



The small company specialists

# COMPANY INFORMATION

**Premier Direct Group PLC (LSE - PDR)**

Info sheet compiled December 2006

**Company Eye Ranking**

**36/50**

## EDITOR'S NOTE

Premier Direct Group Plc is based in the North East of England and is the UK's largest 'Shopping at work' Group. Through its network of distributors the company offer books and novelty goods direct to its customers at their place of work at prices well below those of the high street.

Since the year end, the operational changes have stabilised the business reversed the decline in distributor earnings and established a stable platform on which to build future profitable growth. We consider this company a possible short-term investment.

## 3 YEARS CHART



## FUNDAMENTALS

Company Name	
Current Price	35
Status	AIM
Market Cap	7,25
Shares in Issue	20,705,920
Price-To-Book Ratio	1.7
Activities	Distribution of books and novelty goods in the UK and Eire
Sector	General Retailers
Corporate advisor	KBC Peel Hunt Ltd
Registrar	Capita Registrars

## HISTORY

Originally founded in 1993 as Premier Books, the company underwent a management buy-out in 1997, backed by 3i Group plc, before floating on the

London Stock Exchange's AIM market in 1998 as Premier Direct Group Plc.

## THE BUSINESS

Premier Direct Group Plc (PDG) is a United Kingdom-based shopping-at-work provider. The Company is engaged in the distribution of books and novelty goods in the United Kingdom and the Republic of Ireland. Through its network of distributors, PDG offers gifts and novelty

goods directly to its customers at their place of work. PDG sells a range of products, including products from categories, such as educational children's books, adult hobby books, novels, toys, and gifts and novelties.

## ACTIVITIES

The Group's principal activity is distributing books and novelty goods in the United Kingdom and the Republic of Ireland. The Company operates under 12 trading brands throughout the United Kingdom and Ireland. Its wholly owned subsidiaries include Premier Books (UK) Limited, which is engaged in the distribution of books and other novelty goods, and Holdagree Limited, Books UK Limited, Prestige Presents Limited and Shopping-at-work.com Limited, all of which are dormant. In 2000 Premier Direct made its first acquisition of Books UK Limited.

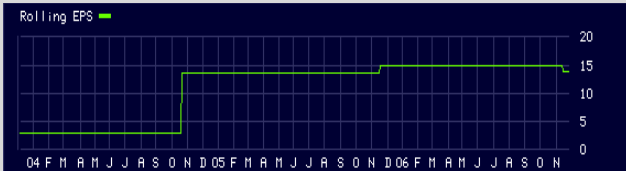
The company went on to make two more, significant acquisitions: the first was the acquisition of the distributor network, brands and certain assets of The Wonderful Book Company, the display marketing division of Kleeneze Plc, in 2003; On January 5, 2005, Premier Direct acquired Greenwich Direct Limited and The Laughing Gull Company. The second acquisition, completed in early 2006, was the acquisition of Oriflame UK Limited, which sells a range of natural Swedish cosmetics.



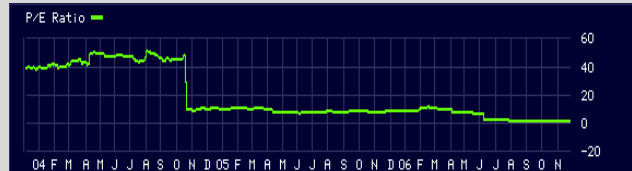
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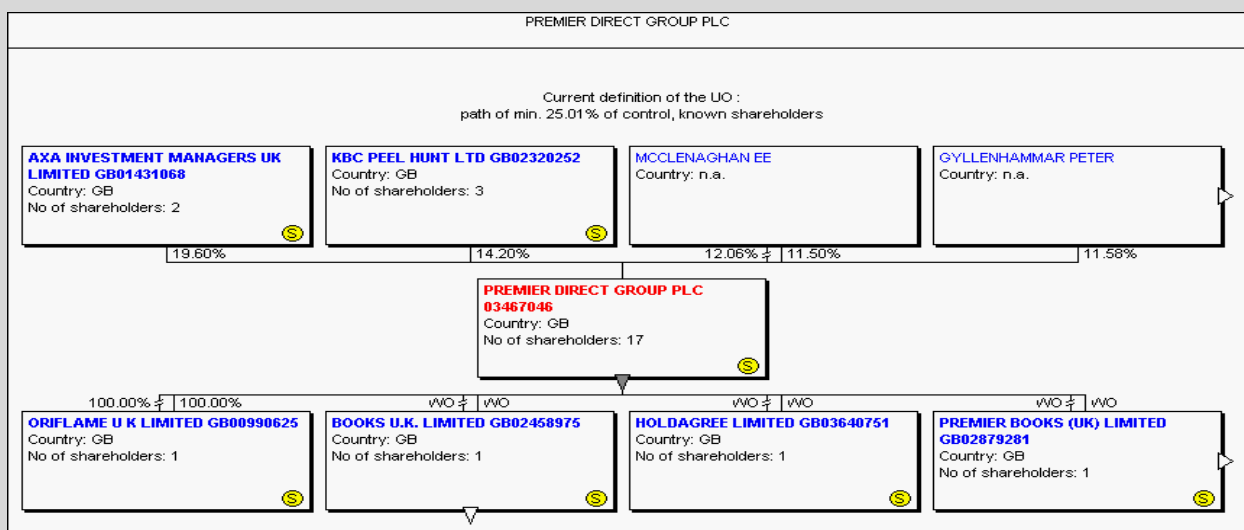
## 3 YEARS ROLLING EPS



## 3 YEARS P/E RATIO



## OWNERSHIP



## DIRECTORS

### Chairman

#### Mr Graham Wilson (54)

Graham joined the Board of PDG in July 1998 and was made chairman in 2005. Graham is responsible for the functioning of the Board as well as assisting in the development of the Group's strategy. He is head of the Remuneration and Audit Committee's of PDG. He is a chartered accountant who has worked in various industries during his career. Mr Wilson has been a director of various companies both public and private.

### Director

#### Eric W. Blakie (53)

Eric William Blakie is a non-executive Director brought in to strengthen the Board. Eric has extensive sales and marketing experience both in the UK and internationally. He was previously with Dominick Hunter plc for 28 years being a member of the management team which led the buyout and subsequent public listing. Whilst serving on the PLC Group Board, he had responsibility as Managing Director for each of the main divisions.

### Director

#### Mr Paul Southworth (62)

Paul is a Non-executive Director and has held a number of senior positions at Avon Cosmetics Ltd

("Avon") between 1971 and 1996, being appointed Managing Director UK in 1984 and subsequently President and CEO UK and Vice President Europe in 1986. He has served on the UK Direct Selling Association's Council for twenty years and in 1996 was appointed an honorary life member of the council.

### Chief Executive Officer

#### Mr Eric McClenaghan (46)

Eric joined PDG in January 2002 as sales and marketing director. Eric has held senior positions in various businesses and immediately prior to joining PDG had been sales director of Betterware plc. He was promoted to Managing Director in August 2003 and Chief Executive in 2005. Eric is responsible for the strategic development and the overall efficient running of the Group.

### Financial Director

#### Mr Graeme Allison (41)

Graeme brings a wealth of experience to the board having recently been working with Centre Design Group and Quantum Corporate Finance here in the North East. Graeme trained with Touche Ross and Co. and is a Fellow of the Association of Chartered Certified Accountants.



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# COMPANY INFORMATION

## SHAREHOLDINGS

	Number	%
AXA	3,682,500	17.90
EE McClenaghan	2,500,000	12.06
Artemis Investment Management	1,900,000	9.20
Goldman Sachs Group	1,472,750	7.10

	Number	%
Peter Gyllenhammar	1,315,000	6.34
Allan Rankin	1,100,000	5.31
Chase Nominees Limited	149,098	3.70
JP Morgan Securities Limited	652,170	3.1497
Legal And General Group	125,000	3.10

## FINANCIAL HISTORY

### Consolidated profit and loss account for the year ended 31 July 2006

£'000	2006	2005
Continuing operations	22,605	41,586
Acquisitions	523	855
Turnover	23,128	42,441
Cost of sales	(17,575)	(31,112)
Gross profit	5,553	11,329
Administrative expenses	(9,246)	(6,743)
Other operating income	47	100
Operating (loss) / profit	(3,646)	4,686
Continuing operations	(3,832)	4,634
Acquisitions	186	52
Operating profit before exceptional costs	541	5,814
Exceptional cost of sales	(2,096)	(346)
Exceptional administrative expenses	(2,091)	(782)
Operating (loss) / profit	(3,646)	4,686
Profit on sale of fixed assets	13	-
Interest payable and similar charges	(497)	(287)
Loss) / profit on ordinary activities before taxation	(4,130)	4,399
Tax on (loss)/ profit on ordinary activities	1,241	(1,390)
(Loss) / profit for the financial year	(2,889)	3,009
(Loss) / earnings per share (2005 restated)	(14.0p)	14.9p
Diluted (loss) / earnings per share (2005 restated)	(14.0p)	14.6p

### Consolidated balance sheet at 31 July 2006

£'000	2006	2005
Intangible assets	5,871	5,339
Tangible assets	1,458	1,396
Fixed assets	7,329	6,735
Stocks	4,443	5,343
Debtors	7,313	9,427
Cash at bank and in hand	261	-
Current assets	12,017	14,770
Creditors: amounts falling due within one year	(10,405)	(12,475)
Net current assets	1,612	2,295
Total assets less current liabilities	8,941	9,030
Creditors: amounts falling due after more than one year	(4,669)	(1,052)
Net assets	4,272	7,978
Called up share capital	207	204
Share premium account	3,596	3,463
Profit and loss account	469	4,311
Shareholders' funds	4,272	7,978

## FINANCIAL OVERVIEW

Turnover for the year fell to £23.1 million from an actual reported turnover of £42.4 million in 2005. Proforma turnover fell from £23.1 million to £21.0 million, a like for like fall of 9.1%. This fall was a result of reducing distributor numbers and reduced average sales per distributor during the year.

Pre tax losses for the year were £4.1 million after exceptional costs of £4.2 million (2005: profit £4.4 million). The operating profit for the year was £0.54 million before the exceptional costs (2005: £5.8 million). The operating loss was £3.6 million after exceptional costs (2005: profit £4.7 million).



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# COMPANY INFORMATION

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## CONTACT

Simonside East Industrial Park  
Newcastle Road  
South Shields  
Tyne and Wear  
NE34 9AA

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	39
Customers	39
Low cost	35
Management	
- corporate governance	33
- quality	35
- shareholding	36
Product	40
Sector	32
<b>Financial evaluation</b>	
Early and profitable exit potential	
Financial strength	
- cash flow	39
- conservative accounting	32
- need for funding	32
Growth at a reasonable price	
Risk	40
<b>Overall average rating</b>	<b>36</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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