

4imprint Group

Interim results

Market leader

4imprint's interim results show that its recently-adopted strategy of additional investment in brand awareness is recruiting new customers even better than initial trials had indicated. The investment is holding back FY18e operating margin (already built into forecasts), but underpins our market-beating growth expectations. The ambition to reach US\$1bn of revenue by FY22 looks increasingly achievable. Our FY18e and FY19e revenue numbers rise by 2%, with consequent uplift to operating profit. A lower anticipated tax charge further lifts projected EPS. The group is highly cash generative, funding growth and a progressive dividend.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	558.2	38.4	98.7	52.5	25.7	2.1
12/17	627.5	42.5	107.7	58.1	23.6	2.3
12/18e	720.0	44.8	125.9	65.0	20.0	2.6
12/19e	792.0	52.0	146.1	80.0	17.4	3.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Traditional media campaign boost

Having built reach online and via catalogues, with marketing spend directed by the use of data and predicated on product, the use of traditional media (TV and radio) to boost brand awareness announced with the finals in March initially looked incongruous. This campaign (\$7m of additional spend) has reached a broader audience, more quickly and more efficiently, than expected. 138k new customers were recruited in H118 (H117: 125k), placing 13% more orders year-on-year. Orders from existing customers were up by 18%, with an average order size across the group of around \$510. Fulfilling these additional orders led to some short-term operational inefficiency, with a slight increase in cost of sales, but we anticipate that this will be mitigated as lessons learned are put into practice.

Gaining scale

Industry body ASI estimates the size of the US promotional products market at around \$23.6bn, having grown 3.2% in 2017. The larger distributors show a faster pace of growth at 8% (FY17: 4imprint revenue up 12.4%). The ASI now cites 4imprint as the largest distributor, having overtaken Staples Promotional Products. Despite the rapid pace of growth, the group's market share remains less than 3%. If the industry continues to increase at the same rate and 4imprint achieves its FY22 ambition of \$1bn of revenue, this would still represent less than 4% market share.

Valuation: Premium for strong record, prospects

4imprint continues to trade at a premium to the UK small-/mid-cap marketing service companies, which are currently valued at a FY18e EV/EBITDA of 7.9x and a P/E of 12.1x. This reflects its differentiated and focused business model and consistent record of strong earnings growth (27% EPS CAGR FY11-19e, 14% EPS CAGR FY15-19e). It has a cash-rich balance sheet and a growing dividend stream, underpinning the share price

Media

31 July 2018

Price **1940p**
Market cap **£545m**

£1:US\$1.31

Net cash (\$m) at 30 June 2018 26.5

Shares in issue 28.1m

Free float 91.9%

Code FOUR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	11.5	11.5	23.7
Rel (local)	10.7	8.7	18.2

52-week high/low 2020.0p 1575.0p

Business description

4imprint is the leading direct marketer of promotional products in the US, Canada, the UK and Ireland. 97% of 2017 revenues were generated in the US and Canada.

Next events

Trading update Early November 2018

Year-end update Early January 2019

Preliminary results Early March 2019

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Earnings edging up

H118 revenues were ahead by 17% over H117. The rapid uptick in volumes as the brand marketing campaign launched led to some supplier and carrier issues. These were rapidly resolved so clients were not disadvantaged, at a (modest) inevitable additional cost. Gross margin consequently dipped by 0.7pp to 32.2% in the period. Our modelling suggests this recovering to H217 levels from H218.

The additional marketing spend held the operating profit on a par with the prior year, at both the reported and underlying basis. The company is now stating underlying operating profit after share option-related charges, whereas Edison takes the underlying level to be before this cost.

Adjustments to forecasts

Exhibit 1: Revisions to estimates

Year end	Normalised EPS (c)			Rev (\$m)			PBT (\$m)			EBITDA (\$m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017	107.7			627.5			42.5			45.1		
2018e	122.0	125.9	+3	707.5	720.0	+2	44.0	44.8	+2	47.1	47.9	+2
2019e	140.1	146.1	+4	778.3	792.0	+2	51.2	52.0	+2	54.3	55.1	+1

Source: Company accounts, Edison Investment Research

Our revenue numbers have been adjusted up to reflect the successful customer recruitment campaign which falls through to the EBITDA level. The EPS forecast is raised slightly more, reflecting guidance from the company over the expected tax charge which should benefit from the US corporation taxation changes. We have also lifted our dividend expectations from 63.5c to 65c for FY18e and from 78c to 80c for FY19e.

4imprint has inherently high levels of cash conversion. Guidance is for a capex figure of \$3.0m in FY18, a little ahead of depreciation, while the company is likely to pay around \$3.7m into the defined benefit pension scheme – no longer a material matter in the context of the group.

Our model suggests a net cash figure of \$24.7m at the year-end FY18 (from \$26.5m at the half-year end). The cash would then build through FY19e, with \$41.5m by end December. The company is now net interest positive.

4imprint paid out a supplementary dividend for FY17 of 60c alongside the 40c 'normal' dividend payment when the cash balance was greater than was needed for operational or strategic purposes.

Exhibit 2: Financial summary

	\$000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		558,223	627,518	720,000	792,000
Cost of Sales		(374,137)	(422,299)	(486,974)	(534,089)
Gross Profit		184,087	205,219	233,026	257,911
EBITDA		40,766	45,062	47,869	55,114
Operating Profit (before amort. and except.)		38,377	42,580	44,705	51,950
Intangible Amortisation		(499)	(464)	(464)	(464)
Operating Profit (after amort. and before except.)		37,878	42,116	44,241	51,486
Operating Profit		34,696	41,284	43,541	50,786
Net Interest		(24)	(122)	45	50
Net pension finance charge		(521)	(503)	(503)	(503)
Profit Before Tax (norm)		38,353	42,458	44,750	52,000
Profit Before Tax (FRS 3)		34,151	40,659	43,083	50,333
Tax		(9,672)	(11,734)	(9,047)	(10,570)
Profit After Tax (norm)		28,681	30,724	35,703	41,430
Profit After Tax (FRS 3)		24,479	28,925	34,036	39,763
Discontinued businesses		0	0	0	0
Net income (norm)		27,773	30,291	35,353	41,080
Net income (IFRS)		24,479	28,925	34,036	39,763
Average Number of Shares Outstanding (m)					
Average Number of Shares Outstanding (m)		28.1	28.0	28.0	28.0
EPS - normalised (c)		98.7	107.7	125.9	146.1
EPS - (IFRS) (c)		87.3	103.1	121.5	141.8
Dividend per share (c)		52.5	58.1	65.0	80.0
Gross Margin (%)					
Gross Margin (%)		33.0	32.7	32.4	32.6
EBITDA Margin (%)					
EBITDA Margin (%)		7.3	7.2	6.6	7.0
Operating Margin (before GW and except.) (%)					
Operating Margin (before GW and except.) (%)		6.9	6.8	6.2	6.6
BALANCE SHEET					
Fixed Assets		25,050	25,879	26,179	26,779
Intangible Assets		0	0	0	0
Other intangible assets		1,082	1,138	1,138	1,138
Tangible Assets		18,938	18,829	19,129	19,729
Investments		0	0	0	0
Deferred tax assets		5,030	5,912	5,912	5,912
Current Assets		65,662	82,904	83,936	106,626
Stocks		4,179	5,356	6,022	6,625
Debtors		39,800	46,781	53,192	58,512
Cash		21,683	30,767	24,721	41,490
Other		0	0	0	0
Current Liabilities		(40,363)	(47,821)	(53,206)	(57,929)
Creditors		(40,363)	(47,675)	(53,060)	(57,783)
Short term borrowings		0	0	0	0
Long Term Liabilities		(21,024)	(18,869)	(15,476)	(12,476)
Long term borrowings		0	0	0	0
Other long term liabilities (including pension)		(21,024)	(18,869)	(15,476)	(12,476)
Net Assets		29,325	42,093	41,433	63,001
CASH FLOW					
Operating Cash Flow		46,804	44,576	45,542	54,153
Net Interest		(23)	(122)	45	50
Tax		(9,423)	(12,751)	(9,398)	(10,920)
Capex		(3,267)	(2,359)	(3,000)	(3,300)
Acquisitions/disposals		0	0	0	0
Pension contributions		(17,354)	(3,675)	(3,700)	(3,600)
Financing		(270)	(1,359)	(1,420)	0
Dividends		(12,141)	(15,845)	(34,115)	(19,614)
Other		0	0	0	0
Net Cash Flow		4,326	8,465	(6,046)	16,769
Opening net debt/(cash)		(18,381)	(21,683)	(30,767)	(24,721)
Net impact of disposals etc		0	0	0	0
Other		(1,024)	619	0	(0)
Closing net debt/(cash)		(21,683)	(30,767)	(24,721)	(41,490)

Source: Company accounts, Edison Investment Research

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