



## The small company specialists

# COMPANY INFORMATION

Printing.com (LSE:PDC)

Info sheet compiled November 2006

Company Eye Ranking

28/50

### EDITOR'S NOTE

Printing.com is an amalgamation of a franchised high street publishing companies and a centralised hub where all the printing occurs. The backbone of the company is the Flyerlink® software that allows the centralisation of orders. The company has recently granted a Master Franchise Agreement to a New Zealand company and expects to see profits coming from this operation over the next year.

The company has maintained profit at a similar level to the

same period last year. Although this is a profit the company does not seem to be making any progress to become more profitable.

Our opinion of the company is that there will be no dramatic change in profit over the year and that the share price will stay at a similar level. Having said this there may be an increase in profit if overseas Master Franchise Agreements signed, making it a stock to watch.

### 3 YEARS CHART



### FUNDAMENTALS

Company Name	Printing.com
Current Price	46.5
Status	AIM
Market Cap	21.03 m.
Shares in Issue	44.75 m.
Price-To—Book Ratio	3.3
Activities	Provision of a broad range of print products throughout the UK through a chain of high street stores franchised bolt-ons
Sector	Media - Publishing
Corporate advisor	Brewin Dolphin Securities Ltd
Registrar	Capita Registrars

### HISTORY

The Printing.com business was established by Tony Rafferty in 1992 after he left University. Whilst a student at the University of Sheffield, he became involved in running student events. Subsequently, he devised a concept for producing small advertising leaflets or flyers in full colour batches more efficiently. Initially the business was centred on the UK discotheque market, servicing many of the larger public and private leisure companies. The Directors believe that the introduction of the Flyerlink® software in 1994 subsequently enabled the scalability of the business. From 1995 the business extended its product range to include leaflets, flyers, business cards, stationery, membership cards, mailing cards and a variety of items suitable for direct mail (which typically require a print-run of between 500 and 20,000 copies) so that it could expand its target market to include the SME and SOHO type businesses. In 1995 indirect and direct marketing channels were explored prior to the opening of the business's first

Store in 1998.

By 1999, two Stores had been opened, in Edinburgh and Sheffield, Flyerlink® was being upgraded and senior staff were being recruited to roll out what was to become the Printing.com format of high street outlets connected to a central printing hub via Flyerlink®.

In 2000, the Company acquired the original Printing.com business and floated on Ofex, raising approximately £1.9 million. At this time the estate had expanded to five units and by March 2001 this had increased to 15.

In late 2001 the group announced a strategy for expansion through franchised outlets, the first of which were granted in early 2002. Shortly afterwards the Company raised a further £1 million via public offering in order to support the accelerating outlet roll out. The Group moved to a new, larger Hub and National Training Centre located at Trafford Park in Manchester in 2003. In August 2004 the company moved to AIM.

### THE BUSINESS

Printing.com combines a franchised customer-facing high street presence with a centralised printing hub to provide a high quality and low cost printing solution for small and medium sized enterprise and small office/home office customers that competes with on demand printers ("ODP") in the UK and Ireland such as high street digital imaging

and photocopy bureaus, small commercial printers and print shops. A wide range of full colour print items such as leaflets, brochures, booklets, posters, postcards, promotional cards, invitations, letterheads and business cards are offered in its buying guide which is made available to existing and prospective customers.



## The small company specialists

# COMPANY INFORMATION

### ACTIVITIES

#### Stores

	1/6/06	31/3/06	31/3/05
Company owned Stores	6	6	9
Franchised Stores - Open and pending under option	43	42	33
Bolt-on Franchises	123	118	77
Total	172	166	119

#### Owned Stores

The Group opened its first Store in Edinburgh during November 1998 and by March 2001 had opened an additional 14 in locations across the UK. The opening of a Store in Dublin during April 2003 proved the ability of the Group's systems to run successfully within the Euro zone as well. Since March 2003, nine Stores have been franchised reducing the Group owned estate to six.

#### Territory Franchises

A Printing.com Territory Franchise enables a franchisee to launch a Printing.com Store and then develop a network of Bolt-on Franchises within an extended geographic area, typically the size of a county. The Directors believe that the Territory Franchise model facilitates a more effective support of the Group's network of Bolt-on Franchises by leveraging the local expertise of each Territory Franchisee. It also enables each Territory Franchisee to exploit their local knowledge of the best potential Bolt-on Franchise partners in their territory by acting as a marketing agent for the Bolt-on Franchise opportunity.

The majority of the Group's revenues on an ongoing basis arise from the transactions at 'transfer price' between the Territory Franchise and the Hub.

Across the UK 66 Territories have been defined with each Territory being designed to accommodate the development of between three and eight Bolt-on Franchises. If successfully exploited, this structure could result in the Printing.com estate exceeding 300 outlets.

#### Bolt-on Franchises

A Bolt-on Franchise enables established ODP's, Graphic Designers, Marketing Agencies and similar graphic arts businesses to interface with the Group's Hub via its proprietary Flyerlink® software and thereby offer their clients the Printing.com range of products.

Operationally the Bolt-on Franchise works in much the same manner as a Territory Franchise with the majority of the Company's ongoing income arising from the transfer pricing element.

#### The Agency

Prior to the inception of the Group's first Store, its business was principally centred on the leisure sector. This operation has been referred to previously as the Group's 'Traditional Markets' it has now been re-branded in a fashion similar to a Bolt-on Franchise and trades as 'Printing.com@TheAgency'. This division is also used to

pioneer more sophisticated customer relationship management techniques.

#### The Hub

Printing.com's UK Hub is located in Trafford Park, Greater Manchester and embraces both leading edge production facilities and a well equipped training suite, the National Training Centre. The training suite can accommodate up to 40 people in three well-equipped seminar rooms. The training suite is utilised most days..

Printing.com has centralised printing facilities utilising leading technology to achieve economies of scale. The Group's systems allow many printing orders to be processed together on large format sheets of card or paper.

The Production Hub had capacity in the order of £20-25 million of Total Retail Sales. With the figure for the year under review approaching the bottom end of this range and the present annualised level in peak weeks exceeding this range, then clearly the question of additional capacity had to be addressed.

During the year, the company refined the plan for an increase in capacity of the Manchester Hub, essentially comprising the following principle elements:-

\*a 'double-decker' press that should have a capacity similar to the combined output of the two existing 'single-decker' presses;

\*an upgrade to certain print finishing equipment not only to provide additional capacity but also to improve efficiencies.

#### Flyerlink®

Printing.com's proprietary software, Flyerlink®, provides the backbone for all of its operational practices. Each outlet uses Flyerlink® to manage the workflow including prioritising which jobs need designing first and which orders are approved for printing. Flyerlink® produces the necessary order forms, confirming the exact specification of a customer's order. This enables the interrogation of commercial data to provide management information such as value added profitability by sector and key performance indicators. Via Flyerlink®, outlets control the exact specification of the printing, including the type of paper and turnaround, together with finishing options such as lamination. Flyerlink® is also directly linked to the Group's carrier, giving outlets control over where goods are delivered and also the time at which they will arrive at the chosen destination.

The Group relies on its use of its Flyerlink® software for the effective operation of its business and retains the ownership of the intellectual property rights in respect of this software. The upgrade of Flyerlink® has been carried out by an external consultant who jointly owns the intellectual property in the upgraded software with the Company. The upgraded software cannot be used by anyone outside the Group in the printing environment.

### DEVELOPMENT HIGHLIGHTS

4<sup>th</sup> September 2000 – start of trading on Ofex  
1<sup>st</sup> November 2000 – Acquisition of 5 sites

26<sup>th</sup> October 2001 – Launch of Franchise programme  
10<sup>th</sup> August 2004 – Moved to AIM



## The small company specialists

# COMPANY INFORMATION

### EXPANSION

In November 2005 Printing.com set out plans for international expansion. Central to these plans is the granting of a Master Franchise Licence to an established printer in another country who would in turn be able to exploit the Printing.com model in their territory.

Through its UK and Ireland activities, Printing.com is presently achieving a profit before tax of 19.5% of turnover. By comparison, the average figure for the UK's 500 largest printing companies is just 2.79% (Print Week Top 500 UK Print Companies Survey 2005). This profitability chasm may prove to be the commercial rationale for overseas printers to embrace Printing.com.

The granting of a Master Franchise would provide a partner with access to the Printing.com brand, business knowhow, methodology, marketing and training collateral. It would also, and of particular importance, provide a licence to use Flyerlink®, the Company's proprietary software, which fuses together the entire supply chain from Franchisee to final despatch. It is believed that no 'off the shelf' available software can appropriately facilitate the specific nature of the Printing.com model. In return for granting a Master Franchise it is anticipated that Printing.com will be paid a combination of an initial licence fee, a royalty in the order of 3% of the Licensee's Total Retail Sales and 20% of franchise fees generated locally.

The first such Master Franchise Agreement has been granted for New Zealand to Astra Group. Astra Print Limited operates a commercial print business in Wellington, New Zealand. Over the past three years they have independently developed a network branded 'Print Stop'. Print Stop, like Printing.com operates via a central 'Hub' albeit it currently comprises of fourteen outlets (five franchised). The rationale for the Astra Group adopting the Printing.com Master Franchise is centred on Flyerlink® and their belief that the step-change in functionality that Flyerlink® brings to both their outlets and hub operations will prove the catalyst for increasing their rate of expansion. The agreement with Astra Group also includes an option covering Australia, exercisable by 31 March 2007.

During the April 2006 IPEX exhibition many visitors extended their trip to include a visit to Printing.com and others who were unable to do so have since made separate visits to the Hub. Space has been reserved at October's Graph Expo print exhibition in Chicago, which is the largest print exhibition in all of the Americas, during October 2006. This, together with other promotional initiatives, whilst incurring additional expenditure reflects a belief of the potential of the Master Franchise project.

### DIRECTORS

#### **Reginald George Hardie - Non-executive Chairman**

Commonly known as George, he qualified as a Chartered Accountant in 1965. After being appointed as group financial director of Richard Johnson & Nephew Limited (which subsequently became Firth Rixson plc), he became joint group managing director in 1989. In 1994, he led the buyout of six subsidiaries of the Firth Rixson group. Apart from the Group, he is a non-executive director of three other companies. George has extensive experience in financial and general management, in both large and small companies, and in mergers and acquisitions. He joined the Group in 2000 and is chairman of the Remuneration Committee.

#### **Anthony Rafferty - Chief Executive**

Tony studied electronics and electrical engineering at Sheffield University from 1987, developing an interest in marketing and promotional activity whilst managing Student Union entertainments. He worked in First Leisure plc's Superbowl division briefly in 1990 before operating as a self-employed print broker. In 1992 he founded a printing company which subsequently became Printing.com Europe Limited and which was acquired by the Company shortly before its admission to Ofex in 2000. He has shaped the Group over the past decade and devised its business and sales models. He also designed and developed the Flyerlink® system which defines the Group's work flow.

#### **Alan Quine Roberts - Finance Director**

Alan qualified as a Chartered Management Accountant in 1981 at Moon Brothers Engineering Limited. Following a period as Divisional Accountant at Edward Billington Group

Limited he joined Dalgety plc as group accountant for its Merseyside production facilities. He moved to CQR Limited in 1987, which was acquired by Expamet International plc in 1988 and was subsequently appointed as Financial Director and company secretary of that company in 1991. After Expamet's acquisition by Channel Holdings plc in 1995, he was appointed operations director in 1997. He joined the Group in 1999.

#### **Peter Robert Gunning - Operations Director**

After obtaining his Masters degree in accountancy and finance from Heriot-Watt University in 1997, Peter established the Design Foundry Scotland Limited and was a client of the business. Since joining the Group in 1998, he has been responsible for developing the Printing.com Store concept and the associated marketing and operations infrastructure. He was appointed to the Board in 2001.

#### **Leslie Alan Wheatley - Non-executive Director**

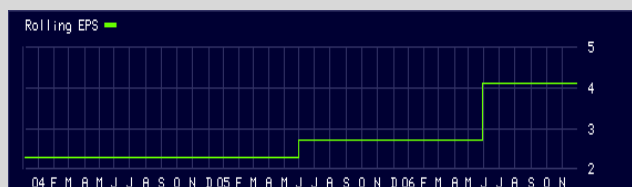
Les joined Liverpool Football Club and Athletic Grounds PLC in May 2000 and was appointed to the Board, as Finance Director, in August 2001. Prior to joining Liverpool he was Chief Operating Officer at Newcastle United PLC. He gained logistics and change management experience at Ernst & Young before leading the employee buyout of GM Buses (South) Limited, where he subsequently became Chief Executive and which was sold to Stagecoach Group PLC in 1996. Les brings experience in the fields of corporate governance, finance, logistics, change management and affinity marketing to the Board and is Chairman of the Audit Committee. He was appointed to the Board in 2000.



The small company specialists

# COMPANY INFORMATION

## ROLLING EPS



## P/E RATIO



## SHAREHOLDINGS

	Number	%
A Rafferty	9,055,042	20.2
Brewin Dolphin Securities Ltd	4,784,881	10.7
DWS Investments	3,800,000	8.5
Rathbone Invest. Manag. Ltd	2,601,117	5.8

	Number	%
Granger International Inv. Pty Ltd	2,165,000	4.85
R G Hardie	1,544,093	3.45
Haltcrown Limited	1,427,243	3.20

## FINANCIAL HISTORY

### Profit and loss account for 28 Weeks to 15<sup>th</sup> October 2006

£000	28 weeks ended 15 <sup>th</sup> October 2006	Year ended 31 <sup>st</sup> March 2006
TURNOVER	6,187	12,344
Changes in stocks of finished goods	21	16
Raw materials and consumables	(2,069)	(3,557)
Staff costs	(1,676)	(3,422)
Depreciation and amortization	(439)	(794)
Other operating charges	(1,003)	(2,363)
OPERATING PROFIT	1,021	2,224
Investment income	107	141
Interest payable and similar charges	(102)	(134)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,026	2,231
Taxation	(308)	(528)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	718	1,703
Earnings per ordinary share - basic	1.61p	3.84p
Earnings per share - fully diluted	1.53p	3.65p

### Balance Sheet as at 15<sup>th</sup> October 2006

£000	15 <sup>th</sup> October 2006	16 <sup>th</sup> October 2006
Intangible assets	68	93
Tangible	6,689	3,652
FIXED ASSETS	6,757	3,745
Stock	102	94
Debtors	3,973	2,813
Cash	3,223	2,734
CURRENT ASSETS	7,298	5,641
CREDITORS: Amounts falling due within one year	(4,645)	(2,975)
NET CURRENT ASSETS	2,653	2,666
TOTAL ASSETS LESS CURRENT LIABILITIES	9,410	6,411
CREDITORS: Amounts falling due after more than one year	(2,595)	(695)
PROVISION FOR LIABILITIES AND CHARGES	(215)	(255)
NET ASSETS	6,600	5,461
CAPITAL AND RESERVES	-	-
Called up share capital	447	445
Share premium	3,833	3,797
Merger reserve	211	211
Other reserve	374	191
Profit and loss account	1,735	817
EQUITY SHAREHOLDERS' FUNDS	6,600	5,461

## 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 small company specialists

# COMPANY INFORMATION

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

Third Avenue  
The Village  
Trafford Park  
MANCHESTER  
M17 1FG

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	25
Low cost	30
Management	25
- corporate governance	
- quality	
- shareholding	
Product	30
Sector	30
<b>Financial evaluation</b>	
Early and profitable exit potential	
Financial strength	30
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	25
Risk	27
<b>Overall average rating</b>	<b>28</b>



## The small company specialists

# COMPANY INFORMATION

### 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?

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?

#### 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.

#### Profitable exit potential

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

#### Low costs

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

#### 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?

#### 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?

#### 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.

#### Product

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

#### Risk

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

#### Sector

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

**This document must not be reproduced without the prior written consent of Company Eye.**

Risk Warning: Should you have any doubts about the suitability of this investment please consult with a professional adviser in accordance with the Financial Services and Markets Act 2000 ("FSMA 2000"). This document is provided as information only and is not intended to act as a financial promotion without the approval in accordance with section 21 of the FSMA by an authorised and regulated company. Company Eye does not accept responsibility for the accuracy of the information contained in this document and investors should not rely on this document when contemplating an investment. The value of investments can go down as well as up and you may not get back the full amount originally invested. This document should not be reproduced without the prior consent of Company Eye.