

FLASH NOTE

XTPL - Buy

Target Price: PLN 216.00 | Close as of 22/05/2024: PLN 133.20

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Q1'24 results below expectations

Q1'24 results are below our expectations at the EBIT/EBITDA/net profit level. The difference at the EBIT/EBITDA/net profit level is mainly due to the recognition of additional R&D costs in the income statement (PLN +1.35m higher-than-expected costs).

Quarterly snapshot

Consolidated, IFRS (PLN, m n)	Reported		y/y	Expected Erste	Reported vs. Erste
	1Q24	4Q22			
Revenue	2.9	3.6	-20%	2.9	-2%
EBIT	-5.4	-0.2		-4.0	
EBITDA	-4.7	0.1		-3.4	
Net income	-5.3	-0.3		-3.9	
EBITDA margin	-164%	2%			
EBIT margin	-187%	-5%			
Net margin	-186%	-8%			

Source: Company Data, Erste Group Research

Revenue. Revenues from sales of products and services were in line with published preliminary estimates, amounting to PLN 2.9m in Q1'24 (-20% y/y). The product sales line recorded a 97% y/y increase in revenues to PLN 2.7m, the R&D line PLN 0.01m (-99% y/y), and subsidy revenues fell 80% y/y to PLN 0.12m. Sales and rental of printers generated PLN 2.3m in revenue in Q1'24 (93% y/y), and sales of HPM (High Performance Materials) generated PLN 0.18m in revenue in Q1'24 (+186% y/y).

Costs. Cost of goods sold increased y/y due to higher product sales realized. Research and development costs increased 102% y/y, likely related to work done in connection with ongoing industrial technology deployment processes. General selling and marketing expenses increased by 125% y/y to PLN 1.3m in Q1'24 mainly due to intensified investments in commercialization of developed technology, and general and administrative expenses increased by 99% y/y to PLN 2.5m mainly due to increased scale of operations.

Financial activities and net income. The balance on financing activities amounted to PLN 0.04m in Q1'24 vs. PLN -0.11m in Q1'23. Income tax amounted to PLN 0m, which together with the loss on EBIT translated into a net loss of PLN 5.3m in Q1'24 vs. a net loss of PLN 0.3m in Q1'23.

Cash flow from operations amounted to PLN -5.4m in Q1'24 (vs. PLN 0.8m in Q1'23), negatively affected by a y/y decline in earnings and an increase in inventories (inventory for new orders). Capital expenditures amounted to PLN -1.6m in Q1'24 (down q/q and +PLN 0.5m y/y).

Opinion. **NEUTRAL**. Results in Q1'24 are below our expectations, which is mainly due to the recognition of R&D costs in current results instead of capitalizing them on the balance sheet (perhaps the company will re-invoice these costs to the customer in future periods). The increase in current operations costs is a result of preparation for capitalizing the technology offered. The company's headcount increased by 48 people y/y to 91 at the end of Q1'24. As a result of the investments made, among other things, the company gained much better exposure to key regions (hiring of two experienced sales directors, planned opening of a sales and demonstration center in Boston) and significantly shortened the time required for delivery of DPS devices, which should allow the company to fulfill significantly more orders of these devices in 2H'24. At the end of Q1'24, the company was running 4 industrial deployment processes at stage 4 (unchanged from Q4'23).

Of concern is the quarterly cash burn rate recorded in Q1'24, which, assuming lack of revenue improvement in subsequent quarters and maintaining similar costs, would allow the company to maintain liquidity for the next three quarters. According to the company's announcements, sales of DPS equipment should accelerate in the second half of 2024, which should significantly slow down the cash burn rate. A potential industrial deployment in Q4 2024 or early 2025 should allow for a significant increase in sales and a de-risking of the financing of the business. Nevertheless, in our view, with the current cost base, the company has left itself a relatively small margin of error when it comes to financing. In Q2'24, we do not expect higher revenues q/q (assuming sales of 2 industrial modules and 2-3 DPS devices in Q2'24 vs. 4 DPS devices in Q1'24).

We are not changing our target price or recommendation for the company in this flash note.

Q1'24 results review

P & L (PLN mn)	1Q23	2Q23	3Q23	4Q23	1Q24	Y/Y	Q/Q
Revenue	3.6	3.3	3.9	4.6	2.9	-20%	-38%
Sales of products and services	3.0	2.6	3.6	4.2	2.7	-8%	-35%
Grants	0.6	0.8	0.3	0.4	0.1	-80%	-71%
Costs of sales	2.0	1.9	2.0	2.6	4.5	128%	73%
R&D costs	1.3	1.3	1.1	1.4	2.7	102%	95%
Costs of products sold	0.6	0.6	1.0	1.2	1.8	183%	47%
Gross profit	1.6	1.5	1.9	2.1	-1.6		
G&A	1.8	3.3	2.8	4.5	3.8	107%	-16%
Other operating activities	0.0	0.0	0.0	0.0	0.0		
EBITDA	0.1	-0.9	-0.4	-1.8	-4.7		
EBIT	-0.2	-1.3	-0.9	-2.4	-5.4		
Balance on financial activities	-0.1	-0.1	0.1	0.2	0.0		
Profit before tax	-0.3	-1.4	-0.8	-2.2	-5.3		
Income tax	0.0	0.0	0.0	0.0	0.0		
Net profit	-0.3	-1.4	-0.8	-2.3	-5.3		

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