We are delighted to announce a new investment today (24 April 2017) for Todlin: Accsys. This business specialises in the processing of wood (chips), resulting in fast-growing coniferous timber taking on the properties of the very best tropical hardwood. Accsys achieves this using a chemical process called “acetylation”. This is not an innovative new discovery by Accsys. The first reference to the acetylation of wood dates back to 1928.

Acetylation is an environmentally friendly wood modification technology, in which the wood is treated with acetic anhydride (a derivative of acetic acid) under vacuum and high temperature. The acetic anhydride reacts with the hydroxyl groups (-OH) that are naturally present in wood to form an acetyl group. A hydroxyl group absorbs and repels water, depending on the climate conditions that the wood is exposed to. This effect causes the wood to swell and contract. In addition to this, the degradation process of wood starts in the hydroxyl group due to the enzymes that are present, eventually resulting in wood rot. In contrast, an acetyl group does not attract water, meaning that fungi cannot take hold and making the wood very stable and extremely durable. Other advantages of the acetylated wood are the low maintenance costs, the natural appearance and the excellent processability.

UNIQUE PRODUCT
For Accsys, it all started in 2003. In that year, Accsys acquired a wood acetylation test factory and all the accompanying intellectual property rights from the SHR test institute and knowledge centre in Wageningen. Following further development, Accsys built the first commercial factory to produce acetylated wood in Arnhem in 2007. A global marketing strategy was employed to market this unique product properly. The acetylated wood was sold under the name “Accoya”. However, 2008 saw the start of a very difficult period for Accsys. The strategy at the time was to award licences to third parties for the wood modification technology developed by Accsys. This would allow them to implement an attractive earnings model without requiring large amounts of capital (to build factories). However, things turned out very differently. The partners that were found failed to honour the agreements and by 2010 the business was in trouble.
CHANGING STRATEGY

The Accsys management was replaced and the current CEO, Paul Clegg, was appointed. The strategy was changed and Accsys realised that they would first have to demonstrate that the production of acetylated wood could be exploited in a profitable manner. This needed to be done for the business itself, but also to attract third parties with a good reputation to build a factory in the future based on a licence agreement. Significant additional capital was required for this, however. In 2011, over € 45 million in new share capital was raised. The business and the shareholders were aware at the time that this was a process that would take years to get everything on the right track. The production process in Arnhem improved gradually and a lot of hard work was put into building a stronger reputation (and brand awareness) for Accoya. In about 2015, the production facility in Arnhem reached a level of healthy profitability, which meant that the important “proof of concept” had been achieved. The demand for Accoya even increased to such an extent that the management developed a plan to double the production capacity in Arnhem, in which the profit margins could be improved even further. During this period, Accsys was also very busy developing a second product, called “Tricoya”. This product consists of acetylated wood chips that are used by panel makers to produce (MDF) panels with unique properties similar to those of Accoya.

IMPRESSED

As you are aware, we specifically look at the development of the “smaller” listed companies. During the past period, we have become convinced that Accsys is at the start of a strong value-creating period in its life-cycle. We are impressed by their products, which have unique characteristics and clearly distinguish Accsys from the very large, regulated and strongly fragmented wood market. In addition to this, the products are protected by intellectual property rights and strong brands. The trends in the wood market - such as an increase in regulation, focus on sustainability, increase in affluence and urbanisation - will contribute to an increase in the demand for Accsys products over the coming years.

The positive developments are underscored by the announcement in March 2017 that the factory in Arnhem wants to expand and a new factory for Tricoya will be built in Hull in the United Kingdom. The required substantial investments will be raised by Accsys itself and a network of strong strategic partners, such as BP, Solvay and Medite. Accsys has also announced that it wants to raise € 14 million in new share capital for this purpose.
SUSTAINABLE VALUE CREATION

Over the past period, we have studied the Accsys business case in detail, with a view to obtaining a stake in the company. Our activities in this regard did not go unnoticed by the Directors of Accsys. The Directors of Accsys also wanted to attract a Dutch major shareholder with a clear focus on long-term sustainable value creation. These matters were neatly combined by the share issue that was announced. The share issue offered us the perfect opportunity to invest and instantly acquire a 5% stake, whilst giving Accsys the opportunity to welcome a Dutch major shareholder with a good reputation. It was announced today (24/04/2017) that the share issue was successful and we can announce that we are delighted to be a major shareholder in Accsys.

Accsys has a dual stock market listing, both in London and in Amsterdam. The CEO is an Englishman with a strong Dutch background. He also speaks Dutch very well. The COO (operational director) is Dutch and the majority of the employees are active in the Netherlands. Based on our investment philosophy, we are convinced that we can fulfill our role as long-term involved major shareholder and can effectively influence the material developments in the company. Teslin has acquired a stake in Accsys Technologies via Todlin NV.

Jan-Jaap Bongers, Todlin NV