

# 4imprint Group

## Premium growth continues

Trading update

Media

19 January 2017

**Price** **1,795p**

**Market cap** **£504m**

\$1.23/£

Net cash (\$m) at end FY16 21.5

Shares in issue 28.1m

Free float 88%

Code FOUR

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 1.4 2.9 48.4

Rel (local) (1.8) (0.4) 20.2

52-week high/low 1,879p 1,140p

### Business description

4imprint is the leading direct marketer of promotional products in the US, Canada, the UK and Ireland. 96% of 2015 revenues were generated in the US and Canada.

### Next events

Full year results 8 March 2017

### Analysts

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**4imprint Group is a research client of Edison Investment Research Limited**

4imprint continues to deliver premium growth as it builds market share across its large and fragmented market, estimated to be worth around \$25bn. The group's data-driven marketing investment approach and efficient fulfilment are supporting this profitable (and organically scalable) growth, while the strong cash generation has allowed the historic pension issues to be fully addressed with a one-off contribution of \$14.5m in the period. The group ended the year with net cash of \$21.5m, up from \$18.4m at end FY15. With our 35% forecast increase in the FY16 dividend (in line with the interim), the valuation premium continues to look well supported.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	415.8	27.9	71.5	32.4	30.9	1.5
12/15	497.2	33.5	87.5	38.9	25.2	1.8
12/16e	560.0	37.7	94.6	52.5	23.3	2.4
12/17e	616.0	41.6	104.6	57.5	21.1	2.6
12/18e	662.0	45.0	113.1	62.5	19.5	2.8

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

## FY16 PBT top end of market range

FY16 revenue growth at \$558.2m (Edison forecast \$560m) was ahead 13% like-for-like (adjusted for a 53-week year in 2015), despite the offset from translating the UK results into the US\$ accounting currency. This progress stems from 4imprint's investments in data-driven marketing and in operational efficiency, helping it to win market share from smaller and more localised distributors. Underlying FY16 PBT will be at the high end of the market range of £37.5-38.4m (Edison forecast £37.7m). We have maintained our 2017 numbers for now (+10% revenue growth) and made our first tentative projections into FY18, based on a slight slowing of the top-line growth rate from 10% in FY17 to 7.5% (OECD forecast for US GDP growth for 2018 is currently 5.48%).

## Strong cash performance

The progress translates to a strong cash performance, where the estimated year-end net cash of \$21.5m is despite the one-off pension contribution of \$14.5m made in H116 on top of the normal capex and pension contributions. Now that the pension position has been 'normalised', capital allocation constraints on that front have been lifted and returning cash to shareholders has gained greater prominence. The interim dividend was raised by 35% and we are assuming that there will be a similar uplift in the final payment.

## Valuation: Justified premium rating

While on a P/E and an EV/EBITDA basis 4imprint trades ahead of the smaller UK-based marketing services sector (FY16e P/E of 23.3x vs 11.3x; 15.0x EV/EBITDA vs 7.5x), these stocks have little in common in terms of business model or geography. There are no direct quoted peers in either the UK or the US. The premium rating reflects the further growth opportunity and management's record in delivering on its ambitions, including consistent high growth in earnings per share.

**Exhibit 1: Financial summary**

	\$000s	2013	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		332,936	415,773	497,219	560,000	616,000	662,000
Cost of Sales		(223,915)	(278,564)	(334,622)	(376,886)	(414,264)	(445,538)
Gross Profit		109,021	137,210	162,598	183,114	201,736	216,462
EBITDA		21,490	29,460	35,478	39,716	44,185	47,658
Operating Profit (before amort and except)		19,494	27,759	33,519	37,616	41,587	44,958
Operating Profit		14,530	23,239	31,127	32,146	39,917	43,288
Net Interest		61	100	30	34	38	42
Net pension finance charge		0	0	0	0	0	0
Profit Before Tax (norm)		19,555	27,859	33,549	37,650	41,625	45,000
Profit Before Tax (FRS 3)		14,472	23,339	31,157	32,180	39,955	43,330
Tax		(3,857)	(6,982)	(8,462)	(9,654)	(11,986)	(12,999)
Profit After Tax (norm)		15,698	20,877	25,087	27,996	29,639	32,001
Profit After Tax (FRS 3)		10,615	16,357	22,695	22,526	27,969	30,331
Discontinued businesses		0	0	0	0	0	0
Net income (norm)		14,701	20,121	24,587	26,731	29,554	31,950
Net income (IFRS)		10,615	16,357	22,695	22,526	27,967	30,331
<b>Average Number of Shares Outstanding (m)</b>							
Average Number of Shares Outstanding (m)		26.5	27.4	27.9	28.1	28.1	28.1
EPS - normalised fully diluted (c)		52.8	71.5	87.5	94.6	104.6	113.1
EPS - (IFRS) (c)		40.1	59.7	81.3	80.2	99.6	108.0
Dividend per share (c)		27.7	32.4	38.9	52.5	57.5	62.5
Gross Margin (%)		32.7	33.0	32.7	32.7	32.7	32.7
EBITDA Margin (%)		6.5	7.1	7.1	7.1	7.2	7.2
Operating Margin (before GW and except.) (%)		5.9	6.7	6.7	6.7	6.8	6.8
<b>BALANCE SHEET</b>							
Fixed Assets		16,476	15,197	23,753	25,253	26,253	27,153
Intangible Assets		0	0	0	0	0	0
Other intangible assets		1,349	1,298	1,211	1,211	1,211	1,211
Tangible Assets		8,803	9,105	18,154	19,654	20,654	21,554
Investments		0	0	0	0	0	0
Deferred tax assets		6,324	4,794	4,388	4,388	4,388	4,388
Current Assets		73,605	59,464	66,035	73,561	90,772	106,439
Stocks		3,686	4,353	4,460	4,872	5,252	5,645
Debtors		30,105	36,810	43,194	47,188	50,869	54,394
Cash		25,990	18,301	18,381	21,500	34,650	46,400
Other		13,824	0	0	0	0	0
Current Liabilities		(29,931)	(36,278)	(38,222)	(43,636)	(48,960)	(52,616)
Creditors		(29,931)	(36,049)	(37,254)	(43,636)	(48,960)	(52,616)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(27,398)	(24,015)	(23,114)	(13,455)	(13,455)	(13,455)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(27,398)	(24,015)	(23,114)	(13,455)	(13,455)	(13,455)
Net Assets		32,752	14,368	28,452	41,723	54,610	67,521
<b>CASH FLOW</b>							
Operating Cash Flow		22,879	27,230	30,622	45,368	45,750	46,700
Net Interest		86	120	30	34	38	42
Tax		(2,714)	(6,187)	(8,730)	(9,451)	(11,299)	(12,316)
Capex		(2,028)	(2,092)	(10,912)	(3,100)	(3,100)	(3,100)
Acquisitions/disposals		1,484	9,717	0	0	0	0
Pension contributions		(4,966)	(26,544)	(825)	(17,000)	(3,000)	(3,000)
Financing		122	(1,316)	0	0	0	0
Dividends		(6,558)	(7,924)	(9,604)	(12,132)	(15,208)	(16,613)
Other		(113)	(689)	(501)	(600)	0	0
Net Cash Flow		8,192	(7,685)	80	3,119	13,181	11,714
Opening net debt/(cash)		(17,251)	(25,990)	(18,301)	(18,381)	(21,500)	(34,650)
Net impact of disposals etc		0	0	0	0	0	0
Other		547	(4)	0	0	(31)	36
Closing net debt/(cash)		(25,990)	(18,301)	(18,381)	(21,500)	(34,650)	(46,400)

Source: Company accounts, Edison Investment Research

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