

Findel

Trading update

Peak period starts strongly

Findel's pre-Christmas peak period has started strongly over recent weeks. Management retains its guidance for the full-year results and we retain our forecast of c 6% earnings growth. Past negatives, which have complicated the investment case, continue to be resolved: turnaround is on course at the smaller Education division, financial services redress is in the final stages and the balance sheet has strengthened further. We see no reason to change our valuation of 428p, which is c 60% above the current share price.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (p)	EPS* (p)	P/E (x)	EV/EBITDA (x)
03/17	457.0	40.8	22.2	20.4	13.2	7.7
03/18	479.0	46.6	26.8	25.9	10.4	6.7
03/19e	508.8	52.1	28.5	27.5	9.8	6.0
03/20e	538.6	55.7	30.9	29.8	9.1	5.6

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

Peak trading period starts strongly at Express

Express Gifts, trading as Studio, grew its revenue by 8% for the first 28 weeks to 12 October, which would be the envy of many terrestrial retailers. Express sells 70% of its goods online with the other 30% remaining in the catalogue model. Revenue growth was lower than the c 11% for the first 16 weeks of the financial year, depressed by the weak months of August and September. However, the start of the autumn marketing campaign that leads into its peak months has seen customers responding much more strongly, giving us confidence in our 8.5% growth forecast for the year.

Success continues for Education turnaround plan

Findel's Online Value strategy is working emphatically with ordering through its platform increasing from c 20% at its start in September 2017 to over 55% now. Despite the continuing very tough trading environment, growth in the core UK customer base of 4% over the last year is evidence of an increasing market share.

Balance sheet improvement

Core net debt at the end of September 2018 was £81m, about £9m lower than the same date last year. Findel is steadily bringing this figure down – at March 2018 it decreased y-o-y by £7m to £73.8m. We are not changing our balance sheet forecast, but the indication is positive. Also, the run-off of the £8.6m March 2018 provision representing the tail end of earlier years' recognition of financial redress is proceeding to plan and is in the final stages.

Valuation: We retain our 428p per share

We make no change to our forecast, projecting c 6% pre-tax and EPS growth for the full year. Accordingly, we retain our valuation of 428p per share, reflecting a blend of DCF and peer comparison metrics.

Retail

17 October 2018

Price 270p

Market cap £233m

Core net debt (£m) at 30 September 2018 81

Shares in issue 86.4m

Free float 69%

Code FDL

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.3 (9.4) 52.5

Rel (local) 7.3 (2.4) 62.3

52-week high/low 302.0p 150.2p

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 in the UK.

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Trading statement at 28 weeks

Findel has reported trading results for a slightly longer period than the first half to provide comparability. The phasing of the pre-Christmas marketing campaign was adjusted across the end of September and start of October 2017, so it did not conflict with the introduction of the Financier credit platform in early October 2017. This year's campaign has returned to normalised patterns, so the trading statement refers to a 28-week period to 12 October to remove this distortion.

Revenue growth at Express in line with expectations

Revenue has grown 8% for the first 28 weeks of the year. This is lower than the c 11% for the first 16 weeks reported in June, as August and September were slow months throughout retailing. However, we understand that sales in recent weeks are strongly ahead, and we therefore remain confident in our 8.5% growth forecast for the full year.

Findel Education progresses in line with plans

Progress at Findel Education remains in line with management's plans, which are based on a drive to increase online ordering through its integrated platform, using product sourced in the Far East. Online ordering has increased from c 20% at the start of the Online Value strategy in September 2017 to over 55% now. This is a significant improvement in the face of a continuing tough trading environment. Growth in the core UK customer base of 4% over the last year is evidence of increasing market share.

Reduced core net debt

Core net debt at the end of September 2018 was £81m about £9m lower than the same date last year. We do not regard that as significant in the context of the major pre-Christmas trading period lying ahead, and we make no change to our balance sheet forecast for the year. However, it is perhaps a promising indication in the context of consistent core net debt reductions over the last seven years.

Legacy settlements as provisioned

Findel is in the final stages of settling with customers in respect of mis-selling and poor value in financial insurance products from past periods as far back as 2005. The company has confirmed that the run-off is consistent with the existing provision, which was £8.6m at March 2018. This is in contrast to peer N Brown, which in its recent interim results increased its comparable provisions by £22.4m to a total of £33.0m. Similarly, Shop Direct provided £128.0m in its accounts for the year to June 2018, and had a total provision at year end of £100.4m.

No change to forecasts or valuation

We retain our forecasts, which are for pre-tax profit growth of 6.4% and EPS growth of 6.2% for the year to March 2019. That being the case, we see no necessity to revisit our valuation of 428p per share, which we established in our note [Outstanding success with online-led strategy](#) published on 8 June 2018. The valuation is a blend of a DCF valuation of 401p and a peer comparison indicating 455p.

Exhibit 1: Financial summary

	£'000s	2017*	2018	2019e	2020e
Mar		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		457,030	478,959	508,789	538,585
Cost of Sales		(269,182)	(281,176)	(295,870)	(313,548)
Gross Profit		187,848	197,783	212,919	225,037
EBITDA		40,786	46,569	52,061	55,722
Operating Profit (before amort. and except.)		33,300	38,146	43,308	46,741
Intangible Amortisation		(1,959)	(1,996)	(2,416)	(2,383)
Operating profit pre exc post intang amortisation		31,341	36,150	40,891	44,358
Exceptionals		(82,152)	0	0	0
Other/share based payments		(191)	(199)	(1,000)	(1,000)
Operating Profit		(51,002)	35,951	39,891	43,358
Net Interest		(8,920)	(9,130)	(11,345)	(12,424)
Derivatives, other		556	(4,701)	0	0
Profit Before Tax (norm)		22,230	26,821	28,546	30,935
Profit Before Tax (FRS 3)		(59,366)	22,120	28,546	30,935
Tax		1,659	2,081	(5,766)	(6,249)
Profit After Tax (norm)		17,617	22,397	23,780	25,686
Profit After Tax (FRS 3)		(57,707)	24,201	22,780	24,686
Average Number of Shares Outstanding (m)		86.3	86.3	86.3	86.3
EPS - normalised (p)		20.4	25.9	27.5	29.8
EPS - normalised and fully diluted (p)		20.4	25.9	27.5	29.8
EPS - (IFRS) (p)		(66.8)	28.0	26.4	28.6
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		41.1	41.3	41.8	41.8
EBITDA Margin (%)		8.9	9.7	10.2	10.3
Operating Margin (before GW and except.) (%)		7.3	8.0	8.5	8.7
BALANCE SHEET					
Fixed Assets		79,012	77,019	81,987	82,623
Intangible Assets		26,185	25,174	28,895	28,512
Tangible Assets		44,417	47,596	48,843	49,862
Investments		8,410	4,249	4,249	4,249
Current Assets		301,265	312,458	340,659	366,127
Stocks		57,108	53,091	56,941	69,026
Debtors		212,648	232,666	246,788	259,097
Cash		29,173	26,244	36,480	37,553
Other		2,336	457	451	451
Current Liabilities		(91,789)	(81,190)	(91,216)	(92,402)
Creditors		(91,244)	(80,618)	(90,698)	(91,884)
Short term borrowings		(545)	(572)	(518)	(518)
Long Term Liabilities		(271,785)	(268,606)	(272,215)	(272,637)
Long term borrowings		(253,603)	(258,001)	(264,192)	(264,192)
Other long term liabilities		(18,182)	(10,605)	(8,023)	(8,445)
Net Assets		16,703	39,681	59,215	83,711
CASH FLOW					
Operating Cash Flow		12,281	11,439	33,210	31,746
Net Interest		(9,103)	(8,365)	(11,345)	(12,424)
Tax		148	581	(5,766)	(6,249)
Capex		(11,724)	(10,595)	(12,000)	(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)	4,099	1,073
Opening net debt/(cash)		216,682	224,974	232,329	228,230
HP finance leases initiated		0	0	0	0
Other		(1,062)	35	0	0
Closing net debt/(cash)		224,974	232,329	228,230	227,157

Source: Findel, Edison Investment Research. Note: * 53 weeks. Restated.

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