

4imprint Group

Thaw in progress

Trading update

Media

4imprint's order volumes are starting to recover as the US economy reopens. The company has been diligent at updating the market and the latest update shows order levels improving towards 50% of prior year, having dipped as low as 20% in early April. Cash conservation measures are having the desired effect and the group still had \$28.1m cash (with lease debt only) at the end of May, despite having paid out \$9.4m as a one-off lump sum into the pension scheme as scheduled. Based on assumptions over the speed and extent of the recovery but in the absence of formal management guidance, we have reinstated provisional forecasts.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	738.4	46.1	129.4	70.0	19.8	2.7
12/19	860.8	55.6	153.9	84.0**	16.7	3.3
12/20e	550.0	8.8	20.5	10.0	125.1	0.4
12/21e	600.0	28.0	73.9	37.5	34.7	1.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **84c declared, 25c paid.

Tentative forecasts reinstated

In earlier trading updates, management outlined order volumes in January and February ahead by 13% over FY19. By early April, these had dropped sharply to around 20% of prior year levels. As the US economy slowly rebounds, weekly order counts have rebuilt to nearer half of those achieved in June 2019. By making assumptions about the 'normal' monthly sales distribution and pencilling in a steady build across H220 up to 80% of order volume by the year end, we have derived a revenue estimate for the year of \$550m, which assumes a direct correlation between order volumes and order values. For FY21e, we have pencilled in an 9% increase from the lower levels, roughly the gain we were anticipating before withdrawing forecasts, but off the lower base.

Greater subjectivity in earnings assumptions

Translating this into an earnings figure involves significant levels of speculation, with marketing spend the key variable. This spend was not turned off completely in H1, with continuing brand awareness campaigns online and on TV. We assume that mailshots and sample boxes, however, will have been paused. The group has retained its staff throughout the pandemic, with most either working from home or unutilised, waiting to be recalled. Office and warehouse locations in the US and in the UK have now reopened. We have assumed a lower FY20 gross margin (28% from 32%), slightly reduced marketing spend and lower capex for the year.

Valuation: Many moving parts

Having started the year at all-time highs around £35, the share price fell away sharply in March as the severity of the potential impact on the US economy became apparent. From a low of £13.20, the shares have staged a good recovery. While reduced earnings prospects for FY20e and FY21e and lower cash inflate multiples, 4imprint's fundamentals remain favourable, with a cash-positive balance sheet and a growing share of a what will still be a substantial market for promotional goods.

22 June 2020

Price 2,565p

Market cap £721m

\$1.26:£1

Net cash (\$m) at end May 2020 28.1

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 22.1 94.3 (3.2)

Rel (local) 15.7 55.4 12.2

52-week high/low 3,500p 1,320p

Business description

4imprint is the leading direct marketer of promotional products in the US, Canada, the UK and Ireland. In FY19, 97% of revenues were generated in the US and Canada.

Next events

Interim results 13 August 2020

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Basis of assumptions

Revenue assumptions

There is still a great deal of uncertainty over the prospects for the US economy for the remainder of FY20 and FY21, particularly if there is a second wave of the COVID-19 pandemic. 4imprint's customers span the spectrum of US enterprises. Those at the smaller end will likely have been the most heavily affected and may not all survive. We are therefore not building in a full recovery in demand; rather a staged improvement over the second half of the year.

Exhibit 1: Revenue assumptions

	Weighting	Implied FY19 revenue (\$m)	Assumed FY20 vs implied FY19 change (%)	Assumed FY20 revenue (\$m)	Half-yearly revenue (\$m)	% change
Jan	5%	39	+13	45		
Feb	7%	55	+13	62		
Mar	9%	71	-65	25		
Apr	10%	79	-75	20		
May	10%	79	-63	29		
Jun	9%	71	-50	35	216	-45.2%
Jul	9%	80	-40	48		
Aug	7%	62	-30	44		
Sep	10%	89	-30	62		
Oct	10%	89	-25	67		
Nov	8%	71	-20	57		
Dec	6%	53	-20	43	320	-28.0%
	100%	839		536		
			UK H120	6		
			UK H220	8		
			UK FY20	14		
			H1 group		222	
			H2 group		328	
			FY20		550	-35%

Source: Edison Investment Research

Earnings assumptions

We have assumed a softening of gross margin from 32% to 28%, reflecting the retention of staff across the harshest period of the downturn, plus an element of softness from the imposition of US-China tariffs. There is therefore an element of recovery factored into our FY21 numbers, rebuilding to 31.5%.

With the retention of staff, we are modelling selling costs broadly flat, but are assuming some reductions in administration and central costs, reflecting comments in the trading updates with respect to cost management, reduced travel etc.

Hardest to model are the assumptions on marketing spend. The finesse of the level of marketing spend and the mix is at the core of 4imprint's competence and success. In normal times, the level spend is flexed to grow the business while maintaining a broadly stable operating margin. In these abnormal times, it is reasonable to assume that spend on catalogues is well down on the prior year as the recipients' businesses would be closed and spend on promotional products likely not have been a top priority. However, 4imprint has continued to spend on brand awareness, with TV campaigns and online/ search. This will have been necessary to 'keep the engines running' but we would expect the overall level of marketing spend to step up as activity levels increase.

Flexing these assumptions – particularly those relating to the level of marketing spend - obviously leads to different conclusions on earnings and we will doubtless be reworking them as the year progresses.

Impact on cash

At the December year-end, the group had cash of \$41.1m, with no bank debt and \$2.0m of IFRS-related lease debt on the balance sheet. At the end of March, this figure had risen to over \$50m. The latest update discloses end-May cash of \$28.1m, a reduction of over \$22m. However, this includes the \$9.4m one-off lump sum payment into the pension scheme, as agreed previously with the trustees. End March to end May covers the period with the most severe impact of COVID-19 on the US corporate economy and on 4imprints order intake.

By retaining the staff cost base (and the integrity of the business), the business is therefore consuming cash, but always has the option of dialling down the marketing spend on a temporary basis. It is therefore not possible to quantify a 'cash burn' rate that can be extrapolated across the remainder of the year. As well as the cash now on the balance sheet, the group also has a working capital facility of \$20m available if required.

The final dividend for FY19 of 59 cents was withheld to conserve cash. We have also reduced our estimate of capex for FY20 from \$9.0m to \$3.0m, which includes spend on direct-to-garment printing already undertaken. Our modelling on the assumptions as outlined above shows a year-end cash projection of \$26.8m (not including IFRS lease debt), before rebuilding in FY21e.

Exhibit 2: Financial summary

	\$000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		738,418	860,844	550,000	600,000
Cost of Sales		(500,531)	(585,524)	(396,000)	(410,814)
Gross Profit		237,887	275,320	154,000	189,187
EBITDA		48,507	59,166	13,650	32,830
Operating Profit (before amort. and except.)		45,862	54,882	8,550	27,730
Intangible Amortisation		0	0	0	0
Operating Profit (after amort. and before except.)		45,862	54,882	8,550	27,730
Operating Profit		44,322	53,620	7,150	26,330
Net Interest		227	751	250	270
Net pension finance charge		(403)	(378)	(378)	(378)
Profit Before Tax (norm)		46,089	55,633	8,800	28,000
Profit Before Tax (IFRS)		44,146	53,993	7,422	26,622
Tax		(8,952)	(11,276)	(1,457)	(5,681)
Profit After Tax (norm)		36,734	43,410	5,943	20,919
Profit After Tax (IFRS)		35,194	42,717	5,965	20,941
Discontinued businesses		(100)	0	0	0
Net income (norm)		36,360	43,278	5,772	20,748
Net income (IFRS)		35,094	42,720	5,165	20,141
Average Number of Shares Outstanding (m)		28.0	28.0	28.0	28.0
EPS - normalised (c)		129.4	153.9	20.5	73.9
EPS - (IFRS) (c)		125.6	152.4	21.3	74.7
Dividend per share (c)		70.0	84.0	10.0	37.5
Gross Margin (%)		32.2	32.0	28.0	31.5
EBITDA Margin (%)		6.6	6.9	2.5	5.5
Operating Margin (before GW and except.) (%)		6.2	6.4	1.6	4.6
BALANCE SHEET					
Fixed Assets		25,732	31,844	29,744	27,467
Intangible Assets		0	0	0	0
Other intangible assets		1,084	1,152	1,152	1,152
Tangible Assets		19,012	24,369	22,269	20,869
Right of use assets		0	1,985	1,985	1,108
Deferred tax assets		5,636	4,338	4,338	4,338
Current Assets		84,234	105,631	67,581	83,731
Stocks		9,878	11,456	7,246	7,905
Debtors		46,872	53,039	33,548	36,598
Cash		27,484	41,136	26,787	39,228
Other		0	0	0	0
Current Liabilities		(50,752)	(60,839)	(39,837)	(43,311)
Creditors		(50,752)	(59,209)	(38,207)	(41,681)
Short term / lease borrowings		0	(1,630)	(1,630)	(1,630)
Long Term Liabilities		(15,947)	(13,688)	(1,763)	(1,383)
Long term borrowings		0	(415)	(415)	(415)
Other long term liabilities (including pension)		(15,947)	(13,273)	(1,348)	(968)
Net Assets		43,267	62,948	55,725	66,504
CASH FLOW					
Operating Cash Flow		45,583	58,474	6,550	33,600
Net Interest		227	751	250	270
Tax		(7,844)	(10,318)	(1,628)	(5,852)
Capex		(2,855)	(8,178)	(3,000)	(3,700)
Acquisitions/disposals		0	0	0	0
Pension contributions		(3,932)	(3,593)	(13,500)	(3,500)
Financing		(465)	(3,245)	(2,200)	(2,200)
Dividends		(32,984)	(20,659)	0	(5,356)
Other		0	(1,687)	(821)	(821)
Net Cash Flow		(2,270)	11,545	(14,349)	12,441
Opening net debt/(cash)		(30,767)	(27,484)	(39,091)	(24,742)
Net impact of disposals etc		0	0	0	0
Other		(1,013)	62	0	0
Closing net debt/(cash)		(27,484)	(39,091)	(24,742)	(37,183)

Source: Company accounts, Edison Investment Research

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