EDISON

Ebiquity

Interim results

Adapting to circumstance and opportunity

Media

Ebiquity is set for a stronger H220, after a difficult H1 (£26.8m revenue; down 24% y-o-y) when some clients paused or cancelled their marketing activity due to COVID-19. Most of the H120 £1.4m operating loss should be recouped by the year-end. FY21 prospects are further lifted by new client wins, partly from Accenture's withdrawal from media audit. Newly installed CEO Nick Waters (ex Dentsu) is developing his vision for Ebiquity as a data-driven media solutions provider, augmented with consultancy services. This will be expounded at a capital markets day on 10 November.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	69.4	5.2	3.5	0.7	6.1	3.3
12/19	68.7	5.3	3.6	0.0	6.0	N/A
12/20e	57.0	(0.5)	(0.8)	0.0	N/A	N/A
12/21e	60.0	3.1	2.6	0.5	8.3	2.3

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

Improving prospects in H220

Media segment revenues (FY19: 79% of group) were down by 21%. Those of Analytics & Tech were 36% lower, but the underlying decrease here, stripping out Stratigent (wound down from August 2019), was closer to that of Media. Digital Decisions, bought in January this year, has made good progress, adding eight new clients, and looks on track to meet deferred consideration targets. Group underlying operating costs were down 12%, including use of government support schemes. With deferred assignments coming through and some significant new client wins, including Verizon, Daimler and Dubai Tourism, prospects for H220 and FY21 are better. The withdrawal of Accenture from the Media audit market has enabled Ebiquity to expand its client base and further opportunities are being pursued.

Financial headroom

In light of the H120 performance and the company's indication for improved revenues in H220, we have trimmed our FY20 revenue forecast from £59.5m to £57.0m. Based on this, our pre-tax number moves from a £3.3m profit to a £0.5m loss. The reported underlying H120 loss before tax was £1.9m, so this implies a good H2 recovery, with momentum into FY21, where we introduce our forecasts. No management guidance for FY21e has been issued. These projections assume no further economic disruption. 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). £5m of bank facilities remain undrawn, with covenants renegotiated to a simple monthly liquidity test to December 2021.

Valuation: Below peers and DCF

Earnings forecasts remain highly subjective to assumptions on the success of the new CEO's strategic plans, as well as on general economic recovery. On our current modelling, parity with peers across averaged P/E and EV/EBITDA for FY19 and FY21e suggest a share price of 36p, a little below that derived from a DCF. The upcoming capital markets day (CMD) may be a catalyst to close that discount.

28 September 2020

Price	**21.5p**
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	(17.3)	(27.1)	(61.6)
Rel (local)	(14.6)	(24.0)	(52.9)
52-week high/low		54.0p	21.5p

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

Capital markets day	November 2020

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Edison profile page

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H120 looks to have been the low point

H120 included the months most affected by the effect of COVID-19 on advertising spend, although the impact varied considerably by market sector and by media type, as has been widely reported. Automotive, travel and tourism, and (traditional) retail have suffered the heaviest downwards pressure, with FMCG and tech spend comparatively healthy. A summary of the income statement, in underlying terms, is shown below:

Exhibit 1: 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

As the pandemic spread, Ebiquity transitioned its team to remote working with minimal disruption, utilising government support schemes where appropriate, and pay and hiring freezes to help control costs. Central overheads of £3.0m compared to £4.0m in the prior period, with total operating costs trimmed from £32.0m in H119 to £28.1m. This helped to partly offset a 24% y-o-y reduction in revenues to £26.8m. Although the company has swung into losses in the first half, on our updated estimates, we expect the H120 £1.4m operating loss to be recouped by the year-end on the back of the improving top line performance, as indicated by management.

Exhibit 2: Working forecast assumptions

	Previous FY20 assumption	H120 actual	Revised FY20 assumption	FY21e assumption
Media revenue growth	-17%	-21%	-17%	5%
Analytics & Tech revenue growth	-10%	-36%	-17%	5%
Operating margin:				
Media	20.8%	10.7%	15.5%	20.2%
A&T	8.5%	-14.8%	-1.5%	7.0%

Source: Edison Investment Research

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. There remains £5.0m undrawn within the Revolving Credit Facility. 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.

Media revenues set to lift through H2

The results from the Media segment are themselves a blend of the audit practice (Ebiquity Performance and Management) and the contract compliance practice (FirmDecisions).

The former delivered revenues that declined 19% on prior year, although this also varied considerably by region. It has picked up substantial new business from Accenture's withdrawal from media auditing, with the team in Spain doing particularly well on this front. Along with projects deferred from H120, this gives a strong underpinning to a rebound in H220.

Within Media, Contract Compliance (c10% of Media revenues), which has historically involved physical examination of records, has now reached agreement with agencies on remote access to information required for its audits. This should enable the backlog to be tackled, with deferred projects set to proceed or already in action benefiting H220. Revenue from this practice was down 42% in the period. Clients in the period included Amazon and Dubai Tourism.

Digital Decisions, bought in January (see Edison's Flash note), has put in an encouraging performance, winning eight clients, 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.

As shown above, our model assumes 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. 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 the exhibit above, the Analytics & Tech segment had a tougher period than might have been expected, given that 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.

Our model assumes that Analytics & Tech revenue growth is roughly in line with that of Media in FY21 and that margins start to recover.

First thoughts from new CEO

Nick Waters, previously executive chairman of Dentsu in the UK and Ireland, has been in place since 1 July. In conversations with key clients he has confirmed that one of Ebiquity's key strengths is its independence. Its advice is not compromised by the incentive of selling other products or services. Competitors tend to be either the large global consultants, such a PWC or Deloitte, which have a shallower understanding of the advertising industry and potential conflicts such as that acknowledged by Accenture, or local market specialists, which may lack the global perspective and the data that supports Ebiquity's advice.

While more detailed plans will be presented at the planned CMD in November, Waters has already established that the group needs:

- To be evolved into a data-driven solutions company, with an overlay of consultancy services.
- To develop scalable, repeatable productised solutions in Programmatic, search, social and e-commerce.
- To build on the approach established by Digital Decisions, with source data monitoring on a scalable and repeatable basis.

None of this needs to involve heavy technology investment, but Ebiquity does need to move from offering services on a point solution basis to delivering integrated solutions, more embedded in client workflows.

As digital continues to grow as a percentage of advertising spend, advertisers' concerns with issues of ad fraud, viewability, wastage and brand safety will only grow. A trusted and independent partner to help navigate and drive return on investment will be of even greater value.

Valuation

With earnings forecasts for the current year across the sector so heavily affected by the commercial repercussions of the pandemic, the more potentially reliable metrics are those relating to FY19 and FY21e, although the latter remain very subjective to assumptions on the speed and scale of recovery. Parity with peers, averaged across P/E and EV/EBITDA for those two years, implies a share price of 36p, well ahead of current levels.

Exhibit 3: Peer comparative ratings

Name	Price (p)	Market cap (£m)	Ytd perf (%)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	EV/sales 1FY (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)
Kin and Carta	66.3	112	-33.4	7.2	12.4	10.9	1.2	7.7	8.5	7.9
M&C Saatchi	63.3	73	-49.0	2.7	5.6	5.6	0.4	3.2	3.3	3.1
The MISSION Group	57.5	52	-27.2	6.4	143.8	7.4	1.1	4.3	27.0	6.1
Next Fifteen	476.0	432	-11.5	13.7	13.8	12.2	1.9	8.7	9.0	8.1
Average			-30.3	7.5	43.9	9.0	1.2	6.0	12.0	6.3
Ebiquity	23.1	19	-37.3	6.5	(37.2)	9.0	0.4	2.8	14.2	4.7
Discount				14%	N/A	0%	61%	53%	-19%	25%

Source: Refinitiv, Edison Investment Research. Note: Prices as at 24 September 2020.

As previously, we have looked at the DCF at varying margin assumptions and at varying revenue growth rates across FY22–28e, on fixed assumptions of an 8.5% WACC and terminal growth of 2%. An EBITDA margin of 12%, below the 13.4% achieved in FY19, derives an implied share price of 37p, on flat revenues through FY22-28e. Lifting the medium-term revenue assumption to the average global ad spend revenue growth since 2000, 3.4%, lifts the implied valuation to 43p, ahead of the level derived from parity with peers, above.

A successful implementation of the new CEO's strategy could lead to faster growth in revenues as the group builds market share, particularly in digital media-related services. It could also deliver margin expansion, which would suggest an upside risk to our current valuation.

Exhibit 4: Financial summary

£000s	2017	2018	2019	2020e	2021e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
Revenue	64,228	69,368	68,733	57,000	60,000
EBITDA	10,840	7,761	9,203	1,801	5,432
Operating Profit (before amort. and except.)	8,992	6,342	6,167	375	4,006
Amortisation of acquired intangibles	(1,231)	(1,240)	(1,169)	(1,112)	(1,112)
Exceptionals	(3,405)	(6,233)	(9,044)	(914)	0
Share-based payments	(578)	(223)	(117)	1,651	(150)
Reported operating profit	3,778	(1,354)	(4,163)	(0)	2,744
Net Interest	(1,044)	(1,151)	(898)	(875)	(925)
Joint-ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	7,948	5,191	5,269	(500)	3,081
Profit Before Tax (reported)	2,734	(2,504)	(5,061)	(875)	1,819
Reported tax	(1,753)	(1,985)	(1,931)	130	(739)
Profit After Tax (norm)	5,531	3,413	3,338	(370)	2,341
Profit After Tax (reported)	981	(4,489)	(6,538)	(745)	1,079
Minority interests	(384)	(489)	(451)	(250)	(250)
Discontinued operations	1,467	(845)	(1,018)	0	0
Net income (normalised)	4,951	3,551	2,875	(619)	2,093
Net income (reported)	2,064	(5,334)	(7,556)	(995)	829
Average Number of Shares Outstanding (m)	77.9	78.6	79.5	79.5	80.2
EPS - normalised (p)	6.4	3.7	3.6	(0.8)	2.6
EPS - normalised continuing diluted (p)	6.2	3.5	3.6	(0.8)	2.6
EPS - basic reported (p)	2.7	(7.4)	(10.1)	(1.3)	1.0
Dividend per share (p)	0.71	0.71	0.00	0.00	0.50
EBITDA Margin (%)	16.9	11.2	13.4	3.2	9.1
Normalised Operating Margin	14.0	9.1	9.0	0.7	6.7
BALANCE SHEET					
Fixed Assets	75,771	45,400	47,060	45,743	43,861
Intangible Assets	72,440	43,251	35,172	34,931	33,793
Tangible Assets	1,829	1,170	10,902	9,458	8,714
Investments & other	1,502	979	986	1,354	1,354
Current Assets	37,241	65,935	35,822	35,023	37,010
Stocks	0	0	0	0	0
Debtors	32,509	29,408	27,586	24,205	25,479
Cash & cash equivalents	4,732	8,793	8,236	10,818	11,530
Other	0	27,734	0	0	0
Current Liabilities	(24,549)	(27,539)	(21,195)	(19,044)	(18,984)
Creditors	(20,066)	(18,150)	(14,659)	(12,862)	(13,068)
Tax and social security	(1,598)	(1,681)	(4,424)	(3,812)	(3,812)
Short term borrowings	(1,572)	(2,314)	36	45	45
Other	(1,313)	(5,394)	(2,148)	(2,415)	(2,149)
Long Term Liabilities	(35,481)	(36,282)	(23,047)	(28,562)	(28,119)
Long term borrowings	(32,000)	(33,965)	(13,868)	(19,706)	(19,706)
Other long term liabilities	(3,481)	(2,317)	(9,179)	(8,856)	(8,413)
Net Assets	52,982	47,514	38,640	33,160	33,768
Minority interests	1,040	992	1,179	1,179	1,179
Shareholders' equity	51,942	46,522	37,461	31,981	32,589
CASH FLOW					
Op Cash Flow before WC and tax	10,840	7,761	9,203	1,801	5,432
Working capital	(2,002)	(367)	(1,302)	1,710	(1,068)
Exceptional & other	(890)	(6,233)	(2,244)	(914)	0
Tax	(2,207)	(1,952)	(1,345)	(1,870)	(739)
Operating Cash Flow	5,741	(791)	4,312	727	3,624
Capex	(2,231)	(1,784)	(3,235)	(814)	(1,500)
Acquisitions/disposals	(3,082)	(858)	23,862	(3,354)	(486)
Net interest	(921)	(1,068)	(718)	(875)	(925)
Equity financing	160	252	253	612	0
Dividends	(495)	(791)	(1,256)	(1,315)	0
Other	(46)	0	0	0	0
Net Cash Flow	(874)	(5,040)	23,218	(5,019)	713
Opening net debt/(cash)	28,024	28,840	27,486	5,596	8,843
FX	58	(91)	(204)	380	0
Other non-cash movements		6,485	(1,124)	1,392	0
Closing net debt/(cash)	28,840	27,486	5,596	8,843	8,131

Source: Company accounts, Edison Investment Research

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