

# IG Design

Extending US reach and range

US acquisition

IG Design (IGR) has announced the acquisition of Lang Companies for \$3.6m in cash. The deal is earnings neutral in FY17e but accretive in FY18e as the synergistic benefits start to flow. Lang has a complementary product range in stationery and giftware and some strong sports-based licences. It also has a design-led culture that should mesh well with IGR's US operations, which have been gaining momentum. The share price has started to grasp the changing proposition, but has yet to fully reflect it.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	229.0	9.6	11.8	1.00	13.5	0.6
03/16	237.0	10.1	13.6	2.50	11.6	1.6
03/17e	268.5	12.2	14.5	3.25	10.9	2.1
03/18e	282.0	14.5	16.0	4.00	9.9	2.5

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

## Adds products, customers, licences and scale

Lang is based in Waukesha, Wisconsin and its product range includes stationery, calendars, mugs, home goods, journals and planners, all with high design content. It has customer base of c 150,000 (top 15 customers account for 50% of sales) with a repeat purchase rate of over 40%. It also sells through its own B2C platform and via catalogue, giving IGR the opportunity to test out these channels on a low-risk, low investment basis. It has licences with leading sports organisations NBA, NFL, MLB (Major League Baseball) and NHL (National Hockey League), which are a useful addition to the group's strong character licensing portfolio.

## Synergistic benefits from FY18e

Lang's revenues to March 2015 were \$34.4m. IGR's estimate of Lang's adjusted EBITDA is \$1.25m, which, after a working capital adjustment of \$1.7m, makes the purchase price a multiple of just over four times. Lang achieves a higher gross margin but a lower net margin than IGR. There should be meaningful buying synergies in FY18e (buying for the FY17 peak season is already done), alongside other de-duplication of costs. Our revised model does not build in any cross-selling benefit yet shows a 4% uplift in forecast EPS in FY18e from 15.4p to 16.0p, despite a tick up in the net finance charge. Management has a good record of achieving fast payback on investments (see our recent report, [Grand designs](#)). We anticipate net debt at end FY17e at £17m will be below the prior year-end, reducing to £12.3m by end FY18e (previous estimate £11.0m).

## Valuation: Starting to reflect opportunity

The share price has risen 15% in 12 months (up from 31.5p in June 2013) as the market has continued to recognise the group's transformation from an indebted manufacturer in deflation-prone commodity markets into a confident, global, design-led, efficient partnership supplier to retail channels. The valuation is on a par with US-based home/lifestyle brands (the nearest peers). The strong cash flow and management views on capital allocation indicate a progressive dividend stream.

Care & household goods

11 July 2016

**Price** 158p  
**Market cap** £94m

Net debt (£m) at 31 March 2016	17.5
Shares in issue	59.3m
Free float	52%
Code	IGR
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(11.7)	3.3	9.3
Rel (local)	(13.9)	(0.9)	9.1
52-week high/low	192.5p	122.0p	

### Business description

IG Design Group (formerly International Greetings) is one of the world's leading designers, innovators and manufacturers of gift packaging and greetings, social expression giftware, stationery and creative play products.

### Next events

AGM	14 September 2016
Interim results	30 November 2016

### Analysts

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[Edison profile page](#)

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**Exhibit 1: Financial summary**

	2014	2015	2016	2017e	2018e
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue	224,462	229,025	236,950	268,500	282,000
Cost of Sales	(185,244)	(189,048)	(193,552)	(220,170)	(230,958)
Gross Profit	39,218	39,977	43,398	48,330	51,042
EBITDA	16,352	16,850	16,505	18,820	21,275
Operating Profit (before amort and except)	11,320	12,315	12,909	14,720	16,825
Intangible Amortisation	(576)	(428)	(285)	(335)	(350)
Exceptionals	(2,298)	(1,235)	0	(1,000)	0
Share-based payments	(82)	(623)	(908)	(950)	(950)
Operating Profit	8,364	10,029	11,716	12,435	15,525
Net Interest	(3,177)	(2,726)	(2,763)	(2,520)	(2,300)
Profit Before Tax (norm)	8,143	9,589	10,146	12,200	14,525
Profit Before Tax (FRS 3)	5,269	7,926	9,861	10,865	14,175
Tax	(1,582)	(1,346)	(2,219)	(3,209)	(4,262)
Profit After Tax (norm)	6,561	8,243	8,835	9,941	11,213
Profit After Tax (FRS 3)	3,687	6,580	7,642	7,656	9,913
Average Number of Shares Outstanding (m)	57.5	58.1	58.8	59.3	60.5
EPS - normalised (p)	9.4	12.1	14.0	14.9	16.5
EPS - normalised fully diluted (p)	9.1	11.8	13.6	14.5	16.0
EPS - (IFRS) (p)	5.2	10.7	12.3	11.9	15.2
Dividend per share (p)	0.0	1.0	2.5	3.3	4.0
Gross Margin (%)	17.5	17.5	18.3	18.0	18.1
EBITDA Margin (%)	7.3	7.4	7.0	7.0	7.5
Operating Margin (before GW and except.) (%)	5.0	5.4	5.4	5.5	6.0
<b>BALANCE SHEET</b>					
Fixed Assets	67,664	65,688	66,722	68,287	69,487
Intangible Assets	31,950	31,692	32,236	31,901	31,551
Tangible Assets	35,714	33,996	34,486	36,386	37,936
Investments	0	0	0	0	0
Current Assets	76,261	71,312	75,791	86,415	88,686
Stocks	48,460	46,162	46,006	53,174	54,452
Debtors	19,690	22,304	21,405	24,740	25,335
Cash	8,111	2,846	8,380	8,500	8,900
Other	0	0	0	0	0
Current Liabilities	(51,965)	(45,722)	(48,331)	(53,717)	(52,537)
Creditors	(39,139)	(39,982)	(42,765)	(48,217)	(49,387)
Short term borrowings	(12,826)	(5,740)	(5,566)	(5,500)	(3,150)
Long Term Liabilities	(34,799)	(28,694)	(22,810)	(24,356)	(22,356)
Long term borrowings	(32,232)	(26,479)	(20,297)	(20,000)	(18,000)
Other long term liabilities	(2,567)	(2,215)	(2,513)	(4,356)	(4,356)
Net Assets	57,161	62,584	71,372	76,629	83,281
<b>CASH FLOW</b>					
Operating Cash Flow	13,724	17,851	20,744	17,350	20,000
Net Interest	(3,221)	(2,775)	(1,961)	(2,520)	(2,300)
Tax	(60)	(1,263)	(1,797)	(3,114)	(3,936)
Capex	(5,291)	(2,100)	(3,191)	(6,000)	(6,000)
Acquisitions/disposals	140	(1,451)	0	(2,769)	0
Financing/Other	1,225	(1,347)	74	0	0
Dividends	(1,014)	(829)	(1,032)	(2,580)	(3,024)
Net Cash Flow	5,503	8,086	12,837	367	4,740
Opening net debt/(cash)	42,138	36,947	29,373	17,483	17,000
HP finance leases initiated	296	0	0	0	0
Other	(608)	(512)	(947)	116	10
Closing net debt/(cash)	36,947	29,373	17,483	17,000	12,250

Source: Company accounts, Edison Investment Research

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