

Re-entry IG Design: Freight costs and supply chains are easing

Company:	IG Design Group (IGR LN)	Market Cap:	£80mio
Industry:	Gift packaging/craft	Net cash:	\$30mio
Country:	US, UK, worldwide	Revenue:	\$1bn
Date:	4 th November 2022	Net Income:	\$5mio (0.5%)
Dividend:	-	Free Cash Flow:	\$5mio (0.5%)
Entry:	£80mio	Target:	£140mio

Stronger trading in H1

In prior notes ([1](#), [2](#)) I described my worries about owning IG Design Group, as supply chains suggested that the group could even default due to high seasonal working capital needs. A recent trading update¹ has removed this risk, as sales prices have been adjusted and stronger sales than expected will leave the group with profits slightly ahead of last year although in line with previous guidance. Their new CFO, Paul Bal, who just joined 6 months ago, has meanwhile been promoted to CEO, which I think is a good move, given that he appeared very eager and willing to turn the business around in the full year results call earlier this year².

The easing of supply chains

IG Design Group has around 2/3 of their freight contracted on an annual basis, while the rest is floated. As they have adjusted prices in line with freight costs, when freight costs are coming down, IG Design should in theory have higher margins. There is, however, a time lag, which won't ease the costs immediately. On the other hand, raw material costs, which make up 20% of all their costs, cannot be hedged, and therefore their prices need to reflect a certain margin of error. Nonetheless, with first indications of China opening up finally³, from where the group sources a lot of their supplies, the

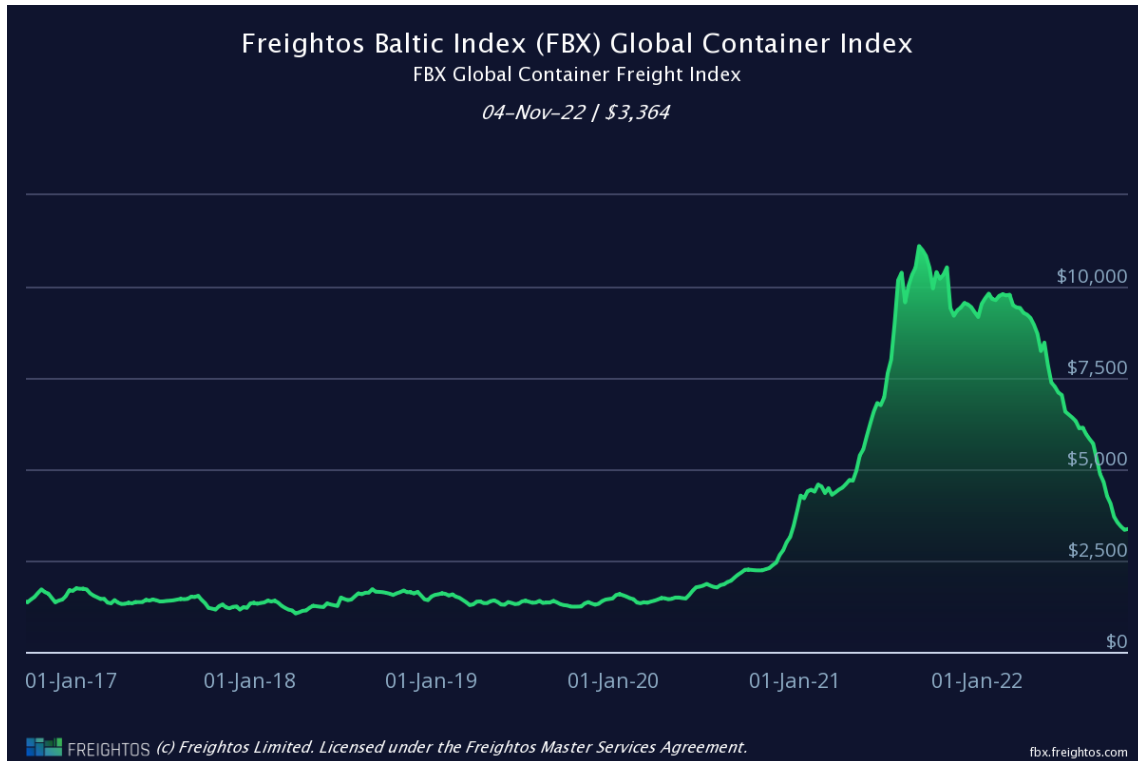
¹ <https://www.thedesigngroup.com/wp-content/uploads/2022/10/RNSTradingUpdate-20.10.2022-FINAL-.docx.pdf>

² <https://www.thedesigngroup.com/ig-design-group-plc-full-year-results-2022/>

³ <https://www.reuters.com/markets/asia/rapup-china-stocks-eye-best-week-years-audit-reopening-hopes-2022-11-04/>

turnaround of IG Design Group could already be there. For instance, leading UK retailers have accepted 40% price increases.

Freight costs have eased considerably



Source: Freightos.com

Beware the winter

While high hotel bookings could lead to stronger demand in firecrackers, there is of course the risk of new Covid outbreaks during the winter, which could hamper supply chains once again. There is also a risk of diesel/distillates shortages in the US amid record low inventories, which could lead to further troubles in transportation of goods. Therefore, I have sized the position smaller than others, as there is still a lot of risks on the horizon – not to mention a major economic downturn... this could delay the turnaround by at least 6 months.



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