



# Restore plc

Refocused strategy underpins rerating potential

31st July 2024

## Refocused strategy underpins rerating potential

Restore is the UK's leading provider of records management, digitisation and secure recycling services. The last twelve months have seen a management overhaul with the return of former CEO Charles Skinner, bringing a refreshed strategic focus to address a disappointing trading performance in 2023. Restore is a high-quality business operating in markets characterised by high barriers to entry, recurring revenues, attractive margins and sticky customer relationships. Under a proven, driven and experienced management team, we see scope for consistent earnings growth over the medium term, which in-turn should see a rerating of the shares. We initiate coverage with a 400p Fair Value estimate.

### Board overhaul to drive shareholder value

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. Individual business leaders have been given greater autonomy and Head Office functions have been scaled back to drive growth and improve margins.

### Central objective to increase operating margins to >20%

The central objective is to rebuild operating margins to >20% over the medium term. We consider this a demanding, yet achievable target, which should drive earnings upgrades and, in our view, a rerating of the shares. The core Records Management business is rock-solid. It reported 9% revenue growth in FY23 and accounted for, we estimate, almost 80% of Group operating profit. In a supportive environment for pricing, this provides an excellent foundation for profitable growth. **Interim results reported today (31<sup>st</sup> July '24) confirm trading in-line with expectations and good initial progress towards management's target (operating margin of 16.9% in H1'24 vs 15.5% in H1'23).**

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

It is clear to us that the share price does not yet reflect confidence in earnings forecasts, or the upside potential of management's medium-term targets. By contrast, we note the significant recent rerating of US-listed global leader Iron Mountain's shares, which are trading at record highs. Although Iron Mountain is a larger business, we believe Restore shares a number of its qualities and discuss the parallels in this note. Our 400p Fair Value estimate represents an FY25 P/E rating of 20x, in line with Restore's historic average rating and peer group multiples.

#### Company Data

EPIC	RST
Price (last close)	256p
52 weeks Hi/Lo	290p/125p
Market cap	£351m
ED Fair Value / share	400p
Proforma net cash (debt)	(£94.0m)
Avg. daily volume	460,000

#### Share Price, p



Source: ADVFN

#### Description

Restore (RST) 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.

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#### 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	11.4x	10.6x	15.2x	14.2x	12.9x	12.0x
EV/EBITDA*	7.7x	7.0x	7.2x	6.8x	6.3x	5.9x
Dividend yield	2.8%	2.9%	2.0%	2.1%	2.3%	2.3%
FCF yield	5.9%	5.0%	4.8%	4.1%	7.5%	8.1%

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

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## Introduction to Restore

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.

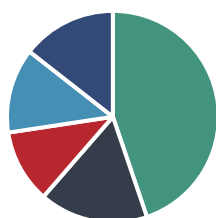
Charles Skinner (originally CEO from 2009 to 2019) returned in September 2023 and has quickly set out new strategic priorities to return the Group to earnings growth and deliver shareholder value after a period of underperformance.

### Web and social media links

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



### Revenue breakdown FY23 £m



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

#### 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

## Company overview

Segmental Revenue							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Records Management	87.6	101.4	113.7	124.1	130.9	135.5	140.3
Digital	18.5	36.9	54.5	46.0	48.5	50.2	52.0
<b>Digital &amp; Info. Management</b>	<b>106.1</b>	<b>138.3</b>	<b>168.2</b>	<b>170.1</b>	<b>179.5</b>	<b>185.7</b>	<b>192.2</b>
% growth		30%	22%	1%	5.5%	3.5%	3.5%
Technology	15.3	28.1	35.8	31.1	32.3	33.3	34.3
Datashred	28.0	30.2	37.4	35.9	37.3	38.5	39.6
Harrow Green	33.3	37.7	37.6	40.0	41.6	42.8	44.1
<b>Secure Lifecycle Services</b>	<b>76.6</b>	<b>96.0</b>	<b>110.8</b>	<b>107.0</b>	<b>111.3</b>	<b>114.6</b>	<b>118.1</b>
% growth		25%	15%	-3%	4.0%	3.0%	3.0%
<b>Group</b>	<b>182.7</b>	<b>234.3</b>	<b>279.0</b>	<b>277.1</b>	<b>290.7</b>	<b>300.4</b>	<b>310.3</b>
% growth		28%	19%	-1%	4.9%	3.3%	3.3%
% of Group							
Digital & Info. Management	58%	59%	60%	61%	62%	62%	62%
Secure Lifecycle Services	42%	41%	40%	39%	38%	38%	38%

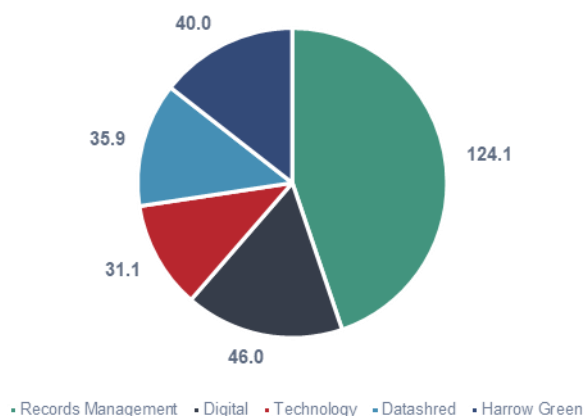
Source: Company, Equity Development estimates

Restore provides critical services that protect customers' data, information, and assets. With corporate responsibility increasingly prioritised (e.g. GDPR, ESG), customers want to work with financially strong partners with scale, consistent service levels, well-invested facilities and appropriate industry accreditations.

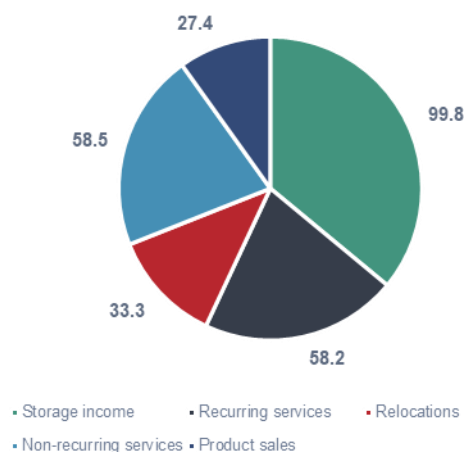
Its core activities are characterised by high levels of recurring revenue, attractive margins and sticky customer relationships. Storage and recurring services account for nearly 60% of sales.

Restore employs c.2,500 people in 80 sites across the UK providing national scale and a local but class leading service. Restore is particularly active with those customers that handle a lot of data and take data security seriously, particularly regulated industries. The Group has some 55,000 customers, with no one customer accounting for more than 5% of revenue.

Revenue by business (£m, FY23)



Revenue by nature (£m, FY23)



Source: Company, ED estimates

**Between 2009 and 2019, Restore attracted a strong following from investors as revenue increased from <£20m to >£200m**

**Although the Group underperformed in FY23, Records Management had a very strong year, reporting 9% revenue growth, driven by a supportive pricing environment and stable volumes**

## A brief history

The business was built through a combination of organic and acquisitive growth over a ten year period from 2009 to 2019 under the leadership of Charles Skinner, who rejoined the business as CEO in September 2023.

Over this period, the business attracted a strong following from institutional and retail investors and built a reputation for outperforming expectations. Earnings forecasts were generally met or exceeded, driven by a very active M&A strategy, which saw Restore's revenue increase from <£20m to >£200m.

Charles Skinner left the business in March 2019 after ten years as CEO with the records management consolidation strategy largely complete and a sustained period of rapid revenue growth coming to an end.

Charles Bligh joined as CEO in April 2019, refreshed Group-wide branding, expanded the Head Office function and set out ambitious revenue and EBITDA targets, to be supported by a reinvigorated M&A strategy with a particular focus on the opportunity within Technology. He also navigated the challenging COVID period and subsequent inflationary pressures. He resigned in April 2023 as the business underperformed expectations.

2023 results were disappointing, as adjusted earnings per share dropped by 30% despite revenues remaining stable. There were a number of issues, notably Datashred margins being impacted by lower recycled paper pricing, Technology suffering from a cyclical low point in corporate IT spending, and Digital activity declining compared to a strong prior year comp, which had benefited from a number of large contracts.

The Records Management business had a very strong year in FY23, reporting 9% revenue growth (driven by pricing) and an operating margin of >30%, we estimate. Whilst previously some investors have had concerns over the sustainability of this business with changing office practices (work from home, hybrid working) and advances in technology, in our view it has now proven its ability to maintain volume, increase pricing and strengthen margins through improving estate management. This is a key element of the investment case, accounting for almost 80% of Group operating profit in FY23 on our estimates.

Segmental Operating Profit							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Digital & Info. Management	34.0	42.5	45.2	40.9	44.3	46.4	48.1
Secure Lifecycle Services	3.2	11.7	11.0	6.2	7.8	9.2	10.6
Central Costs	-5.5	-8.0	-4.3	-2.8	-3.5	-4.0	-4.4
<b>Group</b>	<b>31.7</b>	<b>46.2</b>	<b>51.9</b>	<b>44.3</b>	<b>48.6</b>	<b>51.6</b>	<b>54.3</b>
% Operating margin							
Digital & Info. Management	32%	31%	27%	24%	24.7%	25.0%	25.0%
Secure Lifecycle Services	4%	12%	10%	6%	7.0%	8.0%	9.0%
<b>Group operating margin</b>	<b>17.4%</b>	<b>19.7%</b>	<b>19%</b>	<b>16%</b>	<b>16.7%</b>	<b>17.2%</b>	<b>17.5%</b>
% Growth							
Digital & Info. Management		25%	6%	-10%	8%	5%	3%
Secure Lifecycle Services		266%	-6%	-44%	26%	18%	16%
<b>Group op. profit growth</b>		<b>46%</b>	<b>12%</b>	<b>-15%</b>	<b>10%</b>	<b>6%</b>	<b>5%</b>
% of Group							
Digital & Info. Management	107%	92%	87%	92%	91%	90%	89%
Secure Lifecycle Services	10%	25%	21%	14%	16%	18%	20%
Central admin expenses	-17%	-17%	-8%	-6%	-7%	-8%	-8%

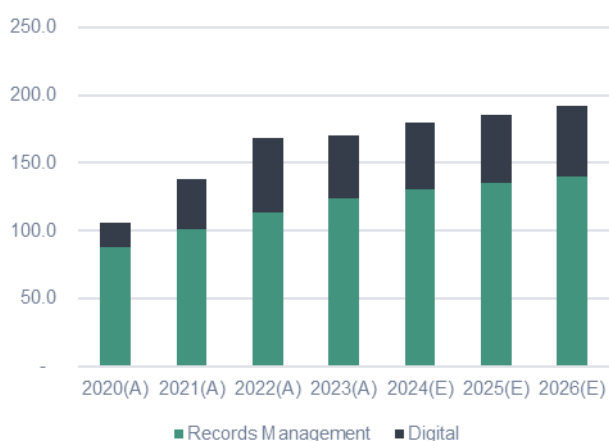
Source: Company, Equity Development estimates

The Group has five businesses organised across two divisions: **Digital & Information Management (D&IM)** and **Secure Lifecycle Services (SLS)**.

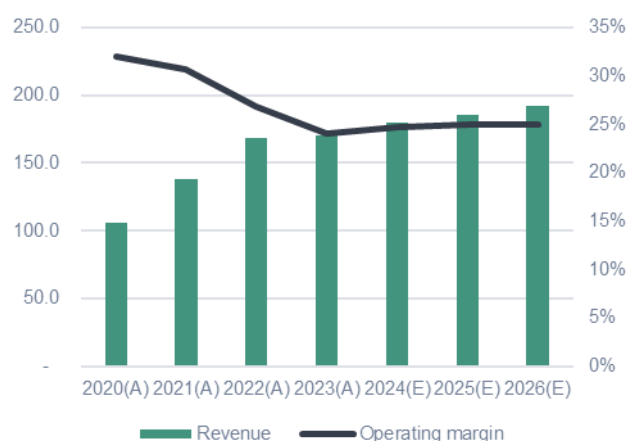
## Digital & Information Management

Digital & Information Management accounts for >60% of Group sales and comprises the Records Management and Digital businesses. **These businesses are in the process of being combined (announced within the interim results on 31<sup>st</sup> July '24 – [see page 19](#)) to improve customer engagement/ cross-selling and drive efficiencies.** Integration costs are estimated at c.£3m, to drive annual savings of c.£3m.

**D&IM revenue by business**



**D&IM revenue and operating margin**



Source: Company, ED estimates

## Restore Records Management

Restore Records Management is a high-quality business with excellent revenue visibility and high margins (30%+ operating margin). It securely stores over 20 million archive boxes for its customers across 52 sites in the UK. Restore is the clear number two in the UK market behind global leader Iron Mountain.

Market volumes within Records Management are stable (see [Appendix 1 – KPIs in focus](#)), rather than growing, but there is a positive revenue management (pricing) opportunity as customers recognise the value of the service and lower quality cut-price competitors are less able to disrupt the market than they once were. Prices have recently risen across the industry by high single digits. There is also a volume growth opportunity from additional services, as well as winning new business from public sector/ government departments, which still undertake in-house records management. Although Records Management margins are already attractive, there is an opportunity to improve margins further through cost optimisation and property management to achieve lower storage costs per box.

## Restore Digital

Restore Digital is complementary to Records Management and an activity where Restore is the UK market leader. We estimate its operating margin in FY23 was <10% but the business is capable, in management's view, of a consistent 15% margin.

Digital is best understood as an outsourced document scanning service provider. In practice, the service offering is sophisticated and varied and, like Records Management, mission critical for Restore's customers. A high-profile example of this is Restore's longstanding partnership with RM for digitising hundreds of thousands of paper exam scripts for marking each summer.

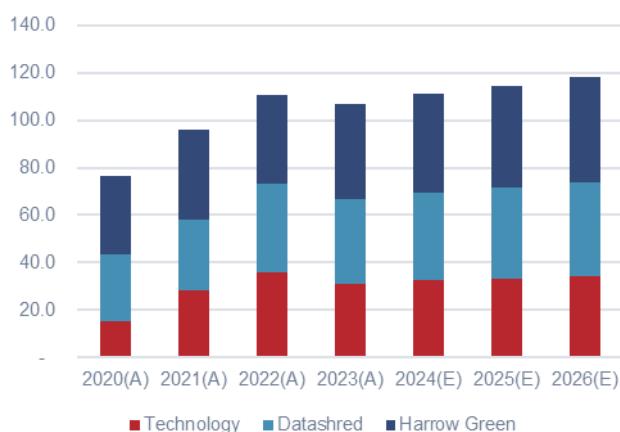
Restore Digital manages bulk document scanning on behalf of its customers, collecting files, digitising them and either returns them to customers, stores or securely destroys them. Two attractive and high margin growth areas for Digital are digital mailrooms and cloud-based document storage. A digital mailroom opens, sorts and scans inbound mail and manages outbound mail, helping customers to streamline their internal and external communications, saving time on administrative tasks and improving workflows. Restore's 2023 annual report and accounts ([click here](#)) highlight the successful digital mailroom Restore operates for HMRC processing over 35,000 mail items per day, handling 5-6 million scanned images per month.

The majority of Digital's revenues are recurring, particularly from digital mailrooms, scanning exam papers, online storage and long-term onsite government agency contracts.

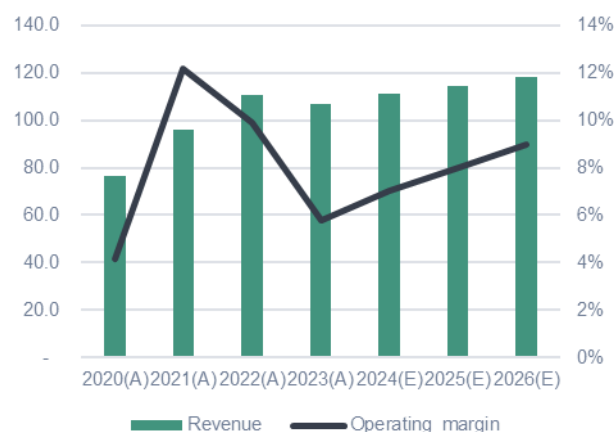
## Secure Lifecycle Services

Secure Lifecycle Services comprises Technology, the UK's leading provider of secure IT disposal and data destruction service; Datashred, the UK's second largest secure paper destruction and recycling business; and Harrow Green, the UK market leader in corporate relocations.

**SLS revenue by business**



**SLS revenue and operating margin**



Source: Company, ED estimates

## Restore Datashred

Datashred operates from 11 secure shredding centres across the UK, providing scale, efficiency and a low-cost offering to customers. Datashred is number 2 in the market behind Shred-It, which is part of NYSE listed Stericycle (NB Stericycle is currently subject of a takeover by Waste Management, Inc. in a \$7bn deal). Datashred is a trusted supplier of secure paper destruction operating a modern fleet and has strong environmental credentials. The business is clearly complementary to the Digital & Information Management division as a supplier to Records Management (when customers want to destroy records). Records Management supplied 10,800 tonnes of paper to Datashred in 2023 out of a total of 50,000 tonnes of paper recycled by the business.

We estimate segment operating margin in 2023 was <10% but management is targeting 15% over the medium term, supported by efficiency gains (e.g. increasing the average number of customer site visits per day).

Around two thirds of Datashred revenue is recurring service revenue (e.g. for securely collecting office waste paper on a regular basis). The remainder principally derives from the sale of recycled paper to paper mills. Whilst volume is fairly predictable, there can be volatility in the recycled paper price which is market driven. During 2023, the decline in the average recycled paper price from £238 per tonne in the prior year to £185 per tonne impacted revenue by £2.3m, which fell straight through to profit. We discuss this in more

detail in [Appendix 1 – KPIs in focus](#). The management team has been strengthened by the appointment of a new MD, Natalie Matthews, who is targeting growth through new services, pricing (where appropriate) and cross selling with Records Management and Technology.

### Restore Technology

Restore Technology is a UK leader in the secure and responsible recycling of IT equipment (IT Asset Disposal or ITAD). This is a very large and fragmented market and Restore's strategy is to focus on blue-chip corporate and public sector customers who prioritise security and responsible behaviour.

Around 40% of Technology's revenue comes from service fees (full life-cycle from loading and installation of customer IT equipment to data erasure, recycling, disposal or destruction of IT assets). The other 60% comes from the sale of IT equipment once all customer data has been securely erased.

The division has three purpose-built IT recycling sites and a specialist destruction site and, through its Ultratec business, is a market leader in wiping and recovering hard drives for re-use.

Despite operating in the fastest growing of Restore's chosen markets, the Technology division underperformed during 2023 and was loss-making. This, in part, reflected a cyclical downturn in IT asset replenishment after some boom years around COVID. IT also reflected a temporary focus on a less attractive, lower cost area of the market, which saw the business processing more assets but achieving lower revenue per asset. See [Appendix 1 - KPIs in focus](#) for further detail.

The growth and margin-improvement strategy for this business is to focus on high quality, larger customers and channel partner IT sellers and to maximise re-sale values through up-skilling the workforce and leveraging trade knowledge.

### Harrow Green

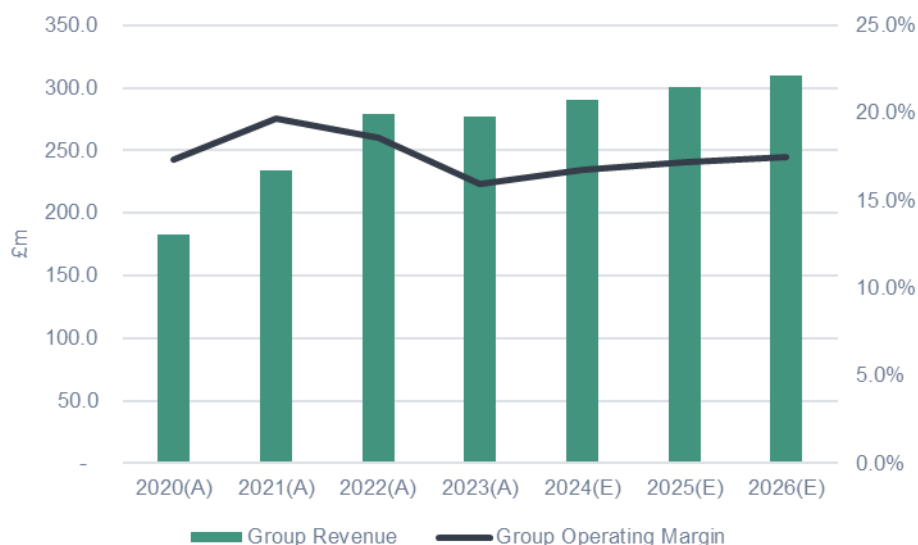
Harrow Green is the established UK market leader in corporate relocations and has more recently developed a market-leading presence in specialist sectors such as life sciences and heritage. The business reported near-record results in 2023.

This is a well-run business already achieving, we estimate, double digit margins. It is an excellent fit with the remainder of the Group and is expected to continue to deliver consistent margins over the medium term.

## Strategic priorities – driving margins to 20%

The new management team has re-evaluated Restore's core strategic focus and set new targets for the Group. Strategic M&A has been paused (this is a meaningful departure from the previous management team's strategy) and the focus is now very much on growing operating margins whilst delivering steady organic revenue growth. The chart below highlights the recent operating margin trend that management is looking to address. Whilst margins recovered well post COVID in 2021, they then dropped off markedly in 2022 and 2023.

### Revenue and operating margin profile 2020(A) to 2026(E)



Source: ED analysis

We are forecasting an improvement in margins over the forecast period, but prudently do not assume a full recovery to management's 20% target. We therefore see scope for outperformance

Restore does not disclose operating profit by individual business segment, but we make our own estimates in the table below, alongside our understanding of management's ambitions for each business, as set out in recent results commentary.

### Operating margin summary - 2023 versus medium term goals

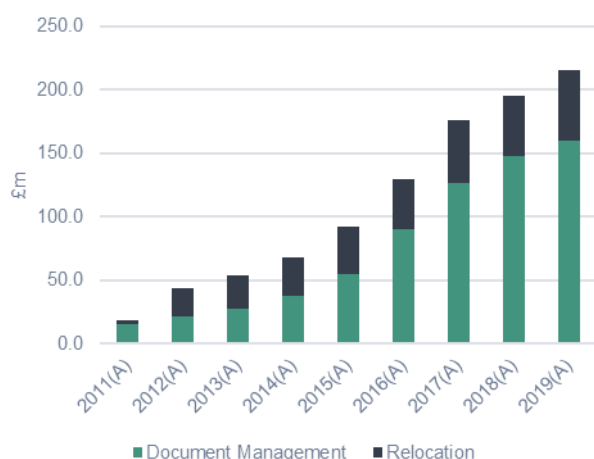
Business/ Division	2023	Medium Term Goals
Records Management	30%	30%+
Digital	7%	15%
<b>D&amp;IM</b>	<b>24%</b>	<b>25%+</b>
Technology	-4%	15%
Datashred	8%	15%
Harrow Green	11%	11%+
<b>SLS</b>	<b>6%</b>	<b>12%+</b>
<b>Group</b>	<b>16%</b>	<b>20%+</b>

Source: Equity Development estimates

The 2023 results are very clear in stating that Digital, Datashred and Technology will need to achieve adjusted operating margins of at least 15% to take the Group adjusted operating margin to 20%: ***"Therefore, these businesses' goal over the next two years is to show that they have the capability of delivering adjusted operating margins of 15%."***

We note that the recent Group operating margin peak in FY21, at 19.7%, was very close to the new 20% target, which gives us confidence that this should be achievable. We also note management's focus on Head Office efficiency with a major streamlining of Head Office functions over recent months.

It is also instructive to look back at the Group performance prior to COVID (charts below) and the strong margins that were consistently delivered for several years. Note that the Group segmentation has changed since 2019. The Document Management division included Records Management, Datashred and Digital, whilst Relocation included Harrow Green and Technology.

**Revenue growth 2011(A) to 2019(A)**

**Operating margins 2011(A) to 2019(A)**


Source: ED analysis

Again, these charts highlight that a 20% operating margin should be a realistic and achievable goal. The makeup of revenue has evolved over the years as the Group has diversified from its core in Records Management, but Records Management remains the major profit contributor and historic margins are therefore, in our view, an appropriate benchmark.

The impressive performance captured in the charts above also provide a good snapshot of the success of the Restore growth strategy under Charles Skinner's first tenure as CEO.

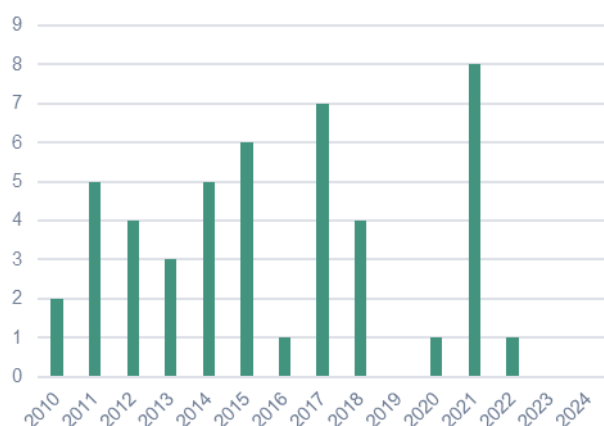
As we discuss on the following pages, growth was driven by an ambitious M&A strategy and the consolidation of the records management industry. Over this period, Restore found many competitors to be willing sellers as the industry became ever more professionalised and smaller players struggled with the high entry costs (warehouses, racking, security, fire precautions), the need for critical mass and the increasing importance of data security.

## Acquisition track record

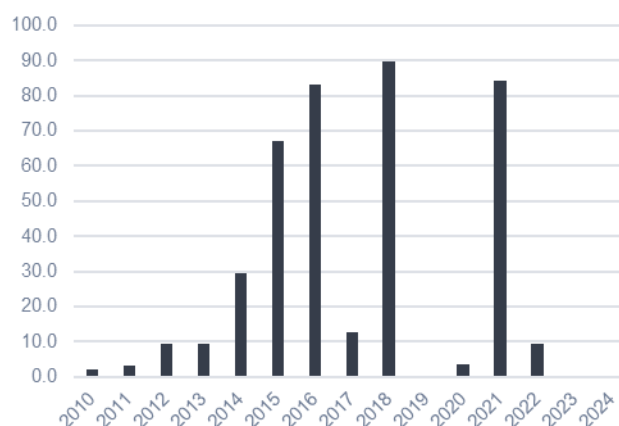
It is clear to us that major acquisitions do not form part of the near-term plan for Restore. The focus is on organic growth and, most prominently, margin enhancement. Having made that point, we feel that the acquisition history is important in terms of understanding how the Group has been built.

The charts below show a busy period for acquisitions between 2010 and 2019 during Charles Skinner's first spell as CEO, followed by a pause and a resumption of activity under Charles Bligh's leadership (2019 to 2023). The chart on the right-hand side shows the value of the acquisitions increasing as Restore increased in size and M&A capacity.

**Number of acquisitions by year**



**Value of acquisitions by year (Consideration £m)**

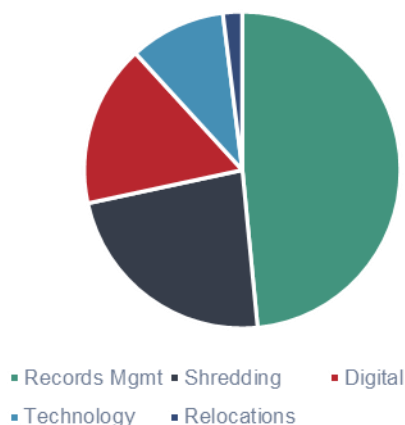


Source: ED analysis

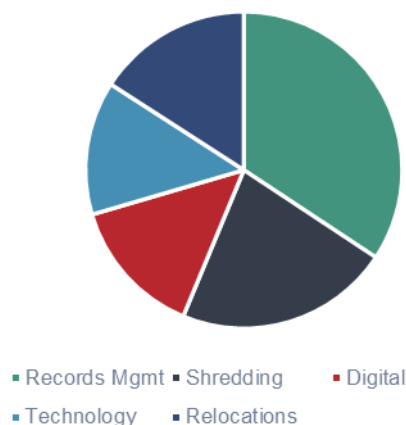
All the acquisitions are listed on the following page. Notable deals include Harrow Green (Relocations, 2012); Cintas and Wincanton Records Management (Records Management, 2014/2015); PHS Data Solutions (Datashred, 2016); ITAD Works (Technology, 2017); and EDM Group (Digital, 2021).

The pie charts below analyse where the money has been spent across the five businesses and the revenue acquired. The exercise is imperfect because larger acquisitions tend to cover a number of different service lines (e.g. PHS Data and EDM both added c.2 million boxes to Records Management as well as their core activities). For the purposes of the exercise, we have categorized the acquisitions by their principal activity.

**Acquisitions spend by business (2010 to date)**



**Acquisitions revenue by business (2010 to date)**



Source: ED analysis

## Restore acquisition history

Date	Target	Activity	Consideration £m	Sales £m	EBITDA £m	EV/ Sales	EV/EBITDA
Sep-10	Datacare	Records Mgmt	1.2	1.8	0.2	0.6x	6.3x
Dec-10	Formsafe	Records Mgmt	1.0	0.9	0.1	1.1x	12.0x
Apr-11	Sargents	Relocations	0.5	6.0	0.3	0.1x	1.5x
Jun-11	Manag. Archives Paterson Data Management	Records Mgmt	0.7	0.7	0.4	1.0x	1.8x
Sep-11		Records Mgmt	0.5	0.5	0.1	1.1x	4.8x
Oct-11	Thoroughshred	Shredding	0.4	N/D	N/D	N/A	N/A
Nov-11	Brunswick	Records Mgmt	1.2	0.9	0.3	1.3x	4.0x
Feb-12	Harrow Green	Relocations	6.3	29.1	1.4	0.2x	4.5x
May-12	ROC Relocations	Relocations	0.2	1.7	0.1	0.1x	2.3x
Aug-12	M&L Destruction	Shredding	0.3	0.6	0.2	0.5x	1.3x
Oct-12	Archive Solutions	Records Mgmt	2.6	1.3	0.5	2.1x	5.4x
Mar-13	File and Data	Records Mgmt	6.3	3.2	0.8	2.0x	7.8x
Apr-13	Atix	Records Mgmt	0.9	0.8	0.2	1.1x	4.0x
Apr-13	IT Efficient	Technology	2.2	2.1	0.5	1.0x	4.3x
Apr-14	Magnum Secure	Records / Digital	4.6	2.8	0.6	1.6x	7.7x
May-14	Filebase Ltd	Records Mgmt	0.4	1.3	0.1	0.3x	4.0x
May-14	Cannon Confidential	Shredding	0.9	1.7	N/D	0.5x	N/A
Jun-14	Papersafe	Records Mgmt	0.2	N/D	N/D	N/A	N/A
Oct-14	Cintas	Records / Digital	23.5	19.7	0.2	1.2x	117.5x
Jan-15	Ancora	Records Mgmt	0.5	0.7	0.0	0.7x	N/A
Jul-15	ITP	Technology	3.2	4.5	1.2	0.7x	2.7x
Aug-15	Crimson	Digital	1.0	1.0	0.1	1.0x	10.0x
Aug-15	Imaging & Archiving	Digital	1.5	1.3	0.1	1.1x	14.5x
Nov-15	Wincanton RM	Records Mgmt	60.0	22.4	6.8	2.7x	8.8x
Dec-15	Diamond Relocations	Relocations	1.0	0.9	N/D	1.1x	N/A
Aug-16	PHS Data Solutions	Shredding	83.1	47.0	8.5	1.8x	9.8x
Jan-17	Reisswolf Wales	Shredding	3.0	1.8	0.4	1.7x	7.5x
Feb-17	ITAD Works	Technology	5.0	3.5	0.7	1.4x	7.1x
Jul-17	Solutions Archiving	Records Mgmt	0.4	N/D	N/D	N/A	N/A
Jul-17	Banner	Shredding	0.3	N/D	N/D	N/A	N/A
Aug-17	Baxter Confidential	Shredding	1.4	N/D	N/D	N/A	N/A
Sep-17	Lombard	Shredding	2.4	N/D	N/D	N/A	N/A
Jan-18	Scanning Direct	Digital	0.1	N/D	N/D	N/A	N/A
Jan-18	Papershrink	Digital	0.2	N/D	N/D	N/A	N/A
May-18	TNT Bus. Solutions	Records Mgmt	88.0	23.2	7.7	3.8x	11.4x
Jun-18	ORS Ltd	Digital	1.6	N/D	N/D	N/A	N/A
Nov-20	Euro Recycling	Technology	3.5	2.5	N/D	1.4x	N/A
Jan-21	Computer Disposals	Technology	12.8	8.0	2.0	1.6x	N/A
Mar-21	The Bookyard	Technology	1.9	1.2	N/D	1.6x	N/A
Apr-21	1 Big Data	Records Mgmt	1.0	0.6	N/D	1.6x	N/A
Apr-21	EDM Group	Digital	61.0	31.4	6.3	1.9x	9.7x
Aug-21	PRM Green	Technology	4.8	3.0	0.9	1.6x	N/A
Oct-21	Doc. Warehouse	Records Mgmt	0.9	0.6	N/D	1.6x	N/A
Nov-21	PS Man. Solutions	Shredding	0.9	1.0	N/D	0.9x	N/A
Dec-21	Capture All Ltd	Digital	0.9	N/D	N/D	N/A	N/A
May-22	Ultratec	Technology	9.4	7.6	1.4	1.2x	6.7x
<b>Totals/ Average multiples</b>			<b>403.5</b>	<b>237.3</b>	<b>42.1</b>	<b>1.7x</b>	<b>9.6x</b>

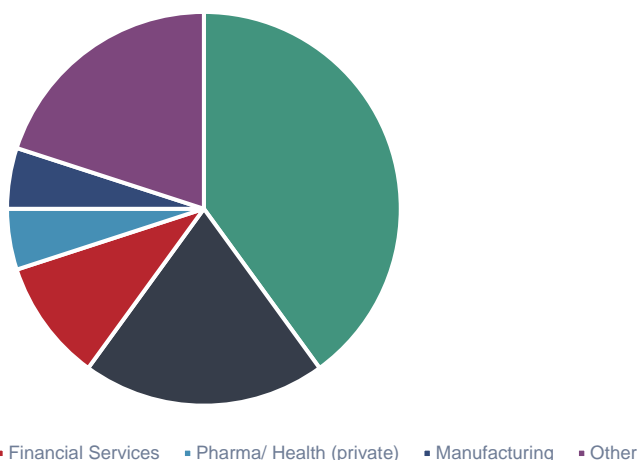
Source: Company, ED estimates

## Market drivers

### Core markets delivering low to mid-single digit growth

Restore's five businesses serve a vast 55,000 strong customer base across multiple sectors. Collectively, customer activity should reflect wider trends across the UK corporate sector and public sector. Restore is particularly active with those customers that handle a lot of data and take data security seriously, particularly regulated industries. The pie chart below shows our best estimate of the end market segmentation for the Records Management business. Restore works with 79% of the FTSE 100, 66% of the top 50 UK accountancy practices, 69% of Local Authorities in England and Wales and 86% of National Health Trusts.

#### Records Management revenue by end market



Source: ED estimates

### Market growth rates:

- Records Management 1%
- Digital 4%
- Technology 5%
- Datashred 0%
- Harrow Green 0%

Source: Company

Most corporates in these target sectors now outsource their physical records management to a service provider like Restore, whereas 50 years ago law firms typically stored all their records in their own offices. The public sector has been slower to outsource records management, but recent years have seen more of a focus on estate planning and cost efficiencies, which have resulted in a steady transfer of records into Restore's market. For Restore, this has translated into recent contract wins with HMRC, Land Registry and BBC and plenty of opportunities remain.

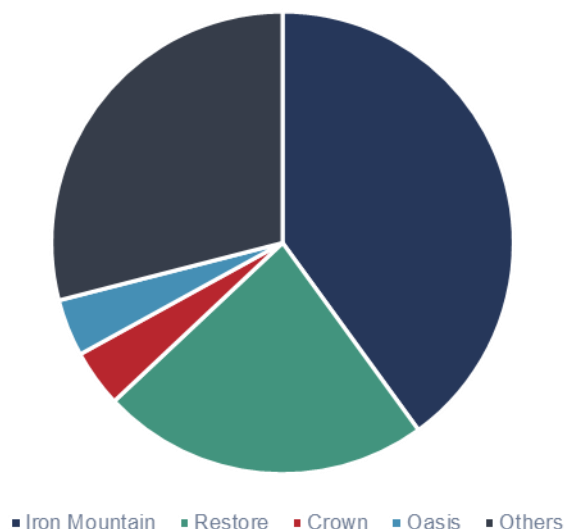
Aside from outsourcing, the key influences on demand are the volume of new physical documents created offset by the volume of documents destroyed. There is a steady stream of destructions, particularly in the corporate sector, but the average lifespan of a box with Restore is 16-17 years.

Anecdotally, the corporate sector is destroying twice as many boxes as it produces each year, whereas the public sector is creating twice as many boxes as it destroys as it continues to outsource records that have previously been stored "in-house".

Digitisation of records is an important theme, which is driving demand for Restore's Digital business without noticeably cannibalising demand for Records Management. Whilst it might seem to be desirable to retrieve a physical box of records from storage, digitise the contents and then destroy the physical records, this is an expensive exercise costing many multiples of the c.£5 annual cost of storing a single box. Restore's experience is that customers often choose to retain the physical records even after they have been digitised.

All these factors combine to create a market that is broadly flat in terms of number of boxes stored year on year. We expect this trend to continue and note that Iron Mountain reports similar trends in mature markets.

## Records Management UK market share



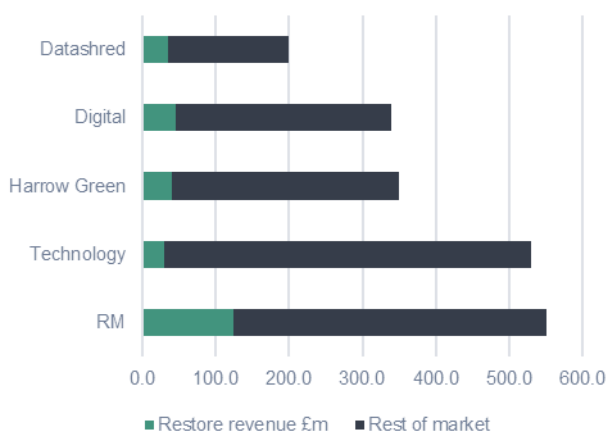
Source: ED analysis

Restore is the clear number 2 in the UK records management market with c.23% compared to global leader Iron Mountain's 40% market share. As discussed in the acquisitions section of this note, Restore actively consolidated the market over a ten-year period to 2019 leaving Crown and Oasis with c.4% of the market each and a long tail of just under 30% of Others. This suggests that there are still potential bolt-on acquisitions out there but no individual deals of scale.

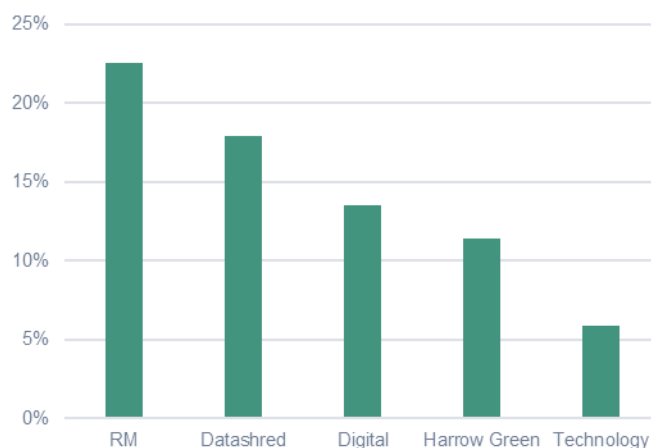
Datashred is the number 2 provider in its market with 18% market share, behind Shred-it (Stericycle), whilst Digital and Harrow Green are both market leaders with 14% and 11% respectively, suggesting an opportunity for market share gains as smaller players exit the market (founder retirement/ increasing regulatory burden etc).

Technology is worth an additional comment in that this looks to be a particularly attractive opportunity given that Restore is already the largest player in the UK market, despite only having a 6% market share. This is the largest of the markets served by Restore and the fastest growing. It therefore has the opportunity to be the Group's fastest growing business but the experience of the past two years (disappointing acquisitions made in this area under previous management team) suggests that a degree of caution is appropriate.

## Estimated market size and Restore share



## Market share % by division



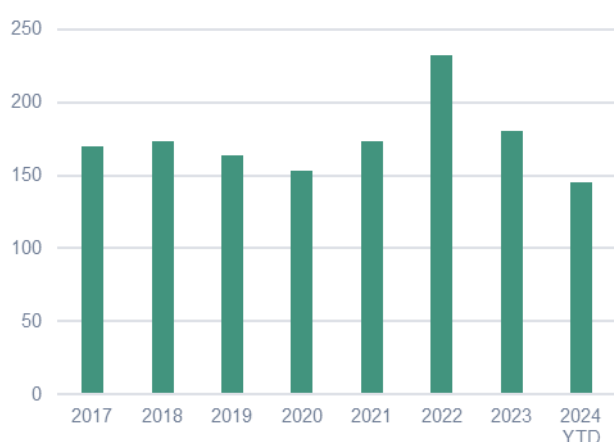
Source: Company, ED analysis

## Signs of recovery vs 2023 market challenges

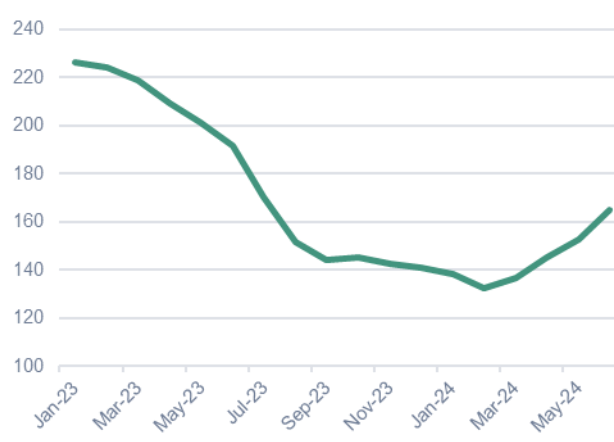
There were two specific negative market factors that impacted Restore's performance in 2023. These were the sharp fall in recycled paper pricing (from an unusually high level in 2022) and the cyclical downturn in IT asset spending amongst corporates after a COVID peak. There are encouraging signs on both fronts.

The charts below highlight recent trends in waste paper pricing. Datashred sends c.50,000 tonnes of waste paper to paper mills each year for recycling and effectively takes the market price for the waste paper. As demonstrated in last year's numbers, a c.£50 decline in the average paper price translates into a c.£2.5m decline in revenue and profitability. The chart on the left hand side shows that there is still a headwind in 2024 year to date (confirmed in H1'24 results commentary – [see page 19](#)) but encouragingly prices have improved over the course of the year and have trended back towards the c.£165 average of recent years.

**Average waste paper prices (£/tonne)**



**Average waste paper prices (£/tonne)**

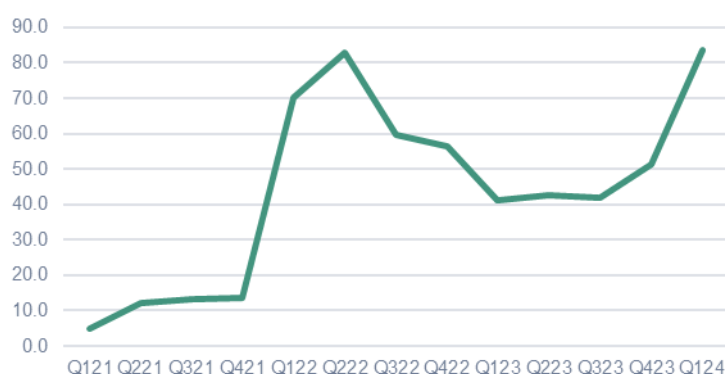


Source: letsrecycle.com

There are also positive signs that corporate IT spending/ replenishment is recovering from 2023 levels. This is a direct driver of demand for the range of services provided by Restore Technology in terms of equipment recycling and disposal and the roll-out of fresh equipment in partnership with the large IT vendors.

We see parallels with Iron Mountain's experience here. Although the businesses are not perfectly comparable (differences in regions and asset disposal channels), we note that Iron Mountain saw a marked downturn in its Asset Lifecycle/ IT Asset Disposal (ITAD) business during 2023, which is now strongly rebounding (organic growth of >20% in Q124). Like Restore, Iron Mountain has identified ITAD as a complementary and attractive growth area, which it has expanded via M&A in recent periods.

## Iron Mountain Asset Life Cycle (ITAD) revenue rebounding

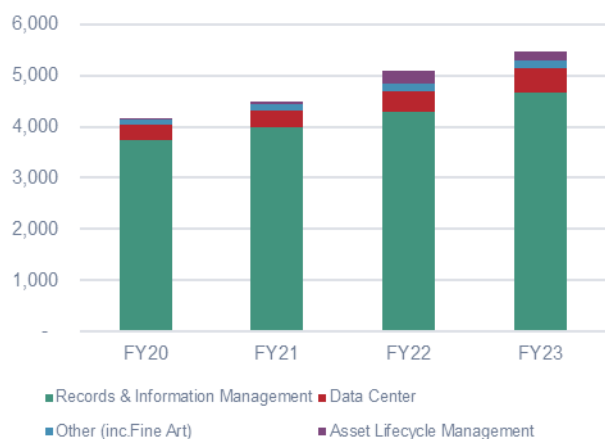


Source: Iron Mountain, ED analysis

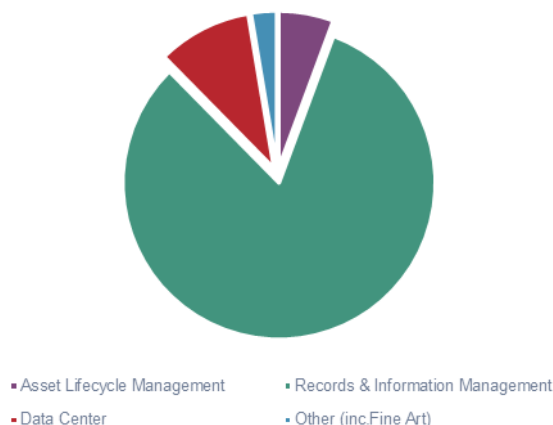
## Iron Mountain: market context and investment case

We believe that Iron Mountain (IRM) provides important context as the global market leader and clear UK market leader in records management. With the exception of IRM's data centre business, Restore is active in all the same areas. Asset Lifecycle Management is the equivalent of Restore Technology, whilst Records & Information Management is the equivalent of Restore's Date & Information Management business, plus Datasched.

### Impressive recent track record of revenue growth



### Dominated by core Records Management business

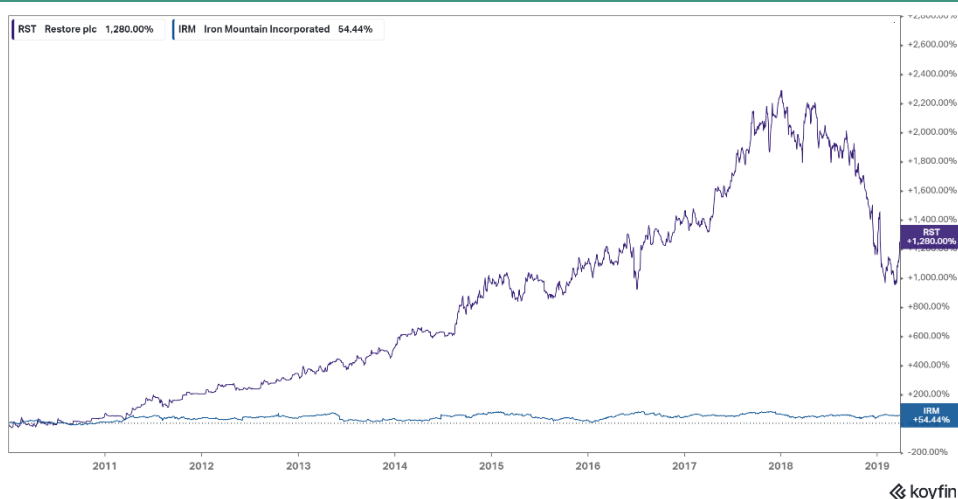


Source: Company, ED estimates

**Restore shares increased relentlessly between 2010 and 2019, significantly outperforming Iron Mountain**

Iron Mountain was an unremarkable investment between 2010 and 2019, the shares increasing by 54% (whilst the S&P 500 increased by >100%) as the Group expanded in emerging markets, as well as investing in its data centre business. At the same time, Restore was growing rapidly from a very small base as it consolidated the UK market (as revenue increased more than tenfold from <£20m to >£200m). Over that period, Restore's share price was relentless, increasing by 20x.

### RST shares increased by c.20x between 2010 and 2019



Source: Koyfin, share price data from January 2010 to end March 2019

Since 2019, however, and particularly since the start of 2023, Iron Mountain's shares have taken off, increasing by 170%, whilst Restore's shares have fallen.

### IRM shares have outperformed RST by >170% since 2019



Source: Koyfin, share price data from March 2019 to end July 2019

The two businesses are not perfect comparators from an investment perspective because Iron Mountain is a Real Estate Investment Trust and therefore valued on a net asset and income basis rather with multiples being a secondary consideration.

Nevertheless, the recent share price performance is noteworthy.

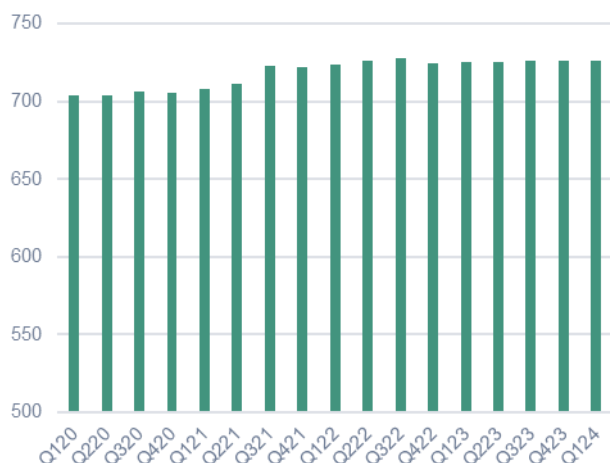
The key point we take from recent Iron Mountain investor conference calls is that the recent share price performance confirms a shift in sentiment towards the company. The management team highlights a few reasons for this, including:

- Strong financial performance with benefits accruing from new commercial model launched in 2022 (leveraging market leadership, cross selling, sharing best practice across divisions).
- The growth areas in which IRM has invested are now large enough to make an impact at Group level (these include Asset Lifecycle Management/ Technology).
- They have put to bed lingering questions over the sustainability of the box storage business in an increasingly digital world (see chart on left hand side below)
- They have successfully implemented a revenue management programme (sustainable pricing increases).

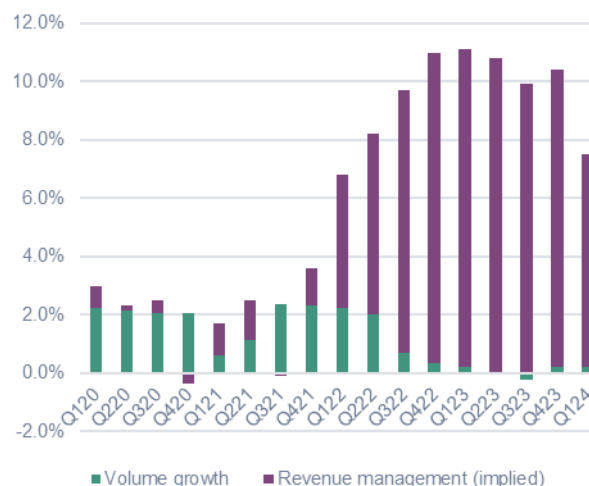
## IRM KPIs demonstrate market resilience and pricing opportunity

We show Iron Mountain's recent volume and pricing trends in the charts below, which highlight the underlying resilience of the market in terms of volume of boxes stored, as well as recent positive pricing trends, which look set to continue.

**Very steady storage volume (cubic feet)**



**Revenue growth from revenue management (price)**



Source: Company, ED estimates

In terms of Iron Mountain's forecast guidance, they suggest:

- Boxes stored to be "flat to up slightly" with growth driven by emerging markets and stability in developed markets. This is described by IRM management as "a rock-solid business in terms of Records & Information Management volume"
- Mid-single-digit revenue management (pricing potential) even in a post inflationary world

All of these factors should give confidence to investors in Restore, given that these key trends should be representative of the UK records management market.

We expect Restore's box volumes to remain stable over the forecast period and see scope for continued price increases to drive revenue growth in records management, underpinning a strong earnings stream from the largest profit contributor in the Group.

In our view, the Iron Mountain case study is a perfect example of strong financial performance prompting a re-evaluation of an investment case and underpinning a rerating of the shares.

**The Iron Mountain case study is a perfect example of strong financial performance prompting a re-evaluation of an investment case and underpinning a rerating of the shares.**

## Interim results highlights (six months to Jun '24)

Income statement						
Six-month periods, £m	H1'23(A)	H2'23(A)	2023(A)	H1'24(A)	H2'24(E)	2024(E)
Group revenue	139.6	137.5	277.1	139.4	151.3	290.7
COGS	-80.1	-80.6	-160.7	-77.5	-88.2	-165.7
<b>Gross profit</b>	<b>59.5</b>	<b>56.9</b>	<b>116.4</b>	<b>61.9</b>	<b>63.1</b>	<b>125.0</b>
Segmental admin expenses	-34.9	-34.4	-69.3	-34.9	-38.0	-72.9
% of revenue	25%	25%	25%	25%	25%	25%
Central admin expenses	-2.9	0.1	-2.8	-3.4	-0.1	-3.5
% of revenue	2%	0%	1%	2%	0%	1%
<b>Adj. Operating profit</b>	<b>21.7</b>	<b>22.6</b>	<b>44.3</b>	<b>23.6</b>	<b>25.0</b>	<b>48.6</b>
% margin	15.5%	16.4%	16.0%	16.9%	16.5%	16.7%
Depreciation	16.6	16.2	32.8	15.3	17.2	32.5
<b>Adj. EBITDA</b>	<b>38.3</b>	<b>38.8</b>	<b>77.1</b>	<b>38.9</b>	<b>42.2</b>	<b>81.1</b>
% margin	27.4%	28.2%	27.8%	27.9%	27.9%	27.9%
Net interest	-6.6	-7.4	-14.0	-7.4	-7.8	-15.1
<b>Adj. PBT</b>	<b>15.1</b>	<b>15.2</b>	<b>30.3</b>	<b>16.3</b>	<b>17.3</b>	<b>33.5</b>
% margin	10.8%	11.1%	10.9%	11.7%	11.4%	11.5%
Impairments	-32.5	-3.8	-36.3	0.0	0.0	0.0
Amortisation	-6.3	-5.9	-12.2	-6.0	-6.0	-12.0
Acquisition transaction costs	-0.2	0.0	-0.2	0.0	0.0	0.0
Restructuring and redundancy	-1.0	-4.9	-5.9	-0.7	-2.3	-3.0
Property related costs	0.0	-3.1	-3.1	-0.4	-2.6	-3.0
Strategic IT reorganisation	-1.0	-0.6	-1.6	-0.6	-0.4	-1.0
<b>Reported PBT</b>	<b>-25.9</b>	<b>-3.1</b>	<b>-29.0</b>	<b>8.6</b>	<b>6.0</b>	<b>14.5</b>

Source: Company, ED estimates

## Trading in-line as new strategy delivers improving profitability

Restore's interims confirm early signs of improvement under the new strategy. Revenue was flat year-on-year at £139.4m (H1'23: £139.6m) but operating margins strengthened by 140bps to 16.9% (H1'23: 15.5%), a positive step towards management's medium-term target of >20% operating margin.

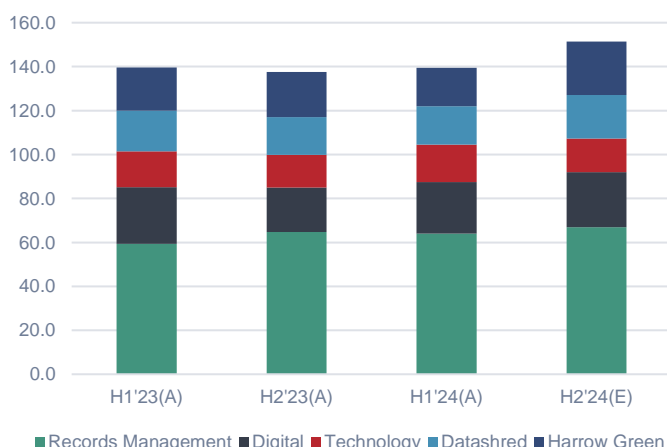
D&IM revenue increased by 3% (to £87.5m) fully offsetting a 5% decline in SLS revenue (to £51.9m). H1'24 performance was driven by strong growth in Records Management revenues (+8% driven by pricing), which offset some ongoing challenges in the other businesses. Adjusted profit before tax increased by 8% to £16.3m, adjusted EPS by 7% to 9.0p and DPS by 8% to 2.0p.

**Expectations for the full year are unchanged and the Board remains confident that all businesses, except for Harrow Green, will deliver an improvement in operating margins in the current year.**

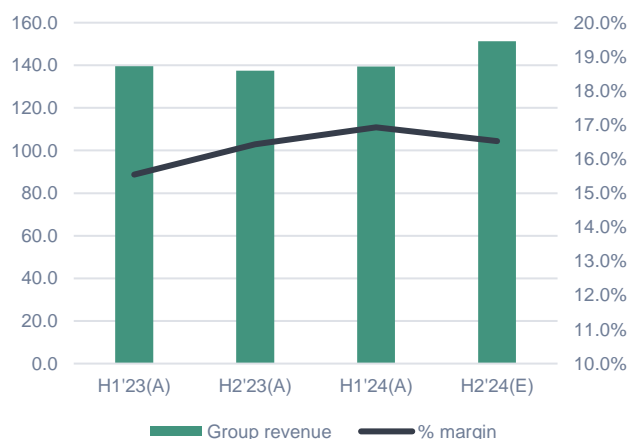
## Strong cash conversion

Cash conversion was strong, at 84%, supporting a reduction in net debt of 4% to £93.5m. Leverage of 1.7x (H1'23: 1.8x) is comfortably within management's target range (1.5x to 2.0x). The Group made many changes to financing arrangements in the period at no material cost, mitigating the impact of the current interest rate environment. These included decreasing the Revolving Credit Facility from £200m to £125m whilst extending it to April 2027; and entering into a new £10m overdraft facility with Barclays Bank. The Group now has £150m of available facilities, which can be extended by a further £25m via an accordion.

## Half-year revenue by business segment



## Group half-year revenue and margin progression



Source: Company, ED estimates

## Digital & Information Management

**Records Management** was the standout performer, recording 8% revenue growth. The number of boxes stored was steady at 22.5m and revenue growth was driven by contractual price changes. Adjusted operating margins improved appreciably. The business has started the process of decanting boxes from two of the most expensive legacy sites, Redhill and Paddock Wood, into a new 100k square foot facility in Markham Vale, East Midlands. This will ultimately result in lower storage costs per box and higher margins.

**Digital** revenue declined from £25.8m to £23.5m, despite large contracts being won with HMRC and Land Registry. The decline reflects an overall reduction in major one-off contracts, particularly for the NHS. During the period, the division was unsuccessful in a bid to renew a government agency contract, where the Group currently provides lower margin bulk scanning activities onsite.

More positively, **Digital has been awarded a contract by the Department of Work and Pensions for virtual mailroom services with a total minimum contract value of over £70m over six years, commencing in FY25.** At the same time, further actions are underway to improve the operational efficiency and profitability of the Digital business including the closure of the Stockport facility and the reduction in scale of the Manchester facility, consolidating activities into the two primary facilities in Wolverhampton.

Given the overlap between RM and Digital, the two businesses are now being combined to improve customer engagement/ cross-selling and drive efficiencies. The integration is expected to be substantially complete within twelve months. Estimated integration costs are c.£3m, to drive annual savings of c.£3m.

## Secure Lifecycle Services

**Technology** revenue increased to £17.0m (H1'23: £16.3m) as the improving market generated an increase in recycled IT equipment. Profitability was marginally better than in the prior period.

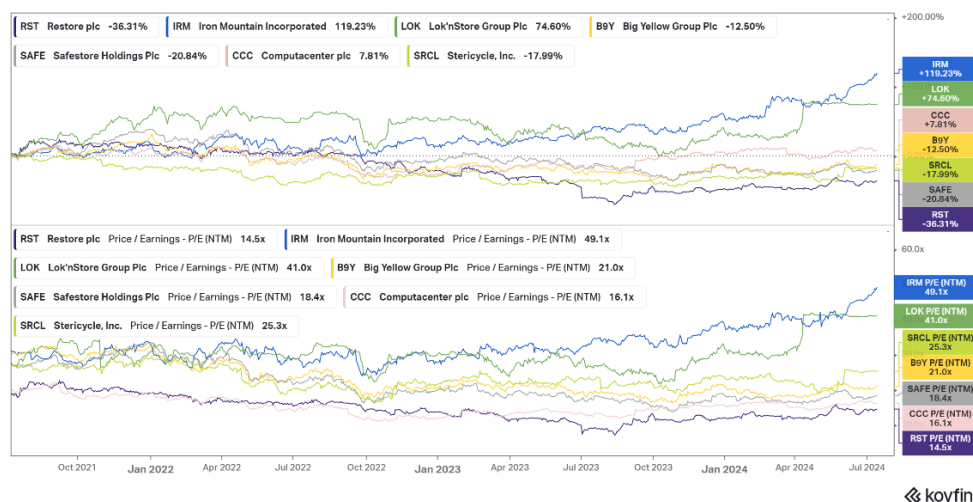
**Datashred** revenue declined to £17.5m (H1'23 £18.6m) as a result of the year-on-year decline in recycled paper pricing (discussed in detail on page 15). The average paper price was £155/tonne in H1'24 compared to £220/tonne in H1'23. The trend is now improving, which should support an improvement in profitability. Operational initiatives have been successful (e.g. the number of site visits per vehicle are at a record level).

**Harrow Green** revenue fell to £17.4m (H1'23: £19.6m) despite a successful laboratory move for a major pharma company. Several projects scheduled for 2024 have been postponed and management expects a reduction in the number of large office moves in London as a result of changing working patterns. This is being addressed by a focus on more attractive segments of the market as well as headcount reductions.

**The Digital business is to be combined with Records Management. The integration process is underway and is expected to deliver annualised cost savings of c.£3m**

## Valuation does not reflect growth ambitions

### RST's share price has underperformed all immediate peers over recent years



Source: Koyfin

Restore's share price has underperformed all immediate peers over recent years, reflecting the company-specific setbacks of 2023 in contrast e.g. to the impressive rally in Iron Mountain shares discussed earlier in this note. Restore's shares did bounce on the re-appointment of Charles Skinner as CEO but continue to trade at a marked discount to peers and the Groups' own historic average rating.

The strap line of the new management team is **"Our business is simple but not easy"**. Similarly, the 20% operating margin target will not be easy to deliver but, in our view, it is certainly achievable given the underlying strength of the businesses and the experience of the management team. It is clear to us that the current share price does not yet reflect confidence in this being achieved.

If Restore hits its stated ambition of >20% operating margin by 2026, we will need to upgrade our PBT forecast by at least 15%. This would take Group PBT back above previous record levels, in contrast to a share price, which sits some 50% below its post-COVID peak (508p in August 2021). Even on our more prudent, existing forecasts, Group operating profit in 2026 would be a new record, although higher interest costs mean that this does not quite translate in to record PBT.

We note that Restore's management has a long and successful history of running listed businesses and understands the importance of managing investor expectations.

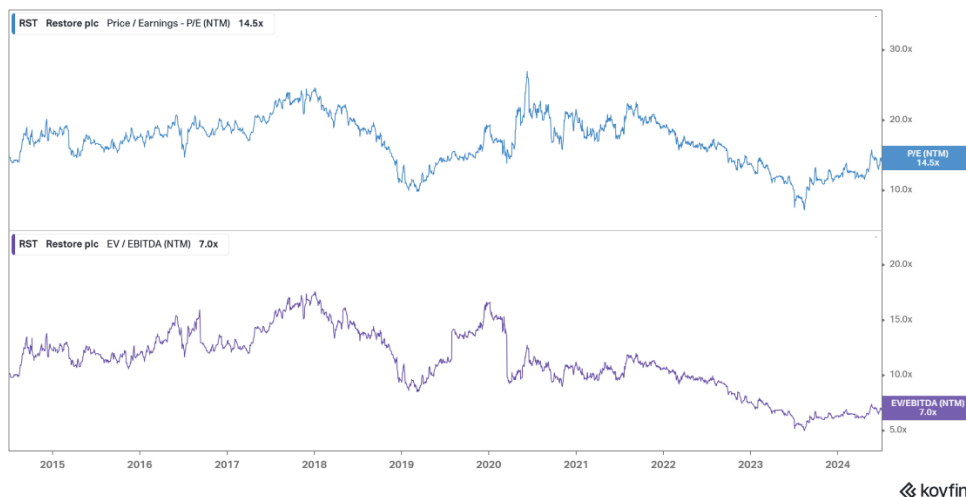
As we have highlighted throughout this note, the current focus is on organic growth and margin enhancement. That said, Restore has been built on the back of successful M&A over a sustained period and many of its markets still present opportunities for consolidation, particularly Datashred, Technology and Digital. We therefore see M&A as another medium-term share price catalyst.

**M&A has also been a regular feature across Restore's broad peer group.** Stericycle (Shred-It) is currently subject of a \$7bn takeover by Waste Management, Inc. whilst Lok'n Store has recently agreed to a takeover by Belgian-listed rival Shurgard. Previous deals of relevance include Iron Mountain's >\$2bn acquisition of Australian listed Recall Holdings in 2016 and, more tangentially, the £1bn takeover of Clipper Logistics by US-based GXO Logistics in 2022 and the £750m takeover of Wincanton, again by GXO, earlier this year.

**If Restore hits its >20% operating margin target, Group PBT will be back above previous record levels, in contrast to a share price, which sits some 50% below its post-COVID peak**

We have followed Restore for many years and recall that the shares used to trade consistently on a P/E rating of c.20x P/E and EV/EBITDA rating of c.12x. Against these benchmarks, the shares are currently trading at discounts of 29% and 43%.

### And RST is trading at a marked discount to its historic average ratings



Source: Koyfin

Whilst there has been a wider market de-rating as interest rates have risen and sentiment towards the UK market has softened, we see no reason why the shares should not trade at least in line with peers.

We provide a detailed peer analysis on the following page, categorised as **Direct** (competitors and companies carrying out similar activities) or **Related** (UK listed services companies and a selection of higher quality AIM 100 stocks). The table below summarises the respective ratings of these two peer groups and shows Restore trading at a significant discount against all metrics.

Valuation summary						
	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Div Yield (NTM)	EBITA Margin (FY)
Restore	14.2x	12.9x	6.8x	6.3x	2%	16%
Peer Average (Direct)	28.7x	25.8x	19.0x	17.2x	2%	33%
Peer Average (Related)	16.1x	14.3x	9.5x	8.7x	4%	14%
Peer Average (All)	21.1x	18.9x	13.5x	12.3x	3%	21%
RST (Discount) to Direct	-51%	-50%	-64%	-63%	-11%	-51%
RST (Discount) to Related	-12%	-10%	-28%	-28%	-47%	16%
RST (Discount) to All	-33%	-32%	-50%	-49%	-38%	-22%

Source: Koyfin (shares prices at COB 26/07/24), ED analysis

The Direct peer group trades at a higher rating (28.7x mean average P/E rating) but is weighted towards larger companies and particularly inflated by Iron Mountain (>50x P/E), which is a REIT and therefore valued more on an assets and income basis.

The Related peer group (comprising only UK listed companies) trades on an average of 16.1x P/E and the rating of the combined group (all Direct and Related peers) is 21.1x P/E.

**Our 400p Fair Value estimate represents an FY25 P/E rating of 20x, in line with Restore's historic average rating.** On FY24 forecasts, a 400p share price equates to a P/E rating of 22x, in line with the wider peer group above. This is before factoring in the potential for further outperformance in terms of revenue and margin growth (we forecast a 17% operating margin, comfortably below management's target).

## Peer Group Valuation Table

Name	Market Cap GBP	TSR (1Y)	TSR (3Y)	TSR (5Y)	EV/Sales (NTM)	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Div Yield (NTM)	EBITA Margin (FY)
<b>Direct Peers and Competitors</b>											
Iron Mountain Incorporated	22,523	69%	160%	341%	7.1x	51.7x	47.1x	20.3x	18.5x	2%	24%
Stericycle Inc.	4,219	37%	-17%	28%	2.7x	25.1x	20.8x	15.4x	13.5x	0%	11%
Computacenter	3,000	22%	8%	120%	0.4x	15.3x	14.1x	7.6x	7.1x	3%	4%
Big Yellow Group	2,288	14%	-8%	39%	12.9x	20.3x	19.2x	20.0x	18.8x	4%	64%
Safestore Holdings	1,723	-8%	-16%	40%	11.3x	18.1x	17.4x	19.4x	18.3x	4%	61%
Lok'nStore Group	378	41%	75%	132%	14.6x	41.4x	36.4x	31.1x	26.8x	2%	33%
<b>Mean Average (Direct)</b>		<b>29%</b>	<b>34%</b>	<b>117%</b>	<b>8.2x</b>	<b>28.7x</b>	<b>25.8x</b>	<b>19.0x</b>	<b>17.2x</b>	<b>2%</b>	<b>33%</b>
<b>Median (Direct)</b>		<b>29%</b>	<b>0%</b>	<b>80%</b>	<b>9.2x</b>	<b>22.7x</b>	<b>20.0x</b>	<b>19.7x</b>	<b>18.4x</b>	<b>2%</b>	<b>28%</b>
<b>Related Services/ Selection of AIM 100</b>											
Rentokil Initial	11,749	-26%	-7%	20%	2.7x	20.2x	17.8x	12.2x	11.1x	2%	17%
Mitie Group	1,564	26%	118%	63%	0.3x	11.1x	9.9x	5.9x	5.5x	3%	5%
Renew Holdings	853	49%	52%	201%	0.8x	16.4x	15.4x	10.2x	9.5x	2%	7%
CVS Group	793	-41%	-52%	19%	1.5x	12.1x	11.2x	8.0x	7.3x	1%	14%
Johnson Service Group	674	43%	9%	1%	1.5x	16.7x	14.0x	5.2x	4.7x	2%	11%
RWS Holdings	661	-29%	-64%	-68%	1.0x	7.9x	7.2x	4.7x	4.4x	7%	18%
Learning Technologies Group	557	4%	-66%	-35%	1.3x	9.2x	8.5x	5.8x	5.5x	2%	15%
AB Dynamics	480	22%	8%	-18%	4.1x	34.0x	30.7x	19.8x	17.9x	0%	15%
Nichols	426	15%	-14%	-24%	2.0x	19.0x	18.0x	12.3x	11.3x	3%	15%
Marlowe	392	9%	-25%	28%	1.6x	17.7x	13.0x	12.4x	11.6x	17%	11%
FRP Advisory Group	317	14%	11%		2.0x	12.6x	12.0x	7.5x	7.1x	4%	24%
<b>Mean Average (Related)</b>		<b>8%</b>	<b>-3%</b>	<b>19%</b>	<b>1.7x</b>	<b>16.1x</b>	<b>14.3x</b>	<b>9.5x</b>	<b>8.7x</b>	<b>4%</b>	<b>14%</b>
<b>Median (Related)</b>		<b>14%</b>	<b>-7%</b>	<b>10%</b>	<b>1.5x</b>	<b>16.4x</b>	<b>13.0x</b>	<b>8.0x</b>	<b>7.3x</b>	<b>2%</b>	<b>15%</b>
<b>Mean Average (All)</b>		<b>15%</b>	<b>10%</b>	<b>55%</b>	<b>4.5x</b>	<b>21.1x</b>	<b>18.9x</b>	<b>13.5x</b>	<b>12.3x</b>	<b>3%</b>	<b>21%</b>
<b>Median (All)</b>		<b>14%</b>	<b>-7%</b>	<b>28%</b>	<b>2.0x</b>	<b>17.7x</b>	<b>15.4x</b>	<b>12.2x</b>	<b>11.1x</b>	<b>2%</b>	<b>15%</b>

Source: Koyfin (shares prices at COB 26/07/24), ED analysis

## 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%
<b>Gross profit</b>	<b>76.8</b>	<b>107.2</b>	<b>123.6</b>	<b>116.4</b>	<b>125.0</b>	<b>129.2</b>	<b>133.4</b>
% 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%
<b>Adj. Operating profit</b>	<b>31.7</b>	<b>46.2</b>	<b>51.9</b>	<b>44.3</b>	<b>48.6</b>	<b>51.6</b>	<b>54.3</b>
% 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
<b>Adj. EBITDA</b>	<b>57.4</b>	<b>74.2</b>	<b>81.5</b>	<b>77.1</b>	<b>81.1</b>	<b>84.1</b>	<b>86.8</b>
% margin	31%	32%	29%	28%	28%	28%	28%
Net interest	-8.5	-8.1	-10.9	-14.0	-15.1	-14.6	-14.3
<b>Adj. PBT</b>	<b>23.2</b>	<b>38.1</b>	<b>41.0</b>	<b>30.3</b>	<b>33.5</b>	<b>37.0</b>	<b>40.0</b>
% 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
<b>Reported PBT</b>	<b>4.0</b>	<b>23.0</b>	<b>23.3</b>	<b>-29.0</b>	<b>14.5</b>	<b>24.0</b>	<b>27.0</b>
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%
<b>Adj. PAT</b>	<b>18.8</b>	<b>30.9</b>	<b>33.2</b>	<b>23.2</b>	<b>25.1</b>	<b>27.8</b>	<b>30.0</b>
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
<b>Operating Cash Flow</b>	<b>66.9</b>	<b>59.9</b>	<b>65.2</b>	<b>66.9</b>	<b>72.1</b>	<b>79.7</b>	<b>82.3</b>
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
<b>Net Operating Cash Flow</b>	<b>51.7</b>	<b>47.7</b>	<b>47.8</b>	<b>47.8</b>	<b>51.3</b>	<b>58.6</b>	<b>60.7</b>
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
<b>Equity Free Cash Flow</b>	<b>27.3</b>	<b>20.1</b>	<b>17.6</b>	<b>16.8</b>	<b>14.3</b>	<b>26.6</b>	<b>28.7</b>
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
<b>Net Change in Net Debt</b>	<b>22.4</b>	<b>-34.7</b>	<b>-2.7</b>	<b>5.7</b>	<b>3.8</b>	<b>18.9</b>	<b>20.6</b>
Net Debt - BOP	-88.5	-66.1	-100.8	-103.5	-97.8	-94.0	-75.2
<b>Net Debt - EOP</b>	<b>-66.1</b>	<b>-100.8</b>	<b>-103.5</b>	<b>-97.8</b>	<b>-94.0</b>	<b>-75.2</b>	<b>-54.6</b>
<b>Net Debt including leases</b>	<b>-186.8</b>	<b>-217.8</b>	<b>-218.4</b>	<b>-201.3</b>	<b>-197.5</b>	<b>-178.7</b>	<b>-158.1</b>

Source: Company, Equity Development estimates

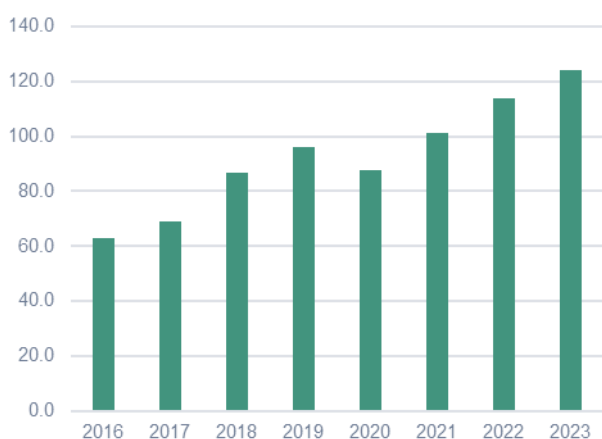
Balance sheet							
Year-end Dec, £m	2020A	2021A	2022A	2023A	2024E	2025E	2026E
<b>Non-Current assets</b>							
Intangible assets	247.4	327.2	331.9	284.7	272.7	260.7	248.7
Property, Plant & Equipment	70.6	78.8	79.7	79.4	83.9	83.4	82.9
Right of use assets	107.1	102.5	106.8	91.6	91.6	91.6	91.6
Other receivables	3.4	5.9	5.1	5.2	5.2	5.2	5.2
<b>Sub-total NCAs</b>	<b>428.5</b>	<b>514.4</b>	<b>523.5</b>	<b>460.9</b>	<b>453.4</b>	<b>440.9</b>	<b>428.4</b>
<b>Current Assets</b>							
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
<b>Sub-total CAs</b>	<b>68.8</b>	<b>91.2</b>	<b>97.1</b>	<b>88.5</b>	<b>100.5</b>	<b>125.3</b>	<b>151.9</b>
<b>Total Assets</b>	<b>497.3</b>	<b>605.6</b>	<b>620.6</b>	<b>549.4</b>	<b>553.9</b>	<b>566.2</b>	<b>580.3</b>
<b>Current liabilities</b>							
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
<b>Sub-total CLs</b>	<b>-55.9</b>	<b>-66.1</b>	<b>-71.6</b>	<b>-68.0</b>	<b>-69.6</b>	<b>-70.6</b>	<b>-71.6</b>
<b>Non-Current liabilities</b>							
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
<b>Sub-total NCLs</b>	<b>-222.8</b>	<b>-274.3</b>	<b>-275.8</b>	<b>-249.3</b>	<b>-249.2</b>	<b>-249.2</b>	<b>-249.2</b>
<b>Total Liabilities</b>	<b>-278.7</b>	<b>-340.4</b>	<b>-347.4</b>	<b>-317.3</b>	<b>-318.8</b>	<b>-319.8</b>	<b>-320.8</b>
<b>NET ASSETS</b>	<b>218.6</b>	<b>265.2</b>	<b>273.2</b>	<b>232.1</b>	<b>235.1</b>	<b>246.4</b>	<b>259.5</b>

Source: Company, Equity Development estimates

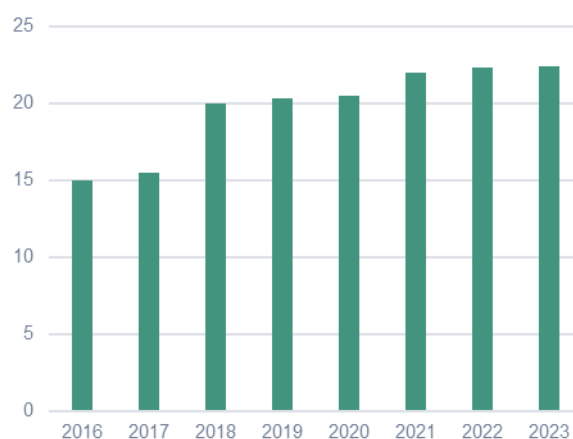
## Appendix 1 - KPIs in focus

Restore provides good disclosure of a number of KPIs across the five businesses within its annual report and accounts. These are useful in terms of understanding the key revenue and profit drivers across the Group. We highlight the key recent trends on the following pages, as well as the opportunities to improve margins across all businesses e.g. through site rationalisation, pricing and a streamlined focus.

### Records Management revenue



### Number of boxes under management

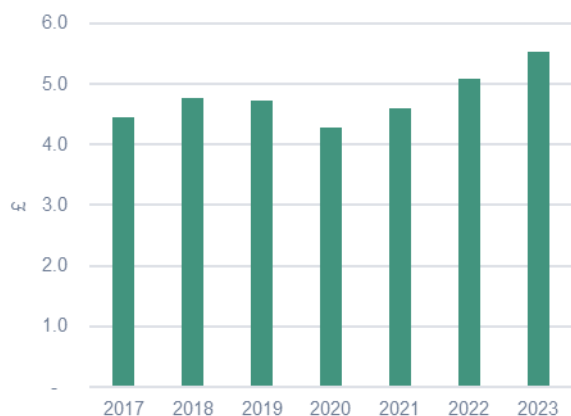


Source: Company, ED estimates

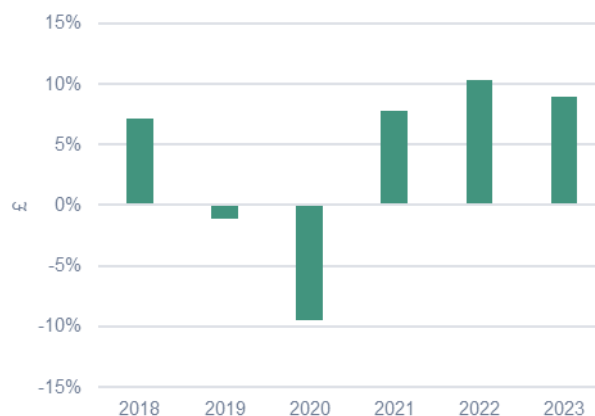
Records Management growth has been strong for a sustained period, with the exception of 2020 when service delivery was impacted by COVID (box storage revenue accounts for c.80% of RM revenue).

The number of boxes under management has been stable for some time on an organic basis. The step up in 2018 was the result of 5 million boxes brought into the Group via the TNT acquisition. 2021 saw an additional 2 million boxes added by the EDM acquisition, even though this was principally a Digital business.

### Revenue per box



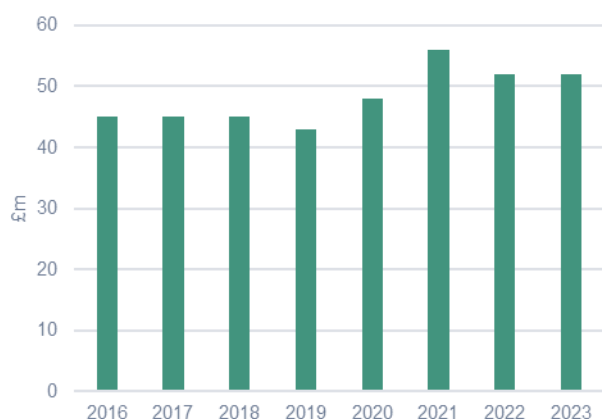
### Growth in revenue per box



Source: Company, ED estimates

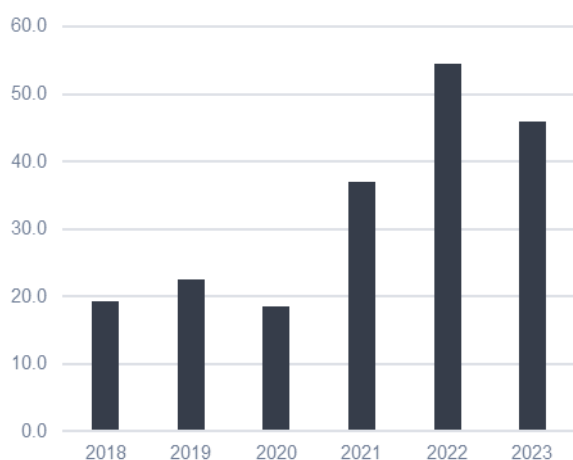
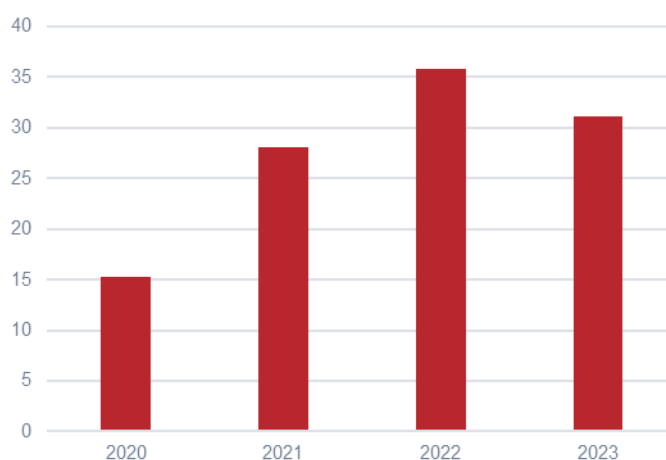
Revenue growth in Records Management has therefore been driven by a combination of boxes added by acquisition and increases in price. Pricing has been strong for the past two years, which is consistent with the Iron Mountain commentary. This follows a long period of stagnant pricing amidst aggressive behaviour by lower cost competition, which appears to have abated.

Restore is guiding towards stable box volumes over the forecast period (and this is reflected in our forecasts) alongside the potential for mid to high single digit price inflation.

**Number of Records Management sites**

**Records Management revenue per site**


Source: Company, ED estimates

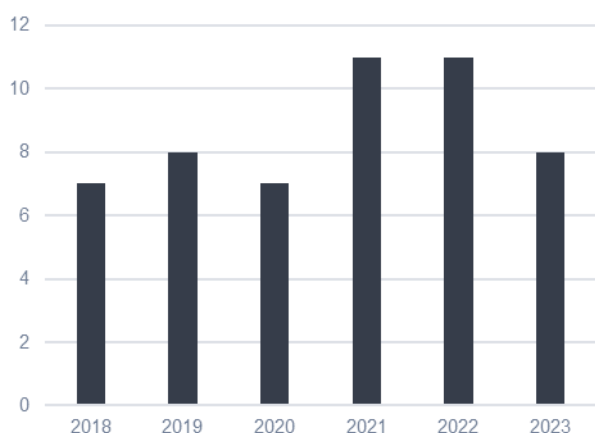
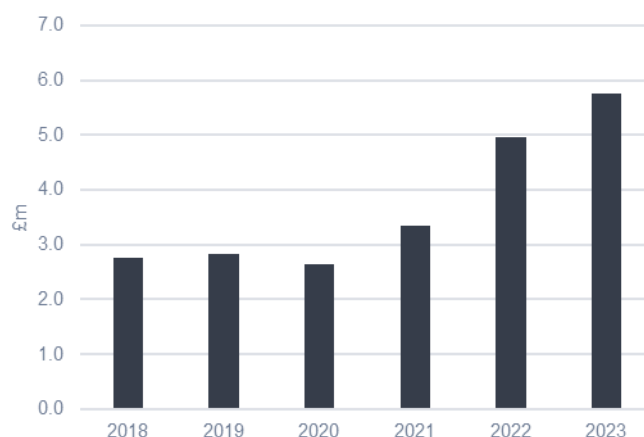
The number of Records Management sites has decreased slightly over the past two years as the Group has gradually moved away from smaller warehouses (20k to 30k square feet holding 200k to 300k boxes) towards more cost-effective sites, the sweet-spot being c.100k square feet warehouses capable of holding c.1.4m boxes. The ambition is to bring the cost per box below £1 per annum. Overall, this means that margins should continue to improve, although in the near term some double running costs are likely during the period of site rationalisation.

**Digital revenue**

**Technology revenue**


Source: Company, ED estimates

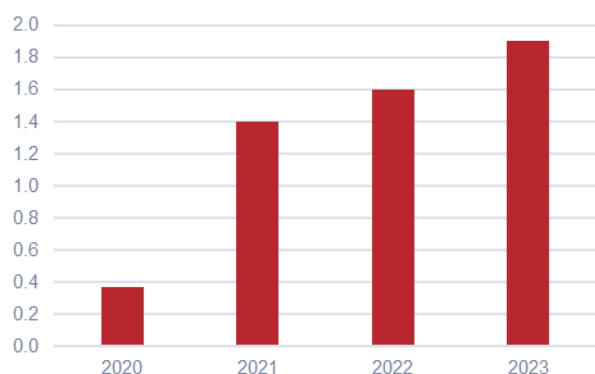
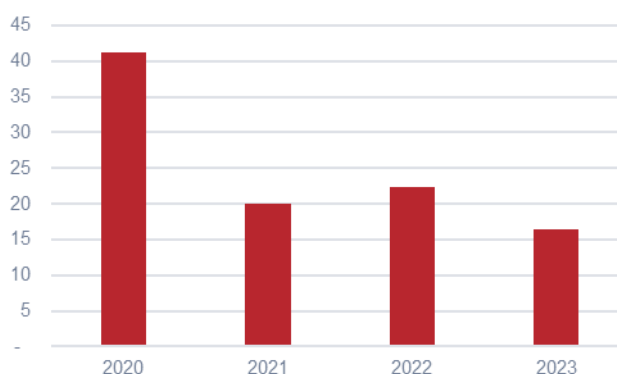
The two charts above show the impact of acquisitions on revenue growth across the Digital and Technology businesses in 2021 and 2022 followed by an organic decline in 2023.

As discussed elsewhere in this note, this reflected market weakness in Technology and a lower number of significant projects in Digital compared to a challenging 2022 comparator.

**Number of Digital sites**

**Digital revenue per site £m**


Source: Company, ED estimates

Despite the reduction in Digital revenue in 2023, revenue per site increased as the business was streamlined, and eleven sites reduced to eight. This should support an improvement in margins towards management's 15% target as activity increases.

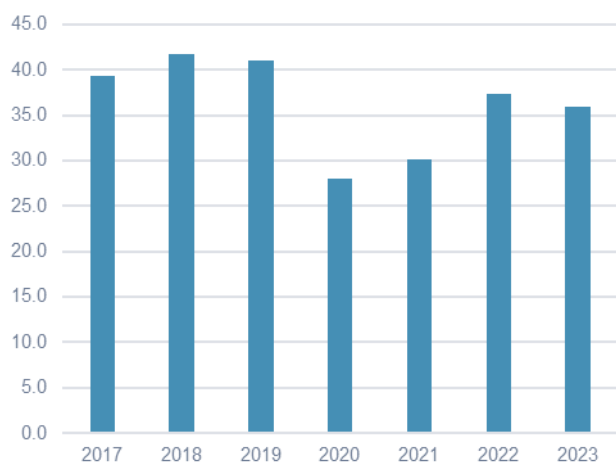
**Technology: number of assets processed**

**Technology: revenue per asset processed**


Source: Company, ED estimates

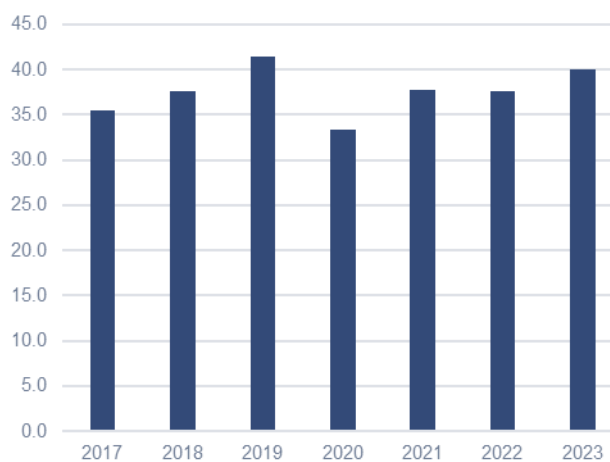
Whilst Technology revenue declined, the number of assets processed increased in 2023. Revenue per asset processed therefore declined. This is at the heart of the issue identified by the new management team with the Technology business working harder to make less revenue.

One of the recent Technology acquisitions established a presence at the lower end of the ITAD market where customers simply want their old equipment taken away (rather than being focused on data security and environmental footprint). This is a lower value, lower margin activity and will not be the focus for the business in the future.

### Datashred revenue



### Harrow Green revenue

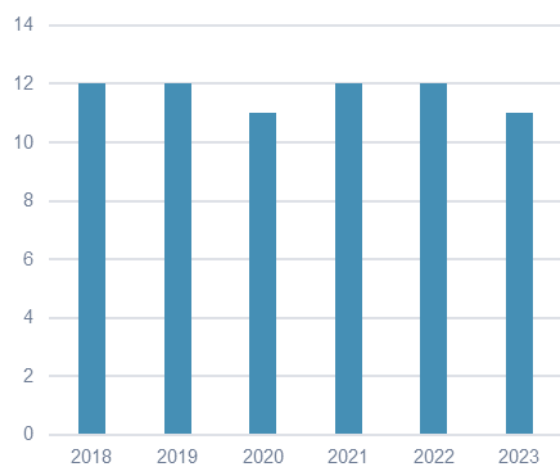


Source: Company, ED estimates

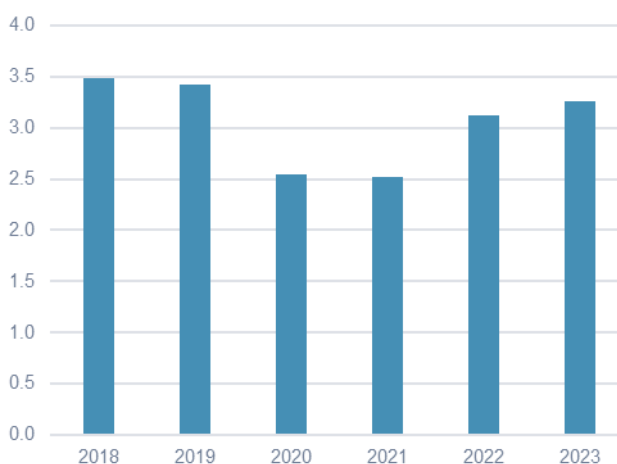
Datashred revenue has still not fully recovered from the COVID pandemic, which reflects in part the impact of hybrid working/ working from home on office paper waste creation. As discussed elsewhere, the revenue decline in 2023 was a function of lower waste paper pricing rather than lower volume. The new management team has also reviewed pricing of services and has achieved meaningful price increases, reflecting historic under-pricing to certain customer sectors.

Harrow Green had a very strong year in 2023 and has been a consistent performer for several years, even proving to be reasonably resilient during 2020.

### Number of Datashred sites

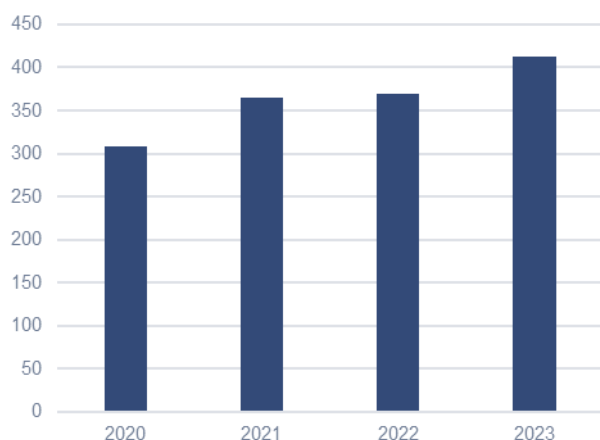
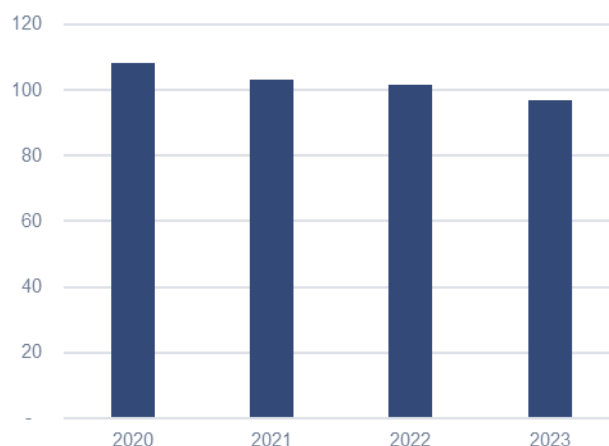


### Datashred revenue per site £m



Source: Company, ED estimates

The number of Datashred sites has been very stable over the past six year (one closure last year). The new management team is working to identify appropriate sites within the current Group estate that could be shared with Datashred. As well as potentially improving margins, this should promote cross-selling opportunities as customers tend to respond well to Restore's ability to store, scan and shred documents, providing "chain of custody".

**Harrow Green: number of desks relocated (k)**

**Harrow Green revenue per desk relocated £**


Source: Company, ED estimates

Harrow Green's growth in 2023 broadly tracks the increase in desks relocated. Whilst no two jobs are identical, revenue per desk relocated is reasonably consistent at c.£100.

It operates from nine sites across the UK with a geographical bias towards London and the South-East. The business has recently been focused on developing a sector specialism in life sciences and has commissioned a biobank at a branch storage facility in Cambridge, which is expected to generate an excellent return on invested capital. A further branch is being opened near Oxford, again to expand the offering to the life sciences sector.

Harrow Green operates a fleet of 118 vehicles, which has been stable for the past two years, and is increasingly investing in fully electric fleet where appropriate (e.g. in the City of London, where distances travelled in office relocations are modest).

## Appendix 2 - Board of Directors

Restore's Board of Directors has been transformed over the past year, with Charles Skinner returning as CEO in September 2023, followed by the appointment of Jamie Hopkins as Chair in October 2023 and Dan Baker as CFO in November 2023. Charles Skinner brings a wealth of experience of the Restore business, which he helped to build over the course of the decade to 2019, as well as a track record of creating shareholder value. Jamie Hopkins has significant experience of running a FTSE 250 company and an excellent understanding of the property sector, which is directly relevant, given Restore's large estate.

### Chair - Jamie Hopkins

Appointed Chair on 30th October 2023, having joined the Board as a Non-Executive Director in January 2020. Jamie was previously Chief Executive Officer of Workspace Group plc from 2012 until May 2019. Formerly served as Chief Executive and then a Non-Executive Director of Mapeley plc from 2002 until 2010 and a Director of Chester Properties from 2009 to 2012. Also acted as Investment Director of Delancey Estates and Savills between 1990 to 2002. A member of the Royal Institution of Chartered Surveyors. Jamie is currently a Non-Executive Director at Allsop LLP.

### CEO – Charles Skinner

Charles was Chief Executive Officer of Restore between 2009 and 2019 and has a very strong track record in the business-to-business services sector with over 30 years of senior management experience in listed companies, twenty years of which were as Chief Executive. Prior to his ten years as Chief Executive Officer of Restore, Charles was Chief Executive Officer of Brandon Hire plc and Chief Executive Officer of Johnson Service Group plc. Charles is also an Honorary Fellow of Oriel College, University of Oxford.

### CFO – Dan Baker

Dan joined Restore on 13 November 2023. Prior to that he was the CEO of the Battery Materials business of EV Metals Group plc, which was acquired from Johnson Matthey in 2022. He was previously the Finance and Strategy Director of that same business at Johnson Matthey plc for four years where he helped grow and then exit the business. Before that he was at Smith & Nephew plc for four years where he held a number of senior roles including Group Financial Controller, CFO Commercial and CFO China.

Dan is a Chartered Accountant and qualified with Deloitte LLP where he was an Audit Director, having spent eleven years within their audit practice.

### Non-Executive Director – Susan Davy

Susan has been Chief Executive Officer at Pennon Group plc since July 2020 having joined the Group in 2015 as Chief Financial Officer. Susan was previously Finance and Regulatory Director at South West Water.

### Non-Executive Director – Lisa Fretwell

Lisa was most recently Managing Director for Experian's UK Data Business, prior to which she held senior roles in transformation and consulting for various technology organisations including Cisco and Cap Gemini. Lisa is also a Non-Executive Director of Santander UK.



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