7 July 2022

Finance and Credit Services

Source: Refinitiv

Market data

EPIC/TKR	**APP**
Price (p)	28.8
12m high (p)	32.5
12m low (p)	21.1
Shares (m)	186.3
Mkt cap (£m)	53.6
EV (£m)	53.6
Free float*	99.91%
Country/CCY of listing	UK/GBP
Market	AIM

*As defined by AIM Rule 26

Description

APP facilitates pre-payment, gifts and engagement with staff and customers through many of the country's most popular voucher, card and e-code products. These can be spent online, or at 28,000 retail sites. The model is increasingly digital.

Company information

CEO	Ian O'Doherty
CFO (to end-Jul)	Tim Clancy
Chair	Guy Parsons
NEDs	John Gittins, Sally Cabrini

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Key shareholders

Artemis	12%
Schroders	9%
Premier Miton	9%
Unicorn	8%
SFM UK Management LLP	7%
Ramsey Partnership	4%

Diary

20 Sep	AGM

Analyst

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APPRECIATE GROUP

FY'22 results: going for growth

The FY'22 results beat market expectations and saw strong digital growth, as well as a return to more normal redemption patterns. Unsurprisingly, the shares have reacted since. We reviewed Appreciate's (APP) business model in our initiation, *Solid core + digital disruption = unique model*, published on 1 September 2021, when we emphasised the importance of transforming the group into a growth, digital model. For us, the key to these results was not the short-term numbers, but rather the strategic growth. In addition to 20% digital billings growth, and further efficiency gains, APP announced an acquisition, expected to accelerate plans by 18 months.

- **Digitalisation:** With these results, the benefits of a digital model showed in strong underlying billings growth, efficiency gains and the use of data to respond rapidly to marketing initiatives. APP expects falling administration costs (FY'23 £19m vs. £21m in FY'22), despite inflationary pressures. A new deal will accelerate delivery further.

- **Outlook:** We believe APP is well-positioned for FY'23 challenges. Rising profits are expected with fallings staff costs (despite cost-of-living-related one-off costs), falling administration costs, rising business contributions, and rising interest income. There are further potential one-off benefits, which we detail in this note.

- **Valuation:** We use a wide range of valuation approaches, including a Gordon Growth Model (GGM), a Discounted Dividend Model (DDM) and peer comparisons. As a growing business, moving forward the base year has a dramatic effect, as does the choice of comparator companies. The average valuation, within a wide range, is 71.6p.

- **Risks:** FY'21/FY'22 was a challenging period for the Christmas Savings business, as lockdown restrictions impacted agent activity. The digital model is positive, but it is still being developed, and the transition is not risk-free. Anything adversely affecting redemption/distribution relationships would be negative. There is a sensitivity to macroeconomics and near-term customer behaviour.

- **Investment summary:** Combining a profitable core, decades of experience, especially in managing key partnerships, and the latest technology, give APP a unique fintech strategy. It is at the early stages of the transition to a digital model but has already attracted new partners like PayPoint. Comparable models are growing explosively and are on higher valuations. The accounting rules are unhelpful to understanding the business. Any fundamental strategic change introduces risk, and there is some economic sensitivity.

Financial summary and valuation (underlying)

Year-end Mar (£000)	2020	2021*	2022	2023E	2024E	2025E
Billings	419,857	406,500	385,800	420,000	448,000	475,000
Revenue	112,724	106,805	123,265	104,700	107,300	110,750
Gross profit	32,822	24,750	31,433	31,410	34,336	35,440
Gross profit margin	29%	23%	26%	30%	32%	32%
Admin./dist. costs as % rev.	71%	77%	70%	70%	68%	68%
Pre-tax profit	7,700	2,319	8,387	10,624	13,783	15,074
Net cash	29,632	31,415	20,182	7,945	10,088	10,548
Shareholders' funds	16,710	18,347	14,507	18,055	23,087	29,249
EPS (p)	2.96	0.90	3.46	4.56	5.92	6.47
DPS (p)	0	1.00	1.80	2.00	2.75	3.00
P/E (x)	9.7	32.0	8.3	6.3	4.9	4.4
Dividend yield	0.0%	3.5%	6.3%	7.0%	9.6%	10.4%

Restated; Source: Hardman & Co Research

FY'22 results summary

Financial highlights

Strong profit growth…

- Profit before tax and exceptional items was £8.4m (restated FY'21: £2.3m), with a strong recovery in the profitability of both the corporate and digital businesses, although there are some timing issues in these numbers, The £8.4m also excludes exceptional costs of £2.7m (restated FY'21: £2.5m), largely in relation to certain intangibles-related writeoffs, including the impact of changes in IFRS guidance on the treatment of cloud-based technology costs. APP advises that the adjusted PBT was ahead of market expectations.

…driven by strong revenue and billings growth

- Group revenue was up 15.4% to £123.3m (FY'21: £106.8m), driven by a strong performance in the corporate business. Billings, excluding Christmas Savings, were £222.0m, up 5.5% (FY'21: £210.5m), following three consecutive quarters of double-digit growth from 2Q onwards. Digital billings (excluding billings from free school meals) were up 20.5% to £54.8m (FY'21: £45.5m). Total group billings were down to £385.8m (FY'21: £406.5m), owing to the reduction in billings from Christmas Savings, which were impacted by lockdown measures, restricting agent collections. Group billings were also down ca.2% because APP chose to walk away from a large client where the margin was uneconomic (see our note, *Interim results: solid progress, digital delivering*, for more details).

- Total funds held, including monies held in trust and bank deposits, at 31 March 2022, were £139.7m (FY'21: £163.5m). Year-end free cash and cash equivalents (excluding monies held in trust) amounted to £20.2m (FY'21: £31.4m), reflecting the normalisation of customer spending patterns during the year.

- Underlying earnings per share were 3.46p (restated FY'21 0.90p). The board has recommended a final dividend of 1.2p, making a full dividend for the year of 1.8p per share (FY'21: 1.0p).

Strategic progress

Corporate billings a feature

- Corporate billings were £212.1m, up 5.4% (FY'21: £201.3m), while revenue increased 42.8% to £76.7m (FY'21: £53.7m), and segmental operating profit was £7.8m (FY'21: £2.6m). Performance benefited from a deferred revenue release in the year, which was impacted by COVID-19 restrictions last year and from higher margins, as billings from the (lower-margin) free school meals scheme reduced.

- Consumer billings were £173.7m (FY'21: £205.3m); the reduction reflected lower billings from Christmas Savings, due to the impact of lockdown restrictions during the key agent collections period. Consumer revenue was £46.5m (FY'21: £53.1m), reflecting lower billings, and operating profit was £3.3m (FY'21: £0.5m).

- Significant progress was made on delivering the strategic business plan:

Digital growth

  - Strong growth in the corporate and digital businesses.

Christmas Savings stabilising

  - Reinvigorating Christmas Savings – projected billings for the Christmas Savings business for FY'23 are currently down ca.3%, a significant improvement on the 15% decline seen in FY'22.

Systems enhancements

  - ERP Progress successfully replaced the legacy systems that support the *HighStreetVouchers.com* website, providing APP with a more robust and scalable platform.

Efficiency improving

  - Enhancements in productivity and operational efficiencies, with the use of seasonal temporary staff, reduced by 11% during the peak trading period, and customer care calls were down by almost a third. The continued focus on costs is now expected to see administration costs reduce to ca.£19.0m for FY'23 (FY'22: £21.3m).

Products and partner enhancements

  - Broadening product appeal, with further enhancements to redemption brands, including Primark, Pandora and Sports Direct.
  - Good progress with ESG commitments, including an ISO 14001 Environmental Management certification and a new eco-friendly, non-plastic card.

Bounce back post COVID-19

- APP's results webcast and presentation noted that the bounce back from the pandemic was now largely complete, with customer redemption patterns normalised, customer, client and agent retention rates back to pre-pandemic levels and further progress in restoring the dividend.

Other platforms for growth

- In addition to the thematic points about digital growth, the stabilisation in Christmas Savings and the near-term outlook, which we discuss in detail in the sections below, the presentation emphasised the outlook for growth in the corporate business, with growth in higher-value clients (those ordering over £5k now exceeding those ordering less than £5k for the first time), and corporate retention rates back to 93% (the same as pre-pandemic levels). The latter was especially encouraging, given the number of new corporates who had turned to APP products, instead of providing Christmas parties during the pandemic.

Outlook

Encouraging start to year

The outlook statement noted:

- Trading in the first 12 weeks of the current financial year has been in line with the board's expectations.
- Billings (excluding Christmas Savings) are up 4.5% on FY'22 (up to 24 June 2022).
- The group continues to focus on reducing costs and leveraging the investments made in recent years to help grow profitability.

Key theme (1): digitalisation

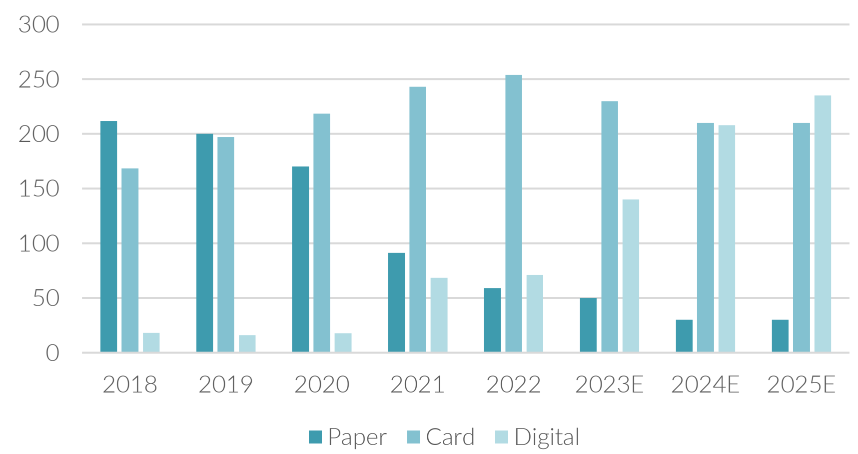
Digitalisation transforming business, but now delivery is key. Further proof of pudding came with these results.

We reviewed the digitalisation of APP's business model in detail in our note, *Digitising giving: delivering the future today,* published on 17 March 2022. APP has modernised every aspect of its procedures, cultures and products, and management is fundamentally changing the prospects for the group. For us, delivery is now key, and so we detail below the further "proof of the pudding" from these results of how APP is delivering the future today.

Digital billings up 20.5%, despite physical products available for whole period

- Digital billings increased by 20.5% to £55m (excluding the free school meals deal). This was achieved despite the prior year being a period when physical products could not be dispatched, leaving largely digital-only options available to customers. Looking forward, we expect that, within two years, digital billings will be the joint-biggest channel, and the largest channel within three years.

Total billings by format (£m)



Source: Appreciate, Hardman & Co Research

Upgrading interfaces with redemption partners and customers

- APP's partnership strategy is designed to tailor into merchants' digital offerings directly. This is not only to enhance the end-customer experience but, by upgrading its application programming interface (API) links, APP can also be a more attractive choice for redemption partners. In essence, more of the processing can be automated if the partner and APP's technology talk to each other. With these results, APP highlighted the transition of its Flexecode delivery to Digital Order API. Digital is also helping to improve the customer experience, as APP knows who the recipients are and can send them notifications to use the gift card, whereas, with physical cards and vouchers, APP does not know who the recipients are.

Falling costs expected, despite inflationary pressures

- With these results, APP confirmed its expectations that operating costs are expected to be ca.£19m next year, down from £21m this year (this year has been above prior expectations because of one-off pension advisory costs), reconfirming the guidance was especially encouraging, given the higher base. Operational improvements have led to the reduction in seasonal temporary staff to handle peak volumes and a sharp fall in customer care calls. Most of the ERP platform investment (implementation January 2022) has been made over the past three years – so capitalised expenses are expected to fall. APP will continue to invest in its platform and develop digital products, etc., but not at the same pace as has been required to transform the business since 2018.

HSV traffic down in 2H proves value in data analytics and, once again, that APP will take action

We further note that digitalisation allows for rapid action to be taken. At the half year, we highlighted that the overall visits to *Highstreetvouchers.com* (HSV) were up 31.8%, from 1.95m to 2.57m, with conversion rates stable at 4.4%. With the rapid data that digital information provides, we understand management could quickly assess that the return on investment was not as expected – so marketing was quickly scaled back for HSV, and visits were actually down 6% at the year-end. Going forward, marketing will be more focused towards B2B. Cleary, in an ideal world, every initiative would work but, in the real world, this is not the case. For this analyst, it is very important to have a process that quickly identifies what works and what doesn't, and to then have the discipline to take action when something doesn't work. Here, we have a clear example of APP demonstrating such a model in practice. This follows the action we reported in the first half when APP terminated a high-volume, but low-value billings relationship with a competitor, despite the impact on billings and revenue.

Digital billings will face drag as school meals deal winds down

The reported number for total digital billings will be impacted by the free school meals deal, which, over time, is expected to trend to zero. In FY'22, it still accounted for £16.2m out of the total £71m, and this was down from the FY'21 level of £23.0m, as use of the Government scheme, introduced to ensure vulnerable children did not go hungry during the pandemic when schools were closed, wound down.

MBL acquisition

Technology acquisition in corporate business

Alongside its results, APP announced the acquisition of MBL Holdco Ltd, a North East-based gift card technology provider to UK businesses and consumers. MBL specialises in offerings that are complementary to APP's fast-growing corporate business, including:

- An end-to-end gift card processing and management service for retailers.
- A digital gift card mall enabling B2C and B2B customers to purchase gift cards directly from a catalogue of over 160 high-street retailers.
- A SaaS offering, which is a fully white-labelled eCommerce platform, enabling businesses to launch their own fully functional gift card websites

Modest cost accelerating 18 months of spend

The acquisition was completed on 24 June 2022 for an initial cash consideration of £1.65m, with a further £1.8m deferred for 12 months dependent on certain criteria being met. We understand that the business has annual revenues of ca.£4m and EBITDA of ca.£0.5m. APP will incur some integration costs, and expects to invest at a slightly accelerated pace, and so expects the acquired business operationally to be self-funded and cost-neutral to the group (it will save the ca.£2m p.a. that was previously expected to be spent over each of the next two years in investment).

Brings enhanced capabilities, additional opportunities to cross-sell, cost synergies and new clients

The benefits of the acquisition are summarised below:

- MBL's market-leading scalable platform capabilities strengthen the group's technology infrastructure, accelerating its technology roadmap by approximately 18 months.
- Leveraging MBL's platform provides immediate commercial opportunities, while enabling the group to realise growth opportunities in its plans earlier.
- MBL's offerings support the group's aim to grow its SaaS solutions, outsourced gift card programmes and bespoke white-labelling of gift card websites for corporate clients – all key areas in its medium-term plans to drive further growth in its corporate business.
- Integrating MBL's platform with the group's existing infrastructure provides cross-sell benefits and cost synergies, as well as opportunities to improve front-end architecture and customer journeys – making interactions easier for customers, and our products and services more competitive.
- The MBL client base complements the group's existing corporate and retail client base, and will offer additional opportunities to extend and develop APP's services within these groups – and so allow some cross-sale opportunities.
- It will reduce APP's reliance on certain external parties.

Hardman & Co view: on numbers presented, financially neutral but strategically eminently sensible and value-added

In our view, the financial effect appears neutral – we have been told, broadly speaking, that £4m of costs have been replaced by a potential outlay of up to £3.5m. However, having the technology today that would be delivered in two years has a real value, as do a new and incremental customer base, and credibility in a rapidly moving market. Accordingly, this deal appears to be value-added.

Key theme (2): Christmas Savings stabilising, and then growth

Billings decline slowed from 15% to 3%

We believe that, in the past, a key consideration/concern for investors had been the outlook for the Christmas Savings business. In particular, there was a concern as to whether it was in structural decline. Although billings from Christmas Savings in FY'22 were still declining (-3%), the rate of decline was sharply slower than in the prior year (-15%), and management is now talking much more confidently about turning this business back into one of growth. In looking at why this is the case, we believe it is important to examine what management is doing, and the range of its actions across products, distribution and customers – all of which enhance the proposition. We note:

Looking forward, management looking to return to growth, with enhanced offering to agents, broader customer proposition, product range, distribution and service offering

- The 30k network of agents in 2022 had an 86% retention rate, a higher rate than seen pre-pandemic. This network supplements the 150k direct customers sourced through increasing digitally targeted marketing. The whole agent proposition has been re-vamped with new a "Super Agent" network. Agents have a five-times higher lifetime value than direct customers, and there is a new agent onboarding campaigns, product testing, social media, ambassadors and influencers.
- An 11% improvement in the conversion rate of new customers.
- A 10% uplift in the number of new paid accounts.
- An enhanced product range, including new products such as the Love2shop Purple Card (£18.5m billings), and additional retailers/brands being added.
- Improved customer journeys/payments, with direct debits up 32%. Customers who sign up to direct debits have higher retention rates than those who pay by other methods.
- New customer acquisition programmes, with extended recruitment campaigns pre-Christmas to recruit more customers in multi-channel areas, and targeted outside of traditional cohorts, due to cost-of-living challenges.
- Management is exploring whether the proposition has value outside the traditional Christmas setting and for different demographics, e.g. whether small retailers could be appropriate distributors.
- APP advises that the customer demographic has been changing. In the past, the nature of customers was very distinctive – as recently as FY'18, two thirds of billings were via agent relationships and focused geographically largely by those relationships. Increasingly, with direct sales now being half the billings, the demographic is broader and more diversified, and, arguably more sustainable.

Key theme (3): well-placed to face challenges in 2023

2023 is likely to be challenging year for many businesses and consumers, but APP appears to be well-placed to meet the challenges. We and consensus are forecasting a material increase in underlying profitability. The reasons for this include:

Lower staff and administration costs

£1m staff cost savings, primarily from efficiency savings

As detailed above, APP will see the payback for historical investment in digitalising its business in operational efficiency. In its presentation, management noted that consensus estimates were that staff costs in FY'23 were expected to be £1m down on the current year. It is also likely that the change in management (CFO) will see some savings. The overall saving is after the accrual of a one-off payment of £500 to all staff to help them with the cost-of-living challenges, and, for those not in a bonus scheme, a gift card of £250 is being offered.

£1.3m other administration cost savings

Additionally, other administration costs are expected to be down by £1.3m, reflecting reduced professional fees across the group, and audit tender and consultancy fees (*inter alia*, there were £0.7m one-off pension fees in FY'22). After several years, APP is now coming to the end of the heaviest spend on its technology upgrade, and we would characterise it more in maintenance mode than upgrade.

Rising business contribution

£1.4m rise in business contribution

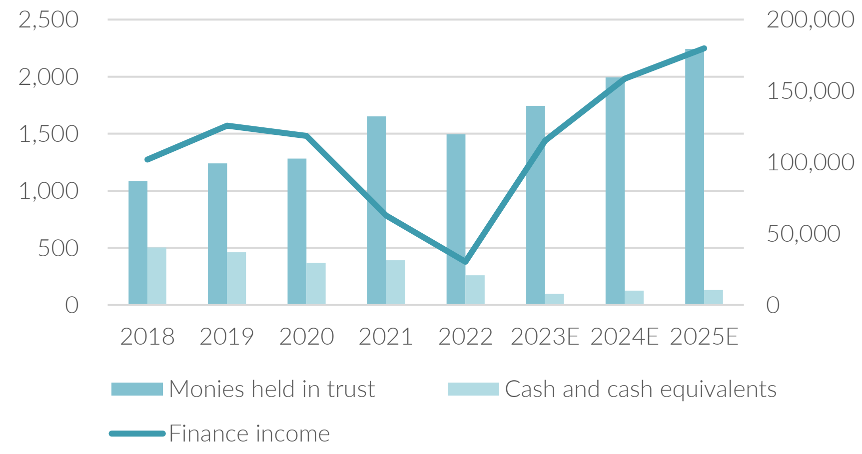
The growth in the corporate business is likely to see an increase in the financial contribution. Appreciate Business Services will start FY'23 serving a £5bn market with a 64% brand awareness (double the nearest rival in the market), having won 1,000 new clients last year. Growth will come from existing accounts (one order per client would add £22m in billings) and will be targeted through, for example, using the white labelling capability available through digital delivery, and enhanced through the MBL acquisition. APP will also accelerate its platform services – full end-to-end incentive and reward programmes for customers offering licensed software for personalised sites for customers. The stabilisation in the Christmas Savings business noted above will also be a factor in helping the overall business contribution to rise. Consensus estimates are for the overall business EBITDA contribution to rise by £1.4m in FY'23.

Rising interest income

Potentially £1m in interest income

The chart below shows the interest income, monies held in trust and cash on the balance sheet. APP will benefit from both rising interest rates and rising balances of cash held in trust accounts, with the increase in business. In the past, its interest income has been in excess of £1m p.a., more than it earned in FY'22, and this was on lower cash balances. The extent of the gain going forward will obviously depend on the rate at which interest rates increase, and this remains unclear.

Finance income, monies held in trust and cash on balance sheet, 2018-25E (£m)



Source: Appreciate, Hardman & Co Research

Unknown potential from PayPoint

PayPoint relationship started slowly. More effort being put into franchisee relationship and communication.

The PayPoint distribution partnership has got off to a slow start since the launch in May 2022, with APP commenting that it had continued to build awareness through PayPoint's 28,000 UK retailers and customers, and explore opportunities to enhance services offered through that network. APP acknowledges that, to date, relatively few franchise partners had become involved, and it has struggled to get the attention it had hoped for. It is, however, still early days for the relationship. APP is continuing to test a range of different approaches, and we would expect it to carry on doing so until it finds an approach that works. The logic of the deal remains compelling, and we believe that the issue remains one of finding the right way to execute it. With nothing of significance built into numbers, delivery from here should provide upside to estimates.

Customer behaviour as incomes come under pressure

APP products well-suited to budget-constrained consumers and corporates

The APP offering should become more compelling as both consumers and corporates search for more value for money, as their incomes and budgets come under more pressure. Consumers are offered flexible redemptions with choice and low-cost options such as Primark. To corporates, the offering is a cost-effective way to incentivise both staff and customers. For Christmas Savings, the need to plan savings becomes even more important for a wider number of people.

Downside from non-recurring release

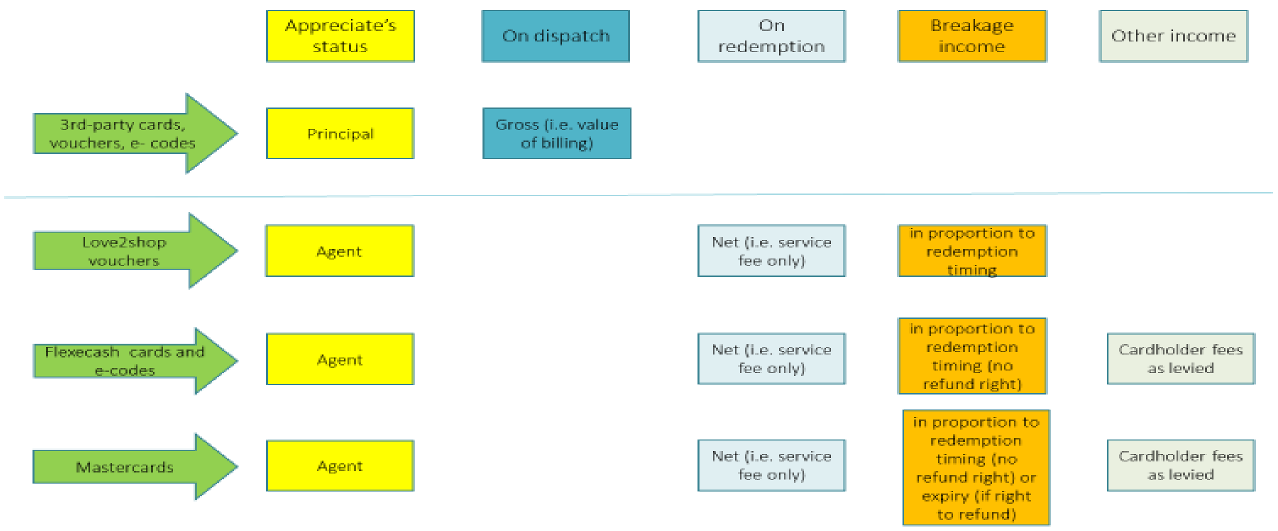
Offset by £3.4m non-recurrence of release seen in FY'22, due to timing of redemptions

FY'22 included £3.4m of profit, which was released because of the deferred timing of redemptions of vouchers, due to COVID-19. Revenues, and so profits on some products, are recognised only when the product is redeemed; so, if the customers are slow to redeem, this defers when profits are recognised. Vouchers that would normally have been redeemed in FY'21 were deferred because of COVID-19, and so FY'21 revenues were lower than expected and FY'22 profits were higher than expected. Management believes that this effect has now fully worked through, but it does mean that the FY'22 underlying EBITDA for comparative purposes is £7.7m, rather than £11.1m.

Appendix: summary of product accounting and cashflow

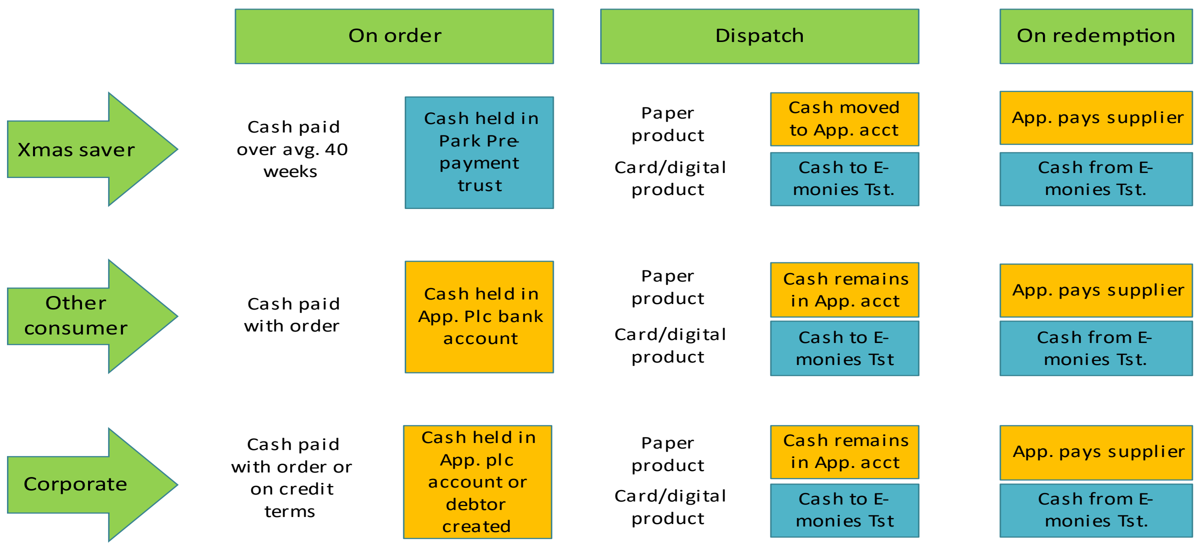
The charts below summarise the revenue and cashflow recognition by product. For a more detailed review, investors should refer to our initiation report.

Revenue – gross vs. net, timing, breakage and other, by product line



Note: yellow boxes represent APP's status, light and dark-blue boxes are for when service fee revenue is recognised, orange boxes are for breakage income, and light-green boxes are for other income.
Source: Appreciate, Hardman & Co Research

Operational cashflows



Note: green boxes represent customer action, orange boxes represent when cash is in an APP corporate account, and blue boxes are where it is held in a trust account outside APP.
Source: Appreciate, Hardman & Co Research

Financials

Profit and loss (£000)							
Year-end Mar	**2019**	**2020**	**2021***	**2022**	**2023E**	**2024E**	**2025E**
Consumer billings	232,096	222,207	205,300	163,800	185,000	188,000	195,000
Corporate billings	194,805	197,650	201,200	212,100	235,000	260,000	280,000
Total billings	**426,901**	**419,857**	406,500	385,800	420,000	448,000	475,000
Revenues							
Goods – single-retailer redemption products	55,624	62,142	78,154	83,370	56,598	56,598	56,598
Other goods	7,511	6,240	259	102	102	102	102
Services – multi-retailer redemption products	41,111	37,870	24,736	38,148	45,000	47,100	50,050
Other services	6,119	6,371	3,509	1,645	3,000	3,500	4,000
Other	29	101	147	-	-	-	-
Total revenue	**110,394**	**112,724**	**106,805**	**123,265**	**104,700**	**107,300**	**110,750**
Costs of sales	(79,117)	(79,778)	(82,055)	(91,832)	(73,290)	(72,964)	(75,310)
Impairment of obsolete stock	-	(124)		-	-	-	-
Gross profit	**31,277**	**32,822**	**24,750**	**31,433**	**31,410**	**34,336**	**35,440**
Distribution costs	(2,934)	(2,838)	(1,784)	(1,637)	(2,408)	(2,468)	(2,547)
Admin. expenses (excl. depr. and amort.)	(16,007)	(18,377)	(19,279)	(19,471)	(17,500)	(17,750)	(17,750)
Depreciation and amortisation	(1,394)	(1,659)	(1,791)	(1,866)	(1,866)	(1,866)	(1,866)
Impair. of prop., plant & equip.	(1,210)	(163)	-	-	-	-	-
Impair. of assets for sale	-	(1,650)	-	-	-	-	-
Impair. of goodwill	-	(1,316)	-	-	-	-	-
Redundancy costs	-	(423)	-	-	-	-	-
Operating profit	**9,732**	**6,396**	**1,896**	**8,459**	**9,636**	**12,252**	**13,277**
Finance income	1,572	1,481	783	379	1,439	1,982	2,248
Finance costs	-	(177)	(360)	(451)	(451)	(451)	(451)
Profit before tax	**11,304**	**7,700**	**2,319**	**8,387**	**10,624**	**13,783**	**15,074**
Tax	(2,422)	(2,189)	(643)	(1,932)	(2,125)	(2,757)	(3,015)
Attributable profit	**8,882**	**5,511**	**1,676**	**6,455**	**8,499**	**11,026**	**12,059**
Exceptional items (post-tax)			(1,951)	(2,063)			
Post-exceptional attributable profit	**8,882**	**5,511**	**(275)**	**4,392**	**8,499**	**11,026**	**12,059**
Diluted EPS (p) (pre-exceptional)	4.77	2.96	0.90	3.46	4.70	6.03	6.58
Weighted average number of shares (m)	186.1	186.3	186.3	186.3	186.3	186.3	186.3
Dividend per share (p)	3.20	0.0	1.00	1.80	2.00	2.75	3.00

**Restated; Source: Appreciate Report and Accounts, Hardman & Co Research*

The *Appendix* section shows that the financials for APP in any given period are very sensitive to customer redemption behaviour. The deferral of redemptions caused by COVID-19 meant that revenue (and profit) recognition was deferred from FY'21 and into FY'22. Similarly, relatively small changes between mixes can see material changes between the recognition of gross and net revenue streams. In our previous forecasts, we had the product mix wrong, and, while the gross profit was £2m higher than we expected, the revenue and cost of sales were both materially above our forecasts.

Changes to forecasts (£000)									
Year-end Mar		**2022**			**2023E**			**2024E**	
	Old	**New**	**Change**	**Old**	**New**	**Change**	**Old**	**New**	**Change**
Billings	373,000	385,800	3%	420,000	420,000	0%	448,000	448,000	0%
Revenue	97,700	123,265	26%	103,500	104,700	1%	106,100	107,300	1%
Gross profit	29,310	31,433	7%	31,050	31,410	1%	33,952	34,336	1%
Gross profit margin	30%	26%	-15%	30%	30%	0%	32%	32%	0%
Admin/dist. costs as % rev.	70%	70%	0%	70%	70%	0%	68%	68%	0%
Pre-tax profit	6,880	8,387	22%	9,347	10,624	14%	12,007	13,783	15%
Net cash	17,029	20,182	19%	3,684	7,945	116%	4,320	10,088	134%
Shareholders' funds	17,710	14,507	-18%	20,666	18,055	-13%	24,663	23,087	-6%
EPS (p)	2.95	3.46	17%	4.01	4.56	14%	5.15	5.92	15%

**Unaudited; Source: Appreciate Report and Accounts, Hardman & Co Research*

Adjusted profit and loss and EBITDA (£m)		
Year-end Mar	2021	2022
Statutory Profit before tax	(0.1)	5.6
IFRS Cloud costs	1.6	2.7
Hamper losses	2.7	0.0
One-off pension cost	0.0	0.7
Adjusted PBT	**4.2**	**9.1**
Finance cost/income	(0.4)	0.1
Depreciation	1.7	1.9
Adjusted EBITDA	**5.5**	**11.1**
Deferred profit (release)/deferral	3.9	(3.4)
Underlying EBITDA	**9.4**	**7.7**
Underlying adjusted PBT	**8.1**	**5.7**

Source: Appreciate Report and Accounts, Hardman & Co Research

Balance sheet (£000)								
@ 31 Mar	2018	2019	2020	2021	2022	2023E	2024E	2025E
Goodwill	2,185	2,168	800	582	505	505	505	505
Other intangibles	2,278	2,295	4,757	6,503	6,937	8,937	10,937	12,937
Investments	0	0	0	0	0	0	0	0
Prop., plant & equip.	7,684	6,216	2,662	2,188	1,761	1,761	1,761	1,761
Deferred tax assets	237	0	0	0	0	0	0	0
Right of use assets	0	0	3,799	4,373	3,994	3,994	3,994	3,994
Retirement benefit asset	2,721	1,927	4,206	490	1,327	1,327	1,327	1,327
Total non-current assets	**15,105**	**12,606**	**16,224**	**14,136**	**14,524**	**16,524**	**18,524**	**20,524**
Inventories	3,808	4,574	2,840	3,638	5,201	5,201	5,201	5,201
Trade and other receivables	10,917	12,582	9,457	11,405	11,928	12,928	13,928	14,928
Tax receivable	0	0	266	738	745	745	745	745
Other financial assets	200	200	0	0	0	0	0	0
Monies held in trust	86,992	99,251	102,693	132,054	119,537	139,537	159,537	179,537
Cash and cash equivalents	40,311	36,868	29,632	31,415	20,842	7,945	10,088	10,546
Total current assets	142,228	153,475	144,888	179,250	158,253	166,356	189,499	210,957
Assets held for sale	0	0	3,1530	0	0	0	0	0
Total assets	**157,333**	**166,081**	**164,265**	**193,386**	**172,777**	**182,880**	**208,023**	**231,481**
Bank overdraft	-	(2,305)	-	-	(660)	-	(13,250)	(24,250)
Trade and other payables	(94,592)	(61,191)	(57,150)	(52,776)	(52,036)	(53,036)	(54,036)	(55,036)
Payables in respect of cards/ vouchers	0	(14,193)	(17,060)	(25,302)	(22,035)	(22,035)	(22,035)	(22,035)
Deferred income	0	(6,983)	(7,359)	(11,152)	(7,816)	(8,816)	(9,816)	(10,816)
Other payables	0	(5,280)	(5,294)	(7,040)	(6,102)	(4,833)	(3,563)	(7,293)
Tax payable	(704)	(580)	0	-	-	-	-	-
Provisions	(48,012)	(58,286)	(53,802)	(77,915)	(61,507)	(66,507)	(71,507)	(71,507)
Total current liabilities	(143,308)	(148,818)	(140,665)	(174,185)	(150,156)	(155,227)	(174,207)	(190,937)
Deferred tax liability	0	(553)	(1,121)	(28)	(66)	(66)	(66)	(66)
Lease liability	0	0	(4,132)	(4,666)	(4,500)	(4,500)	(4,500)	(4,500)
Retirement benefit obligation	0	0	0	-	-	-	-	-
Total non-current liabilities	**0**	**(553)**	**(5,253)**	**(4,694)**	**(4,566)**	**(4,566)**	**(4,566)**	**(4,566)**
Total equity	14,025	16,710	18,347	14,507	18,055	23,087	29,249	35,978
NAV per share (p)	7.6	9.0	9.8	7.8	9.7	12.4	15.7	19.3

Source: Appreciate Report and Accounts, Hardman & Co Research

Cashflow (£000)							
Year-end Mar	2019	2020	2021	2022	2023E	2024E	2025E
Net cash generated from/(used in) op. activs.	6,795	5,642	3,362	(6,637)	(4,375)	(1,848)	(815)
Net cash (used in)/generated from invest. activs.	(1,152)	(5,029)	(1,237)	(2,128)	(3,530)	(3,530)	(3,530)
Net cash used in financing activs.	(5,323)	(5,544)	(342)	(2,468)	(4,332)	7,520	4,805
Net (dec.)/inc. in cash and cash equivalents	**320**	**(4,931)**	**1,783**	**(11,233)**	**(12,237)**	**2,143**	**460**
Cash and cash equivalents at beginning of period	34,243	34,563	29,632	31,415	20,182	7,945	10,088
Cash and cash equivalents at end of period	34,563	29,632	31,415	20,182	7,945	10,088	10,548

Source: Appreciate Report and Accounts, Hardman & Co Research

Valuation

Summary

Range of valuation approaches, including using European comparator, GGM and DDM. Average of all is 71.6p.

We applied a range of different valuation approaches in our initiation. Rolling forward the valuation by a year has a big impact, as we expect strong growth in profitability and retained earnings. The privately held European comparator continues to see strong operating performance and valuation gains. Our average valuation is 71.6p.

European digital peer comparisons

European digital comparator valuation saw substantial valuation uplift in 2021 YTD, but limited information

As noted in previous reports, there is a private equity- (PE) backed company in Europe whose model is a comparator for APP's digital vision. The businesses are not identical, and valuing a high-growth business can present challenges. The European business saw 53% revenue and 64% EBITDA growth over the last 12 months on a reported basis (as reported in a recent capital markets day). Its valuation nearly doubled December 2021 on 2020. A 40% of billings ratings is a significant discount to the rating of the European business in 2020, and gives APP a valuation of 90p, but we use it as indicative of a comparative model.

Applying 40% of billings (reflecting business mix) gives APP valuation of 90p

UK digital comparisons may suggest 115p, but comparison companies are much larger. We discount by 30% to 80.5p to reflect business mix.

We noted, in the chart in the digitalisation section in our initiation, that, in the UK market, digital companies' forward P/E ratings are usually 2x-4x the levels of non-digital businesses. Following the recent market correction, applying the average rating of the companies in the digital section of our initiation (a forward P/E of 25x) generates an implied valuation of 115p. These companies are significantly larger. Given the business mix, we discount this by 30% to 80.5p to reflect the current business mix.

GGM

GGM rises from 62p to 78.5p, as we roll forward valuation year

Our GGM assumptions were outlined in our initiation. Rolling forward a year sees a marked increase in the valuation, as the book value increases from 12.4p to 15.7p,

GGM and key sensitivities

	Base	+1% RoE	+1% CoE	+0.5% G
RoE	40%	41%	40%	40%
CoE, post-tax	14%	14%	15%	14%
G	7%	7%	7%	7.5%
P/BV (x)	5.0	5.2	4.3	5.3
Disc./prem. re near-term performance	0%	0%	0%	0%
P/BV (x)	5.0	5.2	4.3	5.3
BV Mar'24E (p/sh)	15.7	15.7	15.7	15.7
Valuation (p/sh)	78.5	80.9	68.2	83.6
Variance (p/sh)		2.4	-10.3	5.1

Source: Hardman & Co Research

DDM

Dividend policy is to distribute just over half post-tax profits. DDM is 37.2p.

It has been the board's policy to distribute just over half of post-tax profits as a dividend, with one third of that as an interim dividend and the remaining two thirds as a final dividend. The board intends to return to that policy as soon as it is appropriate to do so. The board recognises the importance of dividends to its shareholders, and is committed to its progressive dividend policy. Our DDM model indicates 37.2p in value, including 6.7p in terminal value.

Other "peer" companies

Trade sales that support the valuation include Global Voucher Group (acquired by GoCompare in 2017 for £36.5m), Blackhawk Network (acquired by Silver Lake and P2 Capital Partners for $3.5bn in January 2018) and Mydays (see PROSIEBENSAT.1 news release). These deals are somewhat dated, but they do show trade appetite for companies like APP.

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