

4imprint Group

Strong Q4, US tax change gains

Trading update

Media

17 January 2018

Price **1,980p**

Market cap **£556m**

£:\$1.35

Net cash* (\$m) at 31 December 2017 30.7
*Unaudited

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 9.3 3.2 5.6

Rel (local) 5.5 0.1 (1.7)

52-week high/low 2020.0p 1550.0p

Business description

4imprint is the leading direct marketer of promotional products in the US, Canada, the UK and Ireland. 97% of 2016 revenues were generated in the US and Canada.

Next events

Full year results March 2018

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A continued strong performance in Q417 delivered 12% revenue growth in FY17 vs FY16, a shade ahead of our previous forecast. We see good top-line momentum into FY18e as the group takes further share in its large and fragmented market, benefiting from its targeted marketing. US taxation reforms will kick in for FY18 and our EPS forecast is lifted by 10%. Cash resource of \$30.7m at end FY17 allows for an increased dividend with plenty of scope for additional investment as the business continues to scale. Our new FY19e numbers show further good earnings progress, with the valuation rating coming in to more attractive levels.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	558.2	38.4	98.7	52.5	27.1	2.0
12/17e	627.5	42.2	105.1	57.5	25.4	2.2
12/18e	681.0	46.1	126.3	64.0	21.2	2.4
12/19e	738.0	50.0	135.8	70.0	19.7	2.6

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

Marketing and data-led growth

4imprint is first and foremost a marketing business and it has been at the forefront of its sector in using data to improve its targeting and content. The business model remains to fuel growth through investing in marketing, while keeping margins broadly stable (EBITDA margin is between 7.1% and 7.3% FY14-19e). FY17 marketing spend was more phased to H2 than usual and the benefit of this should continue to accrue in H118. The underlying market, estimated at \$25bn in North America, remains highly fragmented, giving plenty of scope for further expansion.

Beneficial tax changes

4imprint generates around 97% of its revenues (and operating profits) in the US and the changes to US corporate taxation are positive for the group. We were previously using a 29% estimated FY18 tax charge, which is now likely to be in the "low 20s" percent. Greater clarity will be possible by the time of the prelims in March. We have now assumed an effective rate of 22%. Our FY18 EPS forecast moves from 114.8p to 126.3p, an increase of 10%. There will also be a boost to the cash flow from the lower taxation charge and our end-2018 anticipated net cash lifts from \$40.5m to \$43.0m. We initiate forecasts for FY19, albeit that these are inevitably tentative at this stage. Our revenue estimate is for an 8.4% uplift on the prior year, with EPS growth of 7.5% and a continuing build in net cash to over \$58.0m.

Valuation: Strong earnings growth record

4imprint continues to trade at a premium to the UK small/mid-cap marketing service companies (trading on FY17e EV/EBITDA of 8.2x and a P/E of 11.9x). This reflects its differentiated and focused business model, and consistent record of strong earnings growth (26% EPS CAGR FY11-19e, 12% EPS CAGR FY15-19e). It has a cash-rich balance sheet and a growing dividend stream, underpinning the share price.

Exhibit 1: Financial summary

	\$000s	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		497,219	558,223	627,485	681,000	738,000
Cost of Sales		(334,622)	(374,137)	(423,889)	(458,311)	(496,671)
Gross Profit		162,598	184,087	203,596	222,689	241,328
EBITDA		35,478	40,766	45,358	49,300	53,100
Operating Profit (before amort. and except.)		33,519	38,377	42,160	46,100	49,900
Operating Profit		31,963	34,696	40,660	45,000	48,800
Net Interest		30	(24)	40	45	50
Net pension finance charge		(836)	(521)	(521)	(521)	(521)
Profit Before Tax (norm)		33,549	38,353	42,200	46,145	49,950
Profit Before Tax (FRS 3)		31,157	34,151	40,179	44,524	48,329
Tax		(8,462)	(9,672)	(12,013)	(10,241)	(11,357)
Profit After Tax (norm)		25,087	28,681	30,187	35,905	38,593
Profit After Tax (FRS 3)		22,695	24,479	28,166	34,284	36,972
Discontinued businesses		0	0	0	0	0
Net income (norm)		24,587	27,773	29,582	35,532	38,212
Net income (IFRS)		22,695	24,479	28,164	34,284	36,972
BALANCE SHEET						
Average Number of Shares Outstanding (m)		27.9	28.1	28.0	28.0	28.0
EPS - normalised (c)		87.5	98.7	105.1	126.3	135.8
EPS - (IFRS) (c)		81.3	87.3	100.4	122.3	131.9
Dividend per share (c)		38.9	52.5	57.5	64.0	70.0
Gross Margin (%)		32.7	33.0	32.4	32.7	32.7
EBITDA Margin (%)		7.1	7.3	7.2	7.2	7.2
Operating Margin (before GW and except.) (%)		6.7	6.9	6.7	6.8	6.8
BALANCE SHEET						
Fixed Assets		23,753	25,050	25,550	26,050	26,550
Intangible Assets		0	0	0	0	0
Other intangible assets		1,211	1,082	1,082	1,082	1,082
Tangible Assets		18,154	18,938	19,438	19,938	20,438
Investments		0	0	0	0	0
Deferred tax assets		4,388	5,030	5,030	5,030	5,030
Current Assets		66,035	65,662	81,124	97,675	118,691
Stocks		4,460	4,179	4,791	5,200	5,748
Debtors		43,194	39,800	45,633	49,525	54,743
Cash		18,381	21,683	30,700	42,950	58,200
Other		0	0	0	0	0
Current Liabilities		(38,222)	(40,363)	(44,464)	(48,256)	(52,295)
Creditors		(37,254)	(40,363)	(44,464)	(48,256)	(52,295)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(23,114)	(21,024)	(16,660)	(13,660)	(10,660)
Long term borrowings		0	0	0	0	0
Other long term liabilities (including pension)		(23,114)	(21,024)	(16,660)	(13,660)	(10,660)
Net Assets		28,452	29,325	45,551	61,809	82,287
CASH FLOW						
Operating Cash Flow		30,622	46,468	42,000	47,500	51,300
Net Interest		30	(23)	40	45	50
Tax		(8,730)	(9,423)	(11,252)	(12,117)	(10,985)
Capex		(10,912)	(3,267)	(3,200)	(3,200)	(3,200)
Acquisitions/disposals		0	0	0	0	0
Pension contributions		(825)	(17,354)	(3,300)	(3,200)	(3,350)
Financing		0	65	0	0	0
Dividends		(9,604)	(12,141)	(15,238)	(16,784)	(18,567)
Other		(501)	1	0	0	0
Net Cash Flow		80	4,326	9,050	12,244	15,249
Opening net debt/(cash)		(18,301)	(18,381)	(21,683)	(30,700)	(42,950)
Net impact of disposals etc		0	0	0	0	0
Other		0	(1,024)	(33)	6	1
Closing net debt/(cash)		(18,381)	(21,683)	(30,700)	(42,950)	(58,200)

Source: Company accounts, Edison Investment Research

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