HEALTHY STOCK PICKS

HEALTHCARE SECTOR SPECIALIST

Agfa Gevaert

(AGFB BR)

Healthcare focused conglomerate showing green shoots

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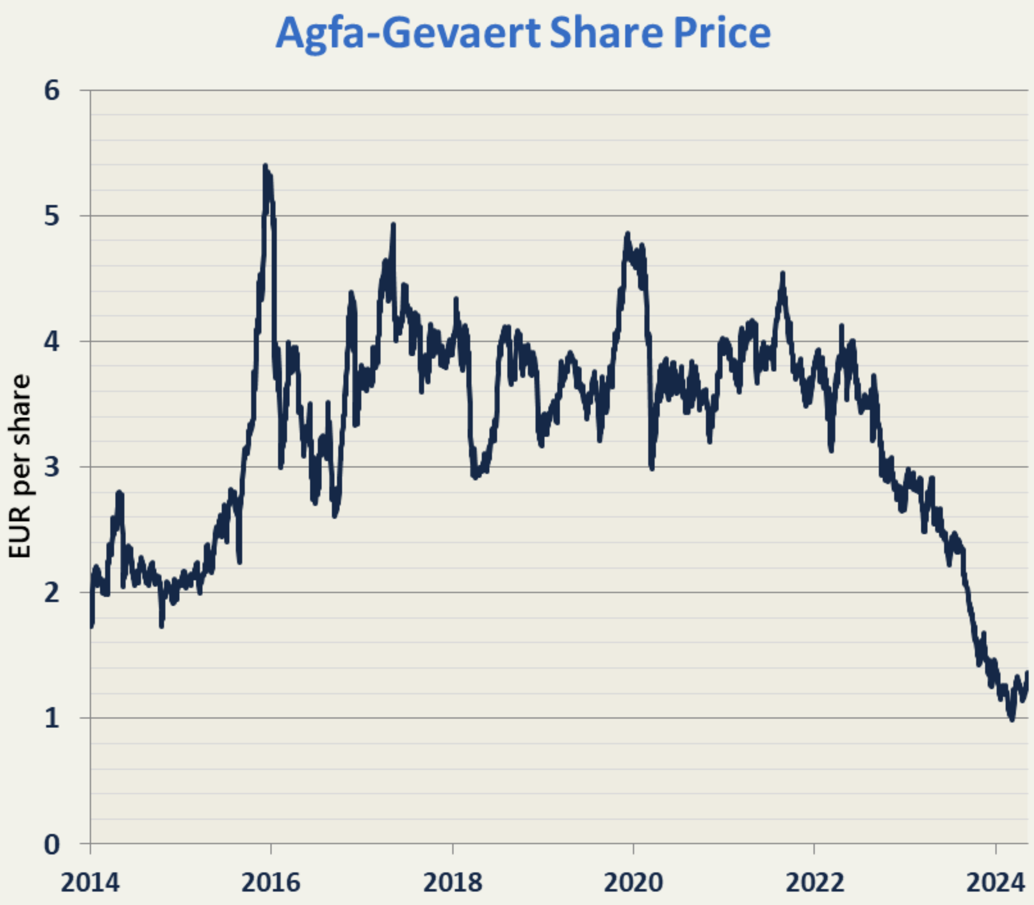
Elevator pitch

- This pitch is not for the faint of heart, as it comes with some hair. Just look at the stock graph and you know, that said I believe there is tons of upside.
- Agfa Gevaert is a 150 year old Belgian conglomerate which has been world leading in film and photo related business. Today it's a micro cap valued at €210m but you get brand recognition and reach like a mid/large cap.
- Active Ownership Capital (a friendly activist) took 7.5% of shares and a board seat in 2018 and has since increased its stake to 19%. It's clear they push to bit by bit dismantle the "old empire building", installing new management & creating a smaller leaner company.
- Agfa has struggled with too many legacy businesses and a large pension burden. By selling down assets and paying off chunks of the pension debt the company is emerging as "investable" again. But market is focusing on a deteriorating Radiology business.
- Cash flow stability can be found in medical imaging software and long term upside in green hydrogen membrane production called Zirfon. Zirfon has been pointed out by independent parties as market leading. ThyssenKrupp a leader in installing hydrogen plants has signed to install Zirfon in their plants.
- Stock price and much of fundamental history looks awful. But with an activist investor, new management team who divested underperforming assets and kept some market leading ones, the stock has discounted too much negatives and none of the positives.



Company Summary

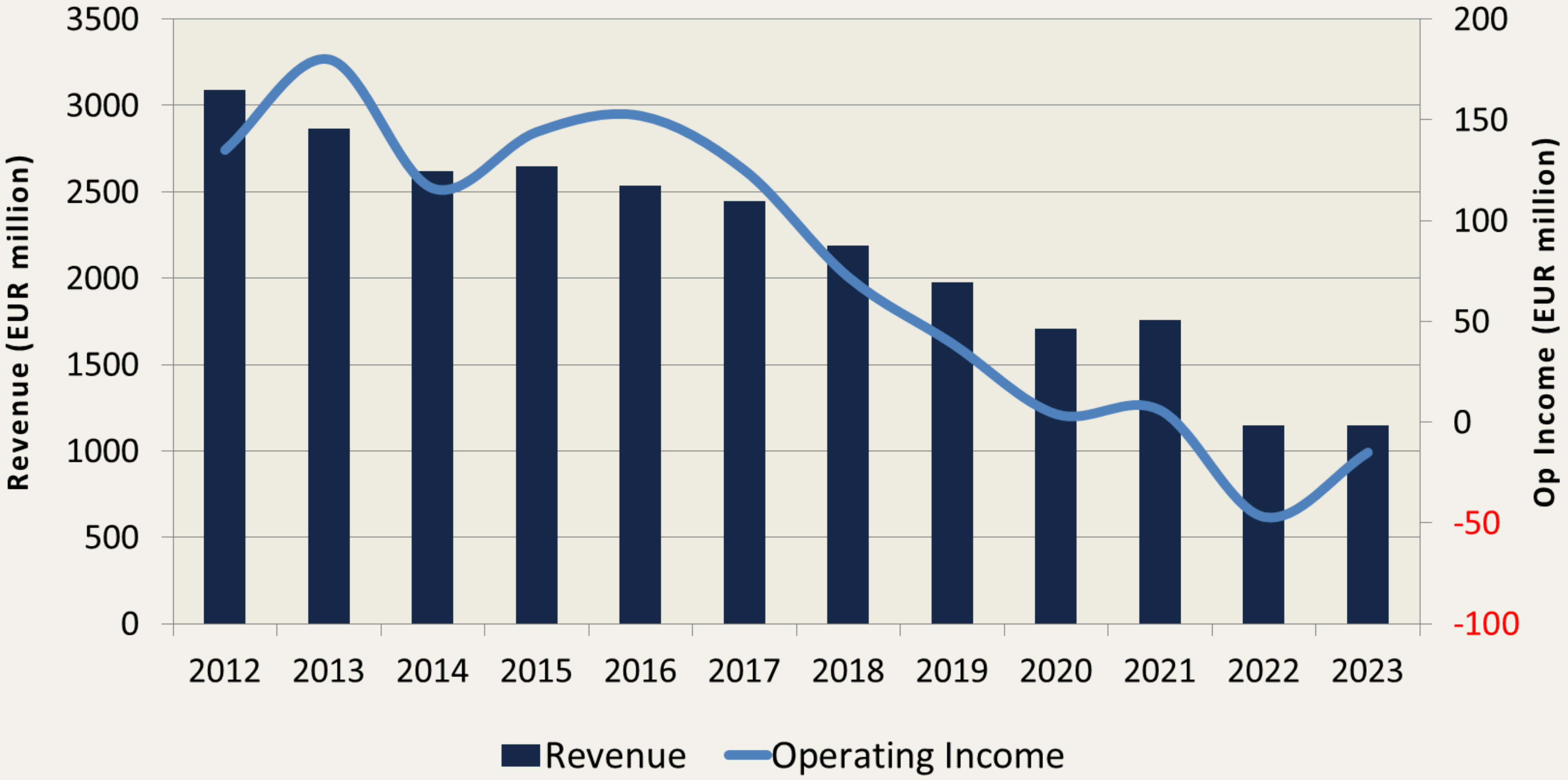
- **Agfa-Gevaert** is as said an old conglomerate which acquired and spun off various entities over its very long existence. Today the company is mainly active in Healthcare and Industrial Printing + Chemicals. The majority of the cash generation comes from the Healthcare side and hence I found it worthy of being covered by Healthy Stock Picks.
- The Healthcare business is split into two part:
    1. Image management software, Agfa is a decently sized player in this fragmented market.
    2. Radiology, X-ray machines of different types and the consumables that comes with it, for example printed X-ray films.
- The Printing + Chemicals business can also be further split:
    1. Printing solutions are industrial. This means huge machines to print for example signs, displays and even fabrics. Within printing hides many niche businesses, for example phototooling (a step in creating circuit boards), where Agfa is global market leader.
    2. Chemicals is for example the after-sales ink to printers but also a new interesting business in Green Hydrogen production.
- A very important factor, in this historically troubled company, is the activist investor who has been involved for the past 5 years and is pushing necessary change.
- Overall there is a lot to unpack in this company, which also means there could be quite a lot of value to find, if one looks closely enough. So let’s look closely.

Capital Structure	
Market Cap (MM)	**€ 210**
Enterprise Value (HK$ MM)	**€ 217**
Shares outstanding (MM)	**155**
Net Debt/EBITDA	**0.21x**
Growth	
Last 3-Yr Rev CAGR	**-12.4%**
Last 3-Yr EBITDA CAGR	**-8.4%**
Last 3-Yr EPS CAGR	**-6.1%**
Efficiency	
LTM EBIT Margin	**-1.3%**
LTM ROA	**-0.6%**
LTM ROE	**-10.9%**
Valuation	
NTM EV/EBITDA	**2.95x**
NTM P/E	**-13.6x**
Dividend Yield	**0.0%**
Last 3-Yr Share count	**-7.7%**

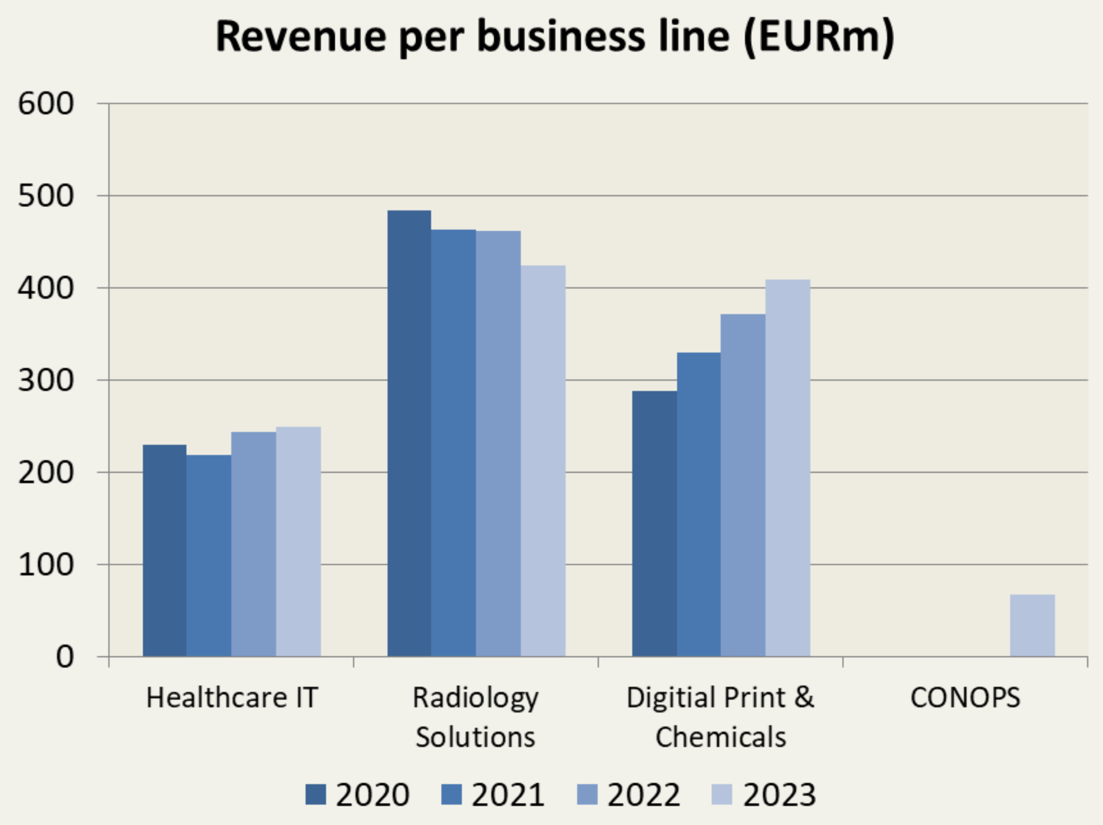
Company History

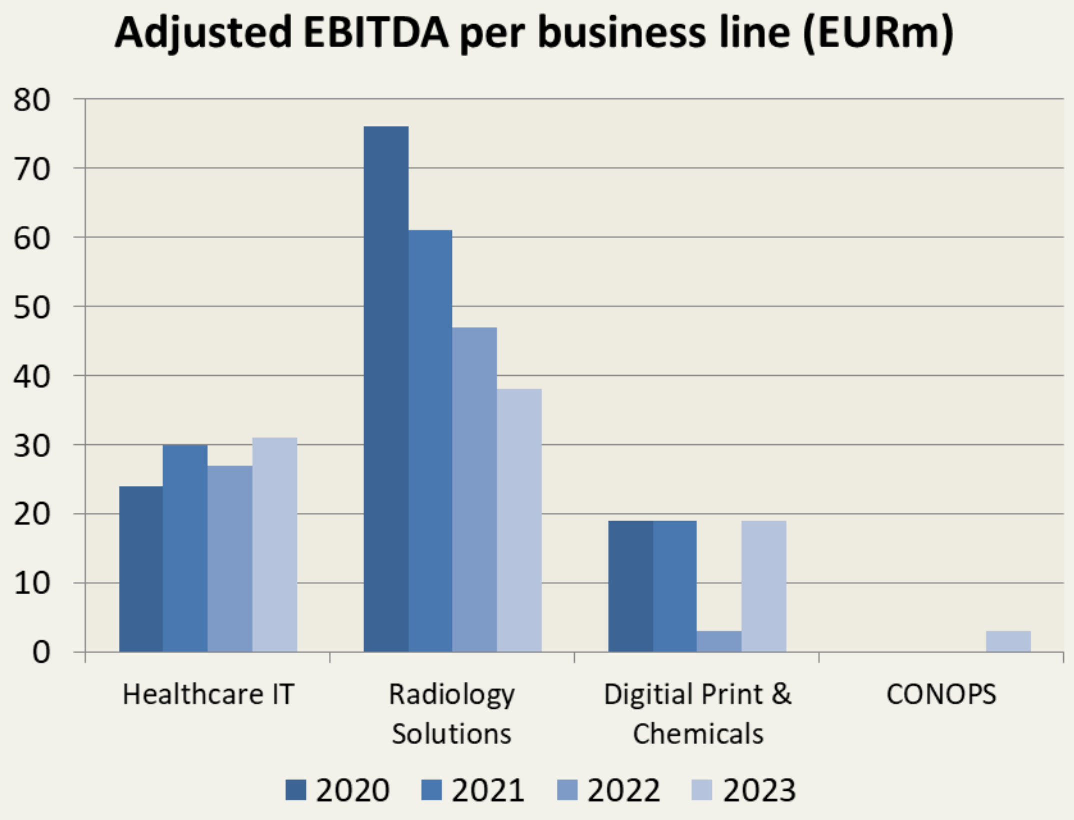
- **1873** – A color dye factory was established at the Rummelsburger See near Berlin registered as the ‘Aktien-Gesellschaft für Anilin-Fabrikation’, AGFA.
- **1894** – In 1890, the 22-year-old Lieven Gevaert established his own workshop in Antwerp (Belgium), which was mainly used for manufacturing calcium paper for photography. Barely four years later, the businessman Armand Seghers helped to establish the limited stock company ‘L. Gevaert & Cie’.
- **1916 – 1936** In 1916 Agfa began developing materials for color photography. In the 1930’s, their efforts finally paid off. In 1936 Agfa introduced ‘Agfacolor-Neu’, a real sensation throughout the whole photographic world.
- **1959** – Agfa came on the market with the first fully automatic 35mm camera. It was an instant success and during the next three years, Agfa sold a million of the Agfa Optima cameras.
- **1964** – Merger between Gevaert and Agfa.
- **1980-1981** – Silver price went up with 7x. As silver was one of the most important base materials for the photographic industry, these high prices put Agfa-Gevaert in a difficult financial situation. Bayer delivered additional funds and consequently obtained 100% ownership of the Agfa-Gevaert Group.
- **1997** – After the acquisition of Hoechst’s printing plate and proofing business in 1996 and DuPont’s Graphic Arts division in 1997, Agfa became the undisputed number 1 in the graphic prepress industry. More than 40% of all printed matter in the world is now produced using Agfa products and systems.
- **1999** – The acquisition of Sterling Diagnostic Imaging was an integral part of Agfa’s strategic goal to be the leading imaging company. It allowed Agfa to gain a leading market position in conventional medical imaging in the United States.
- **1999** – Agfa goes public on the stock markets of Brussels and Frankfurt.
- **2000-2004** – A whole chain of medical imaging acquisitions and minority stakes were made over these years. Mitra, one of the global suppliers of imaging and information management systems for healthcare. Agfa divested all its photographic activities to the new, independent company AgfaPhoto which filed for bankruptcy within a year of the sell-off.
- **2005** - Agfa became the largest player in Europe in the fast growing market of healthcare IT solutions through the acquisitions of Symphonie On Line and GWI. These companies were leading providers of information systems for hospitals and the electronic patient record, respectively in France and in Germany
- **2016** – Agfa acquired the TIP Group, an Austrian specialist in hospital Business Intelligence.
- **2020** – Completes the sale of part HealthCare IT division’s activities to the Dedalus Group. The Imaging IT activities are largely unaffected and retained.
- **2023** - Completes the sale of its Offset Solutions division (prepress solutions to the offset printing industry) to the alternative investment firm AURELIUS Group.

The story of historically poorly run businesses



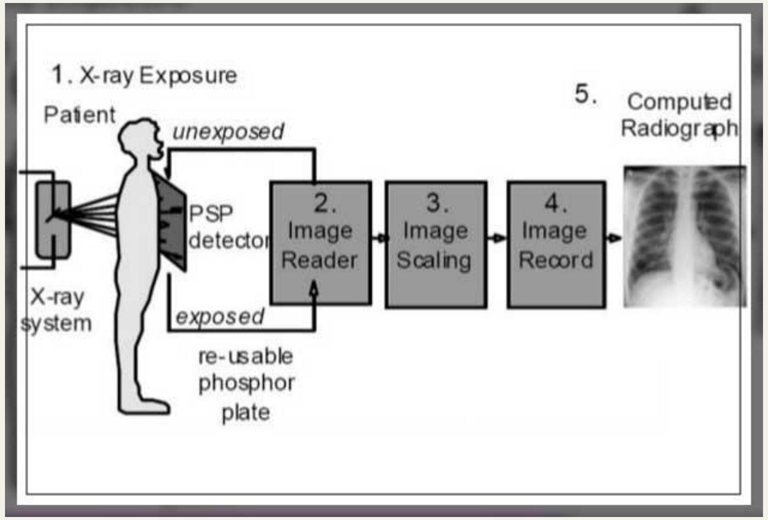
Zooming in on segments to find some positives
Healthcare and Print decent, Radiology in free-fall

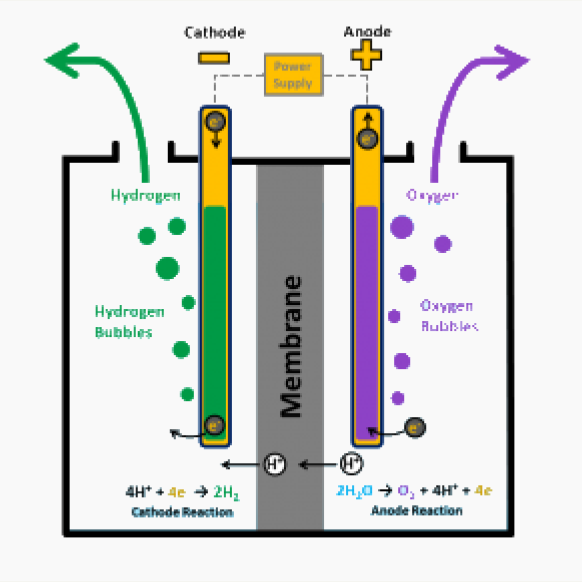




Terminology

- **Computed Radiography (CR)** - is an imaging technology in which a phosphor imaging plate replaces the older combination of film-screen radiography. It was developed in the mid-1980s. CR images can be recorded on laser-printed film or transmitted and stored digitally. CR is a portable system that can be used at the patient's bedside or in the emergency room as well as in a radiology clinic.
- **Digital Radiography (DR)** - It resembles CR in that it transmits, displays, and stores images without the use of film, but it differs from CR in that it is strictly digital and does not use cassettes at all. While the advantages of CR include its portability and its lower production cost, DR offers superior contrast resolution, immediate image readout, and considerable time savings. In one hospital near Boston, the average two-view chest radiograph required 9.9 minutes with a CR system but only 2.5 minutes with DR.
- **Green Hydrogen** – Hydrogen produced from a green energy source. See Hydrogen Basics slide in this deck for further information.
- **Hydrogen Separator Membrane (Zirfon)** – Most critical component in electrolyzer to produce hydrogen. See Zirfon slide in this deck.
- **Offset Printing** - is a common printing technique in which the inked image is transferred (or "offset") from a plate to a rubber blanket and then to the printing surface





Business Segments Overview

- Three main segments and their revenue:

1. **Healthcare IT** (€249m)
2. **Radiology Solutions** (€425m)
3. **Digital Print & Chemicals** (€409m) which includes the Green Hydrogen project.

- Contract Operations & Services (€68m) is a residual business to supply films & chemicals to the business which was divested.

Healthcare IT – In detail

- Enables hospitals to have one image management system/platform.
- Enterprise Imaging Cloud launched in 2023 and currently a shift to SaaS is ongoing. As this transition finalizes this should lift EBITDA further the coming years, as profits usually gets depressed while switching payment model. Further upgrade of Cloud solutions expected to cost €10m in 2024-2025.
- The impression is Agfa struggles to keep up in development with the larger players. On the other hand its not easy for hospitals to change systems, so revenue/profits are very sticky. This is a small(er) but high quality business for Agfa with strong cash-flow.

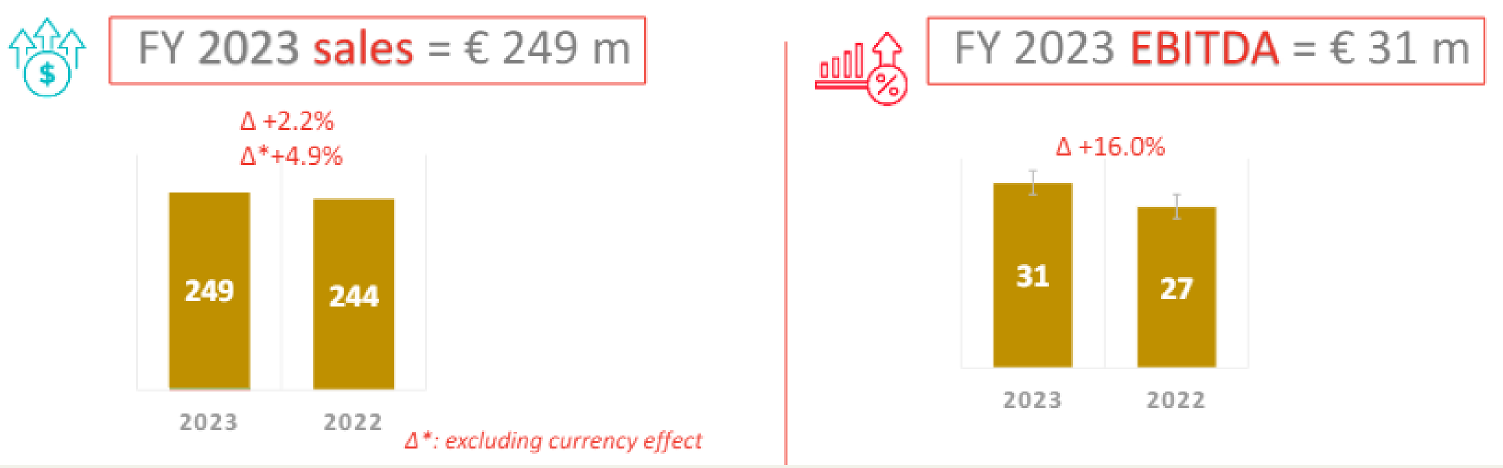
Enterprise Imaging Platform

Enterprise Imaging for Radiology

Enterprise Imaging for Cardiology

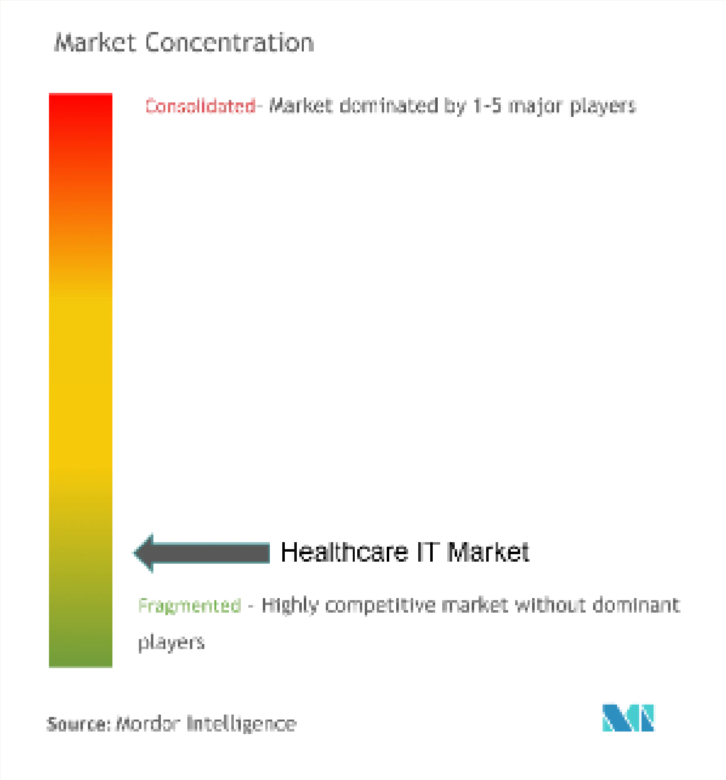
Augmented Intelligence

Enterprise Imaging Cloud



EBITDA numbers are company adjusted EBITDA from 2023 Agfa Presentation

Healthcare IT – Market position & Industry

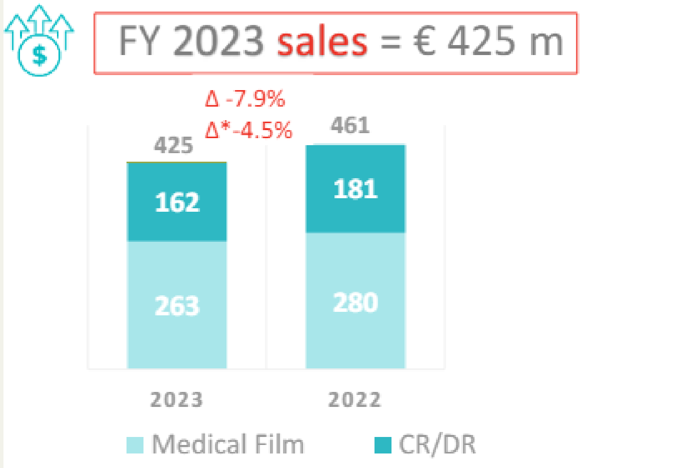


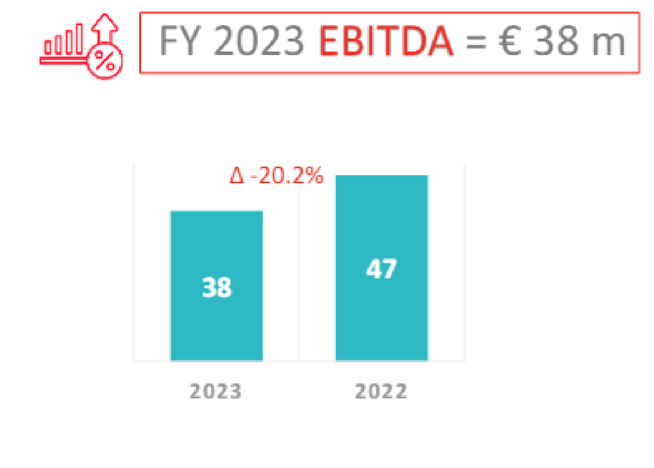
1. GE Healthcare
2. Siemens Healthcare
3. Allscripts Healthcare Solutions Inc.
4. Koninklijke Philips NV
5. Oracle (Cerner Corporation)

- Agfa is un-surprisingly not one of the major players, especially after disposing a large part of the Healthcare IT business in 2020. It seems unlikely that Agfa software businesses would grow in-line with Mordor Intelligence growth forecast but still good to see a strong industry tailwind.
- That the market is highly fragmented market most likely benefits a smaller player Agfa. IT-systems at health providers are extremely sticky business with low willingness from hospitals etc. to replace the systems which is also evidenced through the market fragmentation.

Radiology – In detail

- Digital Radiography (DR) directly captures image digitally. 10,000+ Installations.
- Printing – 75,000+ Agfa Drystar Diagnostic Printers sold for DR systems.
- Computed Radiography (CR) - The old technology and still common in Emerging Markets. 80,000+ digitizers sold which is the machine that converts the X-ray captured image from a cassette to a physical film or digital.
- X-Ray Film for CR technology, very high volume business. This is the classical you sell them a machine and make profits on the consumables ever after (films). China is major market (for example €350m deal in 2010). First it was Covid lockdowns and now central purchasing in China seems to be the major culprit for the recent profit margin decrease. On latest investor call CEO confirmed that even though margins have come down, the film is still very profitable within Radiology. Most likely the margin will not reverse anytime soon but volumes could.
- The poor performance of this segment is one of the main reason for the stock nosedive from €3 to €1 per share. In the past this has been the main cash-flow generator and is now falling on tougher times. The margin decline has been brutal mostly due to above mentioned China situation. Non-cash impairment charges on the Radiology business has already been taken during 2022.





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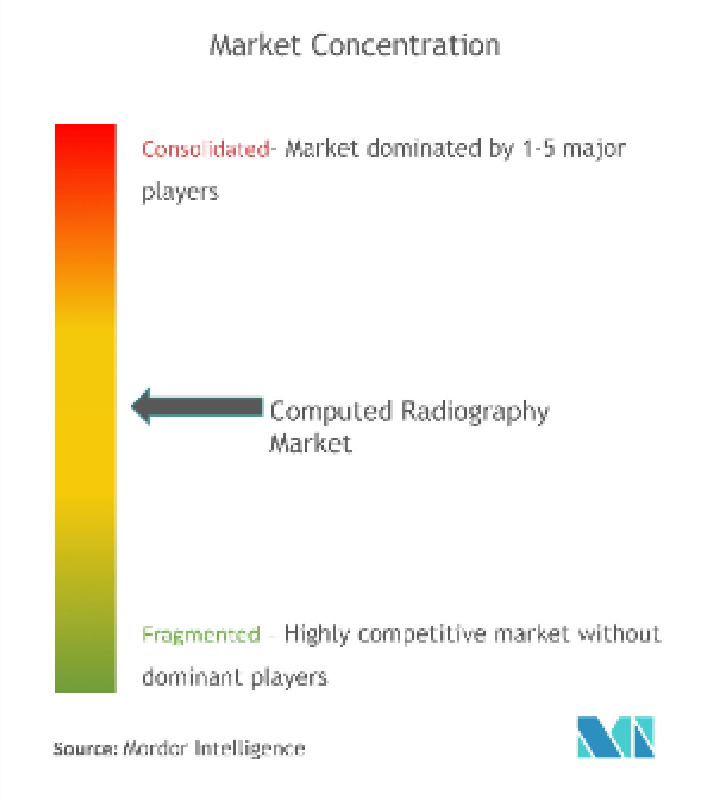
Radiology – Market position & Industry



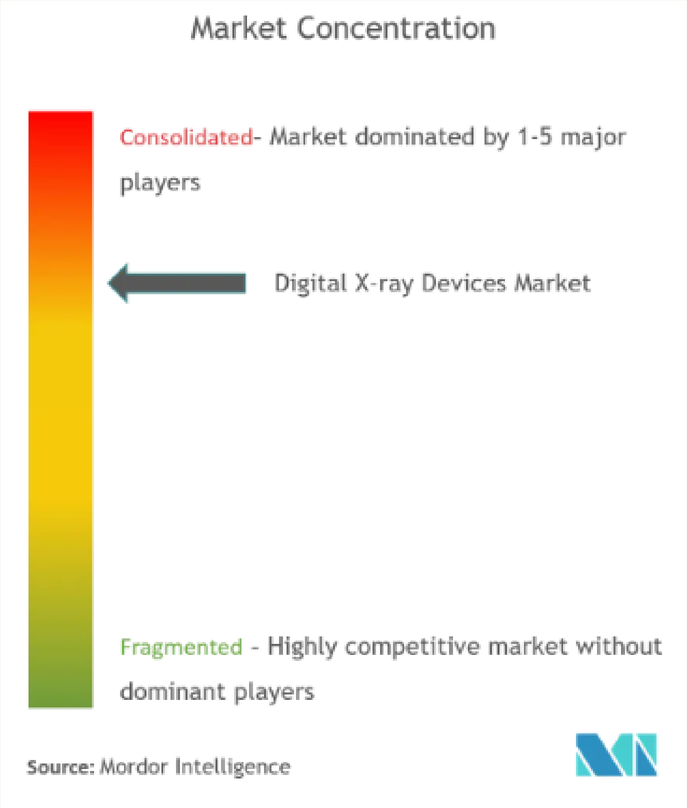
Siemens Healthcare

Jones X-Ray, Inc.

Konica Minolta, Inc.

GE Healthcare

Agfa-Gevaert Group



Canon Medical Systems Corporation(Toshiba Corporation)

GE Healthcare

Koninklijke Philips NV

Fujifilm Holdings Corporation

Siemens Healthineers

- In the semi-fragmented CR market Agfa is one of 5 market leaders, the growth here is tilted towards Emerging Markets. Converting old CR systems to DR is today a popular cost effective measure where Agfa can retain some more DR clients. Mordor intelligence puts 5y forward growth of industry at 5.5% CAGR.
- In the more concentrated DR market Agfa is not one of the market leaders, the growth here is highest in developed markets and Agfa is clearly far from keeping up with industry growth and is losing massive market share. Mordor intelligence puts 5y forward growth of industry at 8% CAGR.

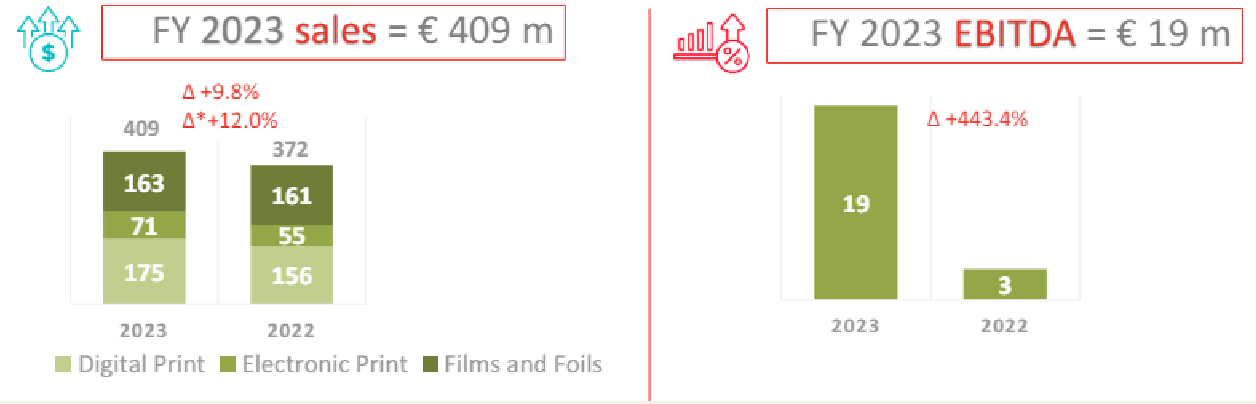
Digital Print & Chemicals – In detail

Printing

- Agfa printing division offers many types of industrial printing solutions/systems. In everything from packaging to textiles, signs & displays. Specialty areas as coatings used for antistatic properties is also a sizeable business. Overall revenue growth has been solid but no bottom line growth due to high inflation and supply chain issues.
- Large-format **Digital Printers** + Software Solutions shows good business momentum. A cooperation with EFI another market leader seems to have accelerated sales.
- Inks for Agfa printers + Synaps – synthetic paper media is a strong aftersales product.
- **Printed Electronics** – supplies film for printed circuit boards. Agfa is largest supplier in the world of phototooling (a step in creating circuit boards). This is one of the hidden gems in the company as Agfa is global market leader together with DuPont.
- As Polyester film (PET film) is produced for X-ray and other Agfa products, the film is also sold in bulk for other industrial purposes.

Chemicals / Green Hydrogen

- Different chemical products for the image industry is produced (this falls under Films and Foils)
- Under construction in Mortsel, Belgium a major expansion of production capacity for hydrogen separator membrane **Zirfon**. Significant Capex needed during 2024-2025. Guiding Capex at €40m. EU grant of €11m for project will help decrease cash burn. 2023 sales of Zirfon was roughly €25m (below included in Films and Foils) and 80% of 2024 production is committed by customers. See next slides on Hydrogen / Zirfon for details.



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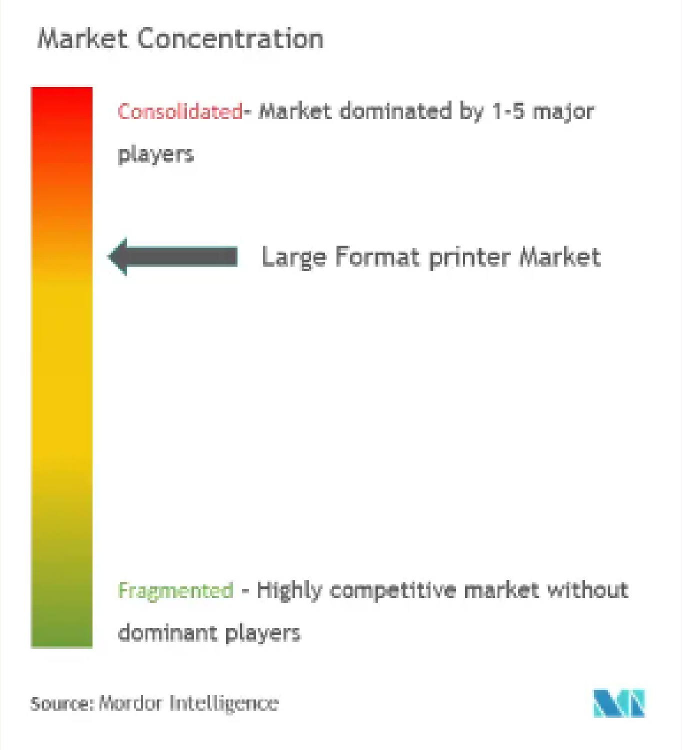
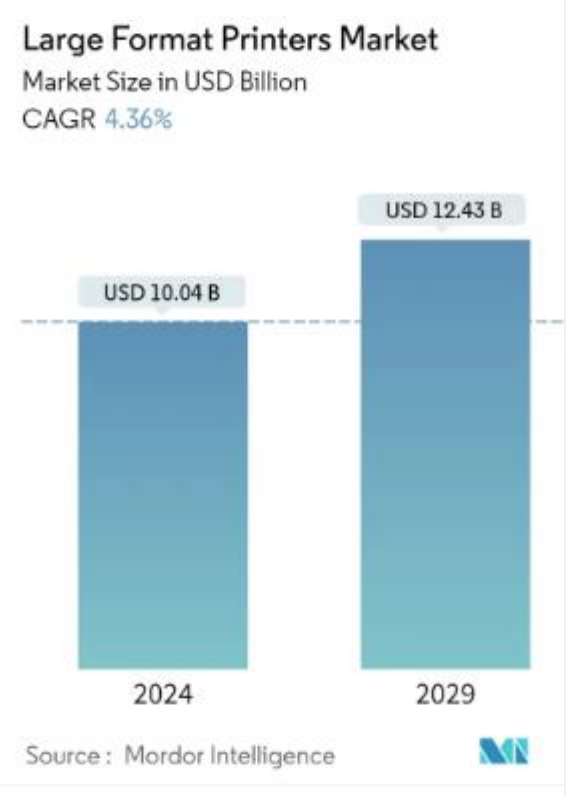
Digital Print – Market position & Industry



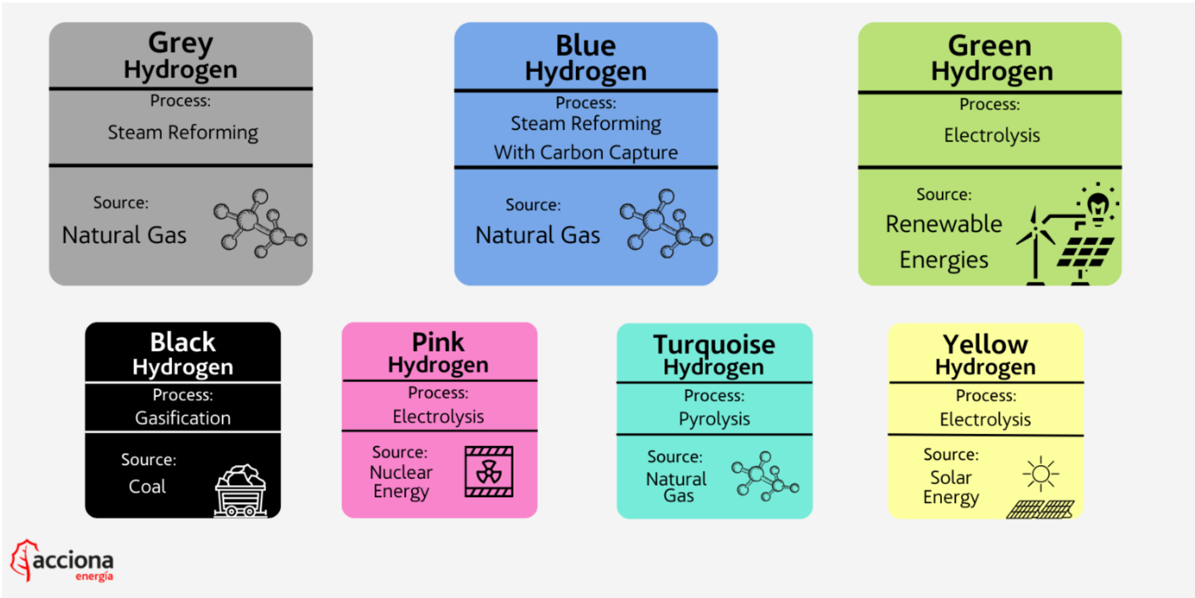
Hewlett Packard Development Company, L.P.
Canon Inc.
Agfa-Gevaert N.V
Seiko Epson Corporation
Ricoh Company, Ltd



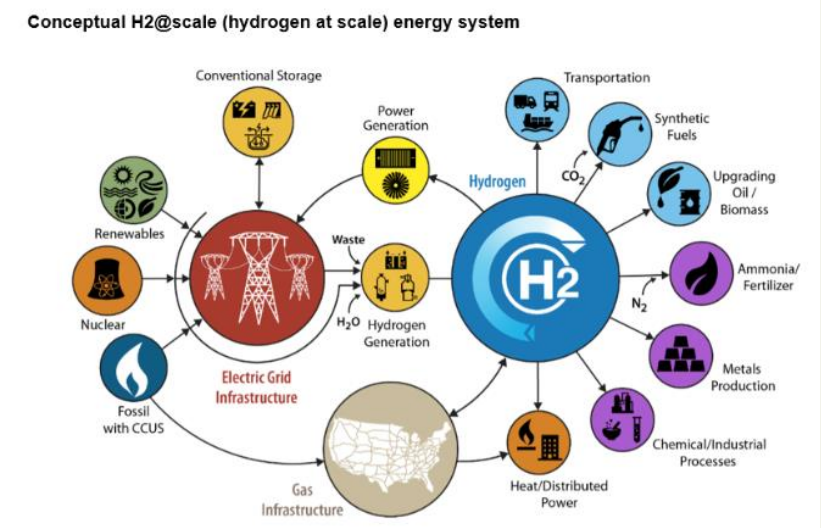
- Agfa is one of the clear market leaders in this field and is probably even be grabbing further market share given the revenue growth numbers of the past years.
- With a 4.4% estimated forward CAGR of the industry and the performance of Agfa the question mark is more on margins than on revenue growth.

Hydrogen Basics

- Hydrogen is used for many purposes, some of the main ones would be for refining petroleum, treating metals, producing fertilizer and other chemicals, and processing foods. The idea is to extend the use cases for environmental reasons, as hydrogen is a totally clean form of energy when created from a clean energy source.
- Depending on the input energy source the hydrogen produced will have different “colors”, see below.
- Hydrogen is just another form of storing energy, which for some use cases like metals production is more efficient than storing energy in batteries. One could for example produce Hydrogen from Southern European solar panels and transport the hydrogen across Europe.
- Currently especially western governments is pushing major reforms to move to more usage of Green Hydrogen.



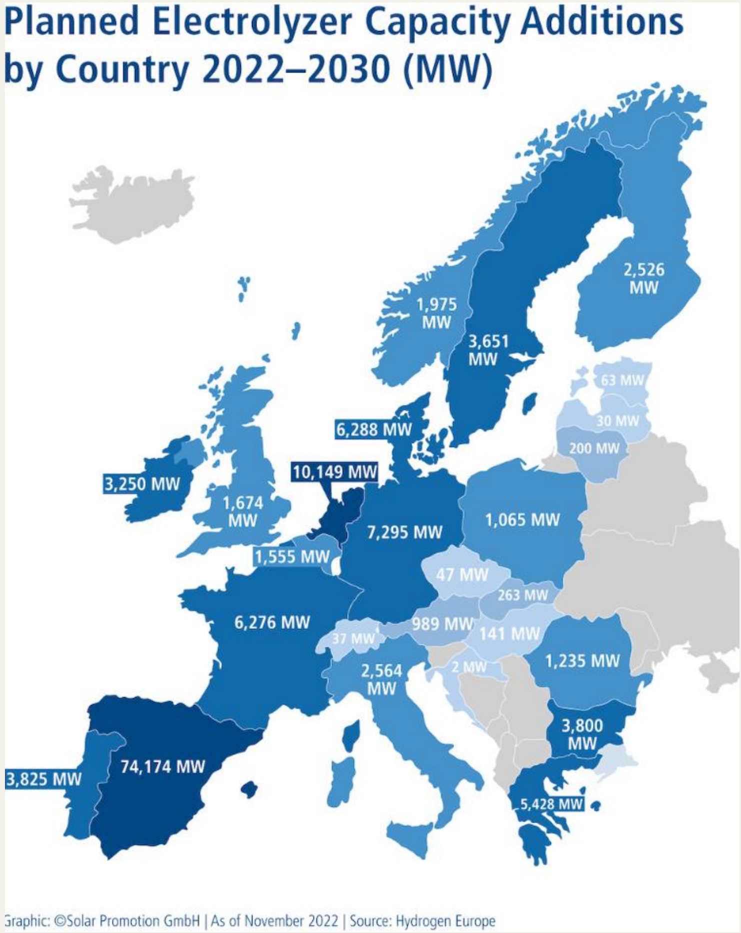
Source: https://www.acciona.com.au/updates/stories/what-are-the-colours-of-hydrogen-and-what-do-they-mean



Source: U.S. Department of Energy, *Hydrogen Program Plan*, Figure 3, November 2020
Note: CCUS is carbon capture, utilization, and storage.

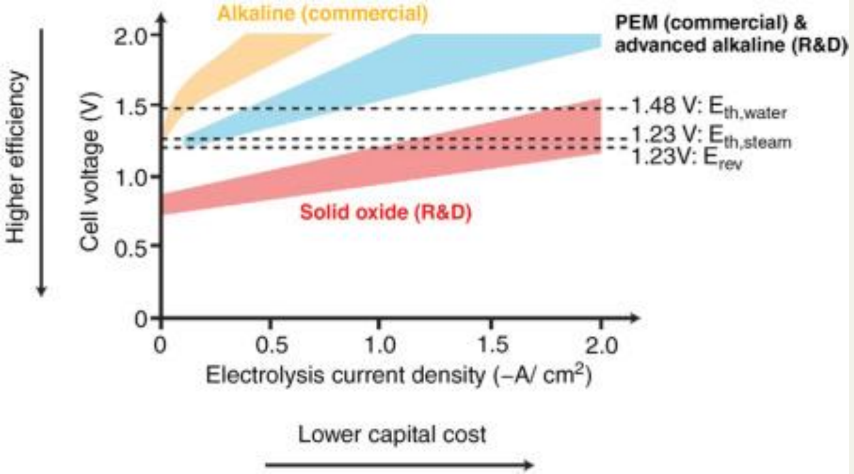
Zirfon – Upside from 2025 onwards

- All environmental friendly ways of creating hydrogen uses electrolysis. A key component in electrolysis is the separator membrane which splits the water into Hydrogen (H2) and Oxygen (O). Zirfon developed by Agfa is a market leading separator membrane in terms of performance & price.
- In 2022 the Zirfon membrane was selected by ThyssenKrupp Nucera to be used in their large scale projects for production of green hydrogen. ThyssenKrupp on their behalf have been selected by many of Europe's largest and most ambitious projects to deliver the hydrogen system. For example for Sweden's H2 Green Steel project, a world first large scale Green Steel production choose ThyssenKrupp.
- 2023 Agfa sold €25m of Zirfon membranes with an expected growth of 20%+ in 2024. One analyst at Degroof Petercam estimated Zirfon has a 90% market share with an expected revenue of €600m as of 2030.
- Zirfon sales growth is expected to increase from 2026 onwards as large hydrogen projects move into construction phase. Agfa is on back of the strong future demand using one of its existing old factories to scale up production (one of the benefits of being an old large conglomerate). The plant is expected to start production from October 2025 and have capacity up to 20,000 MW of membranes. Agfa will receive in total €11m EU grants for setting up this plant.
- IDTechEx forecasts the annual water electrolyzer market value to exceed $70 billion by 2034, representing a compound annual growth rate (CAGR) of 40.7% over the next 10 years. This might be an optimistic scenario but Zirfon seems to be in a pole position to sell separator membranes for the projects that do get off the ground.



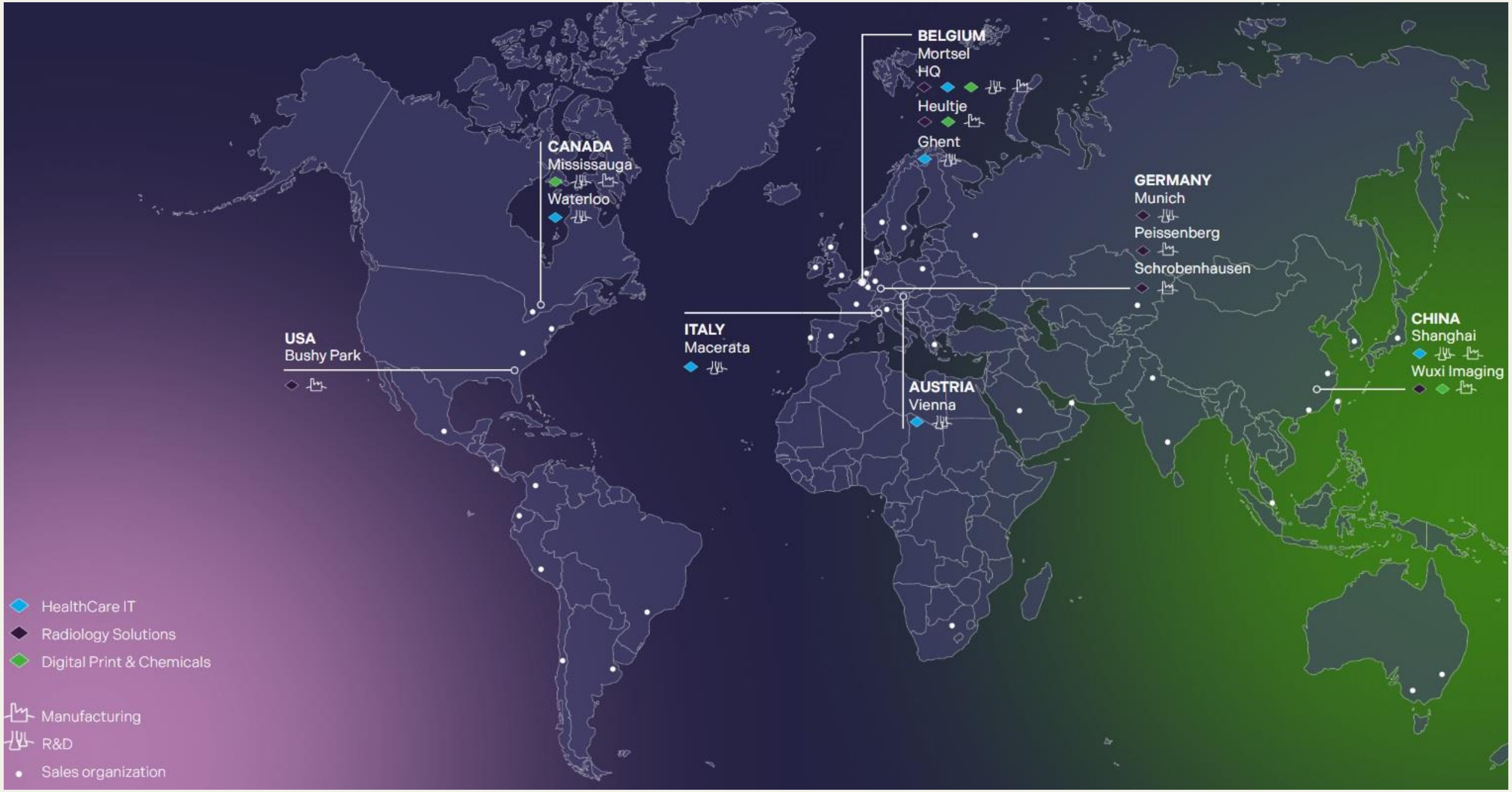
Zirfon tech & regulation

- Zirfon is an advanced alkaline water electrolysis separator membrane. There are other competing technologies each with their benefits and drawbacks. Alkaline water is the most well proven technology (used for decades). Zirfon is the latest generation of the old technology, with better performance than many other Alkaline membranes.
- Proton Exchange Membrane (PEM) and Solid Oxide Electrolysis Cells (SOEC) has theoretical better properties than alkaline water. It means they have better efficiency leading to less energy wasted to create a certain amount of hydrogen. For the foreseeable future, really only PEM is a threat to Zirfon sales.
- The Fraunhofer institute, a independent company, reviewed the available technology and stated Zirfon to be the most cost effective solution on the market, also considering PEM membranes. This shows that for now Agfa has a market leading position at a time when the large scale projects are close to take off.
- A larger threat than competing technology is the roll-out pace of hydrogen projects in EU and US, without subsidies (just like for EVs) it will be hard for the projects to make economical sense (at least to begin with).
- EU are dragging their feet to create clear rules to play by, which already delayed certain projects that were supposed to take off.
- The US Inflation Reduction Act (which is key to get US projects of the ground) proposed regulation on hydrogen tax credits only as recently as in Dec 2023. This proposal has already been criticized for an “hourly matching system” meaning when the wind does not blow the electrolyzer could not be feed with non-green electricity sources and still claim the credits.
- The slow political reform is a major threat to the hydrogen project timelines.



Sources: https://www.hydrogeninsight.com/electrolysers/green-hydrogen-which-type-of-electrolyser-should-you-use-alkaline-pem-solid-oxide-or-the-latest-tech-/2-1-1480577
https://www.afr.com/companies/energy/fortescue-slams-biden-administration-s-green-hydrogen-tax-rules-20240419-p5fl78
https://fuelcellsworks.com/news/agfas-zirfon-membranes-make-alkaline-electrolysis-the-most-efficient-technology-for-the-production-of-hydrogen/

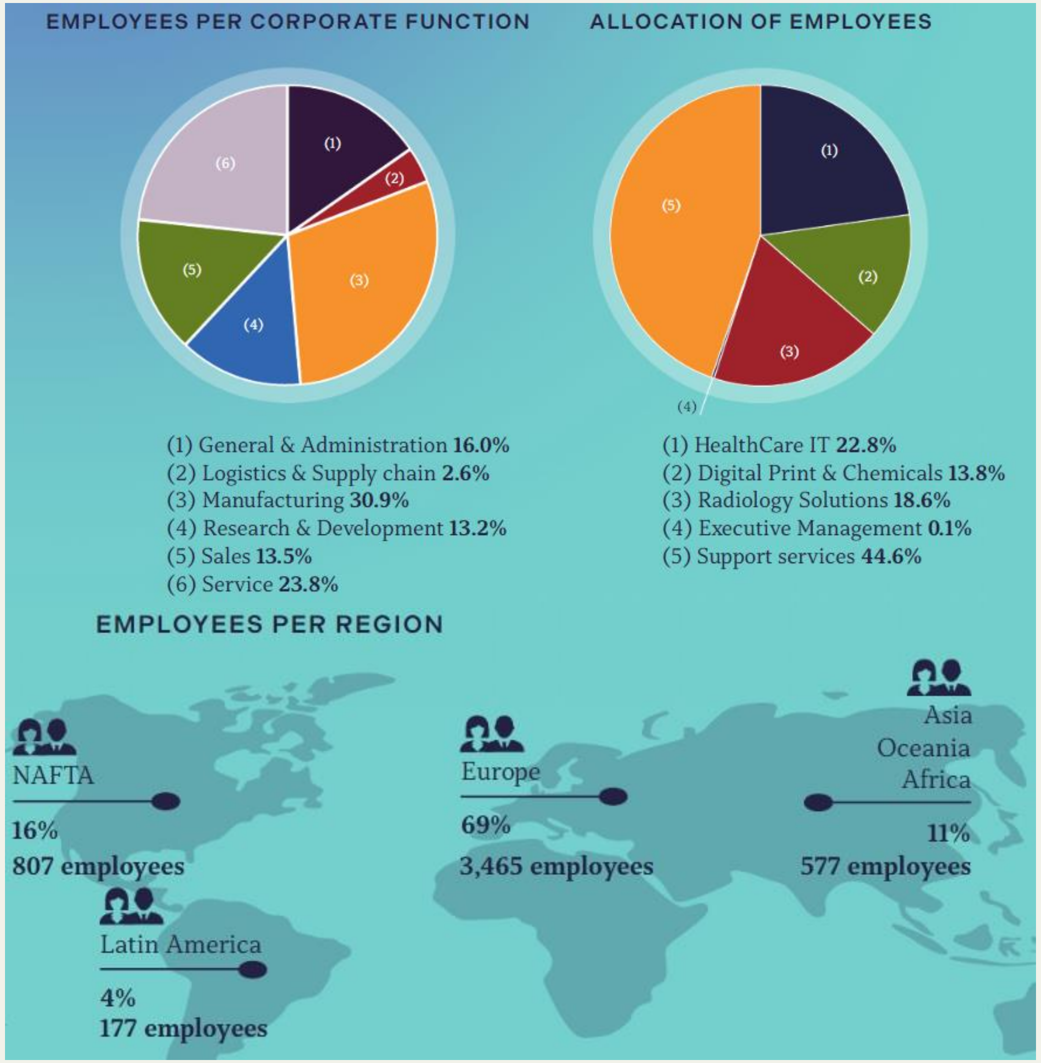
Agfa global footprint



Source: Agfa 2023 Annual Report

Large global labor force

- With almost 5000 employees globally for a company with a market cap of less than €150m is highly unusual. Just from this perspective it's clear the equity is priced close to a default scenario.
- The radiology area has clearly the best performance in terms of profit per employee.
- The services area employs a huge portion of the staff.
- There is probably a lot of room to cut costs by layoffs but European labor laws also makes it hard to reduce staff.
- In 2023, long-term termination benefits amounted to 6 million euro (5 million euro at December 31, 2022) and mainly relate to severance payments in connection with early retirement arrangements with employees of the Group's Belgian entities.
- The long history of the company and the large labor force has created a huge pension burden on Agfa, to be explored separately in next slide.



Pension burden is significant

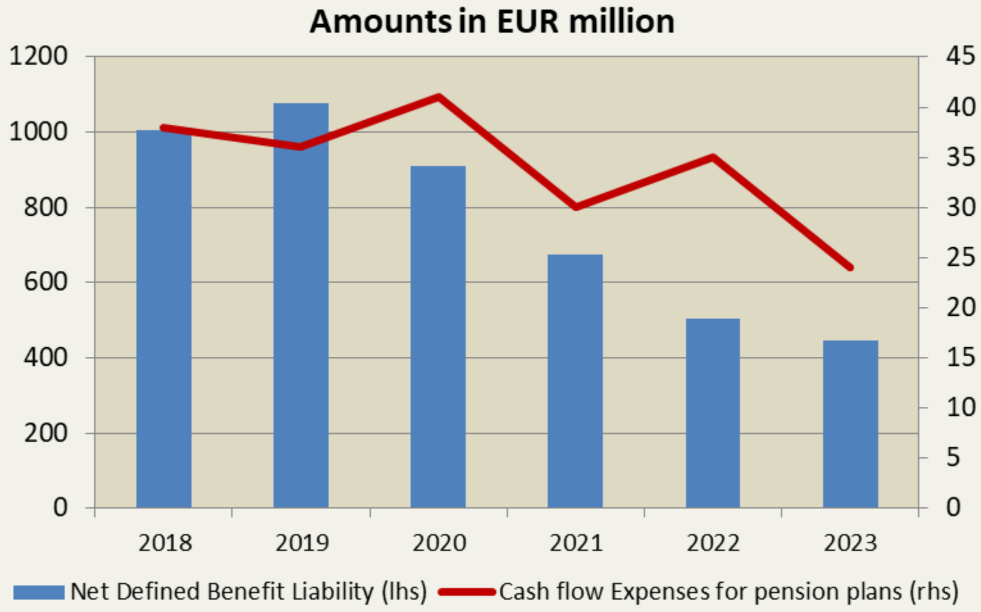
- Due to the companies long history and large work force it has in the past provided defined benefit plans. Under most of the current active plans these benefits do not accrue further. The majority of pension liabilities relates to two countries, Germany and Belgium.
- Most employees pension contributions today is paid under defined contribution plans, which do not carry risk but can been seen to form a part of the salary compensation.
- Part of the defined benefit plans are funded (€751m) and a German part is unfunded (€453m). The Net Liability as of 2023 is €446m. This liability does not show up as debt but for a better comparison can be added into Enterprise Value. The funded status improved versus 2022 thanks to the disposal of Offset Solutions. The discount rate lowered by ~50bps vs 2022 which increased the liability.
- Highlighted are the cash outflows for the company the past 2 years.

Evolution net defined benefit liability during 2022 and 2023

	2022			2023		
MILLION EURO	Retirement plans (excl. Belgian DC-plans)	Belgian DC-plans with return guaranteed by law	TOTAL	Retirement plans (excl. Belgian DC-plans)	Belgian DC-plans with return guaranteed by law	TOTAL
Net liability at January 1	**670**	**5**	**674**	**493**	**10**	**503**
Defined benefit cost included in profit or loss	28	15	**44**	32	9	**41**
Total remeasurements included in OCI	(150)	5	**(145)**	15	1	**15**
Net transfer in/(out), including impact of business combinations and divestitures	(2)	-	**(2)**	(45)	(1)	**(46)**
Cash flows						
Employer contributions	(16)	(15)	**(31)**	(17)	(11)	**(28)**
Benefits paid directly by the company	(39)	-	**(39)**	(38)	-	**(38)**
Currency effects: charge (or credit)	2	-	**2**	(1)	-	**(1)**
Net liability at December 31	**493**	**10**	**503**	**439**	**7**	**446**

But the burden is decreasing

- Thanks to higher long term rates (which form the basis for the discount rate) and disposing of businesses the net defined benefit liability on the balance sheet has shrunk from over €1bn to €446m since 2018.
- Also the cash flow expenses has been on a similar downtrend.
- In a way Agfa pension liability is counter the rest of the market which is hoping for rates to go down, Agfa actually benefits from higher rates.
- Given that the pension liability can increase (or decrease) depending on mainly interest rates, it's probably fair to add a buffer for MtM effect.



Discount rates and sensitivity analysis

	December 31, 2022	December 31, 2023
Discount rate	4.33%	**3.77%**
Price inflation	2.36%	**2.35%**

Question mark on the price inflation numbers. As I interpret it, the actuarial assumptions has not updated for the inflation numbers of 2023.

"The weighted average price inflation relates to Belgium, Germany, and the UK (RPI). Inflation over the year 2022 was included in the base data used for the actuarial calculations and is therefore not reflected in the evolution of price inflation compared to last year."

MILLION EURO	Effect on December 31, 2023 Defined benefit obligation
50 bp decrease in discount rate	**66**
50 bp increase in discount rate	**(60)**
Change in mortality table, assuming employees live one year longer	**36**
Change in mortality table, assuming employees live one year shorter	**(34)**

Management – all relatively new to the company

- CEO - Pascal Juéry (1965 – French) started his career in finance and then spent 16 years at Belgian chemicals business Solvay before joining Agfa as CEO in **2020**. He is also leading the **Radiology division.**

- CFO Dirk De Man (1966 – Belgian) held various positions in Procter & Gamble for 11 years. In 2007 he joined Barco as CFO and in 2011 Aliaxis. He joined the Agfa-Gevaert Group as CFO in **2018**.

- Nathalie McCaughley (1973 – French-American) spent most of her career at GE Healthcare where she held a variety of regional general management roles across all continents. In **2022**, Nathalie she joined the Agfa-Gevaert Group as President of the **HealthCare IT division.**

- Vincent Wille (1976 – Belgian began his professional career at global consulting company Arthur D. Little. In 2009, he joined global chemicals company Tessenderlo Group. Six years later, Vincent joined Global Mining and Minerals company Lhoist. Where he became the company’s Global Head of Procurement and Chief Innovation Officer in 2019. In **2021** he joined the Agfa-Gevaert Group as President of the **Digital Print & Chemicals division**.

The Activist – Clearly tries to unlock value

- Klaus Röhrig (1977 – Austrian) joined Elliott Associates in 2006 where he was responsible for the funds' investments in the German speaking countries. In 2015, Klaus founded Active Ownership Capital S.à r.l. (AOC). Throughout his career, he focused on identifying investment opportunities, structuring of investments and process-driven value creation. After building a 10% position in Agfa Klaus joined the Agfa-Gevaert Board of Directors in 2018. From May 2019 until August 2020, he was Chairman of the Board of Directors.

Shares held by Active Ownership Capital

Year	2018	2019	2020	2021	2022	2023
% Held	10%	13%	15%	15%	19%	19%

- With 19% of outstanding shares held, Active Ownership Capital is very much all-in on turning around Agfa. It should be said that Agfa is only about 7% of the overall fund portfolio. It is quite clear they are the driving force behind installing a new top management team and pushing for changes in terms of disposing of assets.

Track-record of some of the other holdings in the AOC portfolio seems decent:

- Holds 12% of PNE Wind AG, declined an offer for €4/share in 2022, stock now at €14.
- Holds 40% of H2Apex Group, another company in the green hydrogen space, stock has done well.
- Holds since 2020 6% of Formycon AG a Biosimilar company where stock has done very well, until recently when it fell 50%

Governance and capital allocation

- Top management are not themselves large shareholders in the company. The trust from this perspective rather lies with Klaus Röhrig from the Activist Ownership Capital fund, who today holds 19% of the shares.
- Looking at all the actions the company has taken, one can't complain one how active they have been. Proceeds from Healthcare IT sell-off was used in a mix of pension liability reduction, share buybacks (it was hard to buy back more than they did due to the stock liquidity) and retaining well needed cash to turn business around during turbulent Covid times. From capital allocation perspective I think they have done a decent job. Selling off the core business of Agfa, the Offset printing, that also shows that no options are off the table. From this perspective I'm impressed.
- From the perspective of track record of running a successful business, it is clearly far from good. On the other hand the current top management have also only had about 3 years with the company.
- One can argue that it's strange not more has been done in turning the ship around. But reading some more informal sources on the work discipline of some parts of the workforce in Europe. There are highly likely some quite large slumbering departments within Agfa. This obviously with European labor laws takes a lot of time to change (if ever).
- So far I'm willing to give the new management the benefit of the doubt, although patients should probably not run too far.
- My trust is more with Mr. Röhrig than with management at the end of the day and I think overall, for now the company gets a pass in this area.

Disposals – sold the golden goose?

- **In 2020 Healthcare IT** was sold for an EV of €975m (the image system business remains with Agfa).
- Use of proceeds:
    - €350m to boost pension plans funded ratio and de-risk portfolios.
    - About €250m to repay debt or debt that was brought over to the sold entity.
    - €50m for share buybacks which was executed in 2020-2021.
    - The remaining €300m was held as cash for working capital purposes. As Agfa has been significantly cash-flow negative during the Covid period, the cash buffer has dwindled.

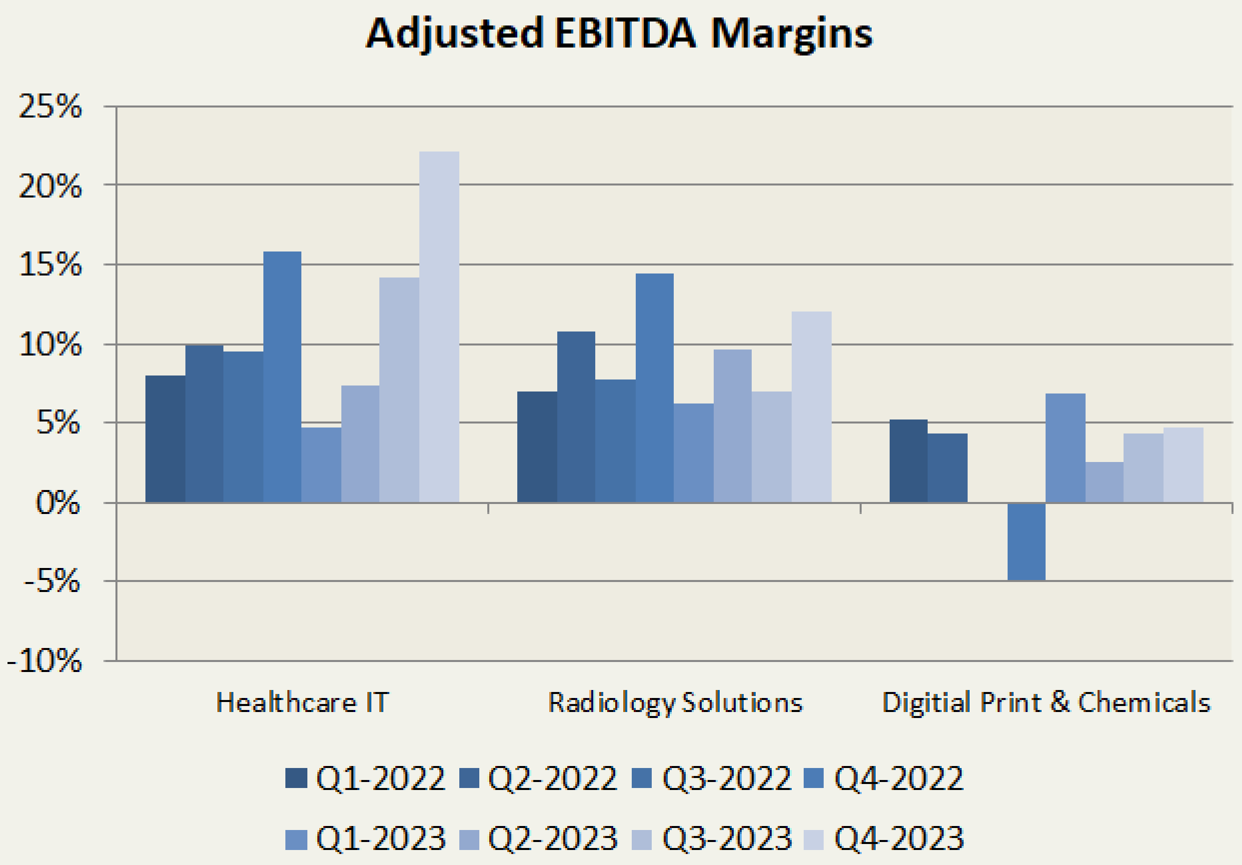
➢ This sale which brought in a lot of needed cash, looks like to some degree like selling of the golden goose. The remaining Healthcare IT business has by far the best operating margins of the businesses left. Although the goose was sold, it was most likely the only way forward to save the business.

- **In 2023 Offset Solutions business** was sold for €46m, a very low amount for a €800m revenue business, the reason being that it was significantly loss making. This was perhaps a more major sale than Healthcare IT to Agfa's identity, as this has been at very much of the core of Agfa for the past decades.
    - €11m was received and another €35m will be settled due completion of certain procedures as agreed with buyer Aurelius. Given that Agfa's cash-flow is still negative and cash buffers dwindled, this payment is quite crucial to not be delayed or stopped. On recent conference call the CEO was confident of payment in the near future.
    - This transaction encompassed share deals whereby 28 subsidiaries were divested. In Europe, 15 branches of Agfa NV were also included in this disposal. Except cash this reduced the pension burden and complexity of the organization.

➢ This sale although not bringing in much cash, gives Agfa a fighting chance to be cash-flow positive company perhaps already in 2025. Although not much the €46m is still almost 25% of current MCAP, well needed cash for the investments they need to do in the coming years. Also the Offset business tied up a lot of inventory (over €200m) which now has been the company significantly more asset light. This sale gives some hope for a turnaround whereas the market actually reacted negatively short term as the stock price plummeted since this deal was announced.

Zooming in on quarterly data shows a better picture

- Are margins stabilizing? Especially worrisome is the Radiology business.
- Although margins has a seasonal patterns, Healthcare IT is actually killing it margin wise with strong YoY margin improvements in 2023, Q4 particularly..
- Radiology which at a longer time horizon seems to be in a freefell, shows more of a bottoming and stabilization of margins (at a poor level though).
- Digital Print & Chemicals has very strong revenue growth but is so far not able to convert that to the bottom line. As long as the margin does keeps stable at this level (was hurt by high inflation) the historical revenue CAGR of +10% should start to feed through to the bottom line.



Moving from adjusted EBITDA to actual cash flow

- For this whole slide deck, the numbers showed has mostly been adjusted EBITDA per segment. Because that is what the company most clearly provide. Of course we want to get a good feel for what actual total EBITDA and also cash-flows are.
- As can be seen quite a lot of the adjusted EBITDA is lost as we move to IFRS or to “actual” cash flow. The negative €30m cash flow from operations in 2023 is the best number Agfa delivered in a long time.
- There is a tax loss carry-forward of €445m which will probably be hard to realize but will minimize tax payments and improve CF when/if profitable.
- A revolving Credit Facility of €230m which currently €40m is drawn in place. Covenant is on Net Financial Debt vs Adjusted EBITDA (less than 3x). Net debt currently is only €6m.

Adjusted EBITDA (EURm)	2022	2023	Comments
Healthcare IT	27	31	
Radiology Solutions	47	38	
Digitial Print & Chemicals	3	19	
CONOPS	-8	3	
Total Adjusted EBITDA	**69**	**91**	
EBITDA not allocated to segment	-19	-15	**Some costs are kept at group level**
Consolidated adjusted EBITDA	**50**	**76**	**Still exaggerates actual cash flow**
Amortization	29	26	
Depreciation	21	19	
Consolidated adjusted EBIT	**0**	**31**	
IFRS Operating Income	**-47**	**-15**	**-€42m for 2023 relates to CONOPS loss**
Net cash from operations	**-100**	**-30**	**For comparison actual cash flow**

Sell-side research and estimate table

- Limited Sell-side research coverage, estimates are based from three analysts.
- Target prices range between €1.6 and €2.2 per share with some significant recent revisions downwards (basically following the stock price down).
- May 2023 comment from analyst Laura Roba at Degroof Petercam (stock was €2.4 then): "*A catalyst will be needed to ultimately get the share price moving. Short-term cost increases still pose a threat to robust reporting, especially in Health IT. Once the tipping point is reached, the true value of the company can emerge"*. And "*The growing share of service revenues provides greater visibility and a better product mix, which should improve margins. Roba calls a leading position in green hydrogen "the icing on the cake" at Agfa. The Zirfon membranes significantly reduce the costs of green hydrogen production, potentially positioning Agfa as a leader in the green hydrogen market."*
- ING analyst on recent year end results: *The results were better than expected, mainly thanks to the stronger than expected performance at Agfa Healthcare with an adjusted EBIT of 24 million euros, while the consensus target was 18 million euros.*

Actuals & Forward Estimates	12/31/21 A	12/31/22 A	12/31/23 A	12/31/24 E	12/31/25 E	12/31/26 E
Revenue	1,760	1,857	1,150	1,188	1,232	1,281
Cost of Goods Sold	1,262	1,298	792	813	840	874
Gross Profit	498	559	358	374	392	408
EBITDA	104	94	76	74	91	100
EBIT / Operating Income	42	31	31	36	39	57
Net Income Normalized	16	-126	-13	-16	-1	15
EPS (GAAP)	-0.11	-1.41	-0.66	-0.06	0.06	0.17
P/E				-22.50	22.50	7.94
EV/EBITDA (Pension Liability + buffer added)				9.97	8.08	7.36
EV/EBIT (Pension Liability + buffer added)				20.56	18.75	12.89

Source:TIKR.com for analyst estimates
https://www.beursduivel.be/nieuws/773207/Beursblik-Degroof-Petercam-verhoogt-koersdoel-Agfa.aspx
https://www.beursduivel.be/Nieuws/792480/ING-sterk-jaareinde-Agfa-door-Healthcare.aspx

Peer comparison

- The best peers are the Japanese old conglomerates Konica Minolta and Fujifilm which have a similar business structure, although both of them has a large share in the office printing market (which is in decline). Given that Agfa is going through some distress currently, perhaps the best upside guidance is a simple measure as EV/Sales, where a multiple in-line with Konica Minolta should be possible.
- The larger peers are there to show that Medical Imaging business is a high multiple, quality business.

					Trailing 2023 Multiples			
Company Peers	**Ticker**	**Country**	**Business Type**	**Mkt Cap (US$m)**	**EV/Sales**	**EV/EBITDA**	**P/E**	**Div yield**
Agfa-Gevaert	AGFB.BR	Belgium	Medical Imaging, Proffesional Printing and Green Hydrogen	226	0.14	10.06	Neg	0%
Konica Minolta	4902.T	Japan	Medical Imaging and Printing (more office than proffesional)	1,730	0.5	5.8	Neg	2.4%
Fujifilm	4901.T	Japan	Healthcare, Printing (more office than proffesional)	25,659	1.3	8.8	14.3	2.4%
Siemens Healthineers	SHL	Germany	Healthcare (Medical Imaging 55% of revenue)	63,140	3.4	23.0	39.3	2%
Koninklijke Philips	PHIA	Netherlands	Healthcare (Medical Imaging, IT)	24,249	1.4	26.6	Neg	0%
Average Ex Agfa-Gevaert				28,695	1.7	16.0	26.8	1.7%
Median Ex Agfa-Gevaert				24,954	1.4	15.9	26.8	2.1%

Glassdoor comments confirm there is a lot of history and quality in their products but.. also confirms its going downhill lately and a "staff cutting" atmosphere

2.0 ★★☆☆☆ 2 Apr 2023

Used to be good company ...

Software Engineer
Current employee

✗ Recommend ✗ CEO approval ✗ Business outlook

Pros
Lots of knowledge available. Good collegial atmosphere. Maker mentality. Could be good for starter to gain experience.

Cons
Top management sells out the firm. Company declines and top management still pays itself generous bonuses. With dire consequences for employees: no raise or index adjustment for employees and are even fired to cut costs. No long time vision. Every few years a new CEO.

Advice to Management
Care about your employees.

4.0 ★★★★☆ 2 Nov 2022

Historic company on the way down

Application-Manager
Current employee, more than 3 years · Antwerp

✗ Recommend ✓ CEO approval ✗ Business outlook

Pros
- the people are absolutely amazing - the headquarters campus is super interesting - travel to interesting client sites

Cons
- employees really feel the affect of the company's unprofitability in recent times - do not care for employees that do not work with HQ

Advice to Management
Hard to give advice, the company is in a difficult place, there's certainly a strain on the employees there because of it. I believe moving faster with projects might be beneficial.

3.0 ★★★☆☆ 9 Aug 2022

Huge turnover

Senior Account Executive
Former employee

✗ Recommend — CEO approval — Business outlook

Pros
Best image quality in industry
Lots of room for growth
Good R&D with knowledgeable support out of Belgium corporate office.

Cons
New leadership; changes in business model; mixed messaging; lack of clear communications and vision
Only 2% US market share means many customers do not yet know Agfa.
Lack of sales tools; internal resources are slow to get sales/marketing collateral to account teams. Large need for "aligned messaging" to prospects and clients.
Disorganization; lack of structure

4.0 ★★★★☆

Good people, poor relationship with HQ, dying industry

Process Technician
Former employee, more than 1 year · Mississauga, ON

✗ Recommend ✓ CEO approval ✗ Business outlook

Pros
The people you work with are great and the environment is fantastic.

Cons
Working with HQ is difficult, and a lot of preferential treatment is given by leadership to offices in Europe.

Advice to Management
There are brighter researchers and more talented individuals in Mississauga, not all ideas and directions should come from European offices.

4.0 ★★★★☆ 29 Nov 2023

Agfa

Sr. Project Manager/ Program Manager
Former employee, more than 5 years · Cleveland, OH

○ Recommend ○ CEO approval ✓ Business outlook

Pros
Fair salary, stable, independence, 75% hybrid work environment

Cons
Management changed making it a bit toxic. Now I do hear it's better.

Advice to Management
Mgmt has made needed changes to keep the high end performers. Unfortunately for me, it came too late and left for greener pastures. No regrets.

5.0 ★★★★★

Good experience

Anonymous Employee
Former employee, more than 5 years · Mortsel

✓ Recommend ✗ CEO approval — Business outlook

Pros
good benefits and holidays
nice colleagues to work with
work-life balance

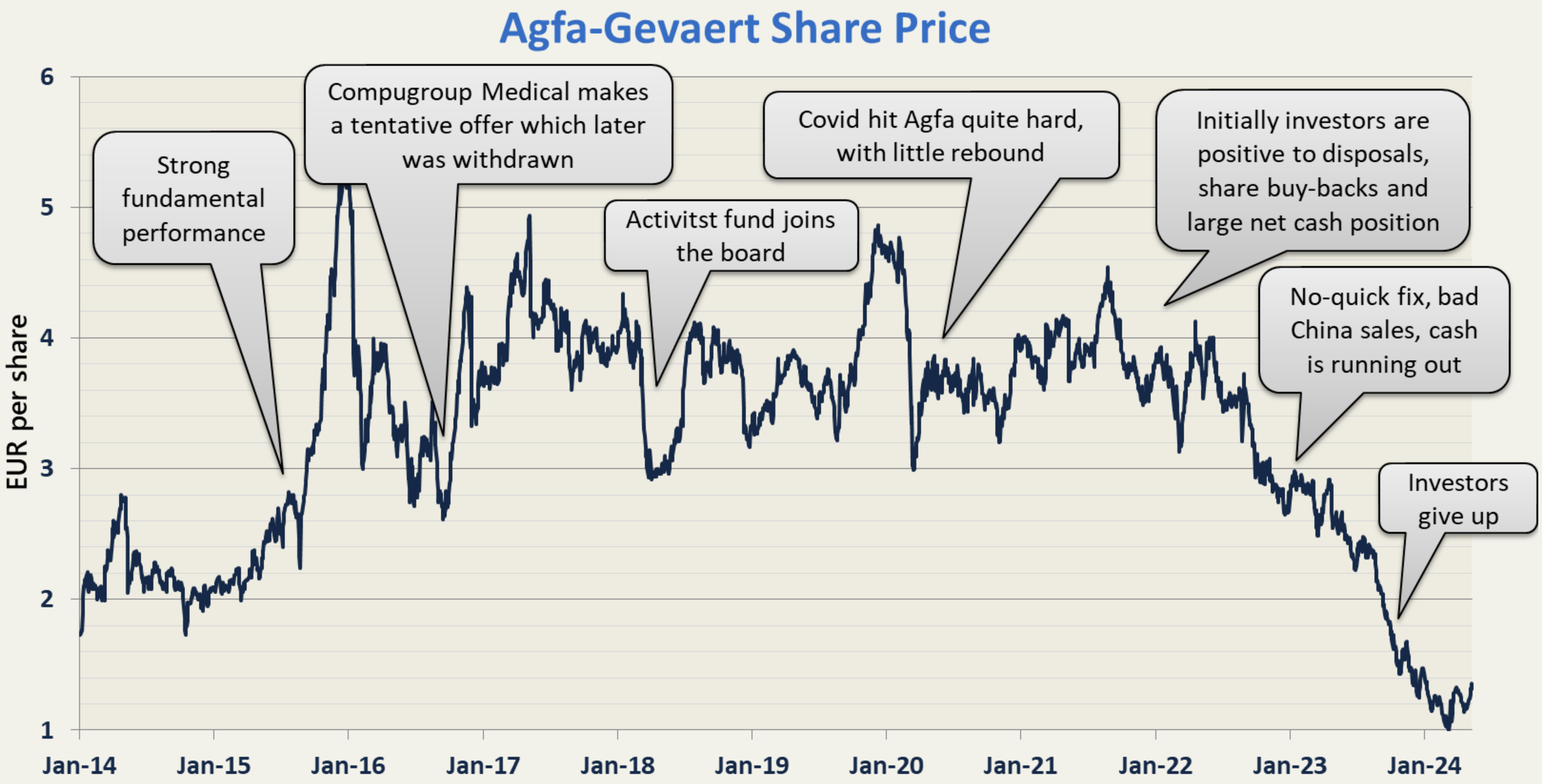
Cons
the company has been broken apart and its pieces sold to the highest bidder.
A bit limited on career development possibilities

Sum of the Parts?

- Looking at previous write-ups of Agfa, it's very tempting to do a SOTP analysis. As Afga's three business segments + the Zirfon opportunity could be valued separately. Through SOTP one can quickly argue that the stock is significantly undervalued. A very quick and dirty analysis for reference below (2025 Expected EBITDA is my own estimates).
- However it is most likely a mistake to believe in this analysis, as it assumes that value of one business unit can be unlocked from the others.
- One possible value unlock of this type I could see would be a spin-off of the Zirfon business. Now I put a conservative value of 80m EUR for Zirfon below, but as a separate company this could be a 2-3-400m EUR MCAP in itself. Norwegian listed NEL is a 800m MCAP and that is after being down -70% over the past years.
- In my mind the way the stock re-rates is that all segments as a group on a sustainable basis starts to be cash-flow positive. This is highly possible from 2026 onwards, especially as the Zirfon sales will kick in then.

	2025E EBITDA (EURm)	Corporate Overhead	Pension top-ups	"Real" 2025 EBITDA	Multiple	EV	Comment
Healthcare IT	33	-3	-4	26	19x	489	19x in line with multiple Agfa sold part of Health IT
Radiology Solutions	32	-4	-4	24	10x	240	Low multiple due to structural decline
Digitial Print & Chemicals	33	-4	-4	25	10x	254	Industry has low multiple, but growth CAGR over 10%
CONOPS	3	-3	0	0	0x	0	
Hydrogen Zirfon	3	-1	0	2	40x	80	Sales just getting started
					SOTP EV	**1063**	
					Pension Net Liability	-535	20% buffer to pension liability added
					Net Debt	-6	
					Implied Market Cap	522	
					Current Market Cap	200	
					Upside	**161%**	

Share price

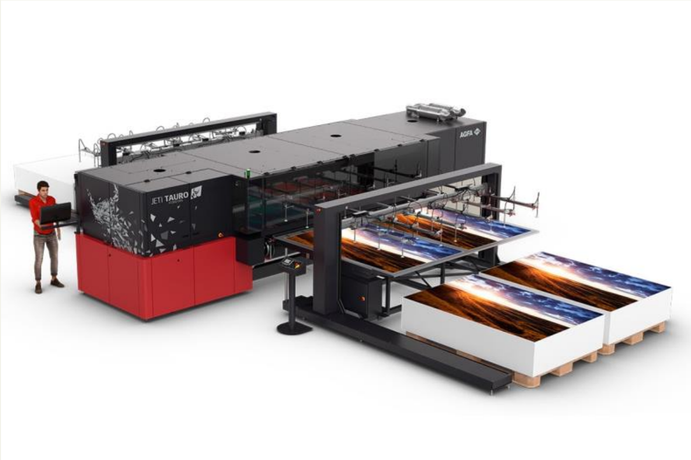

Agfa-Gevaert Share Price
EUR per share
6
5
4
3
2
1
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22
Jan-23
Jan-24
Strong fundamental performance
Compugroup Medical makes a tentative offer which later was withdrawn
Activitst fund joins the board
Covid hit Agfa quite hard, with little rebound
Initially investors are positive to disposals, share buy-backs and large net cash position
No-quick fix, bad China sales, cash is running out
Investors give up

Downside risks

- Given the extremely low valuation / market cap of Agfa the downside scenario is default or serious dilution to rescue the company.
- Although smaller now, the pension burden is still the large monster which is eating up most of the positive cash-flow that Agfa produces. If we for example would go back to close to zero long term EUR rates, this would mean that the pension burden would swell a lot and further cash contributions by Agfa would be needed.
- Agfa currently has and Revolving Credit Facility of €230m of which currently €40m is drawn. If say 70% of the RCF is drawn and Agfa is still burning cash, there will probably be a share issuances of some sorts. Agfa will also receive €35m from Aurelius for the Offset business. That means that Agfa has some €35+€120m of cash burn left, to turn actually cash flow positive.
- The last quarters of 2023 Agfa was significantly cash flow positive (+€31m in FCF) so there is some green shoots that when all these disposals now settled, the company is finding its feet. The stock did bounce some +20% on the Q4 report.
- A last major factor for the turn-around is that now is close to the bottom of margin compression for the Radiology business. The quarterly data does show a stabilization. In the longer term, Radiology business should have potential to also recover some of the margins lost. If Radiology further deteriorates, other segments need to surprise majorly on the upside (not impossible for the print segment) or else the company is in dire straits.

Catalysts

- Green hydrogen orders could change things quickly. If a few of the mega hydrogen projects moves into construction phase, Agfa could announce large Zirfon order in the magnitude of €20-50m for delivery in 2026. Suddenly Agfa is a ESG growth company, this could change the sentiment in the stock quickly.
- As was seen in the latest Q4 report, any sign of stronger cash-generation will be rewarded well by the market.
- Digital Print & Chemicals was hurt by the high inflation environment, but seems to have been taking market share as revenue grows at a 12% CAGR since 2020. There is clearly room for a few % points margin increase, which would be huge for cash flow and sentiment in the stock at this point.
- In the same way any signs that the Radiology business is normalizing closer to historical margins would be a strong catalyst for revaluation.
- The activist shareholder is nothing new, but with 19% of shares held, confidence is high the new management will work for shareholders to turn this around.



Conclusion

- A lot to unpack for a company with a €200m Market Cap.
- You can see this company from many lenses:
  - Solid medical imaging software and radiology businesses on the cheap.
  - A globally market leading industrial printing company with sales CAGR over 12% the past 3 years.
  - A market leading position in a new huge Green Hydrogen market on the verge of waking up.
  - A horrible pension situation, sucking all life (or at least cash) out of a decent business.
  - A bold move to sell, basically the companies core business, (Offset printing). This should mean management are serious about transforming the company, which should bode well for the future.
- No matter what lenses you choose, it’s rare to find so much to unpack within a company with such a tiny market capitalization and debt free (if we forget the pension liability)
- The key-questions to answer are:
  - Has the Radiology business margins found a bottom here? It will take a long time for Emerging Markets to stop using film based X-ray, which is the cash-cow for Agfa. The quarterly data suggest we bottomed and I wager that with some small potential wobble it has.
  - Can the Printing & Chemicals segment not only grow revenue but finds it’s way back to 6-7% EBITDA margins? Again I believe so, they were hurt by high inflation, as this is coming down profits could/should normalize.
- If one can find comfort in the two above points, Agfa is highly investable here and should have significant upside. The Healthcare IT business continues to improve EBITDA wise as the SaaS model rolls out and the Zirfon business as an analyst put it is “icing on the cake”. If it all plays out in a positive scenario, the upside should be even more than the SOTP analysis.