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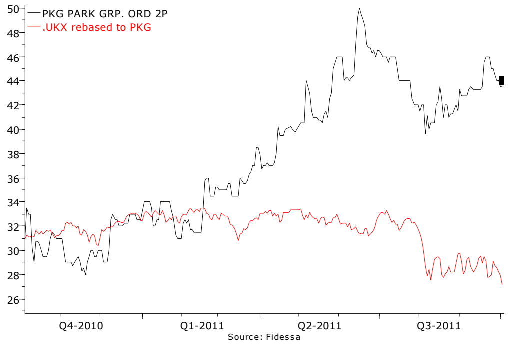
Park Group

Ceasing Coverage

48.125p

20 December 2011



12m High: 50p

12m Low: 28p

Market Cap: £87m

Shares in Issue: 168m

NAV/Share: Negative

Gearing: n.a. (7m net cash at 3/2011, excluding £40m cash held in trust)

Interest Cover: n.a.

EPIC Code: PKG

Sector: Consumer Finance

Market: London AIM

Broker: Arden Partners

PR: Tavistock Communications

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Website: www.parkgroup.co.uk

Description: Park Group is the UK's leading multi-redemption voucher business. It is also the biggest provider of Christmas savings schemes in the UK, which it provides through the internet and a network of sales agents. It operates in the e-card and Corporate Voucher marketplace, this business has been growing rapidly.

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The interim results earlier would put off all but the most dedicated follower. Sales revenues down 10% and a turn round from a profit to a loss were superficially discouraging. However, strip out the one-off £4.4m gain from the favourable VAT case settlement received last year, and investors are left with little more than the usual seasonal H1 loss. The outlook for both the full year and for the following financial year continue to be good, in our view.

We cease coverage with this research note. In the 10 years we have been researching Park Group, its shares have risen 153% while the FTSE 100 Index has gained 4% - an outperformance of 149%. In all but one of those years it has paid a dividend; the current yield on our "Initiation of Coverage" price is 9.5%. And at no time in this period has directors called on shareholders to put up extra money.

Job done. Shareholders should be content.

We comment briefly on the Interim Results overleaf, but have withdrawn our estimates.

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
March	£m	£m	£m	p.		p.	%
2010A	263.2	5.3	5.3	2.1	24.8	1.32	2.5
2011A	279.9	12.5	7.0	3.2	16.2	1.70	3.3
2012E	No	estimates					
2013E	No	estimates					

The following points from the Interim Results announcement are worthy of note:

Interest Income

H1 2011/12 interest income was 28% higher than in the previous H1. This is because theegroup was able to earn a slightly higher rate of interest on its cash deposits. Interest rates have stayed relatively stable throughout this reporting period, which suggests interest income of c. £1.7m. for the full twelve months, vs. £1.38m in H1 of the previous year.

The Cash Position

Cash balances peaked at a record £152m, up 8.5%.

Consumer Business

The average customer order value for this Christmas was 4% higher, and the number of orders was higher by 5%. Adding these two together accords with the increase in cash balances, which indeed it should. The rise in the size of the average order is roughly in line with the inflation rate. The combined increase is some way in excess of retail spending, so Park Group's business proposition to the store groups is gaining in importance.

Corporate Business

An 8% rise in customer numbers is probably more important than the decision by a major customer to place fewer orders in H1, more than expected in H2.

Flexecash®

The cost of developing and operating this card business is just over £1m a year, and it is clearly rising because this is a complex business. Park Group is having to engineer a different interface for almost very customer, because of the different software systems in use by the various high street chains. Park Group is playing in a major new game here, for potentially high rewards, but there is a cost.

A further issue is a delay in revenue recognition. Sales are recognised when money is drawn off the card, with the traditional vouchers revenue is recognised when the voucher is paid for and posted. A further accounting point is that Park Group only recognises its gross margin on the card, while with vouchers it recognises the total amount. The £60m that has been loaded on the cards in the 18 months since launch is therefore a more significant figure than the declared £3.7m of sales during this half. As flexecash® grows, it will tend to inflate margins, and deflate sales revenue.

Administrative Costs

After two consecutive years of falling administrative costs as a percentage of sales revenue, the financial year to March 2011 saw a rise. This was partly due to the company starting to amortise the previously capitalised costs of developing the flexecash® card. H1 current year administrative costs were again higher than those in H1 of the previous year, by 8%. We expect full year depreciation and amortisation to be up from £0.9m to £1.5m. In addition to this, Park Group has been hiring more staff to work on the further development of flexecash®. We expect full year administrative expenses to be up from £12m to £13.3m, with higher depreciation/amortisation accounting for approximately half the rise, and additional staff costs most of the rest.

Management	Major Shareholders	
Chairman: Peter Johnson	Peter Johnson	57.4%
Managing Director: Chris Houghton	BSW/IPP Trustees Ltd	9.8%
Finance Director: Martin Stewart	Schroders plc	9.7%
	The Johnson Foundation	3.4%

Key Dates	Key Milestones
	July 2006: Disposal of loan business
Full Year Results: June 2012	**August 2007:** Establishment of The Park Prepayments Protection Trust, an independent trust to improve the security of savers' money.
	October 2007: Transfer from London Stock Exchange to AIM
	May 2010: Launch of card-based *flexecash*®.
	February 2011: Earnings enhancing purchase of property occupied by the group in Birkenhead.

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