

AAC Clyde Space

Hyperion augments organic progress

Q320 results and acquisition completion

Aerospace & defence

8 December 2020

Price **SEK3.32**

Market cap **SEK409m**

SEK11.2=GBPSEK1

Net cash (SEKm) at 30 September 2020 31.2

Shares in issue 123.2m

Free float 94%

Code AAC

Primary exchange Nasdaq First North Premier

Secondary exchange OTCQX

AAC Clyde Space is executing its growth strategy despite the pandemic. Q320 results reflect good organic progression, acquisitions should enhance performance and the recent capital raise facilitates further strategic investment. The recent xSPANCION agreement also provides a path to higher volume production and further developing space as a service (SaaS) content. We have modestly increased our revenue estimates for the continuing business, adding the Hyperion purchase that completed on 10 November. The SpaceQuest deal should complete by the year end.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.4)	(0.50)	0.0	N/A	N/A
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20e	101.6	(21.3)	(0.21)	0.0	N/A	N/A
12/21e	158.6	(14.3)	(0.11)	0.0	N/A	N/A

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

Q320 showed good progression

AAC Clyde Space enjoyed a progressive Q320. Revenues of SEK27.4m (Q319 SEK14.2m) were up 94% year-on-year driven by a strong increase in project work for the platforms business in Glasgow. The Swedish subsystems activity also grew strongly. The acceleration of workload following the pandemic-affected Q220 saw Clyde Space return to profit for Q320 at the EBITDA level and a much-reduced loss achieved by AAC in Sweden. The performance was slightly ahead of our expectations and we have increased our revenue estimates for the ongoing group by 3% for FY21 before the incremental contribution from the acquisitions.

Accelerating strategic development

The acquisitions, recent capital raise and xSPANCION collaborative project development agreement are helping to accelerate AAC's strategic progress in the small satellite segment of the New Space market. The acquisitions are accelerating technology capabilities, adding IP in laser communications and propulsion, which are becoming of increasing relevance to satellite deployments. Once SpaceQuest completes, the group will have manufacturing operations in four countries, including the strategically important US platform capacity and extending the ground station network. SpaceQuest brings its own experience of operating a current constellation providing data services. The xSPANCION agreement should deliver an innovative constellation services network, adding satellite build requirements and accelerating SaaS revenues over the next three years.

Valuation: Roadmap to positive returns

Following the capital raise and the addition of Hyperion, the value of our capped DCF is unchanged at SEK4.8 per share. We will not adjust for SpaceQuest until it completes, which is expected in the next few weeks following regulatory US approval. We expect it to enhance earnings in FY21 as it is historically profitable.

Share price performance



% 1m 3m 12m

Abs 30.0 8.3 (38.3)

Rel (local) 25.1 1.1 (45.9)

52-week high/low SEK5.23 SEK2.40

Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems, platforms and components. It has production and development operations in Sweden, Scotland, and the Netherlands and is adding a presence in the US.

Next events

FY20 prelims February 2021

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Q320 results

Sequentially AAC Clyde Space seems to be making good progress. Q220 saw the main effect of the pandemic-related disruption to the supply chain and order intake and lower assembly work at customers deferring sales of subsystems. Q320 saw a healthy return to revenue growth, which drove an improvement in profitability despite lower gross margins of 46% (Q319 57%) due to a lower mix of standard products.

Exhibit 1: AAC Clyde Space Q320 and 9M20 results summary

SEKm	2019			2020			% change	
	H119	Q319	9M19	H120	Q320	9M20	Q320 vs Q319	9m20 vs 9m19
By business								
AAC	13.8	4.1	17.9	14.8	8.2	23.0	101	29
Clyde	17.9	10.1	28.0	27.6	19.1	46.7	89	67
Group net sales	31.7	14.2	45.9	42.4	27.4	69.7	93	52
By activity								
Satellite platforms	7.9	4.910	12.8	23.3	15.2	38.5	210	202
Subsystems	23.7	9.283	33.0	19.1	12.1	31.2	31	(5)
Licence income	0.1	0.0	0.1	0.0	0.0	0.0		
Group net sales	31.7	14.2	45.9	42.4	27.4	69.7	93	52
Other operating income	5.4	3.3	8.61	5.8	2.631	8.46	(19)	(2)
Development work capitalised	1.5	0.7	2.1	4.9	2.090	7.00	219	227
Group income	38.5	18.1	56.6	53.1	32.1	85.2	77	50
Raw materials & subcontractors	(14.2)	(5.7)	(19.9)	(22.6)	(14.9)	(37.51)	161	88
Personnel costs	(24.9)	(12.9)	(37.8)	(28.9)	(14.0)	(42.9)	9	13
Other external expenses	(11.2)	(6.3)	(17.5)	(10.3)	(4.4)	(14.7)	(29)	(16)
EBITDA adjusted	(11.9)	(6.79)	(18.7)	(8.7)	(1.26)	(10.0)	(81)	(47)
Other operating expenses	(2.3)	(1.1)	(3.4)	(5.1)	(0.9)	(6.0)	(19)	75
EBITDA reported	(14.2)	(7.9)	(22.1)	(13.7)	(2.2)	(15.9)	(73)	(28)
Depreciation and amortisation	(6.6)	(3.2)	(9.73)	(5.7)	(2.7)	(8.5)	(13)	(13)
EBIT	(20.8)	(11.1)	(31.8)	(19.5)	(4.9)	(24.4)	(56)	(23)
PBT	(21.3)	(11.2)	(32.5)	(20.3)	(5.0)	(25.3)	(56)	(22)
Net income	(21.1)	(11.1)	(32.2)	(20.0)	(4.9)	(24.9)	(56)	(23)
EPS (SEK)	(0.29)		(0.40)	(0.21)		(0.26)		(35)
Net cash (excl. leases)	72.9		58.8	34.9		31.2		(47)
Lease liabilities	(12.7)		(12.0)	(9.3)		(8.4)		(30)
Net financial liabilities	60.2		46.8	25.6		22.8		(51)

Source: Company reports

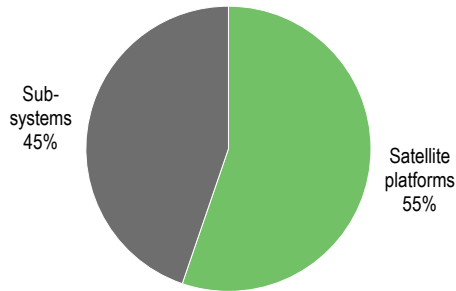
The key highlights of Q320 were:

- Net sales rose 93% to SEK27.4m (Q319 SEK14.2m) with a very strong increase in satellite platform revenues at Clyde and healthy growth for subsystems for AAC in Sweden.
- Group EBITDA loss substantially reduced to SEK2.2m (Q319 SEK7.9m) with Clyde generating a small profit and a large reduction in losses in Sweden.
- The loss before tax of SEK5.0m was 56% lower than in Q319.
- Net cash at the end of the period was SEK31.2m compared to SEK51.6m at the start of the year.
- The order backlog reduced slightly during the quarter to a period-end SEK160m, down SEK9m largely due to currency changes.

Major orders received in Q320 were:

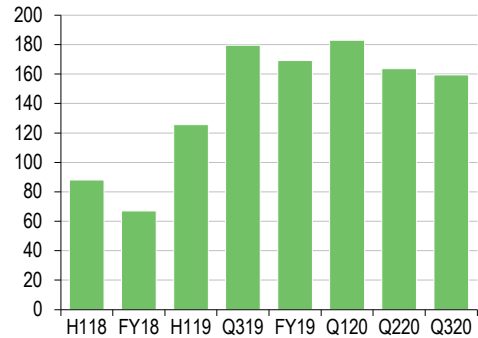
- SEK3.7m of orders from Japan for avionics subsystems
- A collaboration agreement valued at SEK17m with Saab and ORBCOMM to build the next generation of maritime communications called VDES using VHF satellite systems.

Exhibit 2: AAC Clyde Space net sales split by segment activity, 9m20



Source: Company reports

Exhibit 3: AAC Clyde Space order backlog development (SEKm)



Source: Company reports

AAC Clyde Space's shares also began trading on the American OTCQX market during Q320.

Outlook

On 11 November 2020, the company announced a public private partnership project in collaboration with the UK Space Agency and ESA (European Space Agency). Initially worth €19.7m (SEK202m) to develop an innovative satellite constellation and data service called xSPANCION, the project is to be delivered in two phases. The initial design phase worth SEK18.4m will run until mid-2021, adding some SEK9m to the current backlog. The second phase will see AAC develop, build and supply 10 satellites by the end of 2023. The project requires the development of new technologies for the future constellation, such as for propulsion, intersatellite links, safe and secure transmission of data and a customer interface. Outside the project, AAC Clyde Space will enter into customer service agreements for data delivery from the constellation.

The company has also announced the acquisitions of Hyperion Technologies in the Netherlands for SEK21.2m and SpaceQuest in the US for c SEK75.6m ([see our note](#)). The Hyperion acquisition completed in November and following the receipt of US regulatory approvals the SpaceQuest deal should complete later this month.

The company also successfully raised SEK52m of gross proceeds via a directed share issue that accompanied the announcement of the deals. The new funding should support both organic investment and the pursuit of other M&A opportunities in the New Space segment to further strengthen the groups capabilities and IP.

Excess demand from the directed offer was partially fulfilled by a block sale by two significant shareholders also sold down their stakes. Fouriertransform had previously announced its intention to sell in line with its internal strategy and founder of Clyde Space and group CSO, Craig Clark also sold part of his holding. He has agreed a lock-up period of six months for the remainder of his stake.

The momentum seen in Q320 is expected to continue in Q420 as major projects are executed as they progress towards launch next year. The group continues its business development efforts with customers regard new prospects for satellites, subsystems and data service contracts.

Hyperion will make an initial seven-week contribution, although it will be relatively modest. We expect a sales contribution of around SEK20m in FY21 with a positive contribution to EBITDA. We have not included SpaceQuest as the deal is not completed. It is likely to also make a small incremental revenue contribution in the current year and should be enhance earnings when completed.

The acquisitions add technical capabilities in onboard data computers, propulsion technologies and laser communication development programmes, as well as manufacturing capacity and ground stations. When completed the SpaceQuest will add constellation operation and data services delivery experience.

As a result of the strong progress in Q320, we have raised our estimates modestly for FY20 for the ongoing group and now expect sales of just under SEK100m, with a SEK2m contribution from Hyperion. Overall, our sales estimates rise 5% in FY20 and by 11% in FY21.

Although management has previously deferred its expectation of positive EBITDA and operating cashflow being achieved in FY21, our estimates do edge closer largely as a result of the addition of Hyperion. We suspect that once SpaceQuest makes an additional contribution, group EBITDA may well move into profit next year.

Exhibit 4: AAC Clyde Space revisions to earnings estimates

Year to Dec (SEKm)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
<u>By business</u>						
AAC	30.2	32.8	8.7	38.8	40.4	4.2
Clyde	66.4	66.7	0.5	103.9	98.9	(4.8)
Hyperion		2.0			19.3	
SpaceQuest		0.0			0.0	
Total group net sales	96.6	101.6	5.1	142.7	158.6	11.2
<u>By activity</u>						
Satellite platforms	41.8	51.0	22.0	73.2	81.6	11.5
Subsystems	54.8	50.6	(7.7)	68.5	76.0	11.0
Licence & royalties income	0.0	0.0		1.0	1.0	
Total group net sales	96.6	101.6	5.1	142.7	158.6	11.2
Other operating income	10.0	10.0	0.0	6.5	6.5	
Own work capitalised	7.1	9.2	29.6	5.7	14.3	
Total group income	113.7	120.8	6.2	154.9	179.5	15.9
Raw materials & subcontractors	(39.6)	(49.8)	25.7	(59.9)	(71.4)	19.1
Personnel costs	(62.2)	(57.5)	(7.7)	(75.1)	(83.2)	10.8
Other external expenses	(19.1)	(18.8)	(1.5)	(25.7)	(27.0)	5.0
Other operating expenses	(5.0)	(6.1)		0.0	0.0	
EBITDA (company reported)	(12.2)	(11.3)	(7.3)	(5.8)	(2.1)	(64.0)
EBIT (Pre PPA amortisation)	(21.3)	(20.7)	(2.7)	(15.2)	(13.7)	(9.3)
Underlying PBT	(21.9)	(21.3)	(2.7)	(15.8)	(14.3)	(9.3)
EPS - underlying continuing (SEK)	(0.22)	(0.21)	(3.7)	(0.13)	(0.11)	(15.0)
DPS (SEK)	0.0	0.0		0.0	0.0	
Adjusted net cash / (debt), excluding leases	71.1	68.4	(3.9)	60.0	52.6	(12.4)

Source: Edison Investment Research

Group strategy evolved

New Space companies increasing accessibility

The New Space market has been developing over at least the last 20 years. Essentially, New Space involves the funding of space opportunities by privately backed businesses or investors, as opposed to space agency and other institutionally supported programmes. The opportunities lie across the space segments ranging from suborbital activities to deep space exploration. All areas of the industry from ground equipment and infrastructures to mission design, network development, production, launch, operational services and support have seen significant increases in commercial investment. The result has been the emergence of a community of new aerospace companies of

various scales seeking to exploit the growing opportunities through innovation and disruptive technologies that transform the affordability of space endeavours.

An established and reputed leading player

AAC Clyde Space is a leading player in the small satellite segment (<500kg), more specifically for nanosatellite and microsatellites up to 50kg. It expects the overall small satellite market to be worth around \$42bn between 2019 and 2028, with its addressable market being a smaller proportion of this despite the higher numbers of satellites being launched.

Just under 1,200 nanosatellites have been launched over the last two decades, of which around 775 remain operational. Almost half of these have been deployed by just two LEO constellations for Planet Labs (c 330 nanosatellites) and Spire. Following a relatively quiet year in 2019 with just 188 launches, the number of deployments is expected to more than double in the current year according to Eric Kulu, Nanosats Database, www.nanosats.eu and rise to over 500 in 2023.

The nanosatellite solutions being offered by the AAC Clyde Space provide lower capital intensity, asset-light access for customers who merely want data to process. The proposition of utilising a low-cost network forms the basis of the SaaS offering by AAC Clyde Space, whether the customer or AAC Clyde ultimately own the satellite. Amongst its immediate peers AAC Clyde Space is the first to have SaaS under contract with its first two platforms being launched in 2021. It already has several SaaS customer projects in the order book and SpaceQuest operates a constellation of five slightly larger platforms offering data services.

Management believe the initiation of its SaaS activity makes it unique in the sector.

Exhibit 5: AAC Clyde Space capability compared to close peers

	AAC Clyde Space	Gomspace	Blue Canyon	Tyvak	Nanoavionics	SFL/L/TLAS	ISIS
Location	Scotland, Sweden, US, Netherlands	Denmark	US	US	Lithuania/US	Canada	Netherlands
Core market	Global	Global	US	US (= Global)	Global	Global	Global
Vertically integrated	✓	✓	✓	✓	✓	✓	✓
Subsystem supplier	✓	✓	✓	✗	✓	✗	✓
Platform supplier	✓	✓	✓	✓	✓	✓	✓
SaaS (contracted)	✓	✗	✗	✗	✗	✗	✗

Source: AAC Clyde Space

Executing the refined strategy

Since the arrival of Luis Gomes as CEO in May 2019, AAC Clyde Space has been refining its strategy to grow in the New Space market. The evolved strategic roadmap now has two clear areas of focus: improve and grow. Although self-evident, the rationale is to improve and extend existing capabilities and IP and to grow organically through market penetration, expansion of the capabilities (including SaaS) and extending the international reach. The two recent acquisitions clearly fit these criteria, complementing the organic evolution of the existing Swedish and Scottish operations.

The key elements to deliver the strategy are:

Improve

- Standardise platforms and subsystems to reduce costs
- Focus on constellation customers and the operation of satellite networks
- Increase production capacity by streamlining manufacturing processes
- Grow and extend the service offering
- Maintain high reliability, quality and performance

Grow

- Increase annual output for custom satellites to eight to 20 per year, with potential for up to 100 standard satellites when required
- Acquisitions that add value to the business
- Expand geographically, with the establishment of a US production capability a key enabler
- Develop a new SaaS offering, for example, sharing satellite and constellation data delivery across multiple customers

Successful execution of the strategy should see a strong development of SaaS over the next few years, a substantial increase in platform volume production and strong growth in subsystem sales to third parties.

AAC Clyde Space management see SaaS as a key driver to the success of the group. Essentially turnkey contracts with AAC designing building and operating satellites that may be owned by customers or retained as proprietary platforms, much of the total project funding is received in advance of launch (normally 30–50%). Recurring service revenues start from launch typically some two years after the initial contract. Of course, the in-service lives of LEO satellites are typically only around five years, although replenishment satellites should be required to maintain service and add capabilities as improved technologies become available. The low capital cost nature of nanosatellite is clearly an advantage in this regard.

As service provision becomes the dominant revenue stream over the next few years, we would expect to see substantial positive progression of earnings and cash flows.

Exhibit 6: Financial summary

	SEKm	2018	2019	2020e	2021e
Year end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		77.9	66.4	101.6	158.6
Own work capitalised and other operating income		11.3	14.1	19.2	20.8
Group income		89.2	80.6	120.8	179.5
EBITDA		(28.5)	(27.3)	(11.3)	(2.1)
Operating Profit (before amort. and except.)		(30.9)	(32.7)	(16.5)	(8.0)
Intangible Amortisation		(7.2)	(4.6)	(4.2)	(5.7)
Exceptionals		(5.2)	(2.9)	(8.7)	(2.0)
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.3)	(40.2)	(29.5)	(15.7)
Net Interest		(0.34)	(0.8)	(0.5)	(0.6)
Profit Before Tax (norm)		(38.4)	(38.2)	(21.3)	(14.3)
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(30.0)	(16.3)
Tax		0.9	0.5	0.3	0.8
Profit After Tax (norm)		(37.6)	(37.8)	(21.1)	(13.6)
Profit After Tax (FRS 3)		(42.7)	(40.6)	(29.7)	(15.5)
Average Number of Shares Outstanding (m)		75.4	84.8	101.3	123.2
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.21)	(0.11)
EPS - normalised (SEK)		(0.50)	(0.44)	(0.21)	(0.11)
EPS - (IFRS) (SEK)		(0.57)	(0.48)	(0.29)	(0.13)
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-36.6	-41.1	-11.1	-1.3
Operating Margin (before GW and except.) (%)		-39.7	-49.3	-16.2	-5.0
BALANCE SHEET					
Fixed Assets		396.8	436.9	435.5	437.8
Intangible Assets		392.6	418.6	421.4	428.0
Tangible Assets		4.2	4.1	3.1	2.0
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	81.7	82.6
Stocks		6.5	13.1	17.3	22.2
Debtors		10.1	17.7	18.3	23.8
Cash		12.2	52.4	25.8	12.8
Other		27.3	25.2	20.3	23.8
Current Liabilities		(35.6)	(60.5)	(55.9)	(74.4)
Creditors		(35.5)	(60.5)	(55.9)	(74.4)
Short term borrowings		(0.2)	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(16.0)	29.9	29.7
Long term borrowings		(1.2)	(0.8)	42.6	39.8
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	491.2	475.7
CASH FLOW					
Operating Cash Flow		(49.1)	(15.3)	(20.9)	(1.2)
Net Interest		(0.3)	(0.8)	0.1	(0.0)
Tax		0.8	0.4	0.2	0.7
Capex		(2.3)	(13.9)	(10.3)	(15.9)
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	16.8	(15.8)
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(68.4)
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)	(68.4)	(52.6)
Net financial liabilities including lease liabilities			(37.5)	(56.8)	(43.6)

Source: Company reports. Edison Investment Research

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