

International Greetings

Crack(er)ing performance all round

Pre-close update

Care & household goods

The year-end trading update indicates that International greetings (IGR) ended FY16 strongly in all its geographic regions, with good momentum into the new financial year. FY16 earnings per share will be at least 13.0p (Edison forecast: 12.1p). Cash performance was also well ahead, with deleveraging comfortably outperforming our modelled outcome, which showed an end-March net debt figure of £26m. The full year dividend is to be recommended at 2.5p (our forecast: 2.0p). FY16 numbers and FY17 estimates will be revised up on publication of the full year numbers at end June, underlining the strong value in the shares at current levels.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	224.5	8.1	9.1	0.0	17.1	N/A
03/15	229.0	9.6	11.8	1.0	13.2	0.6
03/16e	233.5	10.1	12.1	2.0	12.9	1.3
03/17e	237.0	11.1	12.8	3.0	12.2	1.9

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

All regions in growth

The trading update indicates that 'all regions' have grown in the year just ended, implying a good H216 in Europe, where currency headwinds have been offset. The Australian operations have also made good progress in rebuilding profitability. Performance in the key US market has established good momentum under the new management team and the second phase of the investment programme to scale up capability has been implemented. Earnings per share will have increased in 'double digits' for FY16, implying a figure of a minimum 13.0p on our adjusted basis (IGR quotes figures post amortisation). The FY16 dividend will also be raised by more than we anticipated. The group will have exceeded our expectations a year ahead of target. We will revisit our forecasts on publication of the finalised FY16 numbers.

Leverage reduction ahead of plan

The sale of the Aberbargoed site completed on the final day of the financial year but, even without that benefit (£1.45m cash), the operational cash flow was such that the indicated net debt figure at the close was well below market forecast. The relatively rapid reduction in leverage gives the group the opportunity to look out for selective acquisitions, alongside continuing investment in manufacturing efficiency.

Valuation: Scope for multiple expansion

The share price has drifted back from the highs reached in early calendar 2016, but is nevertheless at twice the levels of a year ago. Although our model is unchanged at this point, actual and forecast earnings are both ahead of our expectations. 13.0p of earnings gives an historic P/E of c 12x to March 2016; 2.5p of dividend gives a yield of 1.6%. Management's strong record of converting profits to cash supports the case that expansion can continue in conjunction with a progressive dividend stream. Given the acceleration of the growth and net debt reduction, and the lengthening record of delivery against expectations, there is scope for expansion of the multiple.

18 April 2016

Price 156p
Market cap £93m

Net debt (£m) at end March 2016 (estimated)	<26
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	(6.6)	(15.5)	88.0
Rel (local)	(9.3)	(22.0)	107.6
52-week high/low		192.5p	83p

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	30 June 2016
AGM	14 September 2016
Half-year results	30 November 2016

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**International
GreetingsInternational
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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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