EDISON

Ebiquity

Executing the Growth Acceleration Plan

FY16 results – introducing FY18 forecasts

Media

Ebiquity's FY16 results reflect a continuation of trends seen at H116 and the early stages of the Growth Acceleration Plan. With additional services due to launch in FY17, we retain our forecasts for an acceleration of revenue growth in FY17 and introduce FY18 estimates. The transition to a more sustainable margin translates to a lower EPS figure overall but improves the quality of the earnings base and the sustainability of revenue growth. The c 12x P/E rating is unchallenging versus peers.

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	10.8	0.3
12/16	83.6	13.0	11.8	11.3	0.65	10.4	0.5
12/17e	92.0	13.3	12.3	10.3	0.70	11.4	0.6
12/18e	99.3	12.3	11.5	9.5	0.75	12.4	0.6

Note: *PBT and EPS (diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. ***Pro-forma 12-month period to December.

FY16: Implementing the new strategy

FY16 results were as indicated in January's update. Of the 9.1% revenue growth, 2.1% was organic and 5.8% currency. MPO continues to be the main driver of growth (+21% lfl) and MVM had a solid year (+3.6% lfl). As previously flagged, weakness in the projects based reputation business within MI was a drag on overall growth (-8.5% lfl); excluding this the advertising intelligence services were more stable (-1.7% lfl). The early stages of the implementation of the group's Growth Acceleration Plan, and continued softness in the contract compliance business resulted in a 0.7pp reduction in the operating margin to 15.5%, lower than our forecast (16.3%); however, a lower effective tax rate meant that EPS of 11.3p was 3% ahead. A dividend of 0.65p per share has been proposed.

Pick-up in activity: We introduce FY18 forecasts

As additional services are launched during FY17, and the faster growing MPO's geographic footprint expanded, we expect the pace of revenue growth to accelerate towards the 10% CAGR targeted by management over the next five years. We leave our FY17 EPS forecast broadly unchanged at 10.3p and introduce FY18 forecasts, which reflect the strategy to transition to a faster growing, but lower margin group. In FY18 we factor in a decline in operating margins to the middle of management's target range (12-13%) and so despite the faster growth and a declining interest burden, we forecast EPS to decline to 9.5p in FY18.

Valuation: Unchallenging

With a strong brand, a global footprint and relationships with 80% of the world's largest 100 advertisers, Ebiquity stands to benefit from the increasing demand for accountability in a complex media landscape. Earnings growth is being sacrificed as the company improves the quality of its earnings base and secures a more robust longer-term growth profile. Nevertheless, we consider the rating unchallenging; the 10% revenue CAGR targeted by management for the five years to 2021 would put it at the top end of its peer group, while the c 12x FY18e P/E is below its small-cap peer average of 14x.

29 March 2017

Price	**117p**
Market cap	**£90m**
Net debt (£m) at 31 December 2016	28.2
Shares in issue	78m
Free float	99%
Code	EBQ
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	12.2	18.6	(15.1)
Rel (local)	11.0	13.7	(27.7)
52-week high/low		135.5p	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

AGM	May 2017
Interim results	September 2017

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Edison profile page

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FY16 results: Financial overview

Revenues increased by 9.1% to £83.6m. The acquisition of Fairbrother Marsh Company (FMC) in Ireland in March 2016 and the full year impact of 2015's acquisition of Media Value (Spain) contributed 1.2% to growth, and with 68% of revenues denominated in non-sterling currencies, 5.8% was attributable to sterling's depreciation. Underlying like-for-like constant currency (lfl) revenue growth was 2.1%, similar to the rate in H116.

Adjusted operating profit increased by 4.4% y-o-y to £13.0m with an operating margin of 15.6%, lower than we forecast (16.3%). Adjusted operating profit excludes £5.2m of highlighted items. Of this, £2.5m is non-cash (£1.9m amortisation of acquired intangibles and £0.7m share-based payments) and £2.8m non-recurring cash items. Of the non-recurring items, £2m are acquisition related and include a £0.8m increase in the earnout consideration for Stratigent (US) and a £0.6m impact of FX adjustments related to future earnout payments. The balance of acquisition-related costs concerns the acquisition of the remaining 50% interest in Irish media consultancy FMC. A further £0.7m relates to integration costs following recent acquisitions.

While operating profit was slightly short of our estimate, EPS of 11.3p was 3% ahead, reflecting a lower underlying effective tax charge (21.7%) than we had forecast, with a larger base of taxable profit shifting to the UK.

Operating cash flow at 87% of underlying earnings (110% in CY15) was affected by a £4m increase in the year-end receivable balanced to £28m. After payments for the cash exceptional items, capital expenditure and capitalised development costs totalling £2.4m, £4.4m of acquisition-related costs (earnouts for Stratigent, China Media and Media Value, as well as the initial payments for the March 2016 acquisition of the remaining 50% of FMC), dividends (£0.8m) and interest (£1.1m), year-end net debt decreased to £28.2m.

A dividend of 0.65p per share has been proposed, which implies an 8% pro rata increase on the 0.4p paid for the eight-month period to December 2015, in line with the board's progressive final dividend policy.

Exhibit 1: Summary FY16 results

(£000s)	CY15a	FY16e	FY16a	diff. to forecasts	y-o-y % change	FY17e	FY18e
Total revenues	76,584	84,500	83,569	-1.1%	9.1%	91,961	99,318
Operating profit	12,411	13,800	12,959	-6.1%	4.4%	13,333	12,266
Operating margin	16.2%	16.3%	15.6%			14.5%	12.4%
Highlighted items	(8,768)	(5,444)	(5,202)	-4.4%	-40.7%	(4,500)	(4,500)
Reported operating profit	3,643	8,356	7,757	-7.2%	112.9%	8,833	7,766
Net finance cost	(1,199)	(1,100)	(1,132)	2.9%	-5.6%	(1,000)	(795)
Share of associates	18	10					
PBT – adjusted	11,230	12,710	11,827	-6.9%	5.3%	12,333	11,472
EPS – normalised, diluted (p)	10.8	11.0	11.3	2.7%	4.6%	10.3	9.5

Source: Historic – Ebiquity, forecasts – Edison Investment Research

Operational update: MPO continues rapid growth

The strong performance of Marketing Performance Optimisation (MPO) and solid growth from Media Value Measurement (MVM) continue to underpin revenue growth, with Market Intelligence (MI) continuing to act as a drag on revenues, affected, as flagged at the interims, by a difficult period for the project based business.

Ebiquity is in the early stages of execution of its Growth Acceleration strategy announced last summer. It has implemented a new matrix organisational structure with global practice responsibilities, unifying its network of independently run local organisations under a common global structure with the sales effort reorganised toward a client first approach in order to optimise cross-selling opportunities. Investment is being increased across the divisions in order to ensure it attracts, retains and equips its talent with the appropriate skills and technology to deliver the best services to its clients. In parallel it is launching new services and is expanding the geographic footprint of its fastest growing MPO division, and stepping up its marketing efforts in order to better capitalise on its brand as a trusted independent advisor.

Exhibit 2: FY16 divisional performance and forecasts

Revenues	CY15a	FY16e	FY16a	y-o-y % change	lfl const. ccy growth %	FY17e	FY18e
MVM - Media Value Measurement	41,998	47,335	47,161	12.3%	3.6%	51,405	55,004
MI - Market Intelligence	24,650	23,000	23,360	-5.2%	-8.5%	23,594	24,301
MPO - Marketing Performance Optimization	9,936	14,165	13,048	31.3%	21.6%	16,962	20,013
Total revenues	76,584	84,500	83,569	9.1%	2.1%	91,961	99,318
Operating profit:							
MVM	12,057	13,250	12,124	0.6%		12,594	12,376
MI	3,668	3,220	3,902	6.4%		3,941	3,888
MPO	2,802	4,330	3,739	33.4%		4,098	3,802
Central costs	(6,116)	(7,000)	(6,806)	11.3%		(7,300)	(7,800)
Total operating profit	12,411	13,800	12,959	4.4%		13,333	12,266
Operating margin							
MVM	28.7%	28.0%	25.7%			24.5%	22.5%
MI	14.9%	14.0%	16.7%			16.7%	16.0%
MPO	28.2%	30.6%	28.7%			24.2%	19.0%
Total operating margin	16.2%	16.3%	15.6%			14.5%	12.4%

Source: Historic – Ebiquity, Forecasts – Edison Investment Research

MPO (16% revenues) Revenue growth of 31.3% (21.6% excluding currency), while slower than the phenomenal 53% reported in H116, continues to reflect the increasing demand for data-driven analytics in marketing. Strong growth was reported from both the multichannel analytics and the marketing effectiveness services. Operating margins of 28.7%, while slightly ahead of CY15 (28.2%) are expected to decrease in future periods as the group executes its rollout plan. Marketing effectiveness services are being rolled out in Germany, France and the Asia-Pacific region, where first projects were delivered in H216. Investment is also being directed towards developing and launching a digital attribution model (in Q217) to complement its existing services.

MVM (56% revenues) Against a strong basis of comparison in CY15 (15% revenue growth), FY16 revenue growth slowed to 3.6% lfl. Growth in the contract compliance business was affected by some clients in the US delaying spend in advance of the publication of last summer's ANA report. We had expected this to bounce back in the second half of the year; however, activity has started to pick up in 2017. Excluding this business (now 10% of MVM revenues), growth for MVM was a solid 6.6%. Operating margins decreased by 3pp to 25.7%, a consequence of the weakness in contract compliance and increased investment in its resources in China and the US.

MI (28% revenues) Revenues decreased 5.2% or 8.5% lfl. The loss of one significant client in the project based reputation business 2015 resulted in project-based research business declining sharply. This business now accounts for only 10% of divisional revenues. As flagged at the time of the interims, within the larger platform-based advertising intelligence business, the loss of three US clients early in H116 affected growth. However, it has received encouraging feedback following the launch of the new version of its platform globally last year (Portfolio Media) and the 1.7% lfl decline for the year in this business suggests a more stable second half (H116 lfl revenues for this business decreased 4.5%). Tight cost control and a change in the business mix resulted in an increase in operating margins to 16.7% (CY15: 14.9%).

Forecasts: We introduce FY18e, reflecting growth plan

Management is targeting an acceleration in revenue growth to a CAGR of 10% over the next five years, with margins moving to a more sustainable 12-13% (from the historic three-year average of 16%).

We leave our FY17 forecasts broadly unchanged (we increase FY17 EPS by 2%) and introduce FY18 forecasts reflecting this transition to a faster growing, but lower margin group.

In FY17 we factor in a pick-up in organic growth to 6% and a 4% benefit from currency, with operating margins decreasing to 14.5%. In FY18, we forecast 8% revenue growth with margins of 12.4%. More specifically:

- At MPO we expect the strong, double-digit growth to continue as existing and new services are extended to new geographies. The rollout of the marketing effectiveness business has already started in Europe and Asia; this will be followed by the rollout of the multichannel effectiveness services in the US later in FY18.
- Within MVM, we believe Ebiquity is well placed to capitalise on the raised awareness regarding media transparency following last year's ANA review. While this has not yet been the case, the contract compliance business has picked up and the pipeline is strong. The widened service offering should also start to contribute to growth; in Q416, Ebiquity formally launched its new strategic consultancy, it continues with the development of a digital paid media performance measurement platform (Optix) and plans the launch of a data management platform (Connect).
- Within MI, the rollout of Portfolio Digital has started in Asia-Pacific, and the UK launch is planned in Q217. While management has received good feedback relating to the new Portfolio platform, pricing pressure remains intense, particularly in the US and we assume only slight growth in revenues year-on-year.

Net debt of £28.2m comprises a £3.75m term loan (repayable on a quarterly basis) and a revolving credit facility of £30m (£29m drawn), both of which have a maturity date of 2 July 2018 (and 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 last significant payment related to acquisitions was in FY16 (£4.4m). We forecast acquisition-related payments to decrease to £1.8m in FY17. Inclusive of these payments, capital expenditure (£3m) and the dividend, we forecast year-end net debt to decrease to £24.6m.

Our forecasts are presented in full in Exhibit 4.

Valuation and investment case

Having been marked down by approximately 40% over the course of 2016, the shares have recovered 20% in recent weeks. However, the 12.4x P/E (FY18) and 9.9x EV/EBITA ratings remain unchallenging. Larger agency and consulting peers trade on average FY17 P/E and EV/EBITA multiples of 16x and 11x, respectively, while small-cap agencies trade on average 14x P/E and 11x EV/EBITA multiples. Although the step-up in investment means that despite the accelerating revenue profile, EPS is unlikely to expand over the forecast period this reflects the initial investment phase of Ebiquity's more ambitious growth strategy, which we expect to result in a higher quality earnings base and a more sustainable growth profile over the medium to longer term. Investors should consider:

- 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 considerable scope to improve this over the medium term.
- The group has considerable know-how. It owns two of the largest international media databases, employs 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 72% of revenues, meaning the slower growth MI division should prove less of a drag to growth over time.

Exhibit 3: Peer valuation comparison

Name	Market cap	Sales growth (%)		EBIT margin (%)		EPS growth (%)		EV/sales (x)		EV/EBIT (x)		P/E (x)		Div yield (%)	Year end
	(m)	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	
EBIQUITY PLC	**£85**	**10**	**8**	**14.5**	**12.4**	**-9**	**-7**	**1.3**	**1.2**	**9.1**	**9.9**	**11.4**	**12.4**	**0.6**	**12/2016**
Small cap peers average		**21.0**	**7.0**	**11.7**	**14.2**	**23**	**19**	**1.3**	**1.4**	**10.6**	**10.6**	**14.1**	**13.7**	**2.1**	
BRAINJUICER	£94	25.1	7	20	21.1	34	21	2.7	2.5	13.8	13.8	19.5	17.9	0.7	12/2016
M&C SAATCHI	£269	27.1	6	11	11.5	161	8	1.2	1.1	10.8	10.8	15.4	14.3	2.7	12/2016
HUNTSWORTH	£143	10.1	5	N/A	N/A	(132)	4	1.0	0.9	N/A	N/A	11.2	9.9	4.1	12/2016
NEXT FIFTEEN	£286	30.5	12	14	14.9	141	35	1.8	1.6	12.4	12.4	17.7	15.5	1.4	01/2016
MMG	£36	27.0	N/A	5	N/A	N/A	N/A	0.3	N/A	5.6	5.6	5.9	N/A	4.0	12/2016
NAHL GROUP PLC	£74	4.1	8	27	25.7	(37)	(7)	1.5	1.4	5.6	5.6	6.8	8.5	9.9	12/2016
MDC PARTNERS	$495	6.4	5	8	9.4	(152)	40	1.0	1.0	12.4	12.4	19.7	13.1	0.0	12/2016
Large cap average		**7.0**	**4.6**	**14.4**	**14.6**	**10**	**8**	**1.6**	**1.5**	**11.2**	**11.2**	**16.3**	**15.0**	**2.8**	
ACCENTURE	$82,329	(0.5)	7	14.8	14.9	(9)	9	2.3	2.1	15.4	15.4	21.6	19.8	1.9	08/2016
INTERPUBLIC	$9,570	1.9	4	12.5	12.9	(2)	11	1.3	1.3	10.4	10.4	16.7	15.0	2.9	12/2016
WPP	£21,262	24.6	5	15.4	15.4	33	7	1.7	1.6	11.0	11.0	13.2	12.3	3.8	12/2016
OMNICOM	$19,855	1.4	4	13.4	13.6	6	9	1.4	1.4	10.8	10.8	16.7	15.4	2.7	12/2016
HAVAS	€3,500	9.4	3	14.1	14.2	19	6	1.5	1.4	10.5	10.5	16.7	15.8	2.4	12/2016
PUBLICIS	€14,047	5.5	4	16	17	12	9	1.5	1.4	9.3	9.3	13.0	12.0	3.2	12/2016

Source: Bloomberg, Edison Investment Research (EBQ). Note: Prices as at 28 March.

Sensitivities: FX, people, competition

Ebiquity competes against large, global consulting groups in a price-sensitive market place. As a people-based business, the tight labour market for consultants with appropriate skill sets may affect the pace and cost of management's expansion plan. 68% of revenues are non-sterling denominated and fluctuations in exchange rates may affect forecasts as there are no active hedging policies.

Exhibit 4: Financial summary

£000s	2014	2015	2015	2014*	2015*	2016	2017e	2018e
	Year	Year	8 months	Year	Year	Year	Year	Year
Period ending	30-Apr	30-Apr	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	68,452	73,874	43,310	69,106	76,584	83,569	91,961	99,318
Cost of Sales	(30,008)	(32,383)	(22,514)	N/A	N/A	(38,282)	(42,302)	(45,686)
Gross Profit	38,444	41,491	20,796	N/A	N/A	45,287	49,658	53,632
EBITDA (norm)	12,768	13,463	1,151	9,572	14,161	14,574	15,583	14,666
Operating Profit (before GW and except.)	10,441	11,729	(3)	7,962	12,411	12,959	13,333	12,266
Intangible Amortisation	(1,873)	(2,030)	(1,327)	(1,997)	(1,327)	(1,865)	(1,900)	(1,900)
Exceptionals (inc share-based charges)	(4,854)	(3,883)	(5,329)	(5,818)	(7,441)	(3,337)	(2,600)	(2,600)
Other (inc share of profit of associates)	19	12	13	10	18	0	0	0
Operating Profit	4,631	5,828	(6,646)	157	3,643	7,757	8,833	7,766
Net Interest	(1,191)	(1,171)	(800)	(1,164)	(1,199)	(1,132)	(1,000)	(794)
Profit Before Tax (norm)	10,167	10,570	(790)	6,808	11,230	11,827	12,333	11,472
Profit Before Tax (FRS 3)	3,440	4,657	(7,446)	(1,007)	2,464	6,625	7,833	6,972
Tax	5	(538)	1,332	N/A	N/A	(2,230)	(3,000)	(3,212)
Profit After Tax (norm)	8,082	8,877	(214)	N/A	N/A	9,257	8,880	8,260
Profit After Tax (FRS 3)	3,445	4,119	(6,114)	N/A	N/A	4,395	4,833	3,760
Minorities	(421)	(496)	(107)	N/A	N/A	(245)	(525)	(408)
Net Income (norm)	7,661	8,346	(336)	N/A	N/A	8,987	8,355	7,851
Net Income (FRS 3)	3,024	3,623	(6,221)	N/A	N/A	4,150	4,308	3,351
EPS - normalised (p)	10.3	11.0	(0.4)	N/A	N/A	11.6	10.7	9.9
EPS - normalised and fully diluted (p)	9.0	10.7	(0.4)	N/A	10.8	11.3	10.3	9.5
EPS - FRS 3 (p)	4.1	4.8	(8.1)	N/A	N/A	5.4	5.5	4.2
Dividend per share (p)	0.0	0.4	0.4	0.0	0.40	0.65	0.70	0.75
Operating Margin (before GW and except.) (%)	15.0	15.8	neg	0.0	16.2	15.6	14.5	12.4
BALANCE SHEET								
Fixed Assets	74,173	77,908	73,594	N/A	73,594	75,855	76,482	74,857
Intangible Assets	69,547	73,274	68,354	N/A	68,354	72,079	72,256	70,381
Tangible Assets	3,162	3,194	2,928	N/A	2,928	2,438	2,888	3,138
Other	1,464	1,440	2,312	N/A	2,312	1,338	1,338	1,338
Current Assets	33,386	39,174	33,073	N/A	33,073	35,078	37,624	42,287
Trade Debtors	15,683	17,390	16,283	N/A	16,283	19,291	20,724	21,838
Other	11,182	12,489	8,035	N/A	8,035	9,125	9,125	9,125
Cash (Inc.overdraft)	6,521	9,295	8,755	N/A	8,755	6,662	7,775	11,324
Current Liabilities	(29,184)	(29,161)	(27,473)	N/A	(27,473)	(25,712)	(26,545)	(27,255)
Trade Creditors	(4,989)	(3,866)	(20,567)	N/A	(20,567)	(17,809)	(18,442)	(19,152)
Other	(21,252)	(21,473)	(2,105)	N/A	(2,105)	(3,631)	(3,631)	(3,631)
Short term borrowings	(2,943)	(3,822)	(4,801)	N/A	(4,801)	(4,272)	(4,272)	(4,272)
Long Term Liabilities	(33,858)	(39,263)	(36,785)	N/A	(36,785)	(32,966)	(30,766)	(29,516)
Long term borrowings	(26,235)	(31,880)	(32,615)	N/A	(32,615)	(30,448)	(27,948)	(26,698)
Other long term liabilities	(7,623)	(7,383)	(4,170)	N/A	(4,170)	(2,518)	(2,818)	(2,818)
Net Assets	44,517	48,658	42,409	N/A	42,409	52,055	56,795	60,373
CASH FLOW								
Operating Cash Flow	6,799	7,927	5,028	N/A	13,290	10,782	13,183	12,663
Net Interest	(841)	(1,623)	(588)	N/A	(1,009)	(1,074)	(1,000)	(794)
Tax	(1,159)	(1,618)	(892)	N/A	(1,062)	(166)	(2,700)	(3,212)
Capex	(2,552)	(3,128)	(1,328)	N/A	(1,986)	(2,351)	(3,000)	(2,650)
Acquisitions/disposals	(9,308)	(5,462)	(4,107)	N/A	(4,530)	(4,431)	(1,777)	(25)
Financing	(94)	127	261	N/A	344	26	0	0
Dividends and other items	0	0	(291)	N/A	(291)	(1,734)	(1,093)	(1,181)
Net Cash Flow	(7,155)	(3,777)	(1,917)	N/A	2,981	1,052	3,613	4,800
Opening net debt/(cash)	15,308	22,657	26,407	N/A	31,563	28,661	28,242	24,629
HP finance leases initiated	0	0	0	N/A	0	0	0	0
FX & Other	(194)	27	(337)	N/A	(79)	(633)	0	0
Closing net debt/(cash)	22,657	26,407	28,661	31,563	28,661	28,242	24,629	19,830

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

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