

Findel

Post-close update

Express opens up

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.

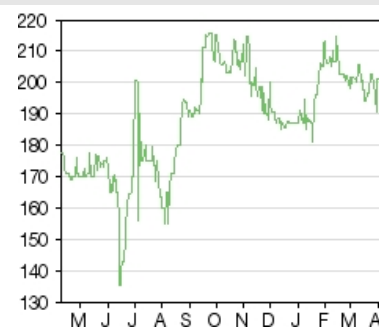
Retail

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

Analysts

Paul Hickman +44 (0)20 3681 2501
 Neil Shah +44 (0)20 3077 5715

consumer@edisongroup.com

[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

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Findel and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE data is permitted without FTSE's express written consent.