

4imprint Group

Trading update

Branding awareness

4imprint's trading update shows the spring 2018 brand marketing campaign continuing to generate supplementary revenues, as was the case at the interims. We have again edged our forecasts ahead (around 1% at both the revenue and earnings levels), to the higher end of the previous range of market estimates. There is still a substantial opportunity to exploit, given the market size (estimated by ASI at US\$23.6bn) and the group's leading position. While the group trades at a premium to the UK marketing sector, the drift in the share price has made the valuation more attractive. The group remains highly cash-generative, with 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	23.5	2.3
12/17	627.5	42.5	107.7	58.1	21.5	2.5
12/18e	725.0	45.1	126.9	65.0	18.3	2.8
12/19e	797.5	52.3	147.0	80.0	15.8	3.5

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

Marketing driving upgrades

The marketing campaign was designed to improve awareness, moving the brand 'front-of-mind' within the target audience. The use of traditional media to achieve this aim was initially regarded with some scepticism, but it has been more successful than expected, with momentum rolling into H218 from both new customers and in stimulating return visits from existing customers. Management indicates that the \$7m allocated for FY18 will all be spent, given the returns achieved. In March 2018, when the project was announced, we were forecasting FY18 revenues of \$692m and PBT of \$42.5m. These were raised in May and again in July with the interims.

\$1bn revenue target by FY22

To achieve management's ambition of US\$1bn of revenue in FY22, top-line growth beyond our published forecast period would need to be at a CAGR of 7.9%. From FY11 to FY17, the group grew its top line by 18.1% CAGR. We have slightly more circumspect growth assumptions in our modelling, but the CAGR from FY11 through FY19e is nevertheless 16.7%. The growth target therefore looks eminently achievable, given the group's market share of around 3.0%.

Valuation: A drift too far

The share price is down around 20% from its peak, hit in early September. While 4imprint continues to trade at a healthy premium to the UK small-/mid-cap marketing service companies (which are currently valued at a FY18e EV/EBITDA of 7.6x and a P/E of 10.8x), they have significantly different business models and (often) more volatile financial histories. A DCF, based on the growth required to hit the FY22 \$1bn revenue target and on EBITDA margins returning to FY17 levels post the marketing project, suggests a share price of 2120p.

Media

1 November 2018

Price **1,810p**
Market cap **£509m**

£1/US\$1.28

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	(7.0)	(3.5)	(1.5)
Rel (local)	(0.5)	5.9	5.1

52-week high/low 2,260p 1,575p

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

FY18 update	Mid-January 2019
FY18 results	Early-March 2019

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Exhibit 1: Financial summary

\$000s	2016	2017	2018e	2019e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	558,223	627,518	725,000	797,500
Cost of Sales	(374,137)	(422,299)	(490,350)	(537,803)
Gross Profit	184,087	205,219	234,650	259,697
EBITDA	40,766	45,062	48,214	55,436
Operating Profit (before amort. and except.)	38,377	42,580	45,050	52,272
Intangible Amortisation	(499)	(464)	(464)	(464)
Operating Profit (after amort. and before except.)	37,878	42,116	44,586	51,808
Operating Profit	34,696	41,284	43,886	51,108
Net Interest	(24)	(122)	45	50
Net pension finance charge	(521)	(503)	(503)	(503)
Profit Before Tax (norm)	38,353	42,458	45,095	52,322
Profit Before Tax (FRS 3)	34,151	40,659	43,428	50,655
Tax	(9,672)	(11,734)	(9,120)	(10,638)
Profit After Tax (norm)	28,681	30,724	35,975	41,685
Profit After Tax (FRS 3)	24,479	28,925	34,308	40,018
Discontinued businesses	0	0	0	0
Net income (norm)	27,773	30,291	35,625	41,335
Net income (IFRS)	24,479	28,925	34,308	40,018
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	84,633	107,619
Stocks	4,179	5,356	6,064	6,671
Debtors	39,800	46,781	53,562	58,918
Cash	21,683	30,767	25,007	42,030
Other	0	0	0	0
Current Liabilities	(40,363)	(47,821)	(53,575)	(58,330)
Creditors	(40,363)	(47,675)	(53,429)	(58,184)
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	41,761	63,592
CASH FLOW				
Operating Cash Flow	46,804	44,576	45,900	54,475
Net Interest	(23)	(122)	45	50
Tax	(9,423)	(12,751)	(9,470)	(10,988)
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	(5,760)	17,023
Opening net debt/(cash)	(18,381)	(21,683)	(30,767)	(25,007)
Net impact of disposals etc	0	0	0	0
Other	(1,024)	619	0	0
Closing net debt/(cash)	(21,683)	(30,767)	(25,007)	(42,030)

Source: 4imprint accounts, Edison Investment Research

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