EDISON

Ebiquity

Interim results

Progress in delivery of strategy

Media

Ebiquity has had a good first half, with a 20% uplift in revenues and a return to operating profit, with an underlying operating margin of 7%. Our expectations for the full year and for FY22e are edged up, although there remain notes of caution around prospects in some sectors in H2. Ebiquity is making good progress with its digital activities and product solutions, which we expect to support the medium-term growth. The share price performance year-to-date has been strong (up 194%), but the valuation remains at a sizeable discount to peers.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	68.1	4.7	2.9	0.0	20.2	N/A
12/20	55.9	(1.3)	(1.9)	0.0	N/A	N/A
12/21e	63.0	3.2	3.1	0.5	18.9	0.9
12/22e	69.3	5.3	4.9	1.3	11.9	2.1

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

FY21e and FY22e numbers edged ahead

Ebiquity's good first half reflects a stronger underlying market as advertising spend has rebounded, with an element of catch-up from work delayed from FY20 and enhanced by the growth from the group's newer digital media solutions. Ebiquity also had the benefit of new business won in Q421 and the full year effect of work won post Accenture's withdrawal from the market. Most sectors have recovered strongly, bar the obvious such as transport and tourism, but management notes that supply chain issues in the broader global economy are curbing the recovery in advertising spend in sectors such as automotive and consumer electronics. This slight caution is reflected in our revised forecasts, where we have raised FY21e revenue expectations from £61m to £63m, with £32m achieved in H121. For FY22e, the figure rises by £1m to £69.3m. Adjusted operating profit rises from £3.5m to £4.1m for FY21e and from £5.9m to £6.2m for FY22e, indicating a good uplift in operating margin to 6.5% for the current year and to 8.9% for the next.

Broadening out the geographic profile

Ebiquity's client roster is of high quality, particularly in the UK and Europe. Management is tackling its under-weighted exposure to the United States (8.4% of FY20 revenues) and new business wins of a leading food and beverage company alongside global business from Amazon should shift the dial here. Progress is also being made in Asia-Pacific, where 'significant' business has been won with Huawei and MengNiu in China. The group plans to start to offer services in India in H221.

Valuation: Sizeable discount remains

In the year to date, Ebiquity's shares are up by 194%, having bottomed at 18.4p in February. Marketing services peers have gained 82% on average as the outlook for advertising spend has firmed up. Parity with these peers for FY22 across P/E, EV/EBITDA and EV/EBIT multiples would suggest a value of 98p. This is a good uplift on the 77p cited in our last report, reflecting the strong sector performance.

27 September 2021

Price	**58.5p**
Market cap	**£48m**
Net debt (£m) at 30 June 2021 (excludes £0.75m US PPP debt)	9.6
Shares in issue	82.7m
Free float	84.2%
Code	EBQ
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(0.9)	17	172.1
Rel (local)	0.2	16.7	117.4
52-week high/low		61.0p	18.4p

Business description

Ebiquity is a leading, independent global media consultancy, working for over 70 of the world's 100 leading brands to optimise their media investments.

Next events

Final results	March 2022

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Edison profile page

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Good progress in H121

As can be seen in the table below, **Media** comprises the main part of revenues (84% of H121). Within this segment, the agency pitch environment was particularly busy, with many selection processes for major brands having been carried over from FY20. New review mandate business was won from Unilever, Ferrero, BMW and Daimler, among others. There was also an element of catch-up in the Contract Compliance activity, with the collation of data and on-site audits made easier by loosening COVID-19 restrictions.

Digital media solutions are starting to make more of an impression, which should be more apparent when progress on the key operational metrics is given for the full year.

The emphasis on growing the revenues from key clients cross-selling more products is also starting to bear fruit, with a 28% uplift in revenues from global, multi-market media projects.

With the prospect of the re-emergence of inflation, clients are especially keen to ensure that they achieve a good return on their marketing spend.

Exhibit 1: H1 segmental split

£m	Media			Analytics & Tech			Total		
	H121	H120	% change	H121	H120	% change	H121	H120	% change
Revenue	26.8	21.9	22%	5.2	4.9	7%	**32.0**	26.8	20%
Operating profit	5.3	2.4	124%	0.4	(0.7)	N/A	**5.7**	1.7	245%
Operating margin	20%	11%		8%	-15%		**18%**	6%	
Unallocated costs							**(3.4)**	(3.0)	
Operating (loss)/profit							**2.3**	(1.4)	
Group underlying operating margin							**7%**	-5%	

Source: Ebiquity accounts

The Analytics and Tech practice has returned to profit in the first half.

Key objectives should drive revenue and margin

As presented with the final results (covered in out March update note), management has set out clear objectives and operational metrics. With these H121 figures, it has disclosed the baselines for the metrics as at end December 2020, which will be reported against annually. However, an indication was given of broad progress, as shown in the table below.

Exhibit 2: Progress on metrics

Operational metric	Baseline measure in 2020	Current progress
Number of clients buying two or more service lines	59 clients	In line
Number of clients buying one or more products from the new digital solutions portfolio	10 clients	Ahead
Volume of digital impressions processed, analysed and reported on the platform	112bn impressions	Ahead
Value of digital advertising processed, analysed, and reported on the platform	US$0.46bn	Ahead
Proportion of revenue relating to digital media (media performance and media management service lines)	25%	In line

Source: Ebiquity

Regarding the three core objectives, the roll-out of the **productised digital services** – key to scaling the business – continues, with the first, 'Sourcing and Monitoring', launched in H121 and two more, 'Governance' and 'Audience Data Assessment', launched in July. Of these, the Sourcing and Monitoring is likely to achieve the greatest scale, although the Governance objective (which tracks and monitors through automated ingestion and reporting) could achieve similar revenues. Audience Data Assessment, which relates to online audience targeting, is more project-based. A solution targeted at 'Responsible Media Investment' is also being piloted currently. More products are in development and set to be rolled-out through H221 and H122.

The increased focus on **strategic high-value clients** is also starting to deliver. Client partners have been put in place in New York and Amsterdam, with a third to be appointed in Paris in Q421. The drive to internationalise the business referred to above is being supported by additional resource in North America and Asia-Pacific.

The group has been reorganised along geographic reporting lines, which increases **operational efficiency** and facilitates a more client-centric model and increases cross-selling opportunities. This objective is also being implemented through greater use of off-shoring and near-shoring, particularly using the Madrid-based Media Operations Centre, with some support for the US market possibly being transferred to Guatemala.

Increased deferred consideration for Digital Decisions

The group is taking a £2.4m charge to accrue for post-date remuneration payable relating to the acquisition of Digital Decisions, bought in January 2020. This is contingent on the principal vendor, Ruben Schreurs, remaining in the group's employment. He was appointed group chief product officer in February 2021, in charge of the Digital Innovation Centre. The contingent consideration is based on the average profit to be generated from that unit over FY21 and FY22 on a multiple of six times. This is currently estimated at £10.2m, to be paid in FY23 and therefore beyond our current modelling horizon.

Strong cash conversion buoys balance sheet

Underlying cash from operations in H121 of £3.4m represented conversion of 149% of underlying operating profit (reported operating cash flow of £2.9m was after £0.5m of payments made for items accrued as at 31 December 2020, mainly relating to severance or re-organisation costs). Net debt at the half-year was £9.6m. The additional US Paycheck Protection Program 'debt' of £0.7m was forgiven post period end and will therefore convert to a grant in H221. From this month, the group will revert to bank covenants based on EBITDA leverage from the liquidity covenants put in place to reflect the onerous trading conditions during the pandemic. The group is trading comfortably within these leverage covenants.

Increase to forecasts

We had signalled at the trading update that the pressure on forecasts was likely to be on the upside. Our new FY21 revenue forecast of £63m implies H221 revenue of £31m, which would be a 6% uplift on H220. While this is considerably lower than the 20% growth posted for H121, we note that (as described above) there looks to have been a degree of catching up in those figures. There is also a degree of caution regarding the outlook for advertising spend by the automotive sector and other segments of the global economy affected by the current supply chain issues.

Exhibit 3: Summary financial changes

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020	(1.9)		-	(1.3)		-	1.8		-
2021e	2.5	3.1	+24	2.6	3.2	+23	5.0	5.6	+12
2022e	4.7	4.9	+4	5.0	5.3	+6	7.4	7.7	+4

Source: Ebiquity accounts, Edison Investment Research

Exhibit 4: Financial summary

£000s	2019	2020	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	68,133	55,907	63,000	69,300
Cost of Sales	(36,212)	(31,219)	(33,705)	(36,729)
Gross Profit	31,921	24,687	29,295	32,571
EBITDA	8,603	1,797	5,615	7,650
Operating Profit (before amort. and except.)	5,567	(334)	4,100	6,200
Amortisation of acquired intangibles	(1,169)	(1,122)	(1,122)	(1,122)
Highlighted items	(9,044)	(3,325)	(3,153)	0
Share-based payments	(117)	1,906	(150)	(150)
Reported operating profit	(4,763)	(2,875)	(325)	4,928
Net Interest	(898)	(875)	(924)	(917)
Joint ventures & associates (post tax)	0	0	0	0
Forex	0	(137)	0	0
Profit Before Tax (norm)	4,669	(1,346)	3,176	5,283
Profit Before Tax (reported)	(5,661)	(3,887)	(1,249)	4,011
Reported tax	(1,477)	150	(762)	(1,268)
Profit After Tax (norm)	2,738	(1,372)	2,414	3,351
Profit After Tax (reported)	(7,138)	(3,737)	(2,011)	2,743
Minority interests	(451)	(186)	100	(137)
Discontinued operations	(1,018)	220	0	0
Net income (normalised)	2,275	(1,557)	2,516	3,217
Net income (reported)	(8,156)	(3,703)	(1,911)	2,606
Average Number of Shares Outstanding (m)	79.5	81.6	80.6	78.6
EPS - normalised (p)	2.9	(1.9)	3.1	4.9
EPS - normalised continuing diluted (p)	2.8	(1.9)	3.1	4.9
EPS - basic reported (p)	(10.8)	(4.8)	(2.4)	3.3
Dividend per share (p)	0.00	0.00	0.50	1.25
EBITDA Margin (%)	12.6	3.2	8.9	11.0
Normalised Operating Margin	8.2	-0.6	6.5	8.9
BALANCE SHEET				
Fixed Assets	47,060	44,322	42,899	41,728
Intangible Assets	35,172	34,698	33,461	32,289
Tangible Assets	10,902	8,199	8,013	8,014
Tax, receivables, Investments & other	986	1,425	1,425	1,425
Current Assets	35,074	35,610	37,325	41,136
Stocks	0	0	0	0
Debtors	26,838	24,318	26,236	29,429
Cash & cash equivalents	8,236	11,121	10,950	11,568
Other	0	171	140	140
Current Liabilities	(21,195)	(22,189)	(24,859)	(25,547)
Creditors	(14,659)	(15,986)	(16,759)	(17,446)
Tax and social security	(4,424)	(1,953)	(1,953)	(1,953)
Short term borrowings (incl. positive loan fees)	22	45	45	45
Other incl lease liabilities	(2,134)	(4,295)	(6,192)	(6,193)
Long Term Liabilities	(23,047)	(26,997)	(26,997)	(26,997)
Long term borrowings	(13,868)	(19,675)	(19,675)	(19,675)
Other long term liabilities	(9,179)	(7,322)	(7,322)	(7,322)
Net Assets	37,892	30,746	28,368	30,320
Minority interests	1,179	442	425	425
Shareholders' equity	36,713	30,304	27,943	29,895
CASH FLOW				
Op Cash Flow before WC and tax	8,603	1,797	5,615	7,650
Working capital	(702)	4,171	(1,144)	(2,505)
Exceptional & other	(2,962)	(3,325)	(520)	0
Tax	(1,345)	(2,285)	(762)	(1,268)
Operating Cash Flow	3,594	358	3,188	3,877
Capex	(3,235)	(1,316)	(1,500)	(1,499)
Acquisitions/disposals	23,862	(2,118)	(486)	0
Net interest	(718)	(550)	(924)	(917)
Equity financing	253	0	0	0
Dividends	(1,052)	(444)	(450)	(843)
Other	0	0	0	0
Net Cash Flow	22,704	(4,070)	(172)	618
Opening net debt/(cash)	27,486	5,610	8,509	8,680
FX	(204)	117	0	0
Other non-cash movements	(624)	1,055	0	0
Closing net debt/(cash)	5,610	8,509	8,680	8,062

Source: Ebiquity accounts, Edison Investment Research

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