



The small company specialists

# COMPANY INFORMATION

## Mechan Controls plc (Plus – MEC)

Info sheet compiled September 2006

Company Eye Ranking

27/50

### EDITOR'S NOTE

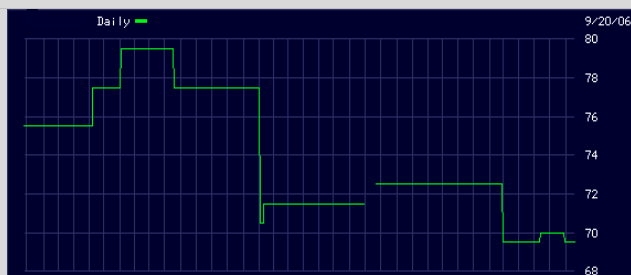
Based in their own premises in Skelmersdale, Lancashire, Mechan Controls PLC is a designer and manufacturer of electronic non-contact safety switches for use in a wide range of industrial sectors. The business was founded in 1973 and was the subject of a MBO/MBI in 1999. Since then the product range has been expanded and distribution and labelling agreements have been reached, giving the company access to the GBP100 million+ per

annum Global market.

The company offers an extensive range of non-contact safety switches available and has a wide customer base including many "Blue Chip" companies in the Food Processing, Packaging and Building Supplies industries.

The company exceeded its growth targets for the first quarter of the current year with order intake up by 26%. We believe Mechan Controls Plc has potential for growth as a medium term investment.

### 3 YEARS CHART



### FUNDAMENTALS

Company Name	Mechan Controls plc
Current Price	69,50
Status	Plus (Ofex)
Market Cap	1.39 m.
Shares in Issue	2000000
Activities	Manufacturer of electronic safety switches
Sector	Electronic & Elec.Eqpt
Corporate advisor	Moore and Smalley
Registrar	Capita Registrars (Beckenham)

### HISTORY

Mechan Controls Plc established in 1973 to design and manufacture safety switches that can survive the harshest industrial environments. The original design was requested by customers in the can making industry, where ordinary mechanical safety switches proved unreliable. Mechan engineers designed a system that was simple to fit, tamper-proof and would not be affected by oil, dust, water or vibration. Most of all it had to be safe and reliable, helping to protect employees and meet production targets by reducing "down-time". Using the latest solid-state technology, the company engineers produced a fully

electronic, fail-safe, non-contact, proximity switch for use in safety applications. Mechan Controls is an accredited ISO9000 quality assured company since 1996 and has recently become one of the first companies to be accredited to the new ISO9000-2000 for the design and manufacture of safety systems. This desire to provide high quality products and the very best in customer service has become the standard for Mechan Controls over the past 30+ years. Mechan signed a lucrative trading agreement with global giant Honeywell Inc in 2001 for the company to distribute its products in 95 countries.



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## THE PRODUCT RANGE

With 30+ years experience designing safety switches the company now has probably the most complete range of non-contact safety switches available in the world. From simple volt free contact safety switches (MAGNASAFE) in a variety of sizes and packages,

including the new M18 and M30 Barrel mounting sensors, up to fully tamper proof systems (F-SERIES) with dual control outputs, external contactor monitoring, indication of each guard status and the option of uniquely coded guard switches (over 500,000 codes) if required.

## ACTIVITIES

The company's principal activity is the research & development in and manufacture of electronic safety switches, control units and monitoring devices to provide the safeguarding of personnel and machinery.

Mechan is working on a pioneering range of stainless steel alternatives to its plastic switches,

aimed at the food processing and pharmaceutical industries. However its original designs are still in high demand. Mechan originally produced systems for the can making industry. Those systems proved so reliable that many of them are still working today, some 30 years later. Mechan was one of the first companies to be accredited to the new ISO900-2000 for the design and manufacture of safety systems.

## LIST OF CLIENTS

Honeywell Inc  
Heinz, Mars PLC,

Hanson, Nestle,  
Smith Kline Beecham,  
St Ivel and Tate & Lyle

## DEVELOPMENT HIGHLIGHTS

### 1 August 2003

British safety switch manufacturer, Mechan Controls plc, has announced that it is expanding its range of IP67 stainless steel non-contact safety switches for industrial machinery. Engineers and equipment manufacturers can choose from an extensive array of standard magnetic or coded magnetic switches, all of which are now available in low-maintenance, 316 grade stainless steel.

### 03 February 2004

Mechan Controls plc has signed a North American distribution agreement with leading US Safety specialist, Norstat Inc.

Norstat is currently the exclusive distributor for a wide range of safety equipment from 7 major European manufacturers, and Mechan's unique range of non-contact safety products will complement this existing portfolio allowing Norstat to offer a complete safety solution to all of their customers.

Norstat Inc. currently has close to 100 distributors

covering North America, Canada and Mexico.

Employing 25 full time staff at it's New Jersey headquarters, Norstat can offer their customers full technical training and technical support staff for the Mechan product range as well as sales and customer support services.

### 10 May 2004

Mechan Controls plc has signed a Japanese distribution agreement with Yaskawa Electric Corporation of Japan.

Based in Kitakyushu, Japan, and established in 1915, Yaskawa is a 2 Billion pound company with offices in 24 countries – 5 in China – and production bases in 6 countries. Yaskawa has always provided leading edge technologies in the fields of electric motors and drives, factory automation control products, mechatronics and robots.

The Japanese safety market is currently growing in line with those in the UK and Europe. This gives Mechan additional credibility and an excellent opportunity to grow it's export sales in the world's second largest economy.



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## 14 September 2005

Mechan Controls has recently designed and produced 100 specially developed noncontact safety switches for the Cheshire based heat-sealing machinery specialist ProSeal UK.

## 7 July 2006

Mechan Controls has developed a new slimline version of its popular Magnasafe MS6 machine-guard safety interlock system. Originally sold only in stainless steel, the new model is manufactured in ABS plastic and both switch and actuator are just 19mm wide.

## FUTURE DEVELOPMENTS

Company's new American distributors, STI, the market leader for Safety Products in the USA are generating significant business. Mechan Controls expecting a considerable increase in business with Honeywell, another strategic partner. The range of switches has more than trebled since the company was acquired in October 1999. Mechan Controls committed as a company to

increasing its research and development efforts with the intention of retaining its leading edge in High-Tech market. With exciting products in the pipeline and further strategic international partnerships on the horizon, Mechan Controls confidently looking forward to good trading performance. The international market in safety products is very competitive but nevertheless is still a growth industry.

## DIRECTORS

MR. W BOARDMAN - MANAGING DIRECTOR  
MR. M F FARRAH - TECHNICAL DIRECTOR  
MR. P K KNOWLES - SALES & MARKETING DIRECTOR  
MR. J FAULKNER - NON EXECUTIVE DIRECTOR  
MR. R PARKINSON - Director:

## FINANCIAL OVERVIEW

Turnover is ahead by 14% for the six months to 30th June 2006 compared to the same six month period last year. The company naturally pleased with this increase, and is delighted that Mechan Controls has been able to show additional improvements in operating profit from GBP41,248 to GBP76,814, some 86% increase, by improvements in gross

margins and careful cost management. The second half of the year is expected to show further turnover growth, and The company expect gross margins to be maintained at the improved level. This would be in line with the budget projections. In the light of this the company is pleased to announce an increase of 10% in the interim dividend to 0.32 pence per share to be paid on 22nd September 2006.

## FINANCIAL INFORMATION

The interim results for the six months ended 30 June 2006 are unaudited and do not constitute accounts within the meaning of section 240 of the Companies Act 1985. The interim results have been drawn up using accounting policies and presentation

consistent with those applied in the audited accounts for the year ended 31 December 2005. The comparative information contained in this report for the period ended 30 June 2005 does not constitute statutory accounts for that financial period.



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## SHAREHOLDINGS

	Number	%
MR W BOARDMAN	1,013,000	50
MR P K KNOWLES	300,000	15

	Number	%
MR M F FARRAH	150,000	7.5
MR R PARKINSON	113,300	5.67
MR J FAULKNER	100,000	5

## FINANCIAL HISTORY

### Profit and loss account for the six months ended 30<sup>th</sup> June 2006

£'000	UNAUDITED ACCOUNTS FOR SIX MONTHS ENDED 30 JUNE 2006	UNAUDITED ACCOUNTS FOR SIX MONTHS ENDED 30 JUNE 2005
TURNOVER	355,064	311,751
Cost of sales	139,668	124,680
GROSS PROFIT	215,396	187,071
Administrative expenses	138,582	147,806
Other operating income	-	(1,983)
OPERATING PROFIT	76,814	41,248
Interest receivable	1,003	637
Interest payable and similar charges	(1,209)	(1,439)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	76,608	40,446
Dividends	6,400	5,800
RETAINED PROFIT FOR THE FINANCIAL YEAR	54,214	26,884
EARNINGS PER SHARE	3.0p	1.6p

### Balance Sheet As at 31 December 2005

£'000	2005	2004
Intangible assets	601,179	607,995
Tangible assets	121,745	130,706
FIXED ASSETS	722,924	738,701
Stocks	167,978	116,216
Debtors	136,747	117,470
Cash at bank	27,868	59,348
CURRENT ASSETS	332,593	293,034
CREDITORS: AMOUNTS FALLING DUE WITHIN ONEYEAR	106,114	120,651
NET CURRENT ASSETS	226,479	172,383
TOTAL ASSETS LESS CURRENT LIABILITIES	949,403	911,084
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	41,678	57,570
Deferred taxation	2,483	2,888
PROVISIONS FOR LIABILITIES	905,242	850,626
CAPITAL AND RESERVES		
Called-up equity share capital	50,000	50,000
Share premium account	653,000	653,000
Profit and loss account	202,242	147,626
SHAREHOLDERS' FUNDS	905,242	850,626

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision,

prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances



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and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable.

In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will

not have a material adverse effect on the operations, results or financial position of the Company. If the Company has not undertaken an acquisition or a significant investment within 24 months of the start of trading on Plus (Ofex), there is no guarantee that the Company can maintain an Ofex trading facility if the Directors do not deem any acquisitions or investments to be suitable within any such period.

It is likely that the Company will need to raise further funds in the future, either to complete a proposed investment or acquisition or to raise further working or development capital for such a transaction. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that the new investors will be prepared to subscribe for Ordinary Shares at prices that are the same or greater than the price at which they are being introduced.

## CONTACT

14-16 Seddon Place  
Stanley Industrial Estate  
Skelmersdale  
Lancashire WN8 8EB  
England

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	35
Low cost	29
Management	
- corporate governance	28
- quality	
- shareholding	20
Product	27
Sector	24
<b>Financial evaluation</b>	
Early and profitable exit potential	20
Financial strength	
- cash flow	33
- conservative accounting	
- need for funding	
Growth at a reasonable price	24
Risk	27
<b>Overall average rating</b>	<b>27</b>



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## FURTHER INFORMATION ABOUT THE RANKING

### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

## THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

### Competition

How intense is the competition and are there barriers to entry?

### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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