

Grafenia plc

Trading Statement and Acquisition Strategy

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Grafenia plc
25 March 2020

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

Trading Statement and Acquisition Strategy

When releasing our Interim Results on 27 November 2019, we gave two pieces of guidance in our outlook. Firstly, to be EBITDA breakeven on a monthly run-rate basis by the end of the year (31 March 2020). Secondly, we stated our goal was to reach an EBITDA margin of 10-15% in the mid-term.

Trading in the second half of the year has been mixed. Some months were slightly ahead of the same period last year and some months slightly behind. By February 2020, we had completed a restructuring exercise to reduce our cost base by a further £0.5m on an annualised basis. This was in addition to measures we had already implemented during the summer, when we combined two factories. We were on-track to achieve our first goal of EBITDA breakeven.

March, April and May are usually strong sales months, buoyed by events and exhibitions. Since the start of the coronavirus crisis, nearly every exhibition or event has been cancelled or postponed. Whilst sales have been softer than usual, they have not ceased. We continue to service clients and substitute alternative products. Clients have looked for help with their own "plan B", to offset business lost from events they planned to attend. We've seen more interest in online alternatives, as clients adjust to the current situation. Examples include restaurateurs needing to add online takeaway menus and personal trainers or martial arts and yoga instructors delivering video sessions which are booked, paid for and delivered by webcam.

Unfortunately, many of our clients were forced to close yesterday, in line with Government

restrictions. Our near-term sales visibility has become clouded. We are taking all possible steps to control overheads during the crisis, but the trading environment is changing on a day by day basis and forecasting is challenging. We therefore expect it will take longer to reach our goal of EBITDA breakeven.

Nevertheless, our mid-term goal remains unchanged.

Whilst still an important part of our product mix, we have continued to reduce our reliance on sales of litho print. A greater proportion of our revenues come from subscription and service income, together with sales of signs, vehicle graphics and installation services. We have a more diversified product range than before.

It is likely that the print sector will be impacted significantly by the current market conditions. Volumes have been falling, margins eroding and an oversupply have already created a tough trading environment. Coronavirus seems certain to remove capacity further.

As we navigate a new world, where we cannot gather, meet prospects, or run classroom training, we've repositioned our Nettl partner subscription model. Nettl helps graphics businesses to diversify into web design, ecommerce solutions and search engine optimisation. We are making Nettl more accessible, with online-only training and remote support. It is difficult to foresee what clients will want, on the other side of this pandemic. However, it would seem reasonable to imagine more business will be done online and clients might invest more in ecommerce, booking systems and search engine optimisation. We're asking prospective Nettl partners to use the lock-down to up-skill and be ready for the recovery, so they can do all these things.

We previously announced our acquisition strategy, to roll-up the sign sector. So far, we have brought six businesses into the family. We combined four of those businesses to create two Nettl Business Superstores in Liverpool and Exeter, as well as developing a centralised sign and display hub in Manchester. In July 2019, we raised £4m to begin plans to establish four regional sign hubs.

We are prioritising our search for larger sign and graphics businesses, with turnover above £2m, which could act as regional hubs to support the local Nettl network. There's an existing regional hub in the North West and preferred locations for remaining regional hubs would be the Midlands, South West, South East and Central Scotland. We have increased marketing activity to stimulate pipeline and are restarting conversations, where we were previously unable to agree valuations.

Peter Gunning, CEO of Grafenia, said: "These are unprecedented times for our industry. We're asking business owners who previously might not have been considering a sale to get in touch. There's increased safety being part of a larger group. We have access to capital to execute our strategy. We can move quickly to help otherwise sustainable businesses who've been impacted by recent events. Any interested businesses should email letmein@grafenia.com to start the process."

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