



Rathbone Neilson Cobbold Ltd, Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Telephone: 0151236 6666 Facsimile: 0151243 7018

## INTERNATIONAL GREETINGS

Date:	28-January-1999			Share Price:		623p
Year End:	Pre-Tax	Earnings	Dividend	PER	Net	Dividend
April	Profit (£m)*	per Share*	per Share		Yield	Cover
1997	5.13	25.95p	6.67p	24.0x	1.3%	3.9x
1998	6.62	33.68p	8.60p	18.5x	1.7%	3.9x
1999F	7.60	38.59p	10.00p	16.1x	2.0%	3.9x
2000F	8.56	43.18p	11.00p	14.4x	2.2%	3.9x
Shares:	13,511,000			Market Cap (£m):		84.11

F = Rathbone Neilson Cobbold Forecast

\* = Before exceptional items

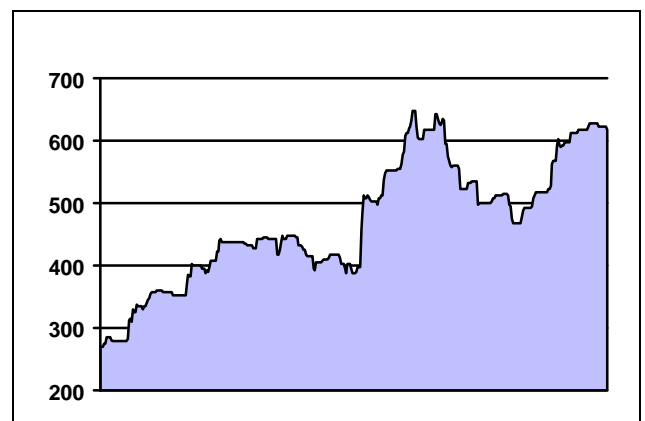
Interim figures to September 1998 were strong, with growth of 17% in turnover and 21% in operating profit – both excluding the initial impact of acquisitions. Earnings per share growth is 19% to 10.59p, and the interim dividend has been raised by 15% to 3.0p. The share price has appreciated by 5% over the past six months, but the prospective multiple of 16.1x is not demanding given the expectations of continued growth in the core business and the potential in new areas given by the recent acquisitions.

### KEY POINTS

- Interim figures continue the growth trend for International Greetings. Operating profit of £2.84m was generated on turnover of £27.2m.
- Acquisitions contributed operating profit of £68,000 despite the need for reorganisation at Copywrite.
- Copywrite's overseas distribution network gives the Group potential for the export of other products.
- International Greetings is starting to see the benefit of its recent investment programme and will continue to build on its reputation and strong client relationships.

### SHARE PRICE PERFORMANCE 1ST JULY 1997 – 28<sup>TH</sup> JANUARY 1999

(source: Rathbone Neilson Cobbold)



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## PROFILE

International Greetings is a leading designer and supplier of greetings products for the retail trade. Its core products are giftwrap, bows, ribbons, gift tags, crackers, greeting cards. Last year, about 76% of sales were made in the UK market, where the Group had an estimated 40% market share; exports - primarily to Continental Europe, Australia, New Zealand and South Africa - accounted for a further 9%; the final 15% was contributed by the US subsidiary, which is supplied with product in bulk from the UK.

The key focus is on private label products for the major multiple retailers. Operations are design led, with the Company's design and sales teams working closely with customers' buyers to create an exclusive range. International Greetings primarily manufactures to order, it is not involved in production of stock for speculative sales.

The Group's sales, marketing and design functions are centralised at its head office in St. Albans. Manufacturing is undertaken by six autonomous subsidiaries in South Wales and St. Albans, giving improved cost and investment control as well as enabling production facilities to be designed to suit the individual products.

International Greetings acquired The Cracker Company in May 1998, the market leader in confectionery and games Christmas crackers. The UK business of Copywrite, a children's character stationery business, was acquired in July 1998. It is one of the main suppliers of children's character stationery products in Europe, with long-term licence agreements with Disney, Mattel and Hasbro - the principal product licensors of the acquired business.

## PRELIMINARY RESULTS

International Greetings has reported a strong set of interim results for the six months to September 1998. The continuing business reported growth of 17% in turnover, to £24.82m, and an advance of 21% in operating profit, to £2.77m, as margins were raised from 10.8% to 11.2%. The first-time contribution from the two acquisitions was £68,000 on turnover of £2.40m. The low margin in the acquisitions reflects the remedial work being undertaken on Copywrite following its purchase from the Receiver.

Year End March	1998	1999	1996	1997	1998	1999	2000
(£ '000)	1st Half	1st Half				Forecast	Forecast
<b>Profit &amp; Loss</b>							
Revenues	21,116	27,219	44,167	48,431	53,496	70,000	82,000
Operating Costs	(18,834)	(24,383)	(39,904)	(42,611)	(45,860)	(60,850)	(71,720)
<b>Operating Profit</b>	<b>2,282</b>	<b>2,836</b>	<b>4,263</b>	<b>5,820</b>	<b>7,636</b>	<b>9,150</b>	<b>10,280</b>
Net Interest	(491)	(768)	(1,008)	(686)	1,054	(1,550)	1,720
<b>Pre-Tax Profit</b>	<b>1,791</b>	<b>2,068</b>	<b>3,255</b>	<b>5,134</b>	<b>6,622</b>	<b>7,600</b>	<b>8,560</b>
Taxation	(582)	(658)	(1,036)	(1,706)	(2,149)	(2,415)	(2,725)
Minority Interest	(36)		(31)	(17)	(27)		
<b>Attributable Profit</b>	<b>1,173</b>	<b>1,410</b>	<b>2,188</b>	<b>3,411</b>	<b>4,446</b>	<b>5,185</b>	<b>5,835</b>
<b>Cash Flow</b>							
<b>Net Cash Flow</b>			<b>3,145</b>	<b>4,061</b>	<b>5,745</b>		
Shares & Borrowings			(2,363)	(1,626)	1,065		
Asset Sales			395	1,765	73		
Capital Expenditure			(1,581)	(4,090)	(4,093)		
Working Capital			445	(147)	(4,162)		
<b>Move in Liquid Funds</b>			<b>41</b>	<b>(37)</b>	<b>(1,372)</b>		
<b>Balance Sheet</b>							
Net Capital Employed			13,793	15,071	21,184		
Net Cash / (Debt)			(3,431)	(3,807)	(6,637)		
Provisions & Def'd Income			(1,284)	(1,100)	(1,103)		
Preference & Minorities			(3,042)	(59)			
<b>Net Equity Assets</b>			<b>6,036</b>	<b>10,105</b>	<b>13,444</b>		

The net interest charge has risen by 56% to £0.77m, but interest cover is still 3.7 times. This leaves pre-tax profit ahead by 16% at £2.07m. On a slightly reduced tax charge, earnings per share are up by 19%, to 10.59p. The interim dividend is increased by 15%, to 3.0p per share.

## PROSPECTS

We are maintaining our forecast for the ongoing business in the current year following these results. Turnover is forecast to rise by 12%, to £60.0m and – with a small improvement in margins – operating profit is expected to be up by 15% to £8.75m. The net interest charge is forecast at £1.20m, in the light of the level of capital expenditure. This still leaves our forecast for pre-tax profit at £7.55m, some 14% ahead of 1998.

Of the two acquisitions made since the year-end, we expect The Cracker Company to be marginally earnings enhancing this year, given that it has been profitable prior to the transaction and should contribute around £1.5m to turnover. Copywrite is expected to do little more than cover the interest cost of its acquisition consideration this year – given the disruption caused by the receivership and the need to integrate it into the enlarged Group. As a result, we have therefore forecast turnover of just £10m from both acquisitions, generating pre-tax profit of £0.10m.

Group turnover is therefore expected to be £70.0m, and pre-tax profit £7.60m. On a 31.8% tax charge, slightly ahead of last year, this gives earnings per share of 38.59p, representing growth of almost 15%. Based on this, we are forecasting a 16% increase in the dividend, to 10.0p per share.

The second half will have the benefit of both the warehouse extension in the US, fully operational from 1st May, and the new distribution facility in Wales, opened on 1st June, as well as a full contribution from investments made last year. The additional space allows for continued growth of seasonal sales, as well as avoiding capacity constraints in the peak summer season and facilitating the handing of late repeat orders.

Looking ahead to the year ended March 2000, we are forecasting a 17% increase in turnover, to £82.0m, and growth of 12% in operating profit, to £10.28m – of which the acquisitions are forecast to contribute £0.65m. After a further increase in the net interest charge, pre-tax profit is forecast to grow by 13%, to £8.56m, giving earnings per share of 43.18p and a dividend of 11.0p, for an increase of 10%. These figures anticipate both growth in the core business, with positive early indications for the 1999 Christmas season, and an improved performance from Copywrite as it is integrated into the Group and customer relationships are rebuilt under the new management.

In the medium term, Copywrite presents the Group with a significant opportunity. We believe that, based on its recent history – with well-known licensed characters, an established market share and good gross margins – it is capable of generating annual turnover in the order of £25m and, following the achievement of operating efficiencies, generating margins in line with the rest of the Group. This implies an operating profit potential of around £3.75m, or 1.8 times the purchase consideration. In addition, its overseas distribution network offers the potential for developing export markets for other group products.

Within the giftwrap division, ribbon operations have been established as a separate manufacturing division, which is developing new luxury products for the UK and US markets, following the increase in sales and market share last year. Giftwrap design and sales will also benefit from the specialist finishes that can be achieved with the new print plant.

Automation in the cracker division will both improve product quality and reduce manufacturing costs. A hygienic packing area has been established for production of confectionery crackers, especially with volume increases expected to result from the Cracker Company acquisition. The division is also expected to broaden its product range.



The Group remains well placed to expand its existing business, with increased print capacity in the UK, greater capacity in the US and an improving product range. It has recently launched trials of a range of calendars and everyday cards, which have performed well. International Greetings continues to look to increase exports, although – short term – the strength of Sterling will make this more difficult. Nevertheless, the move into Europe by several of its existing customers offers a long-term opportunity. In the longer term too, we look for a significant contribution from Copywrite.

## **CONCLUSION**

We believe that the market for the Group's products is continuing to grow, and that additional opportunities exist to raise market share at the expense of competitors who do not offer the same design partnership or match its manufacturing processes or delivery terms. In addition, we look for International Greetings to grow its US business, based on the range of product available and the signing of exclusive promotion agreements with leading independent sales organisations, and to increase export penetration – helped by the Copywrite distribution network.

The two acquisitions, with their mix of new product areas and extensions of existing ranges, offer significant potential for growth in areas that the management knows well and which offer the benefits of operational synergies.

**A member of the Rathbone Group.**

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