Grafenia plc

Trading Statement

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Grafenia plc
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This announcement contains information for the purposes of Article 7 of EU Regulation No 596/2014.

Grafenia plc
("Grafenia", the "Group" or "Company")

TRADING STATEMENT AND STRATEGY UPDATE

Trading Statement
Since our last update, trading has been mixed.

We continue to experience headwinds with transactional print. Wholesale prices for print have continued to decrease, despite increasing costs of raw materials. Volume and margins in our trade divisions were below budget in December and January and are sharply down in February. Whilst there is oversupply and discounting in the market it is difficult to see this trend changing.

However, we have been executing our strategy to become less reliant on these print volumes. We are making progress. A greater proportion of our revenues now come from licence fees, signage and website sales. Grafenia is scaling. We anticipate our full year 2018 revenues to be just under £15m - approximately 40% higher than last year. As a result of revenues being slightly behind management expectations and weaker print margins, we expect our EBITDA and pre-tax loss for the year ending 31 March 2018 to be around a similar level to last year. We expect net debt to be circa £2.85m at the year end. We generate healthy levels of cash through our operations and we forecast that to continue.

Strategy update
The graphics sector has converged. Printers sell signs. Sign-makers sell websites. Web designers sell printing. We've positioned our Nettl formula to take advantage of this convergence. Our strategy is to sell SMEs a full suite of print, promo, exhibition products and web design services. Today there are over 180 Nettl locations in multiple countries. We want to scale further.

Signage is a complementary bolt-on, operating in the same graphic arts sector. Sign manufacturers sell to SMEs - the same client base as Nettl studios. Signs, exhibition and vehicle wrapping is a natural extension of Nettl's product range.

As stated, our strategy is to make acquisitions, and this has three steps. First, we acquire a profitable business, which meets our criteria, where the leader remains. Then we seek one or more other local sign businesses where the owner will leave. Finally, at an appropriate point, we plan to relocate both businesses to a more prominent location and rebrand as a Nettl Business Store.

The first sign business we acquired was ADD Signs, in January 2017. The leader has remained in the business and they've completed their first year of trading under our ownership. Revenue is up 30% versus the same period in the previous year and the team beat our earnings target. In March 2018, we relocated the business to a new 5,000 sq. ft. "superstore" location and rebranded it as Nettl of Liverpool Waters. The business store is a mix of display space, design studio, sign manufacture and installation. It's currently being fitted out and we're preparing to open in April 2018. We're evaluating potential sign business to roll-in to the Liverpool store.

Image Group was acquired in July 2017 and has completed 8 months trading as part of Grafenia. The team have performed well, exceeding revenue compared to the same period last year. Image Group act as our centralised national sign and display hub. We've productised an initial range of printed vinyl and rigid display boards, which we market via our network. New products are scheduled for launch, to further extend the range of promotional items our partners can help clients with.

We are pleased with the performance of our signs business so far. That includes "ink on fabric" soft signage and displays, which have also grown significantly this year. We have a plan to accelerate growth in this part of our business. We have financed these first acquisitions through cashflow and debt.

Our aim is to move closer to our end clients. With Nettl, we want to be at the start of a client's creative relationship. Whether it's with web, print, display or signage. We'll do this via company Nettl stores we own and via our licenced Nettl brand partners.

Our Nettl company studios have performed better than last year. We've invested in training and development to drive performance. Overall, studios have improved both top-line revenue and margin. We like the metrics of owning more stores. To that effect, in December 2017, we acquired one of our top performing Nettl partners, Nettl of Exeter. The team remains in place. The next step will be to acquire a sign business to roll-in and relocate both businesses to a superstore location.

In summer 2017, we changed our team structure. We re-deployed people from our trade division to partner acquisition. Since then, the Nettl partner network has grown at its fastest rate to date.

In the UK and Ireland, we now have 155 Nettl locations and continue our targeted, scalable partner acquisition strategy. It remains plausible that the UK could support 300 Nettl locations.

During summer 2017, we launched Nettl in The Netherlands. Today we have 22 Nettl locations and a pipeline of future partners in The Netherlands. We hired two Dutch natives to acquire and support the Dutch network and will scale this team as the network grows.

We started marketing Nettl in France in December 2017 and have recently trained our first 5 'founder' partners in Paris. We have also signed our first partner in Belgium.

The marketing, support and people costs of launching Nettl are front-loaded. There are fixed costs in hiring the right team, training them, preparing marketing collateral and translating training material into a new language. We incur these costs before there is any revenue. However, we find the lifetime value metrics of adding Nettl partners to be attractive. Licence fee income from partners creates sticky and predictable revenue streams. We expect licence fees to significantly increase versus last year. Product sales to Nettl brand partners are also expected to be ahead of last year.

We continue to invest in opportunities to scale Grafenia and position our business for the future. These may impact our short-term earnings, but we believe that they are necessary steps in our transformation plan.

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