THE SMALL COMPANY

SHARE WATCH

January 2024

MARKET COMMENT

The financial services industry excels at selling the dream, and there has been a lot of that in the last few weeks. At this time of year, it is pushing at an open door, as investors have a well-established tendency to be seasonably optimistic. The “My Predictions For 2024” headlines have juiced the excitement, and a number of measures of investor confidence, particularly in the hugely over-valued US, are exceeding even the elevated levels at the peak for various indices in late 2021.

In the perpetually and hugely complex environment for investing, such predictions are mostly pointless, beyond generating a headline and keeping the pot boiling for the investment industry. For our part, we try to provide balance. We seek to uncover outstanding opportunities in the exciting small company universe, through a mix of number crunching, management meetings and industry knowledge. But we also know our limits. For example, we can uncover a stock that is clearly cheap versus its potential, but as events over the last three years (with gut punches from Covid, a war in Europe, and inflation) tell us, this doesn’t mean it cannot get temporarily cheaper.

So our NAPS are proffered with appropriate humility. We include some new names and also some old names where we think we should stay the course. Similarly, our view of the market trend, on which note…

Last month we said that “there is a window of opportunity which will stretch through January and possibly into February,” with the FTSE 250 being the best indicator of sentiment towards the UK stock market. The short-term trend did continue upwards but for a breather in early January. If the positive working assumption set out last time remains valid, the uptrend since October is not complete, still being approximately 8% short of 20,750. If the FTSE-250 falls below 18,000, our analysis is wrong, and something else is happening.

This technical analysis, plus market valuations and measures of investor sentiment, provide the context for our NAPS. They paint a picture of the extent of market vulnerability, without also having to try and weigh matters beyond the immediate market sphere e.g. economics, politics, conflict and climate.

IG DESIGN GROUP (IGR)

Sector :	AIM, Personal Care	
Latest Price :	145p	
High/Low :	196.5p - 105p	
Market Cap. :	£149.8m	
Shares in issue:	98.2m	
end3/2023 EPS/PER	-	-
end3/2024 EPS/PER est	8.8p	16.4
end3/2025 EPS/PER est	18.4p	7.6
Contact	01525 887310	
Registrars	08716 640300	
CALENDAR		
Int/Fins/AGM	NOV/JUN/SEP	

IG Design Group is the largest gift packaging business in the world, providing wrapping paper and greeting cards aimed at making celebrations more special. The company employs designers who work with clients (mostly mass market and value retailers) to design bespoke products, typically producing a mini exclusive range of gift wrap, gift bags, not-for-resale bags, everyday cards, stationery and seasonal décor, and manages the entire process from specification to delivery to stores.

Design Group’s business used to be largely focused on the UK and Europe but between 2018-2020, two large acquisitions shifted its centre of gravity to the US (64% of sales) and took it into new product segments such as ‘art & craft’ and creative play. The second of these deals was funded by a placing that raised £120m at 694p. But problems at these two businesses and a string of Covid-related supply issues subsequently caused the company to warn on profits and the shares cratered from their highs of 764p. The stock chart is still dead in a ditch but things look to be on the mend; net debt nosedived by 80%, from US$73m to just US$15m in the latest interim report. Quite a turnaround for a company that just two years ago was in breach of its banking covenants.

Strategy to get 40% over previous peak

Design Group has clearly been through the wars; chief executive Paul Bal says the two businesses it had bought in the US were lossmaking but are emerging fighting fit after painful restructuring. In the teeth of a cautious consumer environment, he’s spent the last two years consolidating the number of locations and

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ditching unprofitable work to return the business to profit and he expects to restore group EBIT margins to at least 4.5% by 31 March '25 - the same as the FY20 pre-pandemic number despite sales expected to be US$130m lower at US$825m. The story gets better with Bal talking about 13 recent new sales hires in the US and his expectation is to get sales back up to US$900m in FY27, by which time he says operating margins could be north of 6% to deliver a pretax profit of c.US$50m. If he achieves that, it would represent growth of c.40% compared to the Group's previous record pretax profit of US$35.8m in FY19.

History

Established in 1979, Design Group's early history was in the production of paper-based gift packaging products such as wrapping paper, crackers, single greeting cards, gift tags, paper twist handle bags and hand made premium bags.

There have historically been two key locations in the UK (Hengoed, Wales and Newport Pagnell) and one in Hoogeveen in the Netherlands, from where it would design, manufacture, source and distribute products to customers in the UK, as well as mainland Europe (via global accounts such as Costco and IKEA).

The Welsh operation (mirrored at Hoogeveen) includes a large manufacturing plant for wrapping paper rolls and not-for-resale bags. Each boasts vast scale; for example, Hengoed prints 425 million meters of gift wrap annually using high-speed presses to print 1.4m wide, 10km long graphic paper rolls. These are then fed through 13 converting machines to cut the printed paper into specified lengths and turn it into rolls. Alongside that, it also has a 100%-owned manufacturing operation in Huizhou, China, producing 70m crackers, 30m single cards, and 30m gift bags annually.

The problem Design Group historically had to contend with was that this mix of business was heavily dependent on the Christmas season. Its reaction a few years ago was therefore to begin to increase all year round sales by moving into everyday greeting cards; partyware (eg. gift bags, crackers, ribbon, gift bows and gift bags); stationery and play (eg. pens, pencils, stickers) and gifting (gift calendars and home goods) and to improve efficiency all round by paying careful attention to manufacturing with investment in new machinery, sourcing and logistics. Newport Pagnell became its UK distribution hub for stationery, kids & creative play, diaries & calendars, partyware and frames & albums, some of which is sourced from third parties in Asia.

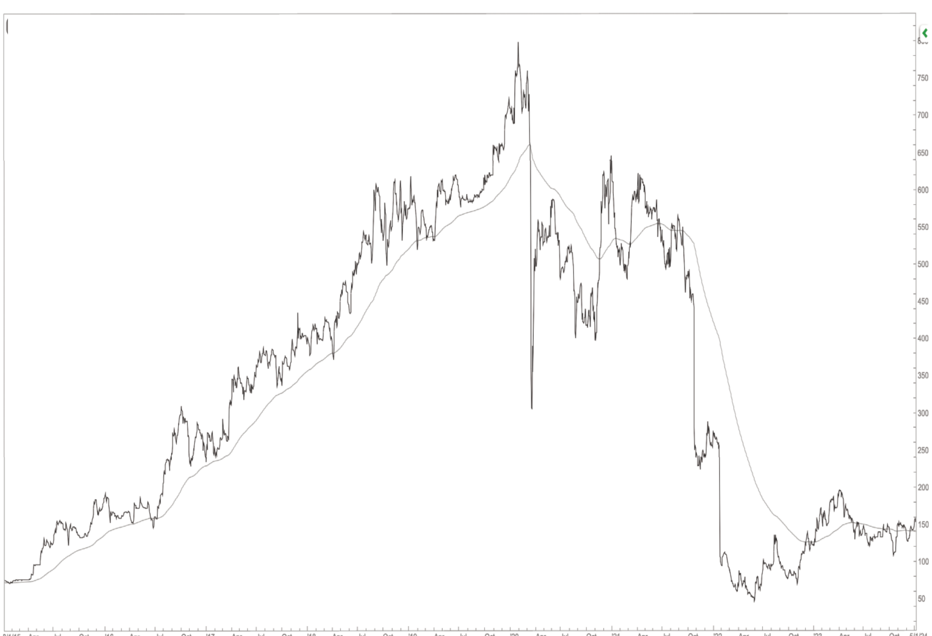
In 2018, the company then completed the £56.5m acquisition of Impact Innovations. The Minnesota-based company had two production facilities producing gift packaging (gift wrap, bags, gift tags and package decorations such as bows and ribbons) and fabric and seasonal décor products (like Christmas stockings, bows, ribbons, tree decorations, bunting, and vinyl window clings and wall art). It was lossmaking but was returned to profitability by closing the Minnesota factory and consolidating everything to Memphis.

Emboldened by that progress, Design Group then went on to buy its US listed rival, CSS, for £90m in March 2020, funded through a placing to raise £120m at 694p. With sales of US$350m, CSS was half the size of "old IG" and was attractive as it provided Design Group with entry into the fragmented US craft market, worth >US$12bn at wholesale prices. About 50% of CSS' sales were from Craft products such as sewing patterns, trims, bows, ribbons, buttons, needle art and kids craft, 30% came from Seasonal product lines (including bags, wrap, ribbons, bows, tags, holiday-themed decorations) and the remainder from gift products. Post the deal, North America is therefore c.64% of group sales.

But CSS was a bit of a mess having itself been highly acquisitive the previous three years with the businesses not fully integrated. Whilst it had a state of the art modern US distribution centre (DC), it was spread too thinly with six production facilities in the US and one in Mexico and was losing money.

The timing for the deal was also unfortunate. FY21 should have seen revenues well ahead of FY20 due to the full year consolidation of CSS but Covid created volatility in ordering patterns, and integration was problematic, causing losses to continue for longer. This was then compounded with volatility in sourcing from China during lockdown and the rising cost of sea freight: Design Group needs 200,000 containers in a usual year, but Covid saw containers taking up to six weeks to clear customs, and prices skyrocketed. In fact, all the important cost categories like energy and paper soared too.

But input costs are now back on an even keel and those cost headwinds are becoming tailwinds. He has spent the last year simplifying the business models at the group, improving operational efficiencies and he is consolidating in the US to fewer sites, with the business centred at Mississippi (bags and gift wrap) with a cluster of three small sites in Berwick, Pennsylvania (ribbons). Ultimately, it seems likely the latter site and even Memphis will relocate into the Mexican facility where labour rates are lower. Measures have also been implemented to reduce external storage and freight handling costs.



Three key 'props'

On *SCSW*, I have followed this business for over 15 years. To my mind, three crucial 'props' contribute to its success: low unit costs, appealing products and designs, and high reliability.

First, let's consider "Scale." This factor plays a vital role in achieving the low unit costs necessary to establish and strengthen relationships with leading and expanding retailers, including discounters. Having attained leading market shares in the Americas, the UK, mainland Europe, and Australia, along with modern, well-invested manufacturing facilities, Design Group can provide economies of scale that many others cannot match. Increased scale also means better payment terms and a lower unit price. The average wholesale price of Design Group's products is around 50p, and if we assume a markup of three times, this gives an average retail price of around £1.50.

Scale advantages also extend to supply chain management. As one broker points out, the ability to manage complex logistic projects, ranging from creating and delivering over 60,000 SKUs on an annual basis, to loading 70 trucks with 33 pallets each (c.2,300 pallets) in the space of four hours, or to deliver product for one customer to distribution centres across nearly 30 countries, requires exceptional expertise and ability, which competitors struggle to provide. The importance of Design Group's sourcing capabilities is demonstrated by the fact that about 70% of the Group's revenues are generated from products sourced from third parties.

The second 'prop' is design and innovation. As Bal explains, the vast majority of its 60,000+ products need to be refreshed frequently; there is a team of designers who use a shared intranet-based design platform containing over 300,000 historical designs, which can be refreshed and new ones are constantly being inspired including from licences for *Peppa Pig*; Disney's *Toy Story* and *Frozen*; and Marvel's *Spiderman* as well as *Star Wars* and *The Grinch*.

The third prop is what Bal now calls "winning with the biggest winning retailers" - and these days that's the supermarkets and discounters in North America, the UK, Mainland Europe and Australia. Not only are these retailers expanding their store

Editorial shareholdings of companies covered in this issue: OntheBeach, THG, Altitude, REVB, McBride, GB, Luceco, Future, MadeTech, Inspecs

count, but IGR is also expanding the categories it sells to them and taking a bigger "share of wallet." Walmart, for instance, is the biggest customer at c.20% of total sales and with a relationship stretching back 30 years, Design Group now supplies it with 1,600 individually bespoke products. It also monitors the sell through rates of the lines and replenishes the relevant bays of its 4,600 stores on a store-by-store basis. That isn't to say that some supermarkets have stopped treating suppliers as a punching bag, requiring them to re-tender annually against competitors like American Greetings or Hallmark every year, or even threatening to shift to direct Chinese supply, "but do they genuinely desire the complexities of sourcing products from third-party manufacturers, ensuring the correct quality, and navigating the risks of modern slavery compliance when going direct?" says Bal.

For some retailers, it is also helping to launch "good, better, best" ranges e.g. following Tesco's takeover of Paperchase, it assisted the supermarket chain to launch premium Paperchase-branded cards and wrapping paper. Sainsburys, another client, is following the same premium strategy with its Habitat brand.

Targeting 5-6% US margins by FY25

Meanwhile, alongside that, Bal continues a process of range reassessment and editing to reduce the number of SKUs, improving margins and working capital. With these initiatives, the UK and Europe is trading well. The fly in the ointment is the impact of waning consumer sentiment in the US, which seems harder to assess. Bal shoots from the hip in recognising that the 15% H1 sales decline to US$444m was mostly from US retailers, such as Walmart, taking a more cautious view on ordering. But the low item prices of the group's products means there is an argument that product sales are unlikely to be significantly impacted by an economic downturn and Walmart may find it has underordered. Offsetting sales declines are the reducing costs of raw materials, transport/logistics and temporary labour.

In fact, the latest H1 24 saw gross margins climb by 4.4% to 21%. During this period, DG Americas' EBIT margin rose to 5.9% from 4.1% whilst DG International's went up by 3.4% to 15.7%. Of course, margins tend to be disproportionately higher in H1 due to seasonality (50% of the business is still Christmas) and hence for the full year, brokers forecast a 3.4% EBIT margin (+160bps year-on-year). In the light of the strong margin recovery, brokers nudged up EBIT forecasts for the current year to end March by 3% to US$27m (+68% year-on-year). Pretax profit is forecast at US$20.5m for eps of 11 cents. Despite a bit of a US sales headwind, Bal sees the US margin to hit the range of 5-6% within a two-year period, supporting next year's forecast of US$36m pretax profit/eps of 23 cents. *Having been unloved for three years, in a better market the thinly traded shares could easily take off given the amount of debt deleveraging and a soon-to-be prospective PE of 7.6.*

UPDATES

Bloomsbury Publishing (BMY) 469p

Sector: Media

Bloomsbury has said pretax profit for the year to end February is running "materially ahead of expectations." The swing factor wasn't Bloomsbury Digital Resources but instead exceptionally strong trading in the Consumer division where CEO Nigel Newton notes strong demand for American fantasy author Sarah J. Maas, who is known for *Throne of Glass, A Court of Thorns and Roses*, and *Crescent City*. Also notable were the titles by Tom Kerridge, Martha Mumford and Katherine Rundell. In the light of the statement, Investec has upgraded its profit expectation by 13% to £31.1m for eps of 30.6p.

With a growing cash pile, further M&A looks likely. Tipped at 234p in June'18, the gain to date is 100%; keep buying.

THG (THG) 74p

Sector: Personal Care

THG has bought the brand and inventory of *Biossance, a* prestige skincare brand, for US$20m from US biotech Amyris, which had entered Chapter 11 bankruptcy. Biossance is stocked in >1600 stores globally including Sephora, Harrods, Space NK and Selfridges and has generated sales of US$300m since 2015. It generated US$2m in revenue across THG's Lookfantastic retail site last year and although a small deal, it is a strong fit, building on THG's own beauty portfolio, which includes *Perricone MD* and *ESPA*. Just as THG's sales trend is consistently improving (Q1 -14%, Q2 -11%, Q3 -2%, September exit +5%), CEO Matthew Moulding has also employed a 'Pac-Man defence' against Kelso Group (KLSO; 3.35p), which had been pushing for a THG break-up, by buying a 3.2% stake in the activist. *Buy.*

DiscoverIE (DSCV) 740p

Sector: Electronic & Electrical Equipment

Against tough comps of 20% growth last year, the latest H1 results for DiscoverIE, which makes components for electronic applications, were decent with the shares jumping £1 on the day.

Sales might have looked flat at £222m (+4% on constant currency) but adjusted operating profit was +12% to £28.6m driven by efficiency gains (eg. site consolidation/production cost optimisation) and a better mix (inclusion of the very high margin acquired businesses e.g Beacon), with the operating margin lifting by 1.4% to 12.9%. Eps grew 8% to 19.2p.

DiscoverIE operates through its two divisions with 76% of sales going into four resilient target markets of renewable energy, medical, electrification of transportation and industrial automation & connectivity. Magnetics & Control makes magnetic components for use in power conversion, signal conditioning and switching (operating profit £19.9m, +11%) and Sensing & Connectivity makes sensors for measuring and controlling temperature, movement, pressure, force, position etc (profit £15.2m, +12%).

Geographically, 64% of sales are from the UK, Nordic and USA. CEO Nick Jefferies tells me the US grew 35% driven by easing of semiconductor supply chains and nearshoring as customers reconsidered their dependence on Chinese manufacturers. Reflecting that shift, Asia was softer (-22%). Other areas grew, with UK +6%, Nordics +5% and Eastern Europe +5%. With supply chains and lead times back to normal, the order book has rebalanced to £203m (minus15% organic order book) and as you would expect, forward visibility is reduced to c.5 months after stretching out to c.7 months last year at the height of the supply chain crisis.

Period end net debt stood at £111m, following £83m of acquisitions, for a gearing ratio of 1.6x. HSBC forecasts eps of 35.2p for the full year, up from 29.4p last year but Jefferies says he has 15 deals in live negotiations and investors should almost certainly expect more M&A in H2. *Buy.*

ME Group (MEGP) 127p

Sector: Leisure Goods

MEGP's update for FY23 confirmed strong H2 trading in its Photobooth and Laundry operations and it expects to hit the top end of its full-year guidance. Sales are "not less than £298m" (+15% year on year), EBITDA is "significantly above £100m" (+19%) and pretax profit is "no less than £67m" (+46%).

Best of all is an acceleration in roll-out rates. Wash.ME's installation rate grew to 180 by the period end and looks set to climb to 250 per month next year. Meanwhile, 547 next-generation multi-service photobooths were installed to date in France with new features including 'Mobile to Print,' user personalisation services using AI and photo filters with more features expected shortly.

Clearly the wind is back in its sails after last year's cheeky attempt to take the business private. Berenberg forecasts eps of 12.9p for the full year, climbing to 13.5p next year. *Buy.*

On The Beach (OTB) 170p

Sector: Tourism &Leisure

OTB exploded upwards after its FY23 results delivered record total transaction values (TTV) of c.£1.07bn, up 26%, driven by growth in both volumes and average booking values. Revenue of £170.2m was +19% higher and pretax profit was £23.6m, up from £14.2m. Corresponding eps rocketed from 6.4p to 11.6p. Excluding customer deposits, it closed the year with £76m cash (45p a share) so the dividend is reinstated.

OTB is clearly a much stronger business than it was pre-pandemic, with direct bookings in FY23 at 91% of sales. In H1 this year it front end loaded marketing with total marketing costs as a % of revenue amounting to 53% (although by the full year this was down to 40%) so when the turn came, TTVs bloomed across not just the historical strong hold short haul beach 3* holidays but also premium and long-haul.

Notably, OTB saw 74% growth in TTV for Long Haul, not just existing LH destinations (Dubai, Mexico and Dominican Republic) but from new ones too (US, Phuket, Mauritius, Maldives). LH represents 8% of the group. There was also a 32% increase in Premium 5* TTV.

The 3* holidays saw a significant year on year improvement in volumes and average booking values drove 32% TTV growth and CEO Shaun Morton cited that deflation in energy bills and lower inflation in food costs is translating to higher demand. Only the B2B offer (Classic Collection

Holidays and Classic Package Holidays) experienced a challenging year for high street retails but is expected to return to profitability this year.

Trading post September has been strong and Morton notes year-to-date TTV is +26%, with winter '23 +34% and, albeit still early, Summer '24 is 'significantly ahead' of Summer '23 given the strong momentum going into their key Q2 booking period. Numis forecasts eps climbing to 14.6p this year, and 15.6p next. *Buy.*

Ashtead Technology (AT.) 610p

Sector: AIM, Fossil Fuels

The shares soared after the group acquired ACE Winches, its largest deal to date, with the £53.5m cash consideration funded entirely by bank borrowings. Established in 1992, ACE runs an equipment rental fleet that predominantly supports the installation, inspection, maintenance & repair and decommissioning of offshore energy infrastructure although like Ashtead it has also expanded into offshore renewables. It has one of the most comprehensive and diverse ranges of back deck machinery, designed to deliver reliable, fully integrated solutions to address all complex lifting, pulling and deployment challenges. Around 80% of sales are outside the UK supported by operations in Norway and sales offices in the UAE and USA.

For the 12 months to December, ACE Winches is expected to generate revenues of £43.4m, EBITDA of £13.7m and operating profit of £10m. The deal is materially eps enhancing from day one. Pro forma leverage post the deal is less than 1.4x, de-leveraging to less than 1x by December. *Tipped at 158.5p in December '21, the gain to date is 285%. Buy.*

Ultimate Products (ULTP) 147p

Sector: Household Goods

An update was omitted last month due to lack of space. However, full year results showed sales +8% to £166.3m - with revenue growth of just 2% in H1, surging to +15% in H2 driven by trading patterns from the big UK retailers normalising following a period of destocking post the supply chain crisis.

As it was Supermarkets were ULTP's largest segment at 30% of sales, and activity in FY23 fell 5%; similarly, revenues were 7% lower at discount retailers, where participation reduced to c.27%. But proving the benefit of diversification, the shortfall was made up by online sales, which grew 64% (now c.25% of sales). Most of this was in the UK, which grew 14% to £115.6m or 70% of sales, whilst revenues from Europe were flattish at £49.6m, being most hampered by retail overstocking in Germany. But ULTP is not recanting on growing internationally with *Petra*, its German kitchen electrical brand, relaunched (sales surpassed £3m) and a sales office opening in Paris.

Costs were tightly controlled e.g. Shore Cap notes it has taken 1,000 hours off its labour pool since 2018 through automation and digitisation, resulting in EBITDA up 8% to £20.2m. Higher base rates, however, held back pretax profit and eps, which were both up 6% to £16.8m and 15.1p, respectively. But net bank debt has dropped by £9.5m to £14.8m so a better year is in prospect. For the year to end July, Canaccord forecasts £18.6m pretax profit and eps of 15.4p. *Buy.*

Victoria (VCP) 280p

Sector: AIM, Domestic Goods

I deliberated long and hard over whether Victoria should be included as a NAP this time around, especially as the shares stand at around a quarter of the £12 high; if there is any sign of a rate cut/soft landing on H2, there is scope for upgrades: as Berenberg points out, every additional 5% of revenue drops through to £25m PBT. But to get the share price moving I feel Victoria needs to start to buy back some of its outstanding bonds due 2026-8, which are presently trading below face value.

As it was, H1 shows EBITDA at £95.8m, down 4% on the prior year's £100m and margins up by 1.9% to 14.9%, with recent cost cuts (c£20m EBITDA benefit) from a previously announced reorganization offsetting the softer demand environment, with revenue down by 16% to £643m. Volumes were weak in Soft Flooring (down by 13%) but steeper falls were seen in the Europe-focused Ceramics division, where volumes fell by 30% in Spain and 19% in Italy. Singer forecasts £60.5m pretax profit/eps 29.7p for the year ending March lifting to £ 73.2m/35.7p next year. *I await bond repurchases.*

Xaar (XAR). 114p

Sector: Personal Care, Drug & Grocery Stores

A mixed update from Xaar. On the one hand it expects to deliver sales of £70m-£72m and an adjusted pretax profit of £2.5m-£3m for FY23, strongly ahead of expectations due to product launches and cost efficiencies. But trading has been difficult since Q4 with high interest costs curtailing capital equipment plans for some customers. Compounded by delays in some customer product launches, FY24 will essentially sees forecasts pushed out a year. In the light of this, Investec forecasts sales of £75m and a pretax profit of £0.3m this year, lifting to £90m and £5m, respectively (eps 5p), next year. Net cash stands at £3.7m.

Optimism on those supplying expensive bits of capital equipment doesn't seem to have universally faded - the CEO of **Mpac** (a supplier of packaging equipment to the FCMG and healthcare sector), for instance, tells me he is absolutely going to hit his eps numbers.

At some point, these shares are going to be a screaming buy.

Future (FUTR) 758p

Sector: Media

For a business that had a tidal wave of free cash generation of £253m, of which £96m went towards debt reduction (to leave net debt at £327m or 1.25x), a further £47m on acquisitions and £13m on buybacks, any normal market conditions would have seen the shares surge. Instead we had a wild gyration in November, with the shares ranging from £5.50-£10 but the data from this month's results suggests things are on the mend and I don't think we'll have to wait long to see it through.

Sales were in line with consensus at £788m (down 4% with an organic decline of 10%). Adj. EBIT at £256m was slightly ahead (down 6%) helped by admin costs 27% lower. Gross margin was healthy at 72%, as was operating margin at 32%. Eps were 140.4p, down 16%.

In terms of outlook, it was no worse than had been flagged in my main write up in November, with challenges in the digital advertising market but a more resilient Magazine performance and an acceleration in growth from GoCompare.

Interestingly, within Media, advertising accounted for £246m in sales, while affiliate ecommerce (where people come in and buy stuff and Future gets a commission, including Go-Compare and e-commerce sales) totalled £269m. Organically, a 13% decline, but only a 4% decline including acquisitions. This highlights M&A as a great long-term value creation opportunity. A keynote is that despite a generally weaker UK ad market, Media sales showed more resilience than in the US. This resilience can be attributed to a higher volume of direct sales and so the current strategy is to shift focus to the US.

Of course, digital advertising in this period was really about the tech sector pullback. Not only did the tech sector see less advertising but there were also chip shortages, and so fewer new products were launched. The latter two points reduced ecommerce sales. But this is stabilising and FUTR points out that 69% of its audience is now coming from outside the tech space helped by recent acquisitions and "a stabilization in online users since May" and the company expects a return to organic revenue growth during H2.

CEO Jon Steinberg, who joined in April from Buzzfeed-lookalike Cheddar (and before that Buzzfeed), has unveiled his two-year Growth Acceleration Strategy (GAS) to return Future to organic growth. As he notes, Future maintained or improved its leadership positions in all categories and his plan (£25m-£30m investment) is to start monetising Future's brands' 180m social followers as a pathway to generate a mid single digit organic growth CAGR between FY23-FY26 while maintaining operating profit margins in the 28-30% range. And Steinberg talks about branded content on social, short-form video and selling packages like one brand, *WhoWhatWear,* already does. At the same time, with headroom on its facility of £575m and a tidal wave of cash, it could accelerate M&A. Shore Cap forecasts eps of 143.1p this year and 159.6p next, for a forward PE of 5.3 falling to 4.7. *Buy.*

Altitude (ALT) 34p

Sector: AIM, Software & Computing

Altitude, the promotional products business, has reported interims with sales +54% to £11.8m, adjusted EBITDA +39% to £1.1m and eps +61% to 0.71p.

The Merchanting side grew sales +100% to £7.6m. Here, the key swing factor is the company's recent entry into running university "gear shops" - the on-campus bookshops that sell student books and university branded merchandise (mugs, t-shirts, etc) - which has given Altitude a direct-to-consumer channel as it's selling the products directly to students rather than to PPDs.

DTC has gross margins of 35-40% versus 10% at the original divisional activity of sales affiliates - so it's clearly making several times as much profit per mug/t-shirt/sweatshirt sold. As rents are covered by the university and relatively low cost part time shop staff are required, the gross profit per university should fall to the bottom line - and each should become almost a permanent addition to revenues. 15 universities are live and each made a part period contribution but the divisional gross margin has already climbed by 5.6% to 14.6%.

Net cash outflows widened to £0.7m vs £0.2m, primarily due to the three months of stock held for each Gear Shop site - but CEO Nikki Stella expects each shop to recoup this outlay within a few months.

Services, which provides an end-to-end SaaS platform, comprising sales made up of distributor members' fees (now 2489 members), revenue share from supplier sales, and marketing services, grew sales by 7% to £4.1m.

Zeus forecasts £26.1m sales for the year to end March (+39%), climbing to £35.6m next year, with corresponding pretax profit/eps of £1.2m/1.2p and £2m/2p. *Possibly one of the most interesting early stage growth shares around. Buy.*

Braemar (BMS) 294p

Sector: Shipbroking

An investigation into several historical transactions that had taken place between 2006-2013 had delayed the publication of the FY23 results but this has been completed, resulting in a £2m provision in FY23 results. That cast a shadow over what would have been a formidable year with strong market conditions and earnings across Braemar's container, gas and tanker markets being some of the highest recorded in the last 20 years. As it was, sales for the year to 28 February rose 51% to £152.9m and operating profit doubled to £20.1m before charging goodwill impairment and acquisition costs (£2m). Eps were 38.5p.

But these results are of academic interest only as the interims were also published for the six months to 31 August. Sales were up 8% to £74.9m but operating profit fell 38% to £6.7m due to a £2.8m swing in FX and also acquisition-related expenditure of £0.9m. Adjusting for these items, operating profit was down modestly from £8.9m to £8.4m. Eps were 15.8p.

Braemar is seeing strong revenue growth in its chartering business (+17%) and Risk Advisory business (+21%), but its Investment advisory business (S&P and Corporate Finance) has gone backwards (-24%). Importantly, there is a strengthening order book, which has risen to US$67.2m from US$56.2m in February.

Brokers forecast £16.4m pretax profit/eps of 34.9p for the full year. *Not expensive on a PE of 8.4 and security risks in the Red Sea have tightened availability of ships and is sending freight rates soaring.*

musicMagpie (MMAG) 14p

Sector: AIM, Retailers

MMAG's pre close update for the year to end November said that a record Black Friday period has helped off-set the softer H1, with overall sales expected to be £136.6m. Consumer technology revenues for H2 were +7.5% at £95.4m at a better gross margin of 27.7% (2022: 26.2%). As a result of tight cost control, EBITDA is expected to be up 15% at £7.5m (2022: £6.5m). The number of active Rental subscribers grew by 6.6k or 21% to 37.1k. Rental revenue was £8.3m, up 57%, whilst investment in the rental assets resulted in net debt of £13.1m, against a total facility of £30m. *I will be surprised if a bidder doesn't show up before long.*

SDI Group (SDI) 91p

Sector: AIM, Health Care Equipment & Services

Latest H1 shows sales up 2% to £32.3m but this was against last year, which had been boosted by the very large profitable COVID-related camera orders in Atik (representing sales of £6.4m), so clearly the 18% organic decline was made up by 20% acquisition growth from LTE and FAST. Pretax profit decreased to £3.7m from £6.5m with eps decreasing to 2.7p. Net debt was £13.2m.

Trading has been mixed over the period with the company noting that over-ordering of the past three years has now led to destocking as customers rebalance to a more normalised economic environment. Sales in Sensors & Control were 40% higher at £26.8m (organic growth of 6.7%) but fell by 57% to £5.4m in the Digital Imaging segment, with Atik Cameras' major gel-doc OEM customer de-stocking over the period.

Cavendish has downgraded pretax profit by 18% to £7.9m for eps of 5.7p. Next year's is shaded to £10.3m and 7.4p, down 9%. *Tipped at 21p and peaking at 211p, I suggested taking some profit at 170p in March '21. Hold the rest.*

LBG Media (LBG) 80p

Sector: AIM, Media

LBG's preclose update said it expects FY23 sales growth of ~7% to £67m with EBITDA to be at least +8% to £17m, implying a margin of 25.4%, +0.4bps YOY, despite Australia underperforming. Followers have grown +20% to more than 440m and it is winning a number of new, direct advertising relationships with blue chip customers.

The UK and Ireland businesses have continued to perform well. Australia underperformed but the group has changed its operating model and announced a strategic partnership with Val Morgan Digital – the largest online media publishers in Australia, who will represent LBG's brands from a commercial perspective in the region from January. Organic growth in Australia on its own would have held back growth but of course the short term swing factor is the US where LBG's presence has grown with the acquisition of Betches in October and performance is going to plan. The US market, which is worth over US$363bn (8-10x the scale of the UK market), shows the beneficial effect of M&A as a long-term strategic value creation opportunity. Zeus forecasts £17.3m pretax profit/eps of 6.1p for the year already ended, with £23.6m/7.6p this year. *Buy.*

UPDATES & IDEAS

• I aimed to feature Vin Murria's ADVT in my NAPS this month, but the shares remain suspended as I go to press. I've known Murria since her COO days at Kewill Systems. She is a bit of a whirlwind (and that's just the speed at which she processes) but her track record at Advanced Computer Software and Computer Software speaks for itself - both were highly profitable investments. ADVT is her latest vehicle. Having made an unsuccessful bid for advertising agency M&C Saatchi, Murria has gone back to her roots and used the cash shell to acquire five software businesses for £33m from Capita in a reverse takeover. In 2022, the acquired businesses generated £35m in revenue (74% recurring). *With a £65m war chest for more deals and Murria holding a 13.14% stake, keep an eye on this for a future issue.*

MOONPIG (MOON)

Sector :	Retailers	
Latest Price :	157p	
High/Low :	191.5p - 102p	
Market Cap. :	£529m	
Shares in issue:	343.3m	
end4/2024 EPS/PER est	10.2p	15.4
end4/2025 EPS/PER est	11.5p	13.7
end4/2026 EPS/PER est	12.5p	12.6
Contact	07809 340 142	
Registrars	08716 640 300	
CALENDAR		
Int/Fins/AGM	DEC/JUN/SEP	

Having covered **IG Design Group** (IGR; 152.5p) this time, another related business that has recovery potential and catches the eye is Moonpig. The business, which was established 25 years ago, is the category killer in the online greetings card segment, with *Moonpig.com* in the UK and *Greetz* in the Netherlands each having a >60% market share of the online card specialists that include WH Smith's Funky Pigeon, Thortful and TouchNote.

Moonpig's shoppers are a loyal bunch and once acquired tend to order cards frequently over many years (with an especially high order frequency seen amongst those who download its App from which it now derives 50% of orders). The company has naturally expanded its offerings to include card-attached gifting. Moonpig has been busy "building a better mousetrap," employing proprietary gifting algorithms to effectively upsell a variety of products, including flowers, t-shirts, balloons, food, toys/gadgets, gift experiences and alcohol, to card buyers. There are presently 2,700 physical gifts on offer and the 2022 acquisition of Red Letter Days/BuyaGift has also added 5,000 experiences.

Like Design Group, this business faced its own challenges recently. The problem was that Moonpig took on too much debt to buy Red Letter Days/BuyaGift, just at the moment that UK consumer confidence collapsed, which caused investors to take fright. Then, three weeks of Royal Mail strikes in Christmas 2022 seriously dented festive sales as final posting dates came forward; with no guarantee a card was going to arrive on time, there was little motivation to pay the personalised premium charged and shoppers retreated to physical shops rather than buying online. That's why bricks and mortar competitor **Card Factory** (CARD; 101p) had such bumper profitability last year.

Net debt falling

But with the shares now down to 157p, less than half the 350p float price in 2021, they are worth watching, although perhaps not a buy right now for me. Latest H1 results showed shoppers are returning online (Retail Gazette says Moonpig's traffic during Black Friday soared 48%), the new AI induced cross selling activity is gaining traction and margins are climbing. The Moonpig brand has moved back into growth since March, showing a c.+5% run-rate whilst Greetz was still down by -10% (albeit an improving trend from the previous year's -20% decline). Net debt has also fallen from £209m to £167m in the past 12 months (1.9x ebitda).

Moonpig was established by former Dragon's Den "Dragon" Nick Jenkins, who launched the business in 1998. For the first five years the business was underfunded, growing mostly through word of mouth and it remained lossmaking. But in 2003, there was a turning point after external investment allowed Moonpig to increase marketing.

The business went on to change hands a couple of times with Jenkins selling to Photobox for £120m in 2009, which itself was then acquired five years later by Exponent and Electra Partners for £400m in 2015. By then its growth had really accelerated with Moonpig launching its first TV ad featuring the catchy 'Moonpig dot com' jingle, which is now known by about three quarters of the UK population.

CEO Nickyl Raithatha took the helm in 2018 and one of the first things he did was buy Greetz, a similar business in the Netherlands, to add scale. Like Moonpig, it was the clear market leader but was loss-making (although following a recent move to the same platform, with a simpler 'build your own card' and ordering process, things are improving).

By the time the business floated it had, however, achieved some notable milestones with the Moonpig brand passing £126m in revenue and Group sales, including Greetz, hitting £173m with 12.2m active customers. This success allowed Moonpig's IPO at 350p to raise £20m for the company (£9m after expenses) and £455m on behalf of selling shareholders. Normally such a huge disposal would have been a reason for caution but it didn't stop the shares from receiving a strong opening 'pop,' propelling them into the FTSE-250 index.

Inventory-free platform

Some subscribers might wonder which is the better investment, Moonpig or store-based specialist Card Factory, especially as the latter trades on half the PE multiple. Both businesses are similar because they have a vertically integrated model (they print their own cards) and both have also moved into card-attached gifting.

Unlike Card Factory's stores, Moonpig prints 100% of its cards on demand across multiple sizes and formats, has no inventory, distributes direct to the card recipient (or customer) and doesn't have rents to pay. You can order as late as 10pm for next day delivery, which is important as most customers are active buyers between the hours of 7-9pm.

Printing to order allows expansion of its ranges - there are now, for instance, 17k birthday cards (9k at IPO) on its site versus, say, 400 SKUs in a Card Factory store for all occasions - and an inventory-free platform turns EBITDA into cash more efficiently as there is no working capital.

Reminder setting

But anyone who considers just those points is missing the key difference - the monster data engine, which Raithatha has been building. These days Moonpig employs some 150 or so engineers, data scientists and analysts, who make up nearly half of Moonpig's workforce and they have built the systems to harness and analyse customer data.

Anyone who has used Moonpig might already have noticed the convenience of entering your key dates such as birthdays and anniversaries on the system to be sent reminders; in fact, you get a loyalty discount when you give them six dates with some basic information (e.g. occasion, relationship). But Moonpig obviously has its own interests at heart and has begun to leverage this information into repeat revenue and cross-selling opportunities to encourage better customer lifetime value. After all, you have just told them who you might be buying a card for, why and when - and Moonpig has 35 million such opportunities to get you to add a gift.

It is also a bigger market; card attached gifting in the UK, Ireland and Netherlands is a market worth £24bn versus the greeting card market of £2bn.

Gifting increases TAM by £24bn

Moonpig feeds all the customer information into its proprietary gifting algorithms to predict demand and put relevant items in front of customers ahead of those special occasions. As one broker points out, "Over 500bn data rows are captured every day including those from reminders, search terms, and gift attachments. This is ingested into the data pipeline, where it is transformed and analysed, to find opportunities to increase personalisation and further develop cross-selling gifting algorithms. The proprietary gifting algorithms are the result of rapid iteration machine learning pipelines, the output from which feeds directly back into the data platform."

Gifting has strong unit economics

Moonpig first introduced flowers in 2009 but these days offers 2,700 physical gifts (up from 1k at IPO) including food/beverages and balloons. The beautiful aspect is that most gifts are supported on a "drop ship" basis by specialist third parties who fulfill the order, so Moonpig never touches the stuff but instead takes a commission, keeping its margin high. A single card order might generate a gross profit of c.£2.50. The average gift uplifts this gross profit by c..£3 but the sale of the gift comes with zero marketing expenditure.

The acquisition of Buyagift and Red Letter Days, which came together as a single package in July 22, added 5,000 experiences to the repertoire and categories include short hotel stays, pampering events and spa days, gourmet treats and driving experiences. In FY22, coming out of Covid lockdowns, the brands had sales of £44m, leading to high-water-mark profits of £12m but it's naturally drifted down as consumers have found other things to do. But interestingly, these two brands act as agent so its reported revenue is essentially commission (which tends to be around one third of the headline price of the experience) and margins are high because experiences only require Moonpig to send a digital code to the customer rather than posting anything and the supplier does everything else. Commission is pretty much 95% gross margin, which is helping boost the group average.

Group gross margin at the latest H1, however, improved to 58.5% after it moved card fulfilment in-house and now there are limited variable costs below this (broadly limited to payment provider fees, and some customer service costs and cloud hosting costs) and the latest H1 results show the EBITDA margin was 27.2%, up 3% year-on-year.

EBITDA margins climb 3% to 27.2%

Moonpig operates a 'card-first' model, where customer acquisition is centred on the greetings card category; one broker notes it historically spent c.7% of sales on marketing but the present level is not disclosed, suffice to say that the company dialled down marketing spend in 2023 because of diminished returns. In the latest period, it has therefore been reliant on existing customers and in H1, 91% of Moonpig's revenue came from existing customers.

Peel Hunt forecasts £46.9m pretax profit/eps of 10.2p for the current year to end April, lifting to £52.3m/11.5p next year. Ahead of Christmas, Moonpig resisted from guiding expectations up but annualising delivery disruption in Christmas 2022 suggests Christmas was strong. Brokers are also recognising it is only going to take a small dose of improved consumer sentiment to galvanise the share price. *I am making the shares a speculative buy ahead of the 14 March update as debt is falling back sharply.*

2024 NAP SELECTIONS

2023 NAPS REVIEW

Company	Recd Price p	Current Price p	Change (%)	High Price p	Change (%)
Reach	107	70.75	-33.9	111.5	+4.2
GB Group	341	267	-21.7	380	+11.4
Yu Group	463	1270	+174.3	1290	+178.6
Superdry	155	31	-80.0	168	+8.4
On the Beach	166	170	+2.4	192	+15.7
Made Tech	23	13	-43.5	42	+82.6
Brave Bison	2.5	2.1	-16.0	3.2	+28.0
dotDigital	85	100	+17.6	117	+37.6
musicMagpie	28.5	14	-50.9	46	+61.4
Luceco	104	127.5	+22.6	155	+49.0
Inspecs	42	81	+92.9	140	+233.3
Average Gain			**+2.4**		**+64.6**

In 2023, I am not sure how satisfying it was that despite witnessing a doubling of two NAPS and a notable gain-to-high of 64.6%, we were left with a year end gain of 2.4%. The majority of the gains were concentrated in January and February but the NAPS then couldn't help but follow a downward trend, mirroring the AIM and Small Cap indices before a partial rebound in December. For the second consecutive year, small caps trailed behind large caps; one would need to look back to 1989 to witness a similar extent of underperformance.

2023 had seen central banks taking action to combat the double digit inflation seen in late 2022, resulting in interest rates rising to the highest levels seen since before the global financial crisis. Debt servicing is a big deal for many small businesses as they typically carry shorter duration debt and may need to refinance at higher interest rates and so investors began to reposition themselves. Liquidity also played a part. As this dried up there were six straight months of equity fund outflows, with top-of-book market depth close to its worst levels. Against that backdrop, profit warnings delivered the most severe price drops to companies for 16 years, according to Bloomberg.

This year things look better. Although the impact of elevated interest rates is now setting in and will negatively impact growth in 2024 (so there is still a bit of a need for caution), as the new year unfolds, inflation is back to 2.4% in the Eurozone and in the US it is likely to be sub 3% at next print. Market watchers are expecting this to translate into 6 quarter point rate cuts. Despite the rally in share prices in December, there is deep value. Many of this year's selection are on low single digit PEs of 5-7. Some are recovery plays. As always, give the list some thought and only buy those your own gut feel dictates.

• **Future** (FUTR; 778p) was highlighted in November. Its market cap stands at £901m versus the free cashflow that Future offers to the market of £253m. In FY23 it used that cashflow to reduce debt by £100m and £45m for accretive M&A. It also returned £13m to shareholders via buybacks. At the current price the market cap is too low versus the £594m takeover of price comparison website owner GoCompare, undervaluing all the other stuff (US publisher Purch in Sep '18, Mobiles Nations in Feb'19, Barcroft in Nov'19, TI Media in April'20 and the Dennis Publishing £300m buyout titles bought in 2021). Mark Slater's fund has been buying.

• **On the Beach** (OTB; 170p) We've seen one of the wettest Decembers on record and all these holiday brochures landing on my doormat make me long for sunnier times. I review the results for this online travel agent on page 4. OTB's short haul 3* holidays, premium 5* holidays and long haul holidays are all on fire. Eps of 14.6p and ex-unencumbered cash of 45p per share leave it looking dirt cheap.

• Like Inspecs, **Luceco** (LUCE; 127.5p) runs its own factory in China, the scale of which is hard to replicate. It supplies LED lighting, EV chargers and electrical accessories and although FY23 saw softer trading for domestic repair, maintenance and improvement (via Screwfix and Toolstation), the professional projects and local authority channels were strong. Luceco confirmed Q3 sales were +8%, an improvement on -5% for H1, and Q4 comps are even more favourable. Operating margins have strengthened to c.12% in Q3, up from 10.7% in H1. Luceco generated £12m free cash in Q3 and net debt reduced to £30.5m (0.9x ND/EBITDA), paving the way for M&A. Liberum's eps forecast for this year is 11.7p with 13.4p next, to drop the PE to 9.5x. The FD bought 54,600 shares in December.

• Cybersecurity firms have been in the spotlight with Kape and Sopheon on the receiving end of bids last year. So my first idea is London-listed digital identity specialist **GB Group** (GBG; 267p). GB's world was turned on its head during the pandemic. Everyone seemed to be trading Bitcoin and this created a rush of demand for verifying identities on behalf of companies like Coinbase. But the volume fell away and in FY23, GB's Identity side was sluggish (-3%, or -0.5% excl crypto) detracting from the fact that Location and Fraud performed well, with 8-10% growth. Bitcoin is bouncing and hit US$45,000 for the first time in 2 years (ahead of approval of an exchange traded fund) so volumes in Identity will improve. Valuing GB in line with Experian implies a 380p share price, says Jefferies. I think any bid would top £5.

• **McBride** (MCB; 91p) was made an early NAP in December when I noticed brokers lift eps forecasts from 5.3p to a record 15.1p in not more than a month, and I made the shares a main buy on a PE of just 5. A trading update is imminent.

• High street staple Boots has had a strong Christmas, and saw underlying sales growth of 9.8% in the 3 months to November. Like McBride, a large reason for the continued upwards movement is shoppers trading down to cheaper brands in beauty and skincare. Step up **Revolution Beauty** (REVB; 29.5p), a multi-brand, multi-category, multi-channel, mass beauty innovator. I briefly touched on the shares in August and since then, Boohoo (BOO; 36p) has lifted its holding to 30%, booted out the remaining incumbent management and added ex Boohoo CFO as CFO. No forecasts yet but a CMD is planned for January (incidentally, Frasers is mopping up Boohoo and taken its stake to 19% vs the Kamani family's17% and could unlock both share prices).

• It's rare to highlight another company that is set to produce record results and can be bought on a PE of 5 but data centre fitout contractor **TClarke** (CTO; 132p) fits the bill. It recently detailed a 99% increase in the order book to £1.1bn alongside a further £1bn in opportunities (its usual win rate is 1 in 3), with artificial intelligence (AI) driving demand. FY23 delivered challenges and TClarke had to change some supply chain partners mid contract, resulting in higher costs. The one off cost of this meant FY23 pretax profit forecasts were shaded to £7.2m (eps 12.7p) but the current year's has spiked to £17.1m (24.1p), for a PE of 5.5.

• Recruiter **Staffline**'s (STAF; 23p) full year results are typically H2 weighted due to high numbers of seasonal workers hired in the pre-Christmas period (eg. for ready meal factories serving M&S and Tesco). This will be especially the case this year due to high-profile global sporting events (the Paris Olympics and UEFA Championships), the contribution from a new major contract to supply c. 2,000 workers to GXO Logistics, and a full period benefit from cost reduction programmes. Zeus forecasts eps of 4.1p this year for a PE of 6.

• **Inspecs** (SPEC; 81p) See page 8. Strikingly, net debt continues to fall by £1m every 3 months whilst the share price is static. Next year's 13.6p eps forecast drops the PE to 6.

• **Made Tech** (MTEC; 12.25p) blotted its copy book in its first full year on public markets. Although it saw solid organic revenue growth, up 37% to £40.2m (Central government +60% to £29m, NHS +27% to £5m, Local Authority -16% to £6m), profits were below expectations. Made's ability to win contracts (current backlog £61m) is not the issue but when certain Government departments delayed the start date of projects into FY24 in response to tightening budgets or began spending more cautiously, it played havoc with staff utilisation. Headcount has since been cut from 478 to 430. Last year Made also spent £1.5m on developing 3 new SAAS products for local government. Sales are forecast at £40m in the year to end May with eps of 1.1p. Strip out £8.5m cash (5.5p) and the PE is 6x. The CEO and COO recently added and now hold 43%.

• **Plus500 Ltd** (PLUS; 1755p) was a main buy in December '13 at 280p and also a NAP in 2020 at 825p, although anyone who bought then has a 'free carry' as it has returned an astonishing US$2bn to shareholders. Plus500 is an online trading platform for CFDs, futures and options and has recently obtained licences in new territories such as the US, Japan and UAE. FY24 has many volatility events, including elections and expected rate cuts, which will lift activity levels across its 13 markets. Cash balance is US$900m or c.70% of the entire market cap. Results are 20 February.

UPDATES & IDEAS

• Last January, **Inspecs** (SPEC; 81p) experienced a significant surge, soaring from my 42p NAP price to 140p (a 233% increase). Most of this movement occurred in a single day when it reported results, and investors perceived that all the negative news was factored into the price. However, high inflation saw institutional investors facing redemptions and become forced sellers bringing the shares back and causing much bawling and tearing out of hair for directors. Investec forecasts eps of 10.2p for the just-ended year, with 11.8p this year and 13.6p next making it a good time for a second bite at the cherry.

Established in 1988, Inspecs specializes in designing and manufacturing frames for corrective eyewear and sunglasses. In the initial decade, the company sourced from third-party manufacturers in the Far East, supplying frames to retailers like Specsavers. However, it now operates its own factories in China (Torkai), making titanium, metal, acetate, and injected frames (with a capacity of 3.5 million frames), and Vietnam (Neo), producing acetate frames (7 million frames). While a basic plastic frame might wholesale to Specsavers for, let's say, US$4, with US$15 for metal, these prices can be marked up significantly (4-8x). Consequently, Inspecs shifted from lower-margin own-label frames to high-margin branded frames by licensing third-party brands such as Caterpillar, Superdry, and O'Neill, incorporating its own design input.

A more transformative development was Inspecs' expansion in Germany and the US through the acquisition of Eschenbach, a wholesaler to independent opticians, and four other smaller deals, which overall increased sales five-fold to c.US$250m. Eschenbach had 85% coverage of opticians in Germany and 40% in the US and brought three of the top five brands in Germany, including *Titanflex* (titanium frames), *Humphrey* (acetate frames), and *Marco Polo* (licensed), into Inspecs' portfolio. While it previously subcontracted the manufacture of its acetate frames, Inspecs will soon relocate Eschenbach's acetate requirements to Vietnam (where it is adding 5 million to capacity) to retain the manufacturing margin. Transferring titanium production may take longer, but Inspecs has already relocated some of its Chinese engineers.

Elsewhere, Norville, a lens manufacturing division, was previously loss-making but has progressed toward profitability. Much secrecy surrounds smartwear, turning Amazon's warehouse workers into pseudo-cyborgs capable of identifying items for shipping by displaying orders that need to be picked on their glasses. Amazon volumes roll out next year.

Gross margins are healthy at 50.5% and the EBITDA margin is 10.9% (against management's target of 14%). Despite spending £1.7m on the Vietnam expansion, net debt has decreased to <£21m (<1x forecast ebitda). *Buy for a bid.*

THE GROWTH PORTFOLIO 3

PERFORMANCE TABLE		Change on One Month	Since Start
Growth Portfolio		+6.99%	+307.72%
FTSE-100	7689.61	+2.13%	+17.44%
FTSE-All Share	4196.35	+2.49%	+19.08%

Inflation has continued to fall. With hopes of rate cuts rising, gilt yields have fallen and are now at the lowest levels since June. In textbook fashion, small caps have started to see buy interest and are beginning to outperform as these companies tend to be the most sensitive to interest rates. Many small caps had experienced a buyers' strike since August 2021 since when UK equity fund flows had been negative for most months but now it seems even the slightest buying interest is met with market makers pushing prices up. For growth share investors, these conditions have created an Aladdin's Cave - a treasure chest full of promising opportunities on low PEs. The NAPS feature this time and include some shares that GP3 holds. With Ergomed delisted following the takeover at 1350p, GP's coffers are replenished and as suggested in December, I used some of this to buy McBride.

Consumer confidence had been undermined by elevated interest rates, leading to eight consecutive months of declining retail sales. However, in November, there was a notable upturn, including robust growth in non-food sales. This surge was partly attributed to an exceptionally promotional Black Friday. Unfortunately, the positive momentum may have been dampened by a persistently wet December, deterring shoppers from the high street so that one swallow hasn't yet made a summer.

But many companies tell me of strengthening gross margins, supported by drops in shipping rates (although ambushes in the Red Sea have started to see rates rise - *Editor*), reduced raw material costs, previously implemented price increases and improved sourcing strategies. Some analysts had been discounting these benefits as lost due to higher finance costs, but as this too reverses, it creates a further driver for potential 2024 outperformances by small caps. Overall, GP3's 2-month gain is +11.7% but with many shares on a single digit PE, the stage is set for this to turn into a feeding frenzy, with a bit of luck. It's going to be an interesting year ahead.

		Shares Bought	Date Bought	Buying Price (p)	Total Cost (£)	Present Price (p)	Value Now (£)
1000	^*	Softcat	7/12/15	229.2	2337	1311	13110
10000	*	SDI Group	15/2/17	20.5	2095	91	9100
1000	*	Alpha Group	27/7/17	470	4745	1760	17600
1000	#*	Future	9/4/18	329.5	3340	778	7780
15000	*	Ultimate Products	31/1/19	59.9	9075	147	22050
25500	*	Luceco	31/1/19	90	22837	127.5	32513
60000	•	XLMedia	8/7/19	43.7	26330	8.25	4950
10000		Volex	9/12/19	133	13345	299.5	29950
10000	•	Mpac	3/2/20	259	25990	292.5	29250
26069	•∞	Reach	3/2/20	98.8	26019	70.75	18444
3000		Victoria	13/11/20	450	13545	280	8400
7000		Supreme	5/3/21	189	13275	120	8400
16000	•	On the Beach	5/7/21	199	32065	170	27200
25000		Staffline	7/8/21	65.4	16395	25	6250
10000		T Clarke	6/9/21	147	14745	132	13200
32000	•	Boohoo	24/5/22	66	21410	36	11520
3000		Yu	12/12/22	426	12825	1270	38100
50000		musicMagpie	12/12/22	24.5	12295	14	7000
30000		THG	1/3/23	60	18135	74	22200
7000		GB Group	3/7/23	228	16005	267	18690
10000		Dr. Martens	14/8/23	152	15321	84.35	8435
20000		McBride	11/12/23	77	15522	91	18200
						Cash £	35377
						Total £	407718

Transactions take full account of dealing charges and bid offer spreads. Income from dividends is ignored. Current holdings in the portfolio are valued at mid prices and include all buying costs. Starting cap £100,000 (2 Jan '15). * Part profits taken • Averaged down. ^Adj for special divs. # Adj. for rights issue ∞ Adj. for bonus share issue

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