# Ebiquity

## US momentum

Interim results

Media

**Ebiquity's interims are as indicated in July's update, with good performance from the Media and Analytics & Tech segments. The strong new business pipeline underpins improving revenue and profit in H218 and our forecasts are unchanged. Management expects the Phase 2 CMA investigation on the Intel disposal to be concluded by this December. Once the situation is resolved, the shares can be appraised on fundamentals again. The continuing structural shifts in marketing should make for a fertile trading environment for an independent, trusted partner to guide decision-making. The current rating reflects uncertainty, rather than value.**

| Year end | Revenue (£m) | EBIT* (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 12/16 | 83.6 | 13.0 | 11.8 | 11.3 | 0.65 | 3.5 | 1.6 |
| 12/17 | 87.4 | 12.0 | 11.0 | 9.4 | 0.71 | 4.3 | 1.8 |
| 12/18e | 91.2 | 10.5 | 9.3 | 8.0 | 0.75 | 5.0 | 1.9 |
| 12/19e | 96.5 | 12.1 | 11.3 | 9.7 | 0.78 | 4.1 | 2.0 |

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

### Good pipeline and H2 bias to profits

Transparency remains a major concern to brand advertisers and is partly fuelling increased levels of in-housing of functions such as media buying. Measurement of ROI is becoming more sophisticated and taking into account broader business aspects than straightforward returns on digital advertising campaigns. The spate of media reviews by larger brands is also positive. Ebiquity has been stepping up its offering in contract compliance, advanced analytics and tech advisory, spending £1.5m in the period, implying a short-term cost to margin. Advanced analytics and Tech has good momentum (like-for-like revenue growth near-30%), especially in the UK where management reports significant new business wins. The Media business in the US similarly reports strong trading, while a new leadership team in China should help drive improved H2 profitability.

### Strong cash performance

Tight working capital control in H118 led to 168% conversion of operating profit to cash and net debt reduced by £3.2m to £25.7m. Post the period end, EBQ has renegotiated its debt facilities. Its existing term loan matures on 30 September 2018. The revolving credit facility of £34.0m (H117: £29.0m) has now been extended to 30 June 2020 on unchanged terms, including covenants. The agreed price for the Intel disposal to Nielsen is £26m gross (£20m net).

### Valuation: Reflects uncertainty, not value

The share price has reduced from 100p in mid February 2018 on the Intel disposal announcement, to 64.5p in June on news of the referral, dipping to 40p on the July trading update. The clear catalyst for a rerating will be the CMA's report, expected by December. This will either approve the disposal (with or without mitigation) or Intel will be retained, an outcome that has also been planned for. At this juncture, the shares can be valued with regard to the ongoing activities and balance sheet position. Smaller marcomms businesses currently trade on an FY18 P/E of 12.2x.

**25 September 2018**

| | |
|---|---|
| **Price** | **40p** |
| **Market cap** | **£30m** |
| | £1:US$1.32 |
| Net debt (£m) as at 30 June 2018 | 25.7 |
| Shares in issue | 74.4m |
| Free float | 99% |
| Code | EBQ |
| Primary exchange | AIM |
| Secondary exchange | N/A |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | (17.5) | (39.9) | (65.2) |
| Rel (local) | (16.8) | (39.3) | (66.4) |
| 52-week high/low | | 115.0p | 38.0p |

### 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: Analytics & Tech, Media and Intel (which is being disposed of).

### Next events

| | |
|---|---|
| Pre-close update | End January 2019e |
| Final results | March 2019 |

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## Operating margin to rebuild

The group revenue increase of 1.9% equates to a gain of 3.4% on a like-for-like basis, adjusted for acquisitions and currency. Without the Intel division, like-for-like revenues were ahead by 7%. Group operating margins were depressed by three key elements:

- The impact of the reduced Intel margin, as the impending putative change of ownership affected management time and new business acquisition on this relatively high fixed-cost business;
- Investment in scaling up the remaining business practices and operational capability; and
- Increased central costs, including new client account management teams

These last two investments are identified as costing £1.5m in the period (central costs are £0.5m higher than H117). This meant that, excluding Intel, the operating margin was 10.5%, below the group target level of 12-13%, reflecting this investment. Our estimates are unchanged on this announcement, with FY18 estimates adjusted at the time of the trading update. FY19e numbers were maintained at that time and are again unchanged. For FY18e, our model suggests a stronger H2 performance, lifting the full year operating margin to 11.5%, building to 12.5% in FY19e (12.6% without Intel) and 13.0% in FY20e as the top line builds and overhead recovery improves.

The results by segment are shown below.

**Exhibit 1: Interim results by division**

| (#m) | Media | % ch/ prior yr | Analytics & Tech | % ch/ prior yr | Subtotal | % ch/ prior yr | Intel | % ch/ prior yr | Total | % ch/ prior yr | Central costs | % ch/ prior yr | Group total | % ch/ prior yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 27,994 | 5% | 7,347 | 16% | 35,341 | 7% | 10,110 | -13% | 45,451 | 2% | | | **45,451** | 2% |
| Operating profit | 7,203 | -8% | 422 | -53% | 7,625 | -13% | 512 | -64% | 8,137 | -20% | (3,972) | 15% | **4,165** | -38% |
| Operating margin | 25.7% | 29.5% | 5.7% | 14.2% | 21.6% | 26.5% | 5.1% | 12.1% | 17.9% | 22.8% | | | **9.2%** | 15.1% |

Source: Company accounts

### Media practice (61.6% H118 revenue)

Like-for-like revenue were ahead 5.9% as the US business recovered from a difficult FY17, winning some good new business under its new leadership team. Its contract compliance practice continues to benefit from the trust deficit between the advertising industry and its customers. Outside the US, the European business was less buoyant as decision-making dragged, weighting revenues more heavily to H2. China should also be more H2 weighted as the new team finds its feet, with the Singapore operation performing well.

### Analytics & Tech (16.2% H118 revenue)

While technically two segments, these are bundled together for reporting purposes. Here the UK business was the strongest performer, while the US lagged. The US Digital Analytics business (was Stratigent) is now being reviewed to ascertain the best way forward. Investment in growing Analytics outside the UK and in building up the Tech practice weighed particularly on the margin in this segment.

### Intel (22.2% H118 revenue)

As outlined in the July trading update and reiterated here, the uncertainty over the ownership of this operation has had repercussions in terms of new business to counter the inevitable client churn, particularly in the UK. With relatively high fixed costs, this has a significant impact on operating margin, which fell from 12.1% to 5.1%, half-year on half-year.

## Cash performance stronger than anticipated

While the indicated taxation was slightly higher than expected at the half-year, we expect this to correct over H2 and our modelled rate for the full year remains at 24%. The outstanding element of these figures is, in our view, the working capital performance. A drive to improve receipts in Q218 pushed cash from operations up from £6.0m in H117 to £7.0m in H118 on an underlying basis, representing cash conversion of 168%.

Remaining contingent consideration for previous acquisitions is now at just £1.8m, of which £1.0m falls in the next 12 months. With net debt having reduced by £3.2m over the first half to £25.7m and the renewed facilities in place, there should be no issue in meeting the cash requirements of the group. The position obviously dramatically ameliorates with the Intel disposal proceeds (£26m gross, £20m net) if, as, and when they are received. We will update our model with respect to this divestment in due course.

### Exhibit 2: Financial summary

| £000s | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|
| 31-December | IFRS | IFRS | IFRS | IFRS |
| INCOME STATEMENT | 31-Dec | 31-Dec | 31-Dec | 31-Dec |
| Revenue | 83,569 | 87,374 | 91,200 | 96,464 |
| EBITDA | 14,574 | 14,035 | 12,743 | 14,458 |
| Operating Profit (before amort. and except.) | 12,959 | 12,026 | 10,500 | 12,058 |
| Amortisation of acquired intangibles | (1,865) | (1,952) | (1,950) | (1,900) |
| Exceptionals | (2,777) | (3,801) | (1,600) | 0 |
| Share-based payments | (560) | (738) | (1,000) | (1,000) |
| Reported operating profit | 7,757 | 5,535 | 5,950 | 9,158 |
| Net Interest | (1,132) | (1,044) | (1,200) | (808) |
| Joint ventures & associates (post tax) | 0 | 0 | 0 | 0 |
| Exceptionals | 0 | 0 | 0 | 0 |
| Profit Before Tax (norm) | 11,827 | 10,982 | 9,300 | 11,250 |
| Profit Before Tax (reported) | 6,625 | 4,491 | 4,750 | 8,350 |
| Reported tax | (2,230) | (2,043) | (2,232) | (2,700) |
| Profit After Tax (norm) | 9,257 | 8,085 | 7,068 | 8,550 |
| Profit After Tax (reported) | 4,395 | 2,448 | 2,518 | 5,650 |
| Minority interests | (245) | (384) | (585) | (600) |
| Discontinued operations | 0 | 0 | 0 | 0 |
| Net income (normalised) | 9,012 | 7,701 | 6,483 | 7,950 |
| Net income (reported) | 4,150 | 2,064 | 1,933 | 5,050 |
| Average Number of Shares Outstanding (m) | 77.2 | 77.9 | 78.1 | 78.9 |
| EPS - normalised (p) | 11.7 | 9.7 | 8.3 | 10.1 |
| EPS - normalised fully diluted (p) | 11.3 | 9.4 | 8.0 | 9.7 |
| EPS - basic reported (p) | 5.4 | 2.7 | 2.5 | 6.4 |
| Dividend per share (p) | 0.65 | 0.71 | 0.75 | 0.78 |
| EBITDA Margin (%) | 17.4 | 16.1 | 14.0 | 15.0 |
| Normalised Operating Margin | 15.5 | 13.8 | 11.5 | 12.5 |
| **BALANCE SHEET** | | | | |
| Fixed Assets | 75,855 | 75,771 | 74,978 | 73,878 |
| Intangible Assets | 72,079 | 72,440 | 71,947 | 71,197 |
| Tangible Assets | 2,438 | 1,829 | 1,529 | 1,179 |
| Investments & other | 1,338 | 1,502 | 1,502 | 1,502 |
| Current Assets | 35,078 | 37,241 | 39,945 | 47,305 |
| Stocks | 0 | 0 | 0 | 0 |
| Debtors | 19,291 | 20,978 | 21,607 | 22,256 |
| Cash & cash equivalents | 6,662 | 4,732 | 6,807 | 13,519 |
| Other | 9,125 | 11,531 | 11,531 | 11,531 |
| Current Liabilities | (25,912) | (24,549) | (24,771) | (25,000) |
| Creditors | (17,809) | (20,066) | (20,288) | (20,517) |
| Tax and social security | (1,850) | (1,598) | (1,598) | (1,598) |
| Short term borrowings | (4,476) | (1,572) | (1,572) | (1,572) |
| Other | (1,777) | (1,313) | (1,313) | (1,313) |
| Long Term Liabilities | (32,728) | (35,481) | (34,231) | (34,231) |
| Long term borrowings | (30,210) | (32,000) | (30,750) | (30,750) |
| Other long term liabilities | (2,518) | (3,481) | (3,481) | (3,481) |
| Net Assets | 52,293 | 52,982 | 55,921 | 61,953 |
| Minority interests | 761 | 1,040 | 1,040 | 1,040 |
| Shareholders' equity | 53,054 | 54,022 | 56,961 | 62,993 |
| **CASH FLOW** | | | | |
| Op Cash Flow before WC and tax | 14,574 | 14,035 | 12,743 | 14,458 |
| Working capital | (2,835) | (2,002) | (407) | (420) |
| Exceptional & other | (957) | (4,085) | (1,600) | 0 |
| Tax | (166) | (2,207) | (2,232) | (2,700) |
| Net operating cash flow | 10,616 | 5,741 | 8,504 | 11,339 |
| Capex | (2,351) | (2,231) | (2,500) | (2,600) |
| Acquisitions/disposals | (4,431) | (3,082) | (900) | (600) |
| Net interest | (1,074) | (921) | (1,200) | (808) |
| Equity financing | 26 | 160 | 0 | 0 |
| Dividends | (838) | (495) | (579) | (619) |
| Other | (1,017) | (46) | 0 | 0 |
| Net Cash Flow | 931 | (874) | 3,325 | 6,712 |
| Opening net debt/(cash) | 28,661 | 28,024 | 28,840 | 25,515 |
| FX | (633) | 58 | 0 | 0 |
| Other non-cash movements | 339 | | 0 | 0 |
| Closing net debt/(cash) | 28,024 | 28,840 | 25,515 | 18,803.2 |

Source: Company accounts, Edison Investment Research

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