

## A logical deal that is EPS accretive

6 October 2020

**Xpediator has acquired Nidd Transport Ltd ("Nidd"), a freight forwarder and operator based in Ripon. With a strong network across the North of the UK plus France, Spain, Germany and Italy, Nidd fills many of the gaps in Xpediator's European network. We expect substantial cross-selling benefits between the two customer bases. The trailing multiple paid is reasonable, considering the net cash and strong asset base of the acquired vehicle. So, it looks a very sensible acquisition, which is also EPS accretive.**

Xpediator has acquired Nidd, a UK-based international groupage freight forwarder and operator. Nidd services the transportation requirements of customers based predominantly in the North of England. It also provides daily express deliveries to France, Spain, Portugal, Germany, Italy, Ireland, and the Benelux region from its base in Ripon, North Yorkshire.

In the year to April 2020, Nidd generated revenues of £11.0m, EBIT of £0.5m and PAT of £0.4m. The consideration amounted to £4.6m payable from the Group's resources (net cash as of June 2020 was £4.3m). The price/sales multiple of 0.4x is very reasonable, with the historic PER of 6.5x, net of Nidd's £2m of cash. Even considering the proximity of and, the uncertainty surrounding Brexit, this appears an attractive price. Moreover, a sizeable freehold property (Group tendency for leasehold), valued at £2.1m could potentially further reduce the historic PER should a sale & leaseback occur.

Broadly speaking, **where Xpediator performs a limited-service, Nidd is strong.** This not only relates to coverage within Europe (with Xpediator strong across the Baltics, Balkans, and the CEE) but also in the UK, with Nidd strong in Northern England, while Xpediator has an extensive network across the Midlands and South.

We believe the acquisition represents a good opportunity to upsell Nidd's customer base (and vice-versa) with an increased number of routes and services and, significantly, **greater visibility in a post-Brexit world**, particularly in terms of customs clearance. We also anticipate that the number of part-loads will decrease, replaced by full-loads, thereby increasing the profitability of many journeys undertaken.

Management has stated that Nidd will be EPS accretive from day one, which is hardly surprising, given XPD's cash resources and the low current rates of interest. The integration of the two businesses should result in some acceleration of both the top-line and profitability into FY2021.

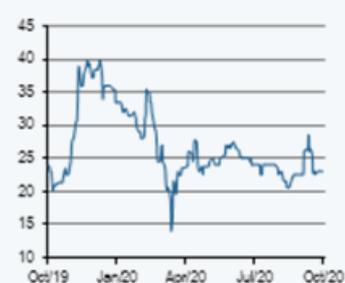
Xpediator has demonstrated its ability once again to be 'fleet of foot', taking advantage of opportunities in its markets. With a strong balance sheet even following this deal, we would be surprised if further M&A activity failed to occur in FY2021.

**The current share price sits modestly above the June '20 NAV/share of 20p. We think this fails to recognise the progress management has made to date on both costs and enhancing growth prospects.**

### Company Data

EPIC	XPD
Price (last close)	24p
52 week Hi/Lo	42p/13p
Market cap	£33m
Reported NAV/share (Jun '20)	20p
Net cash (Jun '20)	£4.3m

### 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 (36.3%), CEE and Baltic states (63.7%) as of June 2020.

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## Acquisition of Nidd Transport Ltd

### Nidd Transport activities

Tony White established Nidd Transport Ltd ("Nidd") in 1984 and the founder, and current CEO is expected to retire following a handover period. Post-completion, the existing management team will continue to run the business, with oversight from Xpediator. The business employs 65 staff, mostly from its headquarters in Ripon, North Yorkshire and includes management, administration, warehouse operatives and drivers. Nidd employs one staff member within its European network, in France.

The Nidd business **specialises in 'just in time' deliveries**, utilising the Group's existing network of depots and local agents to deliver to customers across the UK and Europe. Nidd has built long-term customer relationships throughout the North of England, providing:

- European groupage services
- UK distribution operation
- Warehousing facilities in Ripon, North Yorkshire

Nidd also specialises in express deliveries into mainland Europe. All the target's European partnerships are longstanding in nature. Deliveries tend to be a collation of customer's packages into either a single/multi-pallet form or a full load.

#### **It offers the following services:**

- Daily departures to Spain (with depots in Irun, Barcelona, Madrid, Valencia, and Murcia)
- Weekly routes to the Costa Brava
- Groupage services to the Balearic Isles
- Daily departures to Portugal (depots in Lisbon and Porto)
- Twice-weekly service to Italy (depot in Milan, Vicenza, Florence and Ancona)
- Other services to Sicily and Sardinia
- Daily transport routes to France (depots in Paris and Lyon, with trunk services to Marseilles)
- Coverage of the island of Corsica
- Daily groupage departures to Germany (depot in Neuss, close to the Dutch border)
- Deliveries from Neuss, throughout Germany and the Benelux region
- Daily departures to Ireland (depots in Belfast and Dublin)

Nidd operates a fleet of 45 vehicles, ranging from Sprinter vans, 7.5/18 tonne rigid vehicles with tail lifts and 44-tonne articulated lorries. Generally, the vehicles utilise the most efficient Euro-6 engines, with drivers trained to drive both efficiently and courteously. Also, each vehicle uses in-vehicle traffic management systems to reduce unnecessary traffic hold-ups. Management subcontracts vehicles as and when required.

Customers can book their consignments online, saving administration time and expense and providing delivery tracking. Electronic proof of delivery and invoicing is also available to customers.

### Some of the Nidd vehicle fleet



Source: Company

The acquired business is a shareholder member of **Palletforce**, one of the leading overnight pallet operators in the UK. Nidd has expertise in delivering items/pallets overnight across the North of England.

In the UK, Nidd operates 60,000 sq ft of **modern, racked warehousing** based in Ripon, close to the A1 and A61 trunk roads. There are 4,000 fully racked pallet spaces within the warehouse, including high bay racking. The facility operates on a 24/7 basis and offers pick-and-pack facilities.

### The 60,000 sq ft warehouse in Ripon, N. Yorkshire



Source: Company

The warehouse incorporates a market-leading warehouse management system, enabling operators and customers alike to have up-to-date access to stock items via internal systems/internet. Also, the warehouse can be utilised by customers to break bulk cargo into pallets and/or LCL shipments (less than a container load).

Nidd also offers a freight forwarding service, utilising road, air, and sea transportation routes. All necessary customs documentation is carried out in Ripon.

## The consideration

Xpediator has acquired Nidd for £4.6m in cash from existing resources. The Group closed the half-year in June with £4.3m of cash. In the year to April 2020, Nidd generated revenue of £11.0m, EBIT of £0.5m, PAT of £0.4m and net cash of £2.0m. This suggests **a historic price/sales multiple of 0.4x** and a lagging PER of 6.5x.

Even considering the proximity of Brexit and all the uncertainty that is likely to bring, the multiple paid remains very reasonable, net of the £2.0m of cash. However, the net assets of the acquisition also included a large freehold property, which was recently revalued at £2.1m. The Company's report & accounts for 2019 stated net cash of £1.4m and a freehold property with a depreciated value of £0.9m (*source: Companies House*). The former demonstrates the cash generative nature of Nidd, which augurs well for its future within Xpediator. **The freehold property valuation clearly suggests the opportunity to reduce the multiple paid further, given Xpediator's preference to be asset light and to lease all of its warehouses.**

Not surprisingly given current interest rates, the acquisition is immediately earnings accretive. We expect this to hold even if management follows the practice elsewhere in the Group (leasehold properties only) and undertakes a sale and leaseback agreement on the facility in Ripon.

## The opportunity

The acquisition of Nidd fills in many of the gaps across the UK and Europe, where Xpediator has only a relatively limited presence. In the UK, Xpediator has expertise across the South of England and the Midlands, with Nidd in the North and Ireland. Combined, the enlarged Xpediator Group can operate a dedicated UK-wide network.

Similarly, in Europe, Xpediator is mainly focused on the Baltics, the Balkans and the remainder of CEE. As highlighted earlier, Nidd's expertise tends to be in Spain, Portugal, France, Germany, Italy, and Benelux. There is a degree of overlap, albeit this is around the edges. We envisage that once Nidd is fully integrated into the Group, then the opportunity to deliver a more significant proportion of full loads, as opposed to LCLs, should increase across all major routes.

Also, there are opportunities to cross-sell the services of Xpediator into Nidd's customer base and vice-versa. For example, customs clearance services should reduce the impact of Brexit on Nidd.

We expect the integration of Nidd to be a relatively short process, with the business to continue to trade under its existing brand name. Cost savings are likely to emerge over time. For now, the focus will be on growing the top-line of the enlarged Group.

### **Intrinsic value in Xpediator**

The net asset value of the Group amounted to 20p/share as at the end of June 2020. While this provides solid support for the shares at the current price, the strong performance at the half-year in terms of profitability **strongly suggests a positive outcome for the full year. On this basis, we believe the shares to be markedly undervalued.**

The acquisition, which is seen to be immediately earnings accretive, highlights the ability of the Group to take advantage of opportunities in its marketplace at reasonable multiples. The integration of Nidd into the Group will, we believe, help to underpin the likely profit growth into FY2021 as a cross-fertilisation of the two customer bases, services and networks help to deliver an uplift in revenues.



## Investor Access

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