

Frank Weippert

Lacuna Vermögen

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Investment idea

 **Judges** Scientific plc

Business Overview

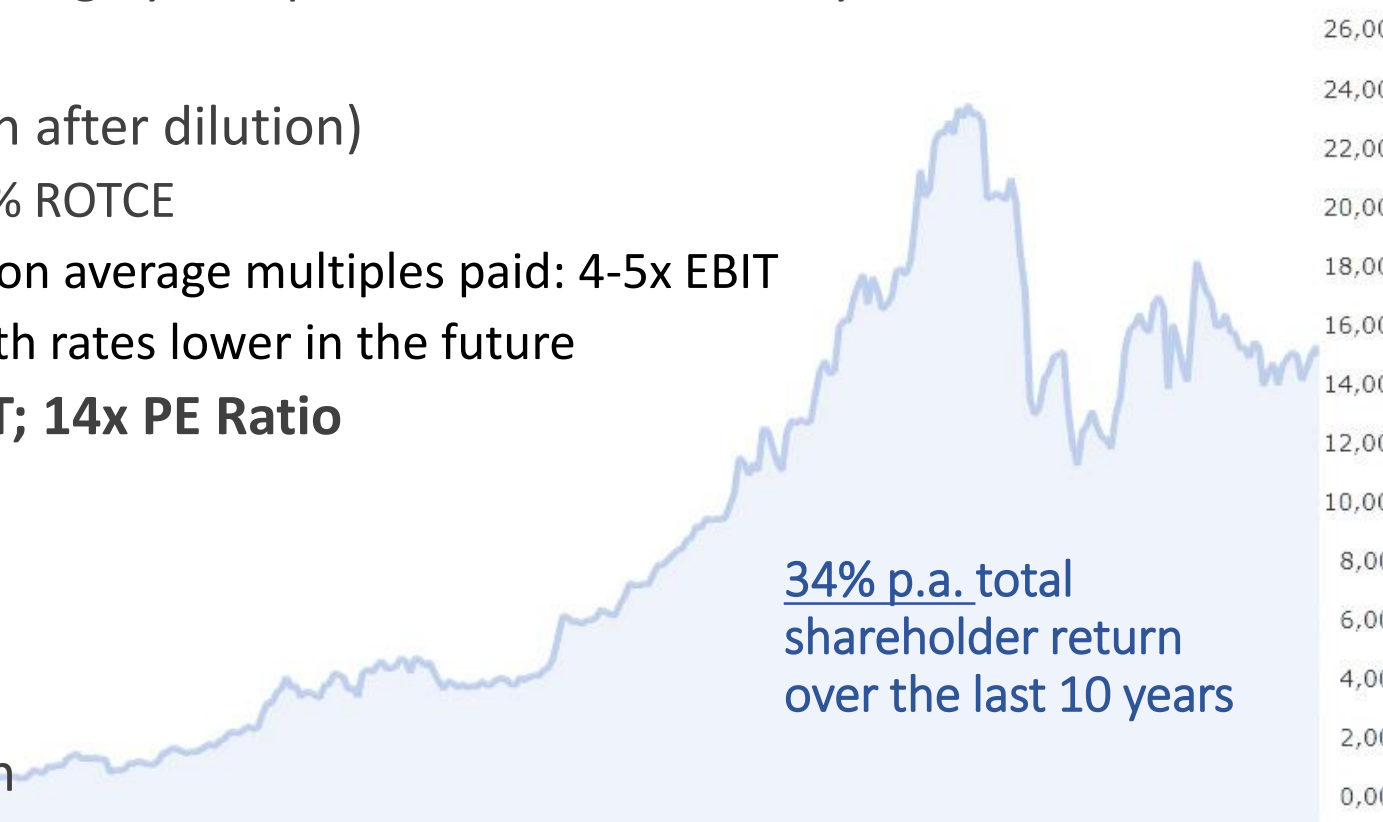
▪ Business

- Judges Scientific is an acquirer of manufacturers of scientific instruments that have dominant market shares in their small niche markets
- High margin business with good moat; largely independent of economic cycle
- Excellent founder manager
- Very strong compounder (20%+ growth after dilution)
 - Organic growth: So far 10% p.a. at 50% ROTCE
 - M&A growth: So far > 10% after dilution average multiples paid: 4-5x EBIT
 - Growth drivers seem intact; but growth rates lower in the future

→ **Valuation attractive at ca. 11x EV/EBIT; 14x PE Ratio**

▪ Other Key Data

- London based; AIM listed (JDG:LN);
- Market Cap: 93m, EV 103m
- Ca. 55m sales with ~ 17% EBITA Margin



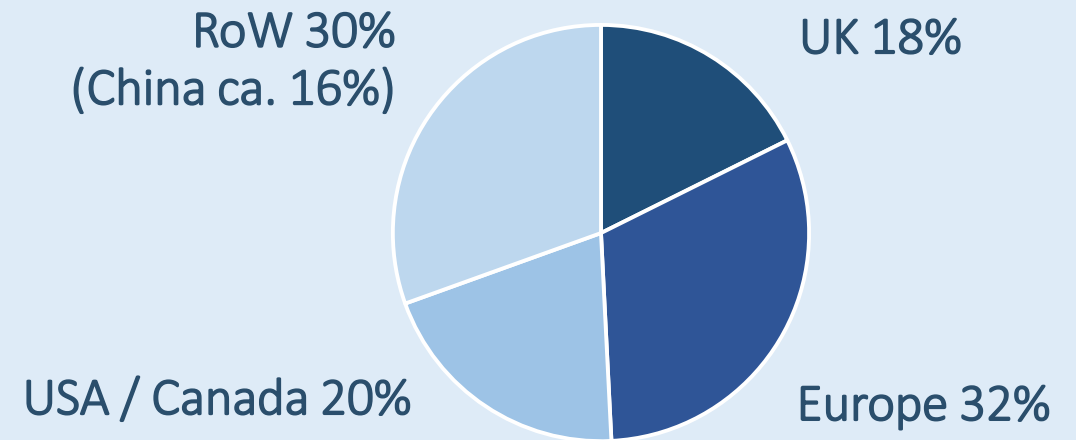
**34% p.a. total
shareholder return
over the last 10 years**

History

- 2002 – David Cicurel starts Judges Capital with GBP 0.5m of own money and 2.0 m from family and friends.
- 2005 – After initial struggles he finds a very attractive private equity deal in the field of scientific instrumentation – “Fire Testing Technology”:
 - World market leader with little competition
 - Stable business with high margins and some organic growth
 - Bought for 4.6x EBIT (thereof 3x EBIT financed by banks – payback < 6 years)
- Sees a universe of several hundred similar companies in the UK
- → **“Judges Scientific” IS BORN!**

The Business

- Today 10 subsidiaries (all UK based)
 - No strong integration
 - Global niche markets for scientific instruments
 - High market shares
- Global sales: > 80% share of exports
- Products
 - No ultra-hightech (4-5% R&D Quota)
 - prices range from a couple thousands up to 500k GBP
 - last for 10 or more years
 - No material recurring revenues



The Business

- Customers:
 - 60% universities (mostly public spending)
 - 40% R&D departments and testing companies
- Customer Interface
 - Call point: Researcher of Professor
 - Purchasing Department just as gatekeeper
 - Good relationships and good reputation is important
 - Mix of direct and indirect sales
- Moat from years of product improvement, good reputation and customer relationships in very small niche markets



Management

- Founder David Cicurel still biggest shareholder with 15% of shares
- Hard Facts
 - Very strong track record by all metrics
 - Good Understanding of capital allocation - very patient deal maker
 - ROTCE as key metric for the business
- Soft Facts - Honesty / Integrity:
 - Always talks about „we“ when talking about successes
 - Language in annual report: „Your company...“, „your board“.
Right mindset towards all shareholders
 - Thinks long term about every aspect of the business
 - Strong “Inner Scorecard”. Not driven by the city
 - Buffett / Munger as idols



David Cicurel (CEO)



Brad Ormsby (CFO)



David Barnbrook (COO)

Organic Growth

Last 7 years

- Last 10 years ca. 10% p.a.
 - Driven by
 - Growth in Universities
 - More R&D and certification in private sector
 - Little growth capex needed (50% ROTCE)
- Excellent compounder

- Recent weakness from
 - Weak public spending
 - Regional factors
 - Strong sterling

Future

- Effect of austerity hard to forecast but political willingness to continue to invest in R&D
- Short term can always be lumpy
- Long term growth may be lower than in the past but growth drivers seem intact

	2008	2009	2010	2011	2012	2013	2014
Organic Growth Rates:	14.5%	20.0%	14.0%	15.0%	7.5%	4.3%	-2.9%

M&A Growth

Last 7 years

- Disciplined approach with ca. 1 acquisition p.a. → No mistakes yet
- Goal: Biggest acquisitions possible without issuing additional shares
- Multiples paid: ca. **4-5x EBIT**
- Often succession Issues
- „Good home“ philosophy

~ 20% M&A growth p.a.
with ca. 8% dilution p.a.

Future

- Plenty of targets left: 170 scientific instrumentation companies with turnover > 5m in UK, further possibilities abroad.
- EBIT Multiple will likely rise to 5-7x EBIT due to increased scale and therefore competition from PE and competitors

Still ~ 10%+ growth possible without dilution (see Valuation)

Risks

- Further cuts in public spending possible & sales can be deferred (little recurring revenue). Can result in one or more a bad years if all regions are weak
- Failed acquisition always a possibility
- CEO succession
 - David Cicurel is 66 years old
 - Wants to, and can continue
 - Wants to continue: Loves his job. Charlie Munger as idol
 - Can continue: Mentally & physically fit (I personally cardio tested him when we tried to catch a train ;-)
 - If he was to retire
 - Operationally: No impact on existing businesses
 - M&A: Hard to find an equally skilled deal maker. However, Judges doesn't seem dependent on the relationships David has
 - List of potential successors exists. According to CEO all capable and willing to do the job

Valuation (numbers as of Jan 4th)

Share Price (GBP)	15,25
# of shares	6,1m
Market cap	93m
Net debt	10m
EV	103m

Revenue*	55m
EV/Sales*	1,9x
EBITA* (17% Margin)	9m
EV/EBITA*	11x
PE Ratio*	13,5x

*All numbers assume a full contribution of all subsidiaries and are adjusted for acquisition related amortization.

Expected Return

OE Yield (OE/EV) w/o growth	7,1%
Dividend	0,9%
Org. growth	5,0%
M&A growth (at 5,5x EBIT)	10,6%**
Expected Return	16,5%

**assumes all cash left after dividend and growth capex gets reinvested into M&A. Does not assume additional debt (with additional debt growth from M&A would be ca. 2-3% higher).

Contact

Frank Weippert

Lacuna Vermögen GmbH
Ziegetsdorfer Str. 109
93051 Regensburg, Germany

Tel.: +49 941 699260

Mobile: +49 176 99995625

info@frankweippert.com

More info: www.frankweippert.com

