

Grafenia plc

Trading update and notice of AGM

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Grafenia plc
03 July 2019

3 July 2019

Grafenia plc
("Grafenia", the "Company" or the "Group")
Pre-close statement, current trading and notice of AGM

Grafenia plc (AIM: GRA) today publishes a pre-close statement in relation to the year ended 31 March 2019.

Revenue is expected to be approximately £15.75m (2018: £14.63m), with the increase partly due to a full 12 months of trading from Image Everything ("Image"), acquired part way through the comparative period on 14 July 2017.

We licence our Nettl and printing.com bolt-on business models in the UK and internationally. Subscription and licence fee income grew to approximately £1.98m (2018: £1.77m). Our Nettl partner network has grown to 228 locations (2018: 192) around the world. We now have 173 active Nettl partners in the UK and Ireland, 27 in Benelux, 13 in France, eight in the USA, four in New Zealand and three in Australia. During the year, we also added 44 new printing.com partners and currently have 85 printing.com locations (2018: 108). We expect to add more Nettl partners this year and anticipate more printing.com locations will upgrade to Nettl, like many did in the current year.

In our Interim Report, announced on 28 November 2018, we said we'd commenced pre-launch activity to start Nettl of America. We launched on 7 March 2019, just before the year end. To comply with federal and state laws, we have positioned Nettl as a co-branded franchise model. The compliance and registration process is now complete and we are able to grant franchises in 38 of 50 US states. We anticipated there would be a longer gestation period to acquire franchise partners, partly down to local laws requiring cooling off periods and the disclosure processes. This has turned out to be the case. However, we are delighted to have granted eight franchises so far, in the states of Florida, Ohio and Georgia. We expect to grant more in the coming months.

Clearly, the United States is a major market. When we research launching Nettl into a new country, we estimate the number of potential locations, relative to the

density of the SME population. Using that rule of thumb, we believe the US could support between 1,500 and 2,000 Nettl locations. When we launch, much of the cost is front-loaded. Although we evaluate the project as if it were an investment, we expense the costs as we incur them. This adversely affects our earnings and inflates our short-term overheads, but we are confident the future upside is worth the management time, opportunity cost and effort.

Revenue in our company-owned Nettl stores grew to approximately £2.56m (2018: £1.59m). We closed a legacy store in central London after the year end, at a break in the lease. This store was loss making and, given its small footprint, no longer fitted the profile we look for in establishing Nettl Business Stores. Improving sales performance in our company stores remains a priority as we extend the range of services we sell, like search engine optimisation and signage. We continue to look for sign businesses to acquire and convert to Nettl Superstores.

Like many businesses and most in the print sector, we have faced rising input costs, particularly with paper. This has impacted our product gross margin, although our transition to become less reliant on trade litho print sales has meant that our overall gross margin has increased in absolute terms. Our overheads have increased as we include the costs of three businesses we've acquired during the year, as well as a full year of Image, compared to a portion in the prior year. We have also expensed costs of acquiring Nettl partners and opening stores. This will result in the Group generating negative Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") for the year ended 31 March 2019. However, it's important to note that this does not reflect our cost-base moving forward as we've taken significant steps to reduce our overheads.

As previously announced, we made the decision to replace three ageing litho presses with a single new high-specification machine. This has been installed and has brought savings in labour, power and waste paper. More importantly, it has released space in our Manchester production hub. We've installed a new mezzanine floor and plan to combine Image's main factory in our Manchester hub. We expect to have completed this relocation by the end of July 2019. As well as operational efficiencies, this combined hub will result in savings on rent, rates and other occupation costs like power. We are forecasting that sales of litho print will continue to decline and we will experience further margin pressure. However, we are expecting further growth in the sales of signage, display and ink-on-fabric digital textiles, all of which have grown this year.

As a result of these changes to our cost base, we estimate we will be breakeven on a monthly EBITDA run rate during the current financial year. We are targeting an EBITDA margin of 10-15% in the medium term, although we make decisions for the long-term sustainability of the business, rather than short-term performance.

At 31 March 2019, we had cash and cash equivalents of £1.37m (2018: £0.17m).

Current trading

Since the year-end, trading in the first quarter has been in-line with the Company's internal budgets. We continue to review an extensive list of potential sign acquisition opportunities that could become either regional hubs or Nettl Business Superstores. Depending on due diligence and funding, we plan to continue our acquisition strategy.

Notice of AGM

As has become customary, we like to host our shareholder meetings at our operational locations. This year, we'll hold our AGM in our Nettl of Birmingham Business Store, 37a Great Charles Street Queensway, Birmingham B3 3JY. The meeting will begin at 10.00am on Wednesday 25 September 2019. Following the formal meeting, members of the Grafenia team will talk in more detail about different topics. This is a good opportunity for our shareholders to see one of our top performing retail locations, ask questions and meet with the team. Formal notice of the AGM will be posted to shareholders by the end of August, in conjunction with publication of the Company's annual report for the year ended 31 March 2019. A further announcement will be made at that time.

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