411.6	403.2	332.2	336.0
EBITDA		20.9	22.2	22.5	17.1	17.7
Operating Profit (pre amort. of acq intangibles & SBP)		15.8	17.0	17.1	13.2	13.9
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Share-based payments		(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptionals		0.0	0.0	0.0	0.0	0.0
Operating Profit		15.4	16.4	16.5	12.7	13.4
Net Interest		(1.4)	(1.2)	(1.0)	(0.6)	(0.6)
Share of post-tax profits in JVs and associates		2.5	2.3	2.0	2.0	2.0
Profit Before Tax (norm)		17.0	18.1	18.1	14.6	15.3
Profit Before Tax (FRS 3)		16.6	17.5	17.5	14.1	14.8
Tax		(3.7)	(3.8)	(3.8)	(3.2)	(3.4)
Profit After Tax (norm)		13.3	14.3	14.2	11.4	12.0
Profit After Tax (FRS 3)		12.9	13.7	13.6	10.9	11.4
Post tax profit (loss) relating to discontinued operations		0.0	0.0	0.0	0.0	0.0
Minority interest		(1.5)	(1.7)	(1.7)	(1.7)	(1.7)
Net income (norm)		11.8	12.6	12.5	9.7	10.3
Net income (FRS 3)		11.4	12.0	11.9	9.2	9.7
Average Number of Shares Outstanding (m)		89.0	89.6	90.1	91.2	91.2
EPS - normalised (p)		13.2	14.0	13.9	10.7	11.2
EPS - normalised fully diluted (p)		12.8	13.6	13.4	10.3	10.9
EPS - FRS 3 (p)		12.3	13.4	13.3	10.0	10.6
Dividend per share (p)		3.4	3.7	3.8	21.4*	4.0
EBITDA Margin (%)		4.9	5.4	5.6	5.2	5.3
Operating Margin (before GW and except.) (%)		3.7	4.1	4.2	4.0	4.1
BALANCE SHEET						
Fixed Assets		83.4	86.5	65.4	70.9	70.5
Intangible Assets		10.3	11.3	11.1	15.3	15.3
Tangible Assets and Deferred tax assets		73.1	75.2	54.3	55.6	55.3
Current Assets		114.3	116.9	109.6	94.2	97.0
Stocks		33.3	35.0	31.4	32.4	33.0
Debtors		63.7	65.3	55.1	56.1	57.1
Cash		17.3	16.5	23.2	5.8	6.9
Current Liabilities		(75.6)	(70.2)	(60.8)	(58.9)	(56.7)
Creditors including tax, social security and provisions		(55.9)	(55.0)	(48.7)	(49.7)	(50.5)
Short term borrowings		(19.7)	(15.2)	(12.2)	(9.2)	(6.2)
Long Term Liabilities		(32.3)	(34.2)	(8.5)	(8.5)	(8.5)
Long term borrowings		(22.2)	(25.7)	0.0	0.0	0.0
Retirement benefit obligation		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(10.1)	(8.5)	(8.5)	(8.5)	(8.5)
Net Assets		89.8	99.0	105.8	97.7	102.4
Minority interest		(10.2)	(11.9)	(11.9)	(11.9)	(11.9)
Shareholders' equity		79.7	87.1	93.8	85.8	90.5
CASH FLOW						
Operating Cash Flow		17.1	15.1	20.3	16.2	16.9
Net Interest		(1.4)	(1.2)	(1.0)	(0.6)	(0.6)
Tax		(3.2)	(4.0)	(3.8)	(3.2)	(3.4)
Investment activities		(7.5)	(4.0)	(8.4)	(3.4)	(3.4)
Acquisitions/disposals		(3.6)	(1.7)	23.9	(4.2)	(1.8)
Equity financing and other financing activities		(4.1)	(1.8)	7.9**	0.0	0.0
Dividends		(2.9)	(3.1)	(3.3)	(19.2)	(3.6)
Net Cash Flow		(5.7)	(0.7)	35.5	(14.5)	4.2
Opening net debt/(cash)		22.1	24.6	24.4	(11.1)	3.4
HP finance leases initiated		(2.3)	0.0	0.0	0.0	0.0
Other		(5.5)	(0.9)	0.0	0.0	0.0
Closing net debt/(cash)		24.6	24.4	(11.1)	3.4	(0.8)

Source: Company accounts, Edison Investment Research. Note: *Including 17.54p special dividend. **£7.9m debt sold with Food division.

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