# cityconfidential

sorting the bulls from the bears

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ISSUE
APR
2021

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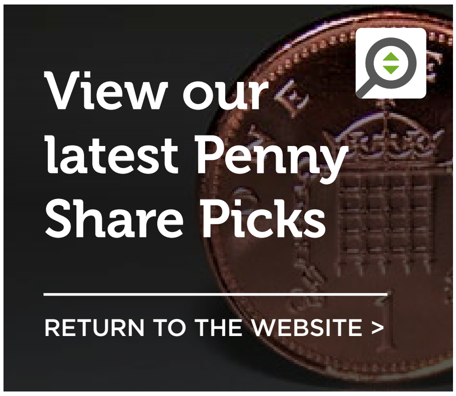


## Mind games?

**On 8 April Minds + Machines Group (7.2p) announced the sale of the bulk of its assets to an affiliate of GoDaddy Inc. for US$120m. After transaction costs and taxes this translates into a net asset value per share of approximately 8.8p. Although the share price jumped on the back of the announcement, it remains at a significant discount to this level and we feel that those buying in now should see a quick return on their investment.**

The day after the deal was announced, there was further news that major shareholder London and Capital Asset Management had upped its stake to over 20% and the company itself bought back 135,988 shares at 7.25p each. Both developments indicate that the share price should be higher.

As at 7 April the company had received signed irrevocable undertakings from shareholdings to vote in favour of the proposal and it is almost certain to be approved at a General Meeting on 23 April. This poses an obvious question as to why the shares are trading below 8.8p? There are a few reasons for this and perhaps most importantly a number of approvals are required. Assuming there are no issues, Minds + Machines Group will consider the best way to maximise shareholder value. Although this is likely to include returning a proportion of the cash to shareholders, alternative acquisitions will be considered. The company is also obliged to provide certain services and retain US$12m in an escrow account until 31 March 2022. At this point the company would no longer have any material operating business and will be regarded as a cash shell under AIM Rule 15.

There is still some uncertainty surrounding the deal with GoDaddy Inc. but there should be no problems with shareholder approval. The most important unknown is the timing and magnitude of any return of cash to shareholders. Some holders may also prefer a return of capital rather than a special dividend or vice versa. More concrete details on this should emerge after the looming General Meeting. It is understandable that some people may not wish to tie up their cash when the market is buoyant but proceeds from the asset sale should provide a solid return for shareholders within the next 12 months. The residual cash shell presents an opportunity for some icing on the cake. We rate the shares as a BUY.


## BOOM boom!

**Shares in Audioboom (652p) have had a very strong run in recent months. The global podcast company achieved record revenue in the first quarter of 2021 and recorded its maiden quarterly profit on an adjusted EBITDA basis. At the time of the trading update which revealed this information, the company had already signed advertising bookings covering 90% of forecast revenue for 2021. This leaves it well placed to beat expectations and the bull run in the share price is probably not over yet.**

Audioboom is ranked as the fourth largest podcast publisher in the US by Triton Digital and it has shows which are downloaded more than 90 million times each month by 25 million unique listeners around the world. Key partners include 'Casefile True Crime', 'Morbid', 'True Crime Obsessed' and 'The Morning Toast' in the US along with 'No Such Thing As A Fish' and 'The Cycling Podcast' in the UK. The Audioboom Originals Network covers developed and produced content such as 'Dark Air with Terry Carnation', 'RELAX!', 'Baby Mamas No Dramas', 'Covert', 'It's Happening with Snooki & Joey', 'Mafia', 'Huddled Masses' and 'What Makes A Killer'. There are operations and global partnerships across North America, Europe, Asia and Australia. The platform allows content to be distributed via Apple Podcasts, Spotify, Pandora, Amazon Music, Deezer, Google Podcasts, iHeartRadio, RadioPublic, Saavn, Stitcher, Facebook and Twitter alongside partners' own websites and mobile apps.

The shares have clearly enjoyed a spectacular move upwards since December but the value of the company still looks relatively modest given the long term opportunity. Continued growth should be sustainable in future years and the pandemic has in some ways provided a one-off boost to the company which has accelerated progress. The obvious risks are that profit taking could kick in and podcasts could lose some popularity as lockdowns are eased further. A SPECULATIVE BUY rating is appropriate.


# Essentra

## SECTOR – INDUSTRIALS

**Essentra has recently released results for the first quarter of 2021 and these demonstrated improving trends. Although the share price has picked up from 2020 lows, it remains subdued by longer term standards and there appears to be plenty of scope for recovery from the current level. The market capitalisation is broadly the same as revenue for last year and with ongoing solid growth in the latter now forecast, the potential for upside is considerable.**

A constituent of the FTSE 250, the company is a leading global provider of essential components and solutions. The business is currently divided into three parts and it concentrates on the light manufacture and distribution of high volume components which serve customers in a wide variety of end-markets and geographies. The global network covers 34 countries and includes over 7,000 employees, 50 principal manufacturing facilities, 32 sales & distribution operations and 3 research & development centres.

Essentra Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. It operates in 25 countries worldwide with 15 manufacturing facilities and 25 sales & distribution centres. These supply more than 82,000 customers with essential products for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction. This division also includes Reid Supply, which provides a range of branded hardware supplies to industrial customers, mainly in the US Mid-West.

Essentra Packaging is one of only two multicontinental suppliers of a full secondary packaging range to the health and personal care sectors. It has 25 facilities across three geographic regions. Products supplied include cartons, leaflets, self-adhesive labels and printed foils used in blister packs. These help customers to meet the changing requirements of end-markets. The offering can also be combined with Essentra's authentication solutions to help avoid counterfeiting.

Essentra Filters is the only global independent cigarette filter supplier. It has 12 sites across 9 countries including three R&D centres. These provide a flexible infrastructure strategically positioned to serve the tobacco sector. Innovative filters, packaging solutions to the 'roll your own' segment and analytical laboratory services for ingredient measurement are supplied. The offering also includes Heat Not Burn and e-cigarette solutions to the market for Next Generation Products. This division also includes the Tear Tapes business, which is the leading manufacturer and supplier of pressure-sensitive tear tapes, used in the tobacco, food and drink and specialist packaging.

In the year ended 31 December 2020 revenue fell by 8.0% to £896.5m and on a like-for-like basis revenue decreased by 6.3%. In the first quarter trading was largely unaffected by the pandemic. From the second quarter onwards there was an initial shock from the global onset of Covid-19, followed by a steady recovery over the course of the calendar year. Operating profit was down 29.1% to £62.0m on an adjusted basis, driven in part by the disposal of some businesses in the prior year but mainly due to the volume gearing effect from the revenue decline. Adjusted operating margin fell to 6.9%. On an adjusted basis, net income of £37.4m was down 36.1% and adjusted basic earnings per share fell by 38.5% to 13.1p. On a total reported basis, net income was £6.3m (2019: £41.2m) and earnings per share were 1.7p (2019: 14.7p). A final dividend of 3.3p per share is being paid and going forwards a progressive dividend policy will be adopted. The final dividend will be paid on 1 June and the ex-dividend date is 22 April.

Adjusted operating cash flow was 6% higher than the previous year at £76.3m (2019: £71.8m) with operating cash conversion of 123% in the year. Adjusted free cash flow was £56.9m versus £40.7m in 2019. The increase in adjusted operating cash flow was mainly due to a healthy cash inflow during the year of £6.2m from working capital movements, which in the prior year accounted for a large outflow of cash of £10.3m. There was also a targeted reduction in year-on-year capex spend of £11.9m. The increase in adjusted free cash flow was also driven by a reduction in tax spend (excluding tax payments relating to adjusting items) of £9.0m due to lower profitability levels in the year and a refund of tax in the US. Net debt as at 31 December 2020 was £210.4m, a £74.0m decrease over the course of the year (including lease liabilities). The overall decrease was mainly driven by a combination of the free cashflow generated during the year along with cash raised from a placing and subscription, netted off against cash paid for the acquisition of 3C! Packaging Inc. and an increase in lease liability movements. The latter relates to a new lease for a Components Germany warehouse project and extended leases on Components Turkey and Filters Hungary facilities. A total of 38,461,538 new shares were issued in September 2020, raising net proceeds of £96.7m.

For the three months ended 31 March 2021 revenue was up by 1.4% on prior year, on a like-for-like basis. Components returned to growth with revenue up by around 5%. Packaging had a quiet January but trading improved in the remainder of the quarter where it was level year-on-year and cost actions have continued to support margin improvement. Filters had a strong start to the year, delivering revenue growth of 10%, but the growth rate may slow as the comparatives become tougher.

The company will hold its Annual General Meeting on 20 May and this may see a further update on trading. Given the details of the first quarter results announcement it is likely that the positive momentum which has been built will continue. Considering the nature of the business the shares trade on a modest multiple of prospective earnings for the current year. With further improvement in profits highly likely in the coming years the market capitalisation should push above £1bn and beyond. We therefore anticipate solid capital growth for those buying in at the current level and rate the shares as a BUY.


Share Price: 298p
Market Capitalisation: £896m
2020/21 Share Price Range: 447p/207p
Website: www.essentraplc.com

| Year Ending 31 December | Turnover (£m) | Adjusted Pre-Tax Profit (£m) | Adjusted Earnings Per Share (p) | P/E Ratio | Net Dividend (p) | Net Yield (%) |
|---|---|---|---|---|---|---|
| 2020 | 896 | 46.0 | 13.1 | 22.7 | 3.3 | 1.1 |
| 2021 (est) | 948 | 76.4 | 20.0 | 14.9 | 5.0 | 1.7 |
| 2022 (est) | 996 | 86.5 | 22.4 | 13.3 | 6.5 | 2.2 |

# Aggressive Growth Portfolio VIII

It is pleasing to report that the Aggressive Growth Portfolio has produced another stunning performance over the last month as it has produced a gain of 9.8%. As can be seen from the table below, it has therefore significantly outperformed all of the benchmark indices which we feel is an impressive performance.

The star performer of the month was undoubtedly Ebiquity, the AIM-listed media investment analysis group. The share price of the company has risen from 29.4p in the last issue to 50.2p, an increase of over 70%! The company issued results for the year to 31 December during the month, although these were not particularly inspiring, with revenues falling and the company remaining loss-making. We have therefore decided that it would be sensible to take our profit on these shares and have sold the holding of 12,500 shares at 50.2p. This has raised net proceeds of £6,212 and realised a profit of £3,182.

Other strong share price performances were produced by Tandem Group (up 24.8%) and Surgical Innovations (up 21.4%). Both companies announced results during the period, and these are covered in the News Highlights section.

Apart from those already mentioned, a number of other companies have made announcements during the period, and these include ITV, Hargreaves Services and Vitec Group. These have been covered on the website in the normal way.

The portfolio has also received its first dividend payment, with Hargreaves Services paying out £35. We have also increased the stop-loss limits on Hargreaves Services, Tandem Group, Lloyds Banking Group and Surgical Innovations. Following the purchases of both Essentra and Funding Circle, there is £1,553 left on deposit pending investment.

**Performance summary**

| | 20 April 2021 | 23 March 2021 | Gain/(Loss) % |
|---|---|---|---|
| Portfolio Value | £59.980 | £54,610 | 9.8 |
| FTSE 100 Share Index | 6,859.87 | 6,699.19 | 2.4 |
| FTSE All Share Index | 3,920.05 | 3,817.33 | 2.7 |
| FTSE AIM All Share Index | 1,237.83 | 1,200.17 | 3.1 |

| | Security | Buying Price (p) | Total Cost (£) | Current Price (p) | Value (£) | Stop-Loss Limit (p) |
|---|---|---|---|---|---|---|
| 3,160 | ITV | 109.15 | 3,500 | 118.15 | 3,745 | 80 |
| 1,315 | Hargreaves Services | 264 | 3,507 | 340 | 4,471 | 280 |
| 25,200 | Logistics Development Group | 13.75 | 3,500 | 13.25 | 3,339 | 10 |
| 725 | Tandem Group | 480 | 3,515 | 680 | 4,930 | 450 |
| 1,235 | Xeros Technology | 281 | 3,505 | 261.5 | 3,230 | 200 |
| 9,575 | Lloyds Banking Group | 36 | 3,498 | 42.045 | 4,026 | 33 |
| 161,250 | Surgical Innovations | 2.15 | 3,502 | 3.4 | 5,483 | 2.5 |
| 9,375 | Capita | 36.75 | 3,496 | 43.09 | 4,040 | 27.5 |
| 39,600 | Manx Financial Group | 8.75 | 3,500 | 7.75 | 3,069 | 6.5 |
| 1,875 | TT Group | 210 | 3,997 | 227 | 4,256 | 155 |
| 2,600 | Serco Group | 125.4 | 3,309 | 142 | 3,692 | 105 |
| 315 | Vitec Group | 1120 | 3,581 | 1320 | 4,158 | 850 |
| 450 | Clinigen | 750.5 | 3,411 | 810 | 3,645 | 575 |
| 1,075 | Essentra | 298 | 3,251 | 298 | 3,203 | 240 |
| 2,000 | Funding Circle | 157 | 3,187 | 157 | 3,140 | 115 |
| £1,553 | Cash | - | - | | 1,553 | |
| | | | | **TOTAL** | **£59,980** | |

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £35.

## FCH 157p FUNDING CIRCLE

### SECTOR - SOFTWARE & COMPUTER SERVICES

**Funding Circle released results for the year to 31 December 2020 last month and these do not appear to have received the attention they deserve. A bumper second half caught the eye and having suffered some heavy losses as the business was established, a maiden full year profit is now expected in 2021. With strong cash generation likely to bolster the net cash position in the coming years now looks to be an opportune time to consider buying in.**

Covid-19 changed SME lending, with an acceleration in online borrowing. Funding Circle's machine learning and technology platform means that it is well placed to capture the enlarged opportunity. Following accreditation to the Coronavirus Business Interruption Loans Scheme (CBILS) in the UK and Paycheck Protection Program (PPP) in the US, the company enjoyed strong borrower and investor demand, leading to both record loans under management and originations in 2020. In the UK, Funding Circle became the 3rd largest CBILS loans provider and has represented approximately 27% of the number of CBILS loans approved since it began participating in the scheme. Over 100,000 small businesses have accessed more than £11.5bn of funding through the Funding Circle platform since 2010.

In the full year to 31 December 2020 Total Income was £222.0m (2019: £177.3m) and loans under management reached a record level of £4.21bn (2019: £3.73bn) as well as there being record originations of £2.74bn (2019: £2.35bn). There was an AEBITDA loss of £63.8m (2019: £27.5m) made up of a H1 2020 AEBITDA loss of £84.1m and H2 2020 AEBITDA profit of £20.3m. In the second half of 2020 Total Income reached £120.8m, which was up 26% on the same period a year earlier. Record originations of £1.63bn were achieved in the second half, up 41% year-on-year. Net assets were £217.6m at the period end.

Analysts are suggesting that the company is worth far more than it is valued at now and with growth in profits looking highly likely, the share price should follow this upward trend. Funding Circle has a very attractive opportunity open to it and has developed a slick offering with which it can exploit this fully. The shares trade on just 12.9x forecast earnings for 2022, which given the level of growth being generated looks too low. Funding Circle shares are a BUY.

Share Price: 157p
Market Capitalisation: £556m
2020/21 Share Price Range: 171p/25p
Website: www.fundingcircle.com

| Year Ending 31 December | Net Income (£m) | Adjusted Pre-Tax Profit (£m) | Adjusted Earnings Per Share (p) | P/E Ratio | Net Dividend (p) | Net Yield (%) |
|---|---|---|---|---|---|---|
| 2020 | 104 | (108.1) | (31.2) | - | - | - |
| 2021 (est) | 225 | 14.5 | 4.1 | 38.3 | - | - |
| 2022 (est) | 291 | 44.0 | 12.2 | 12.9 | - | - |

# News Highlights

## 600 Group (SIXH)

11.5p LONG-TERM BUY

**As subscribers will know, we update the website with news that involves the companies that we follow, but we have highlighted what we regard as the most important news here.**

## Tandem Group – 680p

Results for the year ended 31 December 2020 have been released by the AIM-listed sports and leisure goods specialist. Although revenue fell to £37.1m (2019: £38.8m), profit before tax jumped to £4.00m versus £2.51m in the prior year. Basic earnings per share increased to 68.5p from 40.5p in 2019 and net cash as at 31 December 2020 was £3.78m, up from £1.85m a year earlier. The final dividend was increased to 5.50p per share (2019: 5.04p including special dividend of 2.00p) as a sign of confidence in the future. The current year has started well with revenue in the 11 weeks to 21 March up around 90% on the same period a year earlier. The pension deficit, which has risen to £4.16m, is the one negative to come out but given that this is little more than the profit generated in 2020 it is not out of control. We now look ahead to interim results, which should demonstrate further progress given the strong start to the year. The shares trade at around 10x historic earnings and with profits expected to increase again this year the shares still look inexpensive. There could be some weakness in the near term as virtually all shareholders will now be sitting on strong gains, but the shares remain a BUY.

## Surgical Innovations – 3.4p

The specialist designer and manufacturer of specialist instruments for minimally invasive surgery has announced results for 2020 which have come in much as expected. Revenues for the year fell sharply to £6.3m (2019: £10.7m) as elective surgical procedures were postponed or cancelled in all major markets, and this resulted in an adjusted loss before tax of £1.75m (2019: adjusted pre-tax profit of £0.22m). However, although these are clearly not great figures the results offer encouragement for investors. After the low point in May 2020, revenues have begun to recover, and the second half of the year saw revenues increase by 44% over the first half. Helped by a fund raising of £2m to help bolster cash resources, the group ended the year with net cash balances of £3.1m. Taking into account the group's borrowing facilities, there is financial headroom of almost £5.8m. Over recent months, the group has reinforced international distribution partnerships as well as introducing new products. Revenues in the first two months of 2021 were 11% ahead of the same period last year, which was largely unaffected by the pandemic, and this is a strong start with comparatives going forward likely to get much easier. Although the group remains reluctant to provide forward guidance, once the lockdown is eased and elective surgery returns, the backlog in the latter should provide significant demand for the group's products. Although the shares have risen to their highest level for two years, the company has expanded in the intervening period and we continue to rate the shares as a BUY.

## DX Group – 31.5p

The AIM-listed delivery and logistics group has continued its expansion programme with the addition of over 300 new vehicles to its delivery fleet. These include over 150 vans, 50 tractor and trailer units and over 120 trucks. The vehicles will be branded as DX and will be used in both DX Express and DX Freight and will take the total fleet to over 900 vehicles. This is therefore a significant expansion of the fleet and this follows on from the opening of a new depot in Glasgow last month. The latter is a new 20,000 sq. ft. facility and this will serve the Group's Express division which specialises in secure, next day parcel delivery. The new depot will allow the group to increase capacity and improve service levels for Central Scotland and is another step in the £10m capital expenditure programme being undertaken by the group. The company sees significant growth opportunities to increase market share and it plans to open a number of additional depots as the year progresses. The share price has drifted back from the 37p level reached earlier this year but continued news on further expansion is likely to be well received by investors. The shares are a BUY.

## 600 Group – 11.5p

The AIM-listed engineering group has issued a trading statement covering the financial year to 28 March 2021. Although the impact of the pandemic has been to reduce revenue for the year by around 20% to $53m, the company expects to be able to report underlying EBIT of $2.5m for the year due to cost saving measures put in place and also helped by government assistance programmes. This performance is better than previously expected at the group and recent activity has been even more encouraging. A strong increase in the order book in March meant that this stood at $14m at the end of the month, whilst a further $4m of orders have already been received in April. Although the pandemic has clearly had a negative impact on the company, it is worth pointing out that two years ago the company made adjusted earnings per share of US$0.035 or around 2.5p. Any return to that level of profit would make the shares look cheap and, on that basis, we rate them a LONG-TERM BUY.

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*VAT No: GB 607 1818 48*

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Designed and published by Westbrook Agency © 2021
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