EDISON

Ebiquity

Interim results

Providing clarity for advertisers

Media

H117 results mirror the current media environment with the demand for greater transparency benefiting the contract compliance business but creating some headwinds in the US. While H1 results were mixed, the pipeline is strong and progress has been made on a number of fronts in delivering the Growth Acceleration Plan; the potential uplift this could bring to growth in the next few years is yet to be factored into the share price.

Year end	Revenue (£m)	EBIT* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	76.6	12.4	11.2	10.8	0.40	10.7	0.3
12/16	83.6	13.0	11.8	11.3	0.65	10.3	0.6
12/17e	89.6	12.7	11.7	10.1	0.70	11.5	0.6
12/18e	96.7	11.8	11.0	9.3	0.75	12.4	0.6

Note: *PBT, EBIT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY15 & FY16 pro-forma December year end.

US headwinds affect H1 performance

H117 revenues increased 5.6% with like-for-like (lfl) revenues flat. MVM grew by 9.1%, with the contract compliance business performing well as clients seek greater transparency from their media budgets, offset in part by client budgetary pressure in the US media business. The launch of Portfolio Media in Q316 along with the impact of the launch of the Portfolio Digital platform helped to return the MI practice to growth of 4.4%. Within the MPO practice however, while the Marketing Effectiveness practice continued to grow, the US Multi Channel Analytics (MCA) practice was affected by client churn and overall MPO revenues decreased 5.2%. MCA stabilised in Q2; however, operating margins, which decreased by 5pp to 15.1%, were affected and we trim our EPS estimates by 1-2% to reflect the shortfall.

Positive momentum and progress on strategic plan

Management points to a strong pipeline and positive momentum moving into H2. It has made considerable progress delivering the milestones set out last September as part of its Growth Acceleration Plan, which aims to accelerate top-line growth on a more sustainable margin. During H117 Marketing Effectiveness leaders were recruited in Germany, France and Singapore, a number of new digital products and services were launched and the matrix organisational structure, designed to support deeper client engagement, has been established. In September Ebiquity acquired Australian company Digital Balance to add to capabilities in its analytics practice.

Valuation: Telling half a story

The need for independent advice in media markets has become increasingly apparent over the last year with major advertisers throwing down the gauntlet to the industry. While this has resulted in some industry-wide headwinds in the US, we believe that Ebiquity is well placed to leverage its brand, global footprint and client network in this environment. The shares, which trade on a 20% FY18 P/E discount to UK agency peers, appear to factor in the group's transition to a lower-margin (better invested) business, without yet giving it any credit for an improving revenue profile in the longer term as a result of this increased investment.

26 September 2017

Price	**116p**
Market cap	**£90m**

Net debt (£m) at 30 June 2017	26.3
Shares in issue	77.6m
Free float	99%
Code	EBQ
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.1)	(4.2)	10.6
Rel (local)	(1.2)	(2.7)	3.9
52-week high/low		123.5p	88.0p

Business description

Ebiquity is an independent marketing analytics specialist providing a range of business-critical data, analysis and consultancy services to advertisers and media owners on an international basis. It operates across three divisions: MPO (Marketing Performance Optimisation), MVM (Media Value Measurement) and MI (Market Intelligence).

Next events

FY17 trading update	January 2018

Analysts

Bridie Barrett	+44 (0)20 3077 5700
Fiona Orford-Williams	+44 (0)20 3077 5739

media@edisongroup.com

Edison profile page

Ebiquity is a research client of Edison Investment Research Limited

Investment summary

Market context: Media transparency increasingly demanded

Numerous high-profile incidents over the last year have served to raise the awareness of the need for greater transparency with regards to media spend: last year's report by the ANA into the issue of agency rebates; Dentsu's $2.3m refund having overcharged for adverts; and admissions by Facebook regarding miscalculation in its metrics, to name a few. As an independent consultancy, with a global network, Ebiquity is well placed in an environment that demands greater accountability. To enable the group to take advantage of its position, last year management announced its Growth Acceleration Plan. This required an increase in investment to widen the reach of higher-growth service lines and becoming more client centric, while at the same time stepping up investment in the group's digital capabilities and organisational support structure. In doing so, management expects to accelerate the top-line growth profile.

Financials: Mid-transition

Ebiquity is at the start of its five-year Growth Acceleration Plan and it is still too early in the transition to point to clear evidence that the group-wide investment is converting to growth. However, management is making progress against the milestones set out, which we forecast will start to convert to a stronger top line from next year. H117 trading is reflective of the current uncertain environment in the media markets with media budgets being put under additional scrutiny benefitting parts of Ebiquity's business (FirmDecisions), while causing headwinds in other areas (US media). While the client churn in the US MCA division was unforeseen, it appears contained and we have revised down our EPS estimates by 2% and 1% in FY17 and FY18, respectively, to reflect the weaker MPO performance and H1 operating margin, offset in part by a slightly lower tax rate to take account of the impact this has on the geographic mix of earnings.

Investment case and valuation: Discounts little growth

Management believes that on a more sustainable EBIT margin of 12-13% (15-16% delivered historically), it can accelerate revenue growth to 10% over the next five years. Our reverse DCF suggests that the shares discount this lower margin profile, but with revenue growth remaining at a notional 2-3%. Ebiquity's 12.4x FY18 P/E rating and 9.9x EV/EBIT rating also compare favourably to other small-cap agencies, which trade on averages of 15.5x P/E and 11.4x EV/EBIT.

Ebiquity has strong foundation on which to build. It is a market leader in media benchmarking, media auditing and advertising monitoring and its standing in the industry was highlighted last year when it was asked by the ANA to draft recommendations to provide a framework for greater media business practice clarity. It has deep sector knowledge in several verticals and has a significant understanding of media technology. It also has an international presence and relationships with 80 of the world's largest 100 advertisers. For the shares to fully discount their potential, we would expect to see evidence that the US MCA business has been brought back on track and, as we move into FY18, that organic rates of growth are trending towards management's medium-term target.

Sensitivities: FX, budget scrutiny, competition

The market is competitive and highly price-sensitive. Ebiquity's services help clients extract greater value from their media budgets; nevertheless, the trend towards zero-based budgeting could also have an impact on its advisory business. 68% of revenues are non-sterling denominated and fluctuations in exchange rates may affect forecasts.

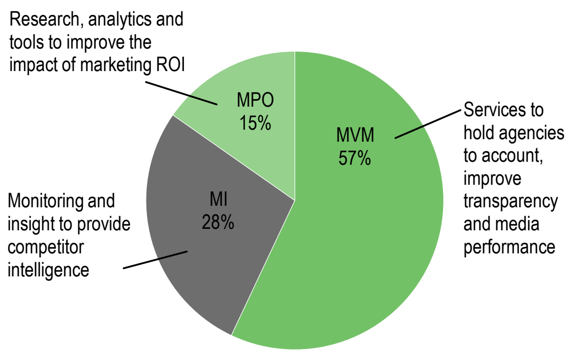
Company description: Independent media consultancy

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.

Ebiquity was founded in 1997 and over the past decade has made a series of significant acquisitions, which have established it with a global media presence. It provides services to over 1,000 clients across 85 countries, including 80% of the world's 100 largest advertisers. Its headquarters are in London, and it has c 900 employees across offices in 14 countries. In FY17, approximately 27% of revenues were generated in the UK, 24% from North America, 38% from the rest of Europe and the balance from Asia-Pacific regions. The group also owns two of the largest international media cost and creative databases, representing a significant barrier to entry.

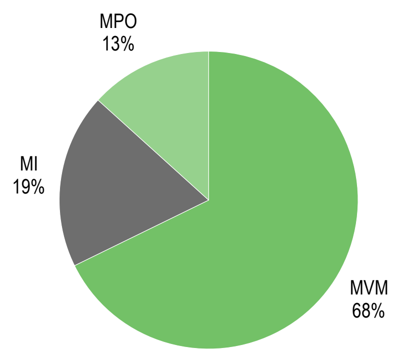
Business is organised across three reporting segments: Media Value Measurement (MVM), Market Intelligence (MI) and Marketing Performance Optimisation (MPO).

Exhibit 1: 2017e revenues by division



Source: Edison Investment Research

Exhibit 2: 2017e operating profit by division



Source: Edison Investment Research

MPO – analysing and optimising marketing spend

Although currently the smallest division by revenues, MPO has been Ebiquity's fastest growing division (H117 aside, which we discuss in the forecast section of this report), and the focus of management's strategy to accelerate Ebiquity's overall top-line growth.

MPO solutions guide clients as to where to allocate and how to optimise their marketing investments, which marketing technologies to select and how to improve digital customer journeys. There are two main service lines: Marketing Effectiveness and Multichannel Analytics.

- Marketing Effectiveness (ME): statistical analysis of sales and marketing data to correlate and estimate the impact of marketing tactics and other variables (eg price, location, weather) as well as to forecast the impact of a marketing strategy. These services, available in the UK and Spain for some time, are being rolled out to other European and Asian markets, with the US planned to be added in 2018.
- Multichannel analytics (MCA): planning, technical implementation, measurement and interpretation of data to improve the understanding of customer journeys across multiple channels. This is offered in the US and Australia (via the acquisition of Digital Balance).

Competition comes from a wide range of companies including technology companies, media agencies or other consultancies. Ebiquity's client first (rather than 'black box' technology) approach, coupled with its impartiality serve as key differentiators in this vast but highly competitive market.

MVM – market leader in driving media transparency

MVM services help clients to increase efficiency and transparency in their media investment; for instance by helping clients select and manage their media trading partners and reporting on agencies' compliance with contractual terms.

Ebiquity has a leading position in this segment. Services draw on its media cost pool database (one of the world's largest, which analyses c $20bn of media spend annually) and consultants' knowledge of the local markets. Using these tools, Ebiquity helps clients set realistic goals for their agencies, analyses and audits the performance of a client's media budget, and benchmarks a client's agency performance against sector and peer averages or agreed performance targets (which is important in the calculation of agency bonuses).

The largest services are media benchmarking and cost savings/guarantee tracking, and in Q416 a new strategic media consultancy division was launched bringing together the wider expertise from across the group.

- Media benchmarking: The Ebiquity Rack is an industry standard benchmarking tool used to determine the efficiency and quality of ad spend. It is embedded into many contracts between a client and an agency.
- Cost savings/guarantee tracking: The Ebiquity Value Track is a proprietary web-based tool that facilitates the tracking of media savings and guarantees agreed between a media agency and an advertiser client. Its dashboard allows for customised reporting of performance. As with media benchmarking, Ebiquity is the global market leader in this category.
- FirmDecisions is Ebiquity's Contract Compliance practice. It is the largest independent marketing compliance review specialist in the industry; over the past 15 years, it has completed over 4,500 reviews on behalf of advertisers. It has offices in the UK, Germany, Australia, Spain, France, Singapore and the US.
- Strategic consultancy: Along with pitch management services, it advises clients on how to take the best advantage of the changing media landscape, including partner selection, design of internal structures to manage media operations, KPI setting, media training and programmatic assessments.

MI – Competitor monitoring and market insight

MI aims to provide clients with a clear picture of their own and their competitors' advertising spend and media strategies in order to respond and plan appropriately.

The backbone of these services is Ebiquity's advertising creative database, one of the most comprehensive in the world with over 25m adverts (updated daily since the 1950s). Adverts across 85 markets and all key platforms are captured, coded, tagged, formatted and priced at the group's four data centres in Newcastle (UK), Chicago (US), Baden-Baden (Germany) and Sydney (Australia), with deep-dive services available in the UK, Germany and Australia. The product also draws on the group's media cost database and insights are delivered on a near real-time basis via a dashboard (Portfolio platform). Whereas the other divisions are services led (c 95% of revenues are generated from services in MVM and MPO), MI is a product-led business model (c 90% from products rather than services).

Ebiquity has a leading position in this market, competing principally against Kantar, Nielsen and Competitrack. Over the last few years, the division has struggled in the face of pricing pressure and the rapid rise in digital advertising. An upgrade to the Portfolio platform was introduced last year and to complement its services in traditional media, in H117 it launched its Digital platform in Australia, followed by Europe and APAC, which will enable it to offer a complete picture. The positive effects of this started to become evident in the H117 interim results, which saw this division stabilise, with subscription revenues growing c 5%.

Exhibit 3: Summary of products and services by division

	Marketing Performance Optimization (MPO)	Media Value Management (MVM)	Market Intelligence (MI)
Sample services, methodologies & tools:	• Econometric modelling • Test plan design • Consumer journey optimisation • Total View Attribution Model	• The Rack®, PEERA, Connect* • Media Transparency advisory • Agency management and reviews • Media auditing and benchmarking • Contract compliance reviews	• Digital, TV, and press monitoring technologies and processes • Custom-tailored primary research • Social media analysis
Core products:	PlanIt, TestMatch	Optix*, ValueTrack	Portfolio, Portfolio Plus, ePublisher, Portfolio Digital
Est. revenue split:			
Services:	95%	95%	< 10%
Products:	5%	5%	> 90%

**Currently in development*

Source: Ebiquity

Market context: Transparency issues in the headlines

The issue of media transparency has been in the headlines over the last year following the publication of the ANA report and several high-profile accounts of misreporting. As Ebiquity is an independent adviser, this should provide a supportive backdrop for Ebiquity's services.

John Wanamaker (1838-1922, US merchant and politician) coined the phrase, "Half the money I spend on advertising is wasted; the trouble is I don't know which half." With intelligent audience targeting, performance-based pricing and data analysis, advertisers should have a better understanding today as to which advertising spend yields the best results. However, as the media landscape becomes increasingly digital, there is more need for companies to be able to manage and understand large and complex data sets to optimise campaigns in near real time. To do so, advertisers need to negotiate a very complex and fragmented supply chain, compounded by issues such as online advertising fraud, viewability concerns and ad blocking. These complexities can undermine brand-building efforts and have a significant effect on the returns on media investments. Recent surveys indicate that the most challenging part of a chief marketing officer's job is to manage, analyse, exploit and optimise the explosion in consumer data. Ebiquity's study into the economics of programmatic online advertising (Seeing Through the Financial Fog) estimates that on average only 58% of spend reaches the publisher, although once viewability issues or fraudulent transactions are taken into account, this can be as low as 15%.

Media transparency issues affect many areas of media buying. The issue of trust was highlighted last year following the publication of the ANA-commissioned report on the issue of agency rebates. K2 Intelligence conducted the fact-finding study over a six-month period and published its findings in June 2016. The report found that numerous non-transparent business practices were pervasive across a sample of the US media ad-buying ecosystems and a wide range of media. Notable extracts from the report include:
"A fundamental disconnect between advertisers and agencies about the basic nature of their relationship…Opaque business practices, rebates, agency principal transactions and more have shaken the bond of trust between advertisers and agencies…and…transparency concerns reflect the inability of advertisers to understand the media transaction process due to increasing opacity."

Ebiquity's standing was recognised in a high-profile way last year when it was selected by the ANA to draft recommendations for advertisers to help them improve media transparency.

Further highlighting the issue, in September 2016 Dentsu Japan had to repay $2.3m to advertisers as a result of overcharging for digital ads. In October 2016 Facebook made the first of a series of admissions regarding miscalculation in its metrics, leading to an audit by the Media Rating Council and a change in policy to ensure that its verification partners receive more detailed information about its ad impressions on Facebook and Instagram to help provide better insights to advertisers (CMO).

Advertisers and publishers have started to take action. For example, P&G's Marc Pritchard (chief brand officer at P&G, the world's largest advertiser) has been vocal in his criticism of the convoluted nature of the digital ad sector, calling for its clean-up. P&G has now started a thorough review of its agency contracts to bring more transparency into its media supply chain and is insisting that its media suppliers adopt Media Rating Council-accredited third-party verification. The Guardian's suit against Rubicon Project is also notable, alleging that it did not disclose the fees it charged advertisers when buying the publisher's inventory. Other companies may follow suit: 90% of 59 advertisers surveyed by the World Federation of Advertisers (WFA) said they are reviewing their programmatic digital ad spend and contracts.

Exhibit 4: Raising the profile of media transparency

Source: Ebiquity

Management

Michael Karg was appointed CEO in January 2016, replacing Michael Greenlees, who had been CEO for eight years. Karg has 20 years' experience in the digital marketing industry, most recently as CEO of Razorfish International, the digital transformation division of Publicis. Andrew Noble, who joined Ebiquity in February 2015 as group finance director, was appointed group CFO in September 2016, replacing Andrew Beach (CFO since 2008). Michael Higgins, who has been on the board since 2006, continues his longstanding oversight as non-executive chairman. Further details can be found at the back of this report.

Strategy: Growth Acceleration Plan (GAP)

The additional scrutiny that brands are starting to apply to their media budgets should be supportive to growth for Ebiquity given its position as an independent voice in the industry. However, to date, growth has been inconsistent (Exhibit 5).

Exhibit 5: Historic revenue growth and operating margins

Lfl, constant currency (%)	2012	2013	2014	2015	2016	H117
MVM			8	11	4	3
MI			-7	-3	-9	0
MPO			32	42	22	-13
Total lfl constant ccy revenue growth	**2**	**3**	**8**	**8**	**2**	**0**
Total revenue growth	20*	21**	7	8	9.1	5.6
Total operating margin	15.5	16.3	11.5	16.2	15.6	15.1

Source: Ebiquity investor presentations. Note: Before 2013 Ebiquity classified its divisions differently; organic growth by division is not available before 2014. *Acquisition of Xtreme. **Acquisition of Stratigent (MCA).

Following a strategic review last year, management announced its ‘Growth Acceleration Plan’, which aims to better leverage its brand, relationships and global footprint in order to capitalise on the current momentum for change.

Management believes that by making the group technology enabled, widening its service offering and deepening its relationships with clients it will be able to accelerate revenue growth to a CAGR of 10% over the next five years, with margins moving to a more sustainable 12-13% (from the historical three-year average of 16%). Central to this will be driving organic growth in the MVM and MPO practices, which it expects to account for c 80% of group revenues by 2021.

There are five core elements to this plan:

- **Expansion of MPO offer:** This division has more than doubled in size over the last three years. Given the strong momentum and significant global addressable market, management has started the roll-out of Marketing Effectiveness services, previously only available in the UK and Spain, to additional markets. During H117, practice leaders were hired in Germany, France, Australia and Singapore, and first projects have been undertaken in Australia and France. The next phase will see its launch in the US followed by an assessment of the potential launch of Multichannel Analytics (currently only available in the US) across Europe. In September 2017, Ebiquity acquired Digital Balance, an independent digital analytics business, which adds to capabilities in Australia (A$475k in cash and up to a maximum of A$5m by 2020 subject to performance hurdles).
- **Deepen and widen relationships with key clients:** Ebiquity has relationships with 80 of the world’s largest advertisers and its network across its divisions covers 14 geographies. On the face of it, it is well placed to cross-sell its services, yet despite progress made over recent years, the majority of clients take only one service line. To improve client engagement, in H117, Ebiquity moved away from a local market-based sales structure towards a client-focused one across regional and global lines. It is widening the range of products and services in each market (eg by rolling out Marketing Effectiveness and the launch of the strategic consultancy within MVM), and has increased its focus on Tier 1 clients. Together these initiatives are expected to improve cross-selling opportunities.
- **Expand digital services across three divisions:** Digital services accounted for 15% of revenues in 2016. While progress has been made on this front, given almost 30% of global advertising is now digital, it is still under represented. A number of new services were launched in H117 in this regard.
  - Within MPO, in July a digital attribution model was launched, designed to help improve the returns on media spend across channels. In June it joined Facebook’s Marketing Mix Modelling programme.

- Within MVM it introduced the 'Ebiquity Media Transparency Score'. This is a cross-channel product that helps advertisers better understand if their marketing activities are delivering to strategy.
- Within MI the Digital Portfolio platform, which captures banner adverts, was launched in Australia in Q117 and is being rolled out across European markets, complementing the offerings in traditional media. In addition, investment is being made to improve the data capture processes and technology.

- **Productise existing tools and methodologies**: Across its divisions, the need to ingest, manage and analyse large data sets requires the necessary level of technology to enable its consultants to provide accurate and timely insights to clients. The plan targets investment in enabling technology to improve and widen the services available to its consultants. For example, it is investing in the development of a digital paid media performance measurement platform (Optix) and the launch of a data ingestion platform (Connect).
- **Invest in the organisational infrastructure:** Investment is being directed towards improving the robustness of its operations function and IT systems and training to update skill levels. It has also noticeably increased marketing activities, promoting the group's role as thought leader in the industry with a series of articles published on programmatic trading (for example 'Seeing Through the Financial Fog') and panel roles at industry conferences (for example Rethink TV in Australia and ICOM).

Financials

Current trading – US headwinds affect H117

H117 revenues increased by 5.6% to £44.6m, including a 5.9% currency benefit. Like-for-like (lfl) constant currency revenues were down slightly (-0.4%), as a result of a much weaker performance in the MCA practice in the US and headwinds in the US MVM business, offset by a very strong performance from FirmDecisions and a stabilisation within MI. Operating margins at 15.1% (H116: 20.3%) were affected in part by increased investment (c 0.7pp) in line with the group's Growth Acceleration Plan, lower transactional foreign exchange gains (c 1.1pp) but also the weaker US MCA performance. Consequently, normalised PBT decreased by 21.9%. Reported PBT of £3.2m includes £3.0m of one-off or non-cash items. These relate to acquisitions and strategy costs (£0.5m) and severance related to leadership changes in France and China (£0.8m), deferred consideration (£0.4m), share-based payments (£0.4m) and amortisation of acquired intangibles (£1.0m). H117 results are summarised in Exhibit 6 below.

Exhibit 6: Summary H117 results and forecasts, £000s

Revenues	H116	H117	Growth (%)	Constant ccy growth (%)	FY16	FY17e (new)	FY18e (new)
MVM	24,466	26,693	9.1%	2.7%	47,161	51,105	55,193
MI	11,107	11,595	4.4%	0.4%	23,360	24,828	25,325
MPO	6,685	6,337	-5.2%	-12.5%	13,048	13,700	16,166
Total revenues	42,258	44,625	5.6%	-0.4%	83,569	89,633	96,684
Operating profit:							
MVM	8,045	7,862	-2.3%		12,124	13,287	12,694
MI	1,516	1,408	-7.1%		3,902	3,724	3,799
MPO	2,394	897	-62.5%		3,739	2,603	3,072
Central costs	(3,390)	(3,444)	1.6%		(6,806)	(6,900)	(7,800)
Total normalised operating profit	8,565	6,723	-21.5%		12,959	12,715	11,765
Operating margin (%)							
MVM	32.9%	29.5%			25.7%	26.0%	23.0%
MI	13.6%	12.1%			16.7%	15.0%	15.0%
MPO	35.8%	14.2%			28.7%	19.0%	19.0%
Total operating margin	20.3%	15.1%			15.5%	14.2%	12.2%
Highlighted items	(3,354)	(2,999)	-11%		(5,202)	(5,000)	(4,500)
Reported operating profit	5,211	3,724	-29%		7,757	7,715	7,265
Net finance cost	(613)	(509)	-17%		(1,132)	(1,000)	(795)
PBT - adjusted	7,952	6,214	-21.9%		11,827	11,715	10,970
Tax – underlying	(2,206)	(1,448)	-34%		(2,570)	(3,046)	(2,852)
Net profit - adjusted	5,746	4,766	-17%		9,257	8,669	8,118
Adjusted, diluted EPS (p)	6.9	5.6	-19%		11.3	10.1	9.3

Source: Historics – Ebiquity, Edison Investment Research estimates

Divisional performance: Mixed results

The **MPO** practice has experienced very rapid growth over the last three years and the 12.5% reduction in like-for-like revenues was unforeseen, although it should also be taken in the context of the very strong basis of comparison (H116 +53%). Within MPO, the US-based MCA business, which has a high concentration of revenues with its largest clients, saw a number of these clients opt to bring services in house and revenues contracted year-on-year. Marketing Effectiveness (ME) revenues continued to grow strongly in the UK; however, the Spanish business was affected by earnout-triggered leadership changes. The weakness within MCA had a material impact on margins, which decreased to 14.2% (H116: 35.8%).

MVM had a solid first half overall with 2.7% lfl revenue growth and operating margins of 29.5% broadly as expected. FirmDecisions performed very strongly, benefiting from marketing efforts as well as the industry's increased engagement on the issues of media transparency. The new strategic consultancy, which launched in Q4 last year, has had an encouraging start, working with a number of global clients to help them improve transparency around their programmatic trading activities. The media benchmarking business in Europe was strong, while the UK and Asia was broadly flat year-on-year. However, the MVM business in the US has, like a number of other agencies, been affected by headwinds from lower overall media spend and the trend towards zero-based budgeting.

MI revenues increased by 0.4% lfl. The roll out of the new Portfolio platform in 2016 and the launch of the Portfolio Digital platform in Asia-Pacific and Europe saw subscription revenues grow by 4.8%, which offset the continued decline in project-based revenues, now less than 7% of MI revenues. Margins, at 12.2% (H116: 13.6%), decreased as the new platform's amortisation kicked in.

Forecasts reduced

MPO stabilised in Q2 (over Q1) and management also points to positive momentum from recent wins, putting it on track to meet its full-year expectations. Nevertheless, we are updating our forecasts to capture a weaker H1 performance from MPO, net of a slightly lower tax rate (a consequence of the weaker H1 performance in the US). Forecast changes are summarised in Exhibit 7.

Exhibit 7: Summary forecast changes

£000s	FY17e	FY17e		FY18e	FY18e	
	Old	New	% change	Old	New	% change
Revenues	91,961	89,633	-2.5%	99,318	96,684	-2.7%
Normalised operating profit	13,333	12,715	-4.6%	12,266	11,765	-4.1%
Normalised operating profit margin	0	14.2%	-0.3%	12.4%	12.2%	-0.2%
Normalised PBT	12,333	11,715	-5.0%	11,472	10,970	-4.4%
Reported PBT	7,833	6,715	-14.3%	6,972	6,470	-7.2%
Normalised diluted EPS (p)	10.3	10.1	-1.6%	9.5	9.3	-1.2%

Source: Edison Investment Research

Cash flow and balance sheet

Net debt of £26.3m comprises a £2.5m term loan (repayable on a quarterly basis) and a revolving credit facility of £29m. The maturity date of both has been extended to 30 June 2019 (covenants set at 2.5x EBITDA). In addition, the group has an accordion option to increase these facilities by a further £20m.

Over the last few years, Ebiquity has been funding the earnout payments on the acquisitions of Stratigent (2013), China Media (2012), Billets America (2014) and Media Value (2015). Consequently, net debt has remained relatively stable. The remaining earnouts related to these acquisitions is estimated to be £2.3m. Including Digital Balance, we forecast acquisition-related payments to decrease to £3.4m in FY17. Inclusive of these payments, capital expenditure (£2.5m) and the dividend, we forecast year-end net debt to decrease slightly to £27.2m.

Valuation

Media budgets are being put under additional scrutiny, which lends itself well to parts of Ebiquity's business (FirmDecisions), while causing headwinds in other areas (media benchmarking). While the performance of the US MCA division is a setback, it appears contained and we forecast the group to return to a more normal growth rate in the second half.

The shares are up 17% ytd and now trade on FY18e multiples of 12.4x P/E and 9.9x EV/EBIT. This compares favourably to other small-cap agencies, which trade on FY18 consensus averages of 15.5x P/E and 11.4x EV/EBIT.

Given the group's strategy to invest now in order to secure a sustainable revenue growth of approximately 10% over the next five years, with the EBITDA margin moving to 14-15%, we think it appropriate to use a DCF to benchmark the valuation. Assuming an 8.5% WACC and 2% perpetuity from year FY10, the current share price appears to be discounting the group's transition to a lower-margin business, without giving it any credit for the targeted improved revenue profile as a result of this increased investment.

Exhibit 8: DCF scenarios (p/share)

		Revenue growth				
		0.0%	2.5%	5.0%	7.5%	10.0%
EBITDA margin	18.0%	137.0	160.0	186.2	216.2	250.4
	17.0%	126.5	147.7	172.0	199.6	231.1
	16.0%	116.1	135.5	157.8	183.0	211.8
	15.0%	105.6	123.3	143.5	166.5	192.4
	14.0%	95.1	111.1	129.3	149.9	173.1
	13.0%	84.7	98.9	115.1	133.3	153.8
	12.0%	74.2	86.7	100.8	116.7	134.5
	11.0%	63.7	74.5	86.6	100.1	115.2

Source: Edison Investment Research. Note: WAAC 8.5%, Edison forecasts FY17 and FY18, 2% perpetuity from FY26. Green shading indicates target.

While it is still too early in the transition to point to clear evidence that the investment will convert to growth, management is making progress against the milestones set out in its Growth Acceleration Plan. We believe the group is well positioned to execute its strategy, which should result in a higher-quality earnings base and a more sustainable growth profile over the medium to longer term. Investors should bear in mind:

- Independence is becoming increasingly valued in this industry and Ebiquity recently received high-profile recognition when it was contracted by the ANA to draft a framework to provide media business practice clarity.
- Ebiquity can leverage its existing network. It is a market leader in media benchmarking and auditing and one of the largest media monitoring providers globally. It has an international presence and relationships including 80 of the world's largest 100 advertisers. 21% of clients took two or more services in FY16 (up from 18% in FY15). With the new matrix structure now in place, there is scope to improve this over the medium term.
- The group has considerable know-how. It owns two of the largest international media databases, has c 900 employees, has deep sector knowledge in several verticals (automotive, FMCG, finance) and has a significant understanding of media technology.
- The higher-growth MPO and MVM divisions now account for 74% of revenues, meaning the slower-growth MI division should prove less of a drag to growth over time.

Exhibit 9: Summary peer comparison

	Market cap	Sales growth (%)			EBIT margin (%)		EPS growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Div yield (%)
	(m)	FY0	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1
EBIQUITY PLC	**90**	**9.1**	**7.3**	**8.0**	**14.2**	**12.2**	**(10.5)**	**(7.5)**	**1.3**	**1.2**	**9.1**	**9.9**	**11.5**	**12.4**	**0.6**
Small-cap peers															
M&C SAATCHI PLC	240	26.0	0.9	6.4	11.2	11.5	N/A	N/A	1.1	1.0	9.7	9.7	13.1	12.2	3.1
HUNTSWORTH PLC	252	7.0	13.1	10.5	12.6	13.2	(180.4)	3.5	1.4	1.2	10.9	10.9	14.2	12.3	2.5
NEXT FIFTEEN COMMUNICATIONS	314	31.8	15.8	8.8	15.3	15.5	893.3	26.2	1.6	1.5	10.8	10.8	15.9	14.1	1.4
MDC PARTNERS INC-A	584	4.5	9.8	4.2	7.6	9.1	(131.0)	78.8	1.1	1.1	14.6	14.6	33.6	18.9	0.0
YOUGOV PLC	274	15.9	21.3	8.4	N/A	N/A	84	23.7	2.4	2.2	N/A	N/A	24.3	21.4	0.6
CELLO GROUP PLC	137	5.4	(10.9)	3.4	7.9	8.2	(236)	59.1	1.0	0.9	12.1	12.1	16.3	15.5	2.7
SYSTEM1 GROUP	65	N/A	N/A	6.4	16.2	17.1	N/A	12.1	1.6	1.5	10.2	10.2	15.0	14.1	1.8
Large-cap peers															
ACCENTURE PLC-CL A	88,281	5.7	(0.1)	7.1	14.8	15.0	(15.6)	18.8	2.5	2.3	16.7	16.7	23.2	21.1	1.8
INTERPUBLIC GROUP OF COS INC	7,885	3.1	1.1	3.8	12.4	12.8	(4.7)	13.5	1.2	1.1	9.5	9.5	14.0	12.5	3.6
WPP PLC	17,299	17.6	2.6	3.6	15.5	15.7	7.3	5.2	1.5	1.5	9.8	9.8	11.1	10.5	4.5
OMNICOM GROUP	16,787	1.9	(0.9)	4.0	13.5	13.6	6.4	7.9	1.3	1.3	10.0	10.0	14.3	13.4	3.1
HAVAS SA	3,911	4.0	3.3	2.6	13.3	13.7	(0.2)	9.0	1.8	1.7	13.3	13.3	20.5	19.1	2.0
PUBLICIS GROUPE	13,226	1.4	1.8	2.6	15.8	16.3	(285.9)	10.1	1.5	1.5	9.8	9.8	12.3	11.4	3.4
Small-cap average			**8.3**	**7.0**	**10.9**	**11.5**	**86.0**	**33.9**	**1.4**	**1.3**	**11.4**	**11.4**	**18.9**	**15.5**	**1.7**
Large-cap average			**1.3**	**4.0**	**14.2**	**14.5**	**(48.8)**	**10.7**	**1.6**	**1.6**	**11.5**	**11.5**	**15.9**	**14.7**	**3.1**

Source: Edison Investment Research (EBQ), Bloomberg. Note: Priced at 22 September 2017.

Sensitivities

We consider Ebiquity's 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:

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, especially as the media industry is dominated by very large global companies, such as Nielson and Accenture.

Foreign currency exposure: 68% of revenues are non-sterling denominated. Fluctuations in sterling may affect our forecasts. A 10% strengthening of sterling against these currencies would have had a 2% impact on underlying pre-tax profit.

Level of advertising and media spend: 84% 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 900 employees across its 14 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 out its MVM and MPO practices overseas. 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.

Brexit: We expect Ebiquity to be fairly cushioned from the current uncertainty in the UK economy. 84% of revenues are recurring and as its services are geared to helping companies maximise the efficiency of their ad spend, demand may well increase in times of austerity (as it did for MVM during the 2007/08 period, along with the current headwinds being experiences in the US).

M&A: Management has presented an organic growth strategy. However, should opportunities arise to strengthen this plan, we believe acquisitions would be considered.

EDISON

Exhibit 10: Financial summary

£000s	2014*	2015*	2016	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
Revenue	69,106	76,584	83,569	89,633	96,684
EBITDA	9,572	14,161	14,574	15,065	14,165
Normalised operating profit	7,962	12,411	12,959	12,715	11,765
Amortisation of acquired intangibles	(1,997)	(1,327)	(1,865)	(1,900)	(1,900)
Exceptionals	(4,814)	(6,541)	(2,777)	(2,500)	(1,600)
Share-based payments	(1,004)	(900)	(560)	(600)	(1,000)
Reported operating profit	147	3,643	7,757	7,715	7,265
Net Interest	(1,164)	(1,199)	(1,132)	(1,000)	(795)
Joint ventures & associates (post tax)	10	18	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	6,808	11,230	11,827	11,715	10,970
Profit Before Tax (reported)	(1,007)	3,135	6,625	6,715	6,470
Reported tax	621	(2,497)	(2,230)	(2,700)	(2,852)
Profit After Tax (norm)	5,544	8,733	9,257	8,669	8,118
Profit After Tax (reported)	(386)	638	4,395	4,015	3,618
Minority interests	(482)	(229)	(245)	(525)	(473)
Discontinued operations	0	0	0	0	0
Net income (normalised)	5,062	8,504	9,012	8,144	7,645
Net income (reported)	(868)	409	4,150	3,490	3,145
Basic average number of shares outstanding (m)	75	77	77	77	78
EPS - basic normalised (p)	6.7	11.1	11.7	10.5	9.8
EPS - normalised (p)	6.6	10.8	11.3	10.1	9.3
EPS - basic reported (p)	(1.2)	0.5	5.4	4.5	4.0
Dividend per share (p)	0.00	0.40	0.65	0.70	0.75
EBITDA Margin (%)	13.9	18.5	17.4	16.8	14.7
Normalised Operating Margin	11.5	16.2	15.5	14.2	12.2
BALANCE SHEET					
Fixed Assets	73,766	73,594	75,855	77,505	76,155
Intangible Assets	69,053	68,354	72,079	73,579	71,979
Tangible Assets	3,381	2,928	2,438	2,588	2,838
Investments & other	1,332	2,312	1,338	1,338	1,338
Current Assets	26,706	33,073	35,078	35,513	40,043
Stocks	0	0	0	1,000	1,000
Debtors	13,473	16,283	19,291	20,200	21,259
Cash & cash equivalents	3,838	8,755	6,662	5,188	8,659
Other	9,395	8,035	9,125	9,125	9,125
Current Liabilities	(18,303)	(27,473)	(25,912)	(26,390)	(27,072)
Creditors	(14,118)	(20,672)	(17,809)	(18,287)	(18,969)
Tax and social security	(2,000)	(2,000)	(1,841)	(1,841)	(1,841)
Short term borrowings	(2,185)	(4,801)	(4,472)	(4,472)	(4,472)
Other	0	0	(1,790)	(1,790)	(1,790)
Long Term Liabilities	(39,541)	(36,785)	(32,966)	(30,736)	(29,486)
Long term borrowings	(32,901)	(32,615)	(30,448)	(27,948)	(26,698)
Other long term liabilities	(6,640)	(4,170)	(2,518)	(2,788)	(2,788)
Net Assets	42,628	42,409	52,055	55,892	59,640
Minority interests	725	808	761	761	761
Shareholders' equity	43,353	43,217	52,816	56,653	60,401
CASH FLOW					
Op Cash Flow before WC and tax	9,572	14,161	14,574	15,065	14,164.8
Working capital	1,700	(871)	(2,835)	(1,431)	(377.2)
Exceptional & other	(4,893)	(1,775)	(957)	(2,500)	(1,600.0)
Tax	621	(1,062)	(166)	(2,430)	(2,852.2)
Net operating cash flow	7,000	10,453	10,616	8,704	9,335.5
Capex	(1,500)	(1,976)	(2,351)	(2,500)	(2,650.0)
Acquisitions/disposals	(3,200)	(4,530)	(4,431)	(3,400)	(300.0)
Net interest	(1,164)	(999)	(1,074)	(1,000)	(794.9)
Equity financing	0	224	26	0	0.0
Dividends	0	(291)	(838)	(778)	(869.7)
Other	0	(178)	(896)	0	0.0
Net Cash Flow	1,136	2,703	1,052	1,026	4,721
Opening net debt/(cash)	32,384	31,248	28,661	28,242	27,216
FX	0	(116)	(633)	0	0.0
Other non-cash movements	0	0		0	0.0
Closing net debt/(cash)	31,248	28,661	28,242	27,216	22,495

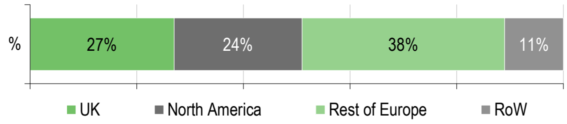
Source: Ebiquity accounts, Edison Investment Research. Note: *Pro forma data as supplied by Ebiquity. Year end changed to December from April in 2015.

EDISON

Contact details

CityPoint
One Ropemaker Street
London, EC2Y 9AW
United Kingdom
+44 (0) 20 7650 9600
www.ebiquity.com

Revenue by geography



Management team

CEO: Michael Karg

Michael Karg started his role as CEO in January 2016 following his position as CEO of Razorfish International, the digital business transformation agency of Publicis Groupe. He has worked globally over a 15-year career with Razorfish and Digitas, advising some of the world's largest companies on their omni-channel marketing strategies.

CFO: Andrew Noble

Andrew Noble qualified as a chartered accountant at PwC. Prior to joining Ebiquity, as group finance director in February 2015, he held a number of senior finance positions at Ipsos, a leading global market research company.

Non-executive chairman: Michael Higgins

Before joining the board in May 2006, Michael Higgins spent 10 years as a partner at KMPG, following 12 years at Charterhouse Bank, the last eight as a director. He is a qualified chartered accountant and, in addition to being a director of Plant Health Care and Arria NLG, he has interests in early-stage businesses in online publishing and medical services.

Principal shareholders	(%)
Artemis Investment Management Ltd	16.4
T Rowe Price Group	11.3
Kabouter Management LLC	11.1
JO Hambro Capital Management	9.1
Invesco Ltd	8.9
Herald Investment Management Ltd	7.5
Marlborough Fund Management Ltd	5.9

Companies named in this report

Accenture (ACN.N), comScore (SCOR.O), Experian (EXPN.L), Nielsen (NLSN.N), Omnicom (OMC.N), Publicis (PUB.PA) and WPP (WPP.L), M&C Saatchi (SAA LN), Huntsworth (HNT LN), Next Fifteen Communications (NFC LN), MDC Partners (MDCA US), YouGov (YOU LN), Cello Group (CLL LN), System1 Group (SYS1 LN)