

PHOTO-ME INTERNATIONAL SUPPORT SERVICES

PHTM.L

109p

Market Cap: £413.1m

SHARE PRICE (p)



12m high/low

187.04p/109p

Source: LSE Data

KEY INFORMATION

Enterprise value	£387.1m
Index/market	LSE
Next news	Finals, 10 July 2018
Gearing	N/A
Interest cover	N/A

PHOTO-ME INTERNATIONAL IS A
RESEARCH CLIENT OF PROGRESSIVE

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Trading Update

Photo-Me has issued a trading update ahead of the publication of full year results in July. The Group expectations for turnover and PBT for FY2018E are in-line with our forecast. The statement does, however, highlight difficulties in trading in Photo ID in Japan which will result in a lowering of our PBT forecast for FY2019E to £44m from £53m. The board has taken steps to resolve the issues and expects the Japanese Photo ID business to return to profitability following the restructuring in FY2019E.

- Revenues for FY2018E are expected to grow at approximately 6% on a constant currency basis, which is in-line with our expectations. PBT is also expected to be in-line with our forecast of £50.2m for FY2018E. This includes restructuring cost associated with the UK Retail business of £2.6m, a gain on disposal of the head office of £2.4m and a gain on investments of £3.7m.
- The Photo ID business, except for Japan, continues to perform in line with previous expectations. In Japan there have been difficulties due to oversupply in the market, meaning declining market share and a resultant reduction in average revenue per machine as well as upward pressure on commissions payable. The Board intends to re-structure the Japanese business to facilitate a return to profitability. For FY2019E we are lowering our forecast trading PBT for Japan by £5m and anticipate a restructuring cost of £4m.
- The Laundry business continues its expansion and remains a key growth driver. Revenue from Laundry operations in FY2018E grew 49% to £32.3m. Following relocation to Poland, an increase in manufacturing capacity will fuel an acceleration in the deployment of machines.
- Post year-end the Group acquired La Wash Group, a leading Spanish laundry provider, for €4.75m. La Wash Group had turnover of €3.7m for the year ended 31 December 2017 and corresponding PBT of €0.8m. This acquisition highlights the Group's commitment to making complimentary bolt-on Laundry acquisitions.
- Photo-Me Retail in the UK has been successfully restructured to provide unattended digital printing kiosk services. This will boost the profitability of the UK digital printing business with an associated re-structuring cost of £2.6m in FY2018E.
- Although the Board has made no final decision, it expects to maintain the Group's current dividend policy.

FYE APR (£M)	2016	2017	2018E	2019E
Revenue	184.0	214.6	229.6	238.8
Adj EBITDA	56.7	69.2	70.5	71.0
Fully Adj PBT	40.0	48.0	50.2	44.1
Fully Adj EPS (p)	7.7	9.3	9.6	8.5
EV/Sales (x)	2.1	1.8	1.7	1.6
EV/EBITDA (x)	6.8	5.6	5.5	5.5
PER (x)	14.1	11.8	11.3	12.9

Source: Company Information and Progressive Equity Research estimates

Trading Update

Except for the Japanese Photo ID business (see below), all areas performed in line with our expectations. Turnover for FY2018E is expected to grow by 6% on a constant currency basis or 7% on an absolute basis. PBT for FY2018E is expected to be broadly in line with market expectations. We forecast PBT for FY2018E of £50.2m.

Photo Identification

Excluding Japan, the photo identification business continued to perform well. The UK roll-out of encrypted passport photo ID upload began in December 2017. By the year end, 2200 photobooths had been converted to provide direct and secure transmission of ID photos and data to HMPO. The Group is therefore well positioned to take advantage of the introduction of new UK passports.

This technology continues to be deployed in France and Ireland and the Group is also in discussions with the Dutch government about its introduction in the Netherlands.

Laundry

Laundry continues to be a key growth driver with revenue for FY2018E expected to increase by 49% to £32.3m.

Manufacturing capacity of the Revolution laundry machines increased following the relocation of production facilities to a new factory in Poland. This capacity increase will enable an acceleration of the roll-out programme in the longer term.

In May 2018, the Group acquired La Wash Group, a laundry services group. The acquisition cost was €4.75m, 1.3x FY2017 revenue. During that year the business had PBT of €0.8m. This acquisition shows Photo-Me's commitment to identifying valuable strategic bolt-on laundry acquisitions to facilitate further growth.

Kiosks

Photo-Me Retail in the UK was re-organised to boost the profitability of the UK digital printing business. This resulted in a one-off re-structuring cost of £2.6m which is included in PBT.

Japanese Photo ID

Following the introduction of the My Number ID card programme in Japan the market in Photo ID has become increasingly competitive. However, this programme has not become compulsory and the market has not grown as much as had been anticipated.

Existing operators and new entrants have deployed more machines hoping to take advantage of the programme. Total photo booths in Japan, across all operators, has increased from 16,000 to 27,000. Photo-Me does not have a monopoly in this market and its market share has fallen from 33% to 30%.

This reduction in market share has decreased revenue per machine by 12%. In addition, there has been upward pressure on commissions payable which have risen between 2.5% and 3%. The resultant reduction in trading profits compared to our previous forecast will have a negative impact on PBT of £5m for FY2019E.

To address these pressures, the Group intends to restructure the Japanese business, primarily the head office. The savings made will be in the region of £2m-£2.5m per annum. The total cost of restructuring in FY2019 will amount to c.£4m. Negotiations with unions are ongoing but the Group is confident that progress will be made and that following this restructuring the Japanese Photo ID business will return to profitability.

The Japanese photo ID business accounts for all of our downgrade to FY2019E forecasts.

Summary and conclusion

Clearly the group has been battling the challenges in Japan for some time but had hoped for other positives to offset these problems - presumably a strong performance or material win elsewhere in the group. From Wednesday's announcement, clearly management felt that it was no longer likely that such positives could realistically offset the Japanese difficulties, which is why the update was timed as it was.

Although it is frustrating to see the difficulties in this one market, we would highlight that the rest of the business is performing relatively well, and the group is benefiting to a degree from the diverse natures of its markets, geographies and consumer segments. The Japanese situation (a major planned compulsory scheme, followed by its curtailment and abandonment, yet still leaving new aggressive competitors) is unlikely to be replicated in other markets or segments.

We would hope that the group can return to profit growth through a combination of simply delivering on the cost reductions already in train, and working to ensure the attractiveness and cost efficiencies of new products in a steadily-expanding range of markets.

Financial Summary: Photo-Me International

Year end: April (£m unless shown)

	2016	2017	2018E	2019E
PROFIT & LOSS				
Revenue	184.0	214.6	229.6	238.8
Adj EBITDA	56.7	69.2	70.5	71.0
Adj EBIT	40.0	49.8	48.6	46.2
Reported PBT	40.0	48.0	50.2	44.1
Fully Adj PBT	40.0	48.0	50.2	44.1
NOPAT	54.6	47.2	28.5	25.1
Reported EPS (p)	7.7	9.3	9.6	8.5
Fully Adj EPS (p)	7.7	9.3	9.6	8.5
Dividend per share (p)	5.9	7.0	8.4	8.9
CASH FLOW & BALANCE SHEET				
Operating cash flow	37.6	61.2	66.5	71.2
Free Cash flow	37.6	5.7	14.1	30.6
FCF per share (p)	10.1	1.5	3.7	8.0
Acquisitions	0.0	0.0	0.0	(4.2)
Disposals	0.0	0.0	0.0	0.0
Shares issued	0.0	0.8	0.8	0.8
Net cash flow	19.4	(25.5)	(11.0)	(6.7)
Overdrafts / borrowings	(10.8)	(10.7)	(8.9)	(7.2)
Cash & equivalents	71.0	47.5	34.8	26.3
Net (Debt)/Cash	60.2	36.8	25.8	19.1
NAV AND RETURNS				
Net asset value	122.8	129.3	133.4	132.0
NAV/share (p)	32.4	34.1	35.2	34.8
Net Tangible Asset Value	102.4	104.0	106.1	103.5
NTAV/share (p)	27.0	27.4	28.0	27.3
Average equity	113.6	126.0	131.3	132.7
Post-tax ROE (%)	25.6%	27.9%	28.0%	24.3%
METRICS				
Revenue growth	n.a	16.6%	7.0%	4.0%
Adj EBITDA growth	n.a.	22.1%	1.9%	0.7%
Adj EBIT growth	n.a.	24.4%	(2.4%)	(4.9%)
Adj PBT growth	n.a.	19.9%	4.6%	(12.3%)
Adj EPS growth	n.a.	19.5%	4.1%	(12.3%)
Dividend growth	n.a.	20.0%	20.0%	5.0%
Adj EBIT margins	21.8%	21.8%	19.8%	17.9%
VALUATION				
EV/Sales (x)	2.1	1.8	1.7	1.6
EV/EBITDA (x)	6.8	5.6	5.5	5.5
EV/NOPAT (x)	7.1	8.2	13.6	15.4
PER (x)	14.1	11.8	11.3	12.9
Dividend yield	5.4%	6.4%	7.7%	8.1%
FCF yield	9.2%	1.4%	3.4%	7.4%

Source: Company information and Progressive Equity Research estimates

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