# Card Factory

Exchange: LSEG
Ticker: CARD
Sector: Consumer Discretionary

Recommendation: BUY
Current Price: 177.4 GBX
Target Price: 319.0 GBX

Upside: 80%
Date of Valution: 8/2/19

Card Factory is a chain of greeting card and gift stores in the United Kingdom. It retails single cards (53.7%), christmas boxed cards (2.3%) and complementary non-card items (44.0%) to UK consumers [figure 1]. They are the market leader for greetings cards in terms of both volume (32%) and value (18%) (Source: Company Annual Report).

## Investment Summary

We issue a buy recommendation on Card Factory (CARD.LN) with a target price of 319 GBX representing an 80% upside on its current price of 177.4 GBX as of 1st of February 2019. Our bear case assumptions generate a share price of 175 GBX representing a downside of -2%, there is a significant margin of safety and a clear asymmetric risk profile. Card Factory is an overlooked and misunderstood value stock trading close to its 52-week low of 159.40 with a 52-week high of 253.40, CARD maintains high profit margins while specialist peers face unprofitability leading to store closures and exits, this allows CARD to capture market share YoY driving top-line growth in a low growth market.


## Investment Thesis

Earnings will normalise as (1) headwinds experienced in FY18 will ease in FY20 from hedges in place being at favourable rates to FY19, (2) OPEX inflation has been overstated and will be mitigated from top-line growth, and 3) revenue will pick-up significantly in FY20 from new stores riding their maturity curve.

CARD has maintained high teens ROIC 17.3 due to (1) having a durable competitive advantage, (2) remaining reinvestment runaway in the Republic of Ireland, and 3) has a capital light business model after the initial integration of their supply chain.

CARD is the disruptor in its segment as (1) highest combined ranking of ROIC and EBIT/EV in its peer group, (2) industry leading competitive pricing and offering, (4) captures market share year-on-year, (5) consumers consistently perceive CARD has being the best value for money and having the lowest prices, per OC&C consumer surveys, and (6) headwinds drive exits from the competition.

## Why Does This Opportunity Exist?

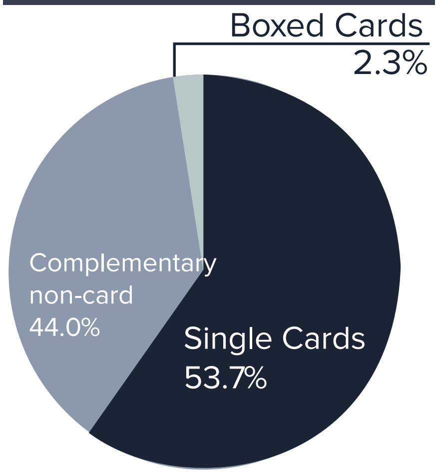
Time-horizon arbitrage as (1) we believe the Street has taken a short-term view we expect FY19 to be unexceptional and then earnings will pick-up in FY20 driven from top-line growth of 6%, (2) normalisation of currency headwinds in FY20, (3) largest specialist competitor Clintons' is a troubled state, and (4) a looming maturity wall combined with rate-hikes will push higher-end competitors further into unprofitability while CARD is safety positioned in the value segment.

Cultural engrainment of sending greeting cards is understated as (1) the international investing community discount how in engrained greeting cards are in the UK, (2) digital greetings have increased but of total cards buyers only 6% have replaced physical cards with digital, and 78% state they use digital greetings but not as a replacement for physical cards, and the remainder to not use digital greetings at all. (3) the consumer faces a psychological cost from not sending a greeting card which is reinforced by demand-side economies of scale.

### Key Statistics

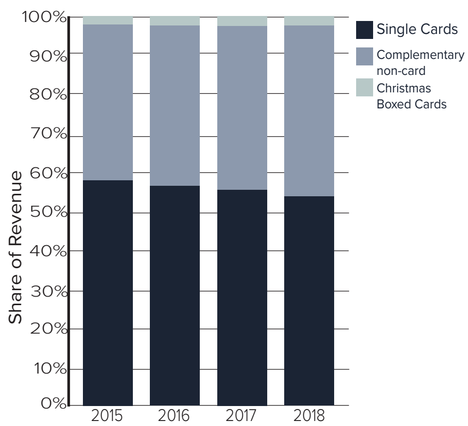
| | |
|---|---|
| Outstanding Shares | 341.51m |
| Market Cap | 615.74m |
| Enterprise Value | 791.63m |
| Trailing P/E | 10.02 |
| Annual dividend rate | 0.09 |
| Dividend Yield | 5.11% |
| Average Volume (3-month) | 766.7k |

### Figure 1: Share of FY18 Rev



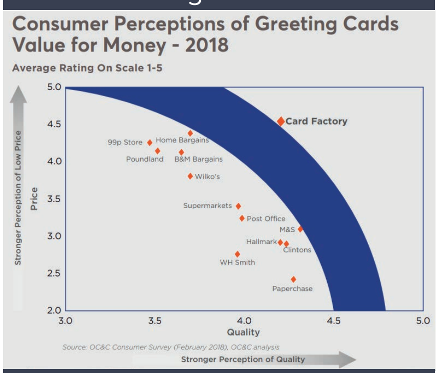

Source: Company Annual Report

### Figure 2




Source: Company Annual Reports

### Figure 3

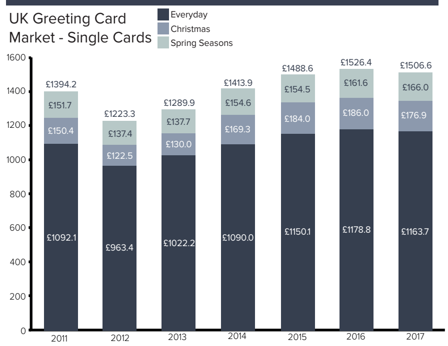



Source: Company Annual Report

Under the radar as (1) CARD is a small-cap UK stock, (2) low analyst coverage, (3) range of opinion on the sell-side with 2/2/2 (buy/neutral/sell) recommendations, (4) on first impression one would see nothing exceptional about CARD - a variant perception can only be gained from studying its competitive standing, and (5) CARD is not a great company but it certainly should not be priced for a rapid unwinding of its competitive advantage.

Great governance as (1) CARD does not require a visionary CEO to be a bargain, Karen Hubbard has extensive experience in optimising the operations of discount retailers B&M and ASDA, (2) management has been explicit in their focus on distributing excess cash to shareholders, from May 2014 IPO till FY2018 £268.4m has been returned, and (3) small activist fund, Telios Capital has a £14.7 million position in CARD.

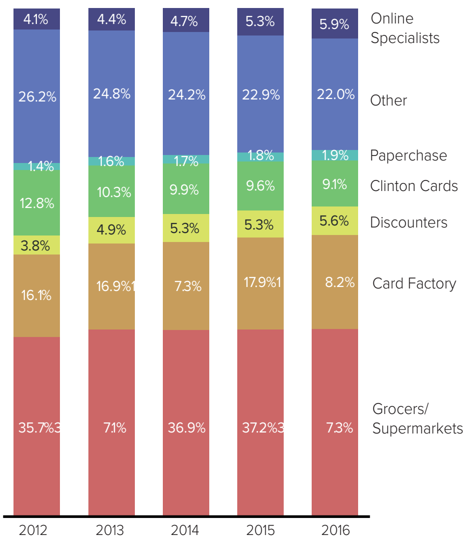
Figure 4




Source: Greetings Card Assosiation

Figure 5

Market Share By Company




Source: Company Annual Report

## Business Description

Founded 1992, Card Factory began as a husband and wife wholesaling greeting cards at 'carboot sales'. In 1997, they open their first store. Since then, they have been steadily expanding their network of stores to ~920 stores with a maximum store count of 1200 by 2020. They also made two key acquisitions: 'Printcraft' (2009) and 'GettingPersonal.co.uk' (2011).

Single cards are the bread and butter of card factory, consistently comprising more than half of their revenue (figure whatever). They design, produce and distribute cards through a vertically integrated supply chain. Complementary non-card items [appendix 1], is the second largest component 44%, and has been an increasing share of their revenue [figure 2]. They resource nearly all complementary non-card items from the 'Far East'.
[figure 3] (source: card factory)

Card Factory sells directly to UK and the Republic of Ireland's consumers through its stores and websites. Card Factory has a proven ability to roll out new stores. They have been opening approximately 50 stores every year since 2012 (figure whatever), and their strategy is to continue the 50 stores per year target until reaching 1200 stores in 2020. Their strategy also includes rolling out trial stores in the Republic of Ireland, of which they currently have 6. Its websites are 'GettingPersonal.co.uk' and 'CardFactory.co.uk'. Online revenues represent ~4.8% of total revenues and has been a fluctuating for the past 4 years. Though CardFactory.co.uk has seen growth of 50-60% for the past two years, it still commands a very low proportion of total revenue (0.59%). [appx. 2] (source: Card Factory).

They have a steadfast four pillar strategy: (1) like-for-like sales growth, (2) new store roll out, (3) business efficiencies, (4) online development, which has remained the same for at least four financial years.

## Industry Overview & Competitive Positioning

Card factory competes with specialist chains, Clintons, Hallmark, Paperchase, Scribbler and Cards Galore); supermarkets which primarily capture convenience and distressed purchases (eg ASDA, Tesco and Sainsbury's); generalists (eg WH Smith and M&S), stationers, discount chains (eg B&M, Poundland, Home Bargains and Wilkinsons), the Post Office and hundreds of small independent retailers.

What is ostensibly a trivial market, could not be further from it. The most recent GCA statistic estimates that the single card market alone, was worth £1.506 billion (2017) [figure 4]. There is an ingrained culture of sending greeting cards in the UK that is unlikely to change. A Royal Mail survey highlighted that only 1/5 people would rather receive an ecard to a printed card at Christmas, and that 18-24 year olds are the most likely to prefer physical cards.

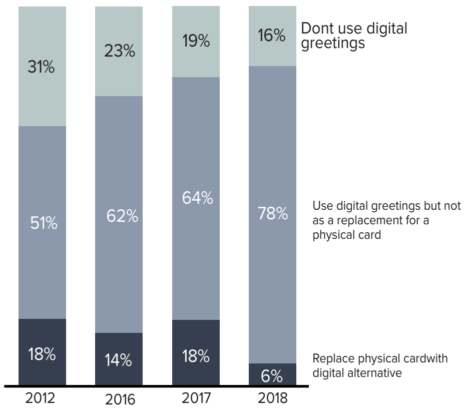
Moreover, OC&C surveys show consumer attitudes have remained relatively stable for many occasions [appx. 5] - though admittedly attitudes are decreasing for the Christmas segment. Digital cards also do not appear to be taking over the physical market any time soon. The number of people that would be willing to replace a physical card for a digital one has decreased to its lowest level in years (6%) [figure 6].

The latest estimate showed that the online segment of the greeting card market was a £122.4 million component (2016) of the total card market (source: IBISWorld). This figure increased 6.2% from three years prior, indicating growth within the market. This is similar, but lower than brick and mortar growth - a 6.6% increase from 2013-2016 (source: GCA).

Regarding the complementary non card items, we speculate that market for these products is driven by the customers visiting stores without the intention of purchasing such products, but find themselves doing so while there. This market therefore exists as an extension of the single card market - when there is single-card demand, there will be complementary non-card demand.

Figure 6

Card buyers by usage of digital greetings




Source: Company Annual Report

## Competitive Positioning

Card Factory's integrated supply chain enables an unrivaled offer in terms of pricing and range of high quality and uniquely designed cards from in-house design team, warehousing, and printing facilities. The OC&C UK proposition index 2017 demonstrates that consumers perceived Card Factory to be the best value for money and second best for low prices of all large UK retailers. Card Factory's pricing allows them to maintain their operating margin while their high priced competitors will face margin compression forcing their exit, such as the recent closure of WH Smith's Cardmarket division announced October 11th 2018. Cardmarket was an attempt to compete with Card Factory directly in the value card segment, we see the outcome as a testament to the durability of Card Factory's competitive position. Moreover, the top-line growth resulting from capturing market market share has not been considered.

Moreover, Card Factory has only just starting tapping into reinvestment runway from a recent expansion into the Republic of Ireland. Investigating historical return on invested capital we can see that Card Factory is a good business, with a durable competitive advantage. Moreover, like-for-like store sales were up 2.6% in 2018 and have been positive every year since formation, this trend is expected to continue as Card Factory has been exponentially rolling out new stores. A store's typical maturity curve is four to six years, wherein at the point of maturity individual store's annual sales are typically 30% to 40% higher than the first year after opening according to management. [figure ROIC]

As with many UK retail businesses, Card Factory missed earnings partially due to macro headwinds not due the fault of their business model. Through investors reducing broad-based exposure to UK consumer retail, Card Factory became a bargain at 9.5 earnings yield (EBIT/EV) and 16.58 ROIC due to no fault of their own.

Card Factory's low operating costs acts as a barrier to entry and drives customer captivity as consumers realise the extent of Card Factory's competitive pricing - mean while Card Factory is able to maintain high margins. Card Factory's customer captivity is driven by its economies of scale through having a fully integrated supply chain - aside from some imports from China for the non-card complementary items division.

The general consensus is that amazon is capturing market share within consumer retail by pushing prices to a level where high-street retailers get their margins squeezed and have to curtail expansion, close down stores, or exit the market.

## ESTL Analysis

### Environmental

Card Factory complies with EU Timber regulations (EUTR) and does appropriate due diligence of paper-based materials sourced from the Far East. Card Factory's main trading subsidiary, Sportswift Limited and its UK manufacturing operation, Printcraft Limited, are both FSC (Forest Stewardship Council) certified. Card Factory aims to have all paper-based and wood-based products sold in their stores be produced using FDC certified material by 2020.

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**Social**

Card Factory has third-parties (namely in the Far East) in its supply chain for the complementary non-card products. This supplier profile gives Card Factory exposure to to the risks of manufacturing and freight costs and duty as well as supply interruption and potential reputation risks from the supplier labour practices. This risk is reduced by maintaining a strong relationship with suppliers and through periodic inspections and third-party facilitated technical and ethical audits of factories operated by major suppliers. Card Factory reduces supplier risk by having a SEDEX (Supplier Ethical Data Exchange membership).

**Technology**

The main technological considerations are in regards to payment systems and their online websites. EPOS is now in place across all stores. They a newly appointed director of IT, and they acknowledged the importance of cyber security measures in their statements - no reported successful attacks to their website(s).

**Legal**

Though the company has been prosecuted for health and safety infringements before, there have only been 3 reported incidents all with very low fines. Therefore, we believe risk from the company committing legal infringements in terms of the stores, is low. However, we perceive any future material legal costs to be non-recurring. Card Factory must comply with the Modern Slavery Act, GDPR, Gender Pay Gap Reporting, Payment Practices, and National Living and Minimum Wage, moreover, 'key legislation trackers' are employed to notify the board of any developments.

# Valuation

Our bull-case assumptions assume a weak FY2019 and a pick-up in revenue growth in FY2020 resulting from the expansion in the Republic of Ireland, and further growth from riding the maturity curve where annual sales are typically 20-40% higher than first-year post-opening of new. Furthermore, we assume that Card Factory maintains its competitive positioning and enjoys revenue growth from increase market-share. During 2020 CARD reaches maximum store count of 1200, as stated by management, so we assume that by 2024 that the maturity curve of four to six years has already been reached.

We initially used a Bloomberg Terminal to pull a WACC of 7.5% for CARD, but then we decided to take a discretionary approach by increasing the opportunity cost of capital to 9.5% as we believe it would be prudent given that our thesis plays out on a two-year time-horizon and CARD being exposed to brexit uncertainty regarding the Republic of Ireland. We assumed OPEX inflation increasing by 2% a year, and assumed an ongoing gross margin compression after normalising COGS in 2020. Card Factory can not easily raise prices as input costs rise due to customers anchoring to CARDs 99p range, therefore, operating margins are assumed to decrease as CARD's stores increase and they suffer from inflation of input costs.

We took two valuation approaches, a 6 year DCF model with a discount rate 9.5 with a perpetuity rate of 0% for our bull-case and minus 2% for our bear-case, and for our bull-case an EBITDA 6 year DCF with a 7.5 exit EBITDA multiple implied from the previous DCF model. We then generated sensitivity tables to test how our valuation held under different assumptions. Our conclusion was that there was significant margin of safety, there would still upside of 53.89% assuming a growth would be -1.50% in perpetuity combines with a 12% discount rate. We believe there will be continued revenue growth through population increase, new occasions entering our culture, an the expansion of the 'Getting Personalised' segment. However, our bull-thesis is not reliant on these factors for upside potential, and insteads treats them as a mitigation to the an increase in consumers who send purely digital greetings, and a shift in method of expression occasion driven sentiment in the UK and Republic of Ireland's culture.

Figure 7

EBITDA Multiple

| | 2.27 | 6 | 6.5 | 7 | 7.5 | 8 | 8.5 | 9 |
|---|---|---|---|---|---|---|---|---|
| | 7.50% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 8.00% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 8.50% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 9.00% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| WACC | 9.50% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 10.00% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 10.50% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 11.00% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 11.50% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |
| | 12.00% | £1.91 | £2.03 | £2.15 | £2.27 | £2.39 | £2.51 | £2.63 |

Source: Team Analysis

Figure 8

Growth Rate

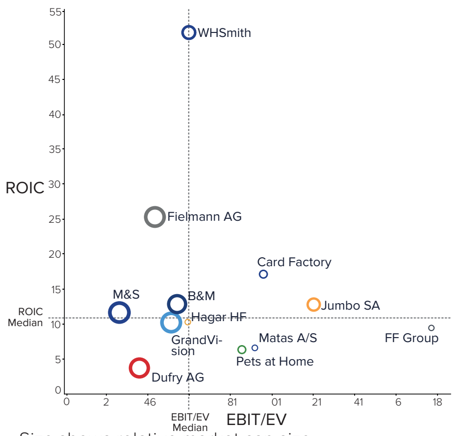
| | 3.28 | -1.50% | -1.00% | -0.50% | 0.00% | 0.50% | 1.00% | 1.50% |
|---|---|---|---|---|---|---|---|---|
| | 7.50% | £3.37 | £3.49 | £3.62 | £3.77 | £3.95 | £4.15 | £4.38 |
| | 8.00% | £3.27 | £3.37 | £3.49 | £3.63 | £3.78 | £3.95 | £4.15 |
| | 8.50% | £3.18 | £3.27 | £3.38 | £3.50 | £3.63 | £3.78 | £3.96 |
| | 9.00% | £3.09 | £3.18 | £3.28 | £3.38 | £3.50 | £3.64 | £3.79 |
| WACC | 9.50% | £3.02 | £3.10 | £3.18 | £3.28 | £3.39 | £3.51 | £3.64 |
| | 10.00% | £2.95 | £3.02 | £3.10 | £3.19 | £3.29 | £3.39 | £3.51 |
| | 10.50% | £2.89 | £2.95 | £3.03 | £3.11 | £3.19 | £3.29 | £3.40 |
| | 11.00% | £2.83 | £2.89 | £2.96 | £3.03 | £3.11 | £3.20 | £3.30 |
| | 11.50% | £2.77 | £2.83 | £2.89 | £2.96 | £3.03 | £3.11 | £3.20 |
| | 12.00% | £2.73 | £2.78 | £2.84 | £2.90 | £2.96 | £3.04 | £3.12 |

Source: Team Analysis

| BEAR CASE | Historicals | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Income Statement Assumptions | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014 |
| Revenue Growth (%) | 8% | 8% | 4% | 6% | -2.0% | 4.0% | -2.0% | -2.0% | -2.0% | -2.0% |
| COGS % Revenue | 68% | 67% | 68% | 72% | 72.5% | 72.0% | 72.5% | 73.0% | 73.5% | 74.0% |
| OPEX % Revenue | 8% | 7% | 7% | 7% | 7.6% | 8.0% | 8.4% | 8.8% | 9.2% | 9.7% |
| Operating margin | 18% | 23% | 22% | 18% | 17% | 17% | 16% | 15% | 14% | 12% |
| Effective Tax Rate | 22% | 21% | 21% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |

| BULL CASE | Historicals | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Income Statement Assumptions | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014 |
| Revenue Growth (%) | 8% | 8% | 4% | 6% | 2% | 6% | 4% | 4% | 3% | 2% |
| COGS % Revenue | 68% | 67% | 68% | 72% | 73% | 72% | 73% | 73% | 74% | 74% |
| OPEX % Revenue | 8% | 7% | 7% | 7% | 8% | 8% | 8% | 9% | 9% | 10% |
| Operating margin | 18% | 23% | 22% | 18% | 17% | 17% | 16% | 15% | 14% | 13% |
| Effective Tax Rate | 22% | 21% | 21% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| Interest Rate | | 4% | 2% | 2% | 3% | 3% | 3% | 3% | 3% | 3% |

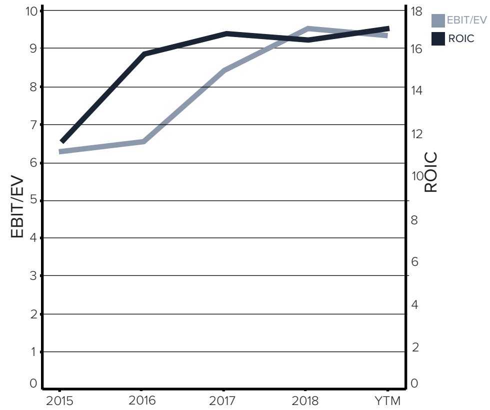
Figure 9




Size shows relative market cap size

Source: Team Analysis

Figure 10




Source: Team Analysis

# Financial Analysis

## COGs is was the reason for last year earnings miss.

Card Factory's COGs increased by 9.8%, primarily driven by an increase in the national living wage, store wages increase from from 68.9m to 74.9m representing an 8.7% increase FY2017 to FY2018. This is due to new store rollout and pay increase awards, however, the more notable impact was the national living wage. Karen Hubbard, CEO, has stated:

"Assuming a steady state, we anticipate that the foreign exchange headwind should dissipate in FY20. We continue to mitigate a large proportion of expected cost challenges, including National Living Wage and electricity wholesale prices, which will result in £5-6m of additional costs."

One strategy Card Factory can apply is to effectively utilise the apprentice levy referred to in the FY2018 report, a key activity during the year was supposedly the definition and launch of their apprenticeship strategy. However, no further detail has been provided, through our research we can not find any apprenticeship postings, and investor relations has not provided us with further colour. Therefore, this strategy will not impact our assumptions.

There was also margin impact from increased performance of the complementary non-card segment, which in part offset by business efficiencies. Finished goods, raw materials, and other production costs from the far east were impact by foreign exchange movements.These currency headwinds were a result of the effective exchange rate for FY18 being c$1.38 compared to c$1.64 for FY17, and rate for FY19 is anticipated to be c$1.34. The additional foreign exchange headwinds for FY19 are expected to mitigated by efficiencies according to management, and expect them to ease for FY20 due cover of two thirds of anticipated dollar requirement at an average rate of $1.37.

We believe Card Factory is a good business at a cheap price. We will not see the direct results of Card Factory's consumer captivity through its new competitive position in Republic of Ireland (6 trial stores in 2018) due to the aforementioned currency movement headwinds and the recent minimum wage increase which will cause a short-term deterioration discouraging those seeking a short-term position.

"In the short-term there is [a] serial correlation [of goodness and badness] and in the long run there is competitive pressure" - Richard Pzena

Therefore, there is significant time-horizon arbitrage in this opportunity combined with the fact this is a UK small cap, we believe there exists 80% upside while providing a strong
margin of safety.

## Willingness to distribute excess cash to shareholders

The board has adopted a progressive ordinary dividend policy and has stated intent to issue said dividends on an annual basis. The targeted dividend cover is between 1.5 times and 2.5 times Card Factory's underlying consolidated post-tax profit, however, it was previously 2.0-3.0x. FY18 Total Ordinary dividend 9.3p (9.9 FY17) representing a dividend cover of 2.03 (2.18 FY17), and a special dividend of 1

5.0p (15.0p FY17). Card Factory has a policy to maintain year-end EBITDA leverage in the range of 1.0 to 2.0x, in FY18 EBITDA leverage was 1.72 (1.32 FY17).

Card Factory has demonstrated willingness to distribute excess cash flow to shareholders, the board issues special dividends when confident regarding competitive positioning. Up to FY2018 from May 2014 IPO, £268.4m has been returned to shareholders.The board also acknowledges the business is highly cash generative and requires little investment. The board currently expects to distribute surplus cash on an annual basis absent any material investments, we believe it would be unlikely that any material capital spending will be required to maintain competitive positioning. Therefore, the risk of losing the dividend is low.

## Comparables

Card Factory's special chain competitors (Clintons, Hallmark, Paperchase, Scribbler, and Cards Galore) are private. Therefore, for comparable analysis we first identified generalist competitors in the UK card market, B&M and WH Smith, both sell cards and B&M also sell items at a value price point. Pets at Home was another UK company included as all three companies are facing similar headwinds: increasing minimum wage, brexit (weaker pound and consumer confidence (and by extension footfall of the high street), and have brick & mortar stores competing against online retailers. Card Factory outperforms the median on its peers across most valuation metrics.

| Name | Sales Gr | EBITDA Margin | Op Margin | PAT Margin | ROIC | ROA | ROE | EBIT / EV | Interest Cov | Dvd Cov | Dvd Yld |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Median** | **5%** | **4%** | **10%** | **7%** | **10.9** | **7.6** | **15.3** | **6.0** | **15.7** | **1.68** | 3.51% |
| CARD FACTORY PLC | 5% | 23% | 20% | 14% | 17.1 | 13.3 | 26.3 | 9.6 | 31.0 | 0.70 | 4.41% |
| PETS AT HOME GROUP PLC | 8% | -4% | 9% | 7% | 6.3 | 4.9 | 7.4 | 8.6 | 18.2 | 1.68 | 6.61% |
| WH SMITH PLC | 2% | 7% | 12% | 9% | 51.7 | 23.3 | 59.4 | 6.0 | 74.5 | 1.83 | 2.62% |
| HAGAR HF | 1% | -10% | 4% | 3% | 7.9 | 5.7 | 11.3 | 5.9 | 13.2 | 1.28 | |
| JUMBO SA | 11% | 14% | 26% | 20% | 12.8 | 11.5 | 15.0 | 12.0 | 38.0 | 2.85 | |
| GRANDVISION NV | 7% | 5% | 10% | 6% | 10.2 | 7.2 | 21.8 | 5.2 | 54.7 | 2.81 | |
| FIELMANN AG | 1% | -1% | 18% | 12% | 25.5 | 17.6 | 24.3 | 4.4 | 157.3 | 1.08 | |
| DUFRY AG-REG | 5% | 22% | 6% | 1% | 3.7 | 1.2 | 3.8 | 3.6 | 2.1 | | |
| MATAS A/S | 1% | -10% | 10% | 8% | 6.4 | 4.8 | 10.0 | 9.2 | 12.2 | | |
| FF GROUP | 6% | 2% | 18% | 15% | 9.4 | 8.0 | 11.4 | 17.7 | 12.6 | | |
| B&M EUROPEAN VALUE RETAIL SA | 22% | 17% | 8% | 6% | 12.8 | 9.3 | 21.4 | 5.4 | 11.3 | 3.87 | 1.32% |
| MARKS & SPENCER GROUP PLC | -2% | -15% | 6% | 4% | 11.6 | 5.9 | 15.6 | 2.6 | 7.0 | 0.08 | 6.48% |

Card Factory also competes with grocers who primarily capture convenience and distressed purchases (eg ASDA, Tesco, Sainsbury's)

## Private Specialist Competitors

### AG Greetings (Clintons)

The directors stated they are "disappointed with the results of the business" and will be increasingly focused on closing unprofitable stores when they have the opportunity. Also, 'rightsizing' the cost basis of the business which is might be management speak through decreasing the physical-to-digital raito, through downsizing their brick and mortar position.

For the period to 28th January 2018 LFL sales decreased by 3.1% this is primarily driven by revenue being down 6.18%, furthermore, baket size was down in value terms, 4%, and items terms, 1.3%. EBITDA was a loss of £10,329,000 (2017: £12,022,000) As of 06 April 2018 AG Retail Cards Limited was spun off the American Greetings organisation, the management have stated they are focusing a differentiated product on a design perspective and also on value for money, this is completely unrealistic. Clintons previously went in to administration in 2012.

### UK Greetings

UK Greetings revenue decrease by 0.65% from £142,285,000 (2017) to £141,355,000 (2017), in 2018 their operating margin was 5%. They had a profitable year in 2018 of £5,312,000 versus a net loss of £6,799.000 in 2017, however, this represented a net profit margin of only 3.74%.

# Corporate Governance

## Ownership Structure

The three main Shareholders of Card Factory are Invesco, an independent investment management company with its headquarters in Atlanta, US (27%); Artemis, a UK based fund manager with a focus on venture capital and investment trusts (12%), and Old Mutual PLC an African savings, insurance and banking group (10%). As well as several other large investors which include Norges Bank Investment management, Woodford investment management and Majedie asset management, among others. The remaining ownership (35%) is divided between publicly traded stocks (free-float) on the London Stock Exchange and Restricted Shares owned by the company's employees. The issuance of restricted shares for employee ownership is quite new as Card Factory previously used LTIP awards with a three-year restriction to reward employee loyalty. The company firmly believes in maintain a level of ownership with the company to ensure the alignment of executive interests with those of its shareholders.

There is currently a total of 341.55 million shares outstanding for Card Factory with an annual dividend of £9.3 with its last dividend payment having taken place on December 14, 2018
Upon appointment the Chairman, Geoff Cooper, was given the option to invest in Card Factory by
purchasing £330,000 of ordinary shares. As well as investing a further £330,000 in the second and third anniversary of the completion of the IPO. Both options were taken up by the chairman.

## Chief Executive Officer

Karen Hubbard is the current CEO of Card factory. She does not hold a position in the board. Karen graduated from the Australian Graduate School of Management with previous experience as COO at B&M Retail as well as 10 years experience at Asda as an Executive Director.

## Management Structure

Card Factory has a board of directors of 7 members, including four non-executive directors. The company follows the UK corporate governance code as closely as it can, which includes having at least half the board of directors (excluding the Chairman) to be non-executive so as to be independent and impartial from the director's judgement. Admittedly the board remains relatively small which allows for swift and efficient decision making, however this is constantly under review should the board prove to be too small for such a large enterprise this can be changed in as little time as possible, although the need hasn't arisen as of yet.

At the next general meeting the company will seek authority to issue new shares as well as buy back and reissue shares. Card Factory has very recently appointed a new chairman as Geoff Cooper stepped down due to personal reasons. Paul Moody became the new chairman as of October 19, 2018 bringing with him 20 years of experience at Britvic PLC, a British soft drinks manufacturer listed on the FTSE 250 index, including 8 years as CEO.

## Risk Control Systems

Card Factory does not contain a separate risk committee but does operate with an Audit and Risk Committee as is most appropriate for their operational model and nature of the business. Specific and identified risks are recorded in the Group's Risk register, which is reviewed regularly, and assessed in terms of their impact and likelihood, further emphasis on what are considered principal risks. The Board carries out a review of what are considered principal risks twice a year as well as reviewing whether the group is striking a balance for risk taking in pursuit of the Groups strategic goals. Current principal risks include competitor activity and their business strategy. The Group is very weary of managing rather than eliminating risk.

## Remuneration:

Proposed 5% increase in CEO salary as of 1 May 2018. Increase from £454,000 annual salary to £477,000. Annual bonus remain capped at 125% of salary for CEO.

## Activist Engagement

Teleios Capital currently have 14472000 shares of CARD 4.24% ownership. Their mandate: Creating long-term value through constructive engagement in European mid-cap companies according to Card Factory's Nov 21, 2018 public share registry

# Investment Risks

## Market Risk

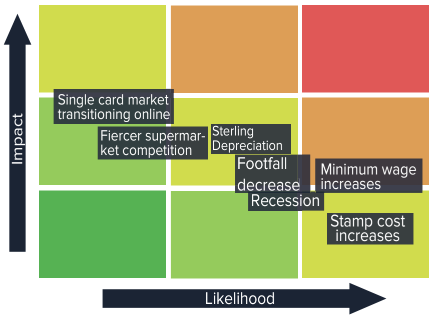
Card Factory are also subject to the risk of the market transitioning online. Regardless of consumer attitudes or end market growth (or lack thereof), if a larger percentage of consumers purchase their greeting cards online as opposed to brick and mortar stores, much of the demand will be relocated to where Card Factory has a weaker competitive position. When including postage and packaging, Card Factory's relative value, diminishes to a point. This risk would be a direct result of decreased high street foot fall - if consumer attitudes remain the same, consumers will still need to want to buy cards, but will not be venturing in to town to do so.

Recession (lower incomes and stumped consumer confidence)
We believe this could contract the market as a whole. Indeed, Card Factory is a value retailer, which has the potential to earn them a larger market share in times of turmoil; However, this larger share could be a larger part of a smaller whole. It may be worth noting that many budget supermarkets, namely Aldi and Lidl, do not retail greeting cards and it is typically the larger, more expensive supermarkets who do stock greeting cards. If more of the population began shopping at cheaper grocers who do not stock greeting as opposed to grocers that do, this could give Card Factory an additional edge in a downturned economy.

Whether it happen because of recession or general trend, a decline of the high street could cause a fall in sales. In our view, much of Card Factory's demand not from consumers who specifically go out to buy a card, but from consumers who buy a card while they buying other products, if high street footfall decreases, this kind of purchase would certainly decrease.

Supermarkets and discount retailers possess the ability to compete with Card Factory on value, but they cannot on quality and their selection/offering. If these companies invest into improving their greeting card offerings, they could pose a heightened threat to Card Factory. However, if the economy takes a downturn as many suspect, there will be limited opportunity for such retailers to achieve this.

Figure 11




Source: Team Analysis

## Financial Risk

Card Factory source nearly all complementary non-card products, handcrafted greeting cards and certain raw materials, from the Far East. This would imply nearly 44% of their revenue (or potentially more), is subject to FOREX fluctuation and sterling depreciation. A pound depreciating even further than it already has, would incur stress on the COGS, squeezing margins tighter.

## Operational Risk

In April 2019, the UK minimum wage(s) is set to increase to £8.21 from £7.83 (for 25+year olds), £7.70 from £7.38 (21-24 year olds) and £6.15 from £5.90 (18-20 year olds) (source: gov.uk) - approximately a 4.5% increase across the board. This will inevitably place pressure on operating expenses. Yearly increases in the minimum wage are likely to entail a similar increase (between 4-5%) in operational expenses every year.

Rises in stamp costs would exacerbate Card Factory's online competitive position, reducing their value margin, making them more expensive relative to their competitors. Stamp costs increase sporadically and by a variable amount, but for the past 5 years, they have increased between 1-3 pence per year.

Though we see it unlikely, Brexit could have impeding implications on the expansion to the Republic of Ireland. Any restrictions to foreign direct investment resulting from Brexit complications could impede the expansion to the Republic of Ireland; though we see this a very unlikely.

# Appendix 1

## Glossary

### Single Cards

Single cards comprise individual cards for everyday occasions (eg birthdays, anniversaries, weddings, thank you, get well soon, good luck, congratulations, sympathy and new baby cards) and seasonal occasions (eg Christmas, Mother's Day, Father's Day, Valentine's Day, Easter, thank you teacher, graduation and exam congratulations).

### Complementary Non-Card

'Complementary Non-card' items refers to a wide variety of adjacent product categories that customers have a high propensity to purchase on the same occasions as greeting cards, including:
- Gift dressings (eg gift wrap, gift bags, gift boxes, gift tags, bows and ribbons);
- Small gifts (eg soft toys, ceramics, glassware, candles, picture frames and homewares);
- Party products (eg balloons and banners, badges and candles); and
- Other complementary non-card products (eg calendars, diaries and stamps).

### Christmas boxed Cards

Christmas boxed cards are boxes of multiple cards purchased at Christmas, typically sent to a wider group of relatives, friends and colleagues and are often associated with a charity

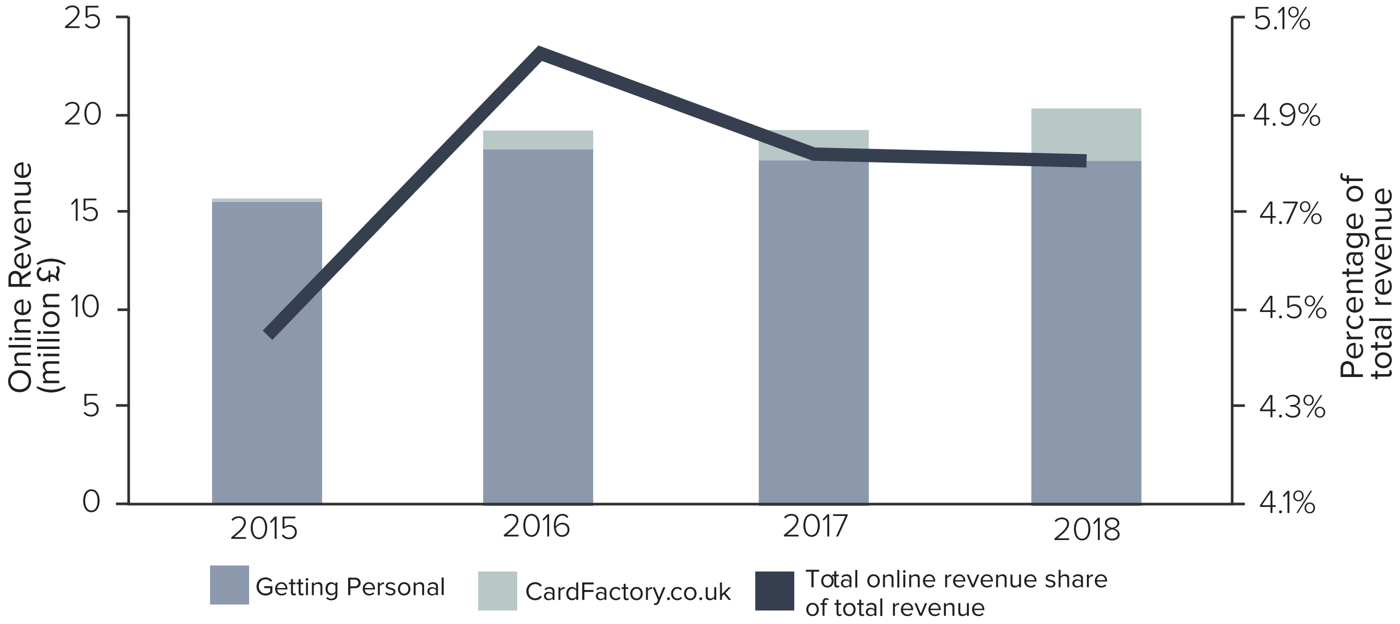
### GCA

The Greeting Card Association is the UK trade association for greeting card publishers. Established in 1919, owned by its membership and run on a not for profit basis, the association is the trade body for the greeting card industry. The GCA resources include free specialist industry information for publishers, the press, artists and writers, students and the general public.

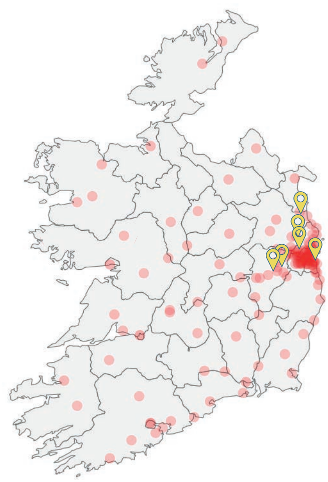
### OC&C

OC & C Strategy Consultants is an international consultancy firm that advises top management of large organizations on strategic issues. The originally British company is active in Europe, North and South America, the Middle East and Asia. OC & C currently has more than 500 consultants worldwide.

# Appendix 2

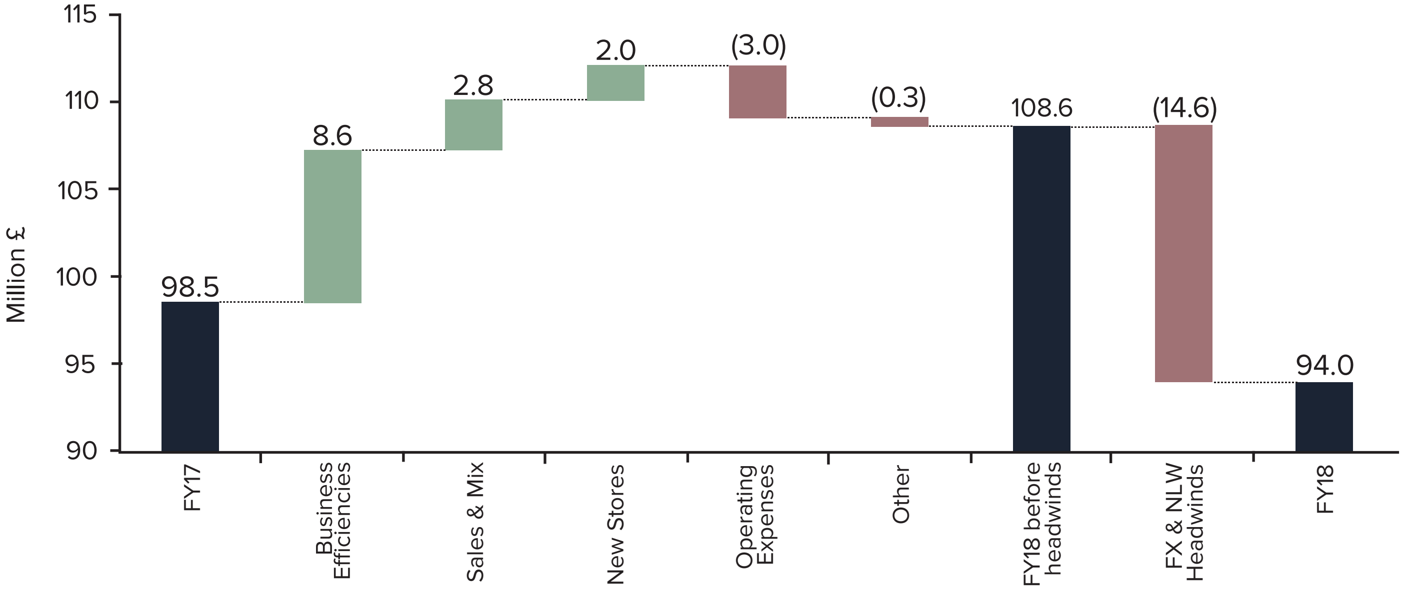


# Appendix 3



Card Factory
Republic of Ireland
Trial Stores

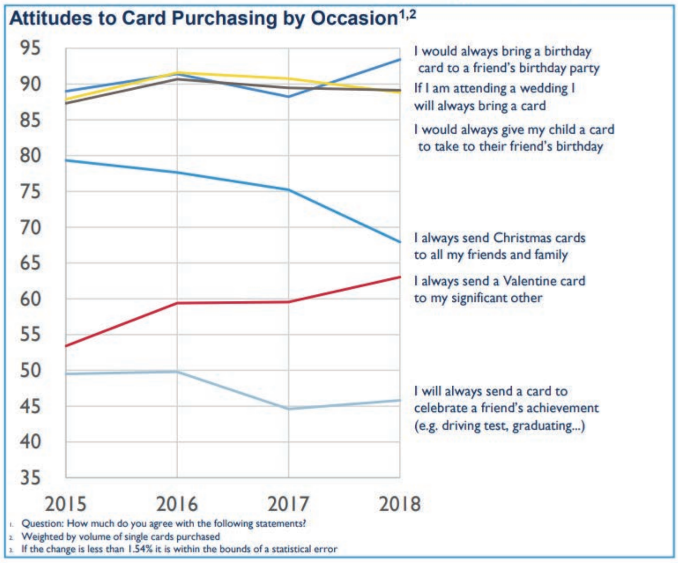
# Appendix 4




EBITDA Bridge

# Appendix 5

## Customer Attitudes and Purchasing Behaviour




Source: OC&C Online Consumer Surveys (2012-17), OC&C analysis

# Appendix 6

| Discount Cash Flow 6 year | | Discounted Cash Flow - EBITDA 6 year | |
|---|---|---|---|
| Free Cash Flow at Year 6 | 58.28 | EBITDA year 6 | 82 |
| WACC | 9.50% | WACC | 9.50% |
| Perpetuity Growth Rate | 0.00% | Exit EBITDA Multiple | 7.5 |
| PV of Perpetuity Value | 613 | PV of EBITDA Exit | 617.29 |
| (+) Present Value of Free Cash Flow | 318 | (+) Present Value of Free Cash Flows | 318 |
| (=) Current Enterprise Value | 931 | (=) Current Enterprise Value | 935 |
| Short Term Debt | 0.1 | Short Term Debt | 0.1 |
| (+) Long Term Debt | 164.6 | (+) Long Term Debt | 164.6 |
| (-) Cash | 5.2 | (-) Cash | 5.2 |
| (-) Current Net Debt | 159.5 | (-) Current Net Debt | 159.50 |
| (=) Equity Value | 1,091 | (=) Equity Value | 776 |
| | | | |
| Shares outstanding (thousands) | 341505 | Shares outstanding (thousands) | 341505 |
| Estimated Value per Share (GBP) | 3.19 | Estimated Value per Share (GBP) | 2.27 |
| Current Price (GBP) | 1.774 | Current Price (GBP) | 1.774 |
| **Estimated Upside** | **80%** | **Estimated Upside** | **28%** |
| | | | |
| Implied EBITDA Exit | 7.45 | Implied Terminal Growth | -8.92% |

# Appendix 7

| argins | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Historicals | | | | Projection | | | | | |
| oss Margin | 32% | 33% | 32% | 28% | 28% | 28% | 28% | 27% | 27% | 26% |
| ITDA Margin | 21% | 26% | 24% | 20% | 20% | 20% | 19% | 18% | 17% | 16% |
| IT Margin | 18% | 23% | 22% | 18% | 17% | 17% | 16% | 15% | 14% | 13% |
| T Margin | 12% | 22% | 21% | 17% | 16% | 16% | 15% | 14% | 12% | 11% |
| .T Margin | 9% | 17% | 16% | 14% | 13% | 13% | 12% | 11% | 10% | 9% |

# Appendix 8

| Card Factory | Historical | Projection | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| **DCF** | | | | | | | |
| **Revenue** | $422.10 | $434.80 | $460.80 | $483.90 | $503.20 | $518.30 | $533.90 |
| Cost of Goods Sold | 304.6 | 299.4 | 317.3 | 333.2 | 346.5 | 356.9 | 367.6 |
| **Current Assets** | | | | | | | |
| Inventories | 51.5 | 57.8 | 60.3 | 63.1 | 65.8 | 67.9 | 69.7 |
| Trade & Other Receivables | 16.6 | 18.0 | 18.9 | 19.7 | 20.4 | 20.9 | 21.3 |
| Derivative financial instruments | 0.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Cash and cash equivalents | 3.6 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Total Current Assets | $72.00 | $83.08 | $86.45 | $90.05 | $93.40 | $96.01 | $98.26 |
| **Current Liabilities** | | | | | | | |
| Borrowings | 14.9 | 58.9 | 84.2 | 110.6 | 138.8 | 169.7 | 203.9 |
| Tade & Other Payables | 37.7 | 41.8 | 43.5 | 45.6 | 47.5 | 49.1 | 50.4 |
| Tax payable | 5.5 | 6.5 | 6.8 | 6.6 | 6.3 | 5.9 | 5.4 |
| Derivative financial instruments | 7 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Total Current Liabilities | $65.10 | $109.20 | $136.60 | $164.85 | $194.66 | $226.63 | $261.73 |
| Net Working Capital | $6.90 | ($26.13) | ($50.15) | ($74.80) | ($101.27) | ($130.62) | ($163.48) |
| % sales | 1.63% | -6.01% | -10.88% | -15.46% | -20.12% | -25.20% | -30.62% |
| (Increase) / Decrease in NWC | ($12.00) | -33.0 | -24.0 | -24.6 | -26.5 | -29.4 | -32.9 |
| **NOPAT** | **74.1** | **71.7** | **75.5** | **74.0** | **71.8** | **68.6** | **64.6** |
| Plus Depreciation | 9.5 | 10.1 | 10.9 | 11.8 | 12.6 | 13.4 | 14.2 |
| Plus: Amortisation | 1.1 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 |
| Less: CAPEX | 17.5 | 17.5 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Plus share-based compensation | -0.1 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Less changes in NWC | -12.0 | -33.0 | -24.0 | -24.6 | -26.5 | -29.4 | -32.9 |
| **(=) Free Cash Flow** | **90.1** | **68.2** | **74.4** | **73.2** | **70.1** | **64.8** | **58.3** |
| % Margin | 21.35% | 15.68% | 16.14% | 15.13% | 13.93% | 12.51% | 10.92% |
| % YoY Growth | -0.90% | -24.37% | 9.13% | -1.60% | -4.21% | -7.51% | -10.12% |
| **Present Value of Free Cash Flow** | | | | | | | |
| WACC | | 9.50% | | | | | |
| Discount period | | 0.5 | 1.5 | 2.5 | 3.5 | 4.5 | 5.5 |
| Discount factor | | 0.96 | 0.87 | 0.80 | 0.73 | 0.66 | 0.61 |
| **Present Value of Free Cash Flow** | | **65.14** | **64.92** | **58.34** | **51.03** | **43.10** | **35.38** |

# Appendix 9

| Income Statement | Historicals | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Revenue | 353.3 | 381.60 | 398.20 | 422.10 | 430.542 | 456.37 | 474.63 | 491.24 | 503.52 | 513.59 |
| (-) Cost of Revenue | 240.10 | 255.30 | 272.20 | 304.60 | 312.14 | 328.59 | 344.11 | 358.61 | 370.09 | 380.06 |
| **(=)Gross Profit** | **113.20** | **126.30** | **126.00** | **117.50** | **118.40** | **127.78** | **130.52** | **132.64** | **133.43** | **133.53** |
| (-)Operating Expenses | 29.80 | 26.40 | 29.20 | 31.50 | 32.72 | 36.51 | 39.87 | 43.23 | 46.32 | 49.82 |
| **(=)Operating Income** | **83.40** | **99.90** | **96.80** | **86.00** | **85.68** | **91.27** | **90.65** | **89.41** | **87.11** | **83.72** |
| (-)Share-based compensation | 10.30 | 1.30 | 0.20 | -0.10 | 0.53 | 0.56 | 0.58 | 0.60 | 0.62 | 0.63 |
| (-)Depreciation | 7.70 | 8.60 | 9.20 | 9.50 | 10.11 | 10.93 | 11.75 | 12.57 | 13.39 | 14.21 |
| (-)Amortisation | 1.10 | 1.10 | 1.70 | 1.10 | 1.40 | 1.48 | 1.54 | 1.60 | 1.64 | 1.67 |
| **EBIT** | **64.30** | **88.90** | **85.70** | **75.50** | **73.64** | **78.30** | **76.78** | **74.63** | **71.46** | **67.20** |
| **EBITA** | **75.70** | **91.30** | **87.60** | **76.50** | **75.57** | **80.34** | **78.90** | **76.83** | **73.72** | **69.50** |
| **EBITDA** | **73.10** | **98.60** | **96.60** | **86.10** | **85.15** | **90.72** | **90.07** | **88.80** | **86.49** | **83.09** |
| (+)Financial Income | 0.30 | 0.30 | 0.10 | 0.10 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| (-)Financial Expenses | 21.90 | 5.50 | 3.00 | 3.00 | 5.43 | 6.10 | 6.79 | 7.53 | 8.34 | 9.25 |
| **(+)Net Financial Expenses** | **21.60** | **5.20** | **2.90** | **2.90** | **5.23** | **5.90** | **6.59** | **7.33** | **8.14** | **9.05** |
| **Profit Before Tax (PBT)** | **42.70** | **83.70** | **82.80** | **72.60** | **68.41** | **72.40** | **70.18** | **67.30** | **63.32** | **58.16** |
| (-)Income Taxes | 9.50 | 17.30 | 17.10 | 14.30 | 13.91 | 14.73 | 14.27 | 13.69 | 12.88 | 11.83 |
| **Net Income** | **33.20** | **66.40** | **65.70** | **58.30** | **54.50** | **57.68** | **55.91** | **53.61** | **50.44** | **46.33** |

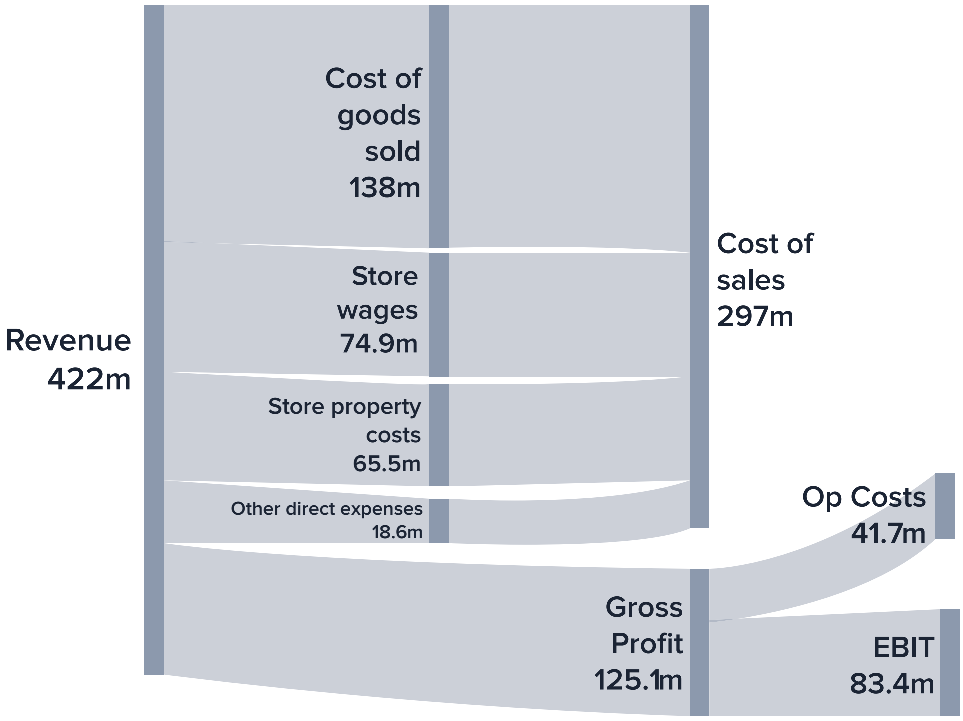
# Appendix 10

| Cash Flow Statement | Historicals | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014 |
| **PBT** | 42.7 | 83.7 | 82.8 | 72.6 | 68.4 | 72.4 | 70.2 | 67.3 | 63.3 | 58.2 |
| Net Finance Charge | 21.6 | 5.2 | 2.9 | 2.9 | 5.2 | 5.9 | 6.6 | 7.3 | 8.1 | 9.0 |
| **EBIT** | **64.3** | **88.9** | **85.7** | **75.5** | **73.6** | **78.3** | **76.8** | **74.6** | **71.5** | **67.2** |
| Depreciation and amortisation | 8.8 | 9.7 | 10.9 | 10.6 | 11.5 | 12.4 | 13.3 | 14.2 | 15.0 | 15.9 |
| Loss on disposal of fixed assets | | 0.1 | 1.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow hedging foreign currency movements | 0.4 | 2.4 | -0.2 | -3.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| share-based payments charge | 10.3 | 1.3 | 0.2 | -0.1 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Operating cash flows before changes in working cap** | **83.8** | **102.4** | **97.7** | **82.8** | **85.7** | **91.3** | **90.7** | **89.4** | **87.1** | **83.7** |
| (Increase)/decrease in receivables | 0.7 | -3.0 | 1.1 | 3.0 | -1.6 | -1.1 | -0.8 | -0.7 | -0.5 | -0.4 |
| (increase)/decrease in inventories | -2.2 | -8.9 | -1.0 | -0.1 | -6.4 | -3.0 | -2.9 | -2.7 | -2.1 | -1.8 |
| Increase in payables | 2.6 | 1.7 | 1.6 | 4.0 | 6.8 | 2.9 | 2.7 | 2.5 | 2.0 | 1.7 |
| **Cash inflow from operating activities** | **84.9** | **92.2** | **99.4** | **89.7** | **84.5** | **90.0** | **89.7** | **88.6** | **86.5** | **83.2** |
| Corporation tax paid | -9.6 | -13.0 | -17.6 | -17.0 | -16.0 | -17.1 | -17.0 | -16.8 | -16.4 | -15.8 |
| **Net cash inflow from operating activities** | **75.3** | **79.2** | **81.8** | **72.7** | **68.5** | **73.0** | **72.7** | **71.8** | **70.1** | **67.4** |
| | | | | | | | | | | |
| **Cash flows from investing activities** | | | | | | | | | | |
| Purchase of PP&E | -9.2 | -10.5 | -8.6 | -10.6 | -17.5 | -10.0 | -10.0 | -10.0 | -10.0 | -10.0 |
| Purchase of intangible assets | -0.9 | -1.1 | -1.8 | -2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payment of deferred consideration | -0.8 | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of PP&E | | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest received | 0.3 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net cash outflow from investing activities** | **-10.6** | **-12.0** | **-10.3** | **-13.0** | **-17.5** | **-10.0** | **-10.0** | **-10.0** | **-10.0** | **-10.0** |
| | | | | | | | | | | |
| **Cash flows from financial activities** | | | | | | | | | | |
| Proceeds from bank borrowings non-Current | 177.4 | 144.2 | 0.0 | 20.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from bank borrowings Current | | 0.0 | 8.7 | 6.1 | 44.0 | 24.8 | 25.8 | 27.5 | 30.0 | 33.5 |
| Purchase of interest rate derivatives | | -0.5 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest paid | -8.6 | -3.3 | -2.6 | -2.7 | -5.4 | -6.1 | -6.8 | -7.5 | -8.3 | -9.2 |
| Repayment of borrowings non current | -293.6 | -182.5 | -5.0 | 0.0 | -7.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from new shares issues | 88.5 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Dividends paid | | -82.8 | -81.1 | -82.9 | -82.0 | -82.0 | -82.0 | -82.0 | -82.0 | -82.0 |
| **Net cash outflow from financing activities** | **-36.3** | **-124.9** | **-79.8** | **-59.2** | **-50.5** | **-63.0** | **-62.7** | **-61.8** | **-60.1** | **-57.4** |
| Net increase/(decrease) in cash and cash equivalen | 28.3 | -57.7 | -8.3 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and cash equivalents at the beginning of the y | 40.7 | 69.0 | 11.3 | 3.0 | 3.5 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| **Closing cash and cash equivalents** | **69.0** | **11.3** | **3.0** | **3.5** | **4.0** | **4.0** | **4.0** | **4.0** | **4.0** | **4.0** |

# Appendix 11

| Balance Sheet | Historicals | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014 |
| Non-current assets | | | | | | | | | | |
| Intangible assets | 331.00 | 331.00 | 330.20 | 331.60 | 331.60 | 331.60 | 331.60 | 331.60 | 331.60 | 331.60 |
| Gross PP&E | 87.4 | 89.8 | 96.6 | 105.8 | 123.30 | 133.30 | 143.30 | 153.30 | 163.30 | 173.30 |
| Less accumulated depreciation | 49.2 | 49.9 | 57.5 | 65.80 | 75.91 | 86.85 | 98.60 | 111.17 | 124.56 | 138.78 |
| Net PP&E | 38.2 | 39.9 | 39.1 | 40 | 47.39 | 46.45 | 44.70 | 42.13 | 38.74 | 34.52 |
| Deferred tax assets | 0.20 | 0.20 | 0.60 | 1.90 | 0.77 | 0.83 | 0.89 | 0.95 | 1.01 | 1.08 |
| Other receivables | 1.2 | 1 | 0.8 | 0.8 | 0.95 | 0.95 | 0.95 | 0.95 | 0.95 | 0.95 |
| Derivative financial instruments | 0 | 1.80 | 0.60 | 0.20 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 |
| **Total** | **370.60** | **373.90** | **371.30** | **374.50** | **381.35** | **380.48** | **378.79** | **376.28** | **372.95** | **368.80** |
| Current assets | | | | | | | | | | |
| Inventories | 41.5 | 50.40 | 51.4 | 51.50 | 57.78 | 60.82 | 63.70 | 66.38 | 68.51 | 70.35 |
| Trade and other receivables | 17.7 | 17 | 16.6 | 16.60 | 18.02 | 19.10 | 19.87 | 20.56 | 21.07 | 21.50 |
| Derivative financial instruments | 5.80 | 3.50 | 3.50 | 0.30 | 3.275 | 3.275 | 3.275 | 3.275 | 3.275 | 3.275 |
| Cash and cash equivalents | 69 | 11.3 | 3 | 3.60 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| **Total** | **134.00** | **82.20** | **74.5** | **72.00** | **83.08** | **87.20** | **90.84** | **94.22** | **96.86** | **99.12** |
| **Total assets** | **505** | **456** | **446** | **447** | **464** | **468** | **470** | **470** | **470** | **468** |
| Current liabilities | | | | | | | | | | |
| Borrowings | 14.5 | 0.1 | 8.8 | 14.9 | 58.94 | 83.77 | 109.54 | 137.00 | 166.96 | 200.48 |
| Trade and other payables | 35.3 | 35.8 | 37.40 | 37.70 | 41.76 | 43.96 | 46.04 | 47.98 | 49.52 | 50.85 |
| Tax payable | 5.2 | 8.8 | 8.7 | 5.5 | 6.50 | 6.88 | 6.67 | 6.40 | 6.02 | 5.53 |
| Derivative financial instruments | 0.1 | 0.2 | 0.7 | 7 | 4 | 4 | 4 | 4 | 4 | 4 |
| **Total** | **55.1** | **44.9** | **55.6** | **65.1** | **111.20** | **138.62** | **166.26** | **195.38** | **226.50** | **260.86** |
| Non-current liabilities | | | | | | | | | | |
| Borrowings | 155.9 | 134.1 | 129.3 | 149.6 | 142.23 | 142.23 | 142.23 | 142.23 | 142.23 | 142.23 |
| Trade and other payables | 10.7 | 11.4 | 11.2 | 10 | 12.7 | 13.4 | 14.0 | 14.6 | 15.1 | 15.5 |
| Derivative financial instruments | 0 | 0 | 0.2 | 3.4 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| **Total** | **166.6** | **145.5** | **140.7** | **163** | **155.9** | **156.5** | **157.2** | **157.8** | **158.2** | **158.6** |
| **Total Liabilities** | **221.7** | **190.4** | **196.3** | **228.1** | **267.1** | **295.2** | **323.4** | **353.1** | **384.7** | **419.5** |
| **Net Assets** | **282.9** | **265.7** | **249.5** | **218.4** | **197.4** | **172.5** | **146.2** | **117.4** | **85.1** | **48.4** |
| **Equity** | | | | | | | | | | |
| Share capital | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Share premium | 201.6 | 201.6 | 201.9 | 202.2 | 202.2 | 202.2 | 202.2 | 202.2 | 202.2 | 202.2 |
| Hedging reserve | 5 | 3.1 | 2 | -5 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Reverse acquisition reserve | -0.5 | -0.5 | -0.5 | -0.5 | - 0.5 | - 0.5 | - 0.5 | - 0.5 | - 0.5 | - 0.5 |
| Merger reserve | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Retained earnings | 70.7 | 55.4 | 40 | 15.6 | - 11.9 | - 36.2 | - 62.3 | - 90.7 | - 122.3 | - 157.9 |
| **Equity attributable to equity holders of the parent** | **282.90** | **265.70** | **249.50** | **218.40** | **197.17** | **172.85** | **146.76** | **118.37** | **86.81** | **51.14** |
| **Total Liabilities and Shareholder Equity** | **505** | **456** | **446** | **447** | **464** | **468** | **470** | **472** | **472** | **471** |

# Appendix 12


Cost of goods sold 138m
Store wages 74.9m
Store property costs 65.5m
Other direct expenses 18.6m
Revenue 422m
Cost of sales 297m
Op Costs 41.7m
Gross Profit 125.1m
EBIT 83.4m