EDISON

Future

Interim results

Global platform strategy starts to pay

Media

Future has produced strong H117 figures, as per April's trading update, boosted by growing e-commerce revenues and a strong showing from events. Momentum into H2 is good and we have raised our FY17 and FY18 forecasts for revenue, profits and earnings. Progress on reducing net debt was also ahead of our forecast. The strategy to build a global media platform business around Future's high-profile brands, backed with quality content and across multiple revenue streams, is starting to deliver meaningful returns and growth well above the sector average. The market valuation of the shares has yet to reflect this differential.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/15	59.8	0.2	2.7	0.0	66.7	N/A
09/16	59.0	1.6	5.7	0.0	31.6	N/A
09/17e	76.5	7.2	16.4	0.0	11.0	N/A
09/18e	77.5	10.5	22.0	0.0	8.2	N/A

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

Greater diversity and more recurring revenues

Management's strategy to build a broader set of income streams and to raise the quality of earnings through higher recurring and repeatable revenues is starting to deliver. Newer business streams, principally e-commerce and events, are being largely funded by the benefits of scale flowing through from the enlarged Magazine division. Key Media brands, such as *Techradar* and *PCGamer* continue to build their online presence, with the group's total online user audience growth of 53m MAU in March 2017, 18% ahead of prior year, with a total consumer reach of over 100m. US audience figures were even stronger. H117 Media division revenues rose 23% year-on-year, all organic, with e-commerce revenues up 72% to over a quarter of the division, supported by leading brand positioning in its segments, also driving the commercial success of the events portfolio. In Magazines, an emphasis on driving subscriptions has helped lift recurring revenues to 27% of total.

Organic and acquisitional growth

The acquisitions of Imagine Publishing (October 2016) and the Team Rock assets (January 2017) are both delivering as planned. Imagine synergy savings should flow through more strongly in FY18, quantified at £3m for a full year. There is good scope for further growth from group brands from extensions (eg *Techradar Pro*, addressing the professional market; *T3 Baby*), through licensing and franchising.

Valuation: Undervaluing the growth potential

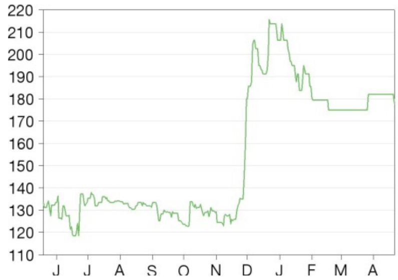
The share price picked up strongly post November's results as the market took on board the degree of transformation implemented and the scale of the opportunity. The shares then settled back to current levels, on a historical EV/EBITDA of 15.1x, with the substantial forecast growth bringing that figure in to 7.4x for FY17e. Global B2C media peers trade on a historical 15.6x, prospective 9.6x, allowing further upside as the group builds its record of delivering against expectations.

19 May 2017

Price	**180p**
Market cap	**£66m**

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	1.1	(3.2)	34.8
Rel (local)	3.7	(3.4)	20.2
52-week high/low		215.6p	118.5p

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

Final results	November 2017

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Good H117performance

Revenues for H117 was ahead 35% over the prior year, with the Media division gaining 23% to £16.2m and the Magazine division up by 45%, boosted by the Imagine acquisition. Split by geography, UK revenues were up 40% and those from the US up 18%. The UK accounted for 80% of group (77%). Particularly notable is the improvement in EBITDA, as the strategy of leveraging the brands and their content across different channels starts to play through. EBITDA margins in the UK lifted from 5.1% in H116 to 8.8%, while in the US they more than doubled from 11.1% to 22.4% as *Techradar* and *PCGamer* in particular gained further market traction and as contributions from e-commerce and events increased in the mix. Overall, brands within the core verticals of tech, gaming, photo and creative have shown strong growth, with revenues from *PCGamer.com* up 81%, *GamesRadar+* up 40% and *T3* up 72%. Global brand reach is being further extended through strategic partnerships and licensing deals such as that agreed with *Times of India* to license the *Techradar* platform.

The group now derives revenue streams from a lengthening list of opportunities: digital advertising; e-commerce; events; licensing (platform and content); retail; subscriptions; and contract publishing. An increasing proportion of the whole can now be defined either as recurring or repeatable. One of the guiding principles is 'building it once, monetising it over and again'. Success is always predicated on having high-quality, relevant content that resonates with its audiences. The newly-recruited e-commerce and trading director, Jason Kemp (a consultant with an extensive background in retail and e-commerce) is already having a positive impact on the newer income streams. He adds retail expertise to the data and content knowledge already in place.

Upgrades to forecasts

The statement indicates that H217 to date is 'slightly' outperforming management expectations and this, combined with the strong H117 outturn, has encouraged us to raise our projected numbers. The top line uplift to revenues from £70m to £76.5m for FY17e and from £73m to £77.5m for FY18e translates into a greater improvement to EBITDA, profits and earnings, as shown in Exhibit 1 below. The margin expansion reflects a combination of the synergistic benefits stemming from the integration of Imagine in the Magazine division and the operational leverage coming through from Media brands.

Exhibit 1: Revised forecasts

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
2016	5.7	5.7		1.6	1.6		4.7	4.7	
2017e	10.0	16.4	+64	4.6	7.2	+57	9.0	9.6	+7
2018e	18.0	22.0	+22	8.6	10.5	+22	12.4	12.6	+2

Source: Company accounts, Edison Investment Research

Cash conversion

Post the Imagine acquisition, we were forecasting that the end FY17e net debt position would be £7.2m. The strong cash conversion performance in H117 has resulted in an end-March number of £5.2m and with H2 also generally cash positive, we are now looking at a year-end figure of £4.0m. By the end of the following year, our current forecasts indicate that the group may be approaching a cash neutral position.

Exhibit 2: Financial summary

£'m	2013	2014	2015	2016	2017e	2018e
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	9.6	12.6
Operating profit (before amort. and except.)	(3.4)	(10.3)	0.8	2.3	8.2	11.2
Amortisation of acquired intangibles	(2.0)	(2.3)	(2.3)	(0.9)	(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)	(15.1)	2.6	5.6
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	12.6	16.3
Normalised operating margin (%)	(4.1)	(15.6)	1.3	3.9	10.8	14.5
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	20.7	21.9
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	4.0	5.2
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	37.4	43.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	67.4	32.6	31.4	23.7	37.4	43.2
CASH FLOW						
Operating cash flow before WC and tax	0.6	(31.6)	0.8	1.5	8.4	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	4.0	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	(4.6)	3.5
Opening net debt/(cash)	10.6	6.9	(7.5)	1.8	(0.5)	4.0
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)	4.0	0.5

Source: Company accounts, Edison Investment Research

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