Ebiquity

Final results

Positioned for recovery

Media

As indicated at the pre-close update, trading conditions eased for Ebiquity in H220 as advertisers ventured back into the market after a COVID-19 affected first half. The group also gained new business, some following the withdrawal of Accenture from the media assurance market, with momentum continuing into Q121. Demand for Ebiquity's services should be amplified by the complexity of the market and advertisers' need to optimise the return on their spend. We expect the increased emphasis on digital capabilities, encapsulated in new KPIs, should help revenues – and profits – recover, which in turn will likely lead to an improved rating.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	68.1	4.7	2.9	0.0	10.4	N/A
12/20	55.9	(1.3)	(1.9)	0.0	N/A	N/A
12/21e	61.0	2.6	2.5	0.5	12.0	1.7
12/22e	68.3	5.0	4.7	1.3	6.4	4.3

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

Positioned for stronger growth

FY20 revenues were 18% down on FY19, recouping some of the first half setback, when revenues were down 24%. This resulted in an FY20 underlying operating loss of £0.3m, with a return to profitability in H220, as indicated in the pre-close update. New business wins and the strengthening of the digital proposition encourage us to edge our FY21 revenue forecast up by £1.0m to £61.0m. Our revised adjusted operating profit estimate of £3.5m (from £4.0m) allows for some increase in costs to support revenue growth. For FY22, we expect faster top line growth, with a full year of business won from Accenture and other new wins, more digital work and the early benefits of the newly articulated objective of increased cross-sales. We expect FY22 revenues to regain FY19 levels and profitability to surpass them.

New business objectives set

With these results, management has set out six new KPIs designed to drive revenues derived from activities in the digital space and that will enable the market to track progress. The group will now operate along geographical lines, rather than by product or service lines, with a global client account management structure that should encourage cross-selling and increase average revenue per client. With the newly reconfigured Digital Innovation Centre, built on Digital Decisions, Ebiquity will be able to offer a more comprehensive and integrated digital media offering.

Valuation: Growing confidence underlines value

With increasing clarity on Ebiquity's business plan, after Nick Waters' appointment as CEO in H220, the route to increased scale and profitability is now set. We would expect the large valuation discount to narrow provided execution of that plan progresses. Parity with marketing services peers for FY22 across P/E, EV/EBITDA and EV/EBIT multiples would suggest a value of 89p. This is a big step up from the 54p cited in our last report, reflecting the roll forward of one year on multiples and strong peer share price performances, averaging 45% year-to-date.

26 March 2021

Price	**29.9p**
Market cap	**£23m**

Net bank debt (£m) at 31 December 2020 (excludes £0.75m US PPP debt)	7.8
Shares in issue	78.4m
Free float	94.8%
Code	EBQ
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	14.6	48.0	(9.4)
Rel (local)	14.1	43.7	(26.1)
52-week high/low		33p	18.35p

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

AGM	May 2021

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Edison profile page

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Good H220 recovery

The issues around advertising spend as the COVID-19 pandemic developed have been well covered. Ebiquity's H1 performance was also hit hard, with sectors such as automotive particularly suffering (see our note from September 2020). The scale of the improvement in H2 is shown here by segment.

Exhibit 1: Half by half segment progress

£m	Media						Analytics & Tech					
	H120	% ch	H220	% ch	FY20	% ch	H120	% ch	H220	% ch	FY20	% ch
Revenue	21.9	-21%	24.1	-8%	46.0	-15%	4.9	-36%	5.0	-23%	9.9	-30%
Op. Profit	2.4	-65%	4.4	-3%	6.8	-40%	-0.7	N/A	0.0	-91%	-0.7	N/A
Op. margin	10.7%		18.3%		14.7%		-14.8%		0.5%		-7.0%	

Source: Company accounts, Edison Investment Research

As well as the recovery related to an improving trading environment, H220 Media revenues were also boosted by the first accounts won following the withdrawal of Accenture. Media Performance (helping advertisers monitor and assess their agencies' media buying performance) varied by geography, with some regions more exposed to verticals that struggled more in the pandemic. Media Management, which includes helping advertisers to select agencies and set objectives, was bound to have felt the impact of a reduction in the number of agency reviews conducted in the year. There will undoubtedly be an element of catch-up here in the current year and management reports new engagements picking up in Q121. As reported in our previous reports, the Contract Compliance activity had practical issues being unable to go onto customer premises to conduct audits, with the acceptance of remote electronic audit coming late in the period.

The comparators for Analytics & Tech include an element of Stratigent, which was closed in September 2019. The like-for-like revenue reduction was 21%.

Exhibit 2: Half by half group progress

£m	H120	% ch	H220	% ch	FY20	% ch
Revenue	26.8	-24%	29.1	-11%	55.9	-18%
Op. Profit	1.6	-78%	4.4	-9%	6.1	-50%
Op. margin	6.1%		15.2%		10.9%	
Unallocated costs	(3.0)		(3.4)		(6.4)	-3%
Op (loss)/profit	(1.4)		1.0		(0.3)	

Source: Ebiquity

Project-related costs were £2.4m lower, boosting net revenue margin to 88% from 87%, with operating costs decreasing at a lower rate than revenues (down by 7%), as staff and property costs were broadly kept in place to position the group to take advantage as activity levels rebuild.

Unallocated costs were £0.2m lower year on year at £6.4m and, as can be seen in the exhibit above, the group returned to profit in the second half of the year.

The accounts contain a number of highlighted items:

- £1.9m share-based payment credit from lapsed options granted in 2010.
- £1.1m acquired intangible amortisation.
- £0.8m goodwill impairment on Australian MarTech business Digital Balance.
- £1.5m severance and reorganisation costs as global regional management was reconfigured.
- £0.8m currency adjustments on deferred consideration.
- £0.2m professional costs regarding acquisitions and bank facility negotiations.

There was also a small restatement of FY19 on accounting treatments in one US unit, reducing revenue by £0.6m, with associated balance sheet adjustments.

Revised covenants in place

Year-end net debt was £7.8m, with the balance sheet also showing US Payroll Protection Programme 'debt' of £0.75m. Criteria for the forgiveness of this sum have been met and it is expected to be credited during FY21. The net debt figure includes £19m of gross bank debt drawn down against the £24m RCF facility, the £5m additional since the prior year having been drawn down to cover any COVID-19 related working capital fluctuations. Gross cash and equivalents was £11.1m.

Under revised covenants in place from March 2021, the group is required to have month-end liquidity of £7m (up from £5m), which is clearly comfortably covered. From September 2021, leverage covenants will apply at <4.0x EBITDA, increasing to <4.25x at the year-end and to <4.5x in March 2022, then decreasing. Based on our financial projections shown below, these limits are very comfortable.

New KPIs show priorities

Management has outlined six new key performance indicators (KPIs), although it is not yet disclosing the base level from which progress will be judged. They are:

- number of clients buying two or more service lines,
- number of clients buying one or more products from the new digital portfolio,
- volume of digital advertising monitored – number of impressions,
- volume of digital advertising monitored – US$ spend,
- number of countries served with new digital product, and
- % of revenue from digital services.

Momentum building, shown in new FY22 projections

The current reporting segments are not particularly helpful in describing the business and management is indicating a change to reporting on a geographical basis, which will align with the reconfigured operational structure. We will adjust our modelling once the historical restatements are available.

Exhibit 3: Changes to forecasts

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020	(0.8)	(1.9)	138	(0.5)	(1.3)	130	1.8	1.8	u/c
2021e	2.6	2.5	-4	3.1	2.6	-16	5.4	5.0	-7
2022e	-	4.7	N/A	-	5.0	N/A	-	7.4	N/A

Source: Company accounts, Edison Investment Research. Note: 2020 'old' is former estimate; 'new' is actual.

Based on the positive indications regarding current trading and new business wins, we have increased our current year revenue forecast from £60.0m to £61.0m. Having held costs steady in FY20, we anticipate some increase in costs to support revenue growth in FY21.

With a full year of these revenue benefits and the first fruits of the shift to more of a platform-based approach, as described in detail in our November note, we currently expect a 12% increase in revenues for FY22 over the prior year, which would match the level achieved in FY19. With more productisation, automation and therefore scalability built into the operations, we also expect a good pick-up in adjusted operating margin, outstripping that achieved in FY19 and with good prospects of further expansion in future periods.

Exhibit 4: Financial summary

£000s	2018	2019	2020	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	69,368	68,133	55,907	61,000	68,320
Cost of Sales	(37,600)	(36,212)	(31,219)	(32,940)	(36,893)
Gross Profit	31,768	31,921	24,687	28,060	31,427
EBITDA	7,761	8,603	1,797	5,015	7,350
Operating Profit (before amort. and except.)	6,342	5,567	(334)	3,500	5,900
Amortisation of acquired intangibles	(1,240)	(1,169)	(1,122)	(1,122)	(1,122)
Highlighted items	(6,233)	(9,044)	(3,325)	0	0
Share-based payments	(223)	(117)	1,906	(150)	(150)
Reported operating profit	(1,354)	(4,763)	(2,875)	2,228	4,628
Net Interest	(1,151)	(898)	(875)	(924)	(917)
Joint ventures & associates (post tax)	0	0	0	0	0
Forex	0	0	(137)	0	0
Profit Before Tax (norm)	5,191	4,669	(1,346)	2,576	4,983
Profit Before Tax (reported)	(2,504)	(5,661)	(3,887)	1,304	3,711
Reported tax	(1,985)	(1,477)	150	(618)	(1,196)
Profit After Tax (norm)	3,413	2,738	(1,372)	1,958	3,123
Profit After Tax (reported)	(4,489)	(7,138)	(3,737)	686	2,515
Minority interests	(489)	(451)	(186)	(34)	(125)
Discontinued operations	(845)	(1,018)	220	0	0
Net income (normalised)	3,551	2,275	(1,557)	1,926	3,001
Net income (reported)	(5,334)	(8,156)	(3,703)	652	2,390
Average Number of Shares Outstanding (m)	78.6	79.5	81.6	78.2	78.4
EPS - normalised (p)	3.7	2.9	(1.9)	2.5	4.7
EPS - normalised continuing diluted (p)	3.5	2.8	(1.9)	2.4	4.6
EPS - basic reported (p)	(7.4)	(10.8)	(4.5)	0.8	3.0
Dividend per share (p)	0.71	0.00	0.00	0.50	1.25
EBITDA Margin (%)	11.2	12.6	3.2	8.2	10.8
Normalised Operating Margin	9.1	8.2	-0.6	5.7	8.6
BALANCE SHEET					
Fixed Assets	45,400	47,060	44,322	42,899	41,728
Intangible Assets	43,251	35,172	34,698	33,461	32,289
Tangible Assets	1,170	10,902	8,199	8,013	8,014
Tax, receivables, Investments & other	979	986	1,425	1,425	1,425
Current Assets	65,787	35,074	35,610	37,203	40,898
Stocks	0	0	0	0	0
Debtors	29,260	26,838	24,318	25,904	29,013
Cash & cash equivalents	8,793	8,236	11,121	11,127	11,715
Other	27,734	0	171	171	171
Current Liabilities	(27,539)	(21,195)	(22,189)	(22,241)	(23,041)
Creditors	(18,150)	(14,659)	(15,986)	(16,541)	(17,340)
Tax and social security	(1,681)	(4,424)	(1,953)	(1,953)	(1,953)
Short term borrowings (incl. positive loan fees)	(2,314)	22	45	45	45
Other incl lease liabilities	(5,394)	(2,134)	(4,295)	(3,792)	(3,793)
Long Term Liabilities	(36,282)	(23,047)	(26,997)	(26,997)	(26,997)
Long term borrowings	(33,965)	(13,868)	(19,675)	(19,675)	(19,675)
Other long term liabilities	(2,317)	(9,179)	(7,322)	(7,322)	(7,322)
Net Assets	47,366	37,892	30,746	30,863	32,589
Minority interests	992	1,179	442	442	442
Shareholders' equity	46,374	36,713	30,304	30,421	32,147
CASH FLOW					
Op Cash Flow before WC and tax	7,761	8,603	1,797	5,015	7,350
Working capital	(367)	(702)	4,171	(1,031)	(2,309)
Exceptional & other	(6,233)	(2,962)	(3,325)	0	0
Tax	(1,952)	(1,345)	(2,285)	(618)	(1,196)
Operating Cash Flow	(791)	3,594	358	3,366	3,845
Capex	(1,784)	(3,235)	(1,316)	(1,500)	(1,499)
Acquisitions/disposals	(858)	23,862	(2,118)	(486)	0
Net interest	(1,068)	(718)	(550)	(924)	(917)
Equity financing	252	253	0	0	0
Dividends	(791)	(1,052)	(444)	(450)	(841)
Other	0	0	0	0	0
Net Cash Flow	(5,040)	22,704	(4,070)	6	587
Opening net debt/(cash)	28,840	27,486	5,610	8,509	8,503
FX	(91)	(204)	117	0	0
Other non-cash movements	6,485	(624)	1,055	0	0
Closing net debt/(cash)	27,486	5,610	8,509	8,503	7,915

Source: Company accounts, Edison Investment Research

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