

Ebiquity

Digital acceleration

CEO Nick Waters, who took over the role in July, has set out his vision for Ebiquity's future strategy at a capital markets day (CMD) presentation. It builds on the group's strong positioning as a genuinely independent adviser to global brands on optimising their marketing ROI. The key to delivering growth momentum and improving earnings quality is clearly in the digital marketing domain, developing embedded products and services to identify and remove wasted spend. No new financial information was disclosed at the CMD and our forecasts are unchanged, but we regard the FY21e to have upside potential, depending on successful implementation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	69.4	5.2	3.5	0.7	6.0	3.3
12/19	68.7	5.3	3.6	0.0	5.9	0.0
12/20e	57.0	(0.5)	(0.8)	0.0	N/A	0.0
12/21e	60.0	3.1	2.6	0.5	8.1	2.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Extending the sphere of digital influence

Digital marketing remains beset by issues of transparency, fraud and wastage, with the Source Data Monitoring product from Digital Decisions indicating that 15–30% of digital ad spend is wasted. With total global digital ad spend set to pass through the 50% share of total ad spend in the current year, the opportunity to help reduce depletion is clearly substantial, with no major incumbents providing this service. Ebiquity's purchase of Digital Decisions in January 2020 (initial payment €0.7m) brought into the group the technological capabilities to monitor efficacy of digital spend. With Ebiquity's position as an independent, trusted adviser, this should give a powerful platform to build a more substantial enterprise, with potentially higher recurring revenues and growing margins.

Potential for faster expansion

While we are not revisiting our forecasts for now, there is clearly potential for more growth from FY21 than is factored in if management delivers on its strategy. The group already has working relationships with 70 of the world's 100 largest advertisers, giving considerable potential for cross- and up-selling, accelerated by the withdrawal of Accenture from media auditing. With far greater automation and productisation than traditional consulting, there is scalability in the proposition, absent previously, that should lead to margin expansion. KPIs to monitor progress are being set up to focus on metrics such as the number of key clients generating revenues above \$0.5m, satisfaction scores from clients and employees, digital growth and efficiency, enabling to track management's delivery against strategy.

Valuation: Below base case

Ebiquity's shares trade at a discount versus peer group multiples, for which parity indicates a price of 28p, which we would regard as the base case. Successful execution of the plan outlined at the CMD should lead to a faster growing top line and margin expansion, which should act as a catalyst to a re-rating.

Capital markets day

Media

17 November 2020

Price 21.1p
Market cap £17m

Net debt (£m) at end August 2020, excluding lease liabilities	7.0
Shares in issue	78.4m
Free float	94.8%
Code	EBQ
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.9	(22.2)	(50.6)
Rel (local)	(5.4)	(27.0)	(45.0)
52-week high/low		42.5p	20.4p

Business description

Ebiquity is a leading independent marketing and media consultancy, working for 70 of the world's 100 leading brands to optimise their media investments.

Next events

Year-end trading update	January 2021
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Investment summary

Company description: Supporting and guiding brand owners

Ebiquity has a well-respected position as an independent voice in the global marketing sector, advising brand owners on how best to allocate their budgets for best effect and with which partners. It works with 70 of the world's largest 100 advertisers. The challenge for the reinforced and reinvigorated management team is to translate those relationships into a scalable commercial proposition, rather than, or at least in addition to, the traditional consultancy business. The acquisition of Digital Decisions in January 2020, while of relatively modest scale (initial consideration of £0.6m), looks to have been transformative in bringing a credible product to tackle providing accurate and actionable information to brand owners in the complex and opaque digital market. The group's CEO, Nick Waters, who took over the reins in July 2020, has set out his ambitions to build activities in this sphere. With the nature of the market, especially the prevalence of programmatic advertising, there is more scope to grow the automated element and productise the group's output. This not only improves the business's scalability but gives scope to improve margins substantially from the 9.0% achieved in FY19.

Financials: Building from H120

Key highlights from the half-year figures, published in September, are given below:

- There was no new financial information given at the recent CMD and our forecasts are unchanged.
- H120 was a very difficult trading period as clients withdrew or deferred their marketing spend when measures to counter the COVID-19 pandemic were put in place globally. As the year has progressed, some confidence has returned and working practices have adapted to the circumstances. Management indicated improved revenues in H220 and we forecast a small PBT loss of £0.5m for the full year, assuming no further deterioration of the global economy. No formal management guidance for FY21e has been issued, beyond an expectation that the improved momentum from H220 will continue into the new financial year, bar any further setbacks associated with COVID-19. We anticipate that more detailed indications will be forthcoming on publication of the FY20 figures, with an outline three-year plan.
- End-June net debt was £5.1m, from £5.6m at the year end, assisted by working capital inflow. Net debt had extended to £7.0m by end August, with cash balances of £12.6m and gross debt of £19.8m (the difference being rounding). A total of £5m of bank facilities remain undrawn, with covenants renegotiated to a simple monthly liquidity test to December 2021.

Valuation: Below base case

The valuation is at a small discount to other smaller UK media stocks and to the wider global peer set. Parity across averaged P/E, EV/EBITDA and EV/EBIT ratios for FY21e (forecasts for FY20 are too unreliable due to the pandemic and significant economic uncertainty caused by it) suggest a price of 28.4p. We would view it as a base level, as it does not reflect the group's move into faster-growing digital markets and the potential for improving margins and quality of earnings through productisation. Our DCF, based on a WACC of 8.5% and terminal growth of 2%, indicates that if the revenue were to grow at 3.4% across FY22–27 (the long-term sector growth rate) and EBITDA margin expand to 12% (from 13.4% in FY19, then 3.2% on our FY20 forecast), then the valuation would increase to 43p, more than double the current level.

Sensitivities: Ability to deliver on plan

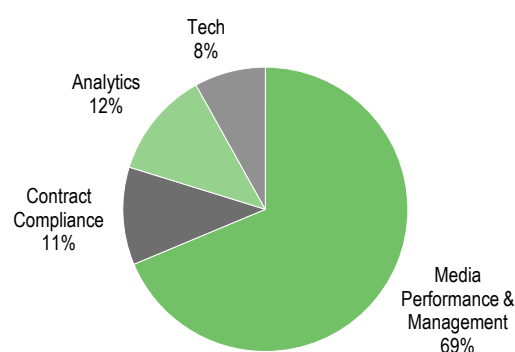
The financial performance has sensitivities within and without management's control. The onset and progress of the COVID-19 pandemic has had a heavy impact on clients and on H120 figures but, for now, there is more stability in the market. Changes to the competitive landscape have been to Ebiquity's advantage, with the withdrawal of Accenture from media auditing. Key to progress over the next three years is grasping the opportunity to build a substantial and scalable business in digital, especially in the US and Asia Pacific markets.

Company description: Media management services

Ebiquity is an independent media and marketing consultancy. Specialising in analytics, its services and products help brands and advertisers maximise the return on their media and marketing budgets, either by reducing costs or increasing sales. As the group does not buy or sell media, Ebiquity is able to provide impartial advice to optimise return on media investment by channel, industry, brand and country. It conducts no media buying or trading on its own account or for its clients, with this commercial independence a key operating advantage.

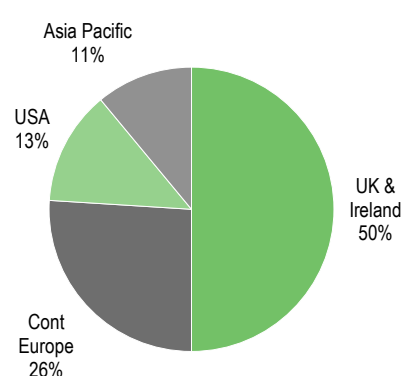
Ebiquity was founded in 1997 and, over the decades to 2017, made a series of significant acquisitions, which established it with a global media presence. It provides services to nearly 700 clients, including 70 of the world's 100 largest advertisers. Its headquarters are in London and it has c 550 employees across 17 offices globally. In FY19, approximately 50% of revenues were generated in the UK and Ireland, 26% from Continental Europe, 13% from the US and 11% from Asia Pacific. The group has access to significant quantities of relevant second- and third-party data through its relationships with advertisers and agencies. This highly commercial asset, now described as the Media Data Vault, is reported by management to be the world's largest independent pool of media performance and cost data. This represents a notable barrier to entry that would be very difficult to replicate by the major consultants that compete both with Ebiquity and with its clients.

Exhibit 1: FY19 revenue by activity



Source: Ebiquity

Exhibit 2: FY revenue by geography



Source: Ebiquity

The disposal of Ebiquity's Ad Intel operation, completed early January 2019, decreased the size of the group (Ad Intel generated 23% of FY18 revenues) but made it notably simpler and able to focus on its core competency: working with advertisers to optimise their media spend and performance, with a weighting towards consultancy. However, it also left the group subscale and with limited scalability.

Management team reinforced and restructured

After the departure of the previous CEO in November 2019, CFO and COO Alan Newman covered the CEO on a caretaker basis while a new incumbent was recruited. Alan had joined in January 2019 after a long tenure as CFO of YouGov, which he had helped to steer from a market capitalisation of around £70m when he joined in 2008 to around £370m on his retirement in late 2018. In April 2020, Ebiquity announced that Nick Waters would be joining as CEO from the beginning of July, with Alan reverting to his previous responsibilities. Nick joined from Dentsu Aegis Network (formerly Aegis Group), a multinational media and digital marketing group, where he worked for 10 years. He was most recently executive chairman, UK and Ireland, having previously been CEO of Asia Pacific for nine years. Before that, he held senior roles at global media agency Mindshare over more than 10 years, which he joined from international advertising and marketing agency, Ogilvy & Mather. At Mindshare he progressed to become CEO of EMEA having been CEO of Asia Pacific and previously CEO of Southeast Asia. He therefore brought considerable experience from an agency perspective, with senior client relationships. Since arriving, he has been getting to know the business and its people under the considerable constraints of the COVID-19 restrictions. He sets out his observations and intentions in the video interview, below.

Exhibit 3: Executive interview video with CEO, Nick Waters



Source: Edison Investment Research

CMD sets out management ambition

The CMD showcased Waters' appraisal of the group's positioning and opportunities and gave a platform to the operational and regional management teams to give more colour on their markets, operations and opportunities. The key takeaways were:

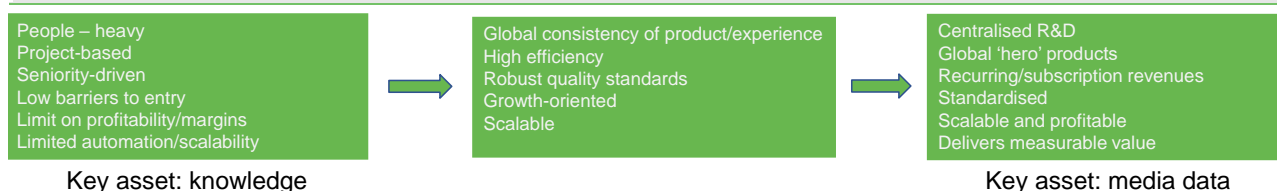
- The group has a premium positioning as a trusted adviser and its independence is recognised and highly valued by its clients. The Ebiquity brand is trusted and resonant with its market.
- It has a very strong client base (including 70 of the world's 100 largest advertisers).
- Its people are subject matter experts.
- It is subscale in the important US market and has considerable potential to expand in Asia.
- It has access to a considerable quantity of marketing industry data that is not being effectively leveraged.
- Ebiquity's reputation has been built in the traditional media sphere, where there remains plenty of value to be extracted. The more substantive opportunity is in the digital domain, which is set to account for over half of global ad spend for the first time in FY20.

- The digital ad market is beset by wastage, through issues relating to visibility, fraud and brand safety issues, with major issues of trust between brands and their agencies. The Source Data Monitoring product from Digital Decisions puts the proportion of spend wasted at between 15–30% of the total. Given the size of the market (Statista sizes it at just under \$346bn for 2020), these are large sums of money being spent for no (or negative) return.
- Ebiquity has an attractive opportunity to extend its business in the digital domain, building on the work of Digital Decisions, a business bought in January 2020 and run by Ruben Schreurs, who has now been appointed group chief product officer.

The trajectory is to transform the business from a 'McKinsey model to a McDonalds model', with the attributes as shown in the graphic below. We would regard the shift in emphasis from being project-based to building recurring or subscription revenues as central. The building of a central resource, or vault, of media data will become a very valuable asset. Ebiquity is in a unique position to source and to pool data because of its independence from other aspects of the marketing ecosystem, including data from inside what are referred to in the industry of the 'walled gardens' of the major online groups such as Google and Facebook.

This is not an expensive transformation plan, requiring major capital expenditure and should be able to be carried out without compromising the operating margin short term. Much of the practical heavy lifting has already been carried out within Digital Decisions.

Exhibit 4: Business transformation plan



Source: Ebiquity, Edison Investment Research

The following sections describe the existing business and its functions, on which the 'new' business will build.

Services to support the marketing function

The group reports its revenues under the two segments Media and Analytics & Tech. At the CMD, a little extra granularity was given, as shown in Exhibit 1. The indication is that these reporting lines may be adjusted to give a clearer picture of the development of the business, at which point we will make similar adjustments to our modelling.

Media management typically encompasses media agency selection and management of those relationships. It also covers setting and monitoring the remuneration model. As well as external relationships, Ebiquity's media management service can evaluate, plan and manage the in-housing of media buying where this suits the client's business model. Ebiquity has been focusing on standardising and broadening the service it offers clients, with new specialists appointed in the UK and the US. The group's independence, objectivity and detailed knowledge of market dynamics deliver a valuable dimension to the process. It is likely FY21 will be a busy year in this sphere, as many relationships are negotiated for three years and the last major peak of reviews were in 2018.

The emphasis on traditional media audit – verifying media that has been paid for has actually appeared – is in gradual decline as the market has been shifting towards digital and other concerns have become more pressing. Contract Compliance has historically involved physical examination of records. Obviously, during lockdown, this was not a practical possibility and H120 revenues were affected as described in the financial section, below. The group has now reached agreement with

agencies on remote access to the information required for its audits, which is enabling the backlog to be tackled, with deferred projects set to proceed or already in action benefiting H220.

Within the Analytics & Tech practice, the advanced analytics capability covers modelling, forecasting and predictive analytics. The adtech service draws together evaluation to improve the selection of partners or conduct feasibility studies on in-housing media buying for clients. The martech service comprises data analytics and optimisation and areas such as UX (user experience for customers visiting websites).

There are opportunities in multi-market analytics contracts, where the group's broad geographic spread is a distinct advantage over localised partners. The group also has an adtech advisory service, covering areas such as appraising the potential returns for clients from in-housing programmatic media buying.

Accenture opportunity

The inherent contradiction between consultants giving marketing advice while also selling solutions was confirmed by Accenture's decision to wind down its media consultancy's auditing arm, announced in February 2020. This used to review the work that media-buying agencies performed for clients and was therefore akin to marking its own homework.

Ebiquity has had success in winning new clients previously served by Accenture, in competition with local and global providers (more information on the competitive landscape is given below). The Spanish operation has been particularly successful, taking on more than 20 clients by September, while it has also given a meaningful step up to the US business – a crucial market if Ebiquity is to realise its ambitions.

Opportunity knocks

The market for advisory services to the marketing industry is split between regional and national players and those who operate on a global basis. These are represented in a graphic produced by the company (Exhibit 5), with the size of the various bubbles roughly proportional to the relevant comparative revenue.

Exhibit 5: Competitive landscape



Source: Ebiquity

As is shown, Ebiquity is the largest of the global providers. The general auditors also have substantial businesses in this area but do not disclose their business by revenue stream in the

necessary granularity. Of the other substantive businesses, R3 Worldwide is independent and has the nearest comparable profile, although a narrower range of services, whereas Ascential Medialink is a subsidiary of Ascential and has its core business in the US. All of these companies handle media and pitch management and digital consultancy, with most also covering adtech consultancy.

Digital opportunity

Ebiquity is the only company in the space specifically handling media compliance. While this has been a part of the landscape in Europe, there is no particular history of this activity in the US, which is part of the reason that the breakdown of trust over issues of transparency of ad viewability, brand safety and fraud have had such a destabilising effect on the relationships between brands and agencies. With the growth of digital in the mix, and in particular the growth of programmatic advertising, and with much of the process between commissioning and result happening within a proverbial 'black box', there has been a growing disconnect between brand and agency. Determining the return on investment of a campaign, where between 15–30% of spend is wasted (source: Source Data Monitoring from Digital Decisions), is itself a challenge.

The group's initial target market is (sensibly) the largest spenders, specifically the world's top 100 advertisers, who between them spend an estimated \$50bn on digital advertising. 0.5% of this spend (the level indicated by management as an incremental medium-term opportunity) would be worth \$250m. While this may sound ambitious, it should be noted that 70 of the world's 100 largest advertisers are already clients of the group.

Geographic opportunity

The US market is the largest by far, at just over one-third of the global total by value of total media spend. With an increasing proportion of agency remuneration now driven by performance incentives, and a complex ecosystem dominated by the large tech platforms, external validation and benchmarking is becoming more important.

Ebiquity is also targeting growing its position in Asia Pacific, where digital is already over half the market. It is often overlooked that local advertisers represent a significant proportion of the total spend. Having an established local presence is crucial to build and grow these relationships. The competition is also less intense, with Deloitte the only general auditor with a meaningful presence and R3 Worldwide and Maximise Media Management the main national consultants, albeit at smaller scale than Ebiquity.

Sensitivities

We consider Ebiquity's newly outlined growth strategy, which builds on its existing strong foundations, as a relatively low-risk approach to accelerating and securing its longer-term growth profile. Nevertheless, any change of direction carries risk. Investors should also consider the following:

- COVID-19: the impact on the global advertising ecosystem was severe, particularly in Q220. However, its impact has not been uniform across sectors, with verticals such as travel, automotive and retail particularly badly hit. While the effects on revenues in the current year are now broadly baked into numbers, future benefits from the roll-out of a potential vaccine, or renewed lockdowns and economic suppression could have substantial repercussions. Our forecasts should be seen in this light and not viewed as projections for the group against a stable backdrop.

- Incentives under review: management has indicated it will set out its revised strategic goals in the months to come as it puts together its three-year plans. The KPIs set out within them will be better able to inform our medium-term financial modelling.
- Competition: while Ebiquity's large media and related cost databases provide a significant barrier to entry, new competitors could emerge if they are willing and able to finance such an undertaking. Ebiquity's independence from agencies, media owners and intermediaries is key in this respect.
- Foreign currency exposure: 70% of revenues are non-sterling denominated, with the euro and the US dollar the most significant exposures. Fluctuations in sterling may affect our forecasts. As outlined in the report and accounts, a 10% strengthening of sterling against the US dollar in FY19 would have had a 2% impact on underlying pre-tax profit, 6% for the euro.
- Level of advertising and media spend: around half of revenues are from renewable contracts. With a historically high renewal rate, this provides a good degree of forward visibility. However, these contracts are often based on the value of media spend being monitored, hence a significant change in levels of advertising and media spend could affect revenue.
- People business: Ebiquity has c 550 employees across its 17 offices worldwide. Attracting and maintaining highly skilled employees, with the necessary data and technology skills, is becoming increasingly challenging. This may affect the pace and cost of expansion.
- Overseas expansion: the long-term potential of the group lies in building its offering overseas, in the US, which is the largest global advertising market, and Asia. The group's top management has many years' experience of managing global operations, which should provide comfort in this regard. However, as companies become more diverse, execution risk can increase.
- Technology enabled: unlike most other consulting industries, media and marketing consultants rely on technology to support their service offerings. Maintaining state-of-the-art systems and processes to support their consultants' strategic advisory and analytics services is becoming ever more crucial as companies seek to harness wider datasets to understand and predict their customers' behaviour. Investment requirements may vary from the current plan.
- Data security: Ebiquity handles large and complex datasets with great commercial sensitivity. Data security is therefore a meaningful reputational risk.

Valuation

Ebiquity's share price has dropped back from a high of 39p at the end of February and has been sitting at or around current levels since the beginning of October. With a market capitalisation of £16.5m and limited trading volumes, it is likely to be below the radar of many potential investors. The lack of visibility on earnings may also have restricted market interest. With the direction of travel now clarified, a leadership team in place and the prospect of more detailed guidance over the next few months, there is scope for a rerating.

Ebiquity is primarily a consulting business and therefore has limited comparability on day-to-day activities with the smaller quoted marketing services companies. This group has been getting smaller in number, mostly through M&A. Nevertheless, there is no better obvious peer set to use for a contextual comparison. We show the UK listed companies and the global average for context.

Exhibit 6: Peer group valuations

Name	Price (p)	Market cap (£m)	Ytd perf (%)	EBITDA margin 2FY (%)	P/E 1FY (x)	P/E 2FY (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)
Kin + Carta	82	139	-18	16.7			9.3	7.6	12.6	10.2
M&C Saatchi	57	66	-54	-	5.4	5.5	3.1	2.9	3.6	3.4
Mission Group	59	53	-26	14.1	146.3	7.6	26.3	6.0	99.8	7.1
Next Fifteen	450	408	-16	22.7	12.7	11.1	8.2	7.2	10.5	9.3
Average			-29	15.4	9.1*	8.1	11.7	5.9	31.6	7.5
Global average smaller Advertising stocks			-29	12.5	13.6	9.3	2.8	8.3	31.1	10.1
Ebiquity	21	16	-43	9.1	-	8.3	13.0	4.3	62.6	5.9
Discount to UK peers						11%	-11%	27%	-98%	21%

Source: Refinitiv, Edison Investment Research. Note: Prices at 8 November 2020. *Excludes outlier.

Based on FY21 estimates, Ebiquity is valued at a discount to these other UK quoted small- to mid-sized marketing services groups of around 11% on a P/E basis, 27% on EV/EBITDA, and 21% EV/EBIT. The EV/sales metric is a poor tool in this context due to the varying definitions and nature of the revenues.

Using FY21 projections, due to the exceptional economic factors in FY20 that distort forecasts, parity on a P/E basis would imply a share price of 23.6p, parity on EV/EBITDA on FY21 suggests a share price of 32.0p and on EV/EBIT 29.6p. We would view these price indications, averaging at 28.4p, as a base level, as they are yet to fully reflect the group's move into faster-growing markets and the potential for improving margins and quality of earnings.

DCF indicates higher valuation ranges

Exhibit 7: DCF under various growth rate, EBITDA margin assumptions (p/share)

		Revenue growth FY22–27e				
		0.0%	2.5%	5.0%	7.5%	10.0%
EBITDA margin	15.0%	56.2	63.4	71.4	80.2	89.9
	14.0%	49.6	56.0	63.2	71.0	79.6
	13.0%	42.9	48.6	54.9	61.8	69.3
	12.0%	36.3	41.2	46.6	52.5	59.0
	11.0%	29.6	33.8	38.3	43.3	48.7
	10.0%	23.0	26.3	30.0	34.0	38.5
	9.0%	16.4	18.9	21.7	24.8	28.2
	8.0%	9.7	11.5	13.4	15.6	17.9

Source: Edison Investment Research

A DCF calculation self-evidently looks ahead further, so would be expected to – and does – return higher indicated price ranges. Our modelling shows EBITDA margin returning to 9% for FY21 (vs 13% in FY19), but we would expect margins to expand steadily if management's intentions to automate and productise much of the group's deliverables are fulfilled, possibly up to mid- to high-teens. Overall advertising expenditure has averaged 3.4% since 2000, a blend of flat or declining traditional media and faster-growing digital advertising. At this rate of growth, which we would expect the group to exceed if the strategy implementation proceeds to plan, and using a 12% EBITDA margin (and built on a WACC of 8.5% and a terminal growth rate of 2%), a DCF indicates a share price of 43.1p. This is unchanged from [our last report](#) in September.

Financials

As there was no new financial information given at the CMD, we have made no adjustments to our forecasts at this juncture. The H120 financial results were described in our [update note of September](#), highlighting the heavy impact of COVID-19 and the associated lockdowns on the marketing industry and on Ebiquity in particular.

Exhibit 8: Summary underlying income statement

Income statement	H119 (£m)	H120 (£m)	Change (£m)	% change
Revenue	35.3	26.8	(8.6)	(24%)
Operating expenses	(32.0)	(28.1)	(3.8)	(12%)
Operating (loss)/profit	3.4	(1.4)	(4.7)	
Operating margin	9.5%	(5.1%)		
Finance costs	(0.5)	(0.5)	0.1	16%
(Loss)/profit before tax	2.9	(1.9)	(4.8)	
Underlying (loss)/EPS (p)	2.6	(2.7)	(5.4)	

Source: Company accounts

Media revenues declined 19% on the prior year, although this also varied considerably by region. However, it picked up substantial new business from Accenture's withdrawal from media auditing, with the team in Spain doing particularly well on this front. It has also been able to pick up Accenture clients in the important US market, including major names in the retail, consumer electronics, alcoholic beverage and credit card categories (under NDAs). Along with projects deferred from H120, this gives a strong underpinning to a rebound in H220. Prospects through FY21 should also be helped by the phasing of media reviews, which are set to be considerably greater in number.

Within Media, Contract Compliance (c 10% of Media revenues), is now catching up on reviews that were deferred from H120, having reached agreement with agencies on remote access to information required for its audits. This should also benefit H220.

Digital Decisions, bought in January (see Edison's [Flash note](#)), has put in a very encouraging performance, and looks likely to hit its targets. Its dashboards and analyses are central to Ebiquity's plans to build out its digital service and product offerings. Over the year to August, it brought 11 new clients on board and had over \$4bn of ad spend in scope, across more than 80 markets. Monthly revenues January through August grew at an average of 26.2%.

As shown in Exhibit 9 below, our model continues to assume a lower rate of year-on-year decline in H220 as the deferred work comes through and work for new clients builds through H220 and into FY21. This tallies with management's indication for better revenue performance in H220. We have made provisional assumptions that this results in a 10% revenue uplift in FY21e, with a recovery in operating margin, as shown.

Analytics & Tech more affected than expected

As highlighted by Exhibit 9 below, the Analytics & Tech segment had a tougher period than might have been expected given it had previously been the higher growth segment, but much of this is down to its sector vertical exposure, particularly to the automotive industry. Major projects were deferred or cancelled by some of its largest clients in the airline, retail and automotive sectors. The year-on-year revenue comparison is also disadvantaged by the inclusion of Stratigent in H119, without which the decline would have been closer to that posted by Media. The Advanced Analytics practice was down by just 4%, while adtech retrenched 41%. Martech was down by 81%, but only by 41% if Stratigent is excluded. Martech now solely consists of Digital Balance in Australia (but working globally). Adtech assists in evaluating in-housing decisions and the selection of advertising partners. Delays to large client purchase approvals, due to COVID-19, held the adtech practice back in H120. New client wins in the US and Italy should help through the rest of the year and into FY21.

While there is no management guidance for FY21, our model assumes that Analytics & Tech revenue growth is roughly in line with that of Media in FY21 and that margins start to recover.

Exhibit 9: Segmental progression and projections

	FY17	%change	FY18	%change	FY19	%change	FY20e	%change	FY21e	%change
Revenue										
Media	51,482	9.2%	54,179	5.2%	54,585	0.8%	45,306	-17.0%	47,690	5.3%
Analytics	12,746	-2.3%	15,189	19.2%	14,148	-6.9%	11,694	-17.3%	12,310	5.3%
Total	64,228	6.7%	69,368	8.0%	68,733	-0.9%	57,000	-17.1%	60,000	5.3%
Operating profit										
Media	14,037	15.8%	12,073	-14.0%	11,845	-1.9%	6,862	-42.1%	9,645	40.6%
Analytics	1,646	-56.0%	1,401	-14.9%	966	-31.0%	-175	-118.2%	862	392.6%
Subtotal	15,683	-1.1%	13,473	-14.1%	12,811	-4.9%	6,687	-47.8%	10,507	57.1%
Central costs	(6,691)	-1.7%	(7,131)	6.6%	(6,644)	-6.8%	(6,312)	-5.0%	(6,501)	3.0%
Total	8,992		6,342	-29.5%	6,167	-2.8%	375	-93.9%	4,006	968.9%
Divisional operating margin										
Media	27.3%		22.3%		21.7%		15.1%		20.2%	
Analytics	12.9%		9.2%		6.8%		-1.5%		7.0%	
Group operating margin										
Post central costs	14.0%		9.1%		9.0%		0.7%		6.7%	

Source: Company accounts, Edison Investment Research

New strategy should accelerate growth

Our forecasts do not reflect any benefit from the strategy outlined at the CMD. In terms of growing the top line, the potential is clearly substantial, considering the group has limited exposure to the digital half of the advertising market and the half is growing (FY20 possibly being the exception). We would hope to be in a position to quantify the opportunity when management has been through its three-year planning process and defined its KPIs, which we would expect to be at the publication of the FY20 results in Q121.

The indication was that there need not be any major infrastructure spend to realise the ambitions, but there will need to be repurposing of assets and of people to new roles.

The role of automation is important in facilitating the margin expansion. Restoring the group operating margin, post central costs, to FY19 levels of 9.0% would be a first point, but the potential should be for low double-digits within a relatively short horizon. Over the medium term and if all goes to plan, then, those margins could climb through the teens. A highly productised and automated output might deliver operating margins into the mid-teens, with the platform and outputs embedded into the clients' workflows, potentially generating high levels of 'sticky' recurring revenue. The business currently generates high levels of repeat revenues and has low client churn, but this partly reflects the difficulty and disruption of replicating historical data. The intention is to replace existing arrangements with longer-term contractual relationships. As an example, YouGov, which shifted much of its business from one-off bespoke projects to a highly productised set of products and services grew its EBITDA margin from 8.0% to 23.2% and its operating margin from 6.7% to 13.5% between 2009 and 2019.

Working capital boost to cash flow

This year's cash flow is obviously reflective of the difficult trading in H120, although the impact is softened by a stronger working capital position. Generally, as a primarily consultancy business, often project-based and selling people's time, the group's cash-flow attributes have not been particularly attractive. This was compounded by the historic running of the group on a geographically devolved basis, with limited commonality of systems and procedures. This aspect has been professionalised over recent reporting periods, with greater focus on collections and working capital management.

A total of £0.6m was paid for the initial tranche of acquisition cost for Digital Decisions in January 2020. Future payments are dependent on performance through FY20 and FY21/FY22. At 30 June 2020, the net present value of the expected payments was £5.1m. The group also bought out the

49% minority in its Italian operations in May 2020, for £154k in cash and £818k in shares. The balance of £2.286m will have been paid by March 2021.

The conversion of operating profit into cash should improve under the outlined business trajectory.

Balance sheet

The balance sheet at end June showed net debt of £5.1m (excluding leases), from £5.6m at the previous year-end. This was made up from £14.5m of cash, with £19.0m of bank debt and a £0.8m US payment protection programme loan, which is expected to convert into a grant. By end-August, net debt had increased to £7.0m, with the cash balances at £12.6m. There remains £5.0m undrawn within the revolving credit facility (RCF). The group has agreed modified covenants on this RCF that run through to December 2021. These involve a monthly liquidity test, requiring a minimum of £5.0m (in cash plus any undrawn facility) to be available at the end of each month.

Our projection for the year-end remains for net debt of £8.8m, with an improvement through FY21 as trading conditions improve, the benefit of the business won from Accenture starts to register and Digital Decisions' revenue momentum continues.

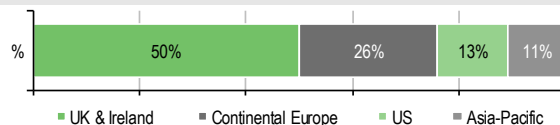
Exhibit 10: Financial summary

	£000s	2018	2019	2020e	2021e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		69,368	68,733	57,000	60,000
EBITDA		7,761	9,203	1,801	5,432
Operating Profit (before amort. and except.)		6,342	6,167	375	4,006
Amortisation of acquired intangibles		(1,240)	(1,169)	(1,112)	(1,112)
Exceptionals		(6,233)	(9,044)	(914)	0
Share-based payments		(223)	(117)	1,651	(150)
Reported operating profit		(1,354)	(4,163)	(0)	2,744
Net Interest		(1,151)	(898)	(875)	(925)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		5,191	5,269	(500)	3,081
Profit Before Tax (reported)		(2,504)	(5,061)	(875)	1,819
Reported tax		(1,985)	(1,931)	130	(739)
Profit After Tax (norm)		3,413	3,338	(370)	2,341
Profit After Tax (reported)		(4,489)	(6,538)	(745)	1,079
Minority interests		(489)	(451)	(250)	(250)
Discontinued operations		(845)	(1,018)	0	0
Net income (normalised)		3,551	2,875	(619)	2,093
Net income (reported)		(5,334)	(7,556)	(995)	829
Average Number of Shares Outstanding (m)		78.6	79.5	79.5	80.2
EPS - normalised (p)		3.7	3.6	(0.8)	2.6
EPS - normalised continuing diluted (p)		3.5	3.6	(0.8)	2.6
EPS - basic reported (p)		(7.4)	(10.1)	(1.3)	1.0
Dividend per share (p)		0.71	0.00	0.00	0.50
EBITDA Margin (%)		11.2	13.4	3.2	9.1
Normalised Operating Margin		9.1	9.0	0.7	6.7
BALANCE SHEET					
Fixed Assets		45,400	47,060	45,743	43,861
Intangible Assets		43,251	35,172	34,931	33,793
Tangible Assets		1,170	10,902	9,458	8,714
Investments & other		979	986	1,354	1,354
Current Assets		65,935	35,822	35,023	37,010
Stocks		0	0	0	0
Debtors		29,408	27,586	24,205	25,479
Cash & cash equivalents		8,793	8,236	10,818	11,530
Other		27,734	0	0	0
Current Liabilities		(27,539)	(21,195)	(19,044)	(18,984)
Creditors		(18,150)	(14,659)	(12,862)	(13,068)
Tax and social security		(1,681)	(4,424)	(3,812)	(3,812)
Short term borrowings		(2,314)	36	45	45
Other		(5,394)	(2,148)	(2,415)	(2,149)
Long Term Liabilities		(36,282)	(23,047)	(28,562)	(28,119)
Long term borrowings		(33,965)	(13,868)	(19,706)	(19,706)
Other long term liabilities		(2,317)	(9,179)	(8,856)	(8,413)
Net Assets		47,514	38,640	33,160	33,768
Minority interests		992	1,179	1,179	1,179
Shareholders' equity		46,522	37,461	31,981	32,589
CASH FLOW					
Op Cash Flow before WC and tax		7,761	9,203	1,801	5,432
Working capital		(367)	(1,302)	1,710	(1,068)
Exceptional & other		(6,233)	(2,244)	(914)	0
Tax		(1,952)	(1,345)	(1,870)	(739)
Operating Cash Flow		(791)	4,312	727	3,624
Capex		(1,784)	(3,235)	(814)	(1,500)
Acquisitions/disposals		(858)	23,862	(3,354)	(486)
Net interest		(1,068)	(718)	(875)	(925)
Equity financing		252	253	612	0
Dividends		(791)	(1,256)	(1,315)	0
Other		0	0	0	0
Net Cash Flow		(5,040)	23,218	(5,019)	713
Opening net debt/(cash)		28,840	27,486	5,596	8,843
FX		(91)	(204)	380	0
Other non-cash movements		6,485	(1,124)	1,392	0
Closing net debt/(cash)		27,486	5,596	8,843	8,131

Source: Ebiquty accounts, Edison Investment Research

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Revenue by geography

Management team
Non-exec chairman: Rob Woodward

Rob joined the board in March 2018 and was appointed chairman in May 2018. Before joining Ebiquity, Rob was CEO of STV Group and was previously commercial director at Channel 4 Television, an MD with UBS Corporate Finance and lead partner for Deloitte's TMT Industry Group in Europe. He is also chairman of AIM-listed Blancco Technology Group.

CEO: Nick Waters

Nick joined as CEO on 1 July 2020. He was most recently executive chairman, UK & Ireland, Dentsu Aegis Network (formerly Aegis Group), having previously been CEO of Asia-Pacific for nine years. Prior to Dentsu Aegis Network, Nick held a number of senior roles at global media agency Mindshare over more than 10 years, which he joined from international advertising and marketing agency, Ogilvy & Mather.

CFO and COO: Alan Newman

Before joining Ebiquity, Alan spent almost 10 years as CFO of YouGov. He is chair of the Audit Committee of Future and deputy chair of the Quoted Companies Alliance. Prior to YouGov, Alan was a partner at EY and previously at KPMG where he provided board-level advisory and consulting services specialising in the media, technology and telecoms sectors. He is also a fellow of the Institute of Chartered Accountants in England and Wales.

Principal shareholders

	(%)
Artemis Inv Mgmt	17.03
Canaccord Genuity Wealth Mgmt	15.88
BGF Inv Mgmt	13.40
JO Hambro Capital Mgmt	12.12
Legal & General Inv Mgmt	6.31
Herald Inv Mgmt	5.54
River & Mercantile Asset Mgmt	4.08

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