

7digital Group

Trading update

A good start to the year

7digital's recent trading update confirmed good progress. H117 revenues increased 13%, with a strong performance from high-margin licence and creative sales. Momentum in monthly recurring revenues and new contract wins, as well as the full impact of the 24-7 acquisition put the group on track for an even stronger second half and add to our confidence in the deliverability of targeted EBITDA profitability in 2018. Given the progress being made, the 3.0x FY18 EBITDA rating looks extremely attractive.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)
12/15	10.4	(2.1)	(7.6)	(7.1)	0.0	N/A	N/A
12/16	11.9	(3.5)	(4.7)	(4.1)	0.0	N/A	N/A
12/17e	19.1	(1.7)	(2.9)	(1.8)	0.0	N/A	N/A
12/18e	24.9	3.0	2.1	1.2	0.0	3.0	5.6

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

H1 trading update: Pick up in recurring revenues

H1 revenues, which include a month of the 24-7 acquisition and some currency benefit, increased 13% to £5.93m. High-margin licence revenues increased by 25% (c £3.8m) and monthly recurring revenues (including Juke!) increased by 27%. Creative revenues, which are also fairly high margin, were also "particularly strong".

Contract wins: Momentum across range of segments

Contracts with a lifetime value of c £5m were signed in H1, including with DTS (automotive), HDtracks (the world's first full MQA streamed music service) and the relaunch of TriPlay's eMusic service in the US. Since the period end, 7digital has also announced new contracts with Global Eagle Entertainment (inflight entertainment content to the airline industry), Deedo SAS for a new music streaming service across 27 markets in Africa and Asia and US group Fan Label. These contracts will start to contribute to revenues in H217 and along with the first full half contribution from the consolidation of 24-7 (which is expected to add £5m of revenues in H217 and £8m in FY18) should support a very strong second half performance in line with our forecasts and management's expectations.

Valuation: Progress warrants re-rating

We look forward to more detail at the interims in September, but on the face of it, 7digital has had a good start to the year both financially and in terms of new client wins across a range of segments, which along with the successful integration of 24-7 underpin our forecast 61% growth in revenues this year. While work remains to be done to deliver forecasts, the growth in MRR is encouraging, reflecting in part the benefit of the acquisition, improving earnings visibility and adding to our confidence in the achievability of EBITDA profitability next year. Given the progress being made, the FY18 EV/EBITDA rating of 3.0x, a fraction of the peer set, is looking increasingly out of sync. As the group moves towards targeted EBITDA profitability in FY18 we expect to see a significant re-rating of the shares, which we believe are worth at least 14p. Please refer to our recent [initiation report](#) for more information.

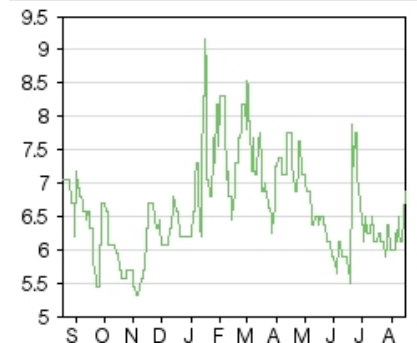
Media

16 August 2017

Price **6.55p**
Market cap **£10m**

Net cash (£m) at 30 June 2017	1.3
Shares in issue	183.0m
Free float	84%
Code	7DIG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	12.2	5.8	(5.9)
Rel (local)	11.8	6.6	(12.3)
52-week high/low		9.2p	5.3p

Business description

7digital Group provides an end-to-end, white-label digital music platform and access to global music rights that enable its clients, which include businesses in the radio, electronics, social media and telecoms industries around the world, to offer music streaming and download services to their own customers. Its global customer base includes musical.ly, Onkyo, Panasonic, MediaMarktSaturn, Cdiscount, Electric Jukebox, eMusic and i.am +.

Next events

Interim results	September 2017
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Exhibit 1: Financial summary

	£000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		10,212	10,392	11,899	19,110	24,856	27,587
Cost of Sales		(4,882)	(3,308)	(3,451)	(4,261)	(4,853)	(5,100)
Gross Profit		5,330	7,084	8,448	14,849	20,003	22,487
EBITDA		(3,108)	(2,102)	(3,528)	(1,747)	2,965	4,646
Normalised operating profit		(3,775)	(2,862)	(4,684)	(2,875)	2,145	3,762
Amortisation of acquired intangibles		0	0	(321)	(552)	(552)	0
Exceptionals		(388)	(128)	(464)	(840)	(1,100)	0
Share-based payments		(340)	(137)	4	0	0	0
Reported operating profit		(4,503)	(3,127)	(5,465)	(4,267)	493	3,762
Net Interest		3	11	(13)	0	(15)	0
Joint ventures & associates (post tax)		0	0	0	0	0	0
Exceptionals		1,888	(4,767)	0	0	0	0
Profit Before Tax (norm)		(1,884)	(7,618)	(4,697)	(2,875)	2,130	3,762
Profit Before Tax (reported)		(2,612)	(7,883)	(5,478)	(4,267)	478	3,762
Reported tax		(17)	(3)	(12)	0	0	(376)
Profit After Tax (norm)		(1,901)	(7,621)	(4,709)	(2,875)	2,130	3,386
Profit After Tax (reported)		(2,629)	(7,886)	(5,490)	(4,267)	478	3,386
Minority interests		0	0	0	0	0	0
Discontinued operations		3,004	0	0	0	0	0
Net income (normalised)		(1,901)	(7,621)	(4,709)	(2,875)	2,130	3,386
Net income (reported)		375	(7,886)	(5,490)	(4,267)	478	3,386
Basic average number of shares outstanding (m)		87	108	114	160	183	183
EPS - basic normalised (p)		(2.2)	(7.1)	(4.1)	(1.8)	1.2	1.9
EPS - diluted normalised (p)		(2.2)	(7.1)	(4.1)	(1.8)	1.2	1.9
EPS - basic reported (p)		0.4	(7.3)	(4.8)	(2.7)	0.3	1.9
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	1.8	14.5	60.6	30.1	11.0
Gross Margin (%)		52.2	68.2	71.0	77.7	80.5	81.5
EBITDA Margin (%)		N/A	N/A	N/A	N/A	11.9	16.8
Normalised Operating Margin		N/A	N/A	N/A	N/A	8.6	13.6
BALANCE SHEET							
Fixed Assets		7,661	1,121	2,778	3,508	2,836	2,673
Intangible Assets		345	417	2,303	3,013	2,541	2,548
Tangible Assets		691	704	475	495	295	125
Investments & other		6,625	0	0	0	0	0
Current Assets		8,451	6,220	4,590	5,327	6,306	8,358
Stocks		44	62	177	177	177	177
Debtors		3,095	4,502	3,575	4,712	6,129	6,802
Cash & cash equivalents		5,312	1,656	838	438	0	1,378
Other		0	0	0	0	0	0
Current Liabilities		(4,984)	(3,975)	(7,193)	(8,652)	(8,666)	(7,354)
Creditors		(4,796)	(3,804)	(6,731)	(8,190)	(7,736)	(6,892)
Tax and social security		0	0	0	0	0	0
Short term borrowings		0	0	0	0	(468)	0
Other		(188)	(171)	(462)	(462)	(462)	(462)
Long Term Liabilities		0	0	(1,746)	(1,561)	(1,376)	(1,191)
Long term borrowings		0	0	(1,519)	(1,334)	(1,149)	(964)
Other long term liabilities		0	0	(227)	(227)	(227)	(227)
Net Assets		11,128	3,366	(1,571)	(1,378)	(900)	2,486
Minority interests		0	0	0	0	0	0
Shareholders' equity		11,128	3,366	(1,571)	(1,378)	(900)	2,486
CASH FLOW							
Op Cash Flow before WC and tax		(3,108)	(2,102)	(3,528)	(1,747)	2,965	4,646
Working capital		(2,788)	(2,439)	4,098	322	(1,871)	(1,518)
Exceptional & other		(391)	(150)	(1,024)	(840)	(1,100)	0
Tax		(17)	(3)	(12)	0	0	(376)
Net operating cash flow		(6,304)	(4,694)	(466)	(2,265)	(6)	2,751
Capex		(345)	(848)	(447)	(800)	(700)	(720)
Acquisitions/disposals		3,718	1,828	108	0	0	0
Net interest		2	11	(13)	0	(15)	0
Equity financing		6,952	0	0	2,850	0	0
Dividends		0	0	0	0	0	0
Other		(1)	0	0	0	0	0
Net Cash Flow		4,022	(3,703)	(818)	(215)	(721)	2,031
Opening net debt/(cash)		(1,290)	(5,312)	(1,656)	681	896	1,617
FX		0	48	0	0	0	0
Other non-cash movements		0	0	(1,519)	0	0	0
Closing net debt/(cash)		(5,312)	(1,656)	681	896	1,617	(414)

Source: 7digital Group accounts, Edison Investment Research

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