EDISON

Findel

Post-close update

Express opens up

Retail

Further strengthening in customer recruitment bodes well for Express sales volumes in FY18, while the short-term margin impact is essentially a side-effect. Chairman Ian Burke's appointment of Phil Maudsley, the longstanding Managing Director of Express Gifts, to the CEO position indicates where the strategic emphasis now lies. Our valuation of 236p is not demanding at an FY18e P/E of 8.8x.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	406.9	27.7	25.8	0.0	7.8	0.0
03/16	410.6	24.8	23.0	0.0	8.7	0.0
03/17e	459.7	24.0	23.1	0.0	8.7	0.0
03/18e	501.4	28.0	26.8	0.0	7.5	0.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong trading and customer recruitment at Express

Express Gifts continued its strong H2 performance with like-for-like sales growth of 14% (H1: 11.8%). Product sales were up c 16% (H1:12%). Customer recruitment repaid the company's focus with spectacular 21% growth in the last 13 weeks on top of 13% for the first three quarters. This bodes very well for volumes in FY18. Education did not sustain the improvement noted in January; it ended c 4% down in like-for-like revenue. Core net debt reduced to £80m, £6m down on the year.

Currency impact on FY17 forecasts only

As a result of the lower margins caused by US dollar product purchases in H2, we downgrade our pre-tax forecasts by 6% for FY17 only. As the indication for Express is that the revenue risk is on the upside, despite margin risk, we are leaving our FY18 pre-tax forecast unchanged at £28.0m, growth of 12%.

Increases in provisions

The provision for flawed financial products is increasing from £17.7m to £29m, following more detailed analysis. There is expected to be an approximately equal split between cash and account balance refunds. In addition there will be an £8m onerous lease provision for the Hyde premises following relocation of the head office to the Express office in Accrington.

Management changes

Phil Maudsley's appointment as CEO indicates the strategic emphasis now is under the chairmanship of Ian Burke. Tim Kowalski, Group Finance Director for the last seven years, is standing down with expressions of gratitude from the Board.

Valuation:

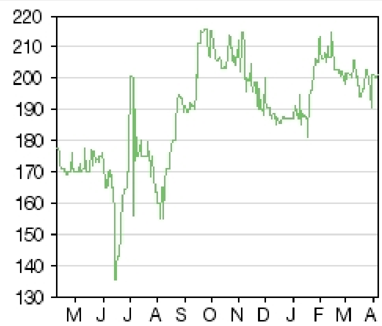
Reflecting the direct cash element of the financial products provision, as well as reduced estimates for FY17, we revise our sum-of-the parts valuation from 265p to 236p. This represents an undemanding P/E multiple of 8.8x our FY18 earnings per share.

7 April 2017

Price	**201p**
Market cap	**£174m**

Net debt at 31 March 2017 (£m)	80
Shares in issue	86.4m
Free float	100%
Code	FDL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.0	7.5	13.4
Rel (local)	0.3	5.5	(3.6)
52-week high/low		215.8p	130.0p

Business description

Findel is a multi-channel retailer operating across the business-to-consumer and business-to-business market places. It is a market leader in the home shopping and educational supplies sectors. Findel's objective is to be the leader in selling and delivering products to businesses and consumers via catalogues and the internet.

Next events

Full year results	Early May 2017

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Edison profile page

Findel is a research client of Edison Investment Research Limited

Post-close update

Express Gifts: Customer recruitment accelerates

Online value retailer Express Gifts, which is Findel's largest business (c 90% FY18e EBIT), continued its strong performance throughout the second half of FY17, after a promising first 16 weeks reported in January. Total sales grew by 14% for a like-for-like 52-week period (H1: 11.8%) and within this product sales were up c 16% (H1: 12%).

The customer recruitment drive that has been a focus this year has been very successful. We noted in January that the number of customers had increased by 13% to 1.56m at the end of December. Since then growth has accelerated further, with 21% growth in the last 13 weeks. This bodes very well for volumes in the coming year.

As we explained in January, new customers do not buy enough in their first three months to cover Express's costs to recruit them ie there is a profit drag from new customers that unwinds progressively. As second half customer recruitment has stepped up, this factor has increased. The Far East product that Express has needed to invest in customer recruitment has been at less favourable US dollar exchange rates, which has had an impact on second-half margins beyond management's original expectations.

Education: Difficulties continue

The division reports continuing difficult market conditions with like-for-like (52-week) sales declining c 4% in FY17. This indicates that the improving sales trends that were seen in the first 16 weeks of the second half to January has not continued. As we reported in January, full-year cost benefits from the major warehouse consolidation project that was completed should be c £3m.

Increases in provisions

Findel has revisited its provision in respect of past flawed financial services products. After carrying out a detailed assessment of the customer database, it is increasing its overall provision estimate from £17.7m to £29m, an exceptional charge of £11.3m. The increase replaces an earlier assumption that the profile of refunds across the main flawed products would be the same. The refund exercise is expected to be completed over the next 18 months with an approximate equal split between cash and account balance refund. Refunds to customers to date total £4.3m.

The company will also make an £8m onerous lease provision for the former head office in Hyde, which has moved to Express Gifts' office in Accrington. Findel Education continues to occupy part of the Hyde office and new tenants are being sought for the space vacated by the head office functions.

Management changes

Phil Maudsley's appointment as CEO, having been Managing Director of Express Gifts for over 20 years, indicates where the strategic emphasis now is under the chairmanship of Ian Burke, who is moving to a conventional non-executive chairmanship. Tim Kowalski, Group Finance Director for the last seven years, is standing down with expressions of gratitude and good wishes from the Board. Pending recruitment of his successor Stuart Caldwell (previously Group Financial Controller) will serve as Acting Chief Financial Officer.

Net cash improvement

Net bank debt has reduced further since the December figure of £81.8m, and is now expected to be c £80m, which compares with £85.6m at end March 2016 and is c £5m lower than we were expecting. This is despite the higher working capital requirement that has been necessary for Express Gifts' customer recruitment drive.

Estimates: Margins drive short-term reduction only

As a result of the lower margins caused by product purchases denominated in US dollars in the second half, Findel indicates that FY17 pre-tax profit is likely to be slightly below the consensus range of pre-tax profit estimates. It defines that range as £25.5-26.0m. We were already at the bottom of that range and we are downgrading our pre-tax forecast from £25.5m to £24m.

The company continues to be watchful on input pricing in relation to foreign exchange rates, but the indication for Express at the moment is that the revenue risk is on the upside. As a result we are leaving our FY18 pre-tax forecast unchanged at £28.0m.

Exhibit 1: Changes to estimates

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
03/17e	24.5	23.1	-5.7%	25.5	24.0	-5.9%	44.6	43.1	-3.4%
03/18e	26.8	26.8	0.0%	28.0	28.0	0.0%	48.1	48.1	0.0%

Source: Edison Investment Research

Valuation

As the company has now guided on the full year result for FY17, we refer both to FY17 and FY18 forecasts and ratings within our sum of the parts valuation (except for Education, which we already valued based on FY18e).

We are reducing our valuation from 265p to 236p, as a result of three factors:

1. Our earnings forecast reductions described above;
2. Reduction in the rating of our reference stock N Brown for FY17 and FY18. We use N Brown's P/E ratio discounted by the dividend yield to reflect the absence of a dividend at Findel;
3. Inclusion of the estimated cash effect of the financial products provision. This is estimated by the company as half the total provision of £29m. The cash element represents those customers who no longer have active accounts, to whom the company will need to make cash refunds. Other customers who have existing accounts will be offered incentives designed to increase their business and so mitigate the effect.

We do not reflect the onerous leases provision in our valuation as our forecasts already reflect actual rents payable.

The improvement of net debt from December's £81.8m to £80m has a minor effect on our valuation.

Exhibit 2: Sum-of-the-parts valuation

£'000s	Basis	Metric	Multiple	Value
Express (incl securitisation facility)	NOPAT FY17	26,249	8.7	228,740
	NOPAT FY18	27,709	9.0	248,949
	Average			**238,844**
Education	**Estimated FY18 EBITDA**	**9,482**	**8.0**	**76,655**
FASL	NOPAT FY17	(459)	8.7	(4,004)
	NOPAT FY18	(478)	9.0	(4,293)
	Average			**(4,148)**
Enterprise value				**311,351**
Core net debt	December 2016 via Q3 trading update			(80,000)
Pension deficit	Interim balance sheet 30 September 2016			(12,846)
Cash provisions on financial products	50% of provision			(14,500)
Equity value				**204,005**
Number of shares				86,443
SOTP value per share (p)				**236p**

Source: Edison Investment Research

Our valuation of 236p would equate to a P/E ratio of 10.2x for FY17e falling to 8.8x for FY18e, which is scarcely demanding.

Economic concerns remain on the impact of inflation, caused mainly by adverse exchange rates, on consumers' disposable incomes. However, the consumer has demonstrated remarkable resilience to date, and the recently introduced Living Wage regulation is likely to have a favourable effect on disposable incomes. At the same time this and business rates increases are likely to adversely affect the cost base of terrestrial retailers. Findel is demonstrating success in growing its customer base which is encouraging to our expectations of earnings growth in the year ahead.

Exhibit 3: Financial summary

£'000s	2013	2014	2015	2016	2017e	2018e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	491,233	402,200	406,930	410,601	459,677	501,363
Cost of Sales	(254,481)	(265,468)	(215,146)	(213,479)	(240,972)	(264,197)
Gross Profit	236,752	136,732	191,784	197,122	218,705	237,166
EBITDA	31,999	43,320	45,136	41,758	43,101	48,112
Operating Profit (before amort. and except.)	26,787	39,224	41,686	37,264	37,075	42,026
Intangible Amortisation	(2,621)	(2,848)	(3,029)	(2,348)	(1,930)	(2,027)
Operating profit pre exc post intang amortisation	24,166	36,376	38,657	34,916	35,145	39,999
Exceptionals	(11,031)	(16,928)	(27,036)	(25,458)	(3,167)	0
Other/share based payments	(1,847)	(1,698)	(861)	(239)	(1,000)	(1,000)
Operating Profit	11,288	17,750	10,760	9,219	30,978	38,999
Net Interest	(10,523)	(9,876)	(10,097)	(9,901)	(10,131)	(10,995)
Financial exceptional items	(283)	(472)	(136)	(998)	735	0
Profit Before Tax (norm)	11,796	24,802	27,699	24,776	24,013	28,004
Profit Before Tax (FRS 3)	482	7,402	527	(1,680)	21,581	28,004
Tax	1,103	(1,857)	(5,323)	91	(4,264)	(5,881)
Profit After Tax (norm)	12,130	22,563	21,994	19,785	19,943	23,123
Profit After Tax (FRS 3)	2,890	2,219	(25,261)	(10,196)	17,317	22,123
Average Number of Shares Outstanding (m)	84.8	84.8	85.2	86.1	86.3	86.3
EPS - normalised (p)	14.3	23.7	25.8	23.0	23.1	26.8
EPS - normalised and fully diluted (p)	12.1	19.9	22.2	20.3	20.4	23.6
EPS - (IFRS) (p)	3.4	2.6	(29.7)	(11.8)	20.1	25.6
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	48.2	34.0	47.1	48.0	47.6	47.3
EBITDA Margin (%)	6.5	10.8	11.1	10.2	9.4	9.6
Operating Margin (before GW and except.) (%)	5.5	9.8	10.2	9.1	8.1	8.4
BALANCE SHEET						
Fixed Assets	140,839	133,047	94,428	92,927	98,706	99,594
Intangible Assets	100,892	90,337	50,217	47,322	47,638	50,611
Tangible Assets	31,329	34,644	35,070	41,423	43,041	40,955
Investments	8,618	8,066	9,141	4,182	8,028	8,028
Current Assets	327,016	301,960	328,250	321,279	335,278	366,950
Stocks	58,896	64,406	65,405	53,472	60,669	66,339
Debtors	210,234	213,284	224,375	229,848	263,120	295,418
Cash	34,023	24,270	38,470	34,405	9,964	3,668
Other	23,863	0	0	3,554	1,525	1,525
Current Liabilities	(86,941)	(82,861)	(82,340)	(76,191)	(82,444)	(86,879)
Creditors	(86,941)	(82,861)	(82,340)	(75,673)	(81,912)	(86,347)
Short term borrowings	0	0	0	(518)	(532)	(532)
Long Term Liabilities	(280,443)	(240,498)	(257,628)	(259,140)	(263,514)	(274,346)
Long term borrowings	(259,176)	(231,223)	(245,021)	(250,569)	(245,252)	(255,252)
Other long term liabilities	(21,267)	(9,275)	(12,607)	(8,571)	(18,262)	(19,094)
Net Assets	100,471	111,648	82,710	78,875	88,027	105,318
CASH FLOW						
Operating Cash Flow	26,500	26,097	19,250	8,889	2,120	9,580
Net Interest	(10,000)	(9,482)	(9,938)	(9,549)	(9,709)	(10,995)
Tax	(1,761)	(998)	(1,396)	(2,494)	(4,000)	(5,881)
Capex	(8,259)	(11,831)	(10,269)	(15,940)	(9,927)	(9,000)
Acquisitions/disposals	0	15,461	1,720	11,115	2,318	0
Financing	0	0	(500)	0	0	0
Dividends	0	0	0	0	0	0
Net Cash Flow	6,480	19,247	(1,133)	(7,979)	(19,198)	(16,295)
Opening net debt/(cash)	230,659	226,168	206,953	206,551	216,682	235,820
HP finance leases initiated	0	0	0	0	0	0
Other	(1,989)	(32)	1,535	(2,152)	60	(0)
Closing net debt/(cash)	226,168	206,953	206,551	216,682	235,820	252,116

Source: Company accounts, Edison Investment Research

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