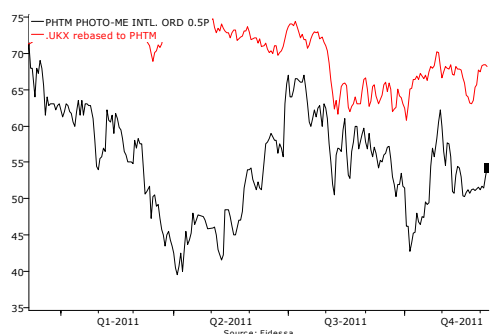


**Photo-Me International 54.25p**  
**FLASH: Interim profits, dividend, cash all up**

8 December 2011



**12m High:** 67p

**12m Low:** 39.5p

**Market Cap:** £196m

**Shares in Issue:** 362m (369m inc. shares held in Treasury)

**NAV/Share:** 27p inc. intangibles (24p excluding goodwill)

**Gearing:** nil - £51.1m net cash

**Interest Cover:** n.a.

**EPIC Code:** PHTM

**Sector:** Leisure Goods

**Market:** London Full List

**Broker:** JPMorgan Cazenove/finnCap

**PR:** Madano Partnership +44 (0)20 7593 4000

**IR:** IR Focus, +44 (0)20 7593 4015

**Website:** www.photo-me.co.uk

**Description:** Photo-Me operates photobooths and other vending equipment throughout Europe and Japan. It also manufactures printing kiosks, photo album machines, minilabs and other photo processing equipment.

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Interim results from Photo-Me International are slightly ahead of our expectations, as good management has increased margins on broadly unchanged sales revenues against a background of (to state the obvious) difficult economic conditions.

Key points are:

- Pre-tax profit up 22% in spite of a 2% reduction in sales, as the operating margin increases from 12.0% to 14.7%.
- EPS up 39%, as the tax charge is cut from 39% to a more normal 30%.
- Interim dividend up 25%. **We have raised our Full Year dividend forecast.**
- Net cash up by more than £10m to £51.1m. **There is now 14p of cash per share in the balance sheet – equivalent to more than a quarter of the share price.**

Photo-Me International's business is heavily first half weighted, so this interim performance effectively underwrites the full year result. We think the company will meet our 2012 estimate, and we think it is strong enough to overcome the poor economic conditions and produce a further increase in profits, eps, dividend and cash in 2013. Our 2012 eps estimate is unchanged, our 2013 estimate is slightly increased.

We expect cash to continue to grow, but at a slower rate from now on. The only point of caution for investment managers is that the depreciation charge has passed its peak and is now falling, so EBITDA growth will start to flatten.

Y/E	Group Sales	Adjusted EBITDA*	Adjusted Pre-tax Profit*	Adjusted EPS*	EV/ EBITDA	P/E ratio	Divi	Yield
April	£m	£m	£m	p.			p.	%
2010A	222.5	44.2	14.0	2.7	3.2	20.1	1.25	2.3
2011A	219.8	47.6	18.0	3.8	3.0	14.3	2.00	3.7
2012E	217.3	46.7	20.0	4.0	3.1	13.6	2.50	4.6
2013E	224.6	47.0	21.8	4.4	3.1	12.3	2.75	5.1

\* Before exceptional items

## Interim Results

6 months to end- October	2011	2010
Operations Division		
Revenue	97.9	97.1
Operating Profit	18.3	15.4
<i>Operating Margin</i>	18.7%	15.8%
Sales & Servicing Division		
Revenue	17.7	21.3
Operating Profit	0.4	0.6
<i>Operating Margin</i>	2.1%	2.8%
Group Sales Revenue	115.6	118.4
Gross Profit	26.2	24.0
<i>Gross Margin</i>	22.7%	20.2%
Administrative Expenses	9.8	10.4
Operating Profit	17.0	14.2
<b>Pre-tax Profit</b>	<b>17.0</b>	<b>14.0</b>
<b>EPS, diluted</b>	<b>3.23p</b>	<b>2.32p</b>

## Operations Division

The Operations Division maintained its sales revenues in spite of the difficult economic conditions. Margins rose, partly because of careful management, particularly in France (the largest country in terms of both sales and profit), and partly because Photo-Me is over its capital investment "hump" and its depreciation charge is now starting to fall. New booths, even the new Philippe Starck designed booths which will be an increasing feature of the company's operations in future, actually cost less than the ones they are replacing.

Management emphasis is being put upon increasing returns from the photoboosts. The UK operations, which have lagged France in performance, are being put under French management, and the company's plan over the coming two years is for "site optimisation and cost reduction".

There is good news from Japan, where trading performance has been held back by the difficult conditions following the earthquake and power crisis. Photo-Me has found that conditions are now returning to near-normal, so we look for an improved performance from Japan in H2.

## Sales & Servicing Division

This Division has once again been a disappointment. The demand for minilabs internationally continues to be poor. All companies in the industry are experiencing this, not just Photo-Me and its subsidiary KIS. One of the company's large customers postponed an order. A "fundamental restructuring" is taking place, with all maintenance activity being transferred to the management umbrella of Photomaton, the Operations business in France, and KIS is to become a "smaller . . . more efficient" company.

Photo-Me International

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There have been £0.6m of reorganisation costs in France in H1. There may be more in H2, and if significant we will treat these on an 'adjusted' basis.

New product development is to be accelerated.

## Balance Sheet and Cash Flow

There is currently £51.1m of net cash in the business, an increase of over £10m. We expect cash at the year-end to be in the region of £55m.

EBITDA increased from £28.5m to £29.7m.

As the depreciation charge continues to fall, we expect the rate of increase in the cash reserves to slow and EBITDA growth to flatten.

## Conclusion

Photo-Me International is continuing to demonstrate strong defensive qualities, but this is increasingly being overlain with sensible, effective management. We like the emphasis on cost control and margins, we especially like the way that management is refusing to be rushed into acquisitions just because it has plenty of spare cash. Investors should be pleased.

### Photo-Me International

8.12.2011

£m	2006/7A	2007/8A	2008/9A	2009/10A	2010/11A	2011/12E	2012/13E
<b>Turnover</b>							
Operations	142.9	148.8	166.1	172.4	176.8	178.6	183.9
Sales & Servicing	69.9	44.7	44.4	50.1	43.0	38.7	40.6
<b>Total Turnover</b>	<b>212.8</b>	<b>193.5</b>	<b>210.5</b>	<b>222.5</b>	<b>219.8</b>	<b>217.3</b>	<b>224.6</b>
<b>Change in Turnover</b>							
Operations	-2.4%	4.1%	11.6%	3.8%	2.6%	1.0%	3.0%
Sales & Servicing	-16.4%	-36.1%	-0.7%	12.8%	-14.2%	-10.0%	5.0%
Total Turnover	-7.5%	-9.1%	8.8%	5.7%	-1.2%	-1.2%	3.4%
<b>Operating Margin</b>							
Operations	10.6%	6.1%	7.3%	9.6%	12.0%	12.8%	13.0%
Sales & Servicing	7.4%	-15.9%	-11.5%	5.6%	1.2%	3.0%	3.0%
Group	7.4%	-1.3%	2.4%	6.7%	8.4%	9.2%	9.6%
<b>Operating Profit</b>							
Operations	15.1	9.1	12.1	16.5	21.2	22.9	23.9
Sales and Servicing	5.2	-7.1	-5.1	2.8	0.5	1.2	1.2
Group Overheads	-4.5	-4.6	-2.0	-4.5	-3.3	-3.5	-3.6
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring Costs						-0.6	
Operating Profit	15.8	-2.6	5.0	14.8	18.4	19.9	21.5
<b>Non-Operating Profit (Ins Recovery, Currency Gain)</b>							
	0.0	0.0	2.1	0.3	0.0	0.0	0.0
Net Finance Costs	-1.9	-3.6	-3.4	-1.1	-0.4	0.1	0.3
<b>Group Pre-Tax Profit</b>	<b>13.9</b>	<b>-6.3</b>	<b>1.6</b>	<b>14.0</b>	<b>18.0</b>	<b>20.0</b>	<b>21.8</b>

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**Photo-Me International**

8.12.2011

£m	2006/7A	2007/8A	2008/9A	2009/10A	2010/11A	2011/12E	2012/13E
Gross Profit	37.6	16.5	22.5	32.3	36.7	37.7	39.7
Gross Margin %	17.7%	8.5%	10.7%	14.5%	16.7%	17.4%	17.7%
Administrative Expenses	22.9	20.2	18.9	18.8	20.3	19.7	20.2
Change in Admin Expenses	-7.8%	-11.8%	-6.5%	-0.4%	8.0%	-3.0%	2.5%
Other	1.1	1.1	1.4	1.6	1.9	1.9	1.9
Profit on Insurance Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Joint Venture/Associates	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Operating Profit	15.8	-2.6	5.0	15.1	18.4	19.9	21.5
Asset Impairment Charge	0.0	-7.8	-5.5	-1.2	0.0	0.0	0.0
Disposals/Exceptionals/JVs/ExInt	1.8	-6.8	-1.2	-3.6	0.0	0.0	0.0
Interest Charge(-) or Credit (+)	-1.9	-3.6	-3.4	-1.1	-0.4	0.1	0.3
Interest Cover X	8.3	n.a.	1.5	13.7	46.0	n.a.	n.a.
<b>Declared Pre-tax Profit</b>	<b>15.7</b>	<b>-20.9</b>	<b>-5.1</b>	<b>9.2</b>	<b>18.0</b>	<b>20.0</b>	<b>21.8</b>
<b>Adjusted Profit</b>	<b>13.9</b>	<b>-6.3</b>	<b>1.6</b>	<b>14.0</b>	<b>18.0</b>	<b>20.0</b>	<b>21.8</b>
Tax Charge on Declared Profit %	33.2%	0.0%	-99.4%	28.6%	23.6%	27.0%	27.0%
Tax Charge (- = credit) £m	5.2	0.2	-1.6	4.0	4.3	5.4	5.9
After Tax Profit	10.5	-21.1	-3.5	5.2	13.8	14.6	15.9
Discontinued Operations	-3.1	0.0	0.0	3.0	0.0	0.0	0.0
Minority Interests	0.4	-0.2	0.0	0.0	0.0	0.0	0.0
For Ordinary Shareholders	7.8	-21.3	-3.5	8.2	13.8	14.6	15.9
Declared EPS p.	2.1	-5.9	-1.0	2.3	3.8	4.0	4.4
Cost of Dividend	8.8	0.0	0.0	4.5	7.2	8.0	8.7
Retained Earnings	-1.1	-21.3	-4.3	3.7	6.5	6.6	7.2
<b>Adjusted EPS #</b>	<b>2.1</b>	<b>-5.1</b>	<b>0.2</b>	<b>2.7</b>	<b>3.8</b>	<b>4.0</b>	<b>4.4</b>
Divi p.	2.40	0.00	0.00	1.25	2.00	2.20	2.40
Avg No Shares m.	367.9	359.3	359.3	361.9	361.9	362.0	362.0

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Management	Major Shareholders
<p><b>Chairman:</b> John Lewis</p> <p><b>Deputy Chairman and CEO:</b> Serge Crasnianski</p> <p><b>Group Finance Director:</b> Françoise Coutaz-Replan</p>	<p><b>Serge Crasnianski:</b> 22.1%</p> <p><b>Western Management Overseas Ltd:</b> 18.3%. Beneficial ownership: Philippe Wahl.</p> <p><b>Dan David Foundation:</b> 12.6%</p> <p><b>Schroder Investment Management:</b> 11.8%</p> <p><b>Norges Bank:</b> 4.1%</p> <p><b>Legal &amp; General Group PLC:</b> 3.0%</p>
Key Dates	Key Milestones
<p><b>Interim Management Statement:</b> March 2012</p> <p><b>Full Year Results:</b> June-July 2012</p>	<p><b>2008:</b> Re-lifing of fixed assets. Announcement of new strategy. End of rift between activist shareholders and the company.</p> <p><b>2009:</b> Sale of Imaging Solutions (wholesale lab manufacturing).</p> <p><b>2010:</b> Net debt eliminated and Sales and Servicing Division returns to profit.</p> <p><b>2010:</b> Launch of Pocketbook.</p>

## Photo-Me International

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