EDISON

Park Group

Estimate revision

Billings deferred but implied margin positive

Financial services

Park recently issued a trading update ahead of publishing results on 12 June for the year to 31 March 2018. Due to a later start for a significant corporate order FY18 billings are lower than expected, although the contract is now underway. Given the scale of the billings impact, Park's guidance that results will only be marginally below market expectations implies that trading margins are stronger than we had forecast, which would continue a multi-year trend that has been driven by product innovations and digital efficiencies.

Year end	Billings* (£m)	PBT** (£m)	EPS** (p)	DPS (p)	P/E (x)	Yield (%)
03/16	385.0	11.9	5.2	2.75	15.3	3.5
03/17	404.5	12.4	5.3	2.90	15.0	3.7
03/18e	412.7	12.8	5.5	3.05	14.5	3.8
03/19e	438.6	13.6	5.8	3.20	13.7	4.0

Note: *Billings is a non-statutory measure of sales defined as the face value of voucher sales and the amount of value loaded onto prepaid cards, less any discount given to customers. **PBT and EPS (fully diluted) are on a statutory basis.

Changes to estimates ahead of results

FY18 results will be affected by the delayed start to the contract and some additional costs related to the ongoing senior management changes. Ahead of the full details, we have interpreted "marginally below market expectations" as a 2% reduction in FY18 PBT, which implies an increase in gross margin. This most likely reflects a continuation of the H118 product sales mix trend (more flexecash product and fewer third-party vouchers) that is margin positive. For FY19, more cautious billings growth assumptions flow through to a 5% reduction in forecast PBT. Our forecast DPS growth is unchanged and the dividend remains well covered while the cash position remains strong.

New initiatives gaining traction

Constant innovation has supported growth in the Consumer business, substantially Christmas savings, and the Corporate business, which is based around incentive and rewards services. The target market is large (£5.6bn a year as defined by the UK Giftcard & Voucher Association), providing ample potential for further growth. The trading update confirms progress with the roll-out of Evolve, a live online platform providing organisations with a quick, easy and reliable way to reward employees or customers with digital rewards codes via email or SMS, and Love2shop Worldwide, its worldwide equivalent. Around two-thirds of Christmas savings transactions are already made using a mobile device and Park's recently introduced mobile app makes the process faster, easier and more convenient, targeting a broader customer base and increased order levels.

Valuation: Reducing fair value in line with earnings

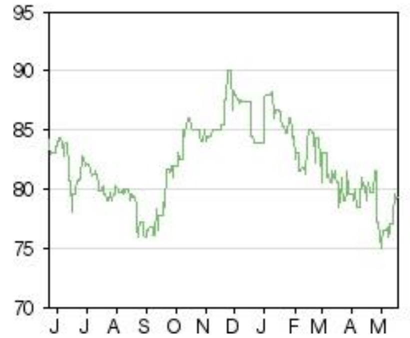
We have reduced our fair value in line with the FY19e earnings changes, from 88p to 84p.

21 May 2018

Price	**79.25p**
Market cap	**£147m**

Net cash (£m) at 30 September 2017 (excludes £194.2m of cash held in trust in respect of customer liabilities)	5.4
Shares in issue	185.6m
Free float	98.2%
Code	PKG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.6)	(6.8)	(5.5)
Rel (local)	(7.1)	(12.5)	(10.1)
52-week high/low		90.0p	75.0p

Business description

Park Group is a specialised financial services business and is one of the UK's leading multi-retailer voucher and prepaid gift card businesses, focused on the corporate gift and Christmas savings markets. Sales are generated through the internet, a direct sales force and agents.

Next events

Preliminary results	12 June 2018

Analysts

Martyn King +44 (0)20 3077 5745

Andrew Mitchell +44 (0)20 3681 2500

financials@edisongroup.com

Edison profile page

Park Group is a research client of Edison Investment Research Limited

Billings deferred but positive margin

The short trading update covers the financial year ended 31 March 2018 (FY18), with preliminary results due to be published on 12 June 2018. Park says it expects continued growth, with results ahead of last year but marginally below market expectations.

The main reason provided for the slight shortfall is a delay in the roll-out of a significant contact with a client in the Corporate business. Although it is now underway, the impact on billings and revenues will not begin until FY19. As a result of the delay, management indicates that FY18 Corporate billings remained relatively flat in FY18 despite seeing increased traction in the value loaded onto flexecash products, and continuing customer uptake of the Evolve platform and Love2shop Worldwide. The number of corporate clients using the Evolve platform in the UK had reached 269 by end FY18, compared with 165 a year earlier and 249 at the time of the interim report in November 2017. Love2shop Worldwide, launched in May 2017, now has 48 international organisations using the platform, up from 31 in November.

In the Consumer business, completed orders were almost 4% ahead of the year before, while downloads of the Park savings app continue to grow, reaching more than 170,000.

In addition to the Corporate business billings delay, Park has experienced some additional costs as a result of the recent changes in senior management. New chief executive officer, Ian O'Doherty, took over in February, replacing Chris Houghton who retired from the group after more than 30 years of service, and who had held the position of CEO since 2012. Mr O'Doherty brings significant banking and payment and card services experience, highly relevant for Park's continuing expansion. A successor for group finance director, Martin Stewart, has also been appointed. Mr Stewart announced his intention to leave the company last December after 13 years of service, and will be replaced by Tim Clancy, who will join the board Park and its board in August. Mr Stewart will remain with the company until an orderly handover is completed. Mr Clancy joins Park from Assurant Europe, the European subsidiary of Assurant Inc., the US-listed global insurance provider, where he has been chief financial officer since February 2013. Before that he was commercial finance director of Shop Direct Group, owner of the consumer brands Littlewoods and Very, which have transitioned to on-line retail from traditional mail order and high street distribution. Completing the change in the executive team that has managed the transformation of the group over the past 10-15 years, it was also announced at the end of March 2018 that Gary Woods, managing director of Park Retail Group, would step down from the board after 38 years of service, passing on his executive duties internally.

Billings delayed but margins higher than we forecast

The fact that Park is now guiding to profits being only marginally below previous market expectations, despite a fairly substantial deferment of billings, suggests that trading margins are running ahead of the level that we had forecast. We see little room for positive surprise from interest earnings to provide the off-set to billings weakness; the strong cash profile for the year is known with some degree of certainty (peaking in November at a record £229m as reported with the interim results) while interest earnings are yet to benefit from the rise in interest rates at the very short end of the yield curve. Meanwhile, administrative costs are subject to some upwards pressure as note above.

Ahead of the release of full-year results on 12 June, we have made preliminary adjustments to our estimates. The FY18 billings reduction is focused on Corporate and we have provisionally interpreted the comment of earnings growth being "marginally below market expectations" as a 2% reduction from our previous estimate (representing growth of c 4% on FY17). Our forecast for the

FY18 gross margin on billings increases to 7.7% from 7.5% in FY17, continuing the improving trend of recent years (FY16: 7.4%), and above the 7.4% that we previously forecast, which had cautiously allowed for the possibility of some competitive margin erosion. A full explanation of the drivers awaits the full-year results, although we note that the product sales mix trends of H118 (more flexecash driven product and fewer third-party vouchers) were margin positive.

The FY18 billings delay has a knock-on effect on our FY19 estimate and we have also taken a more cautious approach to the underlying growth rate of billings. Our FY19 PBT estimate is lowered by 5%.

The trading statement makes clear that the overall financial position of the group remains solid, with cash balances and order books again ahead of their positions at the same time last year. On this basis, our DPS forecasts remain the same, with dividends remaining well covered by earnings.

Exhibit 1: Provisional estimate revisions

	Billings (£m)			Revenues (£m)			IFRS PBT (£m)			Reported EPS (p)			DPS (p)		
	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
03/18e	412.7	432.3	-5%	298.5	317.4	-6%	12.8	13.2	-2%	5.47	5.61	-2%	3.05	3.05	0%
03/19e	438.6	462.9	-5%	301.3	324.8	-7%	13.6	14.3	-5%	5.77	6.08	-5%	3.20	3.20	0%

Source: Edison Investment Research

Exhibit 2: Financial summary

Year end 31 March	£'000s	2015	2016	2017	2018e	2019e
PROFIT & LOSS		**IFRS**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Billings		372,887	385,031	404,512	412,660	438,586
Revenue		293,329	302,545	310,927	298,538	301,301
Cost of sales		(265,966)	(274,060)	(280,758)	(266,920)	(267,593)
Gross margin		27,363	28,485	30,169	31,618	33,707
Distribution costs		(2,761)	(2,909)	(2,940)	(2,836)	(2,862)
Administrative expenses		(13,057)	(13,150)	(14,274)	(15,661)	(17,074)
EBITDA		11,545	12,426	12,955	13,121	13,771
Depreciation & amortisation		(1,308)	(1,309)	(1,358)	(1,258)	(1,216)
Amortisation of acquired intangible, goodwill impairment, & impairment of investment property		(314)	(86)	(47)	(47)	(47)
Share-based payments		(235)	(631)	(669)	(350)	(350)
Exceptional operating income		0	0	0	0	0
Operating profit		9,688	10,400	10,881	11,466	12,158
Operating Profit (before amort. and except.)		10,237	11,117	11,597	11,863	12,555
Net Interest		1,245	1,457	1,470	1,363	1,396
Profit Before Tax (norm)		11,482	12,574	13,067	13,225	13,951
Profit before tax (IFRS)		10,933	11,857	12,351	12,828	13,554
Tax		(2,434)	(2,169)	(2,452)	(2,566)	(2,711)
Profit after tax (norm)		8,926	10,274	10,473	10,580	11,161
Profit after tax (IFRS)		8,499	9,688	9,899	10,263	10,843
Discontinued operations		0	0	0	0	0
Profit after tax (IFRS)		8,499	9,688	9,899	10,263	10,843
Average Number of Shares Outstanding (fully diluted,m)		184.7	187.2	187.2	187.6	187.9
Basic EPS - IFRS (p)		4.66	5.28	5.38	5.54	5.84
Fully diluted EPS - IFRS (p)		4.60	5.18	5.29	5.47	5.77
EPS - normalised fully diluted (p)		4.83	5.49	5.59	5.64	5.94
Dividend per share (p)		2.40	2.75	2.90	3.05	3.20
Gross margin on billings (%)		7.3	7.4	7.5	7.7	7.7
EBITDA margin as % of billings		3.1	3.2	3.2	3.2	3.1
Operating margin (before GW and except) as % billings		2.7	2.9	2.9	2.9	2.9
BALANCE SHEET						
Fixed assets		13,932	13,749	14,399	14,139	13,930
Intangible assets		4,488	4,356	4,884	4,680	4,518
Tangible assets		8,143	8,003	7,688	7,632	7,586
Retirement benefit obligation		1,293	1,390	1,827	1,827	1,827
Other		8	0	0	0	0
Current assets		106,998	119,365	129,182	132,289	147,606
Debtors		14,937	11,411	11,928	12,159	12,923
Cash held in trust		65,728	75,219	83,018	87,453	95,742
Cash available to group		26,333	32,735	34,236	32,677	38,941
Current liabilities		(118,190)	(124,808)	(130,038)	(128,520)	(138,769)
Creditors		(75,004)	(80,041)	(83,874)	(81,656)	(87,778)
Provisions		(43,186)	(44,767)	(46,164)	(46,864)	(50,992)
Short-term borrowings		0	0	0	0	0
Long-term liabilities		(2,907)	(1,881)	(1,118)	(435)	249
Long-term borrowings		0	0	0	0	0
Deferred tax		(273)	(181)	(194)	(194)	(194)
Retirement benefit obligation		(2,634)	(1,700)	(924)	(241)	443
Net assets		(167)	6,425	12,425	17,473	23,016
Minorities		0	0	0	0	0
Shareholders' equity		(167)	6,425	12,425	17,473	23,016
CASH FLOW						
Operating Cash Flow		14,106	12,184	9,903	8,902	11,410
Net interest		1,176	1,339	1,539	1,363	1,396
Tax		(2,132)	(2,490)	(2,258)	(2,566)	(2,711)
Capex		(597)	(1,126)	(717)	(1,045)	(1,055)
Acquisitions/disposals		41	52	(875)	1	0
Financing		0	0	5	0	0
Dividends		(4,198)	(4,380)	(5,052)	(5,340)	(5,650)
Other		0	(3)	0	0	0
Net cash flow		8,396	5,576	2,545	1,314	3,390
Opening net (debt)/cash		14,844	23,241	28,817	31,362	32,677
Closing net (debt)/cash		23,241	28,817	31,362	32,677	36,067

Source: Company data, Edison Investment Research