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## HOLDERS TECHNOLOGY

## CORPORATE\*

### Prelims: PCB market tough but LED showing growth

110.5p#

Year-end Nov	2011A	2012E	2013E	2014E
Revenue (£m)	19.6	17.5	20.0	22.0
EBITDA (£m)	0.5	0.3	0.5	0.7
Adj. Pre-tax Profit (£m)	0.4	0.2	0.4	0.6
Adj. EPS (p)	6.7	4.3	7.9	10.7
DPS (p)	5.4	5.4	5.4	5.4
Net Cash/(Debt) (£m)	0.0	0.1	0.1	0.2
P/E (x)	16.5	25.5	14.0	10.3
Dividend yield (%)	4.8%	4.8%	4.8%	4.8%
EV/EBITDA (x)	8.4	13.5	8.3	6.2

Key Data	
Rating (12 month)	CORP
Price Target	N/A
Risk	MEDIUM
Sentiment	N/A
Ticker	HDT.L
Shares in issue	3.9m
Market cap	£4.4m
12-mth price range	132 p-109p
Net cash	£0.1m
Next event	AGM 27 <sup>th</sup> April

SOURCE: Northland Capital Partners Limited estimates

#Priced at market close, 1<sup>st</sup> March 2012

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In response to the lack of visibility in Continental Europe and the reduction in subsidies to the German Solar Energy industry, we cut our FY12 revenue and earnings numbers. The business will remain profitable, however, with a small net cash position. The LED business continues to make progress, particularly in the UK, and we envisage it breaking even in the current financial year. For FY13, we forecast the LED business will make its first profit plus an improvement in the PCB business will lead to earnings recovery.

COMPANY DESCRIPTION
A distributor of specialist materials equipment and services to the printed circuit board (PCB) industry and LED lighting products and solutions.

- EUROPEAN PCB BUSINESS:** Economic visibility across Europe remains low and led to weakening demand in the PCB during H211 with destocking by customers and their suppliers exacerbating the situation. This trend continued into H112.
- LED GAINING SCALE:** Revenue in the LED business more than trebled to in excess of £3.0m in FY11 and our forecasts assume another year of strong growth (+40%) in FY12. FY11 saw additional investment into the business and while we expect further expenditure this year the division should breakeven before moving into profit in FY13.
- VALUATION:** The cut to our forecasts places the shares on a rating of 25x in FY12 and 14x in FY13 as earnings recover. We expect the dividend to be at least maintained offering investors a 4.8% yield. Valuation support can also be found in the net asset value of the business with current market cap trading at a 27% discount.

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## CUTS TO FY12 FORECASTS

Exhibit 1 highlights the scale of the cuts we are making to our FY12 forecasts. Revenue is cut from £22.8m to £17.5m due to the weaker outlook for the PCB business. We estimate that sales in the division will fall £5.3m with the majority (>70%) of the reduction coming in the Continental European business.

**Fall in European demand leads to cut in revenue**

### EXHIBIT 1: CHANGE TO FORECASTS

Year-end Nov	2011A	2012 NEW	2012 OLD	% Change	2013E
Revenue (£m)	19.6	17.5	22.8	-23.2	20.0
EBITDA (£m)	0.5	0.3	0.7	-57.1	0.5
EBIT (£m)	0.4	0.2	0.6	-66.7	0.4
PBT (£m)	0.4	0.2	0.6	-66.7	0.4
Tax rate (%)	33.8	29.0	29.0	29.0	29.0
EPS (p)	6.7	4.3	11.7	-63.2	7.9

SOURCE: Northland Capital Partners Limited estimates

The impact on margins is magnified because of the operational gearing inherent in Holders' German business. This leads to significant cuts to our profit forecasts from £0.6m to £0.2m.

The cut to forecasts is a result of cyclical pressures and not a structural change in the underlying business and would caveat that lead times in the industry are short and a marked improvement in the economic background would be expected to lead to an improvement in orders. We expect to see a degree of recovery in FY13 revenue and profits. The latter benefitting from operational gearing, already discussed, seeing margins recover by 80bps.

Holdes has a conservative balance sheet. Despite the difficult trading conditions, we envisage this year the company will continue to maintain a net cash position on its balance sheet.

## GROWTH IN LED WILL CONTINUE

The LED business will continue to show substantial growth with revenue hitting c. £4.5m in FY12, 50% growth Y/Y. Again the UK business will lead the way generating >80% of the divisional revenue. Post the infrastructure investment during FY11, we would expect the European business to continue to gain scale this year.

**LED market offers long term growth**

Overall, we forecast the business will be broadly breakeven in FY12 with FY13 being the first year it will positively contribute to operating profit. The opportunity for the LED business is significant over the next few years and the company will build on the strong start it has made over the last 48 months.

Despite the current cyclical impact on the PCB business, Holdes identified LED as a growth market and has executed its investment strategy well. This will increasingly pay dividends over the coming months and will help rebalance the business away from the cyclical PCB business. The PCB business has played an important role in generating cash to fund investment in LED infrastructure, and going forward should underpin cash generation.



## SUMMARY FORECASTS

Year-end Nov						
Key Profit & Loss Data (£m)	2009A	2010A	2011A	2012E	2013E	2014E
<b>Revenue</b>	<b>13.0</b>	<b>16.3</b>	<b>19.6</b>	<b>17.5</b>	<b>20.0</b>	<b>22.0</b>
Operating Costs	-13.2	-15.7	-19.1	-17.2	-19.5	-21.3
<b>EBITDA</b>	<b>-0.2</b>	<b>0.6</b>	<b>0.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>
<i>EBITDA margin (%)</i>	-1.8%	3.9%	2.7%	1.8%	2.6%	3.1%
Depreciation	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>-0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>
<i>Operating profit margin (%)</i>	-3.2%	3.0%	1.9%	1.2%	2.0%	2.6%
Other income	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>
Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>PBT (adjusted)</b>	<b>-0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>
Tax paid	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Tax rate (%)	2.2%	12.0%	33.8%	29.0%	29.0%	29.0%
PAT (adjusted)	-0.4	0.4	0.2	0.1	0.3	0.4
<b>Rep. EPS (p)</b>	<b>-9.52</b>	<b>12.87</b>	<b>6.70</b>	<b>4.33</b>	<b>7.87</b>	<b>10.72</b>
DPS (p)	5.13	5.35	5.35	5.35	5.35	5.35

SOURCE: Northland Capital Partners Limited estimates



Year-end Nov	2009A	2010A	2011A	2012E	2013E	2014E
<b>Key Balance Sheet Data (£m)</b>						
Fixed assets	0.7	0.6	0.6	0.5	0.5	0.5
<i>PPE</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>
<i>Intangibles</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other	0.2	0.4	0.4	0.4	0.4	0.4
<b>Non current assets</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
Inventories	1.9	3.8	3.8	3.8	4.1	4.2
Receivables	2.3	2.7	3.0	2.8	2.9	3.1
Cash and equivalents	2.1	0.9	0.1	0.1	0.1	0.2
Other	0.1	0.1	0.1	0.2	0.1	0.3
<b>Current Assets</b>	<b>6.3</b>	<b>7.5</b>	<b>6.9</b>	<b>6.9</b>	<b>7.1</b>	<b>7.7</b>
<b>Total Assets</b>	<b>7.2</b>	<b>8.5</b>	<b>7.9</b>	<b>7.8</b>	<b>8.0</b>	<b>8.6</b>
Short term debt	0.0	0.1	0.0	0.0	0.0	0.0
Payables	1.1	2.2	1.6	1.5	1.7	1.9
Other	0.0	0.1	0.1	0.1	0.1	0.1
<b>Current liabilities</b>	<b>1.1</b>	<b>2.3</b>	<b>1.7</b>	<b>1.6</b>	<b>1.8</b>	<b>2.0</b>
<b>Net current assets</b>	<b>5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.8</b>
Debt	0.0	0.0	0.0	0.0	0.0	0.0
Pension obligation	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.0	0.0	0.1	0.1	0.1	0.1
<b>Non current liabilities</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Total Net Assets</b>	<b>5.9</b>	<b>5.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.4</b>
Called up share capital	0.4	0.4	0.4	0.4	0.4	0.4
Share premium account	1.5	1.5	1.5	1.5	1.5	1.5
Minority interest	1.0	0.7	0.3	0.3	0.3	0.3
Retained earnings	3.0	3.3	3.7	3.7	3.8	4.2
<b>Total Equity</b>	<b>5.9</b>	<b>5.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.4</b>

SOURCE: Northland Capital Partners Limited estimates



Year-end Nov						
Key Cash Flow Data (£m)	2009A	2010A	2011A	2012E	2013E	2014E
Profit for the year	(0.4)	0.5	0.4	0.2	0.4	0.6
Taxation	(0.0)	0.0	0.0	0.0	0.0	0.0
Depreciation	0.2	0.2	0.1	0.1	0.1	0.1
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Performance share plan	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.8	(1.3)	(0.8)	0.1	(0.1)	(0.1)
Other	0.2	(0.1)	0.0	0.0	0.0	0.0
<b>Cash generated from operations</b>	<b>0.8</b>	<b>(0.7)</b>	<b>(0.3)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>
Finance costs/income	0.0	(0.0)	(0.0)	(0.0)	0.0	(0.0)
Taxation paid	0.1	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
<b>Net operating cash flow</b>	<b>0.8</b>	<b>(0.8)</b>	<b>(0.5)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
Capital expenditure	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Free cash flow</b>	<b>0.7</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
Deferred consideration	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition	0.0	(0.0)	(0.0)	0.0	0.0	0.0
<b>Cash from investing</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
New equity	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	(0.0)	(0.0)	0.0	0.0	0.0
Dividends	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Currency impact	0.1	(0.0)	0.0	0.0	0.0	0.0
<b>Cash from financing</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>
<b>Net increase (decrease) in cash</b>	<b>0.6</b>	<b>(1.2)</b>	<b>(0.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
Cash and equivalents start of yr	1.5	2.1	0.9	0.1	0.1	0.1
<b>Cash and equivalents end of yr</b>	<b>2.1</b>	<b>0.9</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>

SOURCE: Northland Capital Partners Limited estimates



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