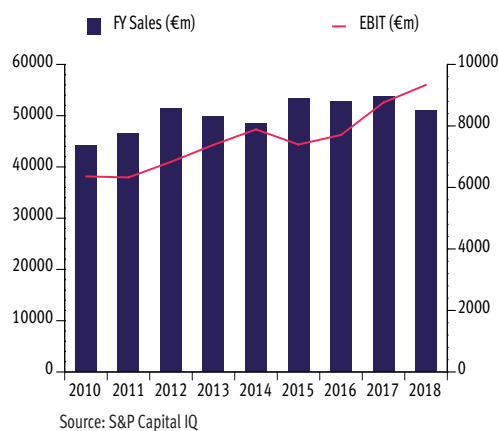




Phil Oakley's Weekly Round-Up

Thanks to my growing doubts about sustainability of profits at Unilever and Hargreaves Lansdown, both companies leave my Fantasy Sipp portfolio this week

Unilever profits growth not due to rising sales



The companies mentioned this week are:

- Intertek
- London Stock Exchange
- British American Tobacco
- RELX
- Howden Joinery
- Revolution Bars

Fantasy Sipp update

Fund Total Returns (%)	1-month	YTD	1-year
Fundsmith Equity T Acc	2	10.3	14.1
FTSE All-Share – Total Return	1.18	8.23	4.13
Vanguard S&P 500 ETF	0.46	8.14	8.11
Phil Oakley Fantasy Sipp	1.3	7.2	13
Finsbury Growth & Income Trust	0.88	6.91	9.81
Lindsell Train Global Funds	0.83	6.81	17.3
Scottish Mortgage Investment Trust	0.19	6.18	7.52
Castlefield CFP SDL UK Buffettology	-0.48	3.84	5.15

Source: SharePad

I've been trading this week which is something I don't like to do. **Unilever (ULVR)** and **Hargreaves Lansdown (HL.)** have left the portfolio and have been replaced by **WH Smith (SMWH)** and **Mastercard (US:MA)**. I've also used some of the proceeds from the sales to top up the holdings in Avon Rubber.

A few weeks ago on the companies and markets pod-cast, IC editor John Hughman grilled me on the portfolio's holdings in Unilever and Hargreaves Lansdown, and I admitted then that I had some doubts and was questioning them.

Unilever has been sold because I do not like the quality of its growth as it is too dependent on cost-cutting and

Alpha Production Editor: Sameera Hai Baig

the private equity strategies used by 3G capital that don't seem to be working out very well at Kraft-Heinz. Unilever's sales growth is also very weak.

While the company has some good emerging market and local brands exposure, I am concerned that its food brands do not have a deep enough moat and are vulnerable to growth of supermarket own-label products and niche young brands. Amazon's rumoured push into health and beauty products is a growing threat as well.

Hargreaves Lansdown is a very impressive business, but is also a geared play on financial markets. I am increasingly concerned about its charging structure and the amount of money it is making on platform fees from open-ended funds and cash balances. The valuation is also very high and I sold out with the shares on a PE of 33.6 times.

You might be asking why on earth have I bought WH Smith shares? I really like the travel retail business with its captive customers in train stations, airports, hospitals and service stations. They earn high profit margins and earn very good returns on capital. Its recent big purchase in the US gives it a platform to win more concessions in this key market.

The company generates lots of free cash flow and is buying back its shares. The high street business is slowly dying and will become a smaller part of the overall pie in the years ahead. I think the travel business will grow in value faster than the high street will decline. They are reasonably valued on a forward rolling PE of 17.8 times.

I want more exposure to American shares in the portfolio, as this is where I think the best opportunities are for compounding value over the long-haul despite the exchange rate risk.

Along with **Visa (US:V)** – which is already in the portfolio – Mastercard is the dominant payment card provider in the world. It is a play on a growing world economy, increased internet transactions and the gradual move towards a cashless society.

The company has a great brand and continues to innovate with instant payment services, peer-to-peer payments and business to consumer services. In addition to card services, it offers data analysis and security products. Huge investment in technology and a global presence give it a big economic moat in my opinion.

It does face regulatory risks and potential competition but the latter is overplayed, in my view. Services such as PayPal, Apple Pay and Google Pay all use the card providers and have not yet sought to replace them. Apple's credit card partnership with Goldman Sachs is likely to use Mastercard, according to press reports.

The company has been growing very strongly and is

extremely profitable with profit margins of 56 per cent, return on capital employed (ROCE) of 53 per cent and great free cash flows that allow it to buy back shares. It has no debt. I bought in at \$227 per share or just over 28 times one year forecast rolling EPS. That's punchy – less than Hargreaves though – and if the expected growth comes through I think it can perform well.

Mastercard Inc (MA)

FORECASTS

\$ millions unless stated

Year	2019		2020		2021	
Turnover	16,771.4	+12.2%	18,975.4	+13.1%	21,418.3	+12.9%
EBITDA	10,161.6	+15.2%	11,692.7	+15.1%	13,334.6	+14.0%
EBIT	9,654.2	+15.5%	11,148.2	+15.5%	12,812.8	+14.9%
Pre-tax profit	9,590.8	+17.3%	11,099.7	+15.7%	12,795.0	+15.3%
Post-tax profit	7,704.4	+13.4%	8,924.3	+15.8%	10,239.3	+14.7%
EPS (£)	754.6	+16.3%	892.7	+18.3%	1,052.8	+17.9%
Dividend (£)	116.0	+7.4%	126.9	+9.4%	131.5	+3.6%
CAPEX	298.1	-40.9%	379.5	+27.3%	759.0	+100.0%
Free cash flow	8,006.1	+40.0%	9,326.2	+16.5%	10,614.3	+13.8%
Net borrowing	-4,353.5		-8,734.8		-10,083.3	

Source: SharePad

Fantasy Sipp portfolio weightings, as of 6 March 2019

Name	Weighting
Spirax-Sarco Engineering	5.4%
Diageo	5.3%
InterContinental Hotels	5.2%
Pepsico	5.2%
Paychex	5.2%
Visa Inc	5.1%
Walt Disney Co (The)	5.1%
Halma	5.0%
London Stock Exchange	5.0%
Croda International	5.0%
RELX	5.0%
McDonalds Corp	4.8%
Sage	4.8%
James Halstead	4.7%
3M Co	4.6%
British American Tobacco	4.6%
Mastercard Inc	4.6%
Moody's Corp	4.5%
Intertek	3.9%
WH Smith	3.8%
Avon Rubber	3.1%
Cash	0.1%

Source: IC calculations



Intertek

Intertek (ITRK) is a world leader in testing, inspecting and certifying products, services and systems. It makes the bulk of its products from testing products to see if they meet quality, regulatory, safety and performance standards. It also provides services that test company supply chains, agricultural products, the traceability of goods, and services to mining and resource companies.

The company tests, inspects and certifies chemicals, electrical goods, supply chains, buildings, food, pharmaceuticals, oil and gas operations, security systems, transport infrastructure and agricultural products to name a few. This is a company that is pretty much involved with most products, services and systems across the world economy.

As the world becomes more inter-connected and trade increases, consumers, businesses and governments want to know that products, services and systems meet certain standards. This is the growth opportunity for companies such as Intertek.

There is also a big outsourcing opportunity in the market for testing as most companies still do this job in-house. The increased pace of innovation and complexity – things like electric vehicles – of products also provides a structural long-term growth driver

To compete and succeed in this area, you have to have a global footprint and invest heavily in technology and people to give customers what they need. Intertek has done this and has also grown its business by making strategic acquisitions.

The company has set out its stall to grow in line with world economic growth plus a little bit more. If it can do this while maintaining its very high levels of profitability (17 per cent profit margins, returns on capital of over 20 per cent) and free cash generation then I think it has the makings of a good long-term investment.

Despite this positive backdrop, this investment has not worked out well for me in my Fantasy Sipp portfolio. It entered the portfolio last June and I paid a very high valuation for it. Consequently it has reduced portfolio performance instead of adding to it.

The valuation remains high with the shares trading on a one-year forecast rolling PE of just over 23 times, at a share price of 4,910p.



Intertek Group PLC (ITRK)

FORECASTS

£ millions unless stated

Year	2018		2019		2020	
Turnover	2,806.1	+1.3%	2,978.2	+6.1%	3,123.7	+4.9%
EBITDA	580.7	+6.9%	624.9	+7.6%	665.9	+6.6%
EBIT	477.1	+10.0%	522.2	+9.5%	550.7	+5.5%
Pre-tax profit	455.2	+11.6%	495.6	+8.9%	529.0	+6.7%
Post-tax profit	320.4	+2.6%	348.3	+8.7%	372.0	+6.8%
EPS (p)	196.5	+2.6%	212.4	+8.1%	227.8	+7.3%
Dividend (p)	93.3	+30.9%	106.2	+13.8%	112.5	+5.9%
CAPEX	136.5	+20.9%	133.0	-2.6%	152.4	+14.6%
Free cash flow	281.8	-12.6%	334.3	+18.6%	358.8	+7.4%
Net borrowing	801.5	+47.3%	646.8	-19.3%	500.1	-22.7%

Source: SharePad

That said, underlying revenue growth is reasonable and margins are still nudging up. The company is exposed to significant exchange rate risks, but I think this is a business that can quietly compound in value over the long haul. Despite a disappointing performance so far, I am going to stick with it.

London Stock Exchange

London Stock Exchange (LSE) is another portfolio holding that has reported recently. It delivered another strong set of results with sales and profits up nicely and a 17 per cent increase in the annual dividend.

When I am looking for shares to invest in, I want to see businesses that have strong and dominant market positions that translate into high and growing levels of profitability, with strong free cash generation.

London Stock Exchange ticks all the boxes for me. It has growing revenues, high profit margins (43.6 per cent), low levels of capital employed and high free cash flow margins (just under 25 per cent).

The company makes its money from three main sources:

- Information services – fees from providing data, indices, benchmarks, real-time prices.
- Clearing services – It has an 80 per cent stake in LCH, the dominant clearing house for swaps, currency, equity and interest rate derivatives in London. The amounts of money lodged with it by derivative counterparties also provide a source of interest income. It also has a clearing and settlement business for shares, bonds, currencies, commodities and derivatives in Italy.
- Capital markets – Companies pay fees to list on the London Stock Exchange, while the exchange also receives income related to the value of securities traded.

This is a business that has a dominant position in the London market and has a tremendous amount of pric-

ing power (perhaps too much?), which allows it to grow revenues and make very healthy profits. It's the kind of business that I would be happy to tuck away for years to come.

The outlook for the business still looks to be very healthy. Clearing volumes are still growing strongly and should have another good year in 2019. The growth in passive investing and the rise of exchange traded funds (ETFs) is great news for its FTSE/Russell index business and the fees that come from it. Global financial markets are still reasonably buoyant which bodes well for its Capital Markets business.

Despite a degree of scaremongering that a large chunk of its clearing business could relocate to Frankfurt after the UK leaves the EU, this has proven to be unfounded.

Some analysts expressed disappointment that the company had abandoned its profit-margin targets, but I don't see that as a big issue. Instead the company will continue to invest in its clearing business as well as pursuing opportunities in data analytics. This should support future revenue growth, while operating margins should still be able to keep on ticking up.

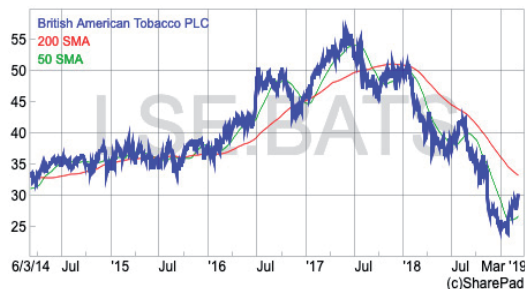
London Stock Exchange Group PLC (LSE)						
FORECASTS			£ millions unless stated			
Year	2019		2020		2021	
Turnover	2,287.1	+7.4%	2,437.2	+6.6%	2,580.8	+5.9%
EBITDA	1,235.2	+15.1%	1,347.9	+9.1%	1,419.2	+5.3%
EBIT	1,013.4	+28.9%	1,132.5	+11.8%	1,212.2	+7.0%
Pre-tax profit	891.3	+26.2%	1,022.8	+14.7%	1,066.7	+4.3%
Post-tax profit	676.1	+36.0%	773.9	+14.5%	853.2	+10.2%
EPS (p)	193.4	+13.2%	220.7	+14.1%	246.0	+11.5%
Dividend (p)	67.7	+12.1%	76.0	+12.3%	86.1	+13.3%
CAPEX	202.8	+4.5%	214.1	+5.6%	191.6	-10.5%
Free cash flow	722.1	+48.0%	791.3	+9.6%	980.4	+23.9%
Net borrowing	637.8	-8.0%	-244.1		-615.9	

Source: SharePad

Businesses like this don't tend to trade at cheap stock market valuations. At 4,688p, LSE's shares trade on a one-year forecast rolling PE of 23.9 times, but with a decent outlook for profits growth that's not too unreasonable from a long-term buy and hold perspective.

What about the risks? Regulation and political interference are ongoing threats. My chief concern is that the exchanges in general may have too much pricing power. In my previous job at a stock market software provider, the annual price increases levied for market data and pricing were eye-watering.

High profits usually attract competition, but this has yet to blow a hole in LSE's profits. This needs to be watched.

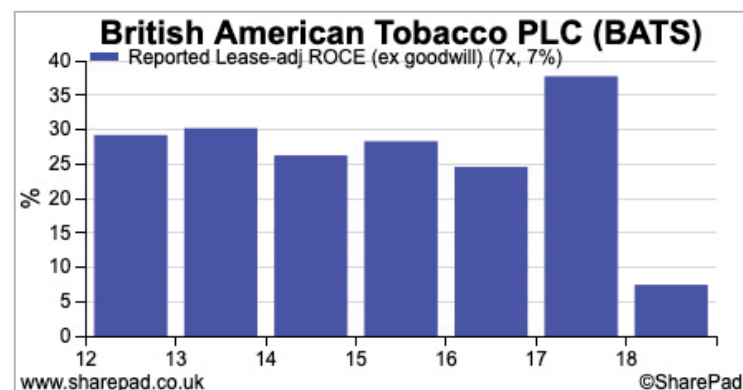


British American Tobacco

I perfectly understand why people don't want to invest in tobacco companies. I don't want to get into a deep moral debate about the ills of tobacco, but would point out that arguments about the damage it does to people's health could also be applied to the makers of soft drinks, processed foods and alcohol.

Tobacco companies have always had to fight against the threat of higher taxes or various forms of bans, but in recent years the chief concern of investors is that their products are going to be replaced by vaping. **British American Tobacco's (BATS)** share price chart (above, left) paints the picture of this concern very well.

The company itself has given more ammunition for bears by buying the remaining 57 per cent of Reynolds American it did not own just under two years ago. This has loaded its balance sheet with lots of debt and destroyed its ROCE, as all the assets of Reynolds plus goodwill have been consolidated whereas before it was just its share of net assets.



Source: SharePad

I only added BATS to the Fantasy Sipp portfolio just over a month ago. Given the negative sentiment towards it you might be asking why I did so?

Well, BATS remains one of the most financially productive businesses on the stock exchange and was on sale for just eight times one-year forecast rolling EPS and offering a dividend yield of nearly 8 per cent. It may not end up being a long-term holding, but given the difficulty in finding reasonably-priced shares of highly profitable companies, I thought they looked very attractive. At the time of writing, the shares had delivered a positive return of 9.7 per cent since they were included.

Full-year results for 2018 released last week were pretty solid. While the trend in smoking continues to decline in the West, it is still growing slightly in emerging markets. Yet, BATS has still been able to preserve its market share

and increase selling prices, which in turn allowed it to increase its revenues and profits.

Profit margins remain very high at 40 per cent, while free cash flow margins were a very impressive 38 per cent. Cost savings from the Reynolds acquisition are likely to help margins stay high for the next few years, at least. The free cash flow generation will come in handy in helping BATS to pay down debt over the next few years.

British American Tobacco PLC (BATS)

FORECASTS						
£ millions unless stated						
Year	2019		2020		2021	
Turnover	25,120.9	+2.6%	26,307.1	+4.7%	27,524.8	+4.6%
EBITDA	11,484.8	+5.6%	12,236.8	+6.5%	12,934.3	+5.7%
EBIT	10,738.1	+9.1%	11,450.7	+6.6%	12,127.7	+5.9%
Pre-tax profit	9,676.7	+15.8%	10,518.2	+8.7%	11,456.0	+8.9%
Post-tax profit	7,165.2	+18.7%	7,743.9	+8.1%	8,404.0	+8.5%
EPS (p)	314.0	-98.9%	337.6	+7.5%	363.8	+7.8%
Dividend (p)	209.8	+7.5%	221.5	+5.6%	233.1	+5.2%
CAPEX	941.6	-0.2%	981.3	+4.2%	932.6	-5.0%
Free cash flow	6,958.4	-9.7%	7,527.3	+8.2%	8,147.6	+8.2%
Net borrowing	42,005.2	-6.5%	39,458.2	-6.1%	36,118.3	-8.5%

Source: SharePad

Encouragingly, the annual dividend per share increased by 4 per cent and further dividend growth is expected. When combined with the very high dividend yield the outlook for satisfactory shareholder returns looks pretty reasonable to me.

Clouds still hover over the company, though. The move into vaping is not going that well as market share has been lost. Also the pace of growth from tobacco-heated products (THP) and oral tobacco are not expected to be as strong as previously thought.

In the US, the government wants to ban the sale of menthol cigarettes, which accounts for over 50 per cent of BATS US sales. A ban would undoubtedly be bad news, but a similar ban in Canada introduced in 2017 saw smokers of menthol just switch to other cigarettes.

Of course, I could be wrong, but I feel that the risk-reward balance on BATS shares at the moment is still favourable. I have concerns on the long-term potential of the shares and see them as a potential source of cash if I find more attractive opportunities for the portfolio.



RELX

Shares in publishing company **RELX (REL)** – formerly known as Reed-Elsevier – took a minor battering last week when the University of California cancelled its subscription to some scientific journals of Elsevier.

The two parties have apparently fallen out over Elsevier's refusal to allow the publication of its research articles for free after payment of a fee – known as open access. Instead, Elsevier wanted a fee on top of the university's subscription fee.

Universities increasingly want to cut down the cost of scientific journals and make them accessible to students for free rather than behind a paywall. This spat with Elsevier raises the question as to whether its subscription business model might be at risk and that other universities might make similar decisions.

RELX is part of the Fantasy Sipp portfolio because of its highly profitable and cash-generative publishing and data analytics business. Famous for *The Lancet* medical journal, the company owns very valuable scientific and legal publications, as well as a risk and business analytics division. The scientific publishing and data business accounts for around one-third of its business, but only a very small amount of its articles (7 per cent) are open access or not behind a paywall.

When you own a share in a company, it is important to understand how it makes money. By doing this, you have a better chance of understanding the implications of something changing and what it could mean for the business model involved.

Three-quarters of the revenue of the science division comes from subscriptions. Last week's event does get me to question the subscription model. In particular, the balance of power between the writers of scientific research articles – mainly universities – and publishers such as Elsevier. Could it be that the price of RELX's products and services have been pushed too high?

My gut feeling is they need each other and that a massive and damaging split is therefore unlikely. The price that Elsevier can charge its customers is another matter and needs to be watched.

RELX PLC (REL)

FORECASTS

£ millions unless stated

Year	2019		2020		2021	
Turnover	7,843.4	+112048214.3%	8,213.0	+4.7%	8,529.8	+3.9%
EBITDA	2,805.5	+93517466.7%	2,901.1	+3.4%	3,031.4	+4.5%
EBIT	2,456.3	+122816050.0%	2,541.0	+3.4%	2,685.8	+5.7%
Pre-tax profit	2,264.1	+113203900.0%	2,395.1	+5.8%	2,491.1	+4.0%
Post-tax profit	1,771.3	+177126500.0%	1,878.5	+6.1%	1,963.4	+4.5%
EPS (p)	91.0	+7.4%	97.8	+7.5%	104.3	+6.6%
Dividend (p)	45.1	+7.1%	48.7	+8.0%	52.0	+6.8%
CAPEX	382.9		398.8	+4.2%	415.4	+4.2%
Free cash flow	1,810.7	+60357900.0%	1,923.4	+6.2%	2,044.9	+6.3%
Net borrowing	5,827.5	-6.8%	5,477.8	-6.0%	5,332.1	-2.7%

Source: SharePad

Clearly, there is some kind of bug in 2019 forecasts!



Howden Joinery

I like kitchen supplier **Howden Joinery (HWDN)** – which trades under the name Howdens – as a business and how it is managed. I did a detailed analysis of the business in the magazine in early November last year. My chief concerns haven't changed since then. Despite being a very profitable business, I question its ability to deliver sustainable profits growth and the credit quality of some of its customers.

Full-year results for 2018 released last week were solid enough. It seems as if the depot managers have been using their flexibility on pricing to drive sales and that this has come at the expense of slightly lower operating margins.

However, my concern on credit quality has not gone away. For me, the big outstanding number in the accounts was the big jump in trade debtors and the cash flow hit that resulted from it – a whopping £48m. Trade and other receivables as a percentage of sales jumped from 9.8 per cent a year ago to 12.3 per cent.

The company said this was all down to Period 11 – its busiest trading period of the year – moving into November. Given that its depots usually give customers eight weeks of credit, this means that the cash from those sales went over the December year-end and were outstanding at the balance sheet date.

In my analysis of last November, I raised the question of deteriorating credit quality and bad debt provisions at Howden. There is no evidence of this in the results release – or issues with stock write-offs – but the annual report will be worth looking at when it is published in the next few weeks.

Consolidated cash flow statement

	Notes	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Operating profit before tax and interest		240.1	234.4
Adjustments for:			
Depreciation and amortisation included in operating profit		30.2	28.0
Share-based payments charge		4.3	4.0
Loss on disposal of property, plant and equipment, and intangible assets		-	0.2
Operating cash flows before movements in working capital		274.6	266.6
Movements in working capital			
Increase in stock		(18.0)	(24.6)
Increase in trade and other receivables		(48.2)	(1.9)
Increase/(decrease) in trade and other payables, and provisions		16.5	(0.4)
Difference between pensions operating charge and cash paid		(16.3)	(21.2)
		(66.0)	(48.1)
Cash generated from operations		208.6	218.5
Tax paid		(45.4)	(41.8)
Net cash flow from operating activities		163.2	176.7

Source: Company report

The company has made the decision to close its depots in Holland and Germany. This looks a good decision as it never made any money from them. It has decided to expand in France with the intention to open more depots in the Paris region.

There is also a focus on improving depot efficiency and building smaller depots of 6,000 square feet compared with the existing 10,000 square feet. This has led Howdens to believe that there is room for 850 depots in the UK compared with the existing 694.

My other big concern with Howden is whether it can keep on growing. Demand for kitchens tends to be cyclical and bears some relationship to the health of the housing market. Kitchens are expensive and are often paid for on credit or from releasing home equity. While UK employment and wage growth look quite good right now, the housing market looks as if it is softening. Kitchen sales are unlikely to crash in my view, but it could get a lot harder for them to grow.

Howden is fairly cautious on the outlook for 2019. City analysts seem to be as well, as profit forecasts have been coming down. Back in November, 2019 pre-tax profit forecasts were £262m, they are now just over £250m. Short of forecast upgrades, it's difficult to see Howden shares going much higher for a while.

Howden Joinery Group PLC (HWDN)

FORECASTS

£ millions unless stated

Year	2019		2020		2021	
Turnover	1,604.7	+6.2%	1,688.6	+5.2%	1,764.3	+4.5%
EBITDA	286.6	+6.0%	304.8	+6.4%	320.8	+5.3%
EBIT	251.9	+4.9%	270.8	+7.5%	285.2	+5.3%
Pre-tax profit	250.8	+5.2%	268.5	+7.0%	279.7	+4.2%
Post-tax profit	200.0	+5.0%	213.8	+6.9%	226.4	+5.9%
EPS (p)	33.6	+7.7%	35.7	+6.2%	37.7	+5.6%
Dividend (p)	12.4	+6.9%	13.3	+7.3%	13.9	+4.5%
CAPEX	58.8	+32.7%	58.6	-0.3%	60.3	+2.9%
Free cash flow	186.3	+55.8%	171.4	-8.0%	195.9	+14.3%
Net borrowing	-295.0		-374.6		-440.5	

Source: SharePad



Revolution Bars

You've got to have some sympathy for Rob Pitcher, the newish chief executive of beleaguered bar operator **Revolution Bars (RBG)**. I'm sure he had his eyes wide open before he took the job, but I am not sure he thought that the company's trading position would be as bad as it has been over the past six months.

This is a company that is in deep trouble. Its trading performance is tanking with like-for-like sales that were down 4 per cent for the six months to December, plummeting to being down 7.3 weeks in the eight weeks to 23 February.

Granted, this performance is slightly worse than the true underlying trend due to the timing of school holidays, it is worrying nonetheless. All the signs point to a business model that is badly broken. Can it be fixed?

I'm not sure it can. Its Revolution de Cuba format aimed at affluent middle-aged folk is just about growing, but its Revolution concept aimed at young professionals and students looks to be in a very bad shape. This is not good news when the bars are on very long leases as closing them down is very expensive.

By its own admission its bars have a number of problems:

- They are poor value for money.
- Service is too slow.
- The food and drinks menus are dull.

The company is going to try and fix itself by halting new openings and investing in existing bars, especially those in serious need of some care and attention. Prices will be selectively cut in the hope that sales volumes pick up and some bars will be night time only. Costs will be cut as well.

I'll be blunt, I think the bar formats have limited appeal as cocktails are very expensive and there is too much competition. Revolution has too many bars in parts of the country that have too few affluent 40-somethings who want to spend lots of money on cocktails on a Friday and Saturday night.

The company's accounts are all over the place, in my opinion. It thinks that bar opening costs and share-based payments can be ignored when presenting its profits. Its asset base looks woefully underinvested and therefore depreciation looks too low, especially when asset impairments have kicked in.

The truth as to how much money this company is or isn't making – or somewhere close to it – can be found by looking at its cash flow statement. The company is generating operating cash flows on a trailing twelve month basis, but more than a quarter of this is still coming from working capital inflows which is not a reliable long-term source of cash.

Stripping out this benefit and looking at the business in steady state and using depreciation (which looks too low to me) as a proxy for stay in business capex and assuming it pays no tax, then I think this company is making no money for shareholders at the moment.

Revolution Bars cash flows £'000s	H1 18	H2 18	FY18	H1 19	TTM	Est Steady State
Operating loss	-3414	570	-2844	-3089	-2519	
Net interest	239	316	555	403	719	
Depreciation	2880	3597	6477	3589	7186	
Impairment	860	0	860	3532	3532	
Tax credit	-545	-233	-778	-393	-626	
Other	-765	-801	-1566	-44	-845	
Operating cash flow before working capital	-745	3449	2704	3998	7447	7447
Working capital	8156	-91	8065	2914	2823	0
Operating cash flow	7411	3358	10769	6912	10270	7447
Tax paid	0	-565	-565	0	-565	0
Interest paid	-220	-258	-478	-340	-598	-598
Capex	-6619	-7657	-14276	-8291	-15948	-7186
Free cash flow	572	-5122	-4550	-1719	-6841	-337

Source: Company report & IC

It has got to hope that softer trading comparatives going forward and its strategy will restore the business to LFL sales growth very quickly – and by enough to offset underlying cost inflation. If not, it may have to ask shareholders to bail it out or even worse.

The other possibility is that a trade buyer will return. While that can't be ruled out, it looks unlikely. You need to be very brave to buy the shares.

Revolution Bars Group PLC (RBG)

FORECASTS

£ millions unless stated

Year	2019		2020		2021	
Turnover	153.5	+8.1%	159.4	+3.9%	163.6	+2.6%
EBITDA	11.3	-24.8%	12.1	+7.0%	12.9	+6.8%
EBIT	4.3	-46.7%	5.4	+25.6%	-	
Pre-tax profit	3.5	-52.8%	4.1	+15.7%	4.9	+19.5%
Post-tax profit	-		-		-	
EPS (p)	5.2	-60.0%	6.4	+23.1%	7.6	+18.7%
Dividend (p)	2.9	-41.4%	3.5	+20.7%	6.0	+71.4%
CAPEX	12.0	-15.9%	6.6	-45.0%	-	
Free cash flow	2.9		2.3	-20.7%	-	
Net borrowing	16.2		-		-	
NAV	-		-		-	

Source: SharePad

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