

Site visit highlights cultural change, focus on growth

28th October 2024

Restore held a well-attended investor and analyst site visit last week near Doncaster, taking in the new Markham Vale Records Management facility and a state-of-the-art Datashred facility at South Kirkby. The tours were hosted by local management and followed up by presentations from the Restore executive team. No new financial information was disclosed, but the visit did provide a clear link between the previously stated Group growth and margin targets and the actions being taken at divisional level, with greater autonomy, to deliver against these stretching targets. We reiterate our 400p Fair Value estimate and look forward to a further update on progress in a scheduled trading update on 21st November.

Focus on margin enhancement and divisional empowerment

The visit and presentations provided a reminder of the progress that has been made over the past year. There are plenty of examples of this including the major streamlining of Head Office functions; the ongoing integration of Records Management and Digital; and ambitious property rationalisation plans. One key takeaway from the site visit is a clear momentum shift at Datashred where a business that was in decline a year ago has been revitalised and is now targeting sustainable medium-term growth. We believe this reflects the cultural change instigated by the new management team, which has given greater autonomy to individual business leaders within a simplified Group framework.

Next news - trading update on 21st November

No new financial information was disclosed but Restore will issue a scheduled trading update on 21st November. FY24 is important as a first step in the medium-term profit recovery story. We are forecasting double-digit profit growth, following a challenging FY23. All businesses are expected to deliver margin improvement except for Harrow Green. Early signs of turnaround at the loss-making Technology business would be well received.

Valuation yet to reflect direction of travel – Fair Value 400p

In our view, Restore's share price does not yet reflect recent progress under the new management team or the upside potential of medium-term targets. We make no changes to our forecasts or 400p Fair Value per share estimate, which represents an FY25 P/E rating of 20x, in line with Restore's historic average rating and peer group multiples.

Key Financials & Valuation metrics						
Year-end Dec, £m	2021A	2022A	2023A	2024E	2025E	2026E
Sales	234.3	279.0	277.1	290.7	300.4	310.3
EBITDA	74.2	81.5	77.1	81.1	84.1	86.8
Adjusted Operating Profit	46.2	51.9	44.3	48.6	51.6	54.3
Operating Margin %	20%	19%	16%	17%	17%	17%
Adjusted PBT	38.1	41.0	30.3	33.5	37.0	40.0
FD EPS (p)	22.4	24.1	16.9	18.1	19.9	21.4
DPS (p)	7.2	7.4	5.2	5.5	5.8	6.0
Net Cash/(Debt)*	-217.8	-218.4	-201.3	-197.5	-178.7	-158.1
Net Cash/(Debt)**	-100.8	-103.5	-97.8	-94.0	-75.2	-54.6
P/E	10.7x	10.0x	14.2x	13.3x	12.1x	11.2x
EV/EBITDA*	7.4x	6.7x	6.9x	6.5x	6.1x	5.6x
Dividend yield	3.0%	3.1%	2.2%	2.3%	2.4%	2.5%
FCF yield	6.3%	5.4%	5.1%	4.3%	8.0%	8.7%

Source: ED analysis, IFRS 16 basis * including leases ** excluding leases, Shares priced at COB 26/07/24

Company Data

EPIC	RST
Price (last close)	240p
52 weeks Hi/Lo	290p/192p
Market cap	£331m
ED Fair Value/share	400p
Proforma net cash (debt)	(£94.0m)
Avg. daily volume	390,000

Share Price, p



Source: ADVFN

Description

Restore is a leading provider of records management (physical document archiving), digitisation (scanning/digital mailroom) and secure recycling of paper and technology assets.

In all these areas, it has a strong market position (either number 1 or 2 in the UK) and an excellent reputation across a customer base of blue-chip businesses and government/ public sector organisations. Restore is also the UK market leader in commercial relocations via its Harrow Green business.

James Tetley (Analyst)

0207 065 2690

james.tetley@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692

hannah@equitydevelopment.co.uk

Site visit highlights growth and margin opportunity

Markham Vale Records Management

Markham Vale is a vast new Records Management facility, located in the heart of the UK's motorway network between Sheffield and Nottingham. It is one of the largest facilities in the estate (**potential for 1.2m boxes**) and will consolidate records from older, less advantaged facilities as their leases come up for renewal, bringing significant savings in terms of cost and efficiencies.

Restore is currently consolidating two older sites at Redhill and Paddock Wood (combined 156k sq ft) into one half of the new 100k sq ft Markham Vale warehouse. The efficiency is driven by the height of the new warehouse compared to the older warehouses, with Markham Vale an optimal 12m in height. The savings are considerable and further site consolidation will follow (Redhill and Paddock Wood are two of eight sites identified for consolidation under the Information Management integration).

Markham Vale Records Management



Source: ED/ Restore site visit

South Kirkby Datashred



Source: ED/ Restore site visit

South Kirkby Datashred

South Kirby is a state-of-the-art, purpose build shredding operation, capable of shredding 8-10 tonnes of wastepaper per hour. The site was opened in 2015 and joined the Restore business as part of the £83m PHS Data acquisition in 2016. A tour of the admin offices highlighted live tracking of financial and operational KPIs (e.g. no. of customer collections/ revenue per day) and a focus on route density, which underpins divisional profitability and is increasingly being used to inform pricing decisions (underpinning the Group's competitiveness and therefore improving new business win-rates).

The presentation gave the clear impression of a business that is back on the front foot after a disappointing period of trading through COVID and into FY23. FY23 was impacted by lower volumes with customer visits dropping by 4% to 399k because of bank branch and pharmacy closures. This was exacerbated by declining wastepaper prices, both of which are out of Restore's control. Rather than passively rolling with these market forces, management is now much more focused on the areas that are within the company's control, including a refreshed marketing strategy, strengthening partnerships with paper mills (Restore's customers for shredded paper) and extending index linked pricing. One organic growth area is "more than paper", where Restore will collect and recycle other waste streams, including IT & Media and textiles.

Volumes are increasing again in FY24 (customer visits +3%) and recycled paper prices are increasing again, both of which should support margin recovery in the current year.

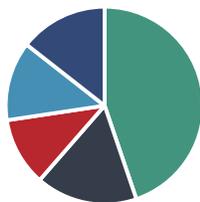
Web and social media links

<https://www.restoreplc.com/>

[Equity Development Initiation Note](#)



Revenue breakdown FY23 £m



- Records Management
- Digital
- Technology
- Datashred
- Harrow Green

Company overview (recap from recent initiation note)

Restore is a leading provider of records management (physical document archiving), digitisation (scanning/digital mailroom) and secure recycling of paper and technology assets. In all these areas, it has a strong market position (either number 1 or 2 in the UK) and an excellent reputation across a customer base of blue-chip businesses and government/ public sector organisations. Restore is also the UK market leader in commercial relocations via its Harrow Green business.

The core Records Management business is rock-solid. It contributed 45% of Group revenue in FY23 and, we estimate, almost 80% of Group operating profit. We expect box volumes to remain stable over the medium term and see good revenue growth potential from pricing increases. In our view, this provides an excellent foundation for profitable growth across the Group.

Charles Skinner (originally CEO from 2009 to 2019) returned in September 2023 and has quickly set out new strategic priorities to return the Group to earnings growth and deliver shareholder value after a period of underperformance.

Investment Highlights

- Number 1 or 2 player in all key markets
- Long-term track record of revenue and earnings growth
- Return of former CEO has steadied ship and refocused the Group
- Attractive KPIs – high margins, recurring revenue, cash generation
- Defensive characteristics, high barriers to entry
- Clear strategy with operational decisions delegated to experienced business leaders
- Delivery of margin targets would drive significant earnings growth

Risk Factors

- Mixed track record away from core Records Management
- 2019-2023 impacted by COVID, inflation, and M&A missteps
- Shredding activity has some exposure to commodity pricing (waste recycled paper)
- Sensitivity to inflation and interest rates
- Cyclicity within Technology division
- Limited organic volume growth potential in core market
- Threat of “paperless” office/ hybrid working, but evidence points to market stability

Forecast Drivers

- Revenue growth in Records Management driven by pricing opportunity
- Market share growth potential across all businesses
- Public sector outsourcing - track record of contract success
- Management targets 20% margin, well ahead of our 17% forecast
- Margin growth potential in all businesses (with possible exception of Harrow Green)
- Cross-selling to increase as customers look to trusted partners
- Significant M&A unlikely in near term
- Net debt £94m in FY24E or £198m inc. leases.

Valuation

- Shares bounced back strongly from low point of mid-2023 as confidence returned
- But Restore shares have still underperformed all direct peers over the past three years
- Iron Mountain’s stunning performance over that period offers some cause for optimism
- Restore shares are trading at a marked discount to their historic average ratings
- Our Fair Value estimate is 400p
- This represents an FY25 P/E rating of 20x, in line with Restore’s historic average rating and peer group multiples
- Leverage of c.1.6x for FY24E (c.1.9x FY23), comfortably within target range of 1.5x-2.0x

Financials and Forecasts

Income statement							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Group revenue	182.7	234.3	279.0	277.1	290.7	300.4	310.3
% growth	-15%	28%	19%	-1%	5%	3%	3%
COGS	-105.9	-127.1	-155.4	-160.7	-165.7	-171.2	-176.9
% of revenue	58%	54%	56%	58%	57%	57%	57%
Gross profit	76.8	107.2	123.6	116.4	125.0	129.2	133.4
% margin	42%	46%	44%	42%	43%	43%	43%
Segmental admin expenses	-39.6	-53.0	-67.4	-69.3	-72.9	-73.5	-74.7
% of revenue	22%	23%	24%	25%	25%	24%	24%
Central admin expenses	-5.5	-8.0	-4.3	-2.8	-3.5	-4.0	-4.4
% of revenue	3%	3%	2%	1%	1%	1%	1%
Adj. Operating profit	31.7	46.2	51.9	44.3	48.6	51.6	54.3
% margin	17%	20%	19%	16%	17%	17%	17%
Depreciation	25.7	28.0	29.6	32.8	32.5	32.5	32.5
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. EBITDA	57.4	74.2	81.5	77.1	81.1	84.1	86.8
% margin	31%	32%	29%	28%	28%	28%	28%
Net interest	-8.5	-8.1	-10.9	-14.0	-15.1	-14.6	-14.3
Adj. PBT	23.2	38.1	41.0	30.3	33.5	37.0	40.0
% margin	13%	16%	15%	11%	12%	12%	13%
Impairments	-8.6	0.0	0.0	-36.3	0.0	0.0	0.0
Amortisation	-8.3	-10.7	-12.1	-12.2	-12.0	-12.0	-12.0
Acquisition transaction costs	-0.1	-1.2	-1.4	-0.2	0.0	0.0	0.0
Restructuring and redundancy	-1.4	-2.4	-2.6	-5.9	-3.0	0.0	0.0
Property related costs	-0.8	-0.8	-0.9	-3.1	-3.0	-1.0	-1.0
Strategic IT reorganisation	0.0	0.0	-0.7	-1.6	-1.0	0.0	0.0
Reported PBT	4.0	23.0	23.3	-29.0	14.5	24.0	27.0
Tax	-3.8	-11.5	-6.5	-1.7	-3.6	-6.0	-6.7
Adjusted tax	-0.6	4.3	-1.3	-5.4	-4.8	-3.3	-3.3
Underlying tax rate (%)	19%	19%	19%	24%	25%	25%	25%
Adj. PAT	18.8	30.9	33.2	23.2	25.1	27.8	30.0
PAT	0.2	11.5	16.8	-30.7	10.9	18.0	20.2

Source: Company, Equity Development estimates

Cashflow statement							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Adj. EBITA	31.7	46.2	51.9	44.3	48.6	51.6	54.3
Depreciation owned assets	25.7	28.0	29.6	32.8	32.5	32.5	32.5
Amortisation of Software	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on disposal of PPE	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals (inc IPO costs)	-2.3	-4.4	-5.6	-10.8	-7.0	-1.0	-1.0
IPO costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash	1.1	2.2	1.9	-0.5	0.0	1.0	1.0
Working Capital Movement	10.7	-12.1	-12.6	1.1	-2.0	-4.4	-4.5
Operating Cash Flow	66.9	59.9	65.2	66.9	72.1	79.7	82.3
Net Interest	-8.0	-7.0	-11.4	-12.8	-15.1	-14.6	-14.3
Tax	-7.2	-5.2	-6.0	-6.3	-5.7	-6.5	-7.2
Net Operating Cash Flow	51.7	47.7	47.8	47.8	51.3	58.6	60.7
Purchase of PPE	-7.3	-8.8	-11.0	-10.3	-16.0	-11.0	-11.0
Total Net Capex	-7.3	-8.8	-11.0	-10.3	-16.0	-11.0	-11.0
Leases	-17.1	-18.8	-19.2	-20.7	-21.0	-21.0	-21.0
Equity Free Cash Flow	27.3	20.1	17.6	16.8	14.3	26.6	28.7
M&A	-3.7	-86.7	-11.5	-1.7	-0.6	0.0	0.0
Dividend	0.0	-3.4	-9.9	-9.1	-7.4	-7.7	-8.1
Share Issue	-0.8	35.5	0.1	-0.5	-2.6	0.0	0.0
Other	-0.4	-0.2	1.0	0.2	0.0	0.0	0.0
Net Change in Net Debt	22.4	-34.7	-2.7	5.7	3.8	18.9	20.6
Net Debt - BOP	-88.5	-66.1	-100.8	-103.5	-97.8	-94.0	-75.2
Net Debt - EOP	-66.1	-100.8	-103.5	-97.8	-94.0	-75.2	-54.6
Net Debt including leases	-186.8	-217.8	-218.4	-201.3	-197.5	-178.7	-158.1

Source: Company, Equity Development estimates

Balance sheet							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Non-Current assets							
Intangible assets	247.4	327.2	331.9	284.7	272.7	260.7	248.7
Property, Plant & Equipment	70.6	78.8	79.7	79.4	83.9	83.4	82.9
Right of use assets	107.1	102.5	106.8	91.6	91.6	91.6	91.6
Other receivables	3.4	5.9	5.1	5.2	5.2	5.2	5.2
Sub-total NCAs	428.5	514.4	523.5	460.9	453.4	440.9	428.4
Current Assets							
Inventories	0.9	1.4	2.0	1.5	2.5	3.5	4.5
Trade and other receivables	41.2	56.9	64.9	63.1	70.3	75.3	80.3
Cash and cash equivalents	26.4	32.9	30.2	22.7	26.5	45.3	65.9
Current tax assets	0.3	0.0	0.0	1.2	1.2	1.2	1.2
Sub-total CAs	68.8	91.2	97.1	88.5	100.5	125.3	151.9
Total Assets	497.3	605.6	620.6	549.4	553.9	566.2	580.3
Current liabilities							
Trade and other payables	-38.8	-45.5	-49.1	-44.9	-45.9	-46.9	-47.9
Financial liabilities-lease liabilities	-16.7	-18.2	-19.2	-18.6	-18.6	-18.6	-18.6
Derivative liability	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Current tax liabilities	0.0	-1.5	-1.6	0.0	0.0	0.0	0.0
Provisions	-0.4	-0.9	-1.7	-4.4	-5.0	-5.0	-5.0
Sub-total CLs	-55.9	-66.1	-71.6	-68.0	-69.6	-70.6	-71.6
Non-Current liabilities							
Financial liabilities-borrowings	-92.5	-133.7	-133.7	-120.5	-120.5	-120.5	-120.5
Financial liabilities-lease liabilities	-104.0	-98.8	-95.7	-84.9	-84.9	-84.9	-84.9
Deferred tax liability	-19.8	-33.9	-30.9	-29.3	-29.3	-29.3	-29.3
Provisions	-6.5	-7.9	-15.4	-14.2	-14.5	-14.5	-14.5
Other payables	0.0	0.0	-0.1	-0.4	-0.4	-0.4	-0.4
Sub-total NCLs	-222.8	-274.3	-275.8	-249.3	-249.2	-249.2	-249.2
Total Liabilities	-278.7	-340.4	-347.4	-317.3	-318.8	-319.8	-320.8
NET ASSETS	218.6	265.2	273.2	232.1	235.1	246.4	259.5

Source: Company, Equity Development estimates



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690