

4imprint Group

Full year results

Branding evolution

4imprint has announced another set of strong results, accompanied by a supplementary dividend of \$0.60 to be paid alongside the final. It has also outlined a programme to build a more substantial longer-term business through adding brand awareness campaigns to the existing marketing spend. Revenues have grown at a CAGR of 18.1% over the last six years. Guidance for the next five years is for double-digit growth to reach the \$1bn level by FY22 and we have lifted our forecasts to reflect this. Profit growth is restrained in the near term by the additional marketing spend, but should move on faster in FY19, with EPS further boosted by a lower US tax charge.

| Year end | Revenue (\$m) | PBT* (\$m) | EPS* (c) | DPS** (c) | P/E (x) | Yield (%) |
|----------|---------------|------------|----------|-----------|---------|-----------|
| 12/16 | 558.2 | 38.4 | 98.7 | 52.5 | 25.6 | 2.1 |
| 12/17 | 627.5 | 42.5 | 107.7 | 58.1 | 23.5 | 2.3 |
| 12/18e | 691.5 | 42.5 | 117.9 | 62.5 | 21.5 | 2.5 |
| 12/19e | 760.7 | 49.7 | 135.9 | 77.5 | 18.6 | 3.1 |

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Dividend excludes supplementary distribution.

Brand campaign to leverage marketing spend

Management has clearly delivered on its strategy over FY12-17, growing the top line on stable operating margins and, crucially, addressing and de-risking the pension situation to the point where it is no longer an issue. The group is inherently highly cash generative. The new capital allocation framework prioritises organic growth initiatives, a key one of which is to channel additional marketing spend to promote brand awareness which, in turn, should boost the efficacy of the existing budget. Revenue per marketing dollar would fall in the short term as new channels such as radio and TV are added to the mix, but this is a good opportunity to build the 4imprint brand as the 'go-to' distributor of promotional products. Although a (possibly the) leading distributor, 4imprint only has a share of around 2.5% of the market, estimated by management at \$25bn in North America.

Supplementary dividend

The level of cash on the balance sheet reached \$30.8m at the end of December and management has proposed payment of a "supplementary dividend" distribution of 60 cents alongside the final payment of 40 cents. With the pension funding requirements greatly diminished, there is still plenty of resource to fund the expansion of the business, invest in additional marketing and pay a progressive dividend. Our modelling shows a cash balance of £24.6m at the end of FY18.

Valuation: Reflects strong record

4imprint continues to trade at a premium to the UK small/mid-cap marketing service companies, which are currently valued at a FY18e EV/EBITDA of 9.5x and a P/E of 13.2x. 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.

Media

9 March 2018

Price 1,820p

Market cap £510m

£:\$1.39

Net cash (\$m) at 31 December 2017 30.8

Shares in issue 28.0m

Free float 91.9

Code FOUR

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.9) (1.1) 6.9

Rel (local) (6.9) 1.0 7.3

52-week high/low 2020p 1550p

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

AGM Early May 2018

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FY17 results in line

Management had updated the market in January and the formal result contained no significant surprises. Revenue growth picked up in H217 as expected, partly from the effect of slightly weaker comparatives, partly from the benefits of the phasing of marketing spend. Gross profit margin was broadly stable, as were operating margins (management's strategy has been to manage marketing spend so as to keep margins within a tight range).

Underlying earnings per share were ahead by 9%, slightly below the rate of growth of PBT as US-generated profits grew. The bias to the US (North America represented 97% of FY17 revenues) becomes much more of a positive in terms of tax in FY18, when we model the underlying rate at 22% from 29% in FY17.

The figures contained an exceptional charge of \$454k, again relating to the pension changes, but this should be the last exceptional from this source as the pension buyout is now complete.

Strong cash conversion

Operating cash flow was again very strong (and cash conversion has averaged 98% over FY11-17), with tight working capital control, and the dividend declared was ahead 11%, compared with an increase in fully diluted normalised EPS of 9%. Given the amount of cash generated, and having very much an organic growth-driven strategy, management has decided to make an additional distribution of 60 cents per share, without compromising the plans for investment in brand building.

Adjusted forecasts

Our revised forecasts take into account the shift in priorities, which should drive stronger growth into FY19, with FY18 marking time in income terms while the benefits play out.

Exhibit 1: Adjustments to forecasts

| | EPS (c) | | | PBT (\$m) | | | EBITDA (\$m) | | |
|-------|---------|-------|--------|-----------|------|--------|--------------|------|--------|
| | Old | New | % chg. | Old | New | % chg. | Old | New | % chg. |
| 2017 | 105.1 | 107.7 | +2 | 42.2 | 42.5 | +1 | 45.4 | 45.1 | -1 |
| 2018e | 126.3 | 117.9 | -7 | 46.1 | 42.5 | -8 | 49.3 | 45.6 | -8 |
| 2019e | 135.8 | 135.9 | U/C | 50.0 | 49.7 | -1 | 53.1 | 52.8 | -1 |

Source: Company accounts, Edison Investment Research

Evolving the marketing strategy – plenty to go for

There were some small scale experiments with radio advertising in H217 and, as is usual for 4imprint, the outcomes have been closely scrutinised and are informing the planning process. 4imprint is and remains a data-driven direct marketing business. While it may seem counterintuitive to be looking at traditional media channels, this investment programme is incremental to the existing spend patterns and should help to leverage that spend. The additional funding is of the order of \$7m, in the context of an overall spend of about \$120m. It should help extend the brand reach within the target customer profile, rather than broadening into new demographics. The core audience remains business owners with more than 25 employees, ie those with a sufficiently large business to benefit from a quality range of promotional products, but not so large as to want to commission items in house. The overall market remains highly fragmented and the \$1bn revenue target looks eminently achievable, in our view.

Exhibit 2: Financial summary

| | \$000s | 2015 | 2016 | 2017 | 2018e | 2019e |
|--|--------|-----------|-----------|-----------|-----------|-----------|
| Year end 31 December | | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | |
| Revenue | | 497,219 | 558,223 | 627,518 | 691,500 | 760,650 |
| Cost of Sales | | (334,622) | (374,137) | (422,299) | (465,374) | (511,911) |
| Gross Profit | | 162,598 | 184,087 | 205,219 | 226,126 | 248,739 |
| EBITDA | | 35,478 | 40,766 | 45,062 | 45,641 | 52,789 |
| Operating Profit (before amort. and except.) | | 33,519 | 38,377 | 42,580 | 42,477 | 49,625 |
| Intangible Amortisation | | (510) | (499) | (464) | (464) | (464) |
| Operating Profit (after amort. and before except.) | | 33,009 | 37,878 | 42,116 | 42,013 | 49,161 |
| Operating Profit | | 31,963 | 34,696 | 41,284 | 41,313 | 48,461 |
| Net Interest | | 30 | (24) | (122) | 45 | 50 |
| Net pension finance charge | | (836) | (521) | (503) | (503) | (503) |
| Profit Before Tax (norm) | | 33,549 | 38,353 | 42,458 | 42,522 | 49,675 |
| Profit Before Tax (FRS 3) | | 31,157 | 34,151 | 40,659 | 40,855 | 48,008 |
| Tax | | (8,462) | (9,672) | (11,734) | (9,397) | (11,042) |
| Profit After Tax (norm) | | 25,087 | 28,681 | 30,724 | 33,125 | 38,633 |
| Profit After Tax (FRS 3) | | 22,695 | 24,479 | 28,925 | 31,458 | 36,966 |
| Discontinued businesses | | 0 | 0 | 0 | 0 | 0 |
| Net income (norm) | | 24,587 | 27,773 | 30,291 | 33,167 | 38,250 |
| Net income (IFRS) | | 22,695 | 24,479 | 28,925 | 31,458 | 36,966 |
| BALANCE SHEET | | | | | | |
| Fixed Assets | | 23,753 | 25,050 | 25,879 | 26,179 | 26,779 |
| Intangible Assets | | 0 | 0 | 0 | 0 | 0 |
| Other intangible assets | | 1,211 | 1,082 | 1,138 | 1,138 | 1,138 |
| Tangible Assets | | 18,154 | 18,938 | 18,829 | 19,129 | 19,729 |
| Investments | | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | | 4,388 | 5,030 | 5,912 | 5,912 | 5,912 |
| Current Assets | | 66,035 | 65,662 | 82,904 | 80,753 | 100,379 |
| Stocks | | 4,460 | 4,179 | 5,356 | 5,784 | 6,362 |
| Debtors | | 43,194 | 39,800 | 46,781 | 50,520 | 55,572 |
| Cash | | 18,381 | 21,683 | 30,767 | 24,449 | 38,445 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Current Liabilities | | (38,222) | (40,363) | (47,821) | (51,631) | (56,553) |
| Creditors | | (37,254) | (40,363) | (47,675) | (51,485) | (56,407) |
| Short term borrowings | | 0 | 0 | 0 | 0 | 0 |
| Long Term Liabilities | | (23,114) | (21,024) | (18,869) | (15,476) | (12,476) |
| Long term borrowings | | 0 | 0 | 0 | 0 | 0 |
| Other long term liabilities (including pension) | | (23,114) | (21,024) | (18,869) | (15,476) | (12,476) |
| Net Assets | | 28,452 | 29,325 | 42,093 | 39,825 | 58,129 |
| CASH FLOW | | | | | | |
| Operating Cash Flow | | 30,622 | 46,804 | 44,576 | 44,173 | 51,184 |
| Net Interest | | 30 | (23) | (122) | 45 | 50 |
| Tax | | (8,730) | (9,423) | (12,751) | (9,355) | (11,425) |
| Capex | | (10,912) | (3,267) | (2,359) | (3,000) | (3,300) |
| Acquisitions/disposals | | 0 | 0 | 0 | 0 | 0 |
| Pension contributions | | (825) | (17,354) | (3,675) | (3,600) | (3,600) |
| Financing | | 0 | (270) | (1,359) | (700) | 0 |
| Dividends | | (9,604) | (12,141) | (15,845) | (33,882) | (18,913) |
| Other | | (501) | 0 | 0 | 0 | 0 |
| Net Cash Flow | | 80 | 4,326 | 8,465 | (6,318) | 13,996 |
| Opening net debt/(cash) | | (18,301) | (18,381) | (21,683) | (30,767) | (24,449) |
| Net impact of disposals etc | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | (1,024) | 619 | 0 | (0) |
| Closing net debt/(cash) | | (18,381) | (21,683) | (30,767) | (24,449) | (38,445) |

Source: Company accounts, Edison Investment Research

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