

Ted Baker

Star baker

Investors have become used to a strong top-line performance by Ted Baker, but recent interim results show that the company is also delivering margin expansion and solid cash generation. This is a result of a sound investment and expansion strategy as well as good management, and should give investors increased confidence in consensus forecasts. Growth opportunities remain (particularly in Asia) but the company is not immune from the macro-economic and geopolitical headwinds that affect the sector.

Firing on all cylinders

Interim results showed a healthy top line that is firing on all three cylinders; at constant FX retail was up 9.2%, driven principally by e-commerce (up 40.7%), wholesale (up 10.2%) and licensing (up 23%) and impressive given the many headwinds facing all premium and luxury brands. A balanced multi-channel approach is generating profitable growth (EBIT margin up 20 basis points to 8.6%, PBT up 12.7%, net cash flow almost double that of last year) and increasing confidence. A point of concern for us is the 14% increase in administrative costs due to an expansion of "central functions"; however, we note the company's sensible decision not to exercise an option to expand its London headquarters.

Confidence in the business model

Despite the usual comments about challenges and headwinds, particularly in the US (also mentioned by LVMH in its Q3 results), Ted Baker is managing to execute on its strategy and deliver consistently strong results. Although there are challenges (for example retail sales densities are down slightly in the UK and Europe, and North America), investment in digital (now 20% of retail sales) is paying off and a very commercial approach to wholesale and licensing is a good counterbalance to an unpredictable retail environment. A robust balance sheet provides support and credit facilities have increased from £110m to £135m. Net debt stands at £67.4m.

Valuation

Consensus estimates for the full year (ending 31 January 2018) look well supported by the interim results and may well now begin to tick upwards. An increased EBIT margin and stronger cash inflow may give confidence that higher profitability is sustainable. According to Bloomberg estimates, the shares trade on a discount to the luxury sector (22.2x versus an average of 25.6x), but that gap may look unjustified given the consistency with which Ted Baker produces strong results and signs of improved margins.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
01/16	456.2	58.7	99.3	47.8	27.9	1.7
01/17	531.0	65.8	114.7	53.6	24.2	1.9
01/18e	591.3	74.5	127.3	58.7	21.8	2.1
01/19e	650.5	84.7	144.0	66.5	19.3	2.4

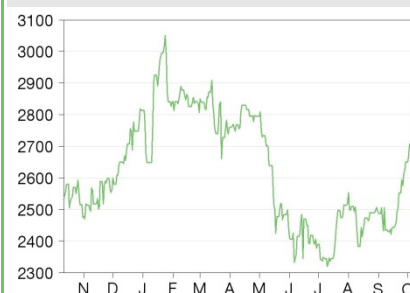
Source: Bloomberg, company reports

Consumer

12 October 2017

Price 2,772p
Market cap £1,227m

Share price graph



Share details

Code TED
Listing LSE
Shares in issue 44.3m

Business description

Ted Baker was founded in 1988 as a shirt specialist in Glasgow. It has grown to be a successful lifestyle brand and although predominantly a premium positioned brand it is increasingly relevant to luxury customers. Founder and CEO Ray Kelvin owns 35% of the company.

Bull

- Clear brand strategy and positioning.
- Healthy gross margin is not far below "true luxury" companies at 61% and could increase with further expansion into high-margin categories (eg accessories).
- Digital is working well and is now 19.6% of the retail business.

Bear

- Fashion risk is relatively high due to significant contribution of men's and women's apparel.
- The company may have to buy back territorial licences in the future.
- Considerable exposure to the UK market (60% of sales) although this will decrease with international expansion.

Analysts

Richard Lewis Jones +44 (0)20 3077 5700
Paul Hickman +44 (0)20 3077 5700

consumer@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

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 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") (c) FTSE [2014]. "FTSE(i)" 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.