

Action Summary – 4 October 2021

Analyst Theodore R. O'Neill **MBH Beats 1H21 estimates on 81% revenue growth – Reiterating our Buy rating and \$10 PT**

- **Solid beat for 1H21.** The company reported revenue and EPS of £49.6MM and £0.026, respectively. We had been looking for revenue and EPS of £40MM and £0.001, respectively. There is no consensus. The £0.025 favorable EPS variance was due to higher revenue, gross profit, non-operating and discontinued earnings partially offset by higher expenses.
- MBH is a holding company actively building a portfolio of profitable, earnings accretive, debt-free small-to-medium enterprises (SME) that are expected to have a higher-than-normal growth profile as part of a larger organization. As we expected, these businesses were positioned to benefit from revenue acceleration as COVID immunizations improved, loosening lockdown requirements.
- **Multiple paths to growth.** In addition to organic, and accretive growth through acquisitions, those companies, as part of a larger organization, can compete more successfully for larger orders or higher volumes.
- **Revising estimates.** We are raising our FY21 revenue to £101.6MM from £90MM due primarily to the improved 1H21. We are lowering our FY22 EPS estimate to £0.10 from £0.15 due to rising operating expenses.
- **Attractive valuation.** While our price target is significantly above where the stock has traded, it is based on what we believe is a conservative view on the discounted value of all future earnings even with the assumption of a large increase in share count as it continues to grow through acquisition. The shares trade significantly below peers. It currently has 2022 PE of 3.3

10/1 Closing price: \$0.33	Market cap: \$25 million	2022 PE: 3.3	2022 EV / Sales: 0.50
Shares outstanding: 75 million	Insider ownership: 70%	OTC avg. trading volume: 4,500	Dividend/Yield: 0.005 EUR / 1.8%

GAAP estimates GBP (Revenue in millions)

Period	EPS	Revenue	Op Margin
FY19A	<u>£0.10</u>	<u>£50.8</u>	<u>7.8%</u>
1H20A	£0.01	£27.4	1.2%
2H20A	<u>£0.01</u>	<u>£33.0</u>	<u>(3.2%)</u>
FY20A	<u>£0.02</u>	<u>£60.4</u>	<u>(1.2%)</u>
1H21A	£0.02	£49.6	2.3%
2H21E	<u>£0.02</u>	<u>£52.0</u>	<u>3.4%</u>
FY21E	<u>£0.04</u>	<u>£101.6</u>	<u>2.9%</u>
1H22E	£0.04	£60.0	5.7%
2H22E	<u>£0.06</u>	<u>£80.0</u>	<u>8.4%</u>
FY22E	<u>£0.10</u>	<u>£140.0</u>	<u>7.2%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in millions)

• 2019A	• £4.5
• 2020A	• £6.2
• 2021E	• £10.0
• 2022E	• £4.0

Debt (in millions)

• 2019A	• £0.7
• 2020A	• £29.9
• 2021E	• £35.0
• 2022E	• £40.0

Adj. EBITDA (in millions)

• 2019A	• £4.0
• 2020A	• £0.7
• 2021E	• £2.8
• 2022E	• £11.6

Risks/Valuation

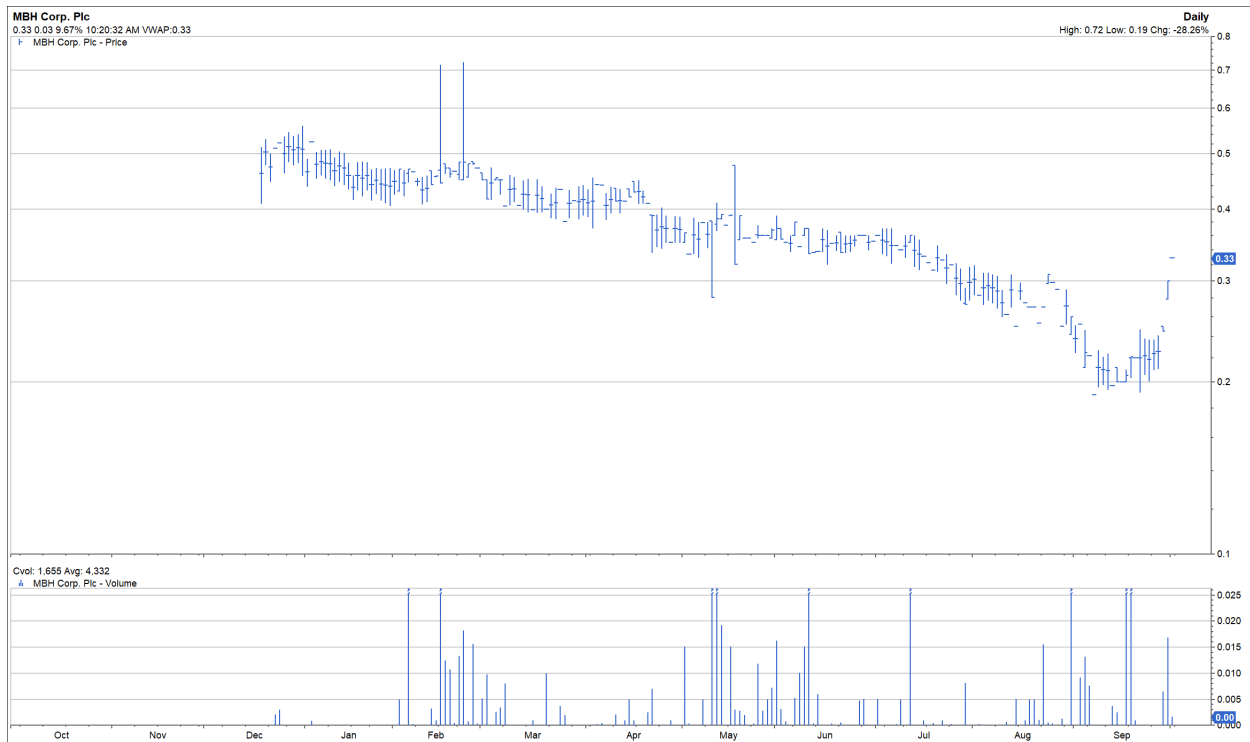
- Risks include: Macro-economic conditions, loss of talent, COVID impact, trading volume is low on OTC
- Our \$10.00 target is derived using a discounted future earnings model

Company description: HQ in London, MBH Corporation PLC is a diversified investment holding company, listed on the Frankfurt and Dusseldorf Stock Exchanges and the OTC market in the US. The company acquires small to medium enterprises across multiple geographies and sectors that are well established, profitable and looking to scale.

Trading History

The shares have traded on the OTC since December 2020 so the short history of trading and low volume on that exchange is not unusual (see Figure 1). The company has been public since early 2018 and has a rich history of trading and volume in Europe (see Figure 2).

Figure 1 – MBH Corporation PLC – Trading on OTC since December 2020



Source: FactSet

Figure 2 –MBH Corporation PLC – 1-Year Trading History (USD)



Source: FactSet

Valuation Methodology

We believe MBHCF is undervalued and we support that belief with two valuation techniques, both of which suggest the shares are undervalued at the current price. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 3)
- 2) Valuation relative to peers (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$10.00 (€7.00) is based on a discounted future earnings model (Figure 3). For the purposes of deriving an earnings-based price target, we assume the company continues to grow and that growth decline over time to the same rate as GDP. The model sums up all earnings per share, discounted at 7% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is £6.99, which we round up to £7.00 and at 1.40 conversion equals \$9.80, which we round up to \$10.00.

Figure 3 – MBH Corporation PLC– Implied Price Target Calculation

Discounted Earnings			£6.99
	Year 1 is 2021	Forecast EPS	Discounted EPS
	1	0.04	£0.04
	2	0.10	£0.08
	3	0.30	£0.23
	4	0.45	£0.31
	5	0.60	£0.37
	Terminal Value		£5.96

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare MBHCF to a simple average of its peers (Figure 4), the shares sell at a significant discount on every metric. These metrics indicate the stock price should be more than 100% higher than where it is today. This supports our \$10 price target. If the shares traded for \$10.00 today, its 2022 Sales Multiple would be 3.8 which would be just below the average of 3.99x. Details on each of the peers can be found in Figure 6. The companies we used in Figure 6 are in similar lines of business although none of them are a perfect match.

Figure 4 – MBH Corporation PLC– Summary Discount to Peers

2022 Metrics	Market Cap / Sales	PE	EV / Sales	EV / EBITDA
Average	4.17	19.77	3.51	19.93
MBH	0.11	1.78	0.50	6.03
Discount to peers	97%	91%	86%	70%

Source: Litchfield Hills Research LLC and FactSet

Quarterly Results

As shown in Figure 5 (below), The company reported revenue and EPS of £49.6MM and £0.026, respectively. We had been looking for revenue and EPS of £40MM and £0.001, respectively. There is no consensus. The £0.025 favorable EPS variance was due to higher revenue, gross profit, non-operating and discontinued earnings partially offset by higher expenses.

Figure 5 MBH Corporation PLC – Variance Analysis (£ in thousands except per share)

	2021	2021	
	Q2E	Q2A	Better/(worse) than forecast
Income Statement			
Total Revenue	£40,000	£49,647	£9,647
Total cost of revenue	<u>31,400</u>	<u>37,943</u>	(6,543)
Total Gross Profit	8,600	11,704	3,104
Operating expenses:			
Sales & Marketing	8,000	9,789	(1,789)
Administrative expense	650	765	(115)
Total Expenses	<u>8,650</u>	<u>10,554</u>	(1,904)
Earnings (loss) from Operations	(50)	1,150	1,200
Total Other income/(expense)	<u>100</u>	<u>833</u>	733
Earnings before taxes	50	1,983	1,933
Tax expense/(benefit)	<u>5</u>	<u>296</u>	(291)
Profit from continuing operations	£45	£1,687	£1,642
Profit from discontinued operations	<u>£0</u>	<u>£272</u>	<u>£272</u>
Total profit	<u>£45</u>	<u>£1,959</u>	<u>£1,914</u>
Diluted EPS from continuing operations	£0.001	£0.022	£0.022
Diluted EPS from total profit	£0.001	£0.026	£0.025
Diluted common shares	71,200	75,352	4,152

Source: Company filings and Litchfield Hills Research LLC

Notes on our Financial Forecasts

Obviously, the company does not report in US GAAP, however, what we show in our published financials is our best translation into US GAAP. Because our financial model's, income statement, balance sheet and cash flow are fully integrated and rely on GAAP data, we may have to infer some balance sheet or income statement items in order to tie it all together. When we do that, we make the adjustment in the last line in the cash flow.

You will note in our forecasts that we have made generous assumptions about the growth in share count.

Company Overview

Begun in 2018, MBH is a holding company that is building a portfolio of profitable, earnings accretive, debt-free small to medium enterprises (SME) that are expected to have a higher-than-normal growth profile as part of a larger organization. Unlike traditional models, MBH are neither looking to 'strip and flip' the businesses it acquires, nor is it about proving its managerial skills by buying struggling businesses and hoping to turn them around where others have failed. It also has no plan to merge all the businesses into one cohesive brand with centralized command and control structure. Its decentralized approach, allows the entrepreneurs that built their businesses to continue to grow them in the way they see fit. It allows MBH nearly unlimited flexibility to scale and bring disparate businesses from different sectors and geographies under one holding group.

The businesses that it seeks for acquisition are typically many years old, with a good track record of profits and typically still run by the founder who often has decades of experience in their industry. Inevitably before finding MBH, these founders will have talked to other buyers in the marketplace. Big competitors, Private Equity firms and the like. The reason they are still independent when they come to MBH is that they value their independence. They like the way they do business; they like their team and the way it works together. Their

brand might not mean much outside of their country or even their niche, but it is their brand and their clients trust it. They have no interest in selling to others but will come to MBH because it allows them to scale in their own way. Ensuring that MBH keeps that promise to the Founders that join is the key to attracting them in the first place and the result of attracting them offers MBH the chance to arbitrage the price a small business can be acquired for and the price a big PLC typically trades at. The primary purpose of existence is to provide a platform for those excellent, cash producing businesses to thrive under the ownership of MBH. Most of the shareholders in MBH are the founders themselves and they have visibility of their own contribution and the contribution of the other founders in MBH.

The model is ultimately very simple:

- Allow good, well-run businesses to swap their private shares for public shares but continue to run their business as before. As co-owners of MBH they too benefit when it brings in other companies and enjoys the value creation afforded in the P/E arbitrage.
- Provide the businesses with the corporate governance tools, resources and infrastructure for the acquired companies to grow
- Strongly incentivizes the management of acquired companies to improve their financial results and organic growth
- Providing financial systems and business process optimization to support the acquired companies

For its target companies, MBH is sector agnostic. It is focused on a small percentage of the top performing small businesses that are owner operated and well run. As a 'buy and hold' strategy it is looking for long term sustainable entities.

Acquisition Specifics

MBH Acquires 100% ownership of owner operated, profitable, cash generating small businesses across multiple industries and geographies. Target companies have EBIT's of \$1MM to \$10MM and MBH does not pay more than 5x EBITDA + NAV. All consideration is paid in locked up stock or bonds. No cash is used. For the founders of these businesses, merely being part of a PLC levels the playing field with the big corporates they are competing against. This, in of itself, should lead to organic growth. However, it is not solely dependent on that as MBH can both scale up by acquiring like businesses and through synergies with other MBH companies. Its ultimate aim is to end up with many of the best small businesses across multiple sectors and geographies.

Business owners' interests are aligned with the interests of MBH and are compensated in accordance with their contribution to profits. Bonus shares (3x incremental) are issued to the contributing businesses if they are able to achieve better results than date of acquisition. Allocated shares are locked up for one year from issue date with an Orderly Market Agreement to protect mass selling of shares in the Company for a further three years from date of lock up. If the business does not perform in its first year with MBH it reserves the right to unwind the deal at no cost to protect structural integrity and value for all shareholders.

While the constant creation of shares is dilutive, each acquisition is structured to be EPS accretive. MBH also has the option to acquire companies by issuing interest bearing debt, which it has done in 2020 and 2021.

Figure 6 – MBH Corporation PLC – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples (Except book multiple)				
					Market Cap / Sales	PE	EV /Sales	EV / EBITDA	Price to Book
BDVSY-US	Bidvest Group Ltd (Adr 1:2)	\$25.24	4,295	6,346	0.61	11.02	0.89	12.49	2.53
RILY-US	B. Riley Financial, Inc.	\$59.22	1,633	571	NA	NA	NA	NA	2.22
CODI-US	Compass Diversified Holdings	\$28.55	1,853	3,287	0.94	11.03	1.67	11.03	1.59
RAVN-US	Raven Industries	\$57.61	2,069	2,098	4.12	40.29	4.16	40.29	3.49
BOMN-US	Boston Omaha Corp.	\$38.96	1,111	888	18.52	65.73	13.21	65.73	1.87
SPLP-US	Steel Partners Holdings LP	\$28.47	614	3,730	NA	NA	NA	NA	0.46
HCHC-US	INNOVATE Corp (US Listing)	\$4.14	322	1,023	NA	NA	NA	NA	0.45
SWKH-US	SWK Holdings Corp.	\$18.91	242	234	4.52	6.92	4.36	6.92	0.77
CRAWA-US	Crawford United Corporation	\$32.00	86	139	NA	NA	NA	NA	2.21
ELLH-US	Elah Holdings, Inc.	\$100.01	74	60	NA	NA	NA	NA	3.82
GEG-US	Great Elm Group Inc	\$2.19	57	59	NA	NA	NA	NA	1.07
STRR-US	Star Equity Holdings Inc	\$2.66	14	47	0.12	11.32	0.41	11.32	0.93
GSC1-DE	GESCO AG	\$29.62	321	395	0.54	11.47	0.66	11.47	0.92
INH-DE	Indus Holding AG	\$38.68	1,040	1,692	0.50	10.52	0.78	10.52	1.16
DBAN-DE	Deutsche Beteiligung AG	\$42.11	792	587	7.65	9.62	5.48	9.62	1.10
EVER-RO	Evergent Investments S.A.	\$0.34	334	280	NA	NA	NA	NA	0.62
	AVERAGE				<u>4.17</u>	<u>19.77</u>	<u>3.51</u>	<u>19.93</u>	<u>1.58</u>
M8H-DE	MBH Corp. Plc	\$0.25	18	70	0.13	1.77	0.50	6.03	0.44
	M8H-DE Discount to peers:				-97%	-91%	-86%	-70%	-72%

Figure 7 – MBH Corporation PLC – Income Statement (000)

December year-end	2018	2019A	2020A		2020A	2021E		2021E	2022E		2022E
	Year	Year	1H20A	2H20A	Year	1H21A	2H21E	Year	1H22E	2H22E	Year
Total revenue	£12,511	£50,780	£27,367	£33,034	£60,401	£49,647	£52,000	£101,647	£60,000	£80,000	£140,000
<i>Growth</i>		306%			19%	81%	57%	68%		54%	38%
Cost of Goods	8,672	38,572	21,723	26,025	47,748	37,943	39,520	77,463	45,600	60,800	106,400
Gross Profit	3,839	12,208	5,644	7,009	12,653	11,704	12,480	24,184	14,400	19,200	33,600
Gross Margin	30.7%	24.0%	20.6%	21.2%	20.9%	23.6%	24.0%	23.8%	24.0%	24.0%	24.0%
Administrative Expense	2,280	8,094	5,216	7,492	12,708	9,789	10,000	19,789	10,500	12,000	22,500
% of total revenue	18%	16%	19%	23%	21%	20%	19%	19%	18%	15%	16%
Finance costs, net	20	128	104	590	694	765	700	1,465	500	500	1,000
% of total revenue	0%	0%	0%	2%	1%	2%	1%	1%	1%	1%	1%
Total Operating Expenses	2,300	8,222	5,320	8,082	13,402	10,554	10,700	21,254	11,000	12,500	23,500
Operating Income	1,539	3,986	324	(1,073)	(749)	1,150	1,780	2,930	3,400	6,700	10,100
Operating Margin		7.8%	1.2%	-3.2%	-1.2%	2.3%	3.4%	2.9%	5.7%	8.4%	7.2%
Total Other Items	(121)	(69)	389	1,455	1,844	833	100	933	100	100	200
Pre-Tax Income	1,418	3,917	713	382	1,095	1,983	1,880	3,863	3,500	6,800	10,300
Pre-Tax Margin			2.6%	1.2%	1.8%	4.0%	3.6%	3.8%	5.8%	8.5%	7.4%
Taxes (benefit)	172	299	52	(324)	(272)	296	188	484	350	680	1,030
Tax Rate	12.1%	7.6%	7.3%	-84.8%	-24.8%	14.9%	10.0%	12.5%	10.0%	10.0%	10.0%
Net Income (loss)	<u>£1,246</u>	<u>£3,618</u>	<u>£661</u>	<u>£706</u>	<u>£1,367</u>	<u>£1,687</u>	<u>£1,692</u>	<u>£3,379</u>	<u>£3,150</u>	<u>£6,120</u>	<u>£9,270</u>
Net Margin		7.1%	2.4%	2.1%	2.3%	3.4%	3.3%	3.3%	5.3%	7.7%	6.6%
EPS, as reported	£0.11	£0.10	£0.01	£0.01	£0.02	£0.02	£0.02	£0.04	£0.04	£0.06	£0.10
Diluted Shares Outstanding	11,116	34,937	46,125	64,447	55,286	75,352	80,000	77,676	90,000	100,000	95,000

Figure 8 – MBH Corporation PLC – Balance Sheet (000)

December year-end	FY2022E	FY2021E	FY2020A	FY2019A	FY2018A
Balance sheet					
Current Assets					
Cash and S.T.I.	£3,959	£10,039	£6,217	£4,508	£1,523
Accounts receivable	25,000	20,000	18,953	21,197	8,280
Inventories	7,000	5,000	4,057	172	0
Other assets	6,000	6,000	0	0	0
Total Current Assets	41,959	41,039	29,227	25,877	9,803
Net PP&E	9,000	8,000	7,416	1,150	246
Other non-current assets	4,000	3,000	2,600	2,284	192
Total Assets	£174,959	£153,039	£134,012	£69,066	£42,678
Current Liabilities					
Trade payables	£22,000	£21,000	£15,725	£15,287	£5,382
Contingent consideration	4,000	4,000	3,945	3,258	2,988
Loan and other borrowings	4,000	4,000	4,670	1,072	1,218
Other current liabilities	2,000	2,000	888	719	403
Total current liabilities	32,000	31,000	25,228	20,336	9,991
Interest bearing borrowings	40,000	35,000	29,943	709	484
Other Liabilities	20,000	20,000	19,060	4,740	3,848
Total Liabilities	92,000	86,000	74,231	25,785	14,323
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	0	0	0	0	0
Additional paid-in-capital	65,000	58,000	53,821	38,417	27,109
Retained earnings	17,959	9,039	5,960	4,864	1,246
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	82,959	67,039	59,781	43,281	28,355
Total Liabilities and equity	£174,959	£153,039	£134,012	£69,066	£42,678

Source: Company reports and Litchfield Hills Research LLC

Figure 9 – MBH Corporation PLC – Cash Flow (000)

	FY22E	FY21E	FY20A	FY19A
Net Income	\$9,270	\$3,379	\$1,367	\$3,618
Trade receivables	(5,000)	(1,047)	2,244	(12,917)
Inventories	(2,000)	(943)	(3,885)	(172)
Other assets	0	(6,000)	0	0
Net PP&E	(1,000)	(584)	(6,266)	(904)
Goodwill & Intangibles	(19,000)	(6,231)	(55,014)	(7,318)
Other non-current	(1,000)	(400)	(316)	(2,092)
Trade payables	1,000	5,275	438	9,905
Contract liabilities	0	0	0	0
Contingent consideration	0	55	687	270
Loan and other borrowings	0	(670)	3,598	(146)
Other current liabilities	0	1,112	169	316
Interest bearing borrowings	5,000	5,057	29,234	225
Other Liabilities	0	940	14,320	892
Preferred stock	0	0	0	0
Share Capital	0	0	0	0
Additional paid-in-capital	7,000	4,179	15,404	11,308
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	(350)	(300)	(271)	0
Total Cash Flow	(\$6,080)	\$3,822	\$1,709	\$2,985

Source: Litchfield Hills Research LLC

Disclosures:

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MBH Corporation PLC MBHCF - Buy-\$10.00 (£ 7.00) PT

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