

# Ebiquity

Pre-close update

## Accentuating the opportunities

Ebiquity's pre-close update indicates that trading has been in line with management and market estimates and we are making no changes to our numbers at this point. Post year-end news flow has been constructive (the Digital Decisions acquisition and the buy-in of the Italian minority). A potentially bigger opportunity comes from the news that Accenture is planning to withdraw from media measurement. Ebiquity's share price has been trading near 10-year lows, putting the valuation at a marked discount to the smaller marcomms companies on an EV/EBITDA and on a P/E basis.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	64.2	7.9	6.2	0.71	5.5	2.1
12/18	69.4	5.2	3.5	0.71	9.7	2.1
12/19e	71.0	5.3	4.0	0.85	8.6	2.5
12/20e	72.3	6.5	5.0	0.95	6.8	2.8

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

## Looking to growth

The second half of FY19 continued in the same vein as the first, with a good top line performance from Advanced Analytics, AdTech and Contract Compliance and a more difficult trading backdrop in the Media practice. Questions have been asked for some time in the industry regarding the ability of Accenture to be both pitching for marketing contracts and simultaneously auditing their efficacy. Accenture has now acknowledged this dilemma by announcing the intended closure of its media auditing practice. This will increase the potential addressable market for Ebiquity for both regional and global consultancy accounts and accentuates the advantage of its independence. There was no further news with this announcement on group management, with Alan Newman continuing in role as interim CEO, and we have made no adjustments to our financial forecasts.

## Back on the financial front foot

Last year's eventual disposal of AdIntel transformed Ebiquity's balance sheet and has enabled the group to refocus its activities on those with the greater potential for sustainable, profitable growth. The £5.8m year-end net debt disclosed in the trading update is better than the position that we had modelled of £6.9m. As we expect free cash flow to increase again next year, against a forecast lower capex requirement, the balance sheet should strengthen again, allowing the group to take advantage of other potential expansionary opportunities.

## Valuation: Still well below marcomms peers

Despite the uptick on the back of this trading update, the share price remains well below a peer set of smaller quoted marcomms companies, albeit that the business models vary considerably. These stocks are currently trading on an FY20 P/E of 12.9x and EV/EBITDA of 8.8x. We would expect this differential to start to close as the group builds a record of delivering revenues and profits at least in line with expectations.

### Media

21 February 2020

**Price** **34p**

**Market cap** **£27m**

\$1.30/£

Net debt (£m) at 31 December 2019 (IFRS 16 basis) 5.8

Shares in issue 80.1m

Free float 99%

Code EBQ

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (10.5) (18.1) (31.3)

Rel (local) (8.5) (20.7) (34.5)

52-week high/low 58.0p 26.0p

### 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

Prelims end March 2020

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**Exhibit 1: Financial summary**

	£000s	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		83,569	64,228	69,368	71,000	72,250
EBITDA		14,574	10,840	7,761	7,519	8,304
Operating Profit (before amort. and except.)		12,959	8,992	6,342	6,100	7,000
Amortisation of acquired intangibles		(1,865)	(1,231)	(1,240)	(1,300)	(1,300)
Exceptionals		(2,777)	(3,405)	(6,233)	(6,436)	0
Share-based payments		(560)	(578)	(223)	(136)	(136)
Reported operating profit		7,757	3,778	(1,354)	(1,772)	5,564
Net Interest		(1,132)	(1,044)	(1,151)	(764)	(513)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		11,827	7,948	5,191	5,336	6,487
Profit Before Tax (reported)		6,625	2,734	(2,504)	(2,536)	5,051
Reported tax		(2,230)	(1,753)	(1,985)	(1,441)	(1,687)
Profit After Tax (norm)		9,257	5,531	3,413	3,896	4,800
Profit After Tax (reported)		4,395	981	(4,488)	(3,976)	3,364
Minority interests		(245)	(384)	(472)	(600)	(625)
Discontinued operations		0	1,467	(845)	0	0
Net income (normalised)		9,012	4,951	4,057	3,296	4,176
Net income (reported)		4,150	2,064	(5,334)	(4,576)	2,739
Average Number of Shares Outstanding (m)		77.2	77.9	78.6	78.8	79.5
EPS - normalised continuing (p)		11.3	6.4	3.7	4.2	5.3
EPS - normalised (p)		11.3	6.2	3.5	4.0	5.0
EPS - basic reported (p)		5.4	2.7	(7.4)	(5.8)	3.4
Dividend per share (p)		0.65	0.71	0.71	0.85	0.95
EBITDA Margin (%)		17.4	16.9	11.2	10.6	11.5
Normalised Operating Margin		15.5	14.0	9.1	8.6	9.7
<b>BALANCE SHEET</b>						
Fixed Assets		75,855	75,771	45,400	49,037	46,434
Intangible Assets		72,079	72,440	43,251	35,811	34,757
Tangible Assets		2,438	1,829	1,170	12,249	10,700
Investments & other		1,338	1,502	979	977	977
Current Assets		35,078	37,241	65,935	35,683	39,100
Stocks		0	0	0	0	0
Debtors		19,291	32,509	29,408	30,100	30,630
Cash & cash equivalents		6,662	4,732	8,793	5,583	8,471
Other		9,125	0	27,734	0	0
Current Liabilities		(25,912)	(24,549)	(27,539)	(28,102)	(28,244)
Creditors		(17,809)	(20,066)	(18,150)	(18,713)	(18,855)
Tax and social security		(1,850)	(1,598)	(1,681)	(1,681)	(1,681)
Short term borrowings		(4,476)	(1,572)	(2,314)	(2,314)	(2,314)
Other		(1,777)	(1,313)	(5,394)	(5,394)	(5,394)
Long Term Liabilities		(32,728)	(35,481)	(36,282)	(17,746)	(17,746)
Long term borrowings		(30,210)	(32,000)	(33,965)	(16,465)	(16,465)
Other long term liabilities		(2,518)	(3,481)	(2,317)	(1,281)	(1,281)
Net Assets		52,293	52,982	47,514	38,871	39,544
Minority interests		761	1,040	992	1,135	1,135
Shareholders' equity		51,532	51,942	46,522	37,736	38,409
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		14,574	10,840	7,761	7,519	8,304
Working capital		(2,835)	(2,002)	(367)	(129)	(388)
Exceptional & other		(957)	(890)	(6,233)	(104)	0
Tax		(166)	(2,207)	(1,952)	(1,441)	(1,687)
Operating Cash Flow		10,616	5,741	(791)	5,846	6,230
Capex		(2,351)	(2,231)	(1,784)	(3,600)	(1,800)
Acquisitions/disposals		(4,431)	(3,082)	(858)	19,959	0
Net interest		(1,074)	(921)	(1,068)	(764)	(513)
Equity financing		26	160	252	60	0
Dividends		(838)	(495)	(791)	(879)	(1,029)
Other		(1,017)	(46)	0	0	0
Net Cash Flow		931	(874)	(5,040)	20,622	2,888
Opening net debt/(cash)		28,661	28,024	28,840	27,486	6,864
FX		(633)	58	(91)	0	0
Other non-cash movements		339		6,485	0	0
Closing net debt/(cash)		28,024	28,840	27,486	6,864	3,976

Source: Company accounts, Edison Investment Research

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