



Looks good on paper

Printing company printing.com has a lean and efficient business model that should see it survive the recessionary carnage in its sector, says **Richard Beddard**

When former hedge fund manager and self-styled 'adventure capitalist' Jim Rogers toured the world investing, he bought when there was blood on the streets. Insensitive though it may sound, there are great opportunities to be taken when people have given up hope, as they had when Rogers passed through El Salvador during a civil war, for example. Happily, El Salvador was peaceful and prosperous on his second round-the-world trip, so he was able to return and liquidate his investments.

You don't have to go that far to experience despair. According to the British Printing Industries Federation's (BPIF's) quarterly outlook last month, the print market is pretty bloody. The winter was 'dire', and only one in 10 printers expected things to improve over the summer. Cut-throat competition is forcing them to slash prices, and cut staff and wages. After six consecutive quarters of negative surveys, the BPIF hopes this is the bottom of the trough, but it expects that 'the industry will continue to run at a very low ebb'.

Pulling through

However, new kid on the printing block printing.com isn't faring so badly. The company recently published its annual report for the year ending March 2009, which included printing's winter of discontent, and although profits were down by about 7 per cent, the company

is in excellent financial shape, justifying the chairman's verdict that, given the recession, a small drop in profits is an acceptable result.

The company prints business cards, stationery, flyers and brochures – often for small businesses. Many are experiencing falling sales

and difficulty in raising finance due to the crisis, and their pain explains the reasons for printing.com's fall in profits, increased provision for bad debt, more spending on marketing and bigger discounts.

The company isn't doing as badly as the industry as a whole, though. None of its seven wholly owned stores, 35 franchise stores or 241 'bolt-on' franchises (where its franchises run within independent print shops) has printing equipment installed. All the work is sent to the company's Manchester hub, where it is managed using the

company's proprietary software. This operation allows printing.com to mass-produce high-quality printing at a lower cost than a traditional print shop. Significantly, the hub is operating at about 65 per cent of capacity, so the company can easily add more franchises to its network. At the end of the year, it plans to have more than 300, compared with 283 at the beginning of the year.

Management must be confident: it raised the final dividend and paid an extra 2p per share as a special dividend. Even the normal dividend yields 10 per cent.

But, the higher the yield, the lower the price in relation to the dividend, and a yield this high suggests that investors doubt printing.com's ability to keep paying out at this level in future.

Bit of a bargain

We just don't know how printing.com will perform through a recession, because of its short history and novel business model. In 2003, when the economy flirted with recession, printing.com was at an early stage in its development and, in 1991, current chief executive Tony Rafferty was a self-employed print broker.

Nevertheless, it is doing well so far. And with earnings per share at 10 times last year's level and 10 times the five-year average since the company floated on London's Alternative Investment Market in 2004, printing.com is teetering on the edge of bargain territory. Buying printing.com shares may not rival El Salvador as an adventure, but it seems like a much better prospect.

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Key stats dividends, yields and special dividends

Mature companies pay a proportion of their profits back to shareholders in dividends; an important part of the total return investors can expect for owning shares. By converting the dividend per share into a percentage of the company's share price (divide by the share price and multiply by 100), we can derive the yield, or annual return from the dividend, which is comparable to, say, the interest on a bank deposit. Ten per cent is extremely generous and the fact that printing.com raised the dividend is a sign that it thinks it will at least be able to maintain that level next year. The special dividend is a one-off though and the company is unlikely to match it next year.

More Information
<http://blog.iii.co.uk/tag/pdc/>
<http://www.iii.co.uk/LSE/PDC>

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