International Greetings

Interim figures

Roll on Christmas

Care & household goods

International Greetings (IGR) has delivered a good set of interims, notable particularly for the improving US performance and further progress in bringing down debt. The order book underpins expected growth for the remainder of the financial year and is on track for FY17. The group's investment in its manufacturing facilities is delivering targeted production efficiencies and bolstering its positioning as a leader in compliant supply-chain. Following strong performance over the last few months, the share price is now reflecting the underlying improvements being made.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	224.5	8.1	9.1	0.0	20.2	0.0
03/15	229.0	9.6	11.8	1.0	15.6	0.5
03/16e	233.5	10.1	12.1	2.0	15.2	1.1
03/17e	237.0	11.1	12.8	3.0	14.4	1.6

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

Licensed product icing on the cake

Production efficiencies are starting to come through into the numbers in the UK, building on the progress made in Europe, and the increasing element of automation in China. Group revenues for the first six months were ahead by 7% and progress would have been greater bar currency movements. Adjusted operating profits rose 19%, with part of the incremental growth reflecting phasing and mix. The US remains the key opportunity. The business there has regained momentum under its new leadership and the investment in the US operations has started with upgrading the conversion capability. In the UK, the licensed portfolio is having a particularly strong run up to Christmas, with Frozen continuing to be a good performer and with Minions, Coca-Cola and, of course, Star Wars, all well placed.

Further progress on debt

The net debt figure at the half year was better than we had expected at £78.0m (FY15: £89.9m), mostly reflecting hard-to-predict shifts in working capital (65% of H1 sales are in August and September). Our year-end forecast remains for net debt at end-March 2016 of £26.0m, down from £29.4m at end FY15. A property in South Wales, surplus to requirements following the factory moves, has been reclassified from tangible assets to 'assets held for sale', at a net book value of £1.25m.

Valuation: Well underpinned

The share price has more than doubled from 77p at the beginning of April this year as the scale of the impact of management's strategy has been taken on board by the market. Progress to date on debt reduction has been achieved alongside substantial investment across the manufacturing facilities, rather than by starving the underlying businesses of cash. With further financial gains to be realised, and the valuation now on a par on calendar 2015 EV/EBITDA with a peer group from a consumer supplies background, the current share price looks well underpinned.

2 December 2015

Price	**184p**
Market cap	**£108m**

Net debt (£m) at end Sept 2015	78.0
Shares in issue	58.9m
Free float	51.2%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	36.8	23.9	142.1
Rel (local)	36.5	21.9	149.1
52-week high/low		184p	71p

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

Trading update	End Jan 2016
Trading update	Late April 2016
Full year results	21 June 2016

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Edison profile page

Design, source, manufacture and display

The arguments in favour of fast-payback investment in manufacturing over more rapid pay-down of the debt have been clearly justified by the returns already being earned. Having state-of-the-art facilities, though, does more than generate a mechanistic return on cash investment. It changes the perception of the supplier in the marketplace, with existing customers and with those who can be tempted onto the roster by factors other than price alone – although competitive pricing has to be in the equation, too.

The group has a very strong and broad complement of customers (over 5,000), with IGR product available in over 100k stores across 80 countries. The largest customer represents 8% of revenues. It has consolidated its position with many of its clients by endeavouring to provide a 'one-stop shop' approach starting from design through to in-store display.

Extending the trading opportunities

Despite the good top-line progress being made, some of the categories in which IGR currently operates have limited global growth characteristics. It continues to make gains in building share, but more substantive growth has to be predicated on taking a larger proportion of those customers' spend in broader segments. With much of the emphasis on the manufacturing, it sometimes gets overlooked that a large proportion of overall sales (H116: 62%) is in bought-in product in both core and adjacent product categories and that the group has considerable skills in both sourcing and logistics. The group now has category directors to harness the scale of its buying power in the Far East, with extending the range part of their remit.

Also sometimes underestimated is the resource in design and innovation skills and expertise in the group, including the studio facilities in the US and in South Wales. As well as the manufacturing investment, the group has also invested in upgrading its digital asset management system, which provides a repository of IP built up over the years that can be accessed from around the globe.

IGR already has 28% of its sales in the stationery and creative play category. It clearly has an opportunity to extend the range of product covered, using its own design and sourcing resources. The group has a number of in-house brands, including the widely-recognised Tom Smith brand in crackers, and also Kids Create in the creative play category. There may also be openings to extend the range of categories for which it holds character licences and the territories in which it holds them.

Extending the geographic opportunities

For what is (despite the share price performance) still a relatively modest UK enterprise, IGR has a wide geographic reach. The UK and Northern Europe are 'home' markets, as is the US, albeit that market share still leaves a huge opportunity to grasp. With companies such as Ikea, Lidl, Aldi, Action, Netto and Auchan now all on the client list, growing market share in other countries across Europe should follow. The group's Australian joint venture has also seen an improvement in trading following a rather torrid period.

There is also an expanding opportunity to build business with the large online retailers for their gift-wrapped delivery options, as well as a direct sales channel.

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)	(191,470)	(193,748)
Gross Profit	39,218	39,977	42,030	43,253
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)	(2,128)	(2,644)
Profit After Tax (norm)	6,561	8,243	8,016	8,484
Profit After Tax (FRS 3)	3,687	6,580	7,606	8,084
Average Number of Shares Outstanding (m)	57.5	58.1	58.9	58.9
EPS - normalised fully diluted (p)	9.1	11.8	12.1	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	18.0	18.3
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	68,988	69,485
Intangible Assets	31,950	31,692	34,350	34,966
Tangible Assets	35,714	33,996	34,638	34,519
Investments	0	0	0	0
Current Assets	76,261	71,312	75,583	76,178
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	1,250	1,250
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	75,864
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)	(1,937)	(2,636)
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	4,023	4,184
Opening net debt/(cash)	42,138	36,947	29,373	26,000
HP finance leases initiated	296	0	0	0
Other	(608)	(512)	(650)	(684)
Closing net debt/(cash)	36,947	29,373	26,000	22,500

Source: Company accounts, Edison Investment Research

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