

## 'Walking the talk' – another good deal

7 June, 2018

**Xpediator has announced that it has acquired Anglia Forwarding Group ('Anglia'), its third purchase since IPO last year. We anticipate strong scope for integration benefits, some of which are likely to emerge in the very short-term, not least the move of the Group's export freight consolidation base into Anglia's main warehouse facility.**

**In addition, there is significant scope for cross-selling between the businesses, particularly in the US, utilising the acquired business' presence in air and sea freight, and in the Midlands. Anglia also has strong European road freight links, notably in Germany, which can be developed further.**

**We anticipate that the business will be EPS accretive in both the current year and next year. Encouragingly, XPD shares still trade on undemanding multiples despite their recent good run.**

**Acquisition announcement** Xpediator has acquired Anglia, a freight forwarding company established in 1971 and headquartered at its facility in Rainham, Essex. The business has additional operations at Heathrow, Felixstowe and Birmingham.

**Strong scope for integration benefits** The consideration amounts to £1.5m on completion, with an additional cash payment of £0.7m reflecting surplus working capital and a further £2m dependent upon earnings generated over the next two years. Revenues in the year to July 2017 amounted to £13.5m, delivering in excess of £0.4m of operating profit. We believe there to be strong scope for integration benefits.

**Several objectives fulfilled in the deal** Management has previously stated that it had targeted the opening of an office / facility in Birmingham and desired to expand its presence in air and sea freight. The purchase of Anglia fulfils all those expectations and in turn, accelerates previous plans.

**Strong European links** The acquired business has a strong relationship with the international retailer H&M, forwarding the freight from Felixstowe / Tilbury to elsewhere in the UK and across Europe. Anglia has several strong relationships in Germany which XPD hope to develop further.

**Global reach** Anglia is a founding member of **United Shipping**, which is a worldwide network of independently owned and locally operated freight forwarders and customs brokers, focused predominantly on air and sea freight. This relationship potentially opens an extensive customer base globally, which we expect to be linked with Regional Express' association with Amazon, where the Group has over 1,000 customers in the USA. On this basis we fully anticipate synergistic benefits to emerge between the two subsidiaries.

**Shares represent good value** We see a positive impact of the acquisition on our forecasts and, after taking into account the recent FY2017 results and trading comments, raise our EPS estimates by 2.8% in FY2018F and by 2.3% in FY2019F.

**Using our previous valuation methodologies, a share price of 74.5p appears merited.**

### Company Data

EPIC	XPD
Price	66p
52 week Hi/Lo	68p / 27p
Market cap	£73.7m
ED valuation / share	74.5p

### Share Price, 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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## The acquisition

Anglia's revenues in the year to July 2017 amounted to £13.5m, delivering in excess of £0.4m of operating profit. The company's reporting period was subsequently changed to end December 2017, with no newer reports available.

As well as the savings from removing senior management, there is an immediate benefit as Xpediator unit **Delamode** can place its freight consolidation hub into the Rainham facility, resulting in material savings. We anticipate that further integration benefits will ensue, resulting in a normalised run-rate of operating profit ahead of the reported £0.4m.

We highlighted in our initiation note that XPD management, via its extensive knowledge and contacts of the freight management industry, would seek to add businesses that deliver complementary services to existing activities and fill gaps in the group's portfolio.

There are several benefits arising from the acquisition, not least:

- Anglia's purpose built and customs approved freight terminal in Felixstowe expands the Group's presence in sea freight and potentially removes a number of post-Brexit bottlenecks
- The acquisition of the office at Heathrow further expands the Group's burgeoning presence in air freight
- The relationship with United Shipping, the 800-plus strong worldwide association of freight forwarding agents should help to further progress the Group's target of offering air and sea freight services to the US and China
- The link up between the relationship with United Shipping and the Group's subsidiary, Regional Express, is expected to deliver a significant expansion in the Group's customer base in the USA, which is currently predominantly focused on its association with Amazon
- Consolidation of the Group's exports to the Rainham cross-dock facility (where inbound goods are loaded directly into outbound trucks or trailers, with minimal storage in between)
- Provision of warehouse and fulfilment services by the Group to Anglia
- XPD has previously stated that it had targeted the opening of an office / facility in Birmingham. The acquisition of Anglia fulfils this aim

Following the acquisition, Xpediator will operate across 10 sites in the UK and 11 across Europe, employing 781 staff.

Management has stated that current trading remains in line with market expectations. The cross-selling opportunities arising from the acquisition are expected to offset the slowing in early 2018/19 of the Group's Far Eastern business, which has reflected increased security and EU-related customs checks.

Change in estimates			
	Old	New	Change
FY2018F revenue (£m)	154.4	162.9	5.5%
FY2019F revenue (£m)	166.7	182.0	9.1%
FY2018F EPS (p)	3.9	4.0	2.8%
FY2019F EPS (p)	4.3	4.4	2.3%

Source: Equity Development

**EPS growth in FY2018F is now seen at 23.0% and 9.7% in FY2019F, based on our updated estimates.**

In spite of the cost of the acquisition and its likely working capital consumption, we also expect that the Group will end the current financial year with net debt of just £0.03m, improving to £1.87m of net cash by the end of FY2019F.

## Financials

### Summary Profit & Loss

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Freight Forwarding	41.4	58.9	93.1	136.9	153.9
Logistics	5.9	10.3	18.4	21.5	23.2
Transport Services	2.8	3.5	4.9	4.5	4.9
Revenue	50.1	72.7	116.3	162.89	181.99
CoGS	-37.0	-55.6	-88.2	-129.0	-144.1
Gross profit	13.1	17.2	28.1	33.9	37.9
Gross margin	26.2%	23.6%	24.2%	20.8%	20.8%
Op costs	12.2	15.3	24.8	27.9	31.3
Other operating income	0.6	0.6	0.7	0.7	0.8
Operating profit	1.5	2.5	4.0	6.7	7.3
Op margin (%)	3.1%	3.4%	3.4%	4.1%	4.0%
Net Interest	-0.3	-0.3	-0.7	-0.5	-0.5
FRS13, non-cash interest			-0.3	-0.8	-0.8
PBT (Adjusted)	1.2	2.1	3.3	6.3	6.8
Amortisation of acquired intangibles			-0.4	-0.9	-1.0
Exceptionals	2.1	-0.7	-0.9	0.0	0.0
PBT (Reported)	3.3	1.5	1.7	4.6	5.0
Tax	-0.5	-0.2	-0.7	-0.9	-0.9
PAT	2.8	1.2	1.1	3.7	4.1
Profit from discontinued items	-0.2	-0.2	0.0	0.0	0.0
Minority interests	-0.3	-0.5	-0.2	-0.2	-0.2
Earnings	2.3	0.5	0.8	3.5	3.9
Ordinary Dividends	0.0	-3.6	-1.1	-1.8	-2.0
Retained Profit	2.3	-3.1	-0.3	1.7	1.9
EPS (Adjusted) (p)	2.7	1.5	3.3	4.0	4.4
DPS (p)	0.0	0.0	1.0	1.5	2.2
Ave no of shares (F Dil) (m)	0.2	80.0	94.3	120.7	120.7

Source: Company historics, Equity Development estimates

### Summary Cash Flow

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Operating profit	1.5	2.5	4.0	6.7	7.3
Depn. & Amortn.	0.3	0.3	0.8	1.4	1.5
Working capital movement	-0.8	2.6	-1.2	-0.8	-1.0
Other	0.0	-0.2	-0.9	-1.6	-1.2
Operating cash flow	1.0	5.1	2.8	5.7	6.6
Net Interest	-0.3	-0.3	-0.4	-0.5	-0.5
Taxation	-0.5	-0.7	-0.8	-0.8	-0.9
Net capex	9.4	-0.5	-0.7	-0.6	-0.7
Operating FCF	9.6	3.6	0.9	3.8	4.5
Net (Acquisitions)/Disposals	0.0	-1.9	-5.8	-4.7	-1.1
Dividends	0.0	-3.4	-0.4	-1.3	-1.9
Share Issues	0.0	0.0	7.2	1.2	0.8
Minority payment	-0.3	-0.3	-0.3	-0.2	-0.2
Other financial	3.1	-0.8	-0.1	-0.3	-0.2
Increase Cash/(Debt)	12.4	-2.7	1.5	-1.5	1.9
Opening Net Cash/(Debt)	-9.7	2.7	0.0	1.5	0.0
Closing Net Cash/(Debt)	2.7	0.0	1.5	0.0	1.9

Source: Company historics, Equity Development estimates

### Movement on Net Assets

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Opening Net Assets	7.0	8.3	3.5	14.8	19.0
Earnings	2.6	1.0	1.8	3.7	4.1
Dividends paid	0.0	-3.6	-0.5	-1.7	-1.9
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	14.8	19.0	19.1
Movement on Net Assets	1.2	-4.7	11.3	4.1	0.1

Source: Company historic data, Equity Development estimates



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