

International Greetings

Trading update

Non-stationary stationery

Care & household goods

International Greetings' (IGR) Q3 trading update shows that the key Christmas sales period has gone to plan and that the group is on track to meet market forecasts for the year to end March. The regaining of positive momentum in the US is particularly encouraging, with the new management expanding horizons with exports into Canada, Mexico and Brazil. The share price has performed well over recent months and the valuation is now a fairer reflection of progress to date and the prospects for continuing growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	224.5	8.1	9.1	0.0	20.3	N/A
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.

Q3 looking positive across the board

No figures were given in the trading update (which comes hard on the heels of December's interims), but it confirms that all regions are trading profitably. The benefits of the investment programme in giftwrap manufacture in Holland and Wales and in upgrading capacity in China are all paying back at least as well as planned. The current investment in conversion in the US, albeit at a lesser financial scale, underpins momentum for increasing sales in domestic and export markets. The Australia joint venture has been rebuilding its business and has seen particular success in expanding its product range into party ware, a move that will have been closely watched by other group territories. A strong range of licensed properties (including *Star Wars*, *Minions* and *Frozen*) has contributed good sales, with some licences extended into new territories and across new channels.

Converting profit into cash

A few years back, it may have been the easy option for management to manage a decline, assuming that markets were mature, margins under pressure and that the balance sheet was heavily burdened with debt. Instead, the team has energised the business, invested in production and distribution channels, building sales and gaining market share. The focus on converting the resulting profits into cash has reduced net debt from £68.5m at end FY09 to our forecast of £26.0m at end FY16 despite cumulative capital spend of £23.4m over that period.

Valuation: Better reflecting prospects

The share price has risen from 77p in April 2015 as the market has recognised the success of management's strategy to date. The record in converting profits to cash supports the case that expansion can continue and a progressive dividend stream paid to shareholders. The valuation is now at a premium on calendar 2015 EV/EBITDA with a consumer supplies-based peer group, reflecting IGR's improved growth prospects and lengthening record of delivery against expectations.

18 January 2016

Price 184.5p
Market cap £109m

Net debt (£m) at end September 2015	78.0
Shares in issue	59.3m
Free float	51.2%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.9	38.2	150.6
Rel (local)	13.1	49.7	173.7
52-week high/low	192.5p	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

Full year results	21 June 2016
AGM	14 September 2016
Interim figures	30 November 2016

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**International Greetings is a
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Exhibit 1: Financial summary

	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)	(2,135)	(2,644)
Profit After Tax (norm)	6,561	8,243	8,010	8,484
Profit After Tax (FRS 3)	3,687	6,580	7,600	8,084
Average Number of Shares Outstanding (m)	57.5	58.1	58.8	58.8
EPS - normalised (p)	9.4	12.1	12.4	13.1
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	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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