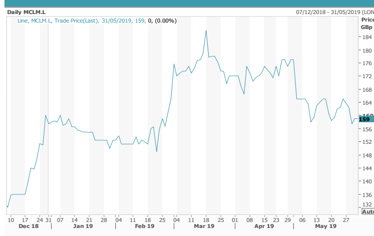
HARDMAN&CO.

3 June 2019

Financials



Source: Refinitiv

Market data

EPIC/TKR	**MCL**
Price (p)	159.0
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.5
Mkt Cap (£m)	205.9
EV (£m)	212.1
Free Float*	60%
Market	AIM

As defined by AIM Rule 26

Description

Morses Club (MCL) is number two in UK home credit. It is growing this business organically and by acquisition, and is developing a range of related products, where it has a competitive advantage.

Company information

CEO	Paul Smith
CFO	Andy Thomson
Non-ex. Ch.	Stephen Karle

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Key shareholders

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Miton Asset Mgt.	9.03%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Artemis Inv. Mgt.	4.98%
Legal and General	3.22%

Diary

25 Jun	AGM Trading statement

Analyst

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MORSES CLUB PLC

Steady, reliable core, growth in new business lines

We took two key messages from the FY'19 results announced on 2 May. First, the core business is now in a reliable, steady state with modest organic volume growth. It should, however, generate profit growth from acquisition opportunities and technology-driven efficiency improvements. As always, the agents remain core to the group but incremental returns can be generated from managing them better. Conservatively managed growth is being driven from the new business lines. Management has indicated it expects FY'22 pre-tax profits of between £3m and £5m from its recent online lending acquisition (consideration was £8.5m). Our absolute valuation range is 181p to 243p.

- **FY'19 results:** Looking through the accounting noise, revenue was up 6%, credit issued by 2.4%, and the net loan book by 6%. Efficiency improved with adjusted pre-tax profits up 14.6%. Impairments remained well controlled (22.4% of revenue, like-for-like FY'18, 22.5%). Customer numbers increased by 3% to 235k.
- **Outlook:** The CTL deal could introduce some noise (both real and accounting). It will transform the profit and loss account, being a lower-cost but higher-impairments business than home collect. Although FY'19 was a beat against our forecasts, we have at this stage left our FY'20 forecast EPS largely unchanged.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our initiation note, *Bringing home collect into the 21st century*, published 2 February 2017, and do so again in the section below. The range in absolute valuation methodologies is now 181p to 243p (previously 169p to 223p).
- **Risks:** Credit risk is high (albeit inflated by accounting rules) but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to receive full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market, and it has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. MCL conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. The valuation appears an anomaly, and we forecast a 5.7% February 2020 dividend yield, with cover of 1.6x (adj. earnings).

Financial summary and valuation

Year-end Feb (£m)	2015	2016	2017	2018 *	2019*	2020E*	2021E*
Reported revenue	89.9	90.6	99.6	110.4	117.0	142.1	153.9
Total impairments	-22.9	-18.8	-24.3	-24.7	-26.2	-36.6	-44.6
Total costs	-51.4	-53.4	-56.7	-65.6	-67.1	-80.5	-82.5
EBITDA	16.5	19.3	19.9	20.1	23.7	25.0	26.8
Adjusted PBT	13.0	16.8	17.7	18.6	22.0	22.9	24.7
Statutory PBT	58.5	10.4	11.2	15.5	20.2	20.6	22.3
Statutory EPS (p)	46.5	6.1	6.6	9.7	12.5	13.0	14.1
Adj. EPS (p)	8.1	10.2	10.8	11.4	13.6	14.2	15.2
P/adj. earnings (x)	19.6	15.5	14.7	14.0	11.7	11.2	10.4
P/BV (x)	2.1	3.7	3.4	3.1	2.9	2.7	2.5
P/tangible book	2.4	4.6	4.0	3.5	3.4	3.1	2.8
Dividend yield	N/M	N/M	4.0%	4.4%	4.9%	5.7%	6.3%

*Source: Hardman & Co Research * IFRS9 basis (2018 pro forma)*

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FY'19 results (to end-Feb)

Key messages

FY'19 delivery of quality growth

FY'19 was a further continuation of the messages from FY'18 and 1H'19, with management delivering on its promises to grow the business sustainably for the long term, in a controlled and conservative manner. In particular, we note the following.

Core business profits up on stable customer and falling agent numbers

- The core business has delivered good profit growth from increasingly serving high-quality customers more efficiently. Profits are up 15% with a £6.6m growth in IFRS9 revenue only partially offset by agent commissions (up £0.3m), impairments (up £1.5m) and costs (up £1.2m). The IFRS9 cost income ratio fell from 59.4% to 57.4%.

Focus on new product lines and potential acquisitions in home collect

- MCL, having rightly prioritised resources to deliver the unique opportunity in its core business in 2017/early 2018, has now focused again on other growth initiatives. We note the two acquisitions in home collect and the potentially transformational online lending deal CTL (see our note published 15 March 2019, *Home collect and online lending acquisitions*). The management objectives for the latter are: i) to deliver breakeven on a monthly basis by the end of FY'20; ii) to generate profits into FY'21, such that there is a positive return after the cost of funding off the back of ca.200k short-term loans p.a. (50k customers on acquisition February 2019); and iii) to deliver a profit before interest and tax from FY'22 and beyond of between £3m and £5m. We note this compared with FY'19 pre-interest profits of £23.7m.

- The Provident Financial (PFG) fallout has enhanced the agent, manager and customer franchise, generating revenue and profit streams that should recur over many years. Operationally, the new agents and managers have now been fully integrated and incremental benefits from here are expected to be immaterial.

Financial highlights

With the distortions from the transition to IFRS9 accounting, we believe investors should focus on the pro forma IFRS9 numbers.

Net loans +8%, revenue +12%; quality of customers much improved

- Revenue increased by 0.3% to £117.0m, slightly below our forecast. On a like-for-like, pro forma basis, revenue was up 6.0%. Total credit issued increased by 2.4% to £178.5m. Net loan book growth over 12 months was 0.3% to £73.0m (on a like-for-like, pro forma basis, net loan book growth was 6.0%). Top-tier customers accounted for 82.3% of loan balances, (FY'18: 83.5%). Over the year, there was a 3% rise in customer numbers to 235k while agent numbers grew 1% (see below).

Impairments as % of revenue broadly stable and within target range, despite growth

- Impairment as a percentage of revenue for the period was 22.4% (FY'18 pro forma: 22.5%), within a revised target range of 21%-26% (previously 22%-27%, change primarily IFRS9-related).

Agent commission risen slightly; expect temporary commissions to fall

- Total agent commissions were £28.3m (FY'18: £28m) as temporary commissions fell from £4.4m to £1.7m. The growth in agent numbers was 1% less than customer number growth with technology-driven efficiency improvements.

Efficiency improvement despite higher compliance and marketing

- Administration costs rose by just 3%. Management reports that a number of small increases across areas such as IT, compliance and marketing have partially offset greater efficiencies in operational delivery. There continues to be an improvement in the cost income ratio.

Adjusted profits up 14%

► Adjusted profit before tax increased by £3.4m, 18% to £22m (an acceleration on the 14% reported at the half-year). Reported profit before tax grew by £4.7m as the charge for the amortisation of intangibles fell by more than we expected, from £2.1m to £1.0m. Adjusted EPS increased 16% to 13.6p.

Dividend up 18%

► The dividend was 5.2p (total for year 7.8p) with the final dividend up 8% on the prior year reflecting management confidence as well as the strong earnings growth. We forecast a FY'20 5.7% yield, 1.6x covered by adjusted earnings.

Company KPIs and targets

We detail below the key KPIs outlined by the company, and a couple of additional measures. The trends are virtually all positive.

Company KPIs and targets

KPI	2015	2016	2017	2018	2018 *	2019 *
Adjusted profit before tax (£m)	13.0	16.8	17.7	19.2	18.6	22.0
Adjusted EPS (p)	8.1	10.2	10.8	11.7	11.3	13.6
Admin. cost income ratio	36.5%	36.8%	33.1%	32.2%	59.4%	57.4%
Return on equity	21.5%	27.9%	27.2%	26.5%	N/A	29.6%
Tangible equity/avg. recs.	N/M	85.3%	93.5%	92.6%	N/A	85.9%
Number of customers ('000s)	198	199	216	229	235	235
Number of agents	1,893	1,839	1,826	2,030	2,050	2,50
Credit issued (£m)	112.0	122.2	144.1	174.4	174.4	178.5
Impairment/revenue	25.5%	20.8%	24.4%	26.1%	22.5%	22.4%
Period-end receivables (£m)	55.6	56.8	61.2	72.8	68.9	73.0

*Source: MCL, Hardman & Co Research *IFRS9 basis*

Impact on estimates

Little change to bottom line estimates but CTL introduces potential volatility

Against our forecast, there was a small miss on revenue, as the group focused on better-quality, lower-impairment customers. Costs were also lower resulting in the adjusted pre-tax being a small beat. We have carried these trends forward and made a small line-by-line adjustment to our expectations for CTL with higher impairments and lower costs (bottom line unchanged). CTL introduces potentially significant volatility to the estimates for both real reasons (e.g. the exact timing when it goes fully live in lending) as well as accounting (we understand that even if the cash consideration more than recovered, MCL will be required to recognise some intangibles). The end result is no material change to adjusted earnings.

Estimate changes

Year-end Feb	2019			2020E			2021
	Old estimate	Actual	% change	Old	New	% change	First estimate
Profit and loss (£m)							
Reported revenue	119.3	117.0	-2%	143.3	142.1	-1%	153.9
Total impairments	-27.0	-26.2	-3%	-36.0	-36.6	2%	-44.6
Total costs (inc. temp. comm.)	-68.8	-67.1	-2%	-81.7	-80.5	-1%	-82.5
EBITDA	25.2	23.7	-6%	27.5	25.0	-9%	26.8
Adjusted pre-tax	21.8	22.0	1%	23.2	22.9	-1%	24.7
Statutory pre-tax	18.7	20.2	8%	20.3	20.6	2%	22.3
Statutory EPS (p)	11.7	12.5	7%	12.8	13.0	2%	14.1
Adjusted EPS (p)	13.5	13.6	1%	14.3	14.2	-1%	15.2
Dividend (p)	8.0	7.8	-2%	9.0	9.0	0%	
Balance sheet (£m)							
Amounts receivable	74.0	73.0	-1%	86.8	87.4	1%	96.1
Borrowings	14.0	14.1	1%	20.0	18.5	-8%	18.5
Equity	68.8	71.0	3%	74.1	77.3	4%	82.6

Source: Hardman & Co Research

Strategy and outlook

Core business – stable volumes, profit growth

Market leader opportunity now fully embedded with only modest organic volume growth from here

The material franchise opportunity that MCL generated from the market leader's re-positioning is now embedded in the group with the organic growth outlook now in line with the market (broadly flat). Credit issued in FY'19 was 24% ahead of FY'17 with two-year CAGR in the loan book at 12% p.a. While there may be some modest further gains from the fall out from the current bid situation, we believe it prudent to see organic franchise growth as being marginal from here. As was demonstrated in FY'19, there remain opportunities for much faster profit growth. These include:

Improving efficiency

- Unlike PFG, MCL has been clear that the agent remains the core of the business model. This does not mean, though, that the agent practices have to remain static. Technology means that the administration side of the business can be significantly automated while still having a close personal relationship between agent and customer. Some of the benefits include:
  - Automated reporting reducing error rates and need for manager time to be spent on correcting errors.
  - Collections through the portal via customer action rather than the agent visiting the customer's home. MCL advised that 20% of the traffic on its portal was customers making repayments. For example, an agent can service more customers if they visit fortnightly rather than weekly. To still be treated as home collect for regulatory purposes, the customer must have the option of collections being made at home. Such automated payments may see administration benefits, especially as customers are drawing down their loans in non-cash ways (see section on cards below). MCL is clear that the agents will still visit but just less frequently.

Acquisition pipeline encouraging

- Acquisitions: two deals completed in FY'19, adding ca.2% to the customer base. While many of the 400 providers of home collect are too small for it to be worthwhile for MCL to acquire, there are a material number with loans books of £1m+ The demographic of potential sellers is increasingly aged and the regulatory environment increasingly burdensome. MCL believes it is the natural home for such businesses offering a continued relationship on the same terms as agents, a robust balance sheet ensuring customers can get finance, a culture appropriate to this market and a business model undisturbed by strategic change. As the potential opportunity for sellers from the PFG fallout is now clear, we believe further deals are likely. We note MCL has done 20 and now has a slick opportunity identification programme as well as integration teams, which can see agents fully embedded in MCL's procedures and systems within two weeks of acquisition. Pricing remains stable, with MCL starting its pricing on each deal on the expected cash collected value of the book rather than having a fixed ratio.

New product areas

Online lending

As we detailed in our note, Home collect and online lending acquisitions, published 15 March 2019, Morses Club's online lending operations were transformed by the acquisition of CURO Transatlantic (CTL) for a consideration of ca.£8.5m. MCL acquired:

£8.5m consideration is discount to book being acquired

MCL very selective on which customers it has bought

- Gross receivables (before any collection provisions) of ca.£19m (but we estimate ca.£9.5m net). As the consideration is £8.5m, the price paid was at a discount to the loan book alone and, given the average duration of loans, we understand the cash consideration was well recovered by the time of the results presentation. Morses Club has been highly selective in picking customers. It has not, for example, taken any who have been identified by CTL's many reviews as having any mis-selling risk, and all but a handful have been cases where lending has been written under the current regulatory guidelines. MCL took on less than 10% of CTL's customers.

Also getting infrastructure, including much enhanced credit decision engine

- All the existing infrastructure of CTL, including its decision platform. Management advises that the decision engine is a significant enhancement to one in MCL's subsidiary, Dot Dot Loans (CTL has much more data and a longer history). The output from this engine has been reviewed by MCL staff and external due diligence advisers, and we understand produces better results than Dot Dot Loans' current system.

And a modern call centre

- A fully modernised call centre and online lending capabilities. All of CTL's current employees (ca.200) have become employees of Shelby Finance Ltd, part of the MCL Group, including customer services, analytics, marketing and IT teams. Those staff currently working on redress (ca.10% total) will be freed to work on more revenue-generating activity.

Not included in the purchase: i) more than 90% of customers who may be considered higher risk; ii) any mis-selling liability for historical business activity; iii) the potentially toxic brand (Wage Day Advance) nor Juo Loans, (set up in 2017 to offer guarantor loans but very few written).

Migration of systems has limited new business written to ca.10% of level it is expected to be once systems live (due end-May)

With these results, management updated the market on the initial integration. Approximately 10% of applications are straight through processed and these have continued from the date of acquisition. MCL has been migrating the systems from the US owner, a process which is expected to complete at end-May. Once this process is completed, it will be able to address the other 90% of applications, which are not straight through processed. During this period the loan book has been shrinking with new loans being less than redemptions and the book being short duration. Re-building this book is expected to be rapid but the impact on profit in FY'20 is likely to be negative. The key question will be whether the renewed platform can deliver the growth in loans (MCL targets 200k loans p.a. by end-February 2021 vs. 50k customers on acquisition in February 2019) and in profits. We believe the key considerations for this are as follows.

- Historically, CTL did deliver very strong growth in this area so there is a track record (see our note, Home collect and online lending acquisitions).
- The acquired analytics have been based off huge datasets of customers and especially identifying where affordability was an issue. While MCL has not acquired the customers, it has acquired the analytical tools.
- Intermediaries are always looking for new suppliers of credit and in particular are looking for those with strong balance sheets and who may be reasonably

expected to stay the course through economically difficult conditions. MCL's balance sheet is thus a competitive advantage and is attracting new business in this space, especially when combined with the intermediary service proposition of CTL. Its history and culture as a non-standard UK lender also stand it in good stead with brokers.

- The potential market is huge, with many of the 8.5m non-standard customers who do not use home collect being a potential target. MCL noted the top-8 lenders in high-cost, short-term credit had revenues of £453m in 2016 (5x MCL's own revenue for that year). Against this market-wide goal, MCL's share would be just 3%. We believe the real target audience is smaller but it is highly credible for a well-funded, technologically advanced business with strong analytics to take its target share.

- We believe that if economic conditions weaken, a number of peripheral players will withdraw creating acquisition opportunities. In such economic and market conditions, the potential demand could rise significantly allowing additional re-pricing.

- We also see regulatory pressure on some of the peripheral products.

- The redress for historical mis-selling is likely to put pressure on some other lenders in the same way as it did for CTL. An ongoing business which is profitable can be dragged down by the cost of historical business. MCL noted several players with complaints to the FSCS at 9x its own level (at an incremental cost in FSCS fees in excess of £1m p.a. per company), who also faced "lost" cases requiring compensation at rates 3x-5x MCL's level (14% of cases upheld against it) with the associated compensation claims and of course the sheer administration associated with such redress (10% of CTL's staff).

Delivering MCL's targets will be challenging and we should have much greater clarity with the interim results, which will then have a number of months of business trading. The conservative nature of the company is such that we do not believe it would put into the market expectations for 200k new loans p.a. and FY'21 profits of £3m-£5m (pre interest) without having a high degree of confidence that it would achieve them.

Morses Club Card

Steady growth and loan balances now £13m

MC Card remains the only cashless lending product available in the mainstream HCC sector and has seen strong levels of demand continue. It now has 30k customers, more than £15m of loan balances and an 84% customer satisfaction rating. Customer numbers and loan balances are both up ca.10% on the interim level while the customer rating is stable. MCL has seen three key benefits from the card: i) distribution of a loan via a card is easier than cash; ii) it means customer who could not otherwise access (cheap) deals online can now do so; and iii) it provides invaluable data on customer behaviour, which can then be monetised through the proposed portal.

We do not see MCC as transformational for MCL. It is part of the overall efficiency improvement programme and helpful, but not necessary, to the portal development. It is thus a nice incremental option

Customer portal

Looking at range of products to sell to customer base and likely to involve partners who have the product but not the customer base

The portal launched on 19 March and already has 12,500 registered users (over 5% of the customer base). MCL advises that the initial usage has seen: i) very high activity levels – ca.44% log on daily, albeit it is still new; ii) 20% use it to make repayments – offering further efficiency improvements down the line without compromising agent relationships; and iii) 73% indicate they are seeking financing facilities. Interestingly, the marketing to date has primarily been by agents for whom the portal means they potentially could service many more customers. The time freed up should also see a more efficient management structure over time. Continued efficiencies in transacting business with customers should in the long term also lead to decreases in the costs relative to income. It is important to recognise that this is not changing the model. The agent relationship is still core to the business and we believe an essential competitive advantage over remote lenders. However, the operational efficiency in delivering the product is being improved.

The customer portal currently provides customers with: i) information regarding their account balance, payment history and Morses Club Card account; ii) enables customers to see their eligibility for further credit anytime; and iii) offers content and rewards from third parties. In FY'19/20, the e-money product will be launched, and the plan is to fully integrate this into the customer portal. It will thus offer customer ease of administration, credit products, banking products and access to discounts they would not otherwise be able to see. MCL plans to monetise the business primarily through the credit products and building much deeper relationships with its customers. It noted an FCA survey that showed, for typical HCC customers, just 27% of their debt was in HCC products, 32% was in credit card, overdraft, online lending and high-cost, short-term credit with the balance in car loans, product-related debt, catalogues, etc. It expects to earn some income from third parties for hosting their products, but these may be regarded as covering costs rather than profits.

Financials

Profit and Loss

Year-end Feb (£m)	2015	2016	2017	2018 *	2019 *	2020E *	2021E *
Existing operations	22.5	84.7	96.2	110.4	116.8	119.1	149.6
Acquisitions during period	67.4	5.8	3.3		0.2	23.0	1.0
Total revenue	**89.9**	**90.6**	**99.6**	**110.4**	**117.0**	**142.1**	**153.9**
Impairment charge	-22.9	-18.8	-24.3	-24.7	-26.2	-36.6	-44.6
Ongoing agent commission	-17.7	-18.5	-21.2	-23.6	-26.6	-27.3	-27.6
Temporary agent commissions		-0.7	-1.2	-4.4	-1.7	-0.8	-0.7
Gross profit	**49.3**	**52.6**	**52.9**	**57.7**	**62.5**	**77.4**	**81.0**
Administration expenses pre-excep. and intang. amortis.	-32.8	-33.3	-33.0	-37.6	-38.8	-52.4	-54.2
Depreciation (incl. goodwill impairment, amortis. of IT)	-0.9	-0.9	-1.3				
Operating profit pre-excep. and amortisation	15.6	18.4	18.6	20.1	23.7	25.0	26.8
Adjusted financing costs	-2.6	-1.6	-0.9	-1.5	-1.7	-2.1	-2.1
Adjusted profit before tax	**13.0**	**16.8**	**17.7**	**18.6**	**22.0**	**22.9**	**24.7**
Income tax	-2.7	-3.5	-3.7	-3.9	-4.4	-4.6	-4.9
Adjusted post-tax profit	**10.3**	**13.3**	**14.0**	**14.7**	**17.6**	**18.4**	**19.8**

*Source: MCL, Hardman & Co Research * IFRS 9 basis (2018 pro forma basis)*

Balance sheet

@ end-Feb (£000)	2015	2016	2017	2018	2019 *	2020E *	2021E *
Goodwill	294	1,326	2,834	2,834	3,501	4,000	4,000
Intangible assets	10,391	9,052	7,058	5,520	6,221	6,436	4,508
Property, plant and equipment	936	1,182	763	822	378	713	713
Amounts receivable from customers	1,507	679	395	265	206	100	100
Deferred tax	0	0	0	0	958	958	958
Total non-current assets	**13,128**	**12,239**	**11,050**	**9,441**	**11,264**	**12,207**	**10,279**
Current assets							
Receivables	**53,976**	**56,152**	**60,833**	**72,563**	**72,840**	**87,254**	**95,979**
Trade/other receivables	26,216	1,554	2,019	2,039	2,369	1,554	1,554
Cash and cash equivalents	8,650	3,755	3,985	4,868	7,893	5,106	4,609
Total current assets	88,842	61,461	66,837	79,470	83,102	93,914	102,142
Total assets	**101,970**	**73,700**	**77,887**	**88,911**	**94,366**	**106,121**	**112,421**
Current liabilities							
Trade and other payables	-3,274	-7,452	-5,892	-6,695	-9,312	-10,312	-11,312
Total current liabilities	**-3,274**	**-7,452**	**-5,892**	**-6,695**	**-9,312**	**-10,312**	**-11,312**
Net current (liabilities)/assets	85,568	54,009	60,945	72,775	73,790	83,602	90,830
Non-current liabilities							
Financial liabilities – borrowings	0	-9,000	-10,000	-15,552	-14,075	-18,500	-18,500
Deferred tax	-2,614	-1,879	-617	-144	0	0	0
Total non-current liabilities	-2,614	-10,879	-10,617	-15,696	-14,075	-18,500	-18,500
Total liabilities	**-5,888**	**-18,331**	**-16,509**	**-22,391**	**-23,387**	**-28,812**	**-29,812**
Net assets	**96,082**	**55,369**	**61,378**	**66,520**	**70,979**	**77,309**	**82,608**

*Source: MCL, Hardman & Co Research * IFRS9 basis*

Cashflow

Cashflow statement							
Year-end Feb (£000)	**2015**	**2016**	**2017**	**2018**	**2019 ***	**2020E ***	**2021 E ***
Profit (loss) before tax	58,565	10,374	11,219	16,133	20,217	20,566	22,280
Depreciation	596	736	544	563	475	265	499
Impairment of goodwill	56	42	0	0	0	0	0
Amortisation of intangibles	8,574	5,683	4,412	2,950	2,209	2,374	2,374
Share-based payment expenses	0	0	126	431	1,107	1,107	1,107
Gain on acquisitions	-51,961	-32	0	0	0	0	0
Loss on disposal of plant, property and equipment	40	146	134	0	0	0	0
(Increase)/decrease in debtors	-14,803	27,532	-1,918	-11,604	-3,901	-2,215	-4,984
Dividend in Specie to Perpignon	0	-31,129	0	0	0	0	0
Increase/decrease in creditors	4,768	2,548	-1,640	1,846	2,170	1,500	1,500
Interest paid	1	647	927	1,456	1,745	2,100	2,100
Taxation paid	-800	-1,737	-4,078	-4,536	-3,555	-4,250	-5,250
Net cash inflow/(outflow) from op. activities	**5,036**	**14,810**	**9,726**	**7,239**	**20,467**	**21,447**	**19,626**
Cashflow from investing activities							
Purchase of intangibles	-416	-2,523	-1,029	-1,412	-2,411	-2,278	-1,445
Purchase of property, plant and equipment	-343	-1,152	-125	-622	-31	-600	-600
Disposal of assets	0	501	0	0	0	0	0
Purchase of subsidiaries	0	-7,383	-5,695	0	-2,187	-12,000	-3,000
Cash acquired on acquisitions	5,120	0	0	0	0	0	0
Net cash outflow from investing activities	**4,361**	**-10,558**	**-6,849**	**-2,034**	**-4,629**	**-14,878**	**-5,045**
Cashflow from financing activities							
Net borrowing	0	9,000	1,000	6,000	-1,052	4,425	0
Interest paid	-1	-647	-927	-1,904	-2,170	-2,100	-2,100
Dividends	-2,000	-17,500	-2,720	-8,418	-9,591	-11,681	-12,979
Net cash inflow from financing activities	**-2,001**	**-9,147**	**-2,647**	**-4,322**	**-12,813**	**-9,356**	**-15,079**
Net increase in cash and cash equivalents	7,396	-4,895	230	883	3,025	-2,787	-498
Opening cash and cash equivalents	1,253	8,650	3,755	3,985	4,868	7,893	5,106
Closing cash and cash equivalents	8,650	3,755	3,985	4,868	7,893	5,106	4,609

*Source: MCL, Hardman & Co Research * IFRS 9 basis*

Valuation

Average valuation upside on absolute measures 33%

We detailed all the assumptions used in our valuation methodologies in our note, *Bringing home collect into the 21st century*, published on 2 February 2017. Post these changes, our absolute valuation techniques now imply an average of 212p.

Summary of different valuation techniques

	Implied price (p)	Upside
Gordon Growth Model (GGM)	243.4	53%
Dividend Disc. Model (DDM)	181.0	14%
Average absolute measures	**212.2**	**33%**

Source: Hardman & Co Research

GGM

We have advanced our base year to February 2020, which sees an uplift of ca.20p per share in the valuation as the forecast equity level is that much higher.

GGM and sensitivities

	Base	+1% ROE	+1% COE	+0.5% G
Return on equity	25%	26%	25%	25%
Cost of equity	11%	11%	12%	11%
Growth	5.5%	5.5%	5.5%	6.0%
Price/book value (x)	3.5	3.7	3.0	3.8
Premium for near-term outperformance	20%	20%	20%	20%
Adjusted price/book value (x)	4.3	4.5	3.6	4.6
Book value 2020E (£m)	74.1	74.1	74.1	74.1
Valuation (£m)	315.3	331.4	266.8	337.9
Valuation per share (p)	**243.4**	**255.9**	**206.0**	**260.9**
Variance (per share)		12.5	-37.5	17.5

Source: Hardman & Co Research

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