

# Trackwise Designs

**Technology**
**18 September 2020**

## First series production order for IHT

Trackwise Designs has signed a three-year product manufacture and supply agreement with a UK electric vehicle OEM. The agreement is potentially worth up to £38m in total, subject to pricing revisions, and will generate up to £5.0m in revenues in FY21. This will be the first full series production of flexible circuits incorporating Trackwise's Improved Harness Technology (IHT). The agreement represents a step change in sales as total revenues for H120 were £2.4m, of which IHT was only £0.3m.

### Ramping up production for automotive sector

The agreement commences in January 2021. It follows on from the £0.6m order announced in February 2020, which supported the start of vehicle production and was awarded on the completion of successful funded development activities during FY19. The IHT-enabled power and balance flexible circuits are being used for both high- and low-voltage circuits in the electric vehicles' batteries where it reduces the part count and assembly time, and saves on space and weight.

### Medical and aerospace sectors to follow

Management expects that the transition to volume production for the EV OEM will be followed by ramp-ups for customers in other sectors. Trackwise is collaborating with five medical catheter customers on development work, some of which it expects will convert to production volumes during FY21. Its ongoing collaboration agreement with GKN Aerospace on ice protection systems could potentially lead to production volumes by FY23. Trackwise is in the process of transferring most of its RF production to Stevenage Circuits, acquired in March 2020, so it can increase IHT production capacity at its Tewkesbury site to support anticipated demand.

### Valuation: Need to focus on IHT potential

First half revenues, while up 55% y-o-y, imply a reduction in FY20 consensus estimates. Our peer multiples-based analysis shows Trackwise's shares trading towards the upper end of the range of year 2 P/E multiples for our sample of advanced printed circuit board manufacturers (mean is 13.6x, with CMK at 21.3x and KCE Electronics at 26.2x). This suggests that the shares would be fairly priced at current levels if Trackwise was merely another specialist printed circuit board (PCB) manufacturer rather than the inventor of a disruptive technology such as Ceres Power or Ilika. However, this approach fails to recognise the potential of the IHT business. We will explore the value ascribable to this activity in our initiation note following the publication of interims next week.

#### Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)
12/18	3.5	0.6	0.3	2.2	0.0	52.5
12/19	2.9	0.6	0.2	2.1	0.0	55.0
12/20e	9.7	1.9	0.8	4.4	0.0	26.3
12/21e	14.7	3.0	1.4	7.2	0.0	16.0

Source: Refinitiv

**Price** 115.5p  
**Market cap** £26m

#### Share price graph



#### Share details

Code TWD  
Listing AIM  
Shares in issue 22.1m

#### Business description

Trackwise is a UK manufacturer of specialist products using printed circuit technology. These include a lightweight replacement for conventional wiring harnesses known as IHT (Improved Harness Technology) and RF (radio frequency) antennae. 64% of FY19 revenues related to exports.

#### Bull

- Proprietary IHT technology reduces weight in aircraft, electric vehicles and other applications.
- IHT replaces cables in catheters, simplifying production.
- Demand for RF circuits will benefit from roll-out of 5G infrastructure.

#### Bear

- Demand for RF circuits affected by uncertainty caused by US/China trade war.
- Length of time to gain approvals in aerospace.
- Coronavirus pandemic reducing air travel, potentially affecting investment in innovation in aerospace sector.

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