EDISON

Future

Expanding on the Home front

Acquisition

Media

7 July 2017

Future has announced the acquisition of the Home Interest division of Centaur Media, part-funded by a placing of £22m at 250p. The purchase, for a net cash consideration of £30.24m, adds a strong new vertical with good margins and attractive cash flow. Future should be able to drive additional value by adding e-commerce capabilities and internationalising the brands, further boosting the earnings enhancement. Our numbers will be formally updated when the deal completes (estimated to be at the end of July), but provisionally we would expect to be showing a small uplift in EPS in FY17e and around 10% in FY18e, highlighting the attractive rating.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/15	59.8	0.2	2.7	0.0	92.2	0.0
09/16	59.0	1.6	5.7	0.0	43.7	0.0
09/17e	76.5	7.2	16.4	0.0	15.2	0.0
09/18e	77.5	10.5	22.0	0.0	11.3	0.0

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

Attractive brands, margins and cash flow

For Future, the attractions of the Home Interest portfolio are clear. Importantly, the business is profitable and growing – revenue CAGR +7% over the last three years, net contribution margin of 38% in FY16 (FY15: 37%). There are well-recognised brands, led by *Home Building & Renovating* (market leader in the self-build and renovation space), with an established events portfolio. Exhibitions generated around half of the Home Interest revenues of £12.8m in 2016. Margins are inherently higher than for publishing, while the working capital profile benefits from forward bookings. The Home Interest audience has many similar characteristics to other group markets, not least loyalty and enthusiasm, opening up e-commerce opportunities using Future's platform and expertise.

Earnings enhancing

The purchase price, at an EV of £32.0m, represents 2.5x historical (2016) revenues and 8.2x pro-forma historical EBITDA. The balance of the consideration beyond the placing proceeds will be debt-funded, with additional borrowing at similar terms to existing arrangements. Completion is subject to Centaur shareholders' approval, scheduled by end July. There will therefore only be two months of consolidated trading for the enlarged group. August is naturally quiet, but September sees the London *HB&R* show taking place. Management guidance is that the deal should be "materially" earnings enhancing in the first full year of ownership, ie FY18.

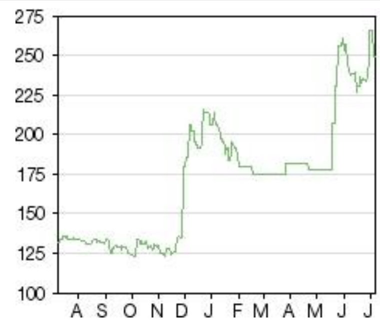
Valuation: Remains attractive

Future's investment case is centred on combined organic and acquisition growth. This deal fits well with the strategy and management is building a lengthening record of successful integration. The pace of group earnings' growth is well ahead of that forecast for the market and the sector, making the rating attractive.

Price	**249p**
Market cap	**£91m**

Net debt (£m) at 31 March 2017	5.2
Shares in issue	36.6m
Free float	67%
Code	FUTR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	3.8	38.9	81.9
Rel (local)	6.1	38.0	57.5
52-week high/low		266.5p	122.6p

Business description

Future is an international media group and leading digital publisher. It operates two separately managed brand-led divisions: Media and Magazine.

Next events

Acquisition completion	estimated 31 July 2017
Final results	November 2017

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Edison profile page

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Adding content to the platform

Future has set out its stall as a global platform business meeting the needs and enthusiasms of special interest communities. These themes are addressed through a series of brands, well recognised in their niches and which allow for an increasingly diversified set of revenue streams. This strategy is already paying off across the brand portfolio, with strong H117 results leading to upgrades (see our note from May 2017). There is no change to underlying forecasts at this juncture.

The common platform that the group has developed allows further sectors and associated brands to be added with little additional overhead.

What are they getting?

Home Interest consists of three brands:

- *Homebuilding & Renovating*: the market leader in the self-build and renovation sector. Consists of national and regional exhibitions, the UK's best-selling self-build magazine and digital workflow tools. Revenue of £9.7m, split by approximately two-thirds from exhibitions and one-third from print. It ran seven events in 2016, with 94,000 visitors and 1,700 exhibitors. This aspect has been growing very strongly, with revenues ahead 20% in 2015 and 9% in 2016, on visitor growth of 6%. The exhibition margin was 56% in 2016. The largest shows are in Birmingham in March (launched 1994) and in London in September (launched 2005).
- *Period Living*: a magazine and website focused on the specialist period living sector. Revenues of approximately £1.5m.
- *Real Homes*: a magazine and website aimed at people with active home improvement and extension projects. Revenues of approximately £1.5m.

The division employs 68 people and is based in Bromsgrove in the West Midlands.

In the year to December 2016, Home Interest generated revenues of £12.8m and pro-forma EBITDA of £3.9m (assuming that it costs Future £1.0m to substitute the support functions previously provided by Centaur). The net contribution was 14% ahead of the prior year.

What are they paying?

Future is paying an enterprise value of £32.0m, on the assumption of taking on £1.75m of debt/ debt-like items. There will obviously be adjustments for working capital and tax, depending on the timing of completion. This represents a multiple of 2.5x CY16 revenues and 8.2x adjusted EBITDA.

An accelerated book build has raised gross proceeds of £22.0m at 250p. The balance of the purchase price, plus the associated transaction costs, will be funded by a new banking facility of £12.0m with HSBC (on the same terms as the existing revolving credit facility), along with using existing facilities. Net debt at the half year to March was £5.2m and our model anticipates that the sum will fall to £4.1m by the year-end.

This suggests that there may be a marginal uplift to earnings for the remainder of the current financial year with a larger upwards revision in FY18e, without any additional benefit from synergies or developing the Home Interest business.

The CEO, CFO, chairman and deputy chairman have all subscribed for placing shares.

How can it be developed?

Not having been at the heart of the core business focus at Centaur, the Home Interest division has nevertheless grown well, despite not being fully exploited. The success that Future has had to date in building online global brands out from its home markets and diversifying its income streams, suggests that it will be able to repeat this objective for these new brands. The business being bought is very much UK-focused and there is good potential for it to be opened out to other territories. In particular, there are very obvious opportunities to develop the e-commerce aspects, as consumers look to move ahead with their building projects.

How does the group look on a combined basis?

On rough pro-forma figures, not adjusted for the different year-ends but a simple addition of financial results for the respective FY16s, indicate revenue increasing from £59.5m to £71.8m and EBITDA from £5.2m to £9.1m.

Media revenues would increase to 45% of the whole (from 41%), diluting magazine revenues to 55%.

Adding Future's current EV of £96.3m to the purchase EV of £32.0m gives a combined enterprise value of £128.3m, which equates to 1.8x pro-forma 2016 revenues and an EBITDA multiple of 14.1x. These multiples are now very historical (September year-end) and the anticipated growth in FY17e will bring them in to attractive levels.

Exhibit 1: Financial summary

£m	2013	2014	2015	2016	2017e	2018e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IRFS	IRFS
INCOME STATEMENT						
Revenue	82.6	66.0	59.8	59.0	76.5	77.5
Cost of Sales	(58.5)	(50.6)	(40.6)	(37.2)	(47.2)	(46.5)
Gross Profit	24.1	15.4	19.2	21.8	29.3	31.0
EBITDA	(0.6)	(7.0)	3.6	4.7	9.5	12.6
Operating profit (before except.)	(3.4)	(10.3)	0.8	2.3	7.0	10.1
Amortisation	(2.0)	(2.3)	(2.3)	(2.0)	(2.1)	(2.1)
Exceptionals	2.6	(24.3)	(2.5)	(16.5)	(2.5)	(1.0)
Share-based payments	(0.3)	(0.1)	0.0	0.0	(1.0)	(2.5)
Reported operating profit	(3.1)	(37.0)	(4.0)	(16.2)	1.4	4.5
Net Interest	(1.4)	(0.8)	(0.6)	(0.7)	(1.0)	(0.7)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax (norm)	(4.8)	(11.1)	0.2	1.6	7.2	10.5
Profit before tax (reported)	(4.2)	(35.4)	(2.3)	(14.9)	1.6	4.9
Reported tax	(0.1)	0.5	0.3	0.5	(0.2)	(2.2)
Profit after tax (norm)	(4.9)	(10.6)	0.5	2.1	6.2	8.6
Profit after tax (reported)	(4.3)	(34.9)	(2.0)	(14.4)	1.5	2.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.7	0.2	0.0	0.0
Net income (normalised)	(4.9)	(10.6)	0.6	1.4	6.2	8.6
Net income (reported)	(4.3)	(34.9)	(1.3)	(14.2)	1.5	2.7
Basic average number of shares outstanding (m)	22	22	22	24	36	37
EPS - basic normalised (p)	(22.2)	(47.9)	2.7	5.9	17.4	23.3
EPS - normalised (p)	(21.7)	(47.5)	2.7	5.7	16.4	22.0
EPS - basic reported (p)	(19.4)	(157.4)	(5.9)	(58.7)	4.1	7.4
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Revenue growth (%)	N/A	(20.1)	(9.4)	(1.3)	29.7	1.3
Gross margin (%)	29.2	23.3	32.1	37.0	38.3	40.0
EBITDA margin (%)	(0.7)	(10.6)	6.0	8.0	12.5	16.3
Normalised operating margin (%)	(4.1)	(15.6)	1.3	3.9	9.2	13.1
BALANCE SHEET						
Fixed assets	92.7	45.9	44.9	38.6	61.4	61.4
Intangible assets	89.8	44.4	43.8	33.2	58.8	58.8
Tangible assets	2.5	1.0	0.6	3.0	0.9	0.9
Investments & other	0.4	0.5	0.5	2.4	1.7	1.7
Current assets	28.3	22.9	19.5	15.8	20.6	21.8
Stocks	1.9	0.6	0.5	0.4	0.3	0.3
Debtors	21.4	12.8	15.3	12.4	16.2	16.3
Cash & cash equivalents	4.6	7.5	2.5	2.9	3.9	5.1
Other	0.4	2.0	1.2	0.1	0.1	0.1
Current liabilities	(44.2)	(27.1)	(25.9)	(25.1)	(29.6)	(29.9)
Creditors	(31.6)	(25.9)	(20.7)	(21.4)	(27.5)	(27.8)
Tax and social security	(0.9)	(1.2)	(0.9)	(1.4)	(1.4)	(1.4)
Short-term borrowings	(11.5)	0.0	(4.3)	(2.3)	(0.6)	(0.6)
Other	(0.2)	0.0	0.0	0.0	(0.1)	(0.1)
Long-term liabilities	(9.4)	(9.1)	(7.1)	(5.6)	(15.1)	(10.2)
Long-term borrowings	0.0	0.0	0.0	(0.1)	(9.5)	(4.6)
Other long-term liabilities	(9.4)	(9.1)	(7.1)	(5.5)	(5.6)	(5.6)
Net assets	67.4	32.6	31.4	23.7	37.3	43.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	67.4	32.6	31.4	23.7	37.3	43.1
CASH FLOW						
Operating cash flow before WC and tax	0.6	(31.6)	0.8	1.5	8.3	9.7
Working capital	(0.7)	7.7	(8.0)	1.6	(2.3)	(0.3)
Exceptional & other	(2.4)	22.4	(0.4)	(0.3)	(2.0)	(1.0)
Tax	1.5	(1.5)	(0.5)	(0.8)	(0.2)	(2.2)
Net operating cash flow	(1.0)	(3.0)	(8.1)	2.0	3.9	6.2
Capex	(2.9)	(2.6)	(2.0)	(2.5)	(2.0)	(2.0)
Acquisitions/disposals	9.2	21.3	1.3	(0.3)	(20.0)	0.0
Net interest	(1.4)	(0.8)	(0.6)	(0.4)	(1.0)	(0.7)
Equity financing	0.0	0.0	0.0	3.1	14.2	0.0
Dividends	0.0	(0.7)	0.0	0.0	0.0	0.0
Other	(0.1)	0.0	0.0	0.2	0.2	0.0
Net cash flow	3.8	14.2	(9.4)	2.1	(4.7)	3.5
Opening net debt/(cash)	10.6	6.9	(7.5)	1.8	(0.5)	4.1
FX	(0.1)	0.2	0.1	0.2	0.1	0.0
Other non-cash movements	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	6.9	(7.5)	1.8	(0.5)	4.1	0.5

Source: Company accounts, Edison Investment Research

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