# Xpediator plc

## Reassuring outcome and actions

20 April 2020

**Preliminary results to December 2019 were ahead of revised expectations across several metrics, not least revenue, profits, net cash and the dividend. 2020 started strongly, albeit trade was then affected by the COVID-19 related measures during March, meaning that Q1 trading was in-line with expectations. Steps have been taken to conserve cash and to reduce costs, with the final dividend payable in shares during Q3. The Group's strategy continues to be ambitious, targeting organic growth supplemented by acquisitions and the pipeline for the latter is reported as strong.**

**We continue to be encouraged by Management's actions on costs, the resilient trading, a healthy net cash buffer and the payment of a final dividend. Indeed, the dividend highlights Management's confidence in the medium-term outlook for the business. The shares are well supported by the Group's net cash (18% of the market capitalisation) and its NAV of 21p per share.**

The preliminary results cover what was a challenging year in terms of profitability (with a £2m reduction in adj. PBT to £5.2m), albeit there were several positives. Strong performances from Pall-Ex Romania (with the level of palletised freight handled increasing 21.7% y-o-y); the Baltic region (Freight Forwarding in Lithuania and Estonia) and the turnaround of Benfleet Far Eastern business during H2. The results were ahead of previously amended estimates, highlighting a strong end to the year.

2020 started well, with Pall-Ex Romania continuing to deliver 20% volume growth and the Freight Forwarding division performing strongly in the CEE region. But activity slowed across most areas during March as the COVID-19 related restrictions took effect. More recently, the Far Eastern and Chinese businesses began to recover towards the end of the quarter following an understandably difficult start to the year.

Management has been swift to react to a much-changed environment: reducing headcount (by furlough and, in some instances, redundancies); pay cuts across the group (the more significant the higher the salary); rent reductions and a deferral of capex. The final dividend will be payable in shares (1.14m) during Q3 reflecting the Board's confidence that XPD will cope with the current challenges.

We withdrew our financial projections for Xpediator at the end of March, given the unprecedented events and shall look to reinstate them once greater clarity is forthcoming. A return towards economic 'normality should also mean that the ability to access funding for investment opportunities will also be enhanced.

### Summary

**A healthy net cash buffer, equating to 18% of the Group's capitalisation, along with the robust net asset backing at 21p per share, underpin the current valuation during what should hopefully prove a temporary period of uncertainty.**

**Company Data**

| | |
|---|---|
| EPIC | XPD |
| Price (last close) | 28p |
| 52 weeks Hi/Lo | 57p/13p |
| Market cap | £38m |
| Reported NAV/share (Dec '19) | 21p |
| Net cash | £7.0m |

**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, plus transport services. The Group derives its revenues from the UK (42.1%), CEE and Baltic states (57.9%) as at December 2019.

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# Results

**2019 Preliminary results**

| Year to Dec, £m | H1 2018A | H2 2018A | FY 2018A | H1 2019A | H2 1209A | FY 2019A | YoY change |
|---|---|---|---|---|---|---|---|
| UK | 28.84 | 41.37 | 70.21 | 42.84 | 46.86 | 89.70 | 27.8% |
| Romania | 15.40 | 16.00 | 31.40 | 16.08 | 17.11 | 33.19 | 5.7% |
| Lithuania | 20.86 | 26.90 | 47.76 | 27.04 | 28.81 | 55.85 | 16.9% |
| Bulgaria | 8.49 | 9.06 | 17.55 | 10.14 | 11.68 | 21.82 | 24.3% |
| Other | 5.29 | 7.26 | 12.56 | 6.28 | 6.41 | 12.69 | 1.1% |
| Freight Forwarding | 65.36 | 71.54 | 136.90 | 76.71 | 82.87 | 159.59 | 16.6% |
| Logistics & Warehousing | 10.46 | 25.46 | 35.93 | 22.55 | 24.94 | 47.49 | 32.2% |
| Transport Services | 3.06 | 3.30 | 6.35 | 3.11 | 3.06 | 6.17 | -2.9% |
| **Group revenues** | **78.88** | **100.30** | **179.17** | **102.38** | **110.87** | **213.25** | **19.0%** |
| Cost of sales | -62.05 | -75.44 | -137.49 | -77.61 | -83.04 | -160.64 | 16.8% |
| **Gross Profit** | **16.83** | **24.85** | **41.68** | **24.77** | **27.83** | **52.60** | **26.2%** |
| *Gross Margin* | *21.3%* | *24.8%* | *23.3%* | *24.2%* | *25.1%* | *24.7%* | |
| Operating expenses | -14.78 | -19.31 | -34.09 | -22.32 | -24.01 | -46.33 | 35.9% |
| Other operating income | 0.15 | 0.79 | 0.94 | 0.44 | 0.75 | 1.19 | |
| Freight Forwarding | 0.99 | 1.99 | 2.97 | 1.40 | 2.05 | 3.45 | 16.0% |
| Logistics & Warehousing | 0.32 | 2.69 | 3.01 | 1.16 | 1.73 | 2.89 | -4.1% |
| Transport Services | 1.19 | 1.10 | 2.29 | 1.26 | 1.27 | 2.53 | 10.6% |
| Central costs | -0.60 | -1.01 | -1.61 | -1.81 | -1.98 | -3.79 | 135.7% |
| **EBIT** | **2.05** | **5.55** | **7.60** | **2.45** | **3.82** | **6.27** | **-17.5%** |
| *Freight Forwarding* | *1.5%* | *2.8%* | *2.2%* | *1.8%* | *2.5%* | *2.2%* | |
| *Logistics & Warehousing* | *3.1%* | *10.6%* | *8.4%* | *5.2%* | *6.9%* | *6.1%* | |
| *Transport Services* | *39.0%* | *33.4%* | *36.1%* | *40.6%* | *41.6%* | *41.1%* | |
| ***Group EBIT*** | ***2.6%*** | ***5.5%*** | ***4.2%*** | ***2.4%*** | ***3.4%*** | ***2.9%*** | |
| Associates | 0.00 | -0.08 | -0.08 | -0.07 | 0.01 | -0.06 | -23.1% |
| Net interest | -0.17 | -0.16 | -0.32 | -0.39 | -0.68 | -1.06 | 229.2% |
| **Adj. PBT** | **1.88** | **5.32** | **7.20** | **1.99** | **3.16** | **5.15** | **-28.4%** |
| Non-cash def'd consid. | 0.00 | -0.23 | -0.23 | 0.00 | -0.29 | -0.29 | |
| Amort acq'd intangibles | -0.36 | -0.67 | -1.03 | -0.68 | -0.73 | -1.41 | |
| IFRS16 interest adjust | -0.02 | 0.02 | 0.00 | -0.38 | -0.04 | -0.42 | |
| Exceptionals | 0.66 | -0.97 | -0.32 | -0.71 | -0.15 | -0.86 | |
| **Reported PBT** | **2.16** | **3.46** | **5.62** | **0.23** | **1.95** | **2.18** | **-61.3%** |
| Taxation | -0.51 | -0.38 | -0.89 | -0.11 | -0.77 | -0.87 | -1.5% |
| *Tax %* | *26.9%* | *7.1%* | *12.3%* | *5.3%* | *24.3%* | *16.9%* | |
| Minorities | -0.13 | -0.18 | -0.31 | -0.18 | -0.31 | -0.49 | 59.0% |
| Earnings | 1.52 | 2.90 | 4.42 | -0.06 | 0.87 | 0.81 | -81.7% |
| **Adj. EPS (p)** | **1.67** | **2.99** | **4.66** | **1.24** | **1.55** | **2.79** | **-40.2%** |
| **DPS (p)** | **0.42** | **0.84** | **1.26** | **0.28** | **1.05** | **1.33** | **5.6%** |

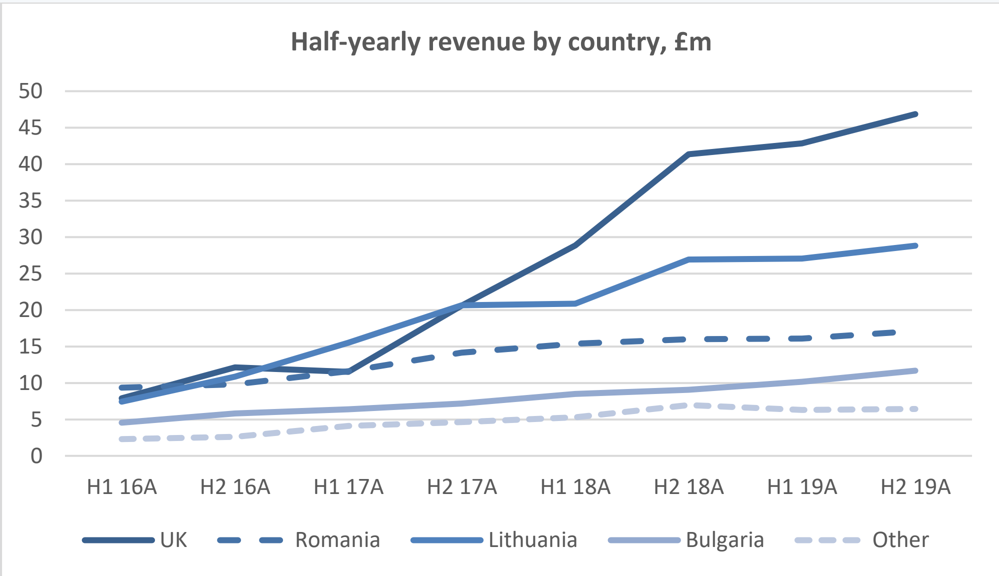
*Source: Company*

2019 proved to be a significant year for Xpediator on many fronts. Key successes included:

- Organic revenue growth of £18.6m, representing a 10.4% improvement y-o-y.
- Growth from prior year acquisitions of £15.5m, accounting for the remaining 8.6% of top-line growth
- New client wins within Freight Forwarding, including new routes (such as Lithuania to Italy)
- Established an office in Shanghai
- Additional sea freight volumes in Bulgaria
- Logistics & Warehousing benefitted from continued strong growth at Pall-Ex
- The new cross-dock facility in Sibiu, Romania, with improved warehouse occupancy levels
- Commenced Transport Services operation in Bulgaria.

**Group revenue climbed 19.0% overall to £213.2m, which was modestly ahead of revised estimates.**

**Regional progression in revenues**



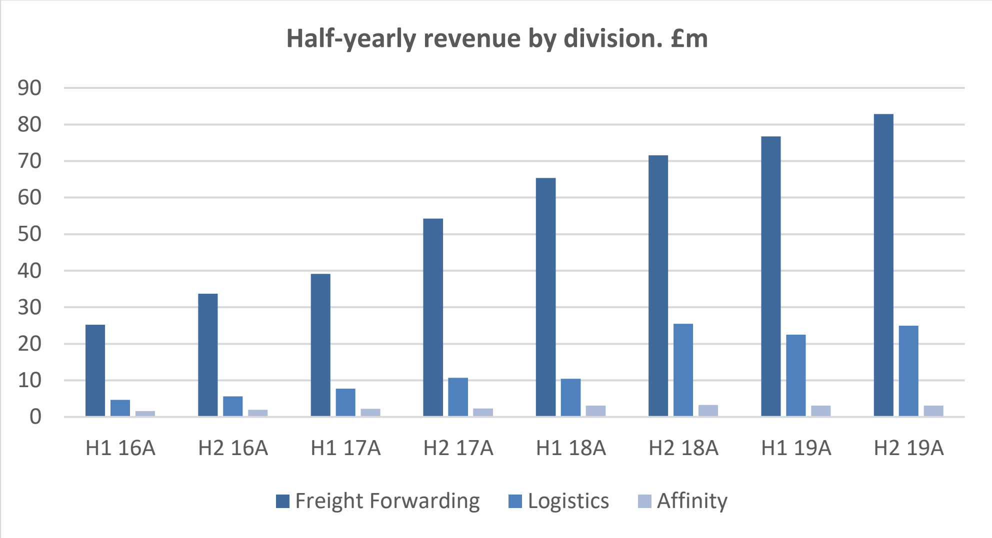

*Source: ED, Company*

**The UK** remains the largest generator of revenues for Xpediator, in fact modestly increasing its position, accounting for 42.1% of revenues in 2019, representing an uplift of 27.8% y-o-y to £89.7m. **Lithuania** cemented its place as the second-largest country (which incorporates the Group's business elsewhere within the Baltic states), with sales improving 16.9% to £55.9m (2018: £47.8m) and reflecting strong performance of the Freight Forwarding business. The operations in **Romania** increased nicely, up 5.7% to £33.2m with the strong performance of Pall-Ex and warehouse occupancy rising sharply. **Bulgarian** activity climbed 24.3% higher to £21.8m, reflecting the commencement of Transport Services in the country and an increase in sea freight.

Revenue derived from other countries, where Serbia is the most prominent, was broadly flat (up 1.1% y-o-y) to £12.7m.

## Segmental review

**Divisional progression of revenue**




*Source: ED, Company*

## Freight Forwarding

This is the largest division and accounted for the highest rise in revenue, up £22.7m or by 16.6% to £159.6m. The bulk of the improvement (£16.7m or +12.2%) reflected organic growth via new client wins and an expansion of the service offering into new markets.

Continued strong growth in Bulgaria (+£4.2m y-o-y), driven by sea freight and the Baltic region (+£8.9m), which included the addition of new routes (for example, Lithuania to Italy) were the drivers of the uplift in the top-line.

Benfleet recovered strongly during H2, with the level of trade from the Far East rising by £6m, at healthy margins. Anglia, one of the Group's last acquisitions, performed ahead of expectations. EshopWedrop continues to struggle, following issues in Germany and higher marketing costs as a result. Despite a significant contract win for Regional Express that commenced during H2 2019, activity levels remain low, but are expected to improve during H2.

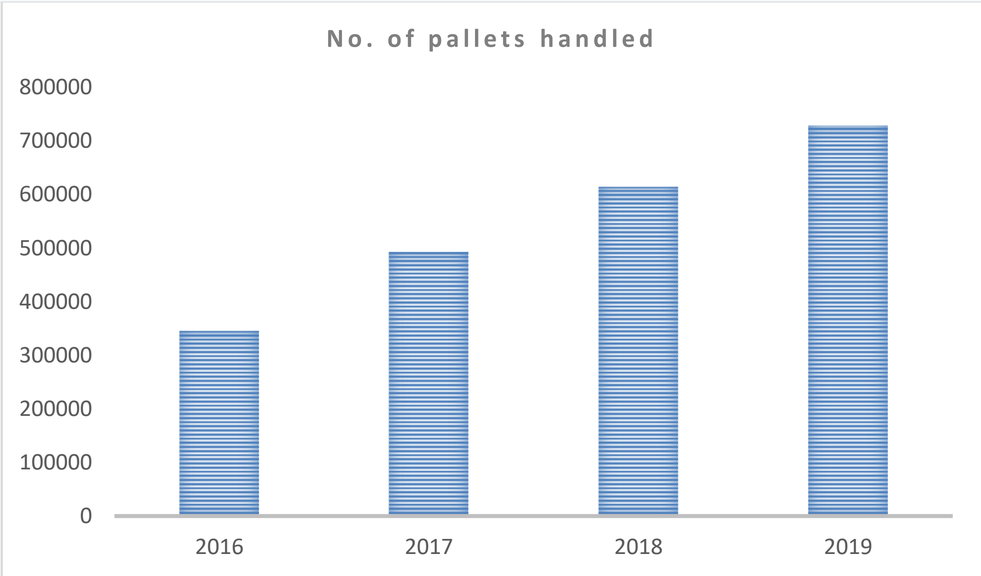
## Logistics & Warehouse

In this division Pall-Ex remained the star performer. Activity levels increased markedly as the average monthly level of freight handled increased to 60,700 pallets from 50,000 a year earlier (+21.7%). We highlight the annual growth in the chart below, which suggests a near doubling in the last three years. The addition of the Group's warehousing services to its Pall-Ex franchise at the Sibiu facility has enhanced both top and bottom line returns.

However, the expansion of the main facility in Bucharest to a 25,000 sq. m warehouse took time to approach break-even levels of occupancy, resulting in losses above £0.5m during the year. The outlook for the facility is brighter in FY2020, with occupancy levels at the start of the year at 83% (versus just 48% on opening in March 2019).

The Braintree site suffered a difficult 2019, initially following the loss of a significant customer and latterly on a loss-making contract. Management's response to the former was to close the facility temporarily and to reconfigure the racking to broaden its appeal to clients and improve access. Since then, the facility has witnessed an expansion in the activity of an existing client, with further additional customer wins, including a higher proportion of e-fulfilment.

**Palletised freight handled by Pall-Ex Romania**




*Source: Company*

## Transport Services

This division (Affinity), delivered gross revenues of £142.3m, a y-o-y rise of 2.8%. That said, net revenues declined 2.9% to £6.2m, reflecting the combination of:

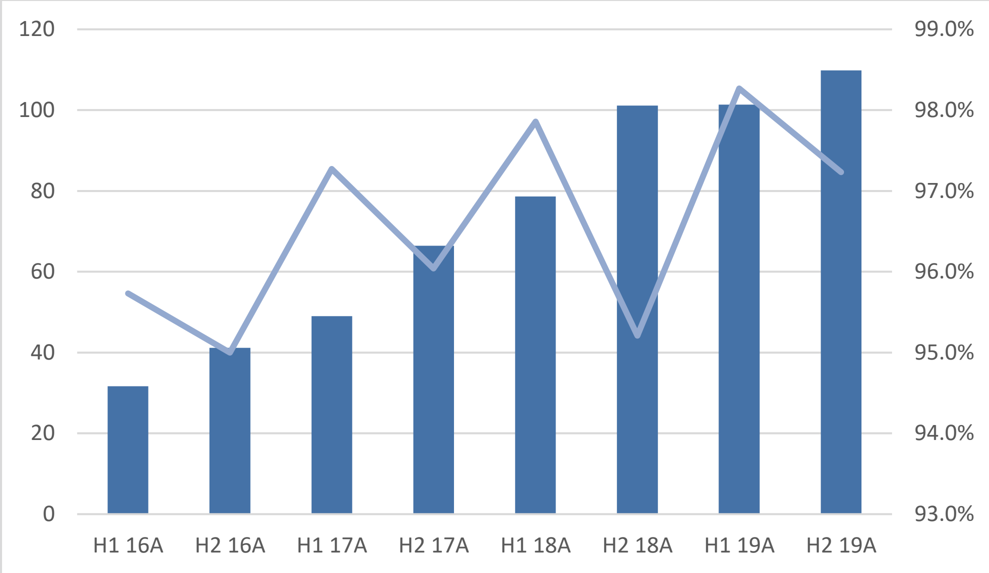
- a 1.4% reduction in fuel prices (as most of the business is involved in the distribution of fuel cards across Romania and the Balkans)
- changes in the Euro/Sterling exchange rate
- Increased competition
- A tightening of the division's credit policy, resulting in the blocking of some customers

During 2019, the division expanded its range of services to include leasing and insurance and began operations in Bulgaria. Currently, 84% of revenues are generated within Romania.

Although the revenues of the business, remain low, the margins are high, and the division is a reliable source of information for the largest division, particularly in helping to source drivers and vehicles (a critical service currently).

## Costs and Profits

Cost progression (CoS + OpEx) £m % of sales (RH axis)

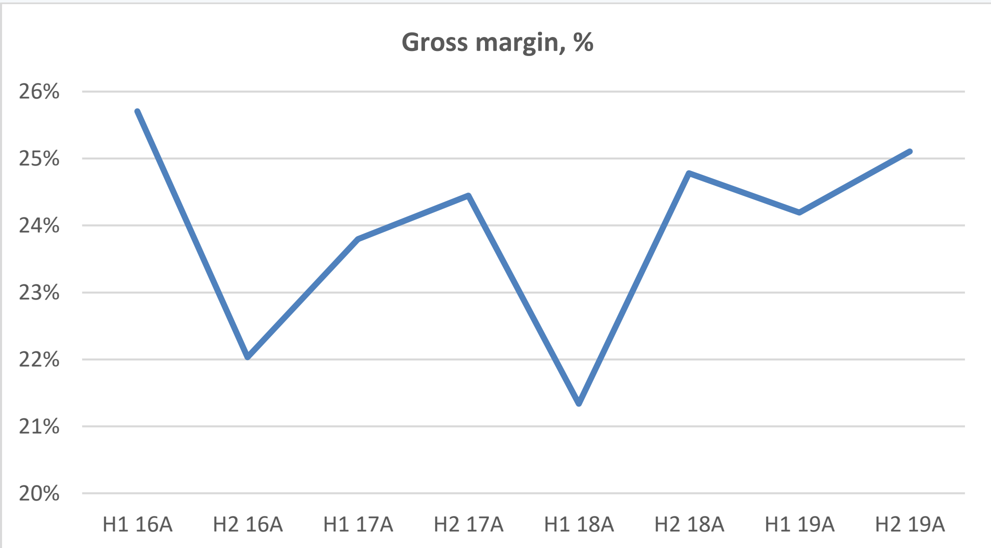



*Source: ED, Company*

Although the level of costs (Cost of Sales + Operating Expense) rose 17.5% during the year to £211.2m, the rate of growth in H2 declined to 8.6% as Directors sought to rein in the expansion in overhead that had occurred in the previous 12 months. The sharpest increase was in OpEx, to £48.3m or a rise of 33.6%. Within this, significant increases included staff costs (+£5.3m or +29%, with numbers rising from an average of 902 in 2018 to 1,037 during 2019), other admin costs (+£7.3m or +83%) and IT (+£1m or +167%).

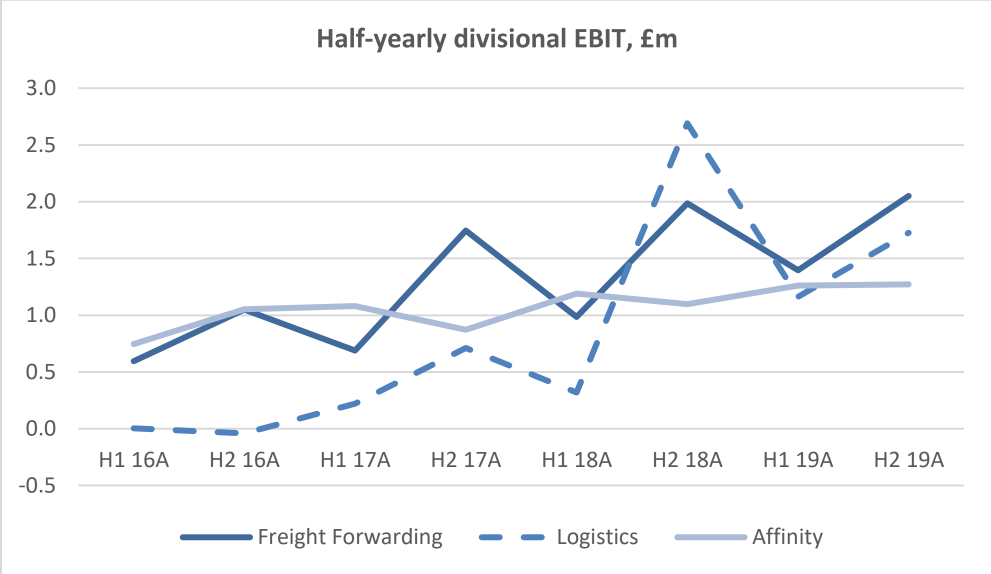
Cost of Sales, by contrast, increased 16.8% y-o-y to £160.6m, less than the rate of growth in revenues (+19.0%). As a result, the gross margin rose to 24.7% (2018: 23.3%). The gross margin of 25.1% recorded during H2 2019 is **the highest level since H1 2016** (25.7%).

Gross margin progression




*Source: ED, Company*

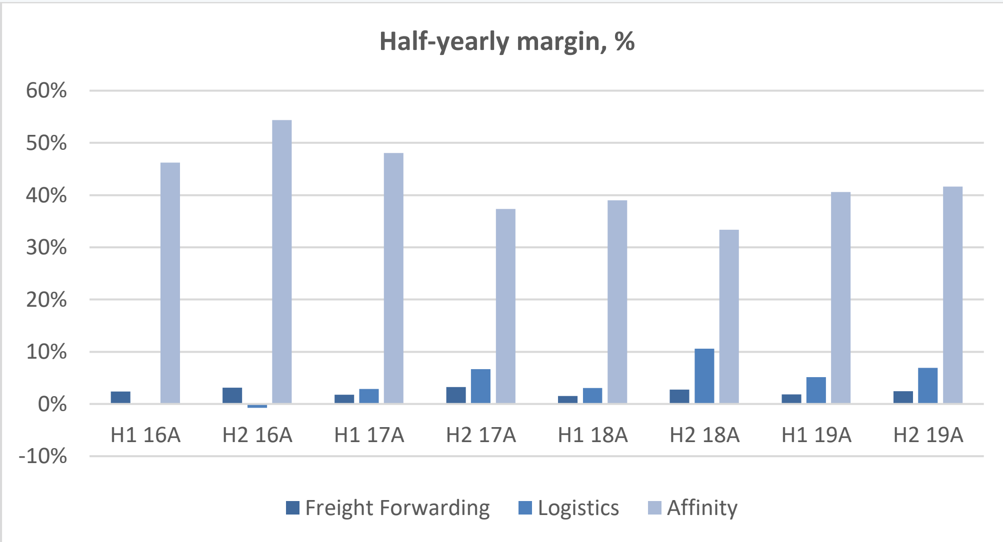
## EBIT by division




*Source: ED, Company*

**Freight Forwarding** was responsible for the sharpest rise in EBIT, before central costs, with operating margins broadly static at 2.2%. **Transport Services** delivered a sharp increase in operating margins as the proportion of added value services rose. Both margins and operating profit declined within the **Logistics & Warehousing** division to 6.1% and £2.9m, respectively, reflecting the partial closure of Braintree warehouse following the loss of a customer and an ongoing unprofitable contract within the same facility (currently subject to higher-level discussions with the customer).

## EBIT margin by division




*Source: ED, Company*

Net interest before the impact of IFRS 16 (£0.4m) increased £0.7m to £1.1m, resulting in adjusted PBT of £5.2m (2018: £7.2m). With taxation unchanged at £0.9m and a 59% rise in the level of payments to minorities, adjusted earnings fell 40% to 2.8p per share. Nevertheless, and highlighting Management's confidence in the business, the overall dividend increased by 5.6% y-o-y to 1.33p.

### Actions taken to ameliorate weaker trading

Management has rushed to both conserve cash and reduce costs in response to the more testing environment. A portion of staff have been placed on furlough, along with some redundancies, especially within the IT department (which was expanded rapidly during 2019) and temporary pay cuts implemented for the remainder. Other costs have been cut, such as temporary rent reductions and utility costs are also expected to decline, reflecting the shift to working from home where possible. Furthermore, the Group has put several capex projects on hold to conserve cash.

The group has sought to improve credit controls. In 2018, bad debts amounted to £1.1m and following up a tightening up of debtors during 2019, the Group's exposure reduced to £0.8m.

One should not forget the dividend. The final dividend has been replaced by a scrip, equating to 1.05p per share, totalling 1.33p payout for the year. The 1.14m shares associated with the scrip issue will be issued during Q3, subject to approval at the forthcoming AGM.

Should the current downturn persist, then several of the temporary measures could well become more permanent in nature. Decisions on whether to persist with the e-commerce business, EshopWedrop, will be made if losses continue to mount. Management also has a decision to make regarding a loss-making contract, should it prove unable to renegotiate. Such outcomes could improve profitability, albeit would impact an element of the Group's longer-term growth strategy.

While there is a never a good time to experience a downturn in trading, Q2 tends to be the quietest period in the Group's calendar as April is traditionally affected by Easter, with the Western and Eastern Christian festivals on separate weekends and May incorporating several public holidays throughout Europe. The second half of the year is traditionally busier, owing to the significance of Christmas. In the last four years, the 2H represented 55.6% of annual revenues and 63.7% of operating profits. Should the world return to a semblance of normality by the beginning of Q3, then we would expect the Group to deliver a respectable outcome for FY2020 under such difficult circumstances.

## Outlook and inherent value

We have temporarily withdrawn financial projections owing to the uncertainty created by the current global pandemic. Similarly, against such a tumultuous economic backdrop, standard valuation methodologies carry limited weight. We expect to reinstate financial projections for Xpediator once greater clarity is forthcoming on the outlook for the global economy.

We draw comfort from the level of net cash, which currently amounts to 18.4% of the Company's market capitalisation. The historic net asset value amounts to 21.3p per share, underpinning the stock value during the current challenging climate. We also think that it is worth noting that the Group is trading on **a 2019 EV/Sales multiple of just 0.21x**, which to us looks undemanding. Also, a historic EV/CFBIT (operating cash flow) multiple of just 4.35x, coupled with a 2019 FCF yield of 17.6%, indicates the inherent value in Xpediator shares.

The Company has stated that the Group traded broadly in-line with previous expectations in early 2020. The Group traded modestly above trend during January and February, as new customer relationships added during H2 2019 gained traction.

While March showed signs of the virus-related downturn, the overall outcome for the first quarter was broadly as expected. The following areas demonstrated strong trading:

- Pall-Ex Romania
- European road freight forwarding
- High levels of warehouse utilisation, especially within Southampton

The Group established an office in Shanghai, following the securing of a major contract and which is being utilised to generate further relationships with Chinese companies. While understandably, Chinese trade was limited during January and February, March saw an encouraging pick-up in activity.

**It is worth bearing in mind that the Group has a very diverse customer base and sector spread.** For example, no customer is currently responsible for more than 2% of revenues and therefore that reduces customer-specific risk.

Noteworthy issues that developed during the period included:

- Driver and vehicle shortages, resulting in supply-side inflation
- More complex border checks
- Widening e-commerce losses within Freight Forwarding
- The Beckton warehouse is dedicated to fashion-related customers and not surprisingly, has been hit hard in the recent downturn
- A loss-making contract at Braintree

Yet some of these issues have created opportunities, such as the shortages of vehicles and drivers have resulted in supply-side inflation. While margins have remained broadly unchanged, the higher top-line has resulted in an increase in profitability, as higher prices were passed on to customers. The Group's Transport Services division, Affinity, has proven its worth during the current difficult times in helping the Freight Forwarding division to source both drivers and vehicles.

Part of the Group's service is to deal with problems in advance for customers. To ensure that border crossings are navigated with ease, Xpediator provides the necessary paperwork ahead of a driver's journey.

## Strategy intact

Management has set demanding targets within its five-year strategy, dominated not only by the digitalisation of the Freight Forwarding business but a greater focus on road freight to and from the CEE and Baltic states, and £1bn of revenues.

To achieve the demanding top-line target, the organic growth rate needs to be heavily supplemented by acquisitions. In this respect, the management team remains ambitious. Although to give perspective, it should be said that in order to achieve the revenue target, the rate of growth will not need to climb too far above the CAGR of 43.1% experienced since 2016.

We anticipate that organic growth will be driven by:

- Provision of added value services to the CEE region, amongst the fastest growing areas within Europe
- A further expansion of the logistics facilities in Southampton, with a new site to become operational from February 2021
- Continued investment in IT to further automate processes, to remove cost and to digitalise the freight forwarding business. Management continues to anticipate double-digit annual organic revenue growth on a medium to longer-term basis.

**M&A**

Currently, there is a strong portfolio of acquisition targets, which are at varying stages of consideration. Xpediator is targeting complementary service areas (air and sea capabilities in particular) and infill gaps in the Group's presence across Europe. Executives see Xpediator as a consolidator of the highly fragmented freight management market. The Group has net cash in the bank amounting to £7m at the recent year-end and in view of the current share price rating, it is likely to fund larger purchases with debt. The existing bank facility has additional headroom in the UK, suggesting an ability to fund acquisitions up to a size in the low-teens of £m, should the opportunity arise.

**Capacity**

The new 200,000 sq ft facility in the Port of Southampton, increasing the Group's existing capacity within the deep-water container port by 46%. Overall, the facility, which is to open in February 2021 (but reach high levels of capacity in 2022) will prevent the Group from using third-party warehousing in peak times and therefore increase profitability (from 2022). Management is currently in discussion with several customers of varying scale to utilise the expanded facilities within the port. With the port a focus for Far Eastern and North Atlantic trade, this augurs well for the post-Brexit world order.

**Digitalisation**

A key target that Management has for 2020 is the digitalisation of the Freight Forwarding business. The division's e-forwarding platform will be mostly up and running by the end of the year, with the final phase completed during 2021. With data input by customers captured at source, the digitalisation process is expected to result in administration overhead savings.

Also, the digitalisation of the business allows for easier tracking of orders by clients.

# Historic Financials

| Summary Income Statement | | | | |
|---|---|---|---|---|
| **Year to Dec, £m** | **2016A** | **2017A** | **2018A** | **2019A** |
| Freight Forwarding | 58.9 | 93.1 | 136.9 | 159.6 |
| Logistics | 10.3 | 18.4 | 35.9 | 47.5 |
| Transport Services | 3.5 | 4.9 | 6.4 | 6.2 |
| Revenue | 72.7 | 116.3 | 179.17 | 213.25 |
| CoGS | -55.6 | -88.2 | -137.5 | -160.6 |
| Gross profit | 17.2 | 28.1 | 41.7 | 52.6 |
| Gross margin | 23.6% | 24.2% | 23.3% | 24.7% |
| Op costs | 15.2 | 24.3 | 35.0 | 47.5 |
| Other operating income | 0.6 | 0.7 | 0.9 | 1.2 |
| EBITA | 2.54 | 4.44 | 7.60 | 6.27 |
| Op margin | 3.5% | 3.8% | 4.2% | 2.9% |
| Associates | | | -0.08 | -0.06 |
| Net Interest | -0.34 | -1.09 | -0.32 | -1.06 |
| PBT (Adjusted) | 2.20 | 3.35 | 7.20 | 5.15 |
| Non-cash deferred consideration | | -0.30 | -0.23 | -0.29 |
| Amortisation of acqd. intangibles | | -0.44 | -1.03 | -1.41 |
| IFRS16 interest adjustment | | | | -0.42 |
| Exceptionals | -0.65 | -0.91 | -0.32 | -0.86 |
| PBT (Reported) | 1.55 | 1.70 | 5.62 | 2.18 |
| Tax | -0.2 | -0.7 | -0.9 | -0.9 |
| PAT | 1.3 | 1.1 | 4.7 | 1.3 |
| Profit from discontinued items | -0.2 | 0.0 | 0.0 | 0.0 |
| Minority interests | -0.5 | -0.2 | -0.3 | -0.5 |
| Earnings | 0.64 | 0.81 | 4.42 | 0.81 |
| EPS (Adjusted) (p) | 1.52 | 3.26 | 4.66 | 2.79 |
| DPS (p) | 0.00 | 0.99 | 1.26 | 1.33 |
| Ave no of shares (FD) (m) | 80.0 | 94.3 | 128.8 | 135.8 |

*Source: Company historics, Equity Development estimates*

We have discussed the income statement in some detail in previous sections. However, we do think it is worth noting that while revenue growth slowed to a very robust annual growth rate of 19% in 2019, **the overall top-line has improved almost three-fold (+193.1%) since 2016, or by a CAGR of 43.1% over this period**.

One should also bear in mind that Xpediator has not made any acquisitions since it purchased ISL in July 2018, almost two years ago.

| Summary Cash Flow | | | | |
|---|---|---|---|---|
| **Year to Dec, £m** | **2016A** | **2017A** | **2018A** | **2019A** |
| EBITA | 2.5 | 4.0 | 6.5 | 4.7 |
| Depreciation & Amortisation | 0.3 | 0.8 | 1.8 | 2.6 |
| Working capital movement | 2.6 | -1.2 | -3.7 | 2.6 |
| Other | -0.2 | -0.9 | 1.5 | 0.2 |
| **Operating cash flow** | **5.1** | **2.8** | **6.2** | **10.1** |
| Net Interest | -0.3 | -0.4 | -0.3 | -0.9 |
| Taxation | -0.7 | -0.8 | -1.1 | -0.7 |
| Net capex | -0.5 | -0.7 | -0.5 | -1.8 |
| Pref. dividends | | | -0.1 | |
| **Operating FCF** | **3.6** | **0.9** | **4.2** | **6.6** |
| Net (Acquisitions)/Disposals | -1.9 | -5.8 | -6.9 | -0.9 |
| Dividends | -3.4 | -0.4 | -1.3 | -1.5 |
| Share Issues | 0.0 | 7.2 | 6.6 | 0.2 |
| Minority payment | -0.3 | -0.3 | -0.3 | -0.2 |
| Other financial | -0.8 | -0.1 | -0.6 | -0.5 |
| **Increase Cash/(Debt)** | **-2.7** | **1.5** | **1.8** | **3.7** |
| Opening Net Cash/(Debt) | 2.7 | 0.0 | 1.5 | 3.2 |
| **Closing Net Cash/(Debt)** | **0.0** | **1.5** | **3.2** | **7.0** |

*Source: Company*

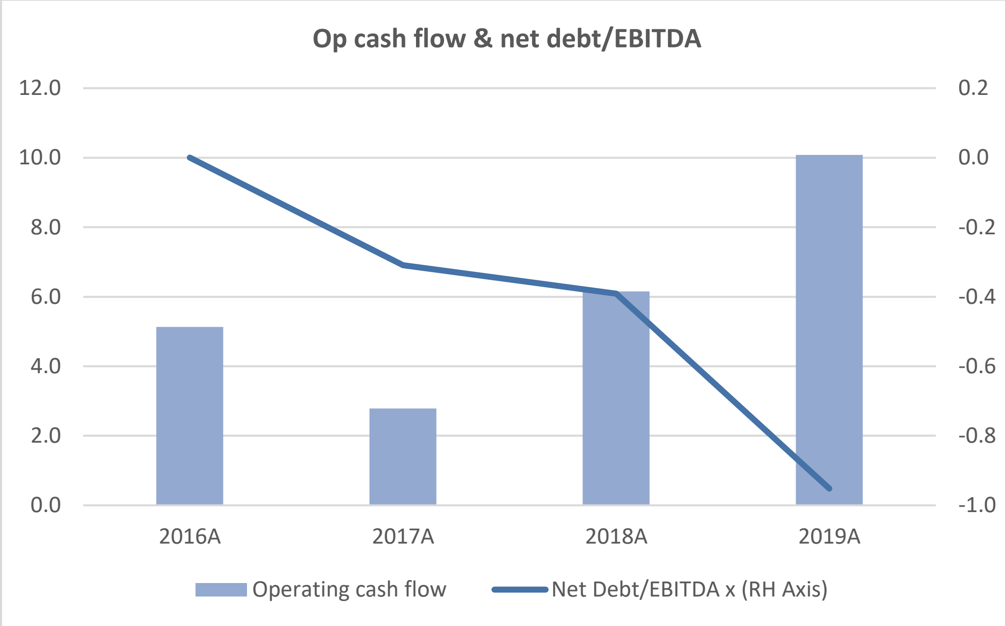
**Cash flow generation improved markedly to £10.1m at the operating level and with £6.6m of free cash flow, representing uplifts y-o-y of 63.7% and 59.6%, respectively.**

The unwinding of working capital, which primarily reflects a faster debtor collection following Christmas-related deliveries, accounted for approximately two-thirds of the improvement in cash flow, with higher depreciation and amortisation most of the remainder. With interest, taxation and capex all higher y-o-y, the much-improved free cash flow outcome reflects the stronger operating cash flow. A chart highlighting the improvement in cash generation may be seen below.

The increase in dividends paid reflects the higher final dividend from 2018. While the group completed no acquisitions during 2019, there were M&A associated costs. Approximately £0.2m of the overall £0.9m of costs reflected the aborted acquisition of Intereuropa (Slovenia), with a third party ultimately the successful bidder. Deferred consideration of £0.2m was paid to the vendors of Regional Express, with a further £0.5m to Anglia Forwarding.

One should note that aside from any share options that may vest in FY2020, the scrip dividend which is payable during Q3 will result in an additional 1.14m shares.

**Operating cash flow (£m) Net debt/EBITDA ratio (x), RH axis**




*Source: ED, Company*

**Summary Balance Sheet**

| Year to Dec, £m | 2016A | 2017A | 2018A | 2019A |
|---|---|---|---|---|
| Intangible Assets | 2.9 | 15.2 | 24.9 | 24.7 |
| Tangible Assets | 1.2 | 1.6 | 2.4 | 2.5 |
| Investments/other | 0.3 | 0.3 | 1.5 | 28.6 |
| Net Working Capital | -0.5 | -1.0 | 2.9 | -8.5 |
| Capital Employed | 3.9 | 16.2 | 31.6 | 47.3 |
| Deferred tax | 0.3 | 1.2 | 2.2 | 23.6 |
| Deferred consideration | | 1.7 | 2.1 | |
| Net Cash/(Debt) | 0.0 | 1.5 | 3.2 | 7.0 |
| Provisions Liabilities/Charges | 0.0 | 0.0 | 1.5 | 1.7 |
| Net Assets | 3.6 | 14.8 | 29.1 | 29.0 |

*Source: Company*

**While the level of net assets was broadly unchanged y-o-y, the makeup of the balance sheet was much improved, as highlighted by the increase in the level of net cash.**

Cash per share amounts to 5.1p (2018: 2.4p) and the NAV per share is broadly unchanged at 21.3p (2018: 21.7p).

Provisions relate to an assessment of the dilapidation of leasehold properties, where management has undertaken surveys of what is required to return the facilities to their former condition. The provisions are due to be settled beyond the end of FY2020.

The significant increase in the deferred tax category equates to the inclusion post-IFRS 16 of £21.5m of leasehold properties (2018: nil).

## Investor Access

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