

International Greetings

Trading update

Christmas rolling out to plan

IGR's pre-close update confirms that trading is as expected in the run up to the key Christmas sell-through period. With a 'solid' order book and good progress in new and key accounts in the US, momentum is well established to drive the top line, despite dull underlying markets. Further investment in manufacturing efficiency is delivering the anticipated returns and gives a clear differentiator for retailers concerned with supply-chain compliance. The share price is recognising some of the achievement to date, but not necessarily the ongoing opportunities.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	224.5	8.1	9.1	0.0	14.7	N/A
03/15	229.0	9.6	11.8	1.0	11.4	0.7
03/16e	233.5	10.1	12.2	2.0	11.0	1.5
03/17e	237.0	11.1	12.8	3.0	10.5	2.2

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

US ahead of historic trends

With the new US CEO, Gideon Schlessinger appointed in April, the business has started to regain lost momentum. New accounts have been won and other accounts extended, including Aldi, a long-standing existing customer within Europe. The August update pointed to a large drugstore chain (7,500 stores) placing an order for Christmas product and creative play product going into a chain of 8,000 discount stores. Investment is going ahead with upgrading manufacturing facilities, initially in new high-speed gift wrap converting. Payback on previous capital projects in China and in Europe has been greater and quicker than anticipated. The strong licensed portfolio (including high-profile Disney properties) provides a further key differentiator, with National Geographic-licensed product rolling out in the US, Star Wars across multiple territories and in several product categories, Coca-Cola Santa Claus in the UK and the continuing success of Minions driving revenues.

Currency headwinds faced down

The statement indicates that both the Australian and the European businesses will have delivered to expectations in the first half. Given the weakness of the respective currencies over the period, that represents a strong result. The Australian business, having been trading against a difficult retail backdrop, has been focused on managing its mix in favour of higher-margin categories.

Valuation: Opportunities not in the price

The share price performed well over the early summer, as the market started to believe that the group's progress was both real and sustainable, and has since settled back. With the balance sheet continuing to improve – net debt at the half year is expected to be 'significantly' below the £89.9m reported last year, the valuation framework has shifted up. A share price in the 144-164p range, based on a broad peer group and DCF calculations, would not look particularly stretched.

Care & household goods

20 October 2015

Price 134p
Market cap £78m

Net debt (£m) at end Mar 15	29.4
Shares in issue	58.2m
Free float	50.8%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(8.2)	(10.8)	86.1
Rel (local)	(11.1)	(5.3)	80.5
52-week high/low		156.0p	68.5p

Business description

International Greetings (IGR) is one of the world's leading designers, manufacturers, importers and distributors of gift packaging and greetings, social expression giftware, stationery and creative play products.

Next events

Half-year results	2 December 2015
Full-year results	21 June 2016

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Exhibit 1: Financial summary

	£000s	2014	2015	2016e	2017e
Year end 31 March		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		224,462	229,025	233,500	237,000
Cost of Sales		(185,244)	(189,048)	(192,347)	(195,240)
Gross Profit		39,218	39,977	41,152	41,759
EBITDA		16,352	16,850	17,180	18,163
Operating Profit (before amort and except)		11,320	12,315	12,645	13,628
Intangible Amortisation		(576)	(428)	(410)	(400)
Exceptionals		(2,298)	(1,235)	0	0
Share-based payments		(82)	(623)	(600)	(750)
Operating Profit		8,364	10,029	11,635	12,478
Net Interest		(3,177)	(2,726)	(2,500)	(2,500)
Profit Before Tax (norm)		8,143	9,589	10,145	11,128
Profit Before Tax (FRS 3)		5,269	7,926	9,735	10,728
Tax		(1,582)	(1,346)	(2,133)	(2,644)
Profit After Tax (norm)		6,561	8,243	8,012	8,484
Profit After Tax (FRS 3)		3,687	6,580	7,602	8,084
Average Number of Shares Outstanding (m)		57.5	58.1	58.8	58.8
EPS - normalised fully diluted (p)		9.1	11.8	12.2	12.8
EPS - (IFRS) (p)		5.2	10.7	12.1	12.9
Dividend per share (p)		0.0	1.0	2.0	3.0
Gross Margin (%)		17.5	17.5	17.6	17.6
EBITDA Margin (%)		7.3	7.4	7.4	7.7
Operating Margin (before GW and except.) (%)		5.0	5.4	5.4	5.8
BALANCE SHEET					
Fixed Assets		67,664	65,688	70,238	69,485
Intangible Assets		31,950	31,692	34,350	34,966
Tangible Assets		35,714	33,996	35,888	34,519
Investments		0	0	0	0
Current Assets		76,261	71,312	74,333	74,928
Stocks		48,460	46,162	46,593	48,001
Debtors		19,690	22,304	22,740	23,427
Cash		8,111	2,846	5,000	3,500
Other		0	0	0	0
Current Liabilities		(51,965)	(45,722)	(44,800)	(43,443)
Creditors		(39,139)	(39,982)	(39,800)	(39,443)
Short term borrowings		(12,826)	(5,740)	(5,000)	(4,000)
Long Term Liabilities		(34,799)	(28,694)	(30,356)	(26,356)
Long term borrowings		(32,232)	(26,479)	(26,000)	(22,000)
Other long term liabilities		(2,567)	(2,215)	(4,356)	(4,356)
Net Assets		57,161	62,584	69,415	74,613
CASH FLOW					
Operating Cash Flow		13,724	17,851	15,800	16,750
Net Interest		(3,221)	(2,775)	(2,500)	(2,500)
Tax		(60)	(1,263)	(1,940)	(2,639)
Capex		(5,291)	(2,100)	(6,000)	(5,500)
Acquisitions/disposals		140	(1,451)	0	0
Financing/Other		1,225	(1,347)	0	0
Dividends		(1,014)	(829)	(1,340)	(1,930)
Net Cash Flow		5,503	8,086	4,020	4,181
Opening net debt/(cash)		42,138	36,947	29,373	26,000
HP finance leases initiated		296	0	0	0
Other		(608)	(512)	(647)	(681)
Closing net debt/(cash)		36,947	29,373	26,000	22,500

Source: Company accounts, Edison Investment Research

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