

Half Year Results 2023



Highlights

Kevin Lyons-Tarr, CEO



Results Summary

Revenue

\$635.5m

↑ 23%

Operating profit

\$63.8m

↑ 45%

Basic EPS

176.2c

↑ 48%

Cash and bank deposits

\$74.5m

2022 FY: \$86.8m

2022 HY: \$67.1m

Interim dividend

65.0c

2022 HY: 40.0c

Total orders

1,047,000

2022 HY: 886,000

Financial Review

David Seekings, CFO



Income Statement

	H1 2023	H1 2022		FY 2022
	\$'000	\$'000		\$'000
Revenue	635,534	515,536	23%	1,140,286
Gross profit	193,305	147,943	31%	321,935
<i>Gross profit margin</i>	<i>30.42%</i>	<i>28.70%</i>		<i>28.23%</i>
Marketing costs	(77,277)	(62,939)	23%	(128,676)
Selling costs	(22,736)	(18,057)	26%	(38,645)
Admin & central costs	(28,529)	(22,331)	28%	(50,356)
Share option related charges	(492)	(458)	7%	(835)
DB pension admin costs	(470)	(175)	169%	(521)
Operating profit	63,801	43,983	45%	102,902
<i>Operating margin</i>	<i>10.04%</i>	<i>8.53%</i>		<i>9.02%</i>
Interest	2,099	(97)		737
Pension finance income	51	27		67
Profit before tax	65,951	43,913	50%	103,706
Tax	(16,488)	(10,539)		(23,563)
Profit after tax	49,463	33,374	48%	80,143
Basic EPS	176.23c	118.90c	48%	285.57c

- Revenue +23%
 - US \$623.8m; UK \$11.7m
 - Relatively weak Q1 comparatives
- Gross profit +31%
 - Marked improvement in YOY GM %
 - Good recovery from pandemic-related factors
- Marketing costs +23%
 - Marketing productivity remains elevated
 - Revenue per marketing dollar \$8.22 (2022: \$8.19)
 - Investment in brand component continues
- Selling costs +26%
 - Additional customer service resource
 - Recruitment activities successful
- Admin/other overheads +28%
 - Investment in the business as it scales, including headcount, incentive compensation accruals and software/system requirements
 - DB pension admin includes buy-in costs
- Operating profit +45%
 - Reflects strong trading so far in 2023, along with improving gross margin dynamics and marketing productivity
- Effective tax rate 25% (2022: 24%)

Balance Sheet

	H1 2023 \$'000	H1 2022 \$'000	FY 2022 \$'000
Fixed assets	31,561	26,767	30,212
Right-of-use assets	12,256	11,153	13,103
Goodwill	1,010	1,010	1,010
Deferred tax assets	3,034	579	2,381
Retirement benefit asset	53	717	1,234
	47,914	40,226	47,940
Inventories	18,332	22,726	18,090
Receivables	81,397	82,030	87,511
Payables	(115,807)	(96,981)	(84,761)
	(16,078)	7,775	20,840
Current tax	(512)	1,331	(1,205)
Deferred tax liabilities	(358)	(1,022)	(357)
Cash and bank deposits	74,540	67,096	86,752
Lease liabilities	(13,033)	(11,616)	(13,750)
	60,637	55,789	71,440
Net assets	92,473	103,790	140,220

- Fixed assets additions include screen printing and embroidery equipment
 - Working capital
 - Significant improvement in supply chain conditions over prior year
 - Unwinding of elevated working capital position
 - Favourable swing of \$36.9m from December 2022
 - Pension (retirement benefit asset)
 - Buy-in completed in June 2023
 - Substantially all remaining pension benefits insured
 - Eliminates inflation, interest and longevity risks
- | Buy-in transaction | £m |
|----------------------|------|
| Plan assets | 17.5 |
| Company contribution | 3.2 |
| Premium paid | 20.7 |
- ~\$4m
- Financial strength
 - Cash \$74.5m; no debt

Cash Flow

	H1 2023 \$'000	H1 2022 \$'000	FY 2022 \$'000
At start of period	86,752	41,589	41,589
Operating profit	63,801	43,983	102,902
Share option non-cash charges	486	442	815
Pension admin costs	470	175	521
Depreciation and amortisation	2,270	1,973	4,018
Depreciation of right-of-use assets	847	683	1,508
Change in working capital	32,746	4,582	(8,441)
Capital expenditure	(3,456)	(2,439)	(8,011)
Underlying operating cash flow	97,164	49,399	93,312
Contributions to defined benefit pension	(2,121)	(2,202)	(4,367)
Consideration for business combination	-	(1,700)	(1,700)
Interest	2,131	(103)	699
Tax	(16,515)	(9,151)	(20,755)
Own share transactions	(434)	(968)	(866)
Capital element of lease payments	(717)	(584)	(1,225)
Exchange and other	1,321	(1,049)	(1,213)
Free cash flow	80,829	33,642	63,885
Dividends to Shareholders	(93,041)	(8,135)	(18,722)
Net cash (outflow)/inflow in the period	(12,212)	25,507	45,163
At end of period	74,540	67,096	86,752

- Excellent operating cash generation in H1 2023
 - Strong trading driving increased operating profit
 - Supply chain pressures from 2022 mainly addressed
 - Unwinding of elevated 2022 working capital balances
 - Cash conversion of 152%
- Pension
 - Contributions of \$2.1m paid in H1 2023
 - Deficit reduction contributions will cease in H2 2023 after buy-in transaction
 - Company balancing contribution of c.\$4m falls into H2 2023 cash flow
- Tax payments rising in line with profitability
- Interest of \$2.1m received in H1 2023 reflecting healthy cash balances through the period and improved interest rate on cash deposits
- Dividends
 - Interim and Final regular dividends increasing in line with capital allocation and balance sheet funding guidelines
 - Special dividend of \$2.00/share paid in H1 2023

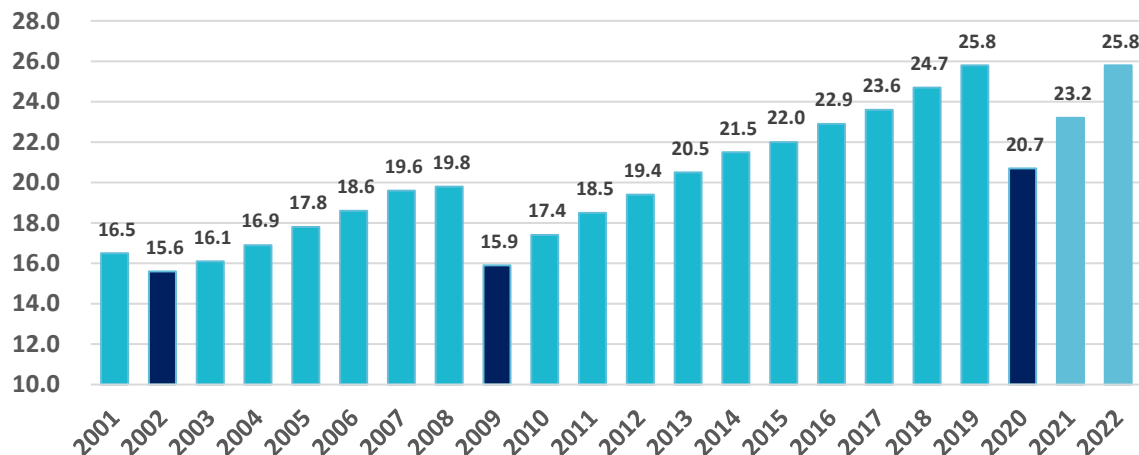
Operational Review

Kevin Lyons-Tarr, CEO



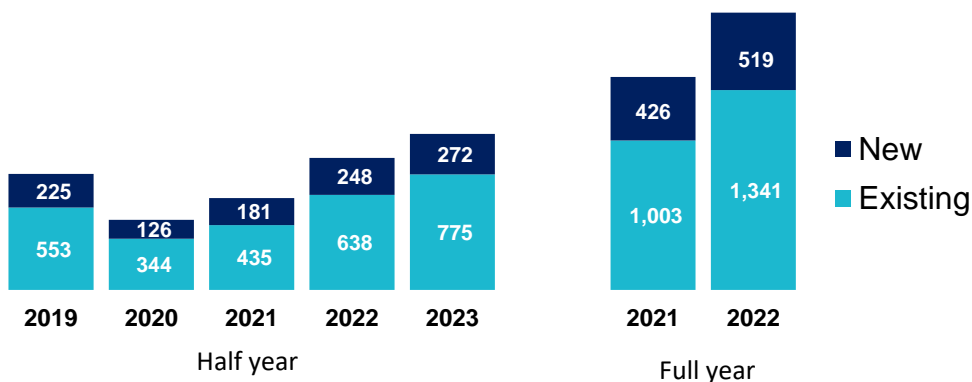
Market

ASI Annual Industry Sales North America 2001 - 2022 \$bn



Source: ASI

No. of orders received ('000)

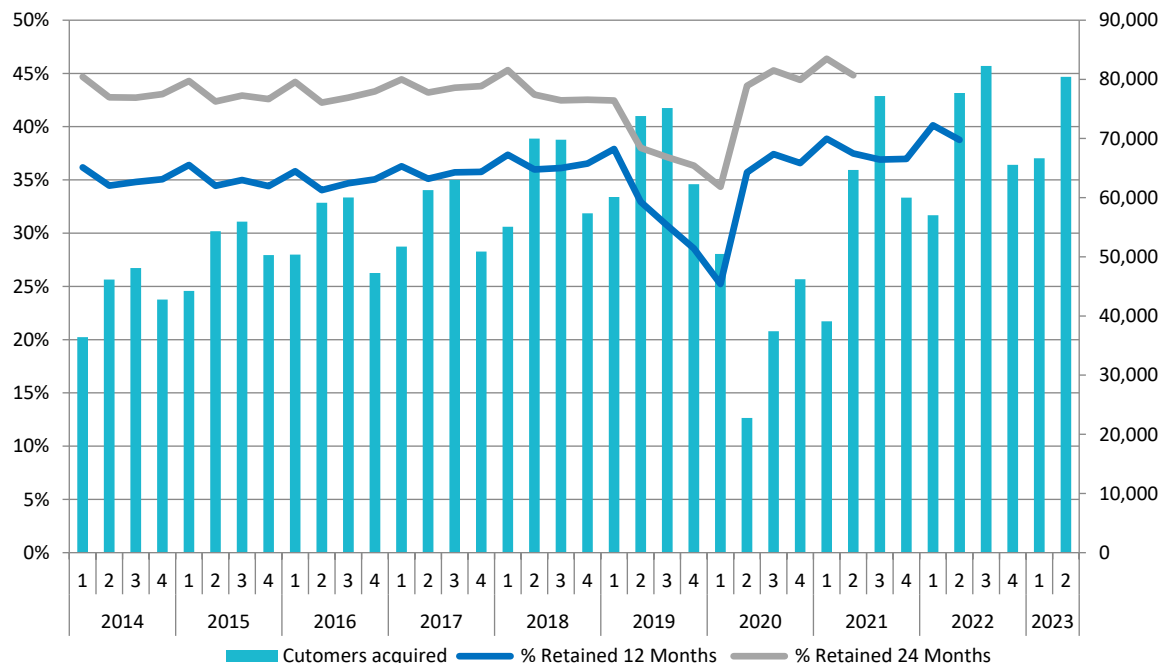


- Industry sales +4.5% over H1 2022; +9.8% at same point last year
- 4imprint share of total H1 market 5.9% vs. 5.0% last year and 3.5% in 2019
- 4imprint regains #1 position as largest promotional products distributor in North America

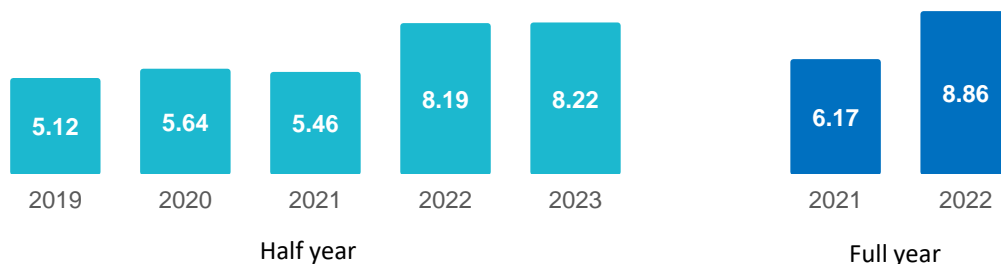
- 1,047,000 orders received (+18% vs. H1 2022)
- New customer orders 10% above 2022
- 158,000 new customers acquired in H1 2023
- Strong new and existing customer order intake particularly given the challenging April/May prior year comparative when the 2022 pandemic recovery was at its peak

Marketing Effectiveness

US and Canada Acquired and Retained %



Revenue/Marketing \$



- Total H1 marketing spend +23% at \$77.3m (2022: \$62.9m, 2019: \$79.2m); revenue +23%
- Revenue per marketing dollar essentially flat compared to H1 2022, remains well above historical norm
 - Likely to decrease somewhat in H2 vs. H1 as testing increases to identify optimal marketing mix going forward now that sufficient service resource is in place to do so, and the rapid pandemic recovery burst has largely passed.
 - Will continue our 'test, read, adjust' approach to testing increases/decreases in specific marketing initiatives and an element of testing designed to inform future initiatives.
- Existing customer retention rates continue to demonstrate stability and effectiveness of marketing strategy

Operational Update

People

- Our stated intention to make an investment in building human resource capacity and depth has been successful. From here, growth in volume-related resource should more closely track revenue, as was the case pre-pandemic.
- Investment in human resource to underpin structural depth and specialty expertise continues.

Supply Chain

- By the end of H1 pandemic related issues substantially resolved. Efficiency, product availability, order cycle time all significantly improved.
- Product cost inflation still present, but at a significantly lower and more manageable rate.



- Launched in Q1 2022 and allows customers to easily filter the 4imprint range of products to find the best match for the values of their organisation and their brand; each Better Choices™ designation is rigorously researched and supported by third party certification programmes and other supplier provided information.
- More than 8,300 Better Choices™ 'tags' were applied to products by the end of 2022; that has grown to more than 10,400 by the end of H1 2023 (*note: a single product may be 'tagged' more than once under different designations*).
- Products with one or more Better Choices™ 'tags' represented approximately \$132m in demand revenue in H1 2023 vs. about \$196m of demand revenue for FY 2022 (*note: this is not all incremental revenue since many products that were 'tagged' were already in the 4imprint range prior to the Better Choices™ launch*).

Operational Update

Increased apparel decorating capacity and capability

- **Screen Print:** New screen print facility in Appleton, WI operational in April 2023. Now that move is complete, focus shifts to methodically increasing scale/capacity. Objective for remainder of 2023 is to move from current ~25-30k units/week to ~60-70k units/week during Q4.
- **Oshkosh Distribution Centre:** Planning underway for expansion of the Oshkosh DC to support future growth in embroidery, direct to garment and specialty apparel decoration. Largely a capital investment for 2024.



Outlook

The Group's strong first half performance clearly demonstrates that its strategy and business model are effective in delivering profitable market share gains.

As a result, the Board's expectation, based on these latest financial results together with recent internal forecasts, is that full year 2023 Group revenue will now be slightly above \$1.3bn, with profit before tax not less than \$125m.

Trading results in the month of July 2023 have been in line with the Board's expectations.



Appendix



2023 Full Year Financial Guidance

- Trading update 1 August 2023
 - Revenue ~ \$1.3bn
 - Profit before tax ~ \$125m
- Capex: \$8.3m
- Depreciation charge (non-IFRS 16): \$4.6m
- 2023 effective tax rate c. 25%
- Share-based payment (IFRS 2) charge: \$0.9m
- Average shares in issue FY 2023 c. 28.1m; fully diluted c. 28.2m
- DB pension plan:
 - Admin charge (Income statement): \$0.8m
 - Cash contributions, including cost of buy-in: \$6.6m
- Interim dividend (to be paid September 2023): \$18.2m
- IFRS 16 (Leases)
 - Balance sheet (December 2023)
 - Right-of-use assets: \$11.4m
 - Lease liability: \$12.3m
 - Income statement (full year 2023)
 - Amortisation: \$1.7m
 - Interest: \$0.4m
 - Cash flow (full year 2023)
 - Lease payment: \$1.9m