7digital Group

Stand and deliver

Initiation of coverage

Media

7digital is a leading provider of turnkey solutions that enable businesses to offer digital music services to their customers. It has made significant strategic progress over the last year, culminating in the acquisition of its largest European competitor, 24-7, which adds £18m of secured revenues over three years and synergy potential. We believe it is well placed to benefit from the evolution in the market for music streaming and forecast profitability from FY18; the shares look extremely attractive at these levels.

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	3.1	5.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **EV adjusted for the £3m March equity raise.

24-7 acquisition cements leading position

7digital has made considerable progress over the last year and now counts all three major music groups as partners, along with a number of strategically significant clients in the retail, hardware, social media and automotive segments. The £2.2m acquisition of 24-7, which closed last month cements this leading position and should significantly increase its earnings post-integration. It also adds two important reference clients in the electronics retail and telecoms segments.

Swing to EBITDA profitability in FY18

Growth has been affected as the group worked to improve the quality of its earnings base, transitioning from a B2C download model to a higher-margin B2B licence model. This transition is largely complete. We estimate 78% of FY17 revenues are from licences, and we forecast revenue growth to accelerate significantly, underpinned by the near doubling of the value of new contract wins during FY16 and the 24-7 acquisition. The integration of 24-7 means that management now expects an EBITDA loss of £1.5m in FY17, but a significant swing to profits of £3.4m in FY18. We factor in a small contingency to these targets. Nevertheless, we forecast a 12% EBITDA margin next year, rising to 17% in FY19.

Valuation: Significant rating gap unjustified

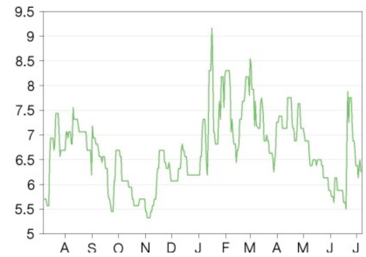
Music streaming revenues overtook CD sales last year and with innovative new music models emerging, is forecast to continue to grow strongly. 7digital offers unique exposure to this growing segment in Europe. The FY18 EV/EBITDA rating of 3.1x looks unusually low for an operationally geared company in its first year of profitability, trading at a fraction of the average 12.0x rating of its (more mature) peer set of video streaming companies. Announcements of significant customer wins, a growing recurring revenue base and the successful integration of 24-7 should build confidence in the achievability of FY18 targets, in which case we would expect a re-rating of the shares. Based on peer comparison and a conservatively cut DCF, we believe the shares are worth at least 14p.

10 July 2017

Price	**6.25p**
Market cap	**£11m**

Net debt (£m) as at 31 December 2016	0.7
Net cash (£m) post the March 2017 £3m equity raise	2.2
Shares in issue	183m
Free float	c 84%
Code	7DIG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.0	(12.3)	9.7
Rel (local)	3.7	(12.5)	(4.1)
52-week high/low		9.16p	5.32p

Business description

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

Next events

Interim results	September 2017

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Investment summary

Market context: Streaming market ripe for disruption

Streaming has revived the music industry, and with only 2% of the world's adult population paying for such services, and 80% of radio listening still in analogue, the opportunity remains significant. The market is currently dominated by a few global platforms and a one-price-fits-all approach; 7digital's success is predicated on its belief that while services such as Spotify and Apple Music will continue to serve enthusiasts, there remains a vast untapped market for streamed music services for the casual listener that will be served by a range of business models. By providing the back-end technology and catalogue to companies that may want to act as alternatives to these major platforms, 7digital is aiming to become the world's leading end-to-end music services group.

Investment case: Unique exposure to digital music market

7digital has been loss-making since 2014 as it transitioned from a B2C download model to a high-margin B2B licence business, and costs related to the integration of 24-7 mean another year of EBITDA loss in FY17. This financial performance masks, to an extent, the significant strategic progress the group has made during this time. We believe that the group is now in a much stronger position to execute its growth strategy: the majority of profits are now generated by licensing the platform; a number of significant new customers have been announced; and the 24-7 deal adds scale, synergies and relationships, which underpin our forecast return to profitability in FY18.

While work remains to be done to deliver forecasts, reverse DCF suggests the shares are factoring in very little success. A low-end 8x EBITDA multiple returns a share price of 14p, a value that is also supported by modest longer-term assumptions in our DCF (11% WACC, 2% perpetuity, 5% average revenue growth FY19-26, 20% EBITDA margin). As the group moves closer to profitability, we expect a considerable re-rating of the shares. Investors should consider the following points:

- **Unique position**: 7digital has the only B2B platform that supports the high-resolution master quality authenticated (MQA) file format, which has received support from all the main record labels and is now gaining momentum. In addition, 7digital's experience in curation and store creation enables it to offer its customers a differentiated end-to-end service.
- **Strategically significant customers:** 7digital now has a number of reference clients across a variety of sectors that demonstrate the potential of its platform: 7digital powers the popular social media service musical.ly, the Dial service from i.am+ in the wearables segment, and is developing a prototype for the automotive market with DTS. Post the 24-7 integration it will power Juke! for Europe's largest consumer electronics retailer, MediaMarktSaturn (MMS); and the successful service offered by Danish telecoms operator TDC. It also works with all three major record labels, which is an endorsement of the company's trusted status.
- **Leading position:** industry consolidation leaves 7digital as the only B2B music platform and services group with global capabilities and a proven track record. For companies wishing to add a music service to their offering, it has become the go-to provider.
- **Operationally geared:** 78% of revenues are from high-margin licensing (FY17e), and approximately two-thirds of monthly recurring revenue (MRR) from streaming services, which are seeing strong momentum. With a relatively fixed cost base, operational gearing effects should ensure a large proportion of revenue growth is converted to profits.

Sensitivities: 7digital's clients are launching experimental services. Revenues have been and may again be affected by customers closing services if they fail to see traction. Sales cycles are long and progress may be lumpy. 7digital relies on the support of the major music companies for rights access; changes in their policies would have an impact on the competitiveness of its solution.

Company description: Music platform and services

Music is often used by companies to engage with customers, either for marketing purposes, to widen reach, or as a direct revenue generator. The transition to a largely digital music market that has taken place over the last 10 years has disrupted the traditional routes to market, particularly for the high street and supermarkets. However, as technology becomes more accessible, new opportunities open up for these and other companies looking to offer music to their customers.

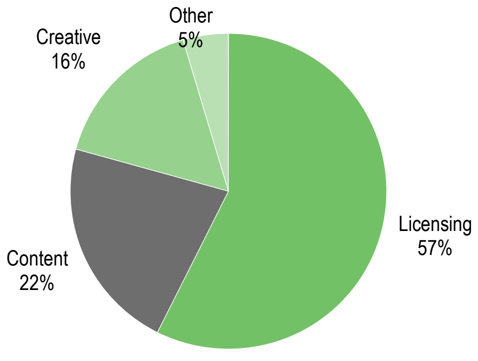
7digital provides the platform and services required to enable businesses and brands to offer digital music services, comparable to the major B2C platforms such as Spotify or Apple Music, to their customers. Its platform provides the infrastructure that supports high-resolution audio download and streaming services, access to more than 60 million music tracks and curation expertise.

It also runs its own online download store and provides music radio programming for broadcasters including the BBC. Its global customer base comprises leading consumer brands, mobile carriers, broadcasters, car manufacturers and retailers including Panasonic, Onkyo, DTS, eMusic and Electric Jukebox. Its customers operate in 45 countries and in December 2016 delivered 228m music streams to over 16m people (versus 76m streams across the whole of FY15). The group has approximately 130 employees and has offices in London, San Francisco, Paris, Manchester, Lille, Kiev and Copenhagen. 62% of revenues were generated outside the UK in FY16.

7digital reports across three categories: licensing, creative and content (Exhibits 1 and 2):

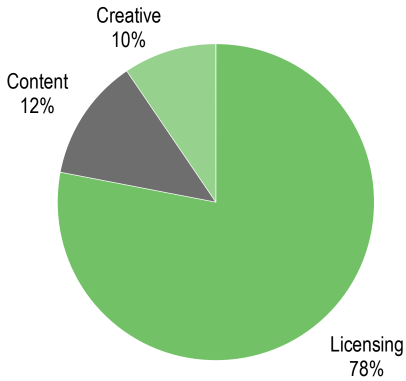
- **Licensing** (57% of FY16 revenues, 78% of FY16 gross profit excluding fx gains): the majority of 7digital's income and the growth driver of the group is derived from licensing the music platform and rights management services to companies, to enable them to provide music services to their own consumers.
- **Creative** (16% revenues, 10% gross profit): 7digital produces approximately 1,200 hours of radio programming and curation services each year for broadcasters including the BBC (such as *Sound of the Sixties*) and Sky in the UK, entertainment news content that is distributed to approximately 150 radio stations worldwide, and playlists for major streaming platforms. While it is a profitable business in its own right, the creative expertise and relationships also enhance the platform services and provide a differentiating factor to other music platforms.
- **Content** (22% revenues, 12% gross profit)**:** 7digital runs its own online music stores and cloud music locker services.

Exhibit 1: FY16 revenue by division



Source: 7digital

Exhibit 2: FY16 gross profit by division



Source: 7digital (excludes fx gains)

Background and management

7digital was founded in 2004 and initially focused on building music download stores for its customers, as well operating its own music download store, 7digital.com. In June 2014, it

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completed a reverse merger with AIM-listed radio technology group and content producer UBC Media Group. The merger was justified by the rapid take-up in streaming music services, which has resulted in the convergence of the radio and recorded music industries and an increasing number of 'radio-like' services emerging (Spotify, Pandora, etc).

CEO Simon Cole has worked in the radio industry for over 30 years. Following a career at Piccadilly Radio, Simon co-founded and ran The Unique Broadcasting Company, which was later bought by radio content provider UBC Media Group, where he was CEO at the time of its merger with 7digital in 2014. Deputy CEO Pete Downton joined in 2014 as chief commercial officer and is responsible for the group's strategy. He has held senior positions across the digital music and technology industries, including Imagination Technologies (a previous shareholder in 7digital) and Warner Music Group. Matt Honey joined 7digital in June 2016 as finance director, having previously worked with Simon at The Unique Broadcasting Company as finance director and MD of one of its divisions. The board is supported by a highly experienced non-executive chairman, Sir Donald Cruickshank, who was director of technology group Qualcomm from 2005 until 2016 and has held a number of chairman positions in FTSE- and AIM-listed groups.

Strategic progress: Higher-quality revenue base, consolidation

The merger acted as the catalyst for a wider repositioning of the group. It has since de-emphasised its own B2C download services, divested its non-core interest in spoken-word audio platform Audioboom (September 2015 for £1.9m), and has focused investment on strengthening the platform to support service improvements and scalability.

The emphasis has been to improve the quality of the revenue base by growing the share of revenues from higher-margin, recurring licence fees for the use of the platform, as well as engaging with higher-quality, larger and more strategic customers around the world. Consolidation has been a key part of its strategy to add to its international client base, drive scale economies (duplicated platform costs), bolt-on technology and increase the share of revenues derived from higher-margin platform services. Over the past year, it has made two significant acquisitions:

- In April 2016, it acquired Snowite for £1.9m (£0.65m in new shares and £1.2m assumed debt), strengthening its position in France by adding significant clients in the retail sector (Leclerc, Cdiscount) and an important relationship with UMG (see our March 2016 QuickView note).
- In June 2017, it completed the £2.2m, all-share acquisition (23m shares and £0.9m acquired cash, which is refundable post completion) of its largest European competitor, Copenhagen-based 24-7, from MMS, Europe's largest consumer electronics retailer. Music forms an important part of MMS's strategy to add customer services and build loyalty. It has invested heavily into its Europe-wide Juke! music service over the years and was keen to bring on board 7digital as a partner. As well as the ongoing business acquired, MMS has widened its relationship with 7digital (£6m of new revenues) and retains a 12.7% interest in the enlarged group (12-month lock-up). The acquisition also marks a step change in scale. It will add £5m of revenue in FY17 and £8m in FY18, when it is expected to be significantly earnings-enhancing (see our July 2017 QuickView note).

Following these acquisitions, we estimate licence sales will account for 92% of gross profits (FY18e). In March, 7digital raised an additional £3m via the placing of 34.8m new shares and an open offer of 9.4m shares. On a more stable financial footing, the emphasis is now on integrating 24-7, adding new strategically significant clients and moving to profitability, which it targets in FY18.

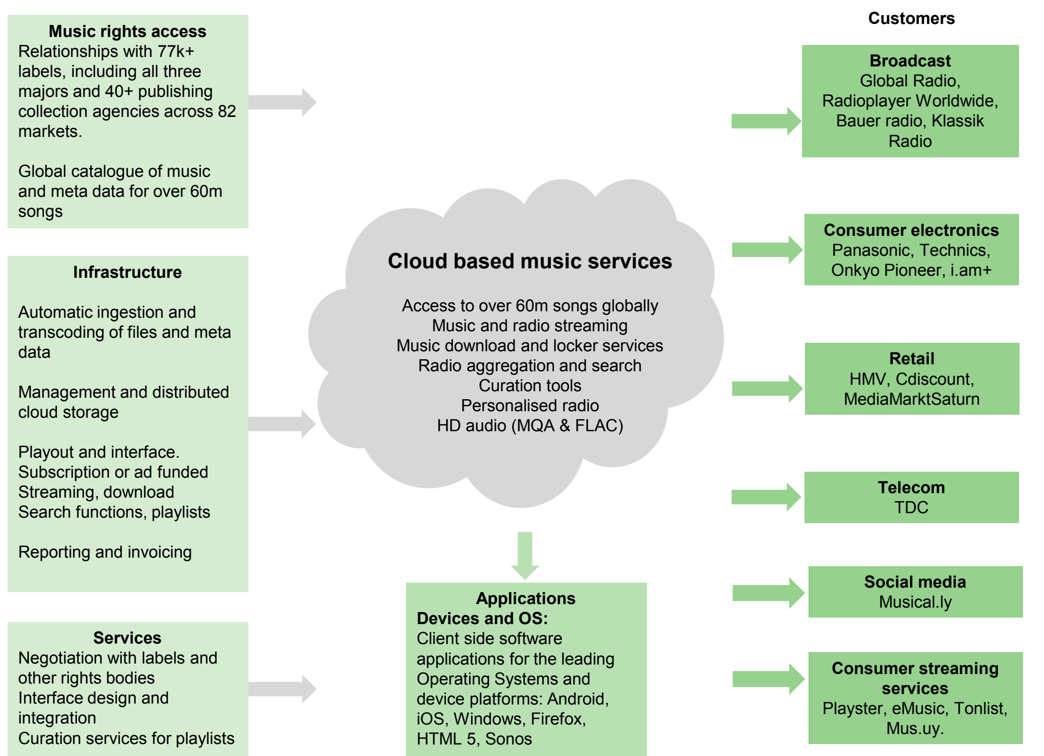
At its AGM on 28 June, management updated its financial guidance. The extra costs associated with an accelerated integration of 24-7 mean that it now expects an EBITDA loss of £1.5m in FY17 (having previously guided to EBITDA break-even) but it increased its targeted EBITDA profitability in FY18 by £1.5m to £3.4m.

Platform: Powers next-generation music services

7digital offers end-to-end services, which enable it to build, manage and launch complete music solutions for its clients, such as interface and app design, negotiation for streaming licences from the rights owners (which need to be done on a case-by-case basis) and creative services including editorial, curation and playlist services. While many of its capabilities do not live on the platform, it forms a key part of its service. At a high level, the platform provides:

- **Rights access:** 7digital has relationships with the three major music labels (UMG, WMG and Universal), over 77k other labels and 40 publishing collection societies across 82 markets, meaning customers gain instant access to an extensive music catalogue of approximately 60m tracks (equal to those offered by the leading B2C streaming services such as Spotify and Apple Music). It also adds approximately half a million tracks to the catalogue each month. Putting in place access to rights in itself can be the most significant barrier to launching a music service.
- **Automatic ingestion and transcoding** of music files of varying formats and associated meta-data (name, genre, artist, pricing, geographic restrictions). Outside the major consumer services, 7digital is the only service provider that ingests all global releases every week (c 150k). It is also the only one that offers a catalogue of MQA-encoded content.
- **Management and storage:** distributed cloud storage (Google Cloud) of music assets and user preferences.
- **Playout and interface:** supports a wide range of music services and models – download or streaming, subscription or ad-funded, curation, search, playlists and locker services. The interface may be white label or bespoke, but it always draws on the core platform.
- **Reporting and invoicing**: a data console provides client-side and label analytics. Usage by service and by user is automatically reported back to the labels once a month, and to publishers quarterly for royalty reporting. Labels then either invoice clients directly or via 7digital (which may settle on behalf of the client).

Exhibit 3: 7digital's music platform and customers



Source: Edison Investment Research

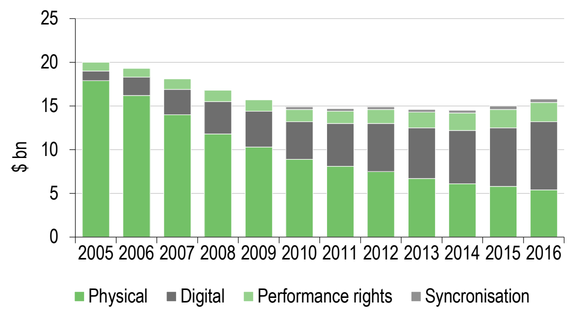
Music industry trends

Streaming revives the music industry

Streaming services have revived an industry that has been grappling with the transition to digital downloading and the piracy that came with it. After nearly two decades in decline, the global music market marked its first year of growth in 2015 (+4%, IFPI), continuing in 2016 (6%, IFPI). Digital is now the industry's primary revenue stream, accounting for 50% of the recorded music market, overtaking physical (39%), with performance rights accounting for the balance. Within digital, it is music streaming that is spurring this growth; it has grown from next to nothing five years ago to account for 43% of digital revenues (+60% in FY16) (Exhibits 4 and 5). In the US, the world's largest music market, streaming is now the largest earner for the music industry (66% of all digital sales in FY16).

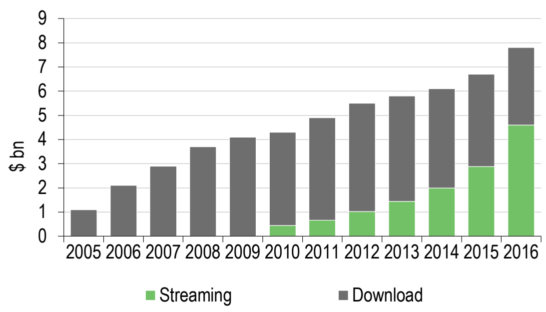
As well as the improvements in connectivity and expansion of smartphone and tablet penetration, the rapid rise in streaming, which mirrors to an extent the acceptance of video streaming services, has been driven by two global subscription platforms and a few internet radio groups. Spotify (approximately 50m subscribers) and Apple Music (c 30m), which have developed their services around a $10/€10/£10 monthly price point, together account for approximately two-thirds of global paid-for music subscriptions. The rest of the market is currently served via internet radio services, or by advertising-funded subscription options from Spotify and Apple. The increasing popularity of 'playlists' (Exhibit 6) means that internet radio and subscription services look increasingly similar. However, again, the market for internet radio, which in the US now accounts for 21% of all radio listening, is dominated by three companies (95% of listening via Pandora, iHeartMedia and Spotify).

Exhibit 4: Recorded music global revenues by type



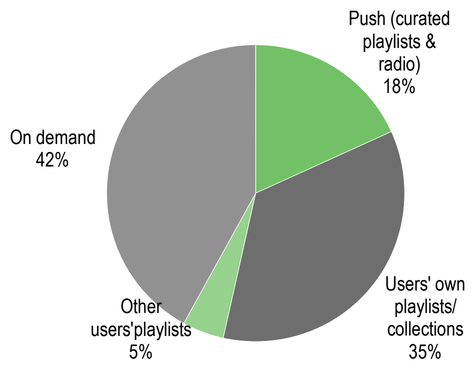
Source: International Federation of the Phonographic Industry (IFPI)

Exhibit 5: Streaming drives the growth of digital music



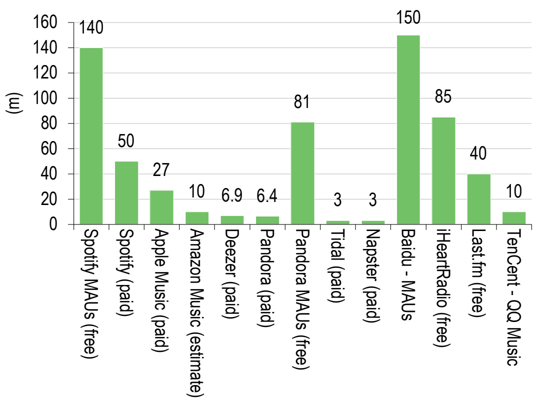
Source: IFPI

Exhibit 6: Sources of streams from leading services



Source: MIDIA – UK

Exhibit 7: Various streaming platform subscribers



Source: Various – data collated from various articles and sources; some is over 12 months old and may not be accurate.

Market ripe for disruption

Streaming has proven its value to the recorded music industry (which on average earns more per stream than it does per download or from the radio industry [on a play-per-listener basis]); however, there is still scope for significant growth. The market for recorded music was worth $15.8bn (IFPI) and radio was worth $33bn in FY16 (IMARC). However, with only 100 million paying subscribers globally (against a music-consuming population of about four billion adults, 2%) penetration levels leave significant scope for further growth. Similarly in the radio industry – even in the US, one of the most developed markets – 80% of all radio listening is still analogue.

This could in part be due to the current market structure, which offers little variety in terms of product (all-you-can-eat music services with 50m+ tracks and playlist services) or pricing options; the current $10 price point excludes many casual music consumers, while capping the spending of enthusiasts, who in the past would have spent multiples of this on music each year. This contrasts with the video streaming market where there are multiple price points, service levels and bundle options. It also goes against the traditions of the music industry, which in the past offered a range of pricing points (catalogue vs current, compilation vs single artist albums, etc) distributed across a variety of outlets (enthusiast stores, specialist retailers, supermarket chains).

Smart speakers and AI driving further change and growth

Smart speakers are moving into the mainstream fairly quickly. 36 million Americans used smart speakers in April 2017 (eMarketer) and Gartner forecasts 75% of US homes will be using them by 2020. This could lead to changes in the way people listen to and curate music; for example, Amazon's current US outdoor advertising campaign for its smart speaker, Alexa, majors on the ability of users to search for songs by key lyrics – for example, by giving the command: 'Alexa… with silver hair a ragged shirt', giving users a new intuitive way to search for music. This natural language processing (NLP) functionality is likely to drive the increased use of AI and curation for playlists ('play me some calming music').

The Amazon Echo (integrated with Amazon Music) is currently taking a 70% share of smart speaker sales and Google Home 24%, posing its own set of challenges for the other device manufacturers and consumer electronics retail.

New contenders represent the opportunity for 7digital

Technavio predicts a CAGR in global music streaming revenues of 13% to 2020, becoming an increasingly important revenue stream for the music industry. We believe record labels, uncomfortable with the current duopoly, will become more supportive of new services and business models. Similarly, device manufacturers, which risk losing market share to the internet groups, will have to move beyond their comfort zones and experiment with new business models.

This is starting to become evident. New global contenders are emerging with different pricing strategies: for example, Google Play's family subscriptions for £15 a month; Amazon Prime Music (which offers two million songs bundled with Prime membership); and Deezer (backed by Orange and the three major music groups) is expanding beyond its home market in France. A number of radio groups have announced the launch of global streaming services (e.g. Pandora) and are becoming increasingly innovative on where their services can be accessed. For instance, the bundling of services with mobile subscriptions (eg TDC in Denmark, Napster on SFR in France), in car streaming (Sirius XM), social media integration (SoundCloud, Wynk).

New entrants from a range of sectors, including mobile network operators (MNO), broadcast, equipment manufacturers and retailers, have launched services such as HMV Digital, Samsung Music Hub, Xbox Music and Juke! As have start-ups with new innovative services, such as musical.ly and Electric Jukebox.

For most of these emerging services, it is uneconomical to develop their own platform, representing the opportunity for 7digital.

Competition

The leading music platform services group

Two of 7digital's largest competitors exited the market during FY16. In April 2016, Omnifone (operating in 34 markets), which had an inflated cost base compared to 7digital, went into administration; its technology was acquired by Apple and the remaining business closed. In May 2016, Medianet (operating in four markets) was acquired by the Canadian rights body, SOCAN, which is using the technology as a rights management tool. With 7digital's acquisition of its most significant European competitor, 24-7, this leaves very little direct competition of a similar scale or track record.

Smaller competitors offer either platforms solutions only without rights access or services (eg Bluewire, Cyclo), have limited geographical coverage (eg Mondia in Germany), or are platform-specific (eg MG3 – mobile only).

There is little to stop the current B2C services from expanding their horizons to the B2B2C market; however, the fact that 7digital is fully independent should be attractive to potential customers looking to establish their own brands. Furthermore, 7digital's experience in curation and artist download services (direct to fans) adds an important point of differentiation from the current B2C platforms, as does the fact that it is the only B2B platform that supports MQA technology. For those that want a high-quality, end-to-end, white-label solution that has been proven to operate at scale, 7digital is an obvious choice.

MQA: The high-quality audio format supported by 7digital is gaining momentum

Conversion from analogue to digital and back again requires parts of sounds to be discarded to keep the file size down, which causes subtle distortions (smearing). MQA re-captures the original timing detail from the master recording, restoring analogue-quality sound that can be delivered in its original format in a form small enough to deliver to any device. It is backward compatible (and so can be played on any device; although to experience the optimum quality improvements it needs an MQA device). It is also authenticated (encrypted with an artist-approved digital signature) to ensure that the track being received is intact.

Universal Music Group (UMG) and Warner Music Group (WMG) announced that they would encode their catalogues in MQA during 2016 and, with Sony and Merlin announcing support for the format in June 2017, it now has the backing of all the major and indie labels. A number of niche hardware manufacturers have been supporting the technology for some time (Technics, AudioQuest and Audio Nirvana); however, with this development the format is more likely to go mainstream. At CES this year, both Sony and Samsung highlighted its benefits. MQA is being used by a limited number of smaller music platforms as a 'feature' service (TIDAL and Highresaudio). However, 7digital is the only B2B platform able to offer the technology, a key differentiator.

Strategically significant customers

Clients may be motivated to add music services either to drive revenues directly, to widen reach, or for more general marketing purposes, and 7digital has approximately 40 clients from a wide range of industries (Exhibit 3).

A number of clients have come on board over the last year that we consider to be strategically significant, either because they demonstrate the progress the group has made in improving the quality of its customer base, or because they are from industries that we believe could become major participants in the music industry over time.

Juke! provides music streaming, downloads, eBooks and movies on the web and on mobile across three European markets. It is owned by Europe's largest electronics retailer, MMS (now a 12.7% shareholder in 7digital), and forms an important part of its strategy. Following the acquisition of 24-7, Juke becomes 7digital's largest customer and is a good example of traditional retailers' efforts to defend their market share and drive margins by adding services upstream for their customers.

TDC is the largest telecoms group in Denmark (owning MNO Telmore and cable brand YouSee). It bundles music streaming services in its packages at no extra cost to clients and has approximately 400,000 customers in Denmark (similar scale to Spotify and Apple). For telcos, bundling music services to offerings is a compelling way to help build loyalty, reduce churn and potentially add to margins. While there have been a number of false starts over the years (eg Sky Songs in the UK, Vodafone Vizavi, O2 Tracks), we expect this segment to be one of the most active in the coming years. In the UK, EE was the first to start to bundle music (with Apple) last year, followed by Vodafone (with Spotify). Exhibit 8 provides an illustration of the strategies of the main telcos in a selection of developed and developing markets. Using 7digital's services would be an effective way to quickly introduce an own branded competing music service for a number of these telcos.

Music majors: in addition to licensing music from the major record labels, 7digital supplies services back to them in various capacities including the development of mobile apps, artist sites and the development of workflow tools for playlist creation. We see this as a strong endorsement that 7digital is seen as a leading service enabler in the digital music industry.

Social media: Musical.ly is a social media platform where users (predominantly teenage girls) create and share short videos. It has over 150m registered users and over 40m monthly active users (MAUs) globally. Musical.ly switched its music platform to 7digital's in 2016 and as well as being a flagship client in social media provides comfort that the platform is robust and scalable.

Voice-enabled devices: Dial is a voice-enabled smartwatch with integrated SIM card from i.am+ that comes with a music service. 7digital powers a playlist-driven, on-demand music service that is bundled with the device, available to Three subscribers in the UK. While such wearables have not yet moved mainstream, backed by the singer will.i.am, it has significant brand awareness and given his investment into virtual assistant AneedA we expect i.am+ to expand into other lines of bundled hardware and music services. In June, 7digital announced a new partnership with SoundHound, a leading provider of sound recognition and voice-enabled intelligence technology (that recently raised $75m from NVIDIA and Samsung to widen its applications and scale internationally), which it will integrate on its platform, furthering 7digital's capability to deliver voice-enabled experiences.

Automotive: DTS has partnered with 7digital on the development of a high-resolution audio solution prototype for the automotive market. DTS is a subsidiary of Tessera Holdings focused on developing dashboard-mounted audio solutions for several brands. Its systems are integrated into more than 2bn devices globally. The lead time from development to commercialisation is likely to be considerable; however, this is 7digital's first move into the in-car vertical, which we believe will become more significant as car manufacturers, reluctant to hand over control of their infotainment systems to Spotify or Google, catch up with the evolution in the music industry. Tesla, for instance (which in the past has partnered with Spotify), is reportedly planning its own streaming service (*Variety*, 22 June 2017).

Retail: 7digital powers the music elements of Cdiscount's recently launched a three-in-one music, video and books monthly subscription streaming service. Cdiscount is one of the leading e-commerce retailers in France.

Radio: Radioplayer is a collaboration between the BBC and the UK commercial radio sector. It provides a solution enabling listeners to discover and listen to hundreds of radio stations in one place, set favourites and playlists, and discover location- or theme-based programming. It is currently licensed in Germany and Belgium, and in 2016 signed two new agreements in Canada and Peru. The platform uses 7digital's software and 7digital has exclusive rights to market Radioplayer's technology outside the UK.

Exhibit 8: Illustration of current music services offered by telecoms companies

Market				
US	Verizon	Sprint	AT&T	T-Mobile
	Spotify	Tidal	Apple Music	(agnostic)
UK	O2	EE	Vodafone	Three
	agnostic	Apple Music	Spotify	ROK
Denmark	TDC	3	Telia	Telenor
	YouSee (24-7)		Spotify	Tidal
France	Orange	SFR	Bouygues	Free
	Deezer	Napster	Spotify	
Brazil	Vivo	Oi	Claro	TIM
	Napster	Mariposa (ceased 2016)	Claro Musica	Deezer
Germany	T-Mobile	e-Plus	Vodafone	
	Napster		Spotify	

Source: Edison Investment Research

Financials

Business model: Operationally geared to new customer wins

To maintain and build its profile, the company participates at trade shows and conferences (both as speakers and attendees). Its senior managers and chairman are frequently sought out as thought leaders in panel discussions, presentations and media interviews. The lead time for signing new customers varies, but can be considerable and typically takes more than a year between initial negotiation and launch.

Typically 7digital's corporate customers pay an upfront set-up fee (one-off revenues, or OOR) and a monthly recurring payment (monthly recurring revenues, or MRR) for the right to use the platform over the term of the contract, which can range from one to three years. In some cases, the licence may be paid for entirely upfront, in which case it is also recognised as OOR. For the majority of customers, fees are fixed. However, adding territories or features will trigger an increase and if a service exceeds agreed usage criteria 7digital will receive an additional fee.

Also, for some artist services (eg direct-to-fan releases), licence fees are charged as a share of download fees (ie on a usage basis). In FY16, MRR accounted for 72% of licence sales. Creative revenues are a combination of retained clients, such as the BBC's 'Pick of the Pops' and one-off services. Finally, the content business generates revenues each time a track is downloaded.

Gross margins on licence sales are high (c 90%) relative to the other divisions. Cost of sales reflects third-party software licence fees and staff costs related to the set-up of new client services. For the creative division (gross margin c 50%), direct costs also include headcount and for the content division royalty payments associated with the download service (gross margin c 10%).

The main elements of operating expenses relate to the cost of the 147 employees and the platform. The marginal cost of hosting each additional track is small and as content ingestion is also fully automated, consequently operating expenses are largely fixed in nature. Given the relatively fixed cost base, EBITDA is geared into the pace at which 7digital can add new clients.

Historical financial performance reflects the group's transition

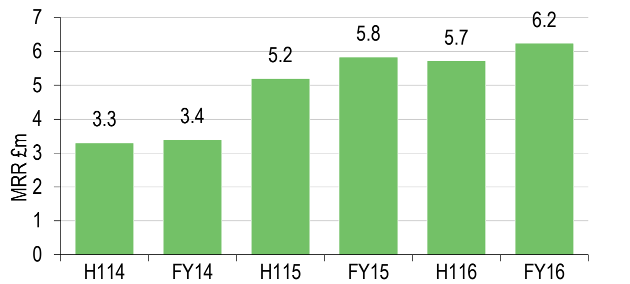
Growth in licence revenues over the past two years has been affected by the winding down of services by two of its largest customers; Blackberry in 2015 and Guvera in 2016. Despite these setbacks, the growth in streaming customers coming on board, as well as last year's acquisition of Snowite (added £0.85m MRR) enabled 7digital to increase its licence sales by 63% in FY15 and 57% in FY16, and MRR (annualised monthly recurring revenues) by 84% over the past two years to £6.2m at December 2016 (Exhibits 9 and 10). The shift towards streaming services has had an impact on the content business, which is no longer actively marketed. Content revenues, which peaked at £7.1m in 2012, decreased to £2.6m in FY16. Revenues from the Creative division, which was acquired with UBC, have seen steady mid-single-digit growth.

While this transition period has meant that overall revenue growth has been held back (+1.8% FY15 and 14.5% FY16), with the business mix shifting away from the lower-margin download model to a higher-margin licence model, gross profit has steadily expanded to 71% in FY16 (Exhibit 12).

In FY16, the EBITDA loss of £3.5m (FY15: £2.1m loss) was affected by the inclusion of a £0.8m provision against receivables from Guvera, which, after being placed into administration, failed to honour its agreed repayment plan. It also includes some set-up costs associated with the move to cloud-based IT systems and the timing of R&D tax credits, as well as half a year of platform costs relating to Snowite prior to full integration.

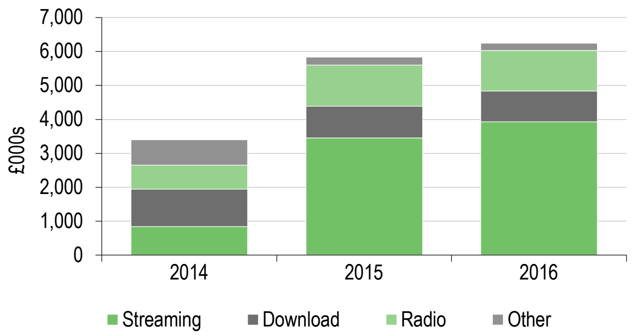
In July 2016, management announced a £1m cost savings plan (including £500k related to the integration of Snowite). £0.3m of savings were realised in H216 and, benefiting from an uptick in sales momentum before the year end, EBITDA profitability was reached as targeted in Q416.

Exhibit 9: MRR trend



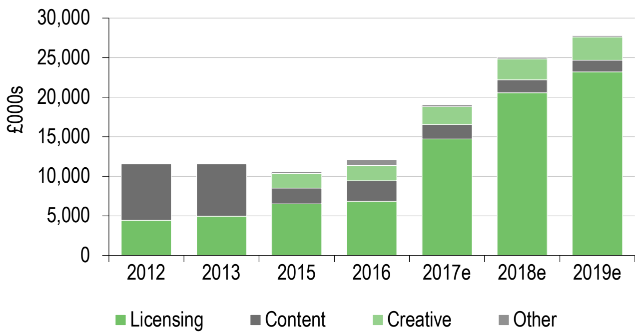
Source: 7digital

Exhibit 10: MRR by service category



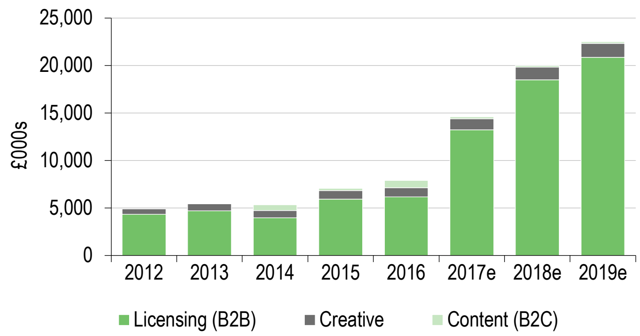
Source: 7digital

Exhibit 11: Revenue trend and forecast



Source: 7digital, Edison Investment Research (forecast)

Exhibit 12: Gross profit trend and forecast



Source: 7digital, Edison Investment Research (forecast)

Edison forecasts: Profitability from FY18

We forecast an acceleration in revenue growth in FY17 (+61%) and FY18 (30%) reflecting both the acquisition of 24-7 and strong underlying growth in licence sales. Absorbing 24-7's cost base and the additional costs associated with the integration of the platforms means that, despite reaching EBITDA profitability in Q416 and the strong growth in revenues forecast, the group is likely to remain loss-making in FY17. In FY18, we expect 7digital to realise the full efficiency gains of the acquisition and despite consolidating 24-7 for the full 12 months, we forecast operating expenses to be broadly flat year-on-year, driving our forecast swing to EBITDA profitability of £3.0m (EBITDA margin of 11.9%).

We estimate that approximately 58% of our FY17 and 52% of our FY18 revenue forecast is either recurring in nature (MRR) or secured (MMS has committed £18m of revenues over the next three years) and we also factor in a small contingency to management's expectations, presenting upside opportunity. Key assumptions underpinning our revenue forecasts include:

Strong growth in licence fees: we forecast revenues from licence fees to grow by 116% in FY17 and 40% in FY18. Roughly half of this growth is due to the 24-7 acquisition, where we factor in revenues of £5m in FY17 and £8m in FY18 for 24-7, in line with management's guidance (this revenue is committed). In addition, reflecting the group's strategy to target fewer, more strategic customers, we forecast a fairly steady annual increase in the customer base (six new customers in FY17, seven in FY18 and eight in FY19), but a more rapid increase in the average MRR per customer (25% in FY17, 10% in FY18 and 10% in FY19).

During FY16, management announced new contract wins with a lifetime value of almost £8m, almost double that announced in FY15, which we believe provides strong support to this forecast, as does the fact that approximately two-thirds of license sales are recurring in nature; the December 2016 exit MRR (+7% y-o-y) provides an indication of momentum in the business.

Opportunities in creative: as part of the BBC's 'compete and compare' review process due to start later in 2017, it proposes to open up nearly 60% of eligible BBC radio hours to indie competition within six years; this move could triple commissions for indies and 7digital is in a strong position to benefit. In addition to this specific opportunity, there are ongoing opportunities to cross-sell creative services to 7digital's platform customers. We forecast revenue growth to increase to 15% in FY17 and 10% in FY18.

Continued contraction of content sales: we forecast content revenues will decline by 10% pa. As these are low-margin revenues, the impact on profitability is no longer significant.

Cash flow and balance sheet

7digital reported net debt of £0.7m at the end of FY16, comprising £0.8m of cash and £1.5m of non-interest bearing debt and in March it completed a £3.0m equity raise.

Working capital management has been tightened and in FY17 should also benefit from the MMS contract, where set-up fees of £5.7m have been front-loaded. However, exceptional costs of approximately £2m over the next two years relating to the equity raise, 24-7 acquisition and restructuring costs will have an impact on cash conversion in the forecast period. We forecast an operating cash outflow in FY17 of £2.3m, breaking even in FY18.

Capital expenditure requirements are fairly low as the platform has been entirely migrated to the cloud. Net of these items, the £3m equity raise and £0.2m annual repayment on the Snowite debt, we forecast a net cash outflow of £0.4m in FY17 and £0.9m in FY18 when we forecast net debt to peak. Our forecasts suggest 7digital may need to put in place additional short-term finance during FY18 to bridge a working capital gap ahead of the group becoming cash-generative, which we forecast in FY19.

Exhibit 13: Summary divisional forecasts and cash flow, £000s

Revenues	FY16	FY17e	FY18e	FY19e
Licence sales	6,830	14,721	20,557	23,191
Content	2,606	1,845	1,660	1,494
Creative	1,912	2,294	2,639	2,902
Other	551	250	0	0
Total revenues	**11,899**	**19,110**	**24,856**	**27,587**
Revenue growth	14.5%	60.6%	30.1%	11.0%
Gross profit:				
Licensing	6,162	13,249	18,501	20,872
Content	750	203	183	164
Creative	985	1,147	1,319	1,451
FX	551	250	0	0
Total gross profit	8,448	14,849	20,003	22,487
Gross margin	**71.0%**	**77.7%**	**80.5%**	**81.5%**
Operating expenses	(11,976)	(16,596)	(17,038)	(17,842)
EBITDA	**(3,528)**	**(1,747)**	**2,965**	**4,646**
EBITDA margin	-29.6%	-9.1%	11.9%	16.8%
EBITDA	**(3,528)**	**(1,747)**	**2,965**	**4,646**
Cash flow				
EBITDA	**(3,528)**	**(1,747)**	**2,965**	**4,646**
Exceptionals	(1,024)	(840)	(1,100)	0
Working capital	4,098	322	(1,871)	(1,518)
Tax	(12)	0	0	(376)
Operating cash flow	**(466)**	**(2,265)**	**(6)**	**2,751**
Capital expenditure	(339)	(800)	(700)	(720)
Share repurchase/issue	0	2,850	0	0
Loan repayments	0	(185)	(185)	(185)
Interest paid/other	(13)	0	(15)	0
Net change in cash *	**(818)**	**(400)**	**(906)**	**1,846**
Closing cash	**838**	**438**	**(468)**	**1,378**
Gross debt	(1,519)	**(1,334)**	**(1,149)**	**(964)**
Net (debt)/cash	(681)	**(896)**	**(1,617)**	**414**

Source: 7digital Group accounts, Edison Investment Research.

Valuation

7digital has made considerable strategic and operational progress over the past year. The transition to a licensing business is complete, a number of strategically significant customer wins have been announced and the acquisition of 24-7 consolidates the group's leading position and should enhance profitability. There is still much work to be done to deliver to forecasts; however, if management's EBITDA targets can be met in FY18, the shares look very attractive on all measures.

Significant new customers, growth in average MRR as the company moves to a more international tier one customer base, and the successful integration of 24-7 could act as catalysts to close the considerable ratings gap to peers. Under our forecast scenario, which is more conservative than management's targets, we believe the shares are worth at least 14p, 154% above the current price.

Peer FY18 EBITDA multiple implies 14p to 21p per share

FY17 is a transitional year and we look to FY18 to benchmark the valuation. Based on our forecasts 7digital trades on an FY18 EV/sales multiple of 0.3x, an EV/EBITDA of 3.1x and a P/E of 5.2x. On a standalone basis, we believe these multiples are very attractive for an operationally geared company, with a strong market position in its first year of profitability.

7digital has no direct peers and benchmarking its valuation against other global music platforms provides little insight as these platforms are consolidated as part of large groups (eg Amazon Prime, Google) and have different business models (eg Pandora, iHeartMedia). Other B2B platform services may provide a better benchmark. In Exhibit 14, we summarise the valuations of a number of music-related services, as well as B2B video streaming services and content delivery networks (CDNs). The valuation looks similarly attractive in the context of this peer set, which trades on an average FY18 EV/sales multiple of 1.7x and an EV/EBITDA multiple of 12.0x. If 7digital were to trade towards the lower end of its peer set on 8x FY18 forecast EBITDA, this would offer upside towards 14p/share. An average EBITDA multiple would imply a value per share of approximately 21p.

Exhibit 14: Peer summary

Name	Market cap (m)	Year end	Sales growth (%)		EBITDA margin (%)		EV/sales (x)		EV/EBITDA (x)		P/E (x)	
			1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
7digital	**£10.5**	**12/2016**	**60.6**	**30.1**	**(9.1)**	**11.9**	**0.4**	**0.3**	**(4.5)**	**2.7**	**(3.1)**	**4.7**
Music platforms:												
Pandora Media	$2,155.0	12/2016	11.9	22.4	(6.19)	0.4	1.5	1.2	(21.4)	294.2	(16.0)	(41.9)
IHeartMedia	$136.0	12/2016	(1.8)	NA	29.9	NA	3.3	NA	11.0	NA	NA	NA
Sirius XM	$25,284.4	12/2016	6.5	6.0	38.0	38.7	5.8	5.5	15.3	14.2	30.4	24.7
Video content delivery platforms:												
Brightcove	$215.2	12/2016	1.0	7.1	(2.7)	5.2	1.2	1.1	(45.4)	21.9	(24.2)	92.6
Limelight Networks	$330.4	12/2016	6.9	6.0	14.4	16.6	1.5	1.4	10.4	8.5	61.2	34.8
Qumu Corp	$26.0	12/2016	(1.6)	12.9	(10.7)	(4.3)	0.7	0.6	(6.8)	(15.1)	(3.8)	(5.3)
Zix Corp	$305.4	12/2016	10.5	11.0	26.9	28.6	4.2	3.8	15.8	13.4	199	16.7
Tivo Corp	$2,227.9	12/2016	26.8	11.9	33.7	40.2	3.4	3.0	10.1	7.5	11.6	8.1
Seachange	$94.0	01/2017	(5.2)	3.9	(1.2)	5.7	0.6	0.6	(49.0)	9.7	(11.2)	47.6
Harmonic	$418.8	12/2016	0.8	11.1	11.5	14.2	1.2	1.0	10.1	7.4	2,600	17.6
Average – video CDNs*			**5.8**	**9.5**	**21.6**	**19.0**	**1.9**	**1.7**	**10.2**	**12.0**	**30.9**	**19.3**

Source: Bloomberg (Edison Investment Research forecasts for 7digital). Note: Prices as at 7 July . *Exclude negatives and outliers.

DCF supports value per share above 13p

Exhibit 15B summarises various DCF scenarios should 7digital deliver to our three-year forecasts, assuming a WACC of 11% and 2% perpetuity growth.

While there is still work to be done to deliver to forecasts, we estimate that approximately two-thirds of our FY17 and FY18 revenue forecast is contracted. As long as forecasts can be achieved, very little needs to be assumed in terms of longer-term revenue growth/margin combinations in order to justify considerable upside to the current share price (Exhibit 15B).

We are forecasting an EBITDA margin of 12% in FY18 and 17% in FY19 and consider a peak EBITDA margin of 20% to be achievable by FY20. If we assume moderate revenue growth of 5% pa for the seven years to FY26, our DCF returns a value of 13.7p. A slightly more aggressive growth rate over this period of 10% returns a value of 17.9p.

As the group demonstrates it is on track to deliver forecasts, we would also expect the market to apply a lower discount rate over time (Exhibit 15A).

Exhibit 15: Summary DCF sensitivity (p/share)

A

		Terminal growth rate				
		1.00%	2.00%	3.00%	4.00%	5.00%
WACC	12.5%	10.8	11.4	12.0	12.9	13.9
	12.0%	11.4	12.1	12.9	13.8	15.1
	11.5%	12.1	12.9	13.8	14.9	16.4
	11.0%	12.9	**13.7**	14.8	16.1	17.9
	10.5%	13.7	14.7	15.9	17.5	19.7
	10.0%	14.7	15.8	17.3	19.2	21.9
	9.5%	15.7	17.1	18.8	21.2	24.6
	9.0%	16.9	18.5	20.6	23.5	27.9
	8.5%	18.3	20.2	22.7	26.4	32.2

Assumes 5% CAGR in revenues FY19-26 and 20% EBITDA margin

B

		Average revenue growth FY19-26				
		3.00%	5.00%	10.00%	15.00%	20.00%
EBITDA margin	30.0%	23.5	26.1	34.0	44.2	57.1
	27.5%	20.7	23.0	30.0	38.9	50.3
	25.0%	17.9	19.9	26.0	33.7	43.5
	22.5%	15.1	16.8	21.9	28.4	36.7
	20.0%	12.4	**13.7**	17.9	23.2	29.9
	17.5%	9.6	10.6	13.8	17.9	23.1
	15.0%	6.8	7.5	9.8	12.6	16.3
	12.5%	4.0	4.4	5.7	7.4	9.5
	10.0%	1.2	1.3	1.7	2.1	2.7

Assumes WACC of 11% and 2% revenues growth in perpetuity

Source: Edison Investment Research. Note: All scenarios assume our forecasts to FY19 are met.

Strategic value

7digital's value lies in the combination of its platform, its services and its relationships across the music industry. However, the platform business on its own could hold strategic value either as a defensive move or for a global brand looking to enter the market. In 2016, Omnifone's talent and technology was acquired by Apple for a reported $10m, and in 2015 Pandora acquired the assets of Rdio for a reported $75m. MOG was sold to Beats in 2012 ($12m) and Beats was bought by Apple in 2014 for $3bn, forming the foundations of Apple Music.

Sensitivities

While 7digital has been in operation for over a decade, its business model is predicated on the ability of new music services to merge and potentially disrupt the current status quo in the music industry. It has had to evolve its business model once and, as the market develops, will have to continue to be flexible to serve an emerging market. Our forecasts are subject to a number of sensitivities, in particular:

Customer risk: 7digital's client base is often launching experimental or innovative music services, and not all of them may succeed. In FY15 and FY16 the closure of two of its largest customers' services affected revenues and, while a huge effort has been made to improve the quality of the customer base, it is possible that this may lead to a higher share of client churn than typical until services become firmly established. In our forecasts, to capture this risk we assume an annual £400k bad debt provision. In FY16 that largest customer accounted for £1.4m (12%) of revenues. From FY17 the largest customer will be MMS, although £18m of revenues have been committed for three years.

Long working capital cycle increase the risk of bad debts. The receivables balance at the year-end was approximately 30% of revenues (£3.5m), and was stated net of a £1.4m impairment for aged debts and the Guvera liability.

Dependant on music labels: 7digital is dependent on the three major labels for access to content (as well as customers). We believe these majors support 7digital's strategy. However, should they decide to restrict access to content, 7digital would not be able to offer a comprehensive service.

Competition: 7digital is a small company, in an industry dominated by a few major global companies with a huge amount of resources available to them. A change in strategy by these companies (for instance, if they too decided to offer their platforms on a white label basis), could have an impact on 7digital's outlook.

Currency: 63% of 7digital's revenues are derived outside the UK, but the majority of its costs are local. Variations in the exchange rates would affect forecasts.

Technology: The operational reliability and performance of the platform has been proven at scale and the systems are actively managed and updated. Nevertheless, service problems cannot be ruled out entirely.

M&A: Consolidation has been an active part of 7digital's strategy and although we believe the focus of the group has moved from M&A to the integration the 24-7 acquisition and organic growth, future bolt-on opportunities that add either technology or access to new markets may be considered.

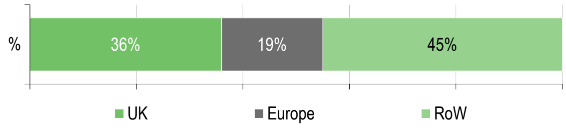
Financing: Our forecasts indicate that there may be a need to put in place a moderate amount of additional short-term finance ahead of the group becoming cash generative. Based on management's targets, there may be no need to do this. In either circumstance however, management may choose to put in place additional facilities in order to provide working capital flexibility or to take advantage of M&A opportunities. The type and cost of this funding would affect our forecasts.

Exhibit 16: Financial summary

£000s	2014	2015	2016	2017e	2018e	2019e
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	3,213	2,741	2,748
Tangible Assets	691	704	475	295	95	(75)
Investments & other	6,625	0	0	0	0	0
Current Assets	8,451	6,220	4,590	5,327	5,838	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	(468)	1,378
Other	0	0	0	0	0	0
Current Liabilities	(4,984)	(3,975)	(7,193)	(8,652)	(8,198)	(7,354)
Creditors	(4,796)	(3,804)	(6,731)	(8,190)	(7,736)	(6,892)
Short term borrowings	0	0	0	0	0	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 accounts, Edison Investment Research

EDISON

Contact details	Revenue by geography
69 Wilson Street London EC2A2BB UK +44 (0) 20 7099 7777 http://about.7digital.com	

Management team

CEO: Simon Cole	Deputy CEO: Pete Downton
In 1989, Simon founded The Unique Broadcasting Company, which became the market leader in the production of network radio programmes for commercial radio throughout the UK and BBC Radio. In 2000, Unique floated on the London Stock Exchange as part of UBC Media Group plc with Simon as chief executive.	Pete joined 7digital in June 2014, assuming overall responsibility for its commercial strategy. He brings over 15 years of operational and strategic experience within the heart of the nascent digital music and consumer technology businesses to the role. Pete held key leadership roles at Imagination Technologies, including responsibility for content and consumer experiences across both the Imagination Technologies and PURE businesses.
CFO: Matt Honey	**Chairman: Sir Donald Cruickshank**
Matt, a chartered accountant, originally worked with Simon Cole at The Unique Broadcasting Company where he was the financial director from 1992 to 2000. He managed the original public listing of what is now 7digital Group plc. Having floated the business, he moved over to take on the role of managing director of Unique Interactive, a new division of the company focusing on technology and digital radio. Matt led Unique Interactive for eight years before serving as CFO for 7digital.	Sir Donald has been chairman of Audioboo Limited since April 2010 and a director of Qualcomm Incorporated since June 2005. He was chairman of Clinovia Group Limited from January 2004 to February 2007 and Formscape Group Limited from April 2003 to December 2006 and was a member of the Financial Reporting Council from June 2001 to June 2007. He was also chairman of the London Stock Exchange from 2000 to 2003.

Principal shareholders	(%)
Metro AG (MMS)	12.7
Goodmans Inc	12.0
Miton Asset Management	10.6
DC Thompson	4.0
Edale Europe Absolute Master Fund	3.9

Companies named in this report

Amazon AMZN US, Apple AAPL US, Alphabet GOOGL US, Pandora P US, iHeartMedia IHRT US, Sony 6758 JT, Vivendi VIV FP, Time Warner TWX US