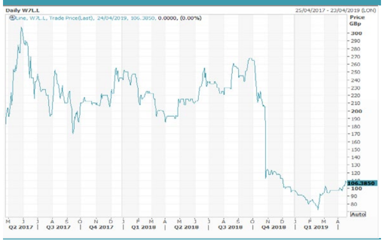
24 April 2019

Personal Goods



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price	107.5
12m high	267.5
12 low	72.0
Shares	76.7
Mkt cap	82.5
EV	81.2
Free float	36.1%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 67 countries.

Company information

Joint CEO	Sam Bazini
Joint CEO	Eoin Macleod
CFO	Neil Rodol
Chairman	Clive Garston

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www.warpaintlondonplc.com

Key shareholders

Directors	51.1%
Schroders	12.0%
BI Asset Management	5.3%
Blackrock	4.8%
Canaccord	3.1%

Diary

21 May	AGM
Sep'19	Interims

Analyst

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WARPAINT LONDON PLC

FY'18 sales: remains profitable despite weak UK market

Warpaint, the UK-based colour cosmetics specialist, announced its full-year results for 2018. Revenue increased by 49.2% to £48.5m (FY'17: £32.5m); however, on a like-for-like basis, revenue was down 3.2% if we assume a full-year contribution from Retra in 2017. A weak UK retail market affected sales. Internationally, though, revenue increased by 8% on a like-for-like basis; growth was particularly strong in the US and Europe. Gross margin was down by 3.3% to 35.5% for FY'18 (FY'17: 38.8%) due to product mix sold across the group during the year. Cash generation remains healthy with free cashflow of ca.£3.9m in FY'18. Warpaint announced a full-year dividend of 4.4p, up 10% on FY'17.

- **Strategy:** In the near term, Warpaint will continue to focus on developing the own brands, W7 and Technic, and on optimising operations in both Retra and LMS. The group believes that further synergies are still possible. It will also concentrate on increasing its product offerings and raising brand awareness across the globe.
- **LMS integration:** Since the acquisition of LMS in August 2018, Warpaint has opened a new showroom in Manhattan, which will showcase a full-range of W7 and most Technic products. The group has also opened a fulfilment centre in the US to shorten lead time to customers in the Americas. The group has seen an encouraging start in Q1 with sales made by LMS up by 36%.
- **Valuation:** Warpaint continues to be profitable and cash generative despite a challenging trading environment in the UK. The 2019E P/E is expected to be 10.6x, falling to 8.9x in 2020E on an adjusted basis. The group has never made a loss and has a healthy profit margin. The group also has a progressive dividend policy.
- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the brick-and-mortar stores in the UK, given the UK is the company's biggest market at present with over 48.2% of sales from the UK in FY'18.
- **Investment summary:** The Warpaint story is quite a simple one. The group's flagship brand, W7, was created to fulfil the ever-increasing demand for creative, design-focused and high-quality cosmetics at affordable prices. The company deploys a similar strategy to its other own-brand products, with quick product development time and on-trend products meaning Warpaint is well positioned for growth in a fast-growing colour cosmetics sector. Warpaint has a very attractive RoE.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	22.5	32.5	48.5	52.7	57.3	62.6
EBITDA (adj.)	6.3	8.0	8.9	9.8	11.5	13.1
Operating profit (adj.)	6.2	7.3	5.3	7.2	8.9	10.6
PBT (adj.)*	6.1	7.7	8.2	9.0	10.9	12.7
Adj. basic EPS (p)*	7.9	9.6	9.1	10.1	12.1	13.9
DPS (p)	1.5	4.0	4.4	5.0	5.8	6.7
P/E (adj.) (x)	13.7	11.2	11.8	10.6	8.9	7.7
EV/EBITDA (x)	12.9	10.2	9.1	8.3	7.1	6.2
Dividend yield (%)	1.4%	3.7%	4.1%	4.7%	5.4%	6.2%
RoE (%)	-	20.0%	8.8%	13.0%	15.5%	17.2%

**adjusted for amortisation relating to acquisitions, exceptional costs and acquisition related impairment*
Source: Hardman & Co Research

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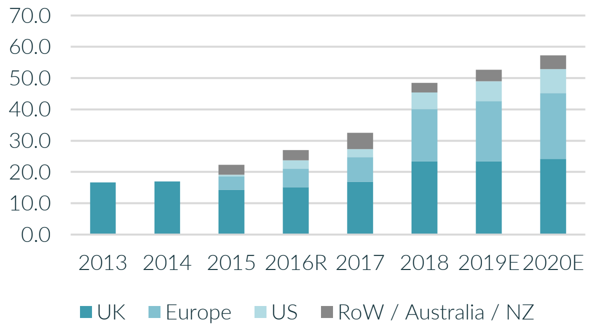
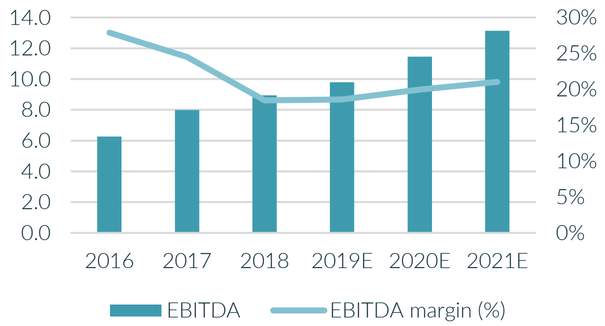
Sales (£m)



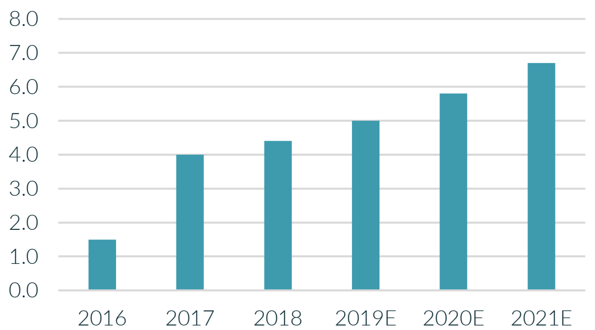
- Revenue increased by 49.2% to £48.5m (FY'17: £32.5m)
- On a like-for-like basis, revenue was down 3.2%
- International revenue increased by 59.2%, or 8% on a like-for-like basis

Adj. EBITDA (£m) & EBITDA margin (%)



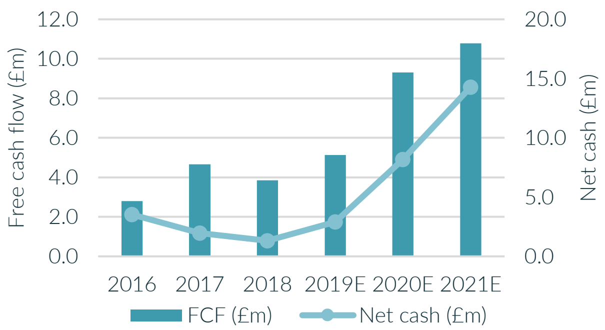
- Adjusted EBITDA was £8.9m for FY'18, an increase of 12% compared with 2017 (£8.0m)
- Admin expenses are kept under tight control and on a relatively fixed level; we expect EBITDA margin to increase going forward

Dividend (p)



- A final dividend of 2.9p, gives a total dividend for FY'18 of 4.4p
- An increase of 10%, with an adj. dividend cover of 2x
- Warpaint has a progressive dividend policy

Free cashflow and net cash (£m)



- Free cashflow at the end of 2018 was £3.9m
- The group ended 2018 with net cash of £1.3m
- Warpaint continues to be net cash positive

Source: Company data; Hardman & Co Research

2018 full-year results

Warpaint is a UK-based, colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company announced its FY'18 results, which included the first full-year contribution from Retra (acquired in November 2017).

Revenue

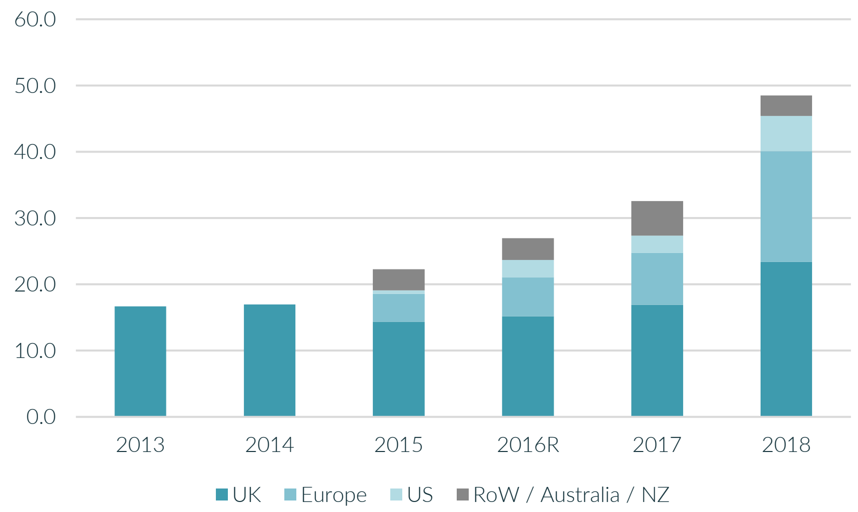
Revenue for FY'18 was £48.5m, a 49.2% increase from FY'17, due to the full-year sales contribution from Retra (acquired in November 2017). However, on a like-for-like basis, i.e. if including sales of £17.6m from Retra between January and November 2017 prior the acquisition, group revenue was down 3.2%. The shortfall was mainly down to the difficult trading conditions in high streets across the UK, as well as lower-than-expected uptake during the Christmas gifting season, which saw an 8.7% decline in sales in the UK on a like-for-like basis. Retra sales in Europe was down 12.9% on a like-for-like basis, mostly due to the lower white labelling business in the region. Internationally, the group saw revenue grew 8% to £25.1m on a like-for-like basis despite the shortfall in Retra's sales in Europe.

Sales of W7, the group's flagship brand, were down 9.3% to £23.2m in FY'18, from £25.5m in FY'17. The decrease in sales, again, was mainly due to a weak UK market and a large one-off order from Australia at the end of 2017, which wasn't repeated in 2018. Internationally, sales of W7 increased significantly, by 66.5% and 14.8% in the US and Europe, respectively.

Sales from the close-out division grew by 34.3% to £7.6m in FY'18, from £5.7m in FY'17.

Sales of W7 increased by 66.5% and 14.8% in the US and Europe respectively

Group revenue (£m)



Note: We have not broken down sales by region for 2013 and 2014
Source: Warpaint, Hardman & Co Research

Gross margin

Gross margin for the group was 35.5% in FY'18, down 3.3% from 38.8% in FY'17. The reduction in gross margin was due to the product mix sold across the group during the year. Margin for W7, excluding sales from LMS, was down 0.9% to 39.6%, due to currency translations.

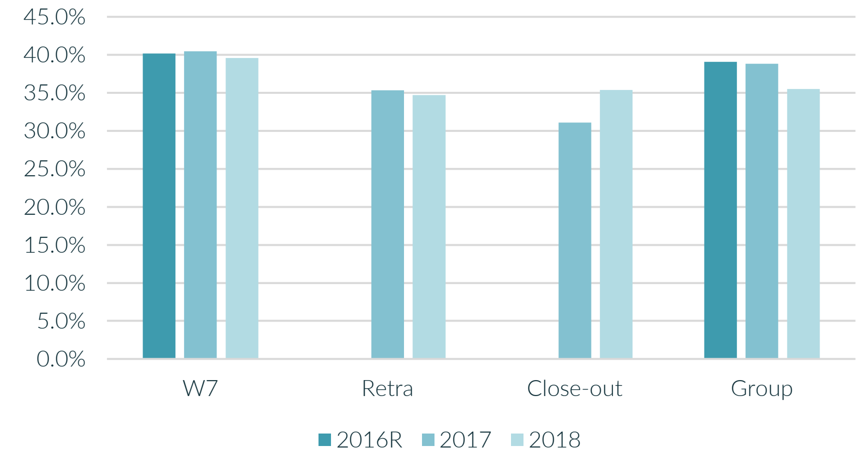
Retra's margin decreased 0.6% on a like-for-like basis to 34.7%, partly because of the lower margin gifting business and partly because of the weaker-than-expected Christmas orders.

Gross margin from the close-out division improved 4.3% to 35.4% for the year, due to several large parcels that provided attractive returns. However, despite the improved margin, it is still lower than that of the group's own brands, and this bigger revenue contribution from close-out for the year, as a result, reduced the group's overall gross margin.

Gross margin for Marvin Leeds Marketing Services Inc (LMS), which was acquired in August 2018, was only at 3.2%. This is because the majority of the sales made by LMS since the acquisition was from stock held by the company prior to the acquisition. As a result, this was sold at little to no margin for Warpaint as a group. However, since the beginning of 2019, margins have already recovered to similar levels to the rest of the group.

Group gross margin down by 3.3% due to product mix across the group

Gross margins



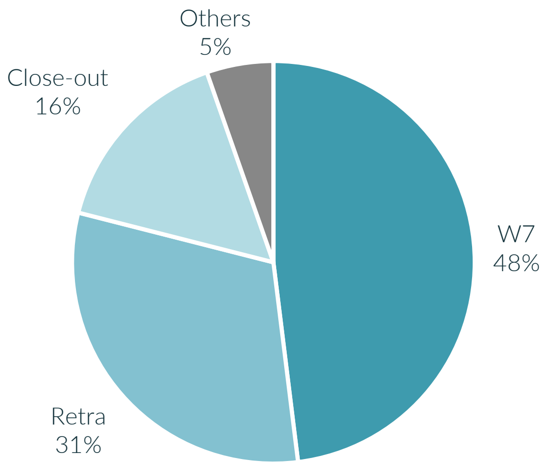
Source: Warpaint, Hardman & Co Research

Profit & Loss account

Year-end Dec (£m)	2016	2017	2018
Own brands	*21.9*	*26.9*	*40.9*
Close-out	*0.6*	*5.7*	*7.6*
Sales	**22.5**	**32.5**	**48.5**
Cost of sales	-13.7	-19.9	-31.3
Gross profit	**8.8**	**12.6**	**17.2**
Gross margin (%)	*39.1%*	*38.8%*	*35.5%*
Underlying EBITDA	**6.3**	**8.0**	**8.9**
Underlying EBIT (before exceptionals)	**6.2**	**7.3**	**5.3**
Exceptional items	-1.7	-0.4	-0.3
Finance costs	0.0	0.0	-0.1
Adjusted PBT	**6.1**	**7.7**	**8.2**
Pre-tax profit	**4.4**	**6.9**	**4.7**
Tax	-1.3	-1.4	-1.2
Net Income	**3.1**	**5.5**	**3.6**
Underlying basic EPS (p)	**7.9**	**9.6**	**9.1**
Dividend (p)	1.5	4.0	4.4

Source: Warpaint, Hardman & Co Research

Sales by division



Source: Warpaint, Hardman & Co Research

Operating expenses

Operating expenses increased by 115% to £12.3m in FY'18 compared with £5.7m in FY'17. This increase came mainly from the full-year addition of Retra operating expenses (£3.8m) and some from LMS (£0.2m). Amortisation and depreciation charges have increased significantly due to acquisitions. An impairment charge of £0.8m on the Retra acquisition was added to FY'18.

Other admin expenses (£000)

	2016	2017	2018
Depreciation	-58	-184	-529
Amortisation	-57	-469	-2,272
Impairment losses	-	-	-812
Exceptional items	-1,739	-386	-335
	-1,854	**-1,039**	**-3,948**

Source: Hardman & Co Research

Exceptional items for FY'18 included £0.16m of acquisition costs for LMS, £0.1m professional fees related to acquisition of Retra, and £0.08m of staff restructuring costs at Retra.

EBITDA margin

Warpaint reported a full-year adjusted EBITDA of £8.9m, a 12.2% increase compared with FY'17. Adjusted PBT was £8.2m for FY'18 (£7.7m), or £4.7m as reported (including amortisation, impairment losses and exceptional costs). The group's adjusted EBITDA margin compares favourably against its peer group, which averaged between 7.1% and 22.3% in 2018.

EBITDA margin

	2016	2017	2018
Warpaint	27.9%	24.5%	18.5%
Creightons	5.2%	7.0%	7.1%
Swallowfield	5.5%	6.9%	9.3%
L'Oreal	22.4%	22.5%	22.3%
Estee Lauder	19.1%	20.2%	20.6%

Source: Hardman & Co Research, Reuters Eikon

Balance sheet

Inventory reported at the end of 2018 was some £15.4m (£11.5m). The increase was due to the increase in product range the group has on offer as well as the acquisition of LMS, which was carrying an additional £1.3m worth of stock locally. We expect this to increase further in 2019 once the local fulfilment centre is fully established.

Borrowings/net cash position

When Warpaint acquired Retra back in 2017, the group took on a total of £8.7m, of which £7.6m was invoice and trade finance facilities. The majority of this, £7.3m, was paid off in FY'17, leaving £1.9m of invoice finance facilities and £0.8m of HP contract outstanding at the end of 2018, of which, the £1.9m has already been repaid in full in February 2019.

The group ended the year with £4.0m cash in the bank, and a net cash position of £1.3m. Free cashflow remained strong at £3.9m at the end of 2018 (FY'17: £4.2m).

Cashflow

Year-end Dec (£m)	2016	2017	2018
PBT	**4.4**	**6.9**	**4.7**
Depreciation	0.1	0.2	0.5
Amortisation	0.1	0.5	2.3
Impairment of goodwill	0.0	0.0	0.8
(Profit)/loss on disposal	0.0	0.0	0.0
Share based payment	0.0	0.0	0.1
Change in working capital	-0.1	-0.3	-2.7
Foreign exchange translation differences	0.0	0.0	0.0
Tax paid	-1.5	-2.1	-1.6
Net cashflow from operating activities	**3.0**	**5.2**	**4.3**
Purchase of intangible assets	-0.1	-0.1	0.0
Purchase of PP&E	-0.2	-0.6	-0.4
Acquisition of business	0.0	-16.2	-1.6
Bank balances acquired	0.1	0.2	0.3
Proceeds from sale of PP&E	0.0	0.0	0.0
Net cashflow from investing activities	**-0.1**	**-16.5**	**-1.8**
Proceeds from new share issuance	2.5	21.2	0.0
Share issue costs	-0.1	-0.9	0.0
Repayment in borrowings	-0.7	-7.3	-0.3
Dividend	-2.8	-1.9	-3.1
Net cashflow from financing activities	**-1.1**	**11.2**	**-1.8**
Net increase/(decrease) in cash	1.7	-0.1	0.7
Cash B/F	1.8	3.5	3.4
Cash C/F	**3.5**	**3.4**	**4.0**

Source: Hardman & Co Research

Operation

Own brands

W7

Strong growth in US and Europe

W7, the group's flagship brand, recorded sales of £23.2m in FY'18, down 9.3% from FY'17 (£25.5). The UK, which is suffering from a weak retail environment, continues to be W7's biggest market. However, internationally, the brand continues to gain traction, particularly in the US and Europe where sales grew by 66.5% and 14.8%, respectively.

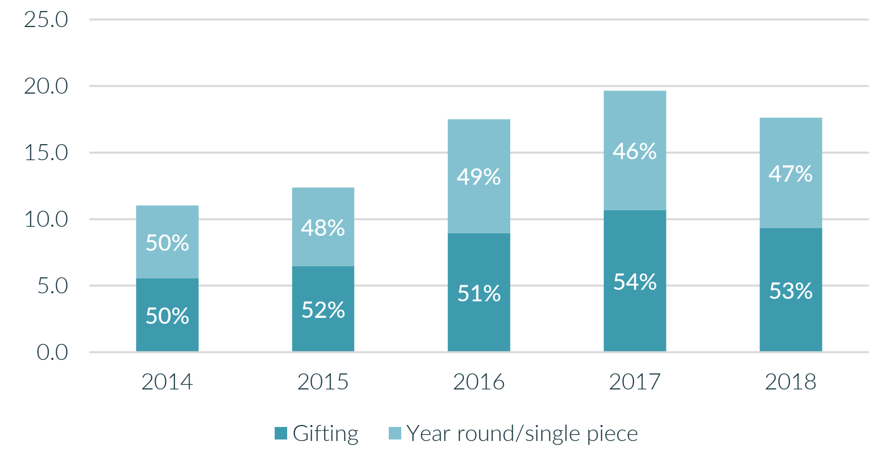
Retra

Retra, acquired in November 2017 for a total consideration of £18.2m, is a colour cosmetics business based in Yorkshire with a particular focus on the gifting market, as well as production and accessories in bathing ranges, tanning and men's grooming. Sales from Retra, which traditionally has been more dominant in the gifting market, reached £17.6m for FY'18, down 6.5% on a like-for-like basis from 2017.

Retra has also been strong in the gifting sector, with gifting represents over 53% of total Retra sales in FY'18. Since the integration, the Warpaint management team has also decided to diversify the Technic brand into a more 'all-year-round' product. The management team has successfully introduced the Technic brand to some of its existing W7 customers.

Gifting represents over 53% of total Retra sales in 2018

Retra strong in the gifting sector



Source: Hardman & Co Research

UK market

The UK's retail markets are going through some difficult times with multiple retail chain stores going into administration, from household names such as House of Fraser and Debenhams down to the discount retailers such as Poundworld. High streets across the country continue to see a decline in retail traffic into the brick-and-mortar stores, primarily as a result of the impact of shifts in consumer preferences to where and how they shop as well as uncertainty factors for businesses around the issue of Brexit.

Warpaint confirmed in its FY'18 results that some of its smaller clients have been struggling, particularly in the period leading up to Christmas when some of the expected orders did not materialise.

On the other hand, some bigger discount retailers continue to report their plans for new store openings. TJX Companies has opened 51 stores in its international operation, 37 of which were in Europe. It plans to open a further 46 stores internationally in 2019. B&M European Value Retail, another discount retailer, opened 39 B&M Stores across the UK in 2017/18, and is on track to open a further 45 in 2018/19. Both TJX and B&M are Warpaint's customers.

International operations

Retra

In our initiation report, 'Painting a bright future', we expected some synergies to be created with the acquisition of Retra. Some of these have been achieved, particularly in cost saving. Retra has an office in Hong Kong for sourcing and quality checking. With the integration of the two businesses, this office now does quality control for the whole group and has also helped widen the supply chain for further cost savings. With the presence of a local office, Warpaint was able to set up a trading company in China, which in turn, has enabled the group to springboard its brands into mainland China, the fastest growing cosmetics market in the world. Like the fulfilment centre in the US, in China, Warpaint can ship directly from manufacturers to its customers, which will shorten the delivery time as well as cost savings.

Marvin Leeds Marketing Services, Inc.

On 2 August 2018, Warpaint completed the acquisition of its US distributor, Marvin Leeds Marketing Services, Inc. (LMS), for a total consideration of $2.08m (ca.£1.6m). The management team has successfully integrated the US operation into the wider group. LMS now carries the full range of W7's product as well as most of the Technic brand range.

New Manhattan showroom and local fulfilment centre

In September 2018, Warpaint opened a new showroom in Manhattan, which is located in a building where other health and beauty businesses are. Management expects this will help to build a stronger presence and promote further cross-selling of Warpaint's brands as well as building stronger relationships with prospective clients. The group has seen a significant increase in visits to the new showroom. The group has also made a strategic decision to open a fulfilment centre in the US in order to shorten lead time to its customers in the Americas.

36% growth in sales YoY in 1Q'19

The group has seen an encouraging start in 1Q'19 with LMS sales up by 36%, especially for the W7 brand, which was up 38% YoY.

LMS currently distributes to some major US discount retailers, such as TJX Group and Bealls Outlet Stores. Since the acquisition, it has also opened accounts with Century 21, Forever 21 and Macys Backstage, etc.

E-tailing

So far, Warpaint has not put too much emphasis on its e-commerce platforms. They have been used more as a marketing tool for the company's various own brands. However, we understand that other personal care producers are seeing significant growth potential on digital commercial platforms. While from a relatively small base, e-commerce platforms, nonetheless, are becoming a key focus area for these operators as well as for some discount retailers. For example, L'Oreal, in its 2018 annual report, reported 40.6% like-for-like growth in its e-commerce sales. L'Oreal's Chairman and CEO, Jean-Paul Agon, said: "…digital is doing much more than generating additional business. It is radically transforming our company. Digital is boosting our brand power. … Digital has been, and will continue to be, a powerful accelerator for growth." Estée Lauder also reported strong growth in online sales, both on its direct retail platform and on selected third-party platforms. We believe that Warpaint can benefit from a stronger e-commerce platform, as well as other online retail platforms. Warpaint's management team is also considering developing a separate brand offering for online only.

Milestone	
1992	• Business was founded by Mr Sam Bazini and Mr Eoin Macleod • Started out by buying and selling close-out and excess stock of cosmetics and fragrances
2002	• Creation of first own-brand products, W7
2008	• Started focusing on development of W7
2016	• Warpaint admitted to AIM, raising £23m, with a market capitalisation of £62.6m
2017	• Raised a further £21.2m for the acquistion of Retra • Acquisition of Retra for a total consideration of £18.2m (£16.2m in cash and £2.0m in shares)
2018	• Warpaint Cosmetics (2014) Ltd was awarded the Queen's Award for International Trade • Acquisition of Marvin Leeds Marketing Services for a total consideration of $2.08m
2019	• Opened new showroom in Manhattan, NY, with local fulfilment centre

Source: Warpaint, Hardman & Co Research

Financials

Profit & Loss

- **Revenue:** Operating in the UK remains challenging for the group, particularly in the high street with the reduction in footfall to brick-and-mortar stores. We expect zero growth from the UK, but with international operations gaining traction and the increase of brand awareness, we expect a moderate growth of 16.7% in the group's overseas revenue in FY'19.
- **Gross margin:** LMS is expected to trade close to the group's normal margin in FY'19 following the sell through of previous stocks. We expect gross margin for the group to increase slightly to 36.2% for FY'19.
- **EBITDA:** Warpaint's admin expenses are kept at a relatively fixed level. We expect adjusted EBITDA to increase by ca.10% to £9.8m for FY'19.
- **Dividend:** The group maintains a progressive dividend policy; we expect a 5p dividend for FY'19, giving a 2x dividend cover on an adjusted EPS basis.

Profit & Loss account

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Own brands	*21.9*	*26.9*	*40.9*	*46.7*	*51.3*	*56.6*
Close-out	*0.6*	*5.7*	*7.6*	*6.0*	*6.0*	*6.0*
Sales	**22.5**	**32.5**	**48.5**	**52.7**	**57.3**	**62.6**
Growth rate (%)		*45%*	*49%*	*9%*	*9%*	*9%*
Cost of sales	-13.7	-19.9	-31.3	-33.6	-36.3	-39.6
Gross profit	**8.8**	**12.6**	**17.2**	**19.1**	**21.0**	**23.0**
Gross margin (%)	*39.1%*	*38.8%*	*35.5%*	*36.2%*	*36.7%*	*36.8%*
Admin expenses	-2.5	-4.7	-8.4	-9.4	-9.7	-10.0
Adj. EBITDA	**6.3**	**8.0**	**8.9**	**9.8**	**11.5**	**13.1**
Adj. EBITDA margin (%)	*28%*	*25%*	*18%*	*19%*	*20%*	*21%*
Depreciation and amortisation	-0.1	-0.7	-2.8	-2.6	-2.5	-2.5
Impairment losses	0.0	0.0	-0.8	0.0	0.0	0.0
Adj. EBIT (before exceptionals)	**6.2**	**7.3**	**5.3**	**7.2**	**8.9**	**10.6**
Adj. EBIT margin (%)	*27%*	*23%*	*11%*	*14%*	*16%*	*17%*
Exceptional items	-1.7	-0.4	-0.3	0.0	0.0	0.0
EBIT (as reported)	**4.4**	**6.9**	**4.9**	**7.1**	**8.8**	**10.5**
Finance costs	0.0	0.0	-0.1	-0.3	-0.1	-0.1
Adjusted PBT	**6.1**	**7.7**	**8.2**	**9.0**	**10.9**	**12.7**
Adj. PBT margin (%)	*27%*	*22%*	*11%*	*13%*	*15%*	*17%*
Pre-tax profit	**4.4**	**6.9**	**4.7**	**6.8**	**8.7**	**10.5**
Tax	-1.3	-1.4	-1.2	-1.3	-1.7	-2.0
Adj. net income	**4.9**	**6.3**	**7.0**	**7.7**	**9.3**	**10.7**
Adj. net income margin (%)	*22%*	*19%*	*14%*	*15%*	*16%*	*17%*
Net Income	**3.1**	**5.5**	**3.6**	**5.5**	**7.1**	**8.5**
Net income margin %	*14%*	*17%*	*7%*	*10%*	*12%*	*14%*
Adj. basic EPS (p)	**7.9**	**9.6**	**9.1**	**10.1**	**12.1**	**13.9**
Growth rate (%)		*22%*	*-5%*	*11%*	*20%*	*15%*
Basic EPS (p)	5.1	8.3	4.7	7.2	9.2	11.0
Growth rate (%)		*65%*	*-44%*	*55%*	*27%*	*20%*
Dividend (p)	**1.5**	**4.0**	**4.4**	**5.0**	**5.8**	**6.7**

Source: Hardman & Co Research

Balance sheet

- **Working capital:** We expect a moderate increase in inventory level across the group, given the new showroom in Manhattan now holds the full range of W7's products and most of Retra products, along with the local fulfilment centre in the US.
- **Net cash:** The group continues to maintain its net cash position.

Balance sheet

As at 31 Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Non-current assets						
Goodwill	0.5	8.0	7.1	7.1	7.1	7.1
Intangibles	1.4	10.7	9.5	7.3	5.1	2.8
Property, plant and equipment	0.2	1.5	1.4	1.2	1.1	1.0
	2.2	**20.1**	**17.9**	**15.5**	**13.2**	**10.9**
Current assets						
Inventories	7.7	11.5	15.4	18.1	18.5	18.7
Trade and other receivables	5.4	13.2	12.8	13.0	13.2	13.5
Derivative financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Cash and Cash equivalents	3.5	3.4	4.0	3.7	8.7	14.5
	16.6	**28.1**	**32.2**	**34.9**	**40.4**	**46.8**
Total assets	**18.7**	**48.3**	**50.1**	**50.4**	**53.6**	**57.7**
Current liabilities						
Trade payables	-2.8	-3.5	-3.5	-3.6	-3.9	-4.2
Loans and borrowings	0.0	-0.6	-2.2	-0.3	-0.1	0.0
Corporate tax liabilities	-1.3	-0.9	-0.9	-0.9	-1.2	-1.4
Derivative financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
	-4.2	**-5.1**	**-6.5**	**-4.8**	**-5.2**	**-5.7**
Non-current liabilities						
Bank loans	0.0	-0.8	-0.6	-0.6	-0.4	-0.2
Deferred tax liabilities	-0.3	-2.0	-1.8	-1.4	-1.0	-0.6
	-0.3	**-2.8**	**-2.3**	**-2.0**	**-1.4**	**-0.9**
Total liabilities	**-4.4**	**-7.8**	**-8.9**	**-6.8**	**-6.6**	**-6.5**
Equity	**14.3**	**40.4**	**41.2**	**43.6**	**47.1**	**51.2**

Source: Hardman & Co Research

Cashflow

- **Borrowings:** £1.9m of borrowings has been paid off in February 2019. The group is expected to reduce the remaining borrowing down over the next 2-3 years.
- **Free cashflow:** Cash generation continues to be healthy with net cash from operations expected to be some £5.3m, with a free cashflow of some £5.1m in FY'19.

Cashflow

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
PBT	**4.4**	**6.9**	**4.7**	**6.8**	**8.7**	**10.5**
Depreciation	0.1	0.2	0.5	0.3	0.3	0.3
Amortisation	0.1	0.5	2.3	2.2	2.2	2.2
Impairment of goodwill	0.0	0.0	0.8	0.0	0.0	0.0
(Profit)/loss on disposal	0.0	0.0	0.0	0.0	0.0	0.0
Share based payment	0.0	0.0	0.1	0.1	0.1	0.1
Change in working capital	-0.1	-0.3	-2.7	-2.9	-0.3	-0.2
Foreign exchange translation differences	0.0	0.0	0.0	0.0	0.0	0.0
Tax paid	-1.5	-2.1	-1.6	-1.3	-1.5	-1.8
Net cashflow from operating activities	**3.0**	**5.2**	**4.3**	**5.3**	**9.5**	**11.0**
Purchase of intangible assets	-0.1	-0.1	0.0	0.0	0.0	0.0
Purchase of PP&E	-0.2	-0.6	-0.4	-0.2	-0.2	-0.2
Acquisition of business	0.0	-16.2	-1.6	0.0	0.0	0.0
Bank balances acquired	0.1	0.2	0.3	0.0	0.0	0.0
Proceeds from sale of PP&E	0.0	0.0	0.0	0.0	0.0	0.0
Net cashflow from investing activities	**-0.1**	**-16.5**	**-1.8**	**-0.2**	**-0.2**	**-0.2**
Proceeds from new share issuance	2.5	21.2	0.0	0.0	0.0	0.0
Share issue costs	-0.1	-0.9	0.0	0.0	0.0	0.0
Repayment in borrowings	-0.7	-7.3	-0.3	-0.3	-0.3	-0.3
Increase/(decrease) in stock and invoice finance facilities	0.0	0.0	1.6	-1.6	0.0	0.0
Dividend	-2.8	-1.9	-3.1	-3.5	-4.0	-4.7
Net cashflow from financing activities	**-1.1**	**11.2**	**-1.8**	**-5.4**	**-4.3**	**-5.0**
Net increase/(decrease) in cash	1.7	-0.1	0.7	-0.3	5.0	5.8
Cash B/F	1.8	3.5	3.4	4.0	3.7	8.7
Cash C/F	**3.5**	**3.4**	**4.0**	**3.7**	**8.7**	**14.5**

Source: Hardman & Co Research

Notes

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