

Findel

Pre-close statement

Strong finish - Forecast upgrade

Findel indicates that it will finish FY18 at the top end of current market expectations. This suggests that both the online strategy and the turnaround strategy at Findel Education are on course. We upgrade FY18 profit forecasts to the new guidance level and retain our 312p valuation which, at an FY18e P/E of 10.5x, is modest for a company with an online presence of 72% and 13% PBT CAGR 2017-19e.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	410.6	24.8	23.0	0.0	11.6	N/A
03/17	457.0	22.2	20.4	0.0	13.1	N/A
03/18e	477.4	26.5	25.4	0.0	10.5	N/A
03/19e	505.6	28.5	27.3	0.0	9.8	N/A

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

Results to be at the top end of expected range

Findel signals that its FY18 results will be at the top end of current market expectations, a pre-tax range of £26.0-26.5m. Three factors are cited: strong growth in customer numbers and sales at Express Gifts, particularly ahead of Christmas; stronger collections and recoveries by the credit business; and good progress on the turnaround at Findel Education, with core UK brands seeing sales decline narrow to just 2% in H2 after a decline of 10% in H1.

Strong cash performance

Core FY18 net debt was c £74m, down by c £7m from the previous year. This extends the progress reported at interim, when core net debt reduced by £4m year-on-year.

Small forecast upgrade

We make no significant changes to our forecasts other than increasing our FY18 profit forecast to the new PBT guidance level of £26.5m, which is a 1.8% upgrade.

Valuation: We retain our 312p

Although Findel's share price has gradually firmed over the first quarter of 2018, it is still only priced at FY18e P/E of 10.5x, which is undemanding for a company where we forecast 13% pre-tax CAGR for the two years to FY19. Despite our slight upgrade to our FY18e forecast, there has been no material change to the outlook, and we retain our existing valuation of 312p per share. This would value the company at a P/E of 12.3x and EV/EBITDA of 7.3x (based on core net debt).

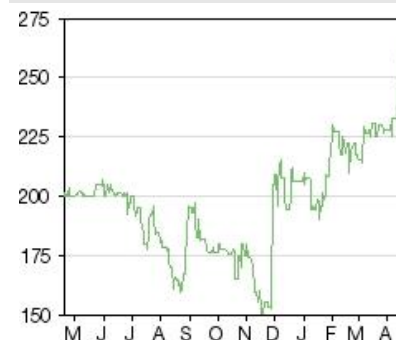
Retail

18 April 2018

Price 267p
Market cap £230m

Core net debt (£m) at 31 March 2018	74
Shares in issue	86.3m
Free float	69%
Code	FDL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	15.6	35.2	33.2
Rel (local)	14.8	43.9	34.1
52-week high/low		267.0p	150.2p

Business description

Findel comprises market-leading businesses in the UK online value retailing and education supplies markets. Findel's objective is to develop sustainable growth in a marketplace for value-conscious customers who are rapidly moving their purchases online.

Next events

Final results	6 June 2018
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Full-year results to be at top end of expected range

Findel signals that its FY18 results will be at the upper end of market expectations, a pre-tax range of £26.0-26.5m. Three factors are cited:

- Strong growth both in customer numbers and sales at Express Gifts, particularly ahead of Christmas.
- Stronger collections and recoveries by the credit business.
- Good progress on the turnaround at Findel Education, with core UK brands seeing sales decline narrow to just 2% y-o-y in H2 after a decline of 10% y-o-y in H1. Around half of sales are now coming through online channels, up sharply from c 18% at the start of the year.

Express Gifts: Pre-Christmas boost and better collections

The strong growth in customer numbers and sales reflects the 11% year-to-date product revenue growth reported in January, which was driven by the earlier timing of the pre-Christmas marketing campaign, with increased use of TV and social media. Product sales in the fourth quarter have been correspondingly quieter, but management still expects Express operating profit to be c 20% ahead for the year, which would suggest a figure in the region of £36m.

In part, this was also the result of better collections and recoveries from the consumer credit operation. The relevance of this statement is that it reflects the full-year application of the company's new bad debt provisioning model. This makes more granular predictions of account behaviour. This in turn drove seasonally lower provision at interim, which the company said would reverse by year end. If it is the case that the credit business contributed to the overall improvement in operating profit for the year as a whole, it indicates the increase in credit revenues has not been at the expense of quality, as it has been subject to the more granular analysis of the new model.

Findel Education: Realigned offer narrows the decline gap

Findel Education is making good progress on its turnaround strategy, designed to restore its competitiveness and reverse recent sales declines. The key features of the strategy are increasing the level of online ordering, aligning pricing for value; sourcing product direct from the Far East; and reducing costs through operational simplification. Now the core brands are seeing sales decline narrow to just 2% y-o-y in H2 after a decline of 10% y-o-y in H1, a significant improvement. Around half of sales are now coming through online channels, up sharply from c 18% at the start of the year.

Margin details are not disclosed; however, the sales progress may have been achieved at gross margin cost following significant price reductions in September 2017. Against this, the division is benefiting from savings on warehouse consolidation worth £2.0-2.5m in FY18 as well as c £1m of additional savings expected in the year.

Balance sheet: Core net debt reduced

Core net debt (ie bank borrowings excluding securitisation loans, less cash) ended the year at £74m, down by £7m from the previous year. This continues the downward trend seen over recent years, and extends the progress reported at interim, when core net debt reduced by £4m y-o-y. Outflows from the legacy customer refund programme remain on track.

Forecasts: Small upgrade

We make no significant changes to our forecasts other than increasing our FY18 profit forecasts to the new guidance level.

Exhibit 1: Changes to estimates									
	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
03/17	20.4	20.4	-	22.2	22.2	-	40.8	40.8	-
03/18e	25.0	25.4	1.7	26.0	26.5	1.8	46.7	47.2	1.0
03/19e	27.3	27.3	-	28.5	28.5	-	51.9	51.9	-

Source: Edison Investment Research

Valuation: We retain our 312p

Although Findel's share price has gradually firmed over the first quarter of 2018, it is still only priced at FY18e P/E of 10.5x. Although we have slightly upgraded our FY18e PBT forecast, there has been no material change to the outlook, and we retain our existing valuation of 312p per share. This would value the company at a FY18e P/E of 12.3x and FY18e EV/EBITDA of 7.3x (based on core net debt), which is undemanding for a company which has 72% online presence and where we forecast 13% pre-tax CAGR for the two years to FY19.

Exhibit 2: Financial summary

	£'000s	2016	2017	2018e	2019e
March year-end		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		410,601	457,030	477,380	505,581
Cost of Sales		(214,621)	(269,385)	(277,853)	(292,926)
Gross Profit		195,980	187,645	199,527	212,654
EBITDA		41,758	40,785	47,221	51,904
Operating Profit (before amort. and except.)		37,264	33,299	39,545	44,397
Intangible Amortisation		(2,348)	(1,959)	(2,031)	(2,495)
Operating profit pre exc post intang amortisation		34,916	31,340	37,513	41,902
Exceptionals		(25,458)	(82,152)	0	0
Other/share based payments		(239)	(191)	(1,000)	(1,000)
Operating Profit		9,219	(51,003)	36,513	40,902
Net Interest		(9,901)	(8,920)	(10,028)	(12,371)
Financial exceptional items		(998)	556	(3,817)	0
Profit Before Tax (norm)		24,776	22,229	26,485	28,531
Profit Before Tax (FRS 3)		(1,680)	(59,367)	22,668	28,531
Tax		91	1,659	(4,755)	(5,991)
Profit After Tax (norm)		19,785	17,616	21,961	23,539
Profit After Tax (FRS 3)		(10,196)	(57,708)	17,913	22,539
Average Number of Shares Outstanding (m)		86.1	86.3	86.3	86.3
EPS - normalised (p)		23.0	20.4	25.4	27.3
EPS - normalised and fully diluted (p)		20.3	20.4	25.4	27.3
EPS - (IFRS) (p)		(11.8)	(66.8)	20.8	26.1
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		47.7	41.1	41.8	42.1
EBITDA Margin (%)		10.2	8.9	9.9	10.3
Operating Margin (before GW and except.) (%)		9.1	7.3	8.3	8.8
BALANCE SHEET					
Fixed Assets		92,927	79,012	78,462	77,460
Intangible Assets		47,322	26,185	29,311	31,816
Tangible Assets		41,423	44,417	40,741	37,234
Investments		4,182	8,410	8,410	8,410
Current Assets		321,279	301,265	322,531	337,273
Stocks		53,472	57,108	68,840	71,819
Debtors		229,848	212,648	221,851	236,189
Cash		34,405	29,173	30,091	27,518
Other		3,554	2,336	1,748	1,748
Current Liabilities		(76,191)	(91,789)	(89,045)	(93,246)
Creditors		(75,673)	(91,244)	(88,527)	(92,728)
Short term borrowings		(518)	(545)	(518)	(518)
Long Term Liabilities		(259,140)	(271,785)	(277,206)	(272,215)
Long term borrowings		(250,569)	(253,603)	(264,192)	(264,192)
Other long term liabilities		(8,571)	(18,182)	(13,014)	(8,023)
Net Assets		78,875	16,703	34,742	49,273
CASH FLOW					
Operating Cash Flow		8,889	12,280	9,339	27,790
Net Interest		(9,549)	(9,103)	(10,028)	(12,371)
Tax		(2,494)	148	1,045	(5,991)
Capex		(15,940)	(11,724)	(10,000)	(12,000)
Acquisitions/disposals		11,115	1,168	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Net Cash Flow		(7,979)	(7,231)	(9,644)	(2,573)
Opening net debt/(cash)		206,551	216,682	224,975	234,619
HP finance leases initiated		0	0	0	0
Other		(2,152)	(1,062)	(0)	(0)
Closing net debt/(cash)*		216,682	224,975	234,619	237,192

Source: Company data, Edison Investment Research. Note: *Total net debt, including securitisation loans and finance leases, less cash.

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