

# Findel

Trading update

## A strong finish to the year

Findel's (FDL's) attractive online-led value retail proposition is continuing to deliver impressive results. With the mandatory offer by Sports Direct having lapsed, FDL has issued a post-close update confirming a strong trading performance in Q4 in both Studio and Education and expectations for FY19 PBT to slightly exceed market consensus of £27–28m. We upgrade our PBT forecasts by 6% for FY19 and 1% for FY20. Given recent share price weakness, our unchanged valuation of 348p is twice the current share price.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	P/E (x)	EV/EBITDA (x)
03/17**	457.0	40.8	22.2	20.4	8.5	5.5
03/18	479.0	46.6	26.8	25.9	6.7	4.8
03/19e	507.0	51.3	28.5	27.7	6.2	4.4
03/20e	540.4	54.1	29.5	28.5	6.1	4.1

Note: \*PBT and EPS are normalised, excl intangible amortisation, exceptional items and share-based payments. \*\*53 weeks, restated. Historical results are not restated for IFRS9.

## Post-close: Beating current market expectations

Studio continued to trade strongly in the fourth fiscal quarter. Categories that performed particularly well included garden ranges, boosted by good weather in early February, and homewares. Similarly, education enjoyed a solid final quarter with an acceleration in customer recruitment and ongoing improvement in online ordering levels. Management expects FY19 pre-tax profits to slightly exceed the current market consensus of £27–28m (we estimated £27m before the update). Core net debt at the end of March was c £57m, marginally below our forecast of £58.5m. This represents a c £17m reduction in core net debt year-on-year.

## Forecasts: 6% FY19e earnings upgrade

We upgrade our underlying PBT forecast by 5.6% for FY19e, mainly reflecting a strong sales performance and continued margin improvement in Studio across the year. We further upgrade our FY20e PBT forecast by 1.0%, representing year-on-year earnings growth of 3.5%.

## Valuation: 100% upside given share price weakness

Since the start of November the share price has fallen 45%, from an undisturbed price of 250p (before the sale of stakes representing 24.1% of FDL's issued share capital by Toscafund Asset Management and City Financial Investment Company, for reasons unrelated to their views on the company). This decline appears unjustified given the strength of trading and ongoing reduction in core net debt. At this stage we make no change to our blended valuation of 348p, which is now twice the current share price. In our view, minimal take-up (representing only 0.01% of FDL's issued share capital) of the recent unsolicited mandatory offer by Sports Direct at 161p highlights ongoing support for the strategy and future growth prospects.

Retail

9 May 2019

**Price** 173p  
**Market cap** £149m

Core net debt (£m) at 31 March 2019	c 57
Shares in issue	86.4m
Free float	61%
Code	FDL
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	8.0	(4.9)	(32.2)
Rel (local)	10.1	(7.8)	(29.3)
52-week high/low	302.00p	154.00p	

### Business description

Findel is a multi-channel retailer operating across the business-to-consumer and business-to-business market places. It is a market-leading online value retailer and educational resource supplier in the UK.

### Next events

Final results	5 June 2019
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**Exhibit 1: Financial summary**

	£'000s	2017	2018	2019e	2020e
Mar		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		457,030	478,959	507,043	540,384
Cost of Sales		(269,182)	(280,230)	(300,607)	(320,110)
Gross Profit		187,848	198,729	206,436	220,275
EBITDA		40,786	46,569	51,305	54,123
Operating Profit (before amort. and except.)		33,300	38,146	42,443	45,162
Intangible Amortisation		(1,959)	(1,996)	(2,552)	(2,387)
Operating profit pre exc post intang amortisation		31,341	36,150	39,891	42,775
Exceptionals		(82,152)	0	(4,500)	0
Other/share based payments		(191)	(199)	(1,000)	(1,000)
Operating Profit		(51,002)	35,951	34,391	41,775
Net Interest		(8,920)	(9,130)	(10,345)	(12,244)
Derivatives, other		556	(4,701)	0	0
Profit Before Tax (norm)		22,230	26,821	28,546	29,531
Profit Before Tax (FRS 3)		(59,366)	22,120	24,046	29,531
Tax		1,659	2,081	(4,737)	(5,906)
Profit After Tax (norm)		17,617	22,397	23,909	24,625
Profit After Tax (FRS 3)		(57,707)	24,201	19,309	23,625
Average Number of Shares Outstanding (m)		86.3	86.3	86.3	86.3
EPS - normalised (p)		20.4	25.9	27.7	28.5
EPS - normalised and fully diluted (p)		20.4	25.9	27.7	28.5
EPS - (IFRS) (p)		(66.8)	28.0	22.4	27.4
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		41.1	41.5	40.7	40.8
EBITDA Margin (%)		8.9	9.7	10.1	10.0
Operating Margin (before GW and except.) (%)		7.3	8.0	8.4	8.4
<b>BALANCE SHEET</b>					
Fixed Assets		79,012	81,687	84,288	84,940
Intangible Assets		26,185	25,175	28,947	28,560
Tangible Assets		44,417	47,596	46,489	47,528
Investments		8,410	8,916	8,852	8,852
Current Assets		301,265	311,918	340,669	366,563
Stocks		57,108	54,180	57,017	70,405
Debtors		212,648	231,037	246,996	260,584
Cash		29,173	26,244	36,333	35,252
Other		2,336	457	322	322
Current Liabilities		(91,789)	(81,190)	(84,914)	(91,822)
Creditors		(91,244)	(80,618)	(84,396)	(91,304)
Short term borrowings		(545)	(572)	(518)	(518)
Long Term Liabilities		(271,785)	(273,170)	(280,672)	(278,172)
Long term borrowings		(253,603)	(258,001)	(264,192)	(264,192)
Other long term liabilities		(18,182)	(15,169)	(16,480)	(13,980)
Net Assets		16,703	39,245	59,371	81,509
<b>CASH FLOW</b>					
Operating Cash Flow		12,281	11,439	28,691	29,249
Net Interest		(9,103)	(8,365)	(10,716)	(12,424)
Tax		148	581	(1,383)	(5,906)
Capex		(11,724)	(10,595)	(12,357)	(12,000)
Acquisitions/disposals		1,168	(450)	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Net Cash Flow		(7,230)	(7,390)	4,235	(1,081)
Opening net debt/(cash)		216,682	224,974	232,329	228,377
HP finance leases initiated		0	0	(283)	0
Other		(1,062)	35	0	0
Closing net debt/(cash)		224,974	232,329	228,377	229,458

Source: Company data, Edison Investment Research. Note: Historical results are not restated for IFRS 9.

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