

AAC Clyde Space

Q322 results

Gathering momentum into 2023

Aerospace and defence

AAC Clyde Space's Q322 report showed improved momentum but also the deferral of project milestones into FY23 from FY22 as some satellite launches are delayed. We expect the positive momentum to continue in Q422, albeit at a lower level than envisaged at the half year. Growth should accelerate as AAC moves towards its FY24 targets. We feel that not only should the more positive cash flows and earnings performances appear more realisable, but we also expect risk to diminish as the software services element of the model grows.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/20	98.4	(26.7)	(0.26)	0.0	N/A	N/A
12/21	180.0	(27.0)	(0.14)	0.0	N/A	N/A
12/22e	214.1	(24.9)	(0.12)	0.0	N/A	N/A
12/23e	356.7	4.9	0.02	0.0	70.5	N/A

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

Launch deferrals constrain FY22 performance

While some of the supply chain issues that have dogged AAC's FY22 performance may be starting to ease, some launch deferrals are shifting revenue recognition milestones into FY23. Revenues grew by 36% in Q322, increasing momentum compared to the constrained H122 performance, although the Space Missions segment remains subdued. Several important deliveries and launches are apparent in Q422 and management expects to recognise some SEK75m of revenues from the backlog during the period. However, the FY22 management expectation is now for net sales of SEK210m, representing a c SEK30m reduction on the half year level, with increased losses and adverse cash effects. We have cut our FY22 sales estimate by 12% to SEK214m, with slightly increased loss estimates.

Growing momentum into FY23

More positively, the launch deferrals should be recoverable in early FY23 boosting Space Missions' net sales, albeit the delays to commissioning may have a knock-on effect on higher-margin Space Data as a Service (SDaaS) revenues. Strong Space Products order intake in Q322 has improved the period-end backlog by almost 5% to SEK419m which, together with an increasing number of self-owned satellite launches next year, should drive strong growth in both Space Missions and SDaaS sales with a beneficial effect on cash flow. We have reduced our FY23 group net sales expectations by 4% and more than halved our PBT estimate to SEK4.9m.

Valuation: Closing on profitable metrics

As we start to consider growth to the FY24e SEK500m revenues plan, the more traditional sales and earnings growth valuation metrics should start to be more appropriate. We feel those could start to underpin longer-term confidence in our cash-based valuation, which currently returns a value of SEK7.2 per share. A single-digit P/E multiple for FY24e seems likely if management can deliver. That would be undemanding given subsequent growth implied to meet the 2030 targets.

29 November 2022

Price **SEK1.41**

Market cap **SEK289m**

SEK10.39/\$1, SEK12.56/£1

Adjusted net cash (SEKm) at 30 Sept 2022 25.0
(excluding leases of SEK12.1m)

Shares in issue 204.8m

Free float 87%

Code AAC

Primary exchange Nasdaq First North
Premier Growth Market

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs 5.6 (7.3) (57.3)

Rel (local) (1.2) (11.0) (47.7)

52-week high/low SEK3.35 SEK1.22

Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems, platforms, services and components, including supply to third parties. It has production and development operations in Sweden, Scotland, the Netherlands and the United States, as well as a start-up in Africa.

Next events

FY22 results 23 February 2022

Analyst

Andy Chambers +44 (0)20 3077 5700

industrials@edisongroup.com

[Edison profile page](#)

**AAC Clyde Space is a
research client of Edison
Investment Research Limited**

Q322 results

In Q322, AAC Clyde Space saw an acceleration in net sales growth to 36% at SEK45.7m (Q321 SEK33.7m) compared to 8% in H122. Net sales included SEK3.8m of royalty payments from York Space of the US to AAC Clyde Space for its avionics technologies. Excluding licence and royalty income, net sales grew by 25%.

Growth continued to be constrained by the industry-wide supply chain disruption to deferred project completions and deliveries, although this now seems to be easing. All of the business, except for the small African activity, made full contributions during Q322 and Q321 so comparisons are more direct. Omnisys (consolidated from 1 May 2021) saw Q322 net sales growth of 2% to SEK9.6m (Q321: SEK9.4m). Hyperion sales rose modestly to SEK2.8m (Q321: SEK2.0m), while SpaceQuest generated SEK8.1m (Q321: SEK5.3m) of net sales, with healthy improvements in both SDAAS and Space Products revenues. Clyde Space in Glasgow continued to experience delays in Space Missions projects but net sales were more stable than in H122 at SEK12.0m (Q321: SEK11.6m). AAC Clyde Space in Sweden improved net sales by 54% to SEK8.3m (Q321 SEK5.4m) before the royalty payment as deliveries of its power and avionics products increased.

Exhibit 1: AAC Clyde Space 9M22 results summary

SEKm	9M21	9M22	Change
AAC	25.2	31.9	27%
Clyde	43.1	37.2	(14%)
Hyperion	10.00	9.6	(4%)
SpaceQuest	14.6	22.5	54%
Omnisys	24.9	32.3	30%
AAC Space Africa		2.8	
Net sales	117.8	136.4	16%
SDaaS	9.2	12.6	36%
Space Missions	37.5	34.2	(9%)
Space Products	69.7	85.8	23%
Licence income	1.4	3.8	172%
Net sales	117.8	136.4	16%
Other operating income	10.0	15.5	54%
Development work capitalised	9.4	15.7	67%
Group income	137.3	167.6	22%
Raw materials & subcontractors	(51.8)	(48.9)	(6%)
Personnel costs	(73.6)	(100.9)	37%
Other external expenses	(20.3)	(31.1)	54%
EBITDA adjusted	(8.3)	(13.3)	60%
Other operating expenses	(4.0)	(5.2)	30%
Acquisition expenses	(1.7)	0.0	(100%)
EBITDA reported	(14.0)	(18.5)	32%
Depreciation and amortisation	(16.7)	(20.28)	22%
EBIT	(30.6)	(38.7)	26%
PBT	(32.9)	(31.6)	(4%)
Net income	(31.2)	(29.1)	(7%)
EPS (SEK)	(0.18)	(0.15)	(17%)
Net cash at period end	108.0	25.0	(77%)
Lease liabilities	(11.3)	(12.1)	4%
Total net financial assets	96.8	12.9	(86%)

Source: Company reports

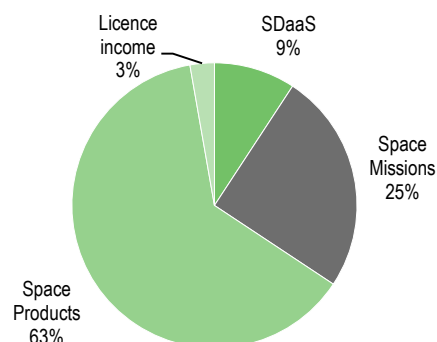
Of the businesses acquired since the pandemic, Omnisys and SpaceQuest improved Q322 EBITDA contributions. Omnisys generated SEK1.7m (Q321: SEK0.2m) and SpaceQuest SEK2.8m (Q321: SEK1.7m). Hyperion made an EBITDA loss of SEK1.1m (Q321: SEK0.8m profit). The EBITDA loss at Clyde Space was slightly higher at SEK8.0m (Q321: SEK7.5m) following a difficult Q122. performance. AAC Clyde Space in Sweden reduced its EBITDA loss to SEK2.2m in Q322

from SEK5.0m a year earlier, largely because of the royalty payment from York. AAC Space Africa, which commenced operations in Q321, made a Q322 EBITDA loss of SEK0.9m. Overall, the reported EBITDA loss was SEK7.7m compared to a loss of SEK10.0m in Q321.

Key highlights of the first nine months of FY22 (9M22) were:

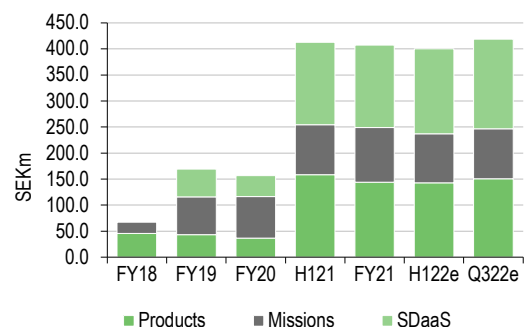
- Group net sales rose 16% to SEK136.4m (9M21: SEK117.8m). SDaaS sales started to accelerate, growing 36% to SEK12.6m, with further new satellites being deployed during Q422. Space Products grew net sales 23% to SEK85.8m (9M21: SEK69.7m), reflecting strong growth at AAC Clyde Space in Sweden and SpaceQuest, as well as the full nine-month contribution from Omnisys. Space Missions' performance continued to be the main casualty of the supply chain constraints and project deliveries caused by delays from subsystems suppliers, with year to date net sales falling 9% to SEK34.2m (9M21: SEK37.5m) despite a healthy increase in segment sales at SpaceQuest. AAC Space Africa made an initial SEK2.8m contribution.
- The 9M22 group EBITDA loss was SEK18.5m (9M21: SEK12.3m before acquisition costs of SEK1.7m), despite the improved Q322 performance. SpaceQuest and Omnisys both increased their contributions to SEK7.0m (9M21: SEK4.9m) and SEK6.8m (9M21: SEK3.7m) respectively. Hyperion made a small EBITDA loss of SEK0.3m (9M21: SEK2.5m profit) and Clyde Space saw its EBITDA loss increase to SEK18.0m (9M21: SEK12.3m). AAC Clyde Space in Sweden saw its EBITDA loss increase modestly to SEK11.6m (9M21 loss: SEK10.8m before acquisition costs of SEK1.7m) despite the increase in licence income. AAC Space Africa made a SEK2.4m EBITDA loss.
- The increased EBITDA losses costs largely reflected an increase of SEK27.3m in personnel costs and SEK9.2m in other external costs as the company absorbed the full period addition of Omnisys costs and continued to invest in a larger organisation to deliver the anticipated growth.
- The loss before tax of SEK31.6m was a slight reduction on the prior year nine-month loss of SEK32.9m after benefiting from a SEK9.4m improvement in net financial income.
- Adjusted net cash (excluding leases) at the end of the period was SEK25.0m compared to SEK96.1m at the start of the year and SEK46.5m at H122. Operating cash outflow was SEK11.4m in Q322 (Q321 inflow of SEK16.4m), largely reflecting higher working capital due to accrued revenues in ongoing projects where project milestones are delayed. With further delays due to launch deferrals into FY23, management is evaluating measures to mitigate potential short-term cash flow effects.

Exhibit 2: AAC Clyde Space net sales split by segment activity (Q322: SEK136.4m)



Source: Company reports

Exhibit 3: AAC Clyde Space order backlog development (SEK418.6m at Q322)



Source: Company reports

Outlook and earnings revisions

We remind investors that AAC Clyde Space remains a relatively small company with revenues in US dollars of just over \$20m. While these are expected to grow rapidly in the next few years, individual contracts and projects can have a significant impact on revenues, profitability and cash flows, as recent deferrals and delays have highlighted. Management still anticipates sales of SEK500m by FY24 and c SEK2.3bn in FY30. With the positive leverage effects on a relatively fixed cost base, there should be a dramatic improvement in profitability and cash generation as these targets are achieved.

Our confidence in the company's ambitions is aided by the order backlog, which grew by almost 5% to SEK418.6m during Q322, mainly reflecting strong intake for computers and power systems in Space Products. We noted at H122 that there remained a risk that some project deliveries could slip into FY23 and unfortunately that has happened, largely due to delays by launch providers. Management now expects SEK75m of the backlog to be recognised as revenue in Q422, and thus FY22 revenues to exceed SEK210m. We have reduced our sales expectations by 12% to SEK214.1m from SEK242.6m previously. Our FY22 estimated EBITDA loss increases by 84% to SEK15.3m.

However, the milestone delays should be recovered in H123, primarily at Clyde Space. We have largely maintained our FY23 revenue estimate at the Glasgow unit, reflecting that expectation together with some deferral to high-margin SDaaS revenues due to knock-on delays to satellite commissioning. Overall, we have reduced our sales expectation by 4% to SEK356.7m. Our FY23 EBITDA expectation is 21% lower at SEK25.7m with a slightly reduced margin due to a less favourable business mix resulting from the reduction in SDaaS sales.

Exhibit 4: AAC Clyde Space earnings revisions

Year to December (SEKm)	2022e			2023e		
	Prior	New	% change	Prior	New	% change
<u>By Business</u>						
AAC	40.9	49.6	21.2%	77.4	72.3	(6.6%)
Clyde	91.1	56.1	(38.4%)	139.5	130.1	(6.8%)
Hyperion	19.5	14.6	(25.0%)	23.4	19.0	(18.8%)
SpaceQuest	26.9	31.7	17.9%	37.7	41.3	9.4%
Omnisys	59.2	57.0	(3.7%)	74.0	74.1	0.1%
AAC Clyde Africa	5.0	5.0		20.0	20.0	
Total group net sales	242.6	214.1	(11.8%)	372.0	356.7	(4.1%)
<u>By activity</u>						
SDaaS	30.3	19.0	(37.3%)	70.1	55.0	(21.6%)
Space Missions	83.6	53.7	(35.8%)	112.9	113.6	0.6%
Space Products	126.7	137.7	8.7%	187.0	186.1	(0.4%)
Licence & royalties income	2.0	3.8	88.1%	2.0	2.0	0.0%
Total group net sales	242.6	214.1	(11.8%)	372.0	356.7	(4.1%)
Other operating income	7.3	17.3	137.0%	7.3	7.3	
Own work capitalised	23.5	22.5	(4.3%)	37.8	37.2	
Total group income	273.4	253.9	(7.1%)	417.0	401.2	(3.8%)
Raw materials & subcontractors	(99.5)	(85.6)	(13.9%)	(156.2)	(149.8)	(4.1%)
Personnel costs	(136.2)	(136.2)	0.0%	(165.0)	(165.0)	0.0%
Other external expenses	(46.1)	(42.4)	(8.0%)	(63.2)	(60.6)	(4.1%)
Other operating expenses	0.0	(5.0)		0.0	0.0	
EBITDA (company adjusted)	(8.3)	(15.3)	83.9%	32.5	25.7	(20.9%)
EBIT (Pre-PPA amortisation)	(25.5)	(31.7)	24.4%	12.4	6.0	(51.1%)
Underlying PBT	(21.2)	(24.9)	17.2%	11.5	4.9	(57.1%)
EPS - underlying continuing (SEK)	(0.10)	(0.12)	16.6%	0.05	0.02	(57.3%)
Adjusted net cash/(debt) (excluding leases)	31.5	28.6	(9.0%)	4.6	(3.6)	(178.9%)

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

	SEKm	2019	2020	2021	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Net sales		66.4	98.4	180.0	214.1	356.7
Own work capitalised and other operating income		14.1	21.1	30.9	39.8	44.5
Group income		80.6	119.5	210.8	253.9	401.2
EBITDA		(27.3)	(17.5)	(12.4)	(15.3)	25.7
Operating Profit (before amort. and except).		(32.7)	(22.2)	(21.9)	(24.8)	14.1
Intangible Amortisation		(4.6)	(3.3)	(0.9)	(6.9)	(8.0)
Exceptionals		(2.9)	(12.1)	(15.8)	(10.0)	(10.0)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		(40.2)	(37.5)	(38.6)	(41.7)	(4.0)
Net Interest		(0.8)	(1.3)	(4.2)	6.9	(1.1)
Profit Before Tax (norm)		(38.2)	(26.7)	(27.0)	(24.9)	4.9
Profit Before Tax (FRS 3)		(41.0)	(38.8)	(42.8)	(34.9)	(5.1)
Tax		0.5	0.5	3.3	1.7	0.3
Profit After Tax (norm)		(37.8)	(26.4)	(24.9)	(23.6)	4.7
Profit After Tax (FRS 3)		(40.6)	(38.3)	(39.5)	(33.1)	(4.8)
Average Number of Shares Outstanding (m)		84.8	102.3	173.8	199.0	204.8
EPS - fully diluted (SEK)		(0.45)	(0.26)	(0.14)	(0.12)	0.02
EPS - normalised (SEK)		(0.44)	(0.26)	(0.14)	(0.12)	0.02
EPS - (IFRS) (SEK)		(0.48)	(0.37)	(0.23)	(0.17)	(0.02)
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-41.1	-17.8	-6.9	-7.2	7.2
Operating Margin (before GW and except.) (%)		-49.3	-22.5	-12.2	-11.6	3.9
BALANCE SHEET						
Fixed Assets		436.9	523.0	681.0	714.2	727.5
Intangible Assets		418.6	494.3	639.5	663.4	667.6
Tangible Assets		4.1	16.2	26.4	40.2	53.7
Right of use asset		14.2	12.5	15.1	10.6	6.1
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		108.5	113.3	193.4	124.3	154.6
Stocks		13.1	12.8	13.2	36.4	60.6
Debtors		17.7	9.5	23.0	34.3	57.1
Cash		52.4	62.4	96.1	32.1	8.3
Other		25.2	28.5	61.1	21.5	28.6
Current Liabilities		(60.5)	(56.1)	(129.2)	(93.1)	(148.6)
Creditors		(60.5)	(56.1)	(128.5)	(93.1)	(136.7)
Short term borrowings		0.0	0.0	(0.6)	0.0	(12.0)
Long Term Liabilities		(16.0)	(14.4)	(16.6)	(17.0)	(9.7)
Long term borrowings		(0.8)	(0.3)	0.0	(3.5)	0.0
Lease liabilities		(14.1)	(12.9)	(15.1)	(11.5)	(8.0)
Other long term liabilities		(1.1)	(1.2)	(1.5)	(2.0)	(1.7)
Net Assets		468.9	565.8	728.6	728.4	723.8
CASH FLOW						
Operating Cash Flow		(15.3)	(14.6)	(37.3)	(50.4)	10.2
Net Interest		(0.8)	(0.2)	(0.2)	7.8	(0.2)
Tax		0.4	0.4	2.1	1.2	(0.2)
Capex		(13.9)	(17.2)	(29.2)	(26.3)	(43.0)
Acquisitions/disposals		(3.0)	(6.2)	2.6	(32.4)	0.9
Financing		73.3	49.2	94.1	33.3	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		40.7	11.4	32.0	(66.8)	(32.3)
Opening net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(62.2)	(95.5)	(28.6)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.1	(0.8)	1.3	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(51.6)	(62.2)	(95.5)	(28.6)	3.6
Net financial liabilities including lease liabilities		(37.5)	(49.3)	(80.4)	(17.1)	11.6

Source: Company reports, Edison Investment Research estimates

General disclaimer and copyright

This report has been commissioned by AAC Clyde Space and prepared and issued by Edison, in consideration of a fee payable by AAC Clyde Space. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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