Xpediator Plc

Accelerating growth?

15 March, 2018

As demonstrated by the recent trading update, XPD continues to grow rapidly by acquisition and also organically (+46% year-on-year in 2017). We anticipate further strong growth during the course of our estimates, driven by a combination of: exposure to faster GDP growth than the UK (CEE & the Baltic states); the relatively newer areas, such as Eshopwedrop and Pall-Ex; new offices, warehouses and services; and, not least, further acquisitions. Our valuation methodology suggests today's market capitalisation currently undervalued the business by at least 50%, with further corporate activity likely ahead.

Exposure to faster growth. Well-established position with the CEE region and the Baltic states and therefore a competitive advantage over late entrants to the region. The CEE region and Baltic states are growing much faster in GDP terms than either the UK or the remainder of the EU. This positioning should help the Group benefit from continued re-shoring of manufacturing from the Far East.

Plenty of growth to emerge from existing activities. Eshopwedrop and Pall-Ex Romania are still in their relative infancies, growth-wise, in our opinion. We anticipate Eshopwedrop, which is now profitable, will grow strongly in both existing markets and by new / forthcoming franchise agreements in Georgia, Albania, Greece, Bulgaria, Ukraine and the USA. The strong growth of Eshopwedrop is expected to result in a cross-selling of warehousing and distribution services. Further upgrading of Pall-Ex in Romania to handle goods requiring temperature control and larger trailers. Affinity is in the process of targeting small and medium sized hauliers and offering new products such as truck leasing and to widen its insurance offering.

Organic growth continued. In addition, Xpediator is looking to open new office locations within the freight forwarding division in the UK. Within the transport & logistics division, management is seeking to open strategically located warehouse facilities (UK Midlands), driven by e-commerce and introduce new services in both existing and new markets.

Growth by acquisition. Management has significant contacts and knowledge of the freight management industry, which is ripe for consolidation. We expect any acquisitions to both provide complementary services, such as e-fulfilment and fill in gaps in the Group's service, for example rail, air and sea freight, where the Group is arguably under-represented currently.

Motivation. Since management own 68% of the company, their interests are fully aligned with external shareholders and they are fully focused on value creation.

Good value. On a forecast 2019 PER of 10.8x and yield of 4.1% the shares appear lowly rated despite the many growth opportunities. This is reinforced by our own valuation calculation using three different methodologies: peer group comparisons, discounted cash flow, and dividend discount model. **This suggests a share value of 74p is merited,** still well above current levels despite recent gains.

Company Data

EPIC	XPD
Price	46.5p
52 week Hi/Lo	46.5p / 27p
Market cap	£55m
ED valuation / share	74p

Share Price since IPO, p

Source: ADVFN

Description

Xpediator (XPD) is an integrated freight management business. The Group has three main business areas: freight forwarding services, logistics and warehousing and transport services. Revenues are derived from the UK (23.5% of Group revenue), CEE and Baltic states (76.5%).

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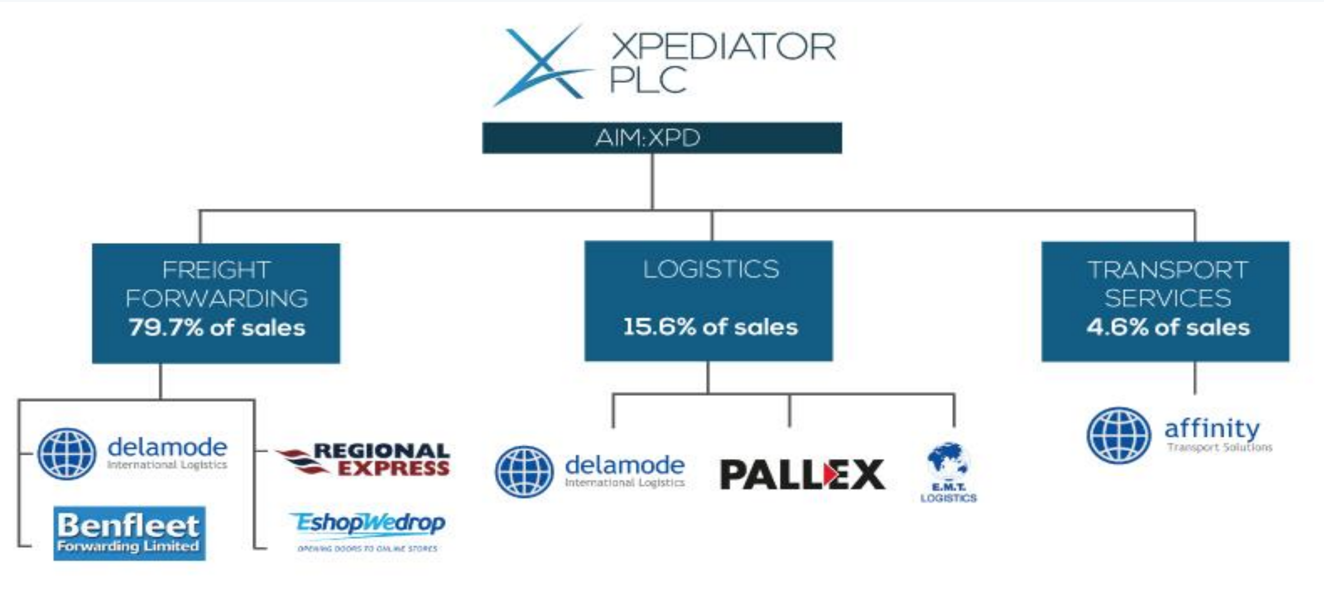
Overview

Xpediator is a holding company, focused on three divisions with an increasing international presence:

- **Freight Forwarding**, providing the role of broker between customer and freight services supplier
- **Logistics & Warehousing**, storage and fulfilment services to clients in the UK and southern Europe
- **Transport Services**, provision of fuel, toll and tunnel cards, insurance, vehicle leasing and GPS services.

Freight Forwarding, the largest division, comprising 79.7% of revenues in H1 2017A, followed by, Logistics & Warehousing (15.7% of revenue) and Transport Services (4.6%).

The Group



Source: Company

The revenues are predominantly derived from the UK, Romania, Lithuania and Bulgaria, accounting for 91.8% of revenues during H1 2017. Following the recent acquisitions made during FY2017F, we anticipate that the influence of those four countries is likely to decline in relative terms over the medium term, notwithstanding the strong growth we expect to continue from them.

With a solid base from which to grow from, we believe that the outlook looks exciting from here, not least from the combination of the anticipated rapid top-line growth from the opportunities listed below.

The Group has a well-established position with the CEE region and the Baltic states and thus retains a competitive advantage over late entrants to the region. **The CEE region and Baltic states are growing much faster in GDP terms than either the UK or the remainder of the EU**. This positioning should help the Group benefit from any 're-shoring' of manufacturing from the Far East.

Affinity, Eshopwedrop and Pall-Ex have great potential. We anticipate Eshopwedrop, which is now profitable, should grow strongly in both existing markets and by new (Albania) / forthcoming (Greece) franchise agreements.

The strong growth of Eshopwedrop should lead to cross-selling of warehousing and distribution services. The number of master franchises with Pall-Ex has now expanded to include Hungary and Moldova. Further upgrading of Pall-Ex in Romania includes the ability to handle larger trailers. Affinity is in the process of: expanding its operations in the Balkans region from its profitable base in Serbia and, targeting small and medium sized hauliers and offering new products such as truck leasing and a widening of its insurance offering. We anticipate that the Freight Forwarding division is also likely to expand in the Balkans from its base in Serbia.

The recent trading update for the year to December 2017 was strong, **with revenues ahead of market expectations at £116m (FY2016A: £72.8m)**. While the second half benefitted from three acquisitions (a full period of EMT, although literally only weeks from Benfleet Forwarding and Regional Express), the extent of the contribution was very meaningful at £10m.

On that basis, the underlying growth year-on-year, in part aided by the opportunities provided by their new parent, was excellent. In addition, the underlying business reported organic growth of approximately 46%.

The trading update also stated that operating profit was in line with market expectations. We remain encouraged following the trading update and believe that the future growth prospects appear positive and some way ahead of GDP growth both here and in the CEE and Baltic states. This reflects the e-commerce, franchising moves, new locations (offices and warehouses) and new service offerings.

Xpediator's management has significant contacts and knowledge of the freight management industry, which is ripe for consolidation. We expect any acquisitions to both provide complementary services, such as e-fulfilment and fill in gaps in the Group's service, for example rail, air and sea freight, where the Group is arguably under-represented currently. In addition, M&A activity is likely to focus on the CEE and Balkan states, rather than on the UK.

Our analysis of the Group as it stands at the moment yields a value of 74p / share, but it seems safe to assume that there will be a continuing pace of both organic growth opportunities and acquisitions that can further enhance shareholder value in the future.

History

The group, trading as Delamode, was founded in 1988, providing freight forwarding services in the UK, predominantly to the retail fashion sector. The group's early growth driver was the move towards 'groupage' filling trucks with goods from other parties, in what otherwise would have been partially filled trailers.

The business expanded into Eastern Europe, shortly following the fall of communism and in response to a number of its existing clients.

The Transport Services division was born in 2002, recruited as an agent for DKV Euro Services in Romania, since developing the provision of fuel cards into Serbia, Montenegro, Macedonia and Moldova, with the number of services widened to include ferry crossings, satellite-based navigation systems, road side assistance and more recently, leasing. The division has traded under the brand, Affinity Transport Solutions since 2013.

The Logistics division began life in Romania in 2004, providing contract solutions for clients. This was disposed of in 2010 for €7m, in order to focus on freight forwarding. The following year the group was awarded the Romanian master franchise for Pall-Ex, which commenced trading the following year. Pall-Ex is an overnight national palletised freight distribution service throughout the UK and Europe.

In 2017, the Group successfully completed four acquisitions: the IP of a Lithuanian competitor to Eshopwedrop, Easy Managed Transport (EMT), Benfleet Forwarding and Regional Express. The competitor to Eshopwedrop was purchased in January for a rate per parcel delivered through the group's e-commerce operations in the Baltic, with a maximum payable of £0.4m.

EMT specialises in providing freight forwarding services to the fashion sector utilising specialist vehicles equipped for hanging garments. EMT, based in Beckton, was acquired in March 2017, for an aggregate consideration of £2.5m, net of cash and current assets, with 50% of profits delivered in the years to March 2018 and March 2019 paid as deferred consideration, subject to minimum levels of £1.66m and a maximum of £2.85m. Revenue in the year to September 2016 amounted to £3.6m and operating profit of £1.1m. Net assets were £2.6m. Since acquisition, the fashion garment business previously operated by Delamode has been transferred to EMT.

Benfleet Forwarding (Benfleet) operates freight forwarding services such as, road transport and ocean freight shipments across Europe from offices in Basildon (previous head office), Dover, Felixstowe, Chelmsford (all UK), Trento (Italy) and Ploiesti (Romania). The subsidiary specialises in the movement of flooring, machinery, household goods and garments. Its reach historically has included: Italy, Greece, Portugal, Turkey, the Far East and China.

Benfleet was acquired at the end of October and was the first M&A deal post-IPO. The initial consideration comprised cash of £3.95m, including cash in the business as at March 2017 of £1.35m and shares of £2.6m, totalling £6.55m. Deferred consideration, subject to future profitability of Benfleet in the two years to March 2019 and may rise up to £3.9m. Revenues and operating profits of £21.0m and £1.73m, respectively, were generated in the year to March 2017. Net assets on completion amounted to £1.35m, of which £2.5m was in cash.

Regional Express was acquired in early November and provides B2B international road, sea and air freight forwarding and international courier services from its bases in Hampshire and Dorset. The initial consideration amounted to £1.2m, of which £1.08m was paid in cash and the remainder in shares. Deferred consideration of up to £0.7m in cash is payable subject to the future trading performance of the business. The business delivered revenues of £6.0m and EBITA of £0.3m in the year to March 2017. The B2B freight forwarding and courier services are throughout Europe; North America; South America; Africa; Asia and Australia.

Regional Express is also an approved service supplier to Amazon Global Selling. The business organises VAT registration, customs clearances and transportation of goods for Amazon sellers from either the US into the UK or the Far East into the UK by either sea or air freight. The acquisition further widens the scope of the Group's coverage, organising sellers VAT registrations, customs clearances and transport of goods via air and sea freight from both the US and Far East into the UK. More recently, Regional Express has begun to deliver freight in the opposite direction, from the UK to the US, again on behalf of Amazon sellers. Regional Express offers extensive experience in e-commerce, food industry, procurement and oil industry with a client base of over 900, including major corporations.

While the businesses either adds to, or beefs up, existing services offered by the Xpediator Group, management has already begun to integrate the acquisitions both operationally and administratively, not least warehousing and fulfilment, purchasing synergies and entry into its European network.

Notably, even the group's largest customer accounts for less than 2% of overall revenues which includes the utilisation of a range of services provided by the group such as freight forwarding and the provision of warehousing, logistics and fulfilment. The largest sector served by the Group is fashion, which even following the acquisition of EMT is limited to approximately 10% of revenues.

In total, as well as operating from 31 sites and with more than 10,000 customers, the Group employs approximately 650 employees currently.

Business overview

Xpediator is an integrated freight management Group operating across Europe with a strong presence in Central & Eastern Europe (CEE) and the Baltic states. The Group is a holding company operating freight management branded services in three areas:

- Freight forwarding, which trades under the Delamode, Benfleet, Regional Express and Eshopwedrop brands and specialises historically in the UK to CEE routes
- Logistics and warehousing, which comprises distribution hubs in the UK and southern Europe and operating under the Delamode, EMT and Pall-Ex brands
- Transport services, including bundled fuel and toll cards, predominantly in Romania but also southern Europe, trading under the Affinity brand.

The head office is in Braintree, Essex, while it has country offices in Bulgaria, Estonia, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Romania and Serbia.

Freight forwarding

The Freight Forwarding division operates internationally and trades under the Delamode brand, acting as a broker. As a result, the business is asset light, leasing warehouses and prior to the acquisition of EMT employed no drivers or owned any trucks (currently 19).

The role of a freight forwarder is to book and manage shipments for its clients via third party carriers (by road, rail, sea or air), preparing and processing documents to ensure the safe passage of freight between the collection point and its destination. Documentation may include: booking confirmation, cargo receipt, invoice, consignment notes, bills of carriage (air waybill or bill of lading), customs clearance, duty, port-clearance, hazardous goods licenses, letters of credit and insurance. Much of this is organised digitally.

Trading is concentrated on the routes between the UK, central Europe (predominantly Bulgaria, Serbia, Macedonia, Moldova and Romania) and the Baltic states (Lithuania, Latvia and Estonia), with the means of transportation mainly comprising road and sea, although following the acquisition of Regional Express, now includes air. The UK, Romania, Bulgaria and the Baltic states accounted for 93.3% of revenues in the year to December 2016 and during H1 2017, 91.8%. Notwithstanding the continued strong growth from those countries, in view of the acquisitions made ahead of and post-IPO, we would expect this proportion of revenues from the CEE and Baltic states to decline proportionately in the short to medium term.

The division has grown rapidly in recent years, driven by a combination of additional services, new office openings, acquisitions and establishing close relationships with strategic global partners. The business operates predominantly on a full truck load basis (FTL, where the customer agrees to take all a trailer’s capacity), having developed the business model from one where partial loads (groupage) were more common place.

Groupage, or LCL (less than container load), is where the freight forwarder fills a container / truck heading for one destination with goods from up to 20 separate customers, with each paying a fee. Gross margins tend to be higher, reflecting the risks involved (transporting a partial load), with costs also higher, in view of up to 20 different bills of lading increasing administrative charges.

Full container load (FCL) generates lower gross margins as all goods in the container are from one customer, but offers greater certainty and lower administration costs, which part offsets the lower margin.

Generally, the Freight Forwarding division tends not to have many contracts and those that exist do not have minimum volumes. While this does not help forecasting, the growth seen both recently and historically highlights the very strong service element offered by the group, which sees its 10,000-plus strong customer base returning year after year.

In addition, a number of the third-party hauliers are customers of the group's transport services division (Affinity). The group has built a central database of over 3,000 verified suppliers for all the Group's offices, categorised by:

- Insurance coverage
- Equipment available
- Routes / country coverage
- Rates

The database enables the Group to match suppliers to customer requests. An additional request is who is placed and where to provide the most environmental equipment to satisfy customer requirements for the job. The software, a Carrier management System, has been developed in-house.

Eshopwedrop, established in late 2015, takes advantage of and facilitates the rapid growth of internet shopping within the Baltic states and more latterly in Romania (2016). The business provides low cost carriage options to internet shoppers from western European retailers (UK, Germany, France, Italy and Poland) and more recently, from the USA, utilising the Group's B2B groupage routes with a B2C delivery service. For example, and in the case of where purchases are bought from UK-based retailers, goods are delivered to a centralised hub, thereby giving the consumers a UK address and in turn, free postage and packaging for the initial part of the journey. The goods are then collated and palletised at the Group's Essex warehouse, transported in containers to the Group depot closest to the ultimate destination (Baltic states and / or Romania), with local couriers delivering the 'final mile'.

The Freight Forwarding division has invested heavily in systems, including ERP and CRM software, CargoWise One, which is seen as a leading integrated solution within the freight industry. The software also integrates into the systems used by the finance team.

Logistics

The Group's logistics and warehouse facilities are based in the UK, Romania and Bulgaria, comprising:

- Delamode Logistics UK
- Delamode Logistics Romania
- Pall-Ex Romania and,
- EMT

The logistics and warehouse division collectively utilise approximately 54,000 m² of shared useable space. It provides a full-range of services to clients, including:

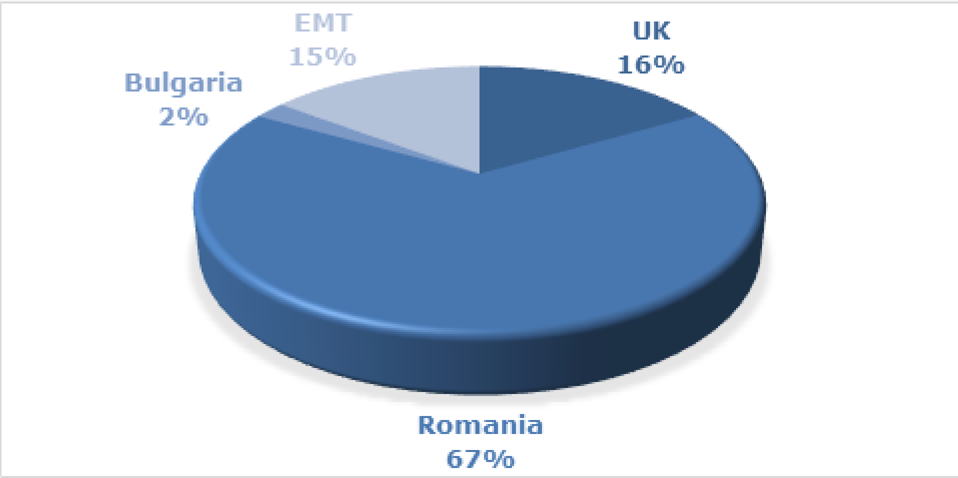
- Warehousing
- E-commerce fulfilment
- Storage and related value-added activities
- Domestic express delivery of small shipments of palletised freight and,
- Collection of loads within national markets

The services provided, listed above, tend to be in-country, rather than cross border. As well as inbound logistics, storage and other services, the business also provides 'final mile' delivery.

The group's main UK warehouse in Braintree, Essex is predominantly focused on e-commerce fulfilment for several customers and the main driver of growth from this leased facility.

In Romania the Group operates eight warehouses, servicing blue chip customers. The sectors specialised in are: technology, manufacturing, FMCG, automotive, agriculture, retail and e-commerce. The main warehouse, which opened in late Q2 2017, is already full, with management currently looking at additional space. The new warehouse has the ability to store up to 9,000 pallets (with an option for a further 4,500), accommodate hazardous goods and in parts is temperature controlled.

Regional spread of warehouse space



Source: Xpediator, as of 2017

The group is a franchise holder for Pallet Exchange (Pall-Ex) in Romania and the founder member of an alliance which now stretches to 33 members across the country. This alliance is connected to Pall-Ex's UK and European network. Pall-Ex is one of the pioneers of freight express transport service for palletised goods, using a network of regional and central hubs to deliver a full container of goods overnight. The average consignment size per customer is 1.46 pallets.

Reflecting the success Xpediator has had with Pall-Ex in Romania, it was recently awarded the master franchise licences for both Hungary and Moldova.

Easy Managed Transport (EMT), specialises in fashion logistics, providing transportation, garment storage and garment processing services to major high street retailers. The business is based in Beckton, East London, from a leased warehouse measuring 6,225 m². EMT operates 30 vehicles, of which 19 are owned by the business, the remainder subcontracted in Europe. All vehicles are equipped with hanging garment capacity. Much of Xpediator's fashion business has been transferred to EMT, with the international services offered by the Group benefitting the customers of EMT. The acquisition has also allowed a fragmentation of the Group's e-commerce related logistics operation, with fashion moving to Beckton and other areas remaining at Braintree.

Management is of the view that further growth in its Romanian logistics operations will be achieved through:

- Cross-selling the service to customers of the Group's international network
- Provision of one-stop logistics services to the clients of the Pall-Ex network
- Target larger retailers and manufacturers, and,
- Further expansion of the capacity of the warehouse space (with the new Bucharest hub full)

Transport Services

The Group's transport services business trades under the Affinity brand. The services offered to hauliers, many of whom are on the Group's freight forwarding database, are exclusively in the Romanian and West Balkan markets. The initial and leading service offered by Affinity is the DKV fuel card, where the Group is agent in Romania. Haulier customers are attracted by the ability to be invoiced net of VAT for fuel purchases made outside of their home country.

The list of services has expanded from fuel cards to encompass:

- Toll and tunnel payment cards across Europe
- Ferry crossing bookings (in particular, across the English Channel, Irish Sea and to Scandinavia)
- Leasing pilot, to match hauliers with recognised funders / leasers
- GPS solutions

The services of Affinity are currently used by in excess of 1,700 clients, operating more than 12,700 vehicles. One should note that stated revenues for the division relate to the Group's commission on the above services, rather than customer's gross invoiced value.

The business has a healthy mix of large and small clients, with the latter's debts secured through cash retentions and lower credit limits. All customers are credit scored where possible, thereby resulting in more manageable credit limits offered to clients. In addition, many of the customers of Affinity are suppliers to Delamode, with the receivables and payables offset against each other where there is a serious risk of default and also, providing credit to customers who would find it more difficult to do so elsewhere.

The latter ties in both customers of Affinity and suppliers to Delamode.

Market & competitors

Markets and drivers

The freight forwarding and customs agents market in the UK provides a range of services that facilitates the movement of goods and equipment both nationally and internationally. Those services include:

- Freight forwarding
- Customs and freight brokerage
- Stock consolidation
- Goods handling operations

Freight forwarders buy transport slots in bulk from road, air, sea and rail freight operators. They then re-package this space into smaller parcels and consolidate loads on behalf of clients needing to ship goods. Customs agents act on behalf of clients to satisfy import and export legislative requirements. Stock consolidation involves merging different shipments into one larger shipment to reduce transport costs and increase capacity utilisation. Goods handling is the unloading of vehicles, trains and ships.

Revenues in the industry are determined by:

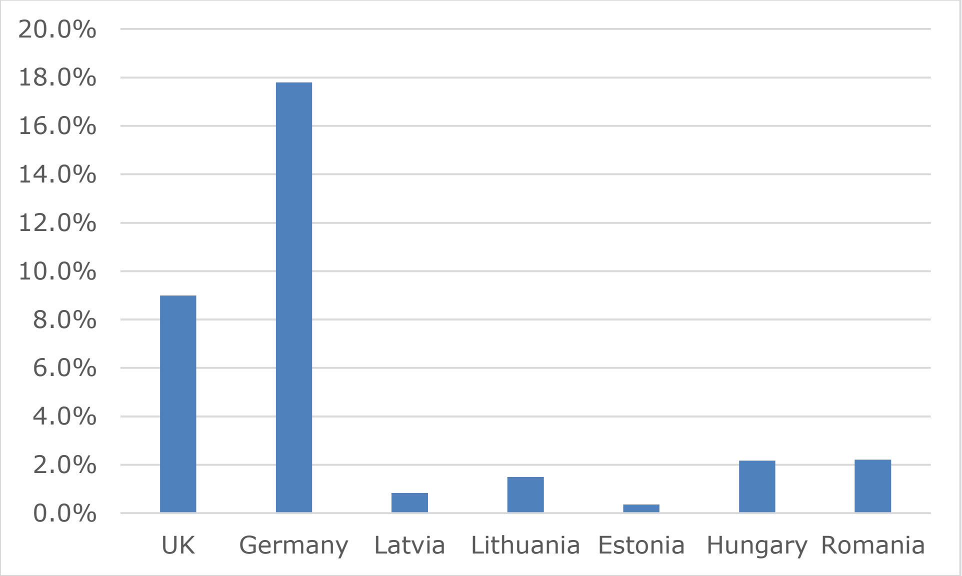
- Freight volumes
- Transport costs
- Business confidence
- Consumer confidence / retail sales
- Value of goods exports
- Value of goods imports

The freight forwarding market in the UK, worth an estimated £17.1bn in 2017-18 (*source: IBISWorld*), part of the much wider UK freight industry, which was valued at £28.2bn in 2017-18 (source: IBISWorld). The freight forwarding market is expected to rise modestly, by 1.3% from 2016-17 levels.

The UK, as measured by million tonnes-kilometres and by the registered state of the haulier, represents just 9.0% of the EU-24 road freight by volume, 5.5% of EU-24 combined rail freight, although a sizeable 19.2% of the air freight & mail market in Europe (*source: Eurostat*), as shown in the Charts below.

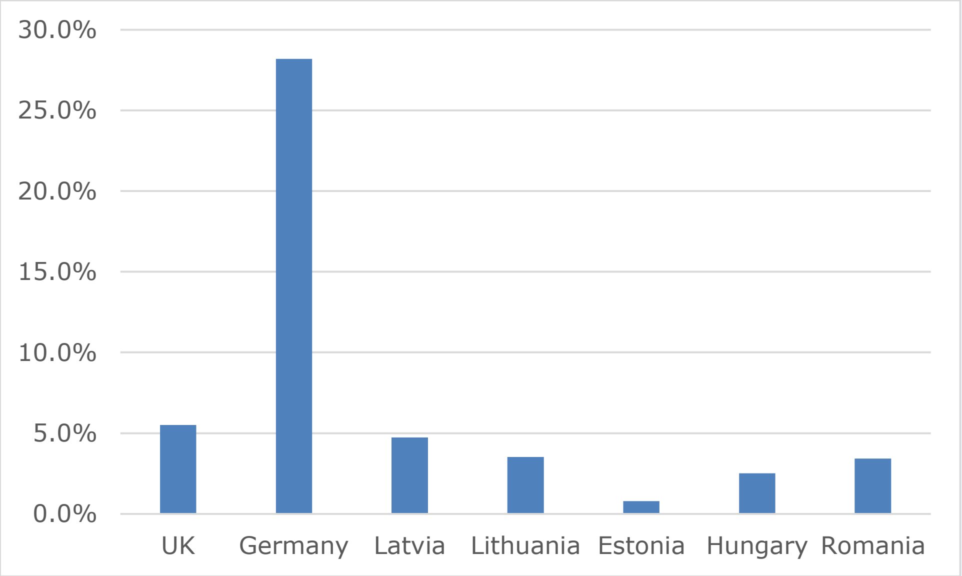
According to the Eurostat data measures based on the registration of the vehicles, the UK was the fourth largest in road freight, with Germany the largest, followed by Poland and then Spain.

EU-24 road freight market, by country



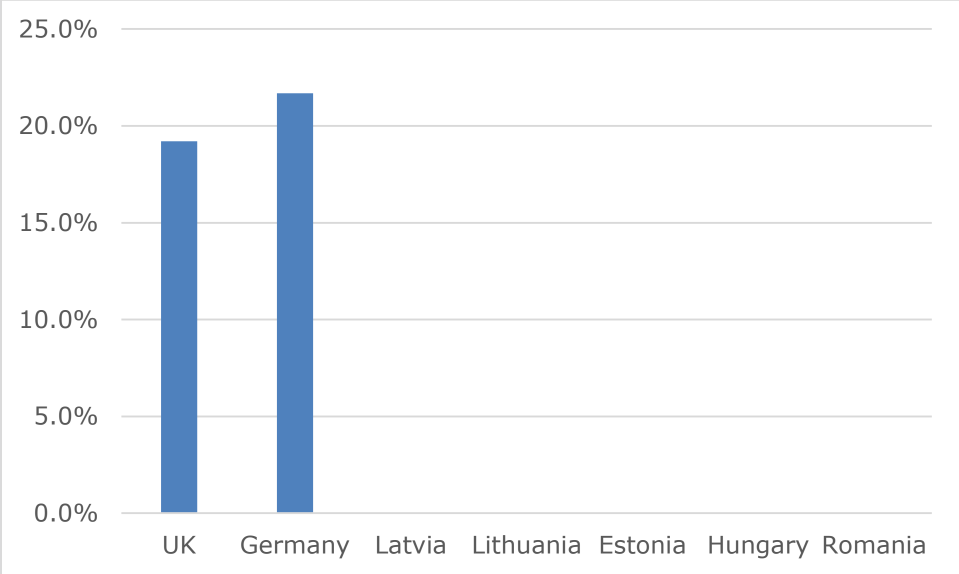
Source: IBISWorld

EU-24 rail freight market by country



Source: IBISWorld

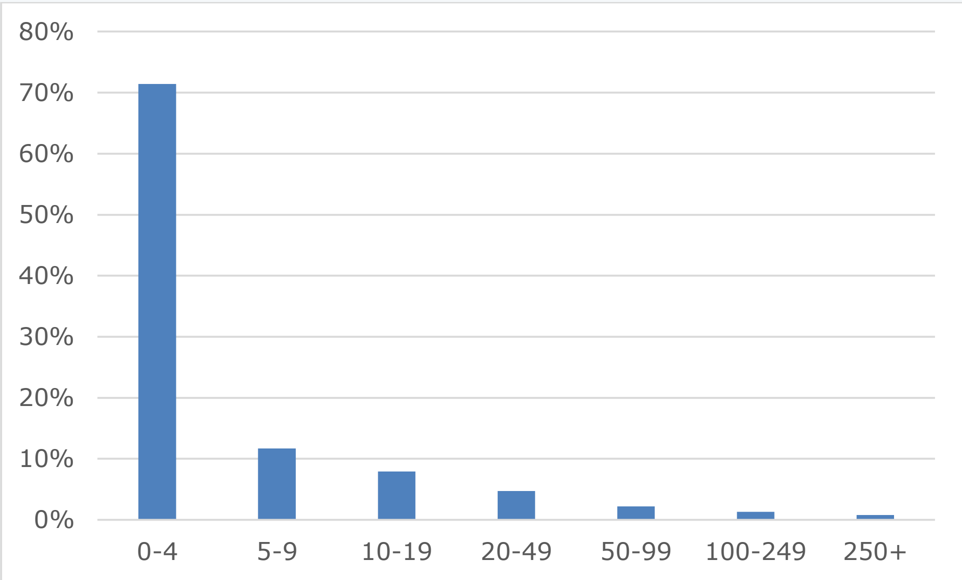
EU-24 air freight and mail market by country



Source: IBISWorld

The market is very fragmented, whether in the UK, Europe or globally. The top 15 freight forwarders control approximately a 50% share, with thousands of smaller operators.

UK freight market – companies by employment size

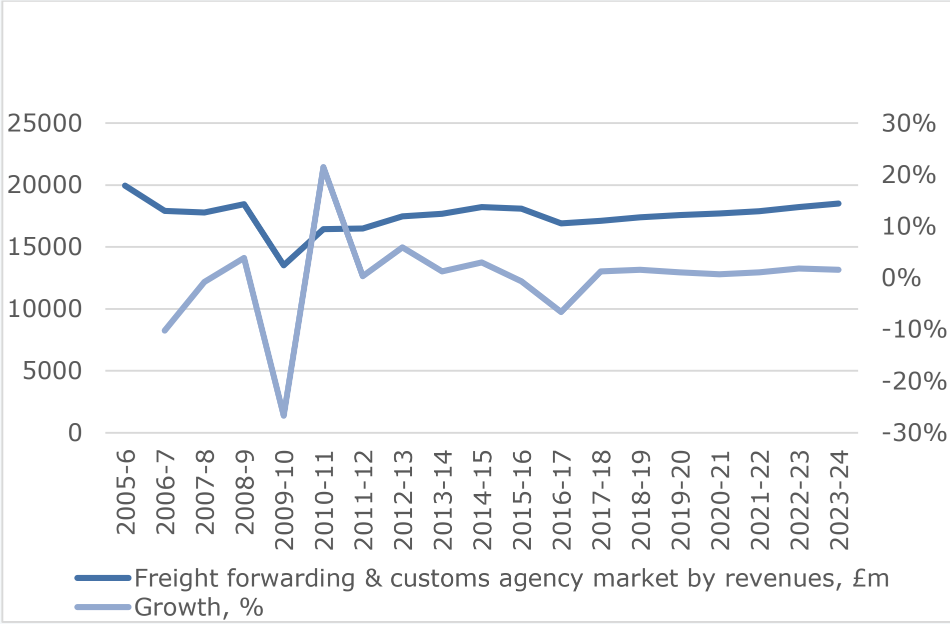


Source: IBISWorld

According to IBISWorld:

- **the freight forwarding and customs agents' market in the UK, at £17.1bn in 2017-18, represents 60.8% of the UK road freight industry revenues**.
- **The road freight market is the largest portion of the overall freight market in the UK, representing 76% and excludes, sea, air and rail**.

UK freight forwarding & customs agency market size / growth



Source: IBISWorld

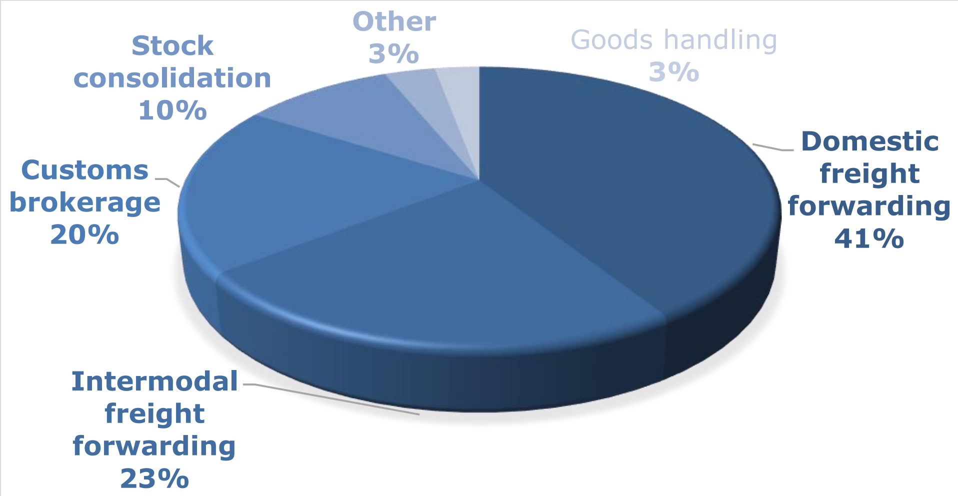
We note that the UK freight forwarding and customs agents' market remains at lower levels that those preceding before the recession of 2008-09. This is highlighted in the Chart above, as is the modest growth expectations currently for the market (*source: IBISWorld*).

Eurostat has shown that inland freight transport declined across the EU-24 nations between 2004 and 2014, by approximately 9% during the period. Significantly, the states that delivered inland freight growth during the period were: Bulgaria, Slovenia, Hungary, Poland, Lithuania and Latvia, **all countries that the Group either organises shipments to, or is heavily involved in.**

Intermodal freight forwarding is predominantly goods that are either imported or are in the process of being exported, as it involves containerised products that switch from sea to road or rail to road.

Domestic freight forwarding remains the largest portion of the market, almost the size of the next two largest segments, intermodal freight forwarding and customs brokerage.

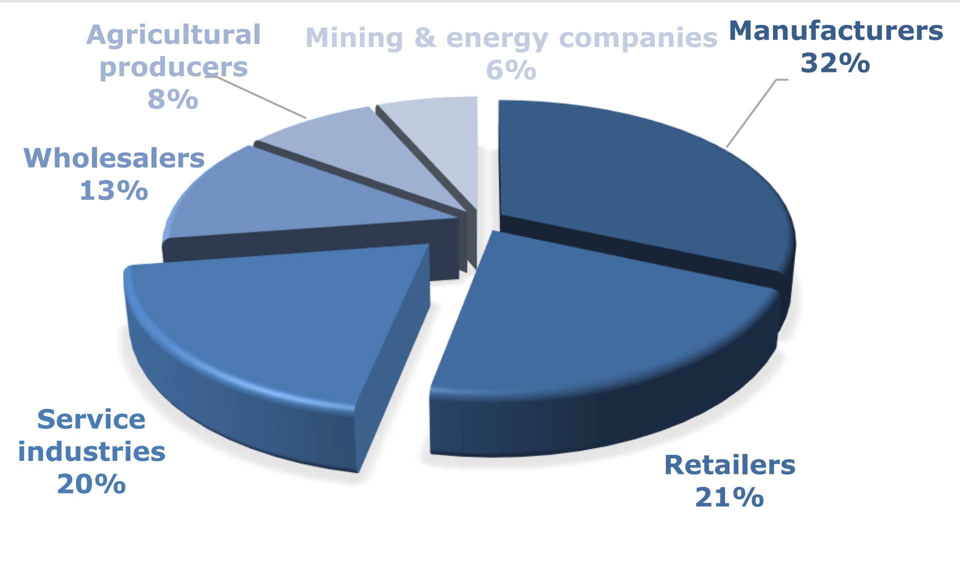
UK freight forwarding market by discipline, 2017-18



Source: IBISWorld

Demand for freight forwarding and customs agency services can be seen in the chart below, with manufacturers the largest customer by segment (representing 31.7% of the total revenues in 2017-18), followed by retailers (21.3%), service industries (19.6%) and wholesalers (12.6%).

UK freight market – demand by customer



Source: IBISWorld

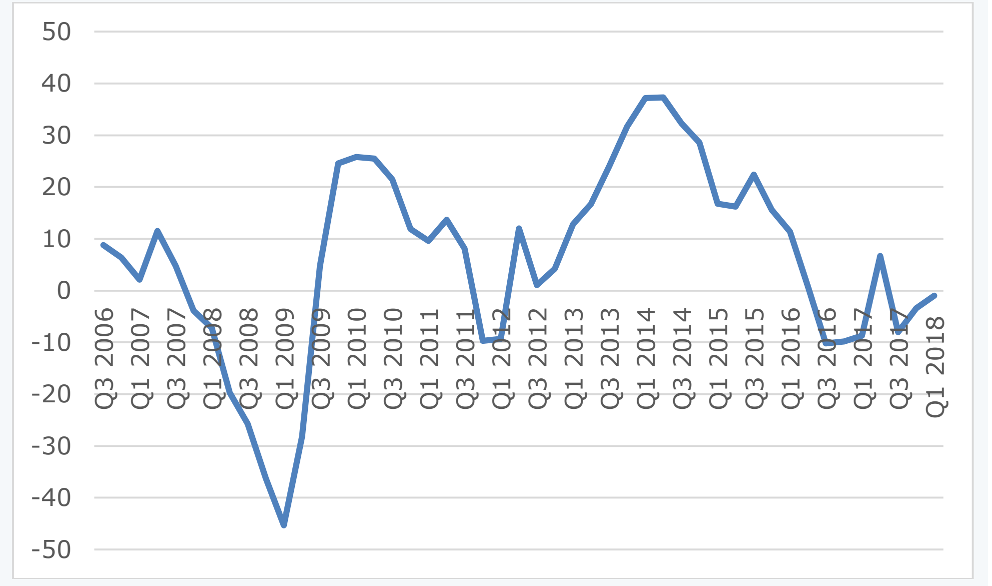
The industry tends to be dominated by small enterprises, with just 0.8% by number employing in excess of 250 staff. The four largest players in the UK industry account for approximately 11% of industry revenues in 2017-18. On average, freight forwarders tend to be larger than customs agents (*source: IBISWorld*).

GDP growth in the CEE region is estimated to have increased by 4.6% in 2017 (*source: Focus Economics*). In 2018 the OECD estimate that growth throughout the EU as a whole is expected to be 2.1%, the Euro area by 1.9% and significantly, the CEE region by 3.5%, with Romania projected to deliver +4.4% in FY2018F, far outstripping the wider EU and the UK (+1.5%).

European and primarily CEE business confidence is perhaps more relevant to Xpediator than the UK, since just 23.5% of revenues were generated in the UK in H1 2017.

The ICAEW UK business confidence index suggests that sentiment remains negative but only modestly during Q1 2018 (reading of -1), an improvement on Q4 2017 (-3.4), which is commensurate with real GDP growth of 0.3% in the UK in Q1.

UK business confidence index



Source: ICAEW

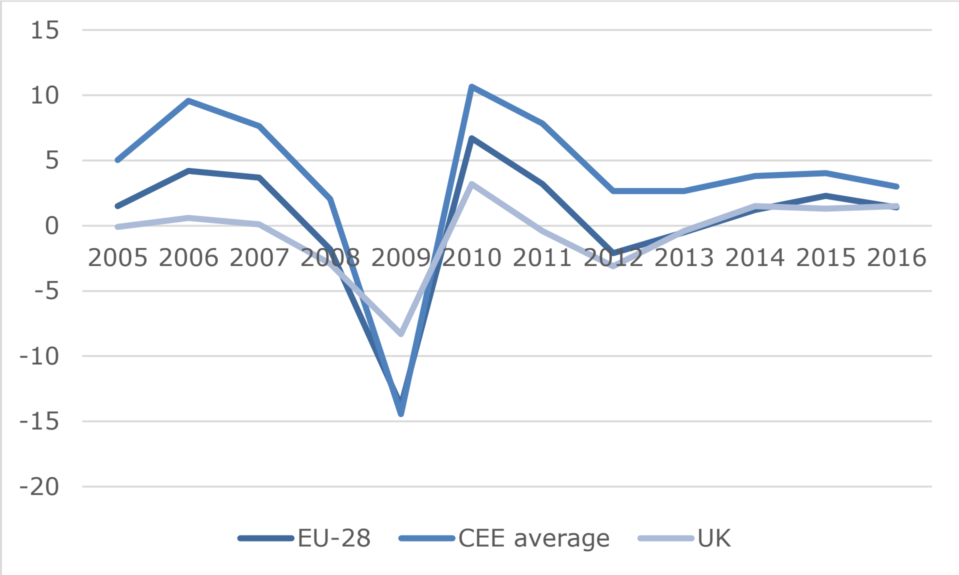
By contrast, the OECD has suggested that in the CEE and Baltic states business confidence levels remain positive across the region, except for the Slovak Republic (-1.2), with readings between +1.9 and +4.1, significantly healthier than in the UK. The Euro area has a reading of +1.8 in Q1 2018.

Industrial production remains another key driver, as products need transporting from factory to customer. What the chart below highlights is the stronger consistent growth in the CEE region in comparison to both the UK and the wider EU-28 area. The exception to this was during the recession of 2008-09, although the recovery was markedly stronger.

The region continues to benefit from the onshoring / near-shoring trend of manufacturing from the Far East, particularly in IT, electronics, fashion, engineering, automotive and big data.

In fact, leading consultant AT Kearney suggested in 2017 that Poland was the 12th top country for outsourcing globally, with Bulgaria 15th, The Czech Republic 16th, Romania 18th and a further five CEE nations within the 20th to 30th positions. By comparison, the UK was ranked only 19th in terms of top destination for outsourcing.

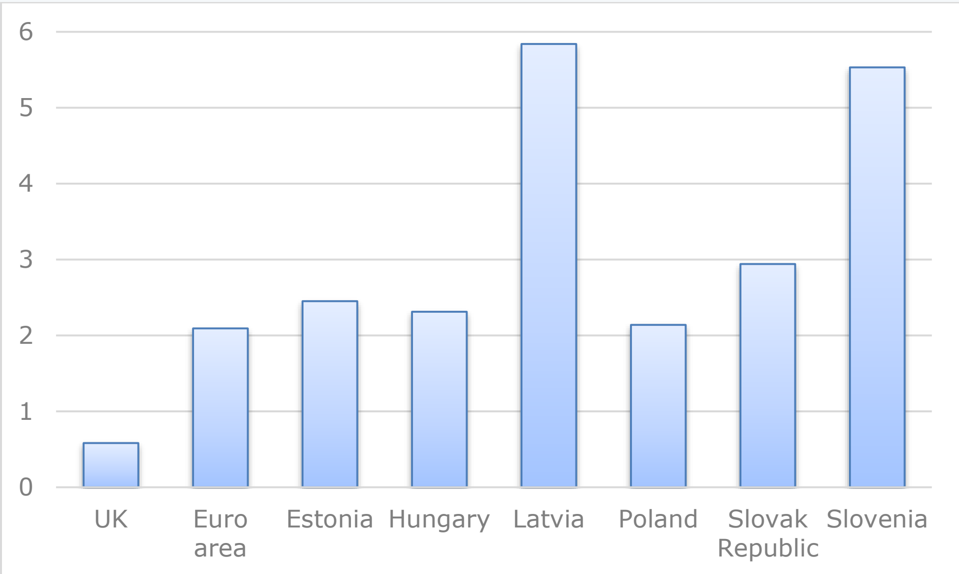
Industrial production % growth: UK, EU-28, CEE



Source: Eurostat

The chart below highlights the main differences between consumer confidence (CCI) in the Euro area and the Group's key CEE and Baltic states region, as measured by the OECD, in the UK. In all cases, consumers in the Group's targeted region have greater confidence than elsewhere in Europe, especially the UK, suggesting that the focus on areas such as e-commerce are justified.

EU-24 Consumer Confidence Index, Q1 2018



Source: Eurostat

The three-month future for a barrel of Brent crude oil increased to over US$70 during February 2018, reflecting strong demand, driven by better than previously anticipated global economic growth. The consensus expectation is one of a declining price in H2, from H1 highs, as drillers take advantage of higher prices. In addition to shale production increasing in the US, the higher oil price may well result in OPEC deciding to exit the agreement made in early 2017 to restrict volumes.

Higher fuel prices can result in producers looking at cheaper methods of transporting goods to market. However, in the short term this is more difficult, indeed for the final and initial legs of any journey road transportation is often the only means of transportation. A majority of the higher costs are ultimately passed on to customers by the hauliers as contracts unwind (where pertinent).

Brent crude oil future, US$/barrel

Source: FactSet

The Department for Transport estimates that 76% of all goods moved in the UK are by road, with 15% by water and 9% by rail. UK domestic freight activity increased to a record high of 174 tonne kilometres in 2016-17.

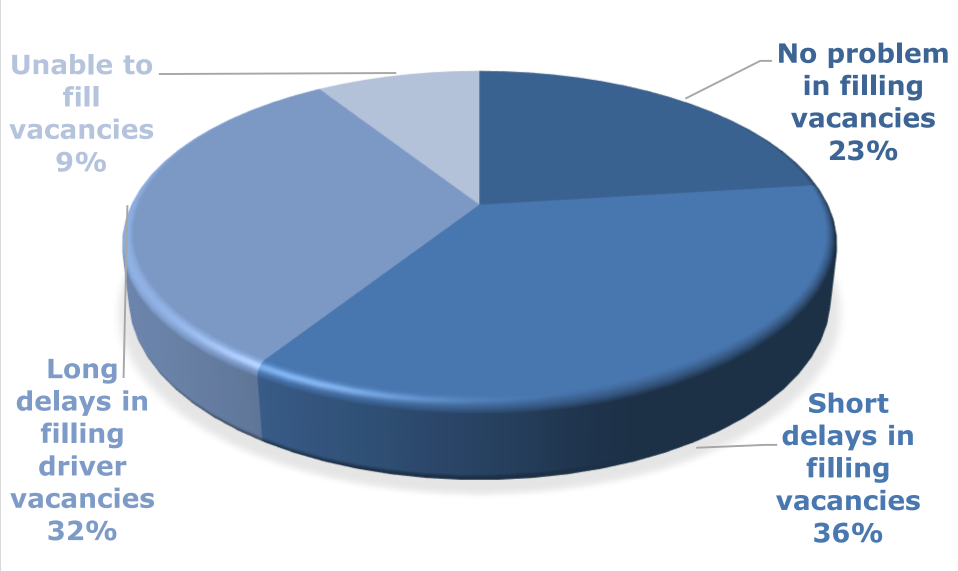
Generally, the following metrics are key for the efficiency of the UK freight industry:

- Output is generally sold under contract
- Optimum capacity utilisation
- Effective cost controls
- Environmental requirements

Recent surveys undertaken by the Freight Transport Association in the UK suggested that one the greatest issues facing the freight industry currently is the difficulty in recruiting drivers, an issue elsewhere in Europe.

Xpediator is of the view that, **as it has a database of over 3,000 hauliers from which to choose from**, it is well set to manage that particular challenge.

Concerns for the UK freight industry – HGV driver vacancies



Source: UK Freight transport Association (FTA)

Competition

The group's competitors are as follows, covering all aspects of Xpediator's activities:

DSV offers transport and logistics services globally via road, air, sea and rail, headquartered in Denmark. It has offices in 80 countries and an international network of partners and agents. The Road division is one of the leading road freight operators in Europe and operates distribution networks in North America and Africa, operating in excess of 20,000 trucks. The Air & Sea division handles more than 1.4m TEUs (which represents the smaller of the two most common international containers, twenty-foot equivalent unit) and 650,000 tons of air freight per annum. DSV also operates a Solutions division, specialising in logistics, utilising more than 400 warehouses globally, covering 5m m2 of space. The company's shares are quoted on Nasdaq Copenhagen (CPH: DSV).

Kuehne & Nagel, based in Switzerland, is the number one in global sea freight forwarder (4.11m TEUs); number two in air cargo forwarding; number two globally (1.3m tons); Contract & integrated logistics (10m m2) and a top three provider in road freight transportation. The group operates from more than 1,300 offices in over 100 countries. In 2017, IBISWorld estimates that the company accounted for 0.5% of the UK road freight market by revenues). It is quoted on the Swiss Stock Exchange (VTX: KNIN).

Clipper, based in Leeds, is a specialist in retail logistics. Services include e-fulfilment and returns management services; non e-fulfilment logistics and commercial vehicles (fleet of over 300 vehicles). The business operates 44 warehouses covering 8.3m m2. Clipper is listed on the London Stock Exchange (CLG).

DKV, based in Germany, provides is the European market leader in the provision of cash-free services on motorways and roads. The services include fuel cards, toll services (road, bridge, tunnel), refunds (VAT / excise duty), online services (from route planners to tachomanagers) and vehicle services (including secured truck parks, vehicle cleaning and repairs, tyres and emergency services). DKV is a private business not listed on any exchange.

Aramex, based in Dubai, is an international express, mail delivery and logistics services company. The business operates 40 independent express companies across 69 countries, from 567 offices. It has expanded outside of the Middle East into emerging economies and Australasia. The group's shares are listed on the Dubai Financial Market (ARMX: UH).

B2C Europe, based in The Netherlands, is a full-service e-commerce distribution and return shipping services, combining postal, parcel and express courier services. The company has a strong European presence (8 countries) and operates in the US and China. The company is not listed on any exchange.

USA2Georgia, is based in Georgia (bordered by Russia, Turkey, Armenia and Azerbaijan) and operates an e-commerce delivery network, allowing Georgians to order goods from retail websites in the US (giving the Georgian an address for delivery) and transporting to Tbilisi and by courier to the customer's address. USA2Georgia is not listed on any exchange.

Palletways, based in Staffordshire but owned by Imperial Holdings (South Africa), is Europe's largest pallet delivery network with over 400 depots in 20 countries. Those depots are run by members, comprising transport companies. The pallets are collected within a local catchment area and delivered to the nearest hub and from there it is sorted and collated and delivered to the nearest hub to its destination, with the 'final mile' taken care of by the hub closest to the customer's business address. Imperial is quoted on the Johannesburg Stock Exchange (IPL: SJ).

DHL Express (7.4% of UK road freight market by revenues in 2017, source: IBISWorld) is the international courier, parcel and express mail service division of Deutsche Post, the German national post office. Deutsche Post is listed on the Frankfurt Stock Exchange (DPW: GR).

FedEx, with global revenues of US$62bn, has a broad portfolio of transportation, e-commerce and business services. The business delivers to over 200 countries globally, utilising 664 aircraft, more than 170,000 vehicles and over 400,000 staff within the business. The business operates brands such as TNT, the international courier express company. The Group is quoted on the NYSE (FDX:US).

UPS is the world's largest package delivery company, a leader in the US less-than-truckload industry and a leading provider of global supply management solutions. The company services over 220 countries and territories, delivered revenue of US$54bn in 2017. The group utilises 112,000 vehicles, 581 aircraft in the delivery of those packages (c.20m per day). The Group is quoted on the NYSE (UPS:US).

Wincanton, which has a 2.6% share of the UK road freight market in 2017, by revenues, source: IBISWorld), is the largest UK-owned logistics company. The company employs approximately 17,500 across 200 sites covering 6.6m² of warehouse space and has a 3,600-strong fleet of vehicles. The Group is listed on the LSE (WIN).

XPO Transport Solutions, which is owned by the US based logistics company, XPO Logistics and represented 1.1% of the UK road freight market by revenues in 2017 (*source: IBISWorld)*. Its parent company is amongst the ten largest providers of transportation and logistics globally and operates 1,455 locations across 32 countries, focusing on Europe and North America. The Group recently expanded its last mile delivery service to encompass the UK, Ireland, Spain, Netherlands and France. The Group is quoted on the NYSE (XPO: US).

CEVA Logistics, has 2.3% of the UK freight forwarding and customs agency market, in 2017-18 (source: IBISWorld), is based in the Netherlands, operating across 160 countries globally. The company has private equity owners, with persistent rumours that it is likely to IPO in Summer 2018, following a failed sale to France's Geodis last Summer.

Allport Cargo Services Ltd, has captured 1.4% of the UK freight forwarding & customs agency market, 2017-18 (source: IBISWorld) and is based in Middlesex, operating across 30 countries worldwide and 20 offices in the UK. The business is owned by Cargo Services, a private US business headquartered in Indianapolis.

Panalpina World Transport Ltd, represents 1.2% of the UK freight forwarding & customs agency market, 2017-18 (source: IBISWorld) and is headquartered in Switzerland, operating a global network of 500 offices in 75 countries, with partnership agreements in a further 90 countries. The company's shares are quoted in Switzerland (PWTN: SW).

Management

The management team of Xpediator are highly experienced in the fields in which the Group operates and have a significant stake in the business, representing 68% of the share capital.

Alex Borrelli – Non-Executive Chairman, aged 62. Alex qualified as a Chartered Accountant in 1982 with Deloittes, before moving into investment banking where he worked on a significant number of corporate transactions over a 20-year career. Alex is currently the Chairman and CEO of BMR Group, the AIM-listed lead and zinc tailings processor in Zambia. Alex has a number of other Non-Executive Director positions, including Chairman at Greatland Gold (AIM). Previously, Alex was the Chairman of Ablon Group Limited, a listed real estate group based in Central Europe, until its purchase in a cash offer in 2013.

Stephen Blyth – Chief Executive Officer, aged 63. Stephen qualified as a Chartered Accountant in 1981 with Larking Gowen. He began his career in logistics in 1984, on joining Bleckmann, as its UK MD, part of the Frans Maas Group. From there Stephen founded Delamode in 1988.

Richard Myson – Chief Financial Officer, aged 46. Richard first qualified as a Chartered Management Accountant in 2002. Richard has worked extensively in the transport & logistics sector, following his recruitment by Tibbett & Britten in 1995, rising to Commercial Manager by 2004. He then joined Delamode, commencing as Finance Director, prior to taking on a more operational role in Romania, before returning as Group CFO in 2016.

Geoff Gillo – Non-Executive Director, aged 65. Geoff qualified as a Chartered Accountant in 1976 with KPMG. Geoff has had a varied career in finance, including transport & logistics and meat processing in roles from Financial Controller, Company Secretary, Finance Director to Commercial Director. Geoff has wide experience of M&A, line operations and joint ventures as part of those roles. Geoff co-founded The Keswick Enterprises Group, where he remains a Director.

Below the main Board, the senior management is very experienced, with the Operating Board comprising:

- **Shaun Godfrey**, the Divisional COO of Delamode Freight Forwarding. Shaun has been with the Group since 1990, responsible for opening a number of the international forwarding offices.
- **Dana Antohi**, the Divisional COO of Affinity Transport Solutions. Dana joined the Group in 2002. Dana also has a focus on sales and marketing.
- **Danor Ionescu**, the Divisional COO of Delamode Logistics. Danor joined Xpediator in 2006, following several years of prior managerial experience within the distribution and logistics sector.
- **Michael Grange**, the Chief Information Officer. Michael joined Xpediator from REPL, a retail consultancy in early 2018, where he was a director. Before this Michael was the Head of Technology at Tesco, having worked his way up from a Programme Manager, before leaving in 2015. Prior to this Michael had several roles in Project Management / Engineering Manager / Support Engineer / Software Engineer with SigmaTel, SchlumbergerSema and Genomic Solutions.

Financials

XPD recently issued a trading update for the year ending 31 December 2017. Within this, management stated that revenues increased 59% year-on-year to £116m, from £72.8m. With the three acquisitions completed during 2017 contributing approximately £10m, this suggests that the level of organic growth amounted to a very strong 46% y-o-y. The rate of organic growth augurs well for FY2018F.

In addition, adjusted EBITA is both expected to be significantly ahead of 2016 and in line with market expectations. In view of the ongoing level of investment undertaken to improve the group's management, systems and facilities, we deem the anticipated outcome of c.£4.0m of EBITA (2016: £2.5m) to be very satisfactory.

We think the expected outcome for FY2017F underpins an element of growth for FY2018F, in that the three businesses acquired during calendar 2017 delivered £30.6m of revenues in their last year of private ownership and EBITA of £3.1m. The trading update highlighted the strong uplift in top-line seen from the three acquisitions and in particular, EMT, in the period following their purchase. Management stated within the trading update that the integration of the acquisitions was proceeding to plan.

Organic growth within the Freight Forwarding division was driven by strong demand from the Balkan, Lithuanian and Bulgarian markets, in addition to the switch in focus in favour of full-load movements, as opposed to part-loads. Affinity benefitted from the improving economic growth and in turn, rising business and consumer confidence in the region. The Logistics & Warehousing division saw revenue growth underpinned by the opening of a new warehouse in Romania and the additional capacity purchased as part of the group's M&A programme. Pall-Ex performed positively during the year.

Looking to the medium term, we have built the following assumptions into our estimates:

- Strong GDP growth in the CEE region, driving business and consumer confidence and in turn, demand for the Group's services
- Switching from traditional retailing to e-commerce, viz outside of UK and Western Europe
- Strong growth of Eshopwedrop, reflecting a combination of strong e-commerce growth and, the new franchises in Cyprus and Albania.
- Further office openings within the freight forwarding division in the UK and Balkan region
- Focus on small and medium sized customers at Affinity, selling truck leasing and insurance services, as well as expanding from its profitable base in Serbia to the rest of the Balkan states
- Expansion of warehousing in Romania and also the UK Midlands
- Additional services expanding the scope of new acquisitions and resulting in new countries added (China, Italy, Greece, Portugal, Turkey, Asia Pacific, North America, South America and Australia)
- Recent relationship with Amazon to build revenues and not just one-way from the US, as Xpediator utilises and extends the reach of Regional Express

- Benfleet strengthens significantly the Group's expertise in the area of sea freight, thereby expanding the options open in terms of sourcing revenues
- Brexit insurance, in the form of UK port offices, puts the Group in a much stronger position than many of its competitors
- Capacity shortages within transport, not least drivers and equipment, resulting in improving rates and Xpediator benefitting from strong industry links across a very wide supply base.

In addition, we would anticipate further M&A activity during the year, following management's recent statement that it **"continues to evaluate a healthy pipeline of further complementary acquisition targets".**

The Company aims to be one of the consolidators of the industry, purchasing sub-scale businesses and adding not just revenues but complimentary services to the group's portfolio. We have not factored in potential benefits from any future M&A activity into our estimates.

We note the decline in gross and EBITA margins during H1 2017, which predominantly reflected the switch from the focus on part-loads to full-loads, leading to a jump in revenues, which had a greater effect on freight forwarding than in the other divisions.

In the full-year to December 2017 we anticipate that the nine-month contribution of EMT and growing profitability at the relatively newer Eshopwedrop and Pall-Ex should result in a H2 improvement in Group gross and EBITA margins.

The exceptional items relate to the costs associated with the listing on AIM. We anticipate ongoing amortisation of acquired goodwill, amounting to approximately £0.35m in FY2017F and £0.9m in each of FY2018F and FY2019F.

The company has stated that the dividend pay-out ratio will be approximately 50% of reported net earnings, with the retained cash utilised in funding the growth of the Group.

Summary Profit & Loss

Year to Dec, £m	2015A	2016A	2017F	2018F	2019F
Freight Forwarding	41.4	58.9	96.0	127.0	137.8
Logistics	5.9	10.3	15.1	16.6	18.6
Transport Services	2.8	3.5	5.2	5.5	6.2
Revenue	**50.1**	**72.7**	**116.2**	**149.1**	**162.6**
CoGS	-37.0	-55.6	-88.2	-118.5	-129.3
Gross profit	**13.1**	**17.2**	**28.0**	**30.6**	**33.3**
Gross margin	*26.2%*	*23.6%*	*24.1%*	*20.6%*	*20.5%*
Op costs	12.2	15.3	24.6	24.7	26.8
Other operating income	0.6	0.6	0.7	0.8	0.8
Operating profit	**1.5**	**2.5**	**4.1**	**6.7**	**7.4**
Op margin	*3.1%*	*3.4%*	*3.6%*	*4.5%*	*4.5%*
Net Interest	-0.3	-0.3	-0.4	-0.4	-0.4
FRS13, non-cash interest			-0.4	-0.6	-0.6
PBT (Adjusted)	**1.2**	**2.1**	**3.7**	**6.3**	**6.9**
Amortisation of acquired intangibles			-0.4	-0.9	-0.9
Exceptionals	2.1	-0.7	-0.9	0.0	0.0
PBT (Reported)	**3.3**	**1.5**	**2.1**	**4.8**	**5.5**
Tax	-0.5	-0.2	-0.6	-0.9	-1.0
PAT	**2.8**	**1.2**	**1.5**	**3.9**	**4.5**
Profit from discontinued items	-0.2	-0.2	0.0	0.0	0.0
Minority interests	-0.3	-0.5	-0.2	-0.2	-0.3
Earnings	**2.3**	**0.5**	**1.3**	**3.7**	**4.2**
Ordinary Dividends	0.0	3.6	0.9	2.1	2.4
Retained Profit	**2.6**	**4.7**	**2.5**	**6.0**	**6.9**
EPS (Adjusted) (p)	**2.7**	**8.0**	**2.5**	**3.9**	**4.3**
Dividend / share (p)	**0.0**	**0.0**	**1.0**	**1.9**	**2.2**
Ave no of shares (F Dil) (m)	0.2	0.2	97.8	126.0	126.0

Source: Company historics, ED estimates

Sensitivities

Group revenues can be affected by changes in the following:

- Fuel prices
- Exchange rates
- Interest rates

In terms of fuel pricing, changes can have either a positive or detrimental effect, dependent upon the move. The changes impact the fuel cards issued by the Group's transport services division, Affinity. Price changes of 10% tend to have either a positive or detrimental impact of c£90k to operating profit, dependent on the direction of the move.

Sensitivity to foreign exchange is more complex in view of the number of countries in which the Group operates, offset by the Group's liabilities in such jurisdictions. Should all currencies either move 10% in the Group's favour or adversely consecutively (highly unlikely), we estimate that will either benefit or cost the Group approximately £0.3m.

In terms of interest rates, changes do not just impact the cost of debt repayments but also has an effect on the more recent service offerings within Affinity, such as vehicle leasing. For every 1% move in interest rates, operating profits tend to move c.£70k in the opposite direction.

Summary Cash Flow

Year to Dec, £m	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**
Operating profit	1.5	2.5	4.1	6.7	7.4
Depn. & Amortn.	0.3	0.3	0.3	0.5	0.6
Working capital movement	-0.8	2.6	3.6	-0.8	-1.0
Other	0.0	-0.2	0.0	0.0	0.0
Operating cash flow	**1.0**	**5.1**	**8.0**	**6.4**	**6.9**
Net Interest	-0.3	-0.3	-0.4	-0.4	-0.4
Taxation	-0.5	-0.7	-0.5	-0.8	-1.0
Net capex	9.4	-0.5	-0.8	-0.6	-0.7
Operating FCF	**9.6**	**3.6**	**6.4**	**4.6**	**4.8**
Net (Acquisitions)/Disposals	0.0	-1.9	-14.0	-1.3	-1.1
Dividends	0.0	-3.4	-0.3	-1.3	-2.2
Share Issues	0.0	0.0	9.9	0.0	0.0
Minority payment	-0.3	-0.3	-0.3	-0.2	-0.3
Other financial	3.1	-0.8	0.0	0.0	0.0
Increase Cash/(Debt)	**12.4**	**-2.7**	**1.6**	**1.7**	**1.3**
Opening Net Cash/(Debt)	**-9.7**	**2.7**	**0.0**	**1.6**	**3.3**
Closing Net Cash/(Debt)	**2.7**	**0.0**	**1.6**	**3.3**	**4.6**

Source: Company historics, ED estimates

The Group remains cash generative, although we anticipate three features to note moving forward:

- Modest working capital outflow from FY2018F
- M&A spend likely to increase
- Dividend expenditure to rise, albeit to remain at half of earnings

The Directors addressed working capital at the time of the placing in late November 2017, suggesting that the company will pay creditors ahead of time in order to benefit from early payment discounts. While this results in a modest one-off increase in working capital, we nevertheless anticipate a healthy overall inflow of cash during FY2017F at this level. Thereafter, we have assumed there will be a modest increase in the working capital requirement reflecting the marked rise in top-line expectations between the end of FY2017F and to FY2019F.

The Group has made no secret of its desire to expand the business not only organically but also from acquisitions, aiming to be a consolidator of the sector. Future M&A transactions are likely to be funded from a combination of existing cash flow, debt and share issues.

As mentioned, it is the Board's policy to pay dividends equivalent to approximately 50% of earnings. We have factored that into our estimates for the period to the end of FY2019F.

Movement on Net Assets

Year to Dec 31, £m	2015A	2016A	2017F	2018F	2019F
Opening Net Assets	7.0	8.3	3.5	14.1	18.1
Earnings	2.6	1.0	1.5	3.9	4.5
Dividends paid	0.0	-3.6	-0.9	-2.0	-2.3
Share Issues	0.0	0.0	10.5	1.0	0.8
Goodwill	0.0	0.0	0.0	0.0	0.0
Other	-1.3	-2.1	-0.5	1.1	-2.9
Closing Net assets	8.3	3.5	14.1	18.1	18.3
Movement on Net Assets	*1.2*	*-4.7*	*10.6*	*4.0*	*0.1*

Source: Company historic data, Equity Development estimates

At the end of H1 2017, net debt amounted to £1.8m. Since then, the Group has made two acquisitions worth a combined cash payment of £5.0m, with the issue of shares to one vendor amounting to £2.6m. Subsequently, the Group raised a net £2.8m from a placing of 7m new shares at 40p per share. At the time of the IPO, Xpediator raised £5.0m before expenses, through the issue of 20.8m shares at 24p.

The placing proceeds were used to fund a small portion of the cash element of the acquisitions (£0.75m), a further £0.8m to comprise a war chest for future acquisitions, £0.2m for an upgrade to Group IT systems and the balance of £1.05m to fund an increase in working capital.

The Board has taken the sensible view that by paying its creditors early it not only is favoured in future for work but also gains a discount, resulting in an improved margin on such business.

With an expectation of positive cash flow during H2 2017 from operations, we reach our expectation of £1.6m net cash at the end of FY2017.

In terms of the expected movement on net assets, much of the increase reflects the rise in intangible assets (goodwill following three acquisitions during the year), the aforementioned positive movement in working capital and the rise in the net cash position. In the movement on net assets table above, the effect of the acquisitions is partially seen in the rise in the share capital, although this also includes the placing and the IPO, which ultimately bolstered the cash available to enable said acquisitions. We expect net assets to rise as a result, to £14.1m by the end of FY2017F and to £18.3m by the end of FY2019F.

Customer credit risk has been an issue for the Group in the past, where the debtor has been unable to meet the value of the invoice. In the years 2014 to 2016, the average provision for impairment of trade receivables amounted to £1.9m per annum, although it declined to £1.0m in 2016.

Xpediator has adopted several methodologies to reduce the risk of bad debtors, which includes: demanding cash deposits from customers in advance, enabling some creditors to work to pay the debt off and credit insurance on the Affinity activity in Romania, where historically the largest risk has occurred.

Key ratios

Year to Dec 31	2015A	2016A	2017F	2018F	2019F
Continuing revenue growth	8.8%	45.2%	59.7%	28.3%	9.0%
Operating profit Growth	-21.8%	59.5%	68.5%	61.9%	10.1%
PBT Growth (Adjusted)	-21.1%	70.5%	76.8%	68.6%	10.2%
EPS Growth (A)	N/A	N/A	N/A	51.2%	11.6%
Dividend Growth	N/A	N/A	N/A	85.1%	11.6%
Gross Margin	26.2%	23.6%	24.1%	20.6%	20.5%
Op margin	3.1%	3.4%	3.6%	4.5%	4.5%
PBT Margin (Adjusted)	2.5%	2.9%	3.2%	4.2%	4.3%
Net Debt/EBITDA x	-1.4	0.0	-0.4	-0.5	-0.6
Gearing	-32.3%	0.0%	-6.9%	-14.3%	-20.2%
Net Capex / Depreciation x	35.0	1.5	2.7	1.2	1.3
Working Capital / Sales	9.1%	-0.8%	2.6%	1.5%	0.8%
Net Capex / Sales	-18.8%	0.7%	0.7%	0.4%	0.4%
Interest Cover x	5.1	7.2	10.3	16.7	16.9
Dividend Cover x	N/A	N/A	2.4	2.0	2.0
EV/Sales x	N/A	N/A	0.5	0.4	0.3
EV/EBITDA x	N/A	N/A	11.9	7.6	7.1
EV/CFBIT x	N/A	N/A	6.6	8.5	8.1
PER (Adjusted) x	N/A	N/A	18.2	12.1	10.8
PEG x	N/A	N/A	N/A	0.2	0.9
Dividend Yield	N/A	N/A	2.2%	4.1%	4.6%
Price/book value x	N/A	N/A	3.6	2.8	2.8

Source: Company historic data, ED estimates

Valuation

In determining a sensible valuation of the business, we have used the following methodologies:

- Peer group comparison
- DCF valuation
- Dividend discount model

Comparative peer group valuation model

The comparators used comprise the quoted entities discussed with the competition section earlier. In view of the size of XPD relative to many of its listed peers we have suggested a size discount of 15%, in order to reflect the lower level of liquidity in the shares of XPD.

The comparative peer group valuation suggests that XPD is trading on a 39.8% discount to the average of its peers, whilst estimated to be delivering a yield 89.5% higher than of the same group.

Taking the average of its peers and applying a conservative 15% discount to reflect Xpediator's (current) smaller size, suggests a per share valuation of 65.7p.

Comparative peer group valuation

Y/e to Dec	FY 2018E PER	FY 2018E Yield
DSV	23.10	0.42%
Kuehne & Nagel	21.40	3.85%
Clipper	24.84	1.93%
Aramex	14.18	3.86%
Palletways	17.79	2.68%
DHL Express	14.80	3.09%
Fedex	15.57	0.81%
UPS	15.05	3.34%
Wincanton	6.77	4.00%
XPO Logistics	30.87	0.00%
Panalpina Welttransport	32.00	2.78%
Average	***20.05***	***2.19%***
Xpediator	**12.07**	**4.14%**
Prem/(disc) to average	*(39.8%)*	*89.5%*

Source: Company REFS / Bloomberg / ED March 2018

Discounted cash flow model

We highlight the DCF in the table below. We have used relatively conservative assumptions within the model, such as a weighted average cost of capital of 8.5% and a terminal growth rate of 2.0%. This methodology suggests a value per share of 79.3p.

DCF valuation										
Year-end Dec, £m	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Free cash flow	7.3	5.1	5.4	5.5	5.6	5.7	5.9	6.0	6.1	6.2
WACC (%)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Timing factor	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Discount rate	0.98	0.90	0.83	0.77	0.71	0.65	0.60	0.55	0.51	0.47
Present value	7.1	4.6	4.5	4.2	4.0	3.7	3.6	3.3	3.1	2.9
Sum of discounted cash flows	**41.0**									
Terminal growth rate	2%									
Terminal value	**44.9**									
Net (debt) / Cash	1.6									
Equity value	**87.5**									
Number of shares m	110.4									
Value per share (p)	**79.3**									

Source: ED

Three-stage dividend discount model

This incorporates our expectation of very strong dividend growth in the near term (reflecting the two-year growth rate from our FY2017 estimate to our FY2019F dividend expectation). Thereafter, we have assumed that dividends grow at a more modest 10% for the next four years before reverting to a long-term growth rate of 6%.

As per the following table, this methodology suggests a valuation of 76.9p per share.

3-stage DDM valuation	p/share						
D0 =	1.04						
g1 =	43.7%	for first two years					
g2 =	10.0%	for next four years					
gp =	6.00%	thereafter					
Req. Return =	9%						
Time	0	1	2	3	4	5	6
Dividend	1.04	1.50	2.15	2.37	2.60	2.86	3.15
Terminal Value							111.22
Total Cash Flow		1.50	2.15	2.37	2.60	2.86	114.37
Present Value		1.37	1.81	1.83	1.84	1.86	68.20
Intrinsic Value	**76.91**						

Source: ED

Conclusion

We summarise the various valuation methodologies suggested share valuations in the table below, with the average equating to 73.9p. This equates to a premium of 59.0% to the existing share price.

Valuation summary

	Value, p
Comparative peer group	65.7
DCF	79.3
Dividend discount	76.9
Average	***73.9***

Source: ED

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