UNION SECURITIES INTERNATIONAL

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GLOBAL EQUITY RESEARCH

TECHNOLOGY

Eurocontrol Technics Group

Reuters/BBG	EUO V/EUO CN
Index	TSXV
Sector	Technology
Market Cap	C$17.9m
Shares in Issue	92m

Performance	**TSXV**	**Absolute**
1 month:	-28.0%	-18.2%
3 months:	-12.3%	+12.5%
12 months:	+211%	+200%
High/Low	22¢/5¢	

Last Results	Full Year – 29th Apr 2016
Next Results	1Q'16 – 30th May 2016

Source: Google Finance

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Marketing Communication

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Eurocontrol Technics Group is a Toronto Venture exchange listed company. It specialises in the acquisition, development and commercialisation of innovative security, authentication, verification and certification technologies. The company has two wholly owned subsidiaries Xenemetrix Ltd. and XwinSys Technology Development Ltd. Xenemetrix designs and manufactures energy dispersive x-ray fluorescence (ED-XRF) systems, which determine the chemical composition of materials. XwinSys is developing technology and intellectual property that uses 2D and 3D technology with Xenemetrix's technology for application in the semiconductor manufacturing process. We have valued Eurocontrol using NAV for the constituent parts of the business including the recently divested fuel marking business run by Eurocontrol's former subsidiary Global Fluids International (GFI) S.A. which should continue to provide a useful source of income as a result of the earn-out terms negotiated on the sale of the subsidiary which closed early January 2016. Based on the sale value of GFI alone (C$0.23/share) Eurocontrol stock is trading at a discount. Our core value of the business is C$0.74/share, and bluesky value is C$1.28/share. Our bluesky value incorporates value for Xenemetrix and XwinSys.

Eurocontrol is currently trading below the value of its recently completed GFI deal with SICPA, a global leader in security solutions and product and brand protection. **We believe this disparity has more to do with its small cap status than anything affecting the future growth prospects of the company.** Prospects for growth are good given the fact that GFI is expected to continue to generate cash flow for Eurocontrol despite its divestment of GFI to SICPA. The cash consideration paid by SICPA was C$16 million less the C$250,000 deposit, less $395,595 in transaction payments, less $984,128 in settlement of loan amounts owing by Eurocontrol to certain former shareholders of GFI and a working capital adjustment of $47,489. Post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts, inclusive of both marker and logistics, entered into by it following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction, with a minimum guaranteed of $1.5 million per year for the Earn-out Period (implying a total payment of at least $9m). Additional post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts. In addition, Xenemetrix has a lucrative sales agreement in place with SICPA, as part of this agreement. XwinSys, has not been a contributor to revenues but has invested in research and development, which have positioned this business to generate profits in 2016. SICPA, a private Swiss company with 35 offices and 3,000 staff managing customers in over 100 jurisdictions recently announced that it is a 10%+ shareholder in Eurocontrol.

Based on the SICPA/GFI deal alone, Eurocontrol is trading at a discount to its current share price. Beyond this, future growth prospects are bright given the strategic alliance with SICPA. Additional growth from other high margin business lines like Xenemetrix is also apparent. Xenemetrix recently signed a MOU with Netafim, an Israeli based company that is a global leader in drip and micro-irrigation solutions for sustainable agricultural productivity, to develop a unique and innovative testing system utilising Xenemetrix's ED-XRF technology for farmers and the greater farming community.

We have valued Eurocontrol using a traditional NPV analysis which applies a WACC of 9.1% based on a risk free rate of 1.87% (10 year US Treasury Bills), Equity Risk Premium of 6.25% for Canadian Equities, and a Beta of 1.16 (based on a one year share price and market daily data). Since the company is debt free, the derived WACC is entirely based on our estimated cost of equity which is 9.1%.

Our NAV is divided into five components

Our implied net asset value is divided into five components, namely cash flows from GFI, which includes the existing net cash derived from the divestment of this business to SICPA. In addition new business from the SICPA/GFI platform is value enhancing given the global scale of SICPA's business. Xenemetrix will also benefit from this and this also provides additional value. Our core value is based on existing cash flows being derived from GFI and SICPA/GFI which has an implied value of C$0.74/share. Our bluesky value includes Xenemetrix and XwinSys values, which increases this to C$1.28/share.

Table 1: NAV Summary

Line of business	NPV C$(m)	NPV/share	Core Assumptions
GFI	21.0	0.23	C$1.5m paid over 6 years
SICPA/GFI	47.3	0.51	5% earn out
Xenemetrix-SICPA business	14.5	0.16	40% gross margin
Xenemetrix- new business	17.9	0.20	40% gross margin
XwinSys	16.7	0.18	40% gross margin
Total (Core & Bluesky value)	117.5	1.28	9.1% WACC applied throughout
Core Value (GFI, SICPA/GFI)	68.3	0.74	Based on current revenues

Source: Union Securities International

Eurocontrol has many strengths

Our SWOT analysis offers a quick overview to summarise our main thoughts on Eurocontrol. It is clear that the business has a lot of strengths currently that could position it well to crystallise shareholder value through existing and future sales contracts.

Importantly Eurocontrol has patents secured on its technology. Recently, XwinSys was granted a patent in the US to cover its method and systems to inspect voids in a bump, which is applied to semi conductor wafers to improve product quality. The business having maiden profits in its recently reported FY 2015 results is also debt free and has a substantial cash pile of over C$14m on its balance sheet, which could be invested in further growth opportunities globally.

Fig 1: SWOT Analysis

Strengths	**Weaknesses**
Strong working partners in Israel	Trades on TSX-V, an index with perceived low liquidity
Patents on technology secure	Largely reliant on SICPA for current cash flow
Innovative and committed to R&D	
Global market for products	
Large cash position on B/S	
No debt	
Opportunities	**Threats**
Expansion into new markets globally	Technological risk
Acquisitions	Commercialisation of ED-XRF technology

Source: Union Securities International

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