Full Year Results 2020

Overview

Kevin Lyons-Tarr, CEO

Results Summary

Revenue

$560.04m

↓35%

Underlying* profit before tax

$4.37m

↓92%

Underlying* basic EPS

12.55c

↓ 92%

Cash

$39.77m

2019: $41.14m

Dividend

Nil

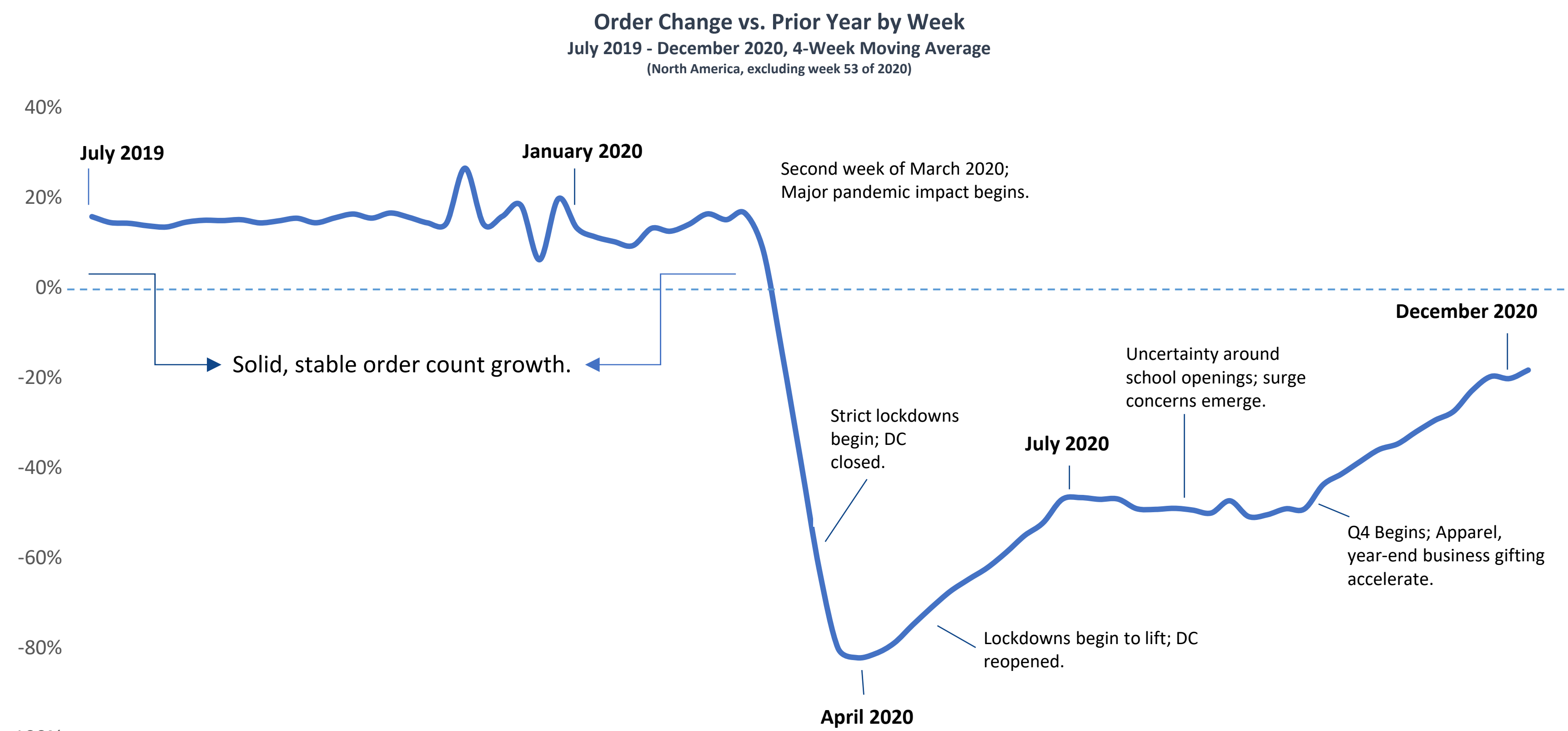
Legacy pension commitments

$9.14m (£7.50m)

'lump sum' deficit reduction contribution paid May 2020

*Underlying is before defined benefit pension charges

COVID-19: Impact and Road to Recovery



Financial Review

David Seekings, CFO

Group Income Statement

	2020 $'000	2019 $'000	
Revenue	**560,040**	860,844	-35%
Gross profit	**157,936**	275,320	-43%
Gross profit %	***28.20%***	*31.98%*	
Marketing costs	**(92,880)**	(154,310)	-40%
Selling costs	**(30,784)**	(31,037)	-1%
Admin & central costs	**(29,246)**	(35,092)	-17%
Share option related charges	**(634)**	(949)	-33%
Underlying operating profit	**4,392**	53,932	-92%
Operating margin	***0.78%***	*6.27%*	
Interest	**(25)**	751	
Underlying profit before tax	**4,367**	54,683	-92%
Defined benefit pension admin costs	**(420)**	(312)	
Pension finance charges	**(104)**	(378)	
Profit before tax	**3,843**	53,993	-93%
Tax	**(753)**	(11,276)	
Profit after tax	**3,090**	42,717	-93%
Underlying basic EPS	**12.55c**	154.41c	-92%
Basic EPS	**11.03c**	152.42c	-93%

- Revenue -35% (H1 -34%; H2 -35%)
  - US $549.9m (-34%)
  - UK $10.2m (-53%)
- Gross profit
  - 3.8% margin compression
  - Excess production labour primary factor
- Marketing costs -40%
  - Swift and decisive reaction to COVID-19 trading environment
  - Careful adjustments to marketing mix driving cost reductions
- Overheads
  - Selling costs (mainly payroll) flat YOY
  - Admin includes benefit of job retention credits under US CARES Act ~ $4m
  - Central costs $3.2m (2019: $3.5m)
- Operating margin impacted severely by the pandemic
- Effective tax rate 20%
- EPS mirrors drop in PBT

Cash Flow

	2020	2019
	$'000	$'000
At start of period	**41,136**	27,484
Underlying operating profit	**4,392**	53,932
Share option non-cash charges	**625**	928
Depreciation and amortisation	**3,435**	2,785
Amortisation of right-of-use assets	**1,498**	1,499
Change in working capital	**6,592**	697
Capital expenditure	**(3,817)**	(8,178)
Operating cash flow	**12,725**	51,663
Contributions to defined benefit pension	**(13,278)**	(3,593)
Interest	**(13)**	751
Net tax paid	**(507)**	(10,318)
Own share transactions	**941**	(2,567)
Capital element of lease payments	**(1,418)**	(1,687)
Exchange and other	**180**	62
Free cash flow	**(1,370)**	34,311
Dividends to Shareholders	**-**	(20,659)
Net cash (ouflow)/inflow in the period	**(1,370)**	13,652
At end of period	**39,766**	41,136

- Decline in operating profit vs. 2019 is the primary influence
- 290% operating cash conversion
- Efficient working capital profile
- Capex is primarily DTG printing equipment – committed in 2019 and operational in Q1 2020
- Pension contributions include $9.1m 'lump sum' payment made in May 2020
- Own share transactions relate to proceeds from US ESPP options exercised less EBT share purchases
- No dividends paid in 2020 to preserve liquidity

Balance Sheet

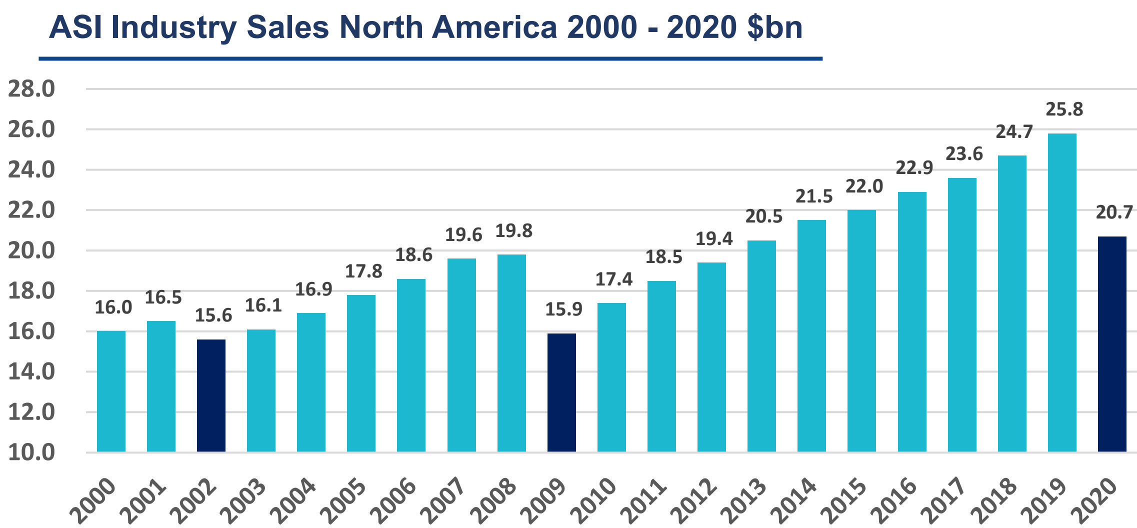
	2020	2019
	$'000	$'000
Fixed assets	**25,932**	25,521
Right-of-use assets	**13,065**	1,985
Deferred tax assets	**4,272**	4,338
	43,269	31,844
Inventories	**11,271**	11,456
Receivables	**36,799**	52,899
Payables	**(49,569)**	(59,209)
	(1,499)	5,146
Current tax	**1,544**	140
Deferred tax liabilities	**(1,193)**	(968)
Cash	**39,766**	41,136
Lease liabilities	**(13,206)**	(2,045)
Pension deficit	**(3,310)**	(12,305)
	23,601	25,958
Net assets	**65,371**	62,948

- Fixed asset expenditure minimised after Q1
- Net negative working capital
- IFRS 16: Right-of-use asset and Lease liabilities reflect renewed Oshkosh office lease
- Pensions
  - Close to full funding on IAS 19 basis after $9.1m 'lump sum' contribution in H1 2020
  - Objective is to fund at a rate to be 'buy-out ready' by mid-2024
- Financing
  - Cash $39.77m; no debt
  - Undrawn, committed $20m US line of credit
  - Strong financial position

Operational Review

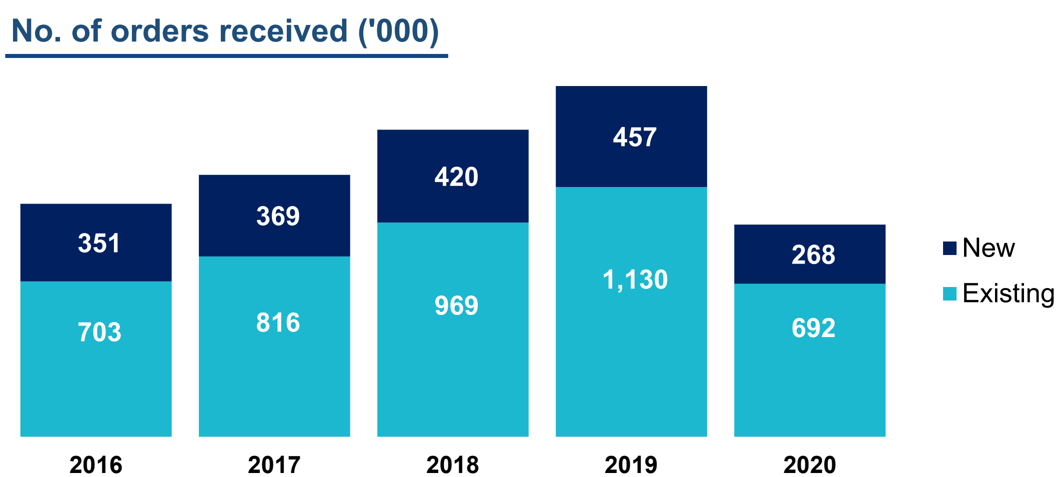
Kevin Lyons-Tarr, CEO

Market



Source: ASI   2020 = ASI estimate

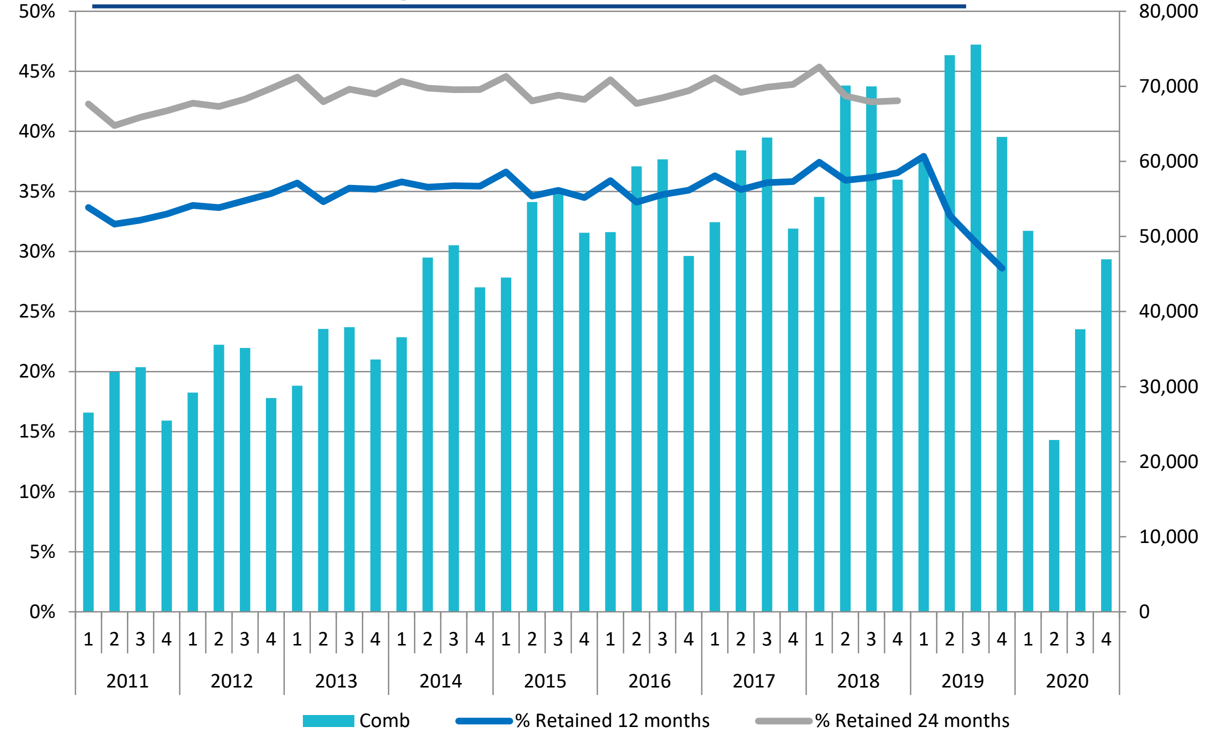
- 2020 total industry revenue down 20%; excluding all PPE sales, industry down 44%, 4imprint NA down 40%
- 4imprint most likely gaining market share in core (non-PPE) promotional product categories
- Biggest impact to industry sales caused by loss of 'use cases' linked to gatherings



- 960k total orders received
- New customer orders 28% of total, very similar to 2019; more than 173,000 new customers acquired
- Existing customer orders down less than new as expected; element of recovery anticipated as gatherings/meetings allowed

Marketing Recalibration

US and Canada Acquired and Retained %



Revenue/Marketing $

- Reduced but still significant marketing presence: total marketing spend -40% at $92.9m (2019: $154.3m)
- Marketing mix radically reshaped from start of pandemic:
  - Brand element expanded
  - Direct mail stopped in Q2; restarted in H2 at levels significantly below historical run rates
  - Online spend flexed to align with demand in the market
- Revenue per marketing dollar illustrates the size/scope of the recalibration
- Unaided and aided brand awareness increased year over year – unaided now well above 10%; more than double where it was at the start of our brand initiative
- Both new and existing customers impacted by loss of 'use case'. Customers acquired since start of pandemic have been retained at levels similar to those acquired pre-pandemic
- Blue Box™ programme paused May to mid-June; ability to deliver to home office added

Operational Update

Product mix

- All categories except PPE negatively impacted by pandemic
- Apparel down the least (orders in Q4 broadly in line with 2019 levels)
- Tradeshow items and technology down the most
- AOV strong due primarily to intra-category mix and broader shift towards higher-end items

Supply chain

- Close supplier relationships important in navigating COVID-19 disruption
- Largely good inventory availability and production capacity through the year
- Internal embroidery demand running at close to 100% of 2019 level in Q4
- DTG printing up and running

Foundational work on environmental initiatives

- Carbon neutral goal (Scope 1 & 2, + outbound shipments) set: carbon neutral no later than December 2022
- Tier 1 supplier engagement underway
- Significant work on structure for customer-facing element around products to be launched later in 2021

Positioned for Market Recovery

‘People First’ approach

- Protected and retained team members
- Culture stronger; internal engagement surveys good
- Trained staff motivated and ready for recovery

Brand awareness strengthened even with decreased marketing spend

- Strategic decision to add brand awareness element in 2018 has proved to be essential in addressing COVID-19 challenges
  - Allows us more flexibility, less pressure on direct mail component
  - Increased awareness will help us recover when ability to gather begins to resume

Resources and ability to accelerate with signs of market recovery

- Team is ready
- Marketing plan flexible, much learned in H2 2020 about effectiveness of tactics in pandemic environment
- Financial resources preserved

Outlook

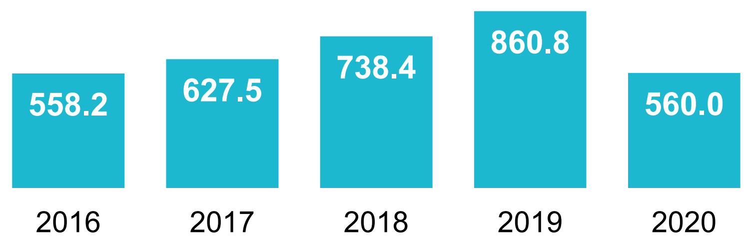
The Group has seen an encouraging recovery since the initial shock of COVID-19 in the first half of the year. We look forward to the beneficial effect that vaccine programmes may bring to the economy. The fourth quarter of 2020 was relatively robust, enhanced by seasonal apparel and year-end gift giving. Order counts in January and February 2021 were 65% of 2019 levels, reflecting typically lower order activity at the start of the year combined with volatility caused by news flow and weather events in our primary US market. In the past three weeks, there has been a marked increase in trading momentum, with order intake compared to 2019 approaching the 70% seen in the fourth quarter of 2020.

The Board is proud of the resilience and flexibility demonstrated by the Group's people and business operations. Decisions have been made and actions taken consistent with 4imprint's purpose and culture and with a view to the long-term health of the business. The Group is financially strong and very well placed to capitalise on the opportunities arising in recovering markets.

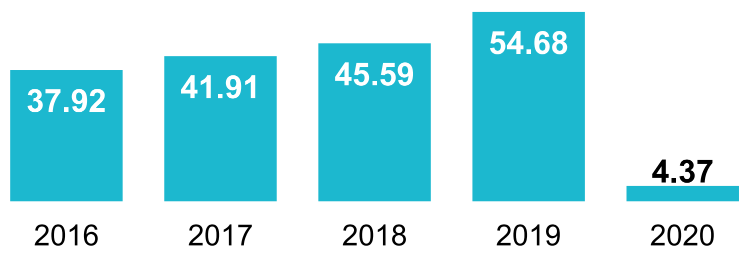
Q&A

Results Summary

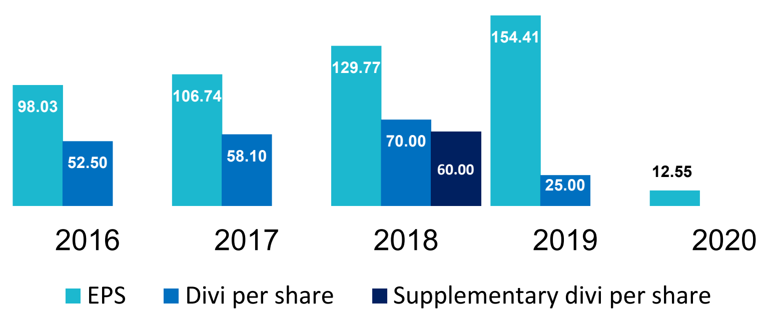
Revenue ($m)



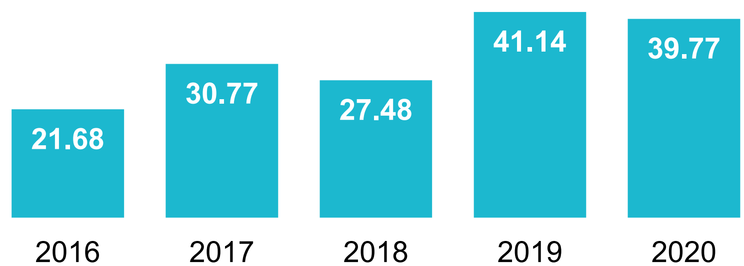
Underlying* profit before tax ($m)



Underlying* EPS and dividend per share (cents)



Cash - year end ($m)



Exchange rate FY 2020: 1.28 (FY 2019: 1.28)
*Underlying is before defined benefit pension charges and exceptional items