

# AAC Clyde Space

Extending its world view

Proposed acquisitions & capital raise

Aerospace & defence

16 October 2020

**Price** **SEK2.83**

**Market cap** **SEK327m**

SEK8.9/\$1, SEK11.45/£1, SEK10.4/€1

Adjusted net cash (SEKm) at 30 June 2020 34.9

Shares in issue 115.5m

Free float 94%

Code AAC

Primary exchange Nasdaq First North Premier

Secondary market OTCQX

## Share price performance



% 1m 3m 12m

Abs (1.95) (18.2) (39.56)

Rel (local) (5.63) (25.33) (49.03)

52-week high/low SEK5.57 SEK2.64

## Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems and platforms after merging with Clyde Space in Scotland. The merged company also supplies a range of technology components to other small satellite manufacturers globally.

## Next events

EGM 5 November 2020

Q3 results 26 November 2020

## Analyst

Andy Chambers +44 (0)20 3681 2525

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

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In recent weeks, AAC Clyde Space has announced agreed deals for two proposed acquisitions, SpaceQuest in the US for SEK75.6m and Hyperion Technologies in the Netherlands for SEK22.8m. Both deals are in line with its strategy, meeting both commercial and technical goals and, importantly, adding US and European manufacturing capacities. We have lowered our revenue estimates for the ongoing business by 15% in FY20 and 3% in FY21 in line with the recent update, but the deals should profitably augment what is still strong organic revenue growth. A successful capital raise of SEK52m before costs should allow AAC to pursue and optimise further New Space investment opportunities as they arise.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.3)	(0.50)	0.0	N/A	N/A
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20e	96.6	(21.9)	(0.22)	0.0	N/A	N/A
12/21e	142.7	(15.8)	(0.13)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Complementary products and capacity

Following completion of the deals, AAC Clyde Space will offer a complete suite of products and components for CubeSats. The deals increase the vertical integration of its satellite platforms, enabling independent and enhanced performance. With the additional capabilities introduced, AAC Clyde Space will be able to offer new solutions for turnkey space missions and for the Space-as-a-Service business. The deals support the company's aim to increase its share of the market which is currently estimated to be worth \$2bn a year, growing to \$3–4bn by 2022. The US facility allows the manufacture of EPIC CubeSat platforms for sale to US customers who are expected to form the largest demand. We estimate that the deals should add SEK35m to sales and SEK7.5m to EBITDA in FY21, establishing positive EBITDA for the group. The share capital will increase by c 34% to 147.2m shares.

## Strong FY20 growth still expected

On 18 September 2020, AAC Clyde Space announced that FY20 sales would likely only grow by 50% to around SEK100m. The downward revision is due to delays in receipt of new orders from customers and materials from suppliers, referred to as H120. It still represents sequential half-yearly growth as the company executes its SEK164m backlog. Activity is expected to pick up significantly in Q420 and Q121. We have adjusted our estimates to reflect the guidance, reducing sales by 15% in FY20 and 3% in FY21. AAC Clyde Space continues to make good progress in the growing New Space market, despite the pandemic-induced disruptions.

## Valuation: Acquisitions should enhance value

The negative impact of the lower earnings estimates on our capped DCF is 12%, as our out-year forecasts remain similar to prior estimates. The value of SEK4.8 per share (from SEK6.0 previously) also reflects the capital raise. As usual, we do not include the acquisitions until completed, which requires regulatory and shareholder approvals. However, we expect them to initially enhance earnings.

## Proposed acquisitions

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As part of its strategic growth plan, AAC Clyde Space has consistently identified targeted M&A in the New Space segment as a significant potential driver, expanding technical capability and broadening the geographic footprint with a major focus on establishing a manufacturing presence in the important US market. A bit like waiting for launches, there can be periods of inactivity and suddenly two deals appear one after the other. The proposed acquisitions of SpaceQuest in the US for an initial SEK75.6m and Hyperion Technologies in the Netherlands for an initial SEK22.8m meet both the commercial and technological strategic criteria.

Both companies are privately owned, and the deals have earnout agreements and shareholder lock-up arrangements on shares issued to the vendors, who will remain with the enlarged group. Following completion, we expect the businesses to add profitable, established revenue streams that should accelerate the attainment of positive EBITDA for the enlarged group to FY21.

As with the existing operations in Sweden and Scotland, SpaceQuest and Hyperion Technologies will be wholly owned subsidiaries of AAC Clyde Space AB with localised operational management and group-level business development, R&D and financial management. The enlarged AAC Clyde Space will have four manufacturing locations in Uppsala, Glasgow, Fairfax and Delft.

The complementary nature of the product offerings should allow AAC Clyde Space to extend the range of in-house subsystems and components it develops, manufactures and integrates into its EPIC CubeSat platforms. In addition, the deals provide a significant expansion of the global footprint of AAC Clyde Space and, importantly, provides a US manufacturing base for its EPIC CubeSat platform range. US customers represent the largest market for space services including the small satellite segment, and US-manufactured platforms are a requirement for US government licences. As SpaceQuest already operates its own small constellation of satellites, it also directly strengthens AAC Clyde Space's Space-as-a-Service (SaaS) offering.

The deals partly address one of the lessons for space equipment manufacturers arising from the pandemic as well as other industries – securing the supply chain. Vertical integration bringing more subsystem capabilities within the group should help to mitigate some of the project delays seen this year.

### SpaceQuest

AAC Clyde Space has reached an agreement to purchase 100% of SpaceQuest, one of the pioneers of the New Space segment, having been founded in 1994. It currently employs 11 people at its facility in Fairfax, Virginia. The consideration is to be settled through the issue to the owners of 24m shares at SEK3.15 per share, but the consideration may vary depending on share price development until the acquisition is completed. There is an additional revenue-based earnout agreement for FY21, FY22 and FY23 amounting to a maximum of \$0.9m, \$1.0m and \$1.3m, respectively. FY21 and FY22 are to be settled in shares and the FY23 earnout will be paid in cash. Immediately following completion, the SpaceQuest owners will own 16.3% of the enlarged AAC Clyde Space share capital (before earnouts, including shares issued for the capital raise and the acquisition of Hyperion – see below) and will be subject to a lock-in agreement for each third of their holdings for periods of six, 12 and 18 months.

The deal is subject to shareholder and regulatory clearance, including CFIUS (the Committee on Foreign Investment in the US) approval. AAC Clyde Space shareholders' approval will be sought at an EGM to be held on 5 November 2020, and we expect the deal to complete around the end of the year allowing for the regulatory approvals process.

With over 25 years of design and manufacturing experience, SpaceQuest has the longest space heritage of any of the four proposed AAC Clyde Space subsidiaries. It has built and deployed 20 satellites on 12 launches over that period. It was also a pioneer in satellite-based AIS (automatic identification system) data collection, and today operates a small LEO (low earth orbit) constellation of eight AIS satellites with a network of ground stations, selling global data to customers worldwide.

The company manufactures its own 25cm cube microsatellite (AprizeSat) and offers a 3U CubeSat platform. It also manufactures a range of subsystems and components including antenna systems, radios & modems, attitude determination and control subsystems as well as AIS payloads. SpaceQuest has been flying AIS payloads and collecting data since 2009.

It also has an extensive customer base including the CSA (Canadian Space Agency), NASA, US Navy and US Air Force, corporates such as LeoStella, ORBCOMM, Iceye and Northrop Grumman as well as universities. These extend AAC Clyde Space's relationships to new clients as well as increasing engagement with existing customers.

In 2019, revenues grew by 9% to \$2.6m (SEK24m) with EBITDA of around \$0.85m (SEK7.8m, 33% margin). The company has a long history as a highly profitable company. Despite the pandemic, in H120, SpaceQuest achieved sales of \$0.9m (SEK8m) with EBITDA of c \$0.18m (SEK1.6m, margin 20%). Revenue for 2020 is estimated at \$2.5m (SEK22.5m).

In our opinion, the positioning and development of SpaceQuest closely resembles the proposed strategic template for growth of AAC Clyde Space. The addition of its highly experienced senior management team in the US led by the founder, Dr Dino Lorenzini, brings many complementary skills to the enlarged group gained in the largest and most important regional market for small satellites.

## Hyperion Technologies

As announced on 7 October 2020, AAC Clyde Space is to purchase all of the shares in the privately owned Hyperion Technologies based in Delft in the Netherlands. The shareholders of Hyperion Technologies will receive 7.755m new shares worth c SEK21.7m (at SEK2.8/share) on completion, as well as c SEK1.1m in cash. There is an additional cash earnout for up to c SEK1.1m based on FY21 performance to be paid in Q122. Hyperion shareholders will own approximately 5.3% of the shares in the enlarged AAC Clyde Space group (before earnouts, including shares issued for the capital raise and the acquisition of SpaceQuest) and will be subject to a lock in agreement for each third of their holdings for periods of six, 12 and 18 months. The deal is subject to approval by regulatory authorities and AAC Clyde Space shareholders at an EGM to be held on 5 November 2020.

Hyperion was founded in 2013 and currently employs 15 people. It specialises in the development and supply of high-performance, miniaturised components for small spacecraft including propulsion systems. It is noted for its expertise in attitude and orbit control subsystems, Products include ADCS (altitude determination and control systems) that include state-of-the-art star tracker and related systems. The Hyperion engineering team has been developing optical communications technologies as part of a Dutch consortium, using laser technology to open up extremely high-speed communication between satellite and ground station as well as between satellites in orbit. All of these are complementary to AAC Clyde Space's existing subsystem capabilities. It has also developed and supplies a 12U nanosat platform. The acquisition extends AAC Clyde Space's technical capability and offering as well as adding to the customer base. The deal also extends the footprint in the European Union, with the Delft facility close to another leading European space engineering university.

Hyperion has been growing rapidly with revenues up 48% in 2019 to €1.2m and positive EBITDA of c €0.1m (8% margin) before non-recurring costs of €0.2m. In H120, revenues were €0.7m and EBITDA was €0.2m, a margin of 28%.

## Capital raise to fund further growth opportunities

The company has raised capital of SEK52m before costs, as announced on 15 October 2020. 19.2m new shares were issued through an accelerated bookbuild at a price of SEK2.70/share and the new shares starting trading on the Nasdaq First North Market in Stockholm the following day. The discount to the closing price was just 4.4% due to strong demand, and some of the excess was satisfied by a block trade disposal of 10.56m shares involving two shareholders. Fouriertransform has sold its entire holding in line with a previously announced intention and its legal obligation. In addition, Craig Clark, the group CSO and founder of Clyde Space, sold part of his holding and has agreed a six-month lock-up for his remaining shares. In both the placement and block trade, the buyers were a group of around 40 qualified private individual investors and family offices

The total number of shares in issue currently increases to 115.45m, and this will expand to 147.20m once the two deals complete. We assume the vendor shares do not count as free float, so we estimate the free float post the acquisitions would be 74%.

We expect AAC Clyde Space to end FY20 with adjusted net cash balances (excluding leases) of SEK71.1m before consolidation of Hyperion and SpaceQuest. The strengthened balance sheet will allow AAC to extend its business development capacity, develop a new highly integrated, software-defined platform and invest in expanding the highly profitable SaaS business line.

## Financials

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As is our normal practice, we do not include acquisitions in our models until they complete. Our published estimates are currently for the ongoing activities of the group based in Glasgow and Uppsala, where our estimates have been revised down to reflect the latest comments from management that were announced on 18 September 2020. Management indicated that sales for FY20 were only expected to be around SEK100m, representing growth of 50%.

## Earnings revisions

In response to the latest information, we have lowered our earnings expectations for the existing group as shown in Exhibit 1. Our assumption is that the platforms business of Clyde Space in Glasgow is likely to be more affected than the subsystems activities of the two businesses. As we expect project work to recover rapidly next year, our revenue and earnings reductions are more subdued.

Although FY20 net sales still reflect strong annual growth, our lower net sales are some SEK17m below our previous estimate of SEK113.9m, and we have reduced our revenues estimates accordingly, with a consequent drop through on earnings at all levels. The reduction is mainly due to the COVID-19 impact on ordering patterns at customers, and supply chain disruption delaying project milestones and deferring revenue recognition. The company started the year with a backlog of SEK88m for delivery in 2020. While some of this may have slipped, the implication is that only net SEK12m was added to the orders on hand for FY20 since the start of the year. Management says the New Space market and interest in AAC Clyde Space's products remain strong and that after the COVID-19 lull in the summer it is seeing a significant pick-up in activity for Q420 and Q121.

**Exhibit 1: AAC Clyde Space earnings estimates revisions**

Year to December (SEKm)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
<b>By Business</b>						
AAC	-	-	0.0%	-	-	-
Clyde	83.7	66.4	(20.7%)	108.8	103.9	(4.5%)
<b>Total group net sales</b>	<b>113.9</b>	<b>96.6</b>	<b>(15.2%)</b>	<b>147.6</b>	<b>142.7</b>	<b>(3.3%)</b>
<b>By activity</b>						
Satellite platforms	59.2	41.8	(29.3%)	78.1	73.2	(6.3%)
Subsystems	54.8	54.8	0.0%	68.5	68.5	0.0%
Licence & royalties income	0.0	0.0	-	1.0	1.0	-
<b>Total group net sales</b>	<b>113.9</b>	<b>96.6</b>	<b>(15.2%)</b>	<b>147.6</b>	<b>142.7</b>	<b>(3.3%)</b>
Other operating income	10.0	10.0	0.0%	6.5	6.5	-
Own work capitalised	7.5	7.1	(5.1%)	5.9	5.7	-
<b>Total group income</b>	<b>131.4</b>	<b>113.7</b>	<b>(13.5%)</b>	<b>160.0</b>	<b>154.9</b>	<b>(3.2%)</b>
Raw materials & subcontractors	(46.7)	(39.6)	(15.2%)	(62.0)	(59.9)	(3.3%)
Personnel costs	(62.2)	(62.2)	0.0%	(75.1)	(75.1)	0.0%
Other external expenses	(22.5)	(19.1)	(15.2%)	(26.6)	(25.7)	(3.3%)
Other operating expenses	(5.0)	(5.0)	-	0.0	0.0	-
<b>EBITDA (company reported)</b>	<b>(5.0)</b>	<b>(12.2)</b>	<b>143.5%</b>	<b>(3.7)</b>	<b>(5.8)</b>	<b>58.9%</b>
<b>EBIT (Pre PPA amortisation)</b>	<b>(14.5)</b>	<b>(21.3)</b>	<b>46.9%</b>	<b>(13.2)</b>	<b>(15.2)</b>	<b>15.2%</b>
<b>Underlying PBT</b>	<b>(15.1)</b>	<b>(21.9)</b>	<b>45.2%</b>	<b>(13.8)</b>	<b>(15.8)</b>	<b>14.7%</b>
<b>EPS - underlying continuing (SEK)</b>	<b>(0.15)</b>	<b>(0.22)</b>	<b>45.2%</b>	<b>(0.14)</b>	<b>(0.13)</b>	<b>14.4%</b>
DPS (SEK)	0.0	0.0	-	0.0	0.0	-
Adjusted net cash, excluding leases	30.6	71.1	132.1%	21.5	60.0	178.9%

Source: Edison Investment Research estimates

## Order book underpins growth through 2021

Despite the lowering of growth expectations this year, the total order backlog at H120 of SEK164m was robust, down just 3% on the start of the year and despite trading SEK42m of H1 revenues. Order intake has remained relatively positive in the year to date, despite the lull due to the pandemic, and we expect further bookings through the remainder of the year. As a result, we expect the increased activity from Q420 to continue through 2021. While the estimated level of FY21 sales may not yet lead to positive EBITDA for the ongoing business, we think the trend remains in the right direction with the possibility of achieving a break-even run rate later in FY21.

**Exhibit 2: Financial summary**

	SEKm	2018	2019	2020e	2021e
Year-end December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Net sales		77.9	66.4	96.6	142.7
Own work capitalised and other operating income		11.3	14.1	17.1	12.2
Group income		89.2	80.6	113.7	154.9
EBITDA		(28.5)	(27.3)	(12.2)	(5.8)
Operating Profit (before amort. and except.)		(30.8)	(32.7)	(17.3)	(11.4)
Intangible Amortisation		(7.2)	(4.6)	(4.0)	(3.7)
Exceptionals		(5.2)	(2.9)	(7.2)	(2.0)
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.2)	(40.2)	(28.5)	(17.1)
Net Interest		(0.3)	(0.8)	(0.5)	(0.6)
Profit Before Tax (norm)		(38.3)	(38.2)	(21.9)	(15.8)
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(29.1)	(17.8)
Tax		0.9	0.5	0.3	0.9
Profit After Tax (norm)		(37.5)	(37.8)	(21.6)	(15.0)
Profit After Tax (FRS 3)		(42.6)	(40.6)	(28.8)	(16.9)
Average Number of Shares Outstanding (m)		75.4	84.8	100.2	115.4
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.22)	(0.13)
EPS - normalised (SEK)		(0.50)	(0.44)	(0.22)	(0.13)
EPS - (IFRS) (SEK)		(0.57)	(0.48)	(0.29)	(0.15)
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-36.6	-41.1	-12.6	-4.1
Operating Margin (before GW and except.) (%)		-39.6	-49.3	-17.9	-8.0
<b>BALANCE SHEET</b>					
Fixed Assets		396.8	436.9	433.7	429.4
Intangible Assets		392.6	418.6	419.5	419.5
Tangible Assets		4.2	4.1	3.1	2.1
Right of use asset			14.2	11.0	7.8
Investments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	78.9	75.6
Stocks		6.5	13.1	16.4	20.0
Debtors		10.1	17.7	17.4	21.4
Cash		12.2	52.4	25.8	12.8
Other		27.3	25.2	19.3	21.4
Current Liabilities		(35.6)	(60.5)	(53.1)	(66.9)
Creditors		(35.5)	(60.5)	(53.1)	(66.9)
Short term borrowings		(0.2)	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(16.0)	32.6	37.1
Long term borrowings		(1.2)	(0.8)	45.3	47.2
Lease liabilities			(14.1)	(11.6)	(9.0)
Other long-term liabilities		(1.2)	(1.1)	(1.1)	(1.1)
Net Assets		415.0	468.9	492.1	475.3
<b>CASH FLOW</b>					
Operating Cash Flow		(49.1)	(15.3)	(20.3)	(5.4)
Net Interest		(0.3)	(0.8)	0.1	(0.0)
Tax		0.8	0.4	0.2	0.8
Capex		(2.3)	(13.9)	(8.1)	(7.1)
Acquisitions/disposals		(377.4)	(3.0)	0.6	0.6
Financing		404.6	73.3	47.0	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(23.6)	40.7	19.5	(11.1)
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(71.1)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(0.7)	0.1	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(71.1)	(60.0)
Net financial liabilities including lease liabilities			(37.5)	(59.6)	(51.0)

Source: Company reports, Edison Investment Research estimates

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia