

4imprint Group

Trading update

Self-promotion pays

4imprint's pre-close update indicates trading in the later weeks of the full year continued strong, with FY19 results set to be at the higher end of the market forecast range. Revenue (+17%) was slightly above our estimate, which we raised by \$10m at the November trading update. The \$41.0m net cash at the year end was also a little ahead of our forecast of \$39.5m. We have initiated FY21 forecasts, which show the group exceeding management's \$1bn revenue target a year earlier than originally anticipated. The large scale of the addressable market leaves plenty of opportunity for growth, with potential for further share price appreciation.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	627.5	42.5	107.7	58.1	31.1	1.7
12/18	738.4	46.1	133.5	70.0	25.1	2.1
12/19e	855.1	54.6	152.4	82.5	22.0	2.5
12/20e	950.0	60.8	169.5	92.5	19.8	2.8
12/21e	1040.0	66.5	185.5	102.5	18.1	3.1

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

FY21e should see further progress

Our new FY21e forecasts are based on top-line growth of just below 10%, well ahead of the market. 4imprint's consistent approach has been to grow revenues through investment in a range of marketing approaches, while maintaining a stable operating margin profile. The Oshkosh distribution facility was extended in FY19 at a cost of \$5m. There is no new news at this point on further expansion either in Oshkosh or elsewhere in the US. The sizeable cash resource (and continuing high levels of cash conversion) mean any such investment should be easily funded.

Growth continues to outstrip market

4imprint continues to grow considerably faster than the promotional products distributor market, which industry body ASI estimates was growing at 4.3% in Q319 year-on-year. Given the size of the addressable market (around two-thirds of the total estimated \$23bn US promotional products market), there is plenty of scope for years of continuing premium growth without approaching market share hurdles. The industry seems to have tackled the potential disruption from US-China tariffs effectively, although those set to be introduced in December did not take effect. Promotional products remain an attractive marketing medium for businesses for both external marketing purposes and internal motivational programmes.

Valuation: Premium for quality, growing earnings

4imprint's shares continue to trade at a premium to quoted UK marketing services peers, with which it has little in common. Its long, positive trading record, high cash conversion (five-year average: 103%) and progressive dividend also single it out. A DCF on our numbers (rolled forward a year) based on conservative assumptions of a 9% WACC and 3% terminal growth suggests a value of £29.37 per share, from £26.72 in our [last note](#). An 8% WACC assumption generates a value of £34.69.

Media

16 January 2020

Price **3,350p**
Market cap **£941m**

£1:\$1.30

Net cash (\$m) at 31 December 2019 41.0

Shares in issue 28.1m

Free float 98.2%

Code FOUR

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	9.5	9.5	80.1
Rel (local)	5.8	2.9	60.8
52-week high/low		3,500p	1,855p

Business description

4imprint is the leading direct marketer of promotional products in the US, Canada, the UK and Ireland. In FY18, 97% of revenues were generated in the US and Canada.

Next events

Final results 3 March 2020

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Exhibit 1: Financial summary

	\$000s	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		627,518	738,418	855,078	950,000	1,040,000
Cost of Sales		(422,299)	(500,531)	(576,643)	(640,661)	(701,360)
Gross Profit		205,219	237,887	278,435	309,339	338,640
EBITDA		45,092	48,507	58,146	64,101	70,018
Operating Profit (before amort. and except.)		42,580	45,862	53,952	59,907	65,824
Intangible Amortisation		(464)	0	0	0	0
Operating Profit (after amort. and before except.)		42,116	45,862	53,952	59,907	65,824
Operating Profit		41,284	44,322	52,938	58,907	64,824
Net Interest		(122)	227	692	870	692
Net pension finance charge		(503)	(403)	(406)	(406)	(406)
Profit Before Tax (norm)		42,458	46,089	54,644	60,777	66,516
Profit Before Tax (IFRS)		40,659	44,146	53,224	59,371	65,110
Tax		(11,734)	(8,952)	(11,709)	(13,062)	(14,324)
Profit After Tax (norm)		30,724	37,453	43,334	48,115	52,592
Profit After Tax (IFRS)		28,925	35,194	41,514	46,309	50,786
Discontinued businesses		0	0	0	0	0
Net income (norm)		30,291	37,511	42,934	47,718	52,194
Net income (IFRS)		28,925	35,194	41,514	46,309	50,786
Average Number of Shares Outstanding (m)						
		28.0	28.0	28.1	28.1	28.1
EPS - normalised (c)						
		107.7	133.5	152.4	169.5	185.5
EPS - (IFRS) (c)						
		103.1	125.6	147.8	164.9	180.9
Dividend per share (c)						
		58.1	70.0	82.5	92.5	102.5
Gross Margin (%)						
		32.7	32.2	32.6	32.6	32.6
EBITDA Margin (%)						
		7.2	6.6	6.8	6.7	6.7
Operating Margin (before GW and except.) (%)						
		6.8	6.2	6.3	6.3	6.3
BALANCE SHEET						
Fixed Assets		25,879	25,732	31,346	30,752	30,258
Intangible Assets		0	0	0	0	0
Other intangible assets		1,138	1,084	1,084	1,084	1,084
Tangible Assets		18,829	19,012	23,518	22,924	22,430
Right of use assets		0	0	1,108	1,108	1,108
Deferred tax assets		5,912	5,636	5,636	5,636	5,636
Current Assets		82,831	84,234	106,729	133,509	163,064
Stocks		7,940	9,878	11,667	13,222	14,764
Debtors		44,124	46,872	54,277	60,302	66,015
Cash		30,767	27,484	40,785	59,985	82,285
Other		0	0	0	0	0
Current Liabilities		(49,024)	(50,752)	(60,055)	(66,579)	(72,765)
Creditors		(48,878)	(50,752)	(58,770)	(65,294)	(71,480)
Short term / lease borrowings		0	0	(1,285)	(1,285)	(1,285)
Long Term Liabilities		(18,604)	(15,947)	(13,226)	(10,226)	(7,226)
Long term borrowings		0	0	0	0	0
Other long term liabilities (including pension)		(18,604)	(15,947)	(13,226)	(10,226)	(7,226)
Net Assets		41,082	43,267	64,794	87,456	113,331
CASH FLOW						
Operating Cash Flow		44,576	45,583	59,800	64,300	71,750
Net Interest		(122)	227	692	870	692
Tax		(12,751)	(7,844)	(12,110)	(13,459)	(14,721)
Capex		(2,359)	(2,855)	(8,700)	(3,600)	(3,700)
Acquisitions/disposals		0	0	0	0	0
Pension contributions		(3,675)	(3,932)	(3,500)	(3,500)	(3,500)
Financing		(1,359)	(465)	(2,500)	(500)	(500)
Dividends		(15,845)	(32,984)	(20,814)	(24,093)	(26,901)
Other		0	0	(821)	(821)	(821)
Net Cash Flow		8,465	(2,270)	12,047	19,197	22,299
Opening net debt/(cash)		(21,683)	(30,767)	(27,484)	(39,500)	(58,700)
Net impact of disposals etc		0	0	0	0	0
Other		619	(1,013)	(31)	3	1
Closing net debt/(cash)		(30,767)	(27,484)	(39,500)	(58,700)	(81,000)

Source: Company accounts, Edison Investment Research

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