

## Acquisition and placing

11 July 2018

**Xpediator has acquired Import Services Limited (ISL), part-funded via a placing of 10m new ordinary shares. The acquisition represents the Group's fourth since IPO and significantly expands the Group's capabilities at the Port of Southampton, adding a contract logistics business and in excess of 40,000 sqm of warehousing. We anticipate many operational synergies, expansion opportunities and cross-selling potential to emerge from the deal.**

**We have raised both EPS expectations and our valuation of the Group following the acquisition. Encouragingly, XPD shares continue to trade on undemanding multiples despite significant recent share price appreciation.**

**Acquisition of ISL** Xpediator has announced the acquisition of ISL, a profitable contract logistics and warehousing business based at the Port of Southampton. The business is predominantly focused on the toy, leisure and sports related sectors. ISL operates across three facilities, adding 40,400 sqm of warehousing to the Group. Goods are distributed to multi-channel and multiple retailers across the UK and Continental Europe.

**Several benefits to emerge for the wider Group** We anticipate benefits ultimately to arise from combining the Group's four facilities in Southampton, with cross-selling of freight forwarding services into ISL and the new subsidiary taking on contract warehousing work from Regional Express. In addition, there is the opportunity to develop further warehousing space (20k sqm) in the port, thereby consolidating the Group's presence in the area. The Group now has a major presence in the two UK ports servicing non-EU trade, which should augur well post-Brexit.

**Placing to part-fund the consideration** Xpediator has raised £7m before expenses, via a placing of 10m shares at 70p. The consideration amounts to £12m, on a cash and debt-free basis, of which £9m is payable on completion. This cost is to be funded by a cash payment of £6m and £3m in shares, with the outstanding £3m dependent upon the future results of ISL, coupled with the share price of XPD in late May 2020. The £9m initial consideration equates to a historic, fully taxed earnings multiple of 6.0x, which we regard as good value in view of the strategic importance of the deal to the Group.

**Deal is earnings accretive** We have updated our financial expectations following the acquisition of ISL and related placing. In terms of earnings per share, we have increased our expectations for FY2018F by 9.5% and by 11.5% in FY2019F. We anticipate that net cash at the FY2018F year end is now likely to amount to £3.1m, rising to £7.3m in FY2019F.

Dividend forecasts increase, too, and our updated discount model now suggests that **97p per share is a fair value** at the current time, but investors will clearly hope for further accretive acquisitions to bolster earnings' momentum.

**The shares stand on undemanding multiples (two-year PEG ratio of 0.65x) relative to prospects. This is despite good operational progress since IPO and successful enhancement of organic growth by acquisition.**

### Company Data

EPIC	XPD
Price	82p
52 week Hi/Lo	87p / 26p
Market cap	£96m

### 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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## Acquisition and placing

Xpediator has announced the acquisition of Import Services Limited (ISL), a contract logistics and warehouse operator based at the Port of Southampton. ISL is the sole such operator within the dock area. ISL operates three facilities:

- **Hedge End** (HQ), comprising 100,000 sq ft (9,290 sqm) and 10,000 pallet bays. B2B and B2C
- **Nurshing**, again 100,000 sq ft (9,290 sqm) and 10,000 pallet bays, with high volume pick and pack
- **Container Quay**, is the largest, covering 235,000 sq ft (21,832 sqm) and 32,000 pallet bays. This facility is focused on high volume pre-retail loads for major and multiple retailers

ISL specialises in retail supply chain logistics, ranging from purchase order management, all the way through to customer delivery. The scale of ISLs operations are such that in a typical year, the business undertakes:

- 5.4m picks
- 254k orders
- 6k+ containers dispatched
- 35k+ separate products

Information on goods is supplied on a real-time basis to customers, ensuring rapid turnaround to the customer's facility and tracking at every step. Customers of ISL include Toymaster, John Lewis, Amazon and Argos. Customers are based across both the UK and Continental Europe. The largest customer accounts for no more than 25% of revenues (and equates to less than 3% of the enlarged Xpediator's sales). A focus on the toy, leisure and sports sectors has resulted in a degree of seasonal bias, with a H1/H2 split of revenues typically 40%/60%.

**In the three-year period to December 2017, ISL demonstrated a CAGR in revenues of 7.7% to £21.7m and in EBT of 82.4% to £1.8m.** This represents an EBT margin of 8.5%, which is ahead of the norm for the wider XPD Group. However, we anticipate this to be broadly maintained moving forward, reflecting a combination of the bespoke systems utilised in running the facilities, which keep costs low; provision of added value services and; a high level of utilisation, at c.85% (very high when one considers the H2 bias to trading).

There are several benefits resulting from the acquisition, not least in having a significant presence in the key ports for non-EU trade, namely Felixstowe and now, Southampton, which gives the Group a strong competitive advantage relative to peers. We anticipate this is likely to become key post-Brexit (03/2019).

There remains scope to consolidate the Group's enlarged presence in Southampton (one facility rising to four post-deal), although it is our understanding that all existing leases do not reach break clauses until mid-2019 at the earliest. The Group has an agreement in place to move into a new 20k sqm facility, representing part of the expansion by the port operator in 2020, which would result in the long-awaited consolidation, while also enabling expansion of the Group's footprint in the port.

Meanwhile, we expect that Regional Express, which also has operations in Southampton, will pass on warehouse related work to ISL that is currently outsourced. There are also opportunities for cross-selling freight forwarding services into the three ISL facilities, targeting European routes.

The senior management of ISL will join the Group and have been locked in for two years.

The initial consideration of £9.0m will be satisfied by the combination of £6m cash and £3m in new shares (3.75m) supplied to the vendors. The cash represents the majority of the £7m (gross) proceeds from the placing. The deferred consideration (up to £3m) is dependent on both the future profitability of the business and the future XPD share price, with a maximum of £1.5m cash payable. Should the share price have risen by 50% by April 2020, then no cash is payable and if by 100% in the intervening period, then neither an earn-out or additional cash are due.

Following the transaction, our new financial estimates suggest:

- **EPS accretion of 9.2% in FY2018F and 11.2% in FY2019F**
- **Net cash of £3.1m (previously £0.1m) by the end of FY2018F and £7.3m (from £2.2m) by the FY2019F year-end**

#### Change in our estimates

	Old	New	Change
FY2018F revenue (£m)	162.9	175.4	7.7%
FY2019F revenue (£m)	182.0	204.0	12.1%
FY2018F EBIT (£m)	6.9	7.9	14.6%
FY2019F EBIT (£m)	7.5	9.3	23.3%
FY2018F EPS (p)	4.1	4.5	9.2%
FY2019F EPS (p)	4.6	5.1	11.2%
FY2018F DPS (p)	1.5	1.6	9.4%
FY2019F DPS (p)	2.3	2.5	11.2%

Source: Equity Development

## 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	34.0	45.2
Transport Services	2.8	3.5	4.9	4.5	4.9
Revenue	50.1	72.7	116.3	175.39	203.99
CoGS	-37.0	-55.6	-88.2	-134.8	-154.3
Gross profit	13.1	17.2	28.1	40.6	49.7
Gross margin (%)	26.2%	23.6%	24.2%	23.2%	24.4%
Op costs	12.2	15.3	24.8	33.5	41.2
Other operating income	0.6	0.6	0.7	0.7	0.8
Operating profit	1.5	2.5	4.0	7.9	9.3
Op margin (%)	3.1%	3.4%	3.4%	4.5%	4.6%
Net Interest	-0.3	-0.3	-0.7	-0.5	-0.5
FRS13, non-cash interest			-0.3	-0.7	-0.7
PBT (Adjusted)	1.2	2.1	3.3	7.4	8.8
Amortisation of acq'd. intangibles			-0.4	-1.2	-1.6
Exceptionals	2.1	-0.7	-0.9	-0.2	0.0
PBT (Reported)	3.3	1.5	1.7	5.4	6.5
Tax	-0.5	-0.2	-0.7	-1.0	-1.2
PAT	2.8	1.2	1.1	4.4	5.3
Profit from discontinued items	-0.2	-0.2	0.0	0.0	0.0
Minority interests	-0.3	-0.5	-0.2	-0.3	-0.3
Earnings	2.3	0.5	0.8	4.1	5.0
Ordinary Dividends	0.0	-3.6	-1.1	-2.1	-2.5
Retained Profit	2.3	-3.1	-0.3	2.1	2.5
EPS (Adjusted) (p)	2.7	1.5	3.3	4.5	5.1
DPS (p)	0.0	0.0	1.0	1.6	2.5
Avg no shares (full diln) m	0.2	80.0	94.3	127.9	135.9

Source: Company historic, Equity Development estimates

### Summary Cash Flow

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Operating profit	1.5	2.5	4.0	7.9	9.3
Depn. & Amortn.	0.3	0.3	0.8	1.8	2.4
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	7.2	9.5
Net Interest	-0.3	-0.3	-0.4	-0.5	-0.5
Taxation	-0.5	-0.7	-0.8	-0.9	-1.1
Net capex	9.4	-0.5	-0.7	-0.6	-0.7
Operating FCF	9.6	3.6	0.9	5.3	7.1
Net (Acquisitions)/Disposals	0.0	-1.9	-5.8	-13.2	-1.1
Dividends	0.0	-3.4	-0.4	-1.4	-2.2
Share Issues	0.0	0.0	7.2	11.5	0.8
Minority payment	-0.3	-0.3	-0.3	-0.3	-0.3
Other financial	3.1	-0.8	-0.1	-0.3	-0.2
Increase Cash/(Debt)	12.4	-2.7	1.5	1.6	4.1
Opening Net Cash/(Debt)	-9.7	2.7	0.0	1.5	3.1
Closing Net Cash/(Debt)	2.7	0.0	1.5	3.1	7.3

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	14.3	29.4
Earnings	2.6	1.0	1.8	4.4	5.3
Dividends paid	0.0	-3.6	-0.5	-2.0	-2.4
Share Issues	0.0	0.0	10.0	11.5	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	14.3	29.4	30.2
Movement on Net Assets	1.2	-4.7	10.8	15.0	0.8

Source: Company historics, Equity Development estimates



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