

IMMEDIA GROUP PLC

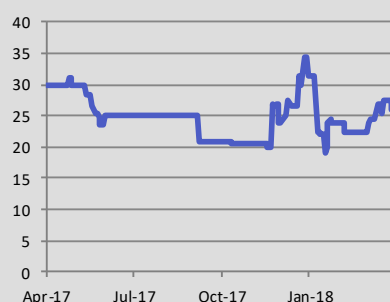
MEDIA

IME.L

28p

Market Cap: £3.8m

SHARE PRICE (p)



12m high/low

34.5p/19p

Source: LSE Data

KEY INFORMATION

Enterprise value	£3.8m
Index/market	AIM
Next news	1H18 Interims - Sept '18
Gearing	0%
Interest cover	N/A

 IMMEDIA IS A RESEARCH CLIENT OF
 PROGRESSIVE

ANALYSTS

Maggie Schooley
 +44 (0)20 7781 5312
 mschooley@progressive-research.com

Gareth Evans
 +44 (0)20 7781 5301
 gevens@progressive-research.com

Time to Engage

Inflection point in sight

Over the past 18 months Immedia Group has acquired and successfully integrated AVC Media, strengthened the Board, appointed a new COO and Group Financial Controller, and launched its own proprietary content distribution platform DreamStream X. We see 2017 as a financial trough, with the Group well positioned to capitalise on its expanded skill set, increased cross selling opportunities and sharpened strategic focus over the forecast period. Immedia is enjoying increasing momentum across the Group evidenced by the recently announced major UK financial institution installation contract.

- Immedia Group provides a unique technology platform, content and strategic consultancy service to leading brands that enables audience engagement at scale in owned media channels. Based on its true understanding of audiences, the Group builds and manages live and measurable interactive audio and visual content channels that can be distributed in both physical and digital spaces.
- Media and communications are experiencing one of the most disruptive periods driven by the growth of online and social media platforms, resulting in huge changes to consumer behaviour. Consumers are increasingly well informed, resistant to advertising and distrustful of brands. Marketers are increasingly looking for innovative solutions to engage and connect customers with content that is timely, relevant and value add. Immedia Group's product and service offering is aligned with current market dynamics. The Group is establishing itself as a leading audience engagement platform and content business.
- As offline meets online ("bricks with clicks"), Immedia has launched its branded online/app channels designed to enhance the digital shopping experience, featuring live 'in app' presenters, music and video streams and other interactive features. The concept is proven to broaden the shopping experience, promote specific products and lengthen 'in app' dwell time. These 'in app' developments are designed to support the notion of brand community and culture, playing on music trends and demographic tonality. These experiences are also interactive, shareable and designed to build overall app exposure and usage supported by independent data.
- We believe our future estimates are prudent and full review of the financials can be found on p.13, as well as sensitivity analysis on p14.

FYE DEC	2015A	2016A	2017A	2018E	2019E
Revenue	2.4	2.6	3.5	4.4	4.9
Operating Profit	0.1	(0.1)	(0.5)	0.3	0.3
PBT	0.0	(0.2)	(0.7)	0.1	0.2
EPS	0.1	(1.2)	(4.9)	0.0	0.0
EV/Sales	1.4x	1.3x	0.8x	0.7x	0.7x

Source: Company Information and Progressive Equity Research estimates

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
MEDIA, COMMUNICATIONS AND THE RETAIL SPACE	6
Digital Media Trends and Consumer Behaviour	6
Re-writing the Retail Strategy Handbook.....	6
Content and Owned Media	7
IMMEDIA GROUP PLC	8
Group Overview	8
AVC Media.....	9
Future Strategy	9
Recent Management Appointments	9
GROUP OFFERING.....	11
Platforms and Content	11
Apps	12
Video/ Virtual Reality/ Animation (3D)	12
Marketing Analytics.....	12
FINANCIALS	13
FY17 Results	13
Estimates	13
Sensitivity Analysis	14
BOARD OF DIRECTORS.....	16
RISKS.....	17
KEY SHAREHOLDERS	19
FINANCIAL SUMMARY	20

Executive Summary

Immedia Group

Immedia Group provides a unique technology platform, content and strategic consultancy service to leading brands that enables audience engagement at scale in owned media channels. Based on its true understanding of audiences, the Group builds and manages live and measurable interactive audio and visual content channels that can be distributed in both physical and digital spaces. Immedia Group enables its customers to enhance their brand and owned media strategies through the delivery of targeted and relevant music, content, timely information and customer-centric promotions. The acquisition of AVC Media (in September 2016) was an important step in the expansion of Immedia Group. AVC brings complementary creative solutions such as virtual reality (VR), 3D animation and social media offerings. It provides an expanded customer base, allows for cross selling solutions and offers a platform for creative opportunities. The Group is establishing itself as a leading audience engagement provider for fans of brands.

Media and Communications Market

Technology is currently driving one of the most disruptive and fast-moving periods in media and communications. Consumers have become less loyal, highly distrustful of brands and extremely well informed. As consumers' attitudes toward the retail experience evolve, they become more resistant to push marketing strategies such as email marketing and pop up ads. Consumers are embracing pull marketing strategies; social media validation and informative value add propositions. Successful retail strategies must encompass relevant and complementary online and offline strategies. Retail strategies are evolving at break neck pace and brands are increasingly looking for new and innovative ways to engage with customers, drive traffic, capture data, build brand loyalty and win a larger share of the consumer wallet. More and more, brands are gravitating toward owned media as the basis for a successful brand strategy.

Offering

Immedia Group's distribution platform and services are aligned with the changing dynamics in customer facing retail and other activities. Through its multi-media propositions, such as interactive audio and video channels, VR and animation, the development of built-for-purpose innovative apps, and other original branded content; Immedia Group has positioned itself as a multi-media content and technology business which helps brands to become media owners, in addition to traditional media advertising activity. Immedia is developing media ownership strategies across all platforms supporting radio, video and television distribution. Immedia excels in developing like-minded audience engagement with specifically designed content to reflect a brand's attitude and culture. Consistent attitudinal tonality and an advanced knowledge of music trending and language positioning shape and define a brand's credibility. Within Immedia's offering, 'where brands shake hands with fans', data is gathered and analysed in every element of the user's overall experience.

Group Strategy

As Immedia continues to evolve under the guidance of Chief Executive Bruno Brookes, Non-executive Chairman Tim Hipperson and the senior management team, its aspiration is to be the market leading audience engagement company in audio and visual content to create fans of brands. To meet its aspirations, the Group is focused on creating increased scale across its chosen range of sectors and geographies that enable live distribution of content in owned media channels. With the launch of DreamStream X, the Group is focused on using its expertise to assist clients in becoming media owners, which is one of the fastest growth trends in media services. To advance its current new business opportunities, the Group is completing its quick to go multi-functional app for distribution to new clients.

Financials

We have included financial forecasts on the front page of this note, which are explained in more detail on pages 13 and 19. The Group appears to be gathering momentum with wins including JD Sports Fashion Plc, Subway, and the recently announced major UK financial institution installation contract. We believe FY2017A represents a trough financial year, as the Group integrated and restructured AVC whilst remaining debt free. Immedia is benefiting from the expertise of its new board members, customer engagement levels are high, and a focus on fiscal discipline should start to positively affect the bottom line. We believe FY2017A will represent an inflection point for the Group and that our estimates over the forecast period are prudent. We would remind investors of the gearing within the Group given its scalability and relatively static cost base (ex-restructuring costs) by providing a sensitivity analysis to highlight the impact of a 10% revenue increase/decline on the bottom line.

Summary and Conclusion

Media communications have changed immensely over the past decade, driven by emerging technologies which allow consumers to be connected to others and access huge quantities of information as never before. Consumer desires are rewriting the brand strategy playbook. Brands are looking for increasingly differentiated strategies and solutions to communicate with and engage consumers across multiple platforms. Immedia's product and service portfolio, as well as its wealth of experience in retailing, is gathering impetus as brands migrate away from traditional brand strategies to more captive methods of engaging with customers. Where possible we would encourage potential investors to meet with management to gain a greater understanding of the unique proposition Immedia Group provides.

The “Top 10” Chart – reasons to be excited about Immedia

1	▲	Focus on quality delivery of the end-customer experience – runs throughout Immedia’s operations
2	▲	A product offering that assists its clients in creating a successful brand strategy in a period of increasingly complex media and communications
3	▲	AVC brings expanded digital-media skillset across multi-functional platforms
4	➤	Financial gearing should allow future revenue growth to flow to the bottom line (especially post the appointment of a new full-time FC)
5	▲	Flagship brands (e.g. JD Sports) using music, media and content in ever more exciting ways – Immedia is helping to blaze the trail
6	▲	Strengthening of Board and Management team in anticipation of further growth
7	▲	Excellent pedigree in the retail environment to attract wide client base and driving record level of customer inquiries
8	▲	Analytics and “big data” allow brand owners to effectively monitor, understand, remain fluid with and monetise their digital engagement with consumers
9	▼	Strong multi-year pedigree and high quality installed base of enterprise-grade customers
10	➤	Requirement in large organisations to engage with their customers, fans and workforces in new & innovative ways

Media, Communications and the Retail Space

Digital Media Trends and Consumer Behaviour

Technology is currently driving one of the most disruptive periods in media and communications. Consumers have become less loyal, highly distrustful of brands and extremely well informed. The retail experience is increasingly one where the customer no longer wants to be sold a product, but one where a customer knows what he/she wants when they enter the store. Consumers are looking for expanded retail experience and cultural recognition.

These trends are facilitated by the internet where an enormous amount of product data is available. According to Retailing Today 81% of shoppers making big purchases have conducted online research prior to making the purchase. Approximately a quarter of all mobile research is initiated within a branded app and 69% of people would prefer to do their own product research than have a face to face discussion with a salesperson.

In addition, the increasing use of social media, whether paid for or earned, is resulting in ultra-fast-moving trends. Hubspot estimates that 93% of buyers are influenced by social media. Marketers are focused on creating more exposure for their companies using social media.

Armed with vast amounts of information and potentially influenced by social media trends, consumers' attitudes toward the retail experience are evolving. Push marketing techniques such as blast emails and pop-up ads are experiencing rapidly declining click through rates (CTR). For instance, Google, which has one of the highest click through rates, sits at about 25% CTR. Other leading positions then drop down to single digit rates, with a vast majority of brands achieving less than 0.05% CTR. In addition, consumers' opinions are negatively influenced by pop up ads which are seen as intrusive and untrustworthy. Ad blocking apps are increasing being utilized. According to Hubspot, Adblocker Plus, a popular blocking app, reached 300 million downloads worldwide in 2016, while ad blocking in general grew by 41% in 2017 (pagefair).

Re-writing the Retail Strategy Handbook

Marketers are evolving their understanding of the complementary nature of a physical retail presence (offline) to the online retail presence. The world has moved on from scenarios where the High Street dies a slow death at the hands of online ecommerce to one where Bricks meet Clicks. Online sales continue to show robust year on year growth (c. 29% according to the Office for National Statistics) but still only accounted for c.15% of all retail spending. Consumers continue to desire the tactility and engagement of the in-store retail experience. Customers want to hold, touch, try on, play with products, smell the brand's scent, experience the vibe and listen to the brand's music and tone of voice. But consumers' impression of a brand is often also guided by its online presence. Digital engagement across multiple channels has been proven to heavily influence traffic flow into sales in the physical store, while 90% of consumers say they visited a store based on their online experience. Marketers recognize the growing circularity in a successful retail strategy whereby a brand must provide an offering across multiple channels and engage across a multitude of platforms. Retail strategies are continuously rewritten with "new" retailing introducing VR and other emerging technologies in support of aligning off and online retail strategy as the consumer seeks a similar experience from a brand's online presence to that encountered offline.

Content and Owned Media

Original content distribution is now seen as one of the key drivers to engaging users, creating experiences and building a brand fan base. Content is an instrumental tool in reaching, engaging, informing as well as adding value and thereby converting the target audience into consumers/fans. Engaging content has far reach as it is often shared via email, text and social media across multiple devices (PC, phone, tablet, among others).

Research has shown video content supports revenue growth. According to Lifelearn, when people hear information, they are likely to remember only 10% of that information after three days. If that identical information is given alongside supporting video content, people retained 65% of the information over the same period. The use of content makes a brand more personal and interactive.

Social media growth coupled with users increasing resistance to advertising as highlighted above, means marketers' focus is shifting to 'owned media'. Owned media is a pull marketing strategy and encompasses any media under the brand's own control such as websites, blogs, social media channels and mobile apps. Social media in this context is considered owned with brands seeking high levels of 'earned' media through the sharing of content and word of mouth feedback spread on platforms outside their control.

The *Harvard Business Review* (October 10, 2014) describes an owned media strategy as the use of Content, Community and Context. Content should be engaging, relevant and valuable to the user and utilise all available data to make it relevant to that user. Community is the connection of customers with each other through private social networks, chat forums and offline through events thereby creating fans and followers. Context is provided by utilising the seemingly isolated incident of a purchase and turning it into a connected experience. This connected experience is facilitated by the capture of relevant data about the user. The objective is to create value greater than the products sold, for instance using loyalty programs, or relevant yet unobtrusive product recommendations. The use of data is not just to sell a product to the end user but to also create a useful service alongside the sale. Consumers are treated as more than just a passive consumer but a truly engaged part of building and creating an identity for the brand and community alongside it.

Immedia Group through its platform and product offering is working with brands to create successful brand strategies and owned media channels in an increasingly complex and fast-moving environment.

Immedia Group Plc

Group Overview

Immedia Group is in the audience engagement business, distributing perfected audio and visual content via the DreamStream X platform in physical and digital spaces. Immedia Group through its platform and product offering is working with brands to create successful brand strategies and owned media channels in an increasingly complex and fast-moving environment. The distinctiveness of the offering lies in the Group's extensive experience in the retail space coupled with its understanding of the complexity in audience perception and trends. The Group delivers a range of audience engagement solutions to a wide range of global customers, such as Superdrug, Subway, HSBC Bank, BMW, Shell and FIFA. The bespoke, high quality nature of the solutions it provides is the key to its unique offering.

Through its digital content channels and multifunctional app technology, Immedia Group enables its customers to enhance their brand strategy through the delivery of branded live channels featuring targeted music, as well as other high-quality audio and visual content and promotions. Immedia Group's competitors are unable to bring the unique background and experience that Chief Executive Bruno Brookes and his team champion within the Immedia offering. Bruno Brookes started in radio in 1977 and became a household name in the 1980s-1990s as a BBC Radio 1 presenter, as well as a TV host on SKY and the BBC. Bruno's relevance in radio and TV over decades is testimony to his ability to understand how music and entertainment content draws an audience and creates loyal followers. His many years of experience, and his innate understanding of the perceptive sound and image of a brand, cannot be replicated by competitors.

The acquisition of AVC Media, discussed below, is a pivotal step in the Group's growth. It brings to the Group complementary virtual reality (VR) and 3D animation offerings, expands the Group's capabilities and ability to innovate, as well as its end-market reach and cross selling prospects.

Client Portfolio

Key Clients

HSBC 



Superdrug 



O₂



Source: Progressive Research, Company information

AVC Media

On 7 September 2016, Immedia Group purchased certain assets of AVC Media out of administration for a cash consideration of £200,000. AVC Media is based in Aberdeen and has been rebranded AVC Immedia (“AVC”). AVC solutions include video and 3D animation, web and graphic design, app development, audio and visual solutions, event production and management, and video conferencing.

It services clients in the Oil & Gas industry, football and tourism. Given the extraordinary downturn in the Oil & Gas Industry during 2015 and 2016, AVC experienced an unprecedented adverse trading period, which resulted in it entering administration. Immedia Group had known AVC for well over 10 years, giving it the confidence to swiftly undertake the acquisition.

As AVC was integrated and restructured through 2017, the associated cost base remained elevated. The cost base has now been right sized, and the benefits AVC brings in increasing scale, providing complementary skill sets and cross selling, should start to positively affect the Group. AVC broadens the Immedia client base, bringing on board BP, Shell, FIFA, Weir, and Aberdeen University to name just a few. AVC brings a higher volume but lower value per contract mix into the Group, which should serve to dilute the contract concentration risk the core Immedia Group has historically carried. Overall Group volatility should be positively affected by the AVC contract mix and ongoing cyclical recovery in its home market.

Future Strategy

As Immedia continues to evolve under the guidance of Chief Executive Bruno Brookes, Non-Executive Chairman Tim Hipperson and the senior management team, its ultimate aspiration is to be the market leading audience engagement company in audio and visual content for Retail and Fans. To meet its aspirations, the Group is focused on creating increased scale through the expansion of its digital channels and the integration of video, VR, 3D, and social media into its content streams. In addition, the Group plans future product innovations across a broad range of sectors and geographies. With the launch of DreamStream X, the Group is focused on using its expertise to assist clients in becoming media owners, one of the fastest growth trends in media services. The Group also plans to introduce a new mass market online customised digital music solution that should serve to provide a low cost yet high margin growth opportunity. It will continue to focus on operational improvements, cost management efficiencies, and the generation of new business opportunities while upscaling its premium services to existing clients. It is focused on driving a better understanding of its offering among its end markets. The Group will continue to integrate AVC whilst looking for potential complementary opportunities.

Recent Management Appointments

Immedia Group has made welcome additions to its management team and Board over the last 12 months. The first is the appointment of Steve King as COO. Steve comes from Bauer Media where he was the regional Managing Director for the Northwest and the Midlands. Steve has 20 years of Board level experience in the media industry, and a proven track record. Steve was appointed to the position to strengthen operations as the company prepares for growth.

The appointment of Simon Leathers as a Non-Executive Director brings a wealth of market experience to the Group. Simon is a qualified chartered accountant. He has 16 years of corporate finance experience with PwC, Evolution Securities, Daniel Stewart & Co, Fox-Davies Capital, BDO and Shard Capital. Simon has joined the Remuneration Committee and the Audit Committee, of which he is the Chairman.

The appointment of Sam Lakhani as Group Financial Controller is timely, post the departure of Charles Barker-Benfield in 2H16. Sam is a qualified FCCA with over 20 years' experience working in Private and Public sectors at Head of Finance and Controller level. Sam is responsible for finance, regulatory, payroll and operational matters together with system and process improvements. As is the case with most companies, we believe the arrival of a new Financial Controller will refocus the Group on its financial disciplines. It would be our expectation that costs will be a key focus, particularly given the elevated costs associated with the AVC acquisition and the potential for central management of costs in the core Immedia Group.

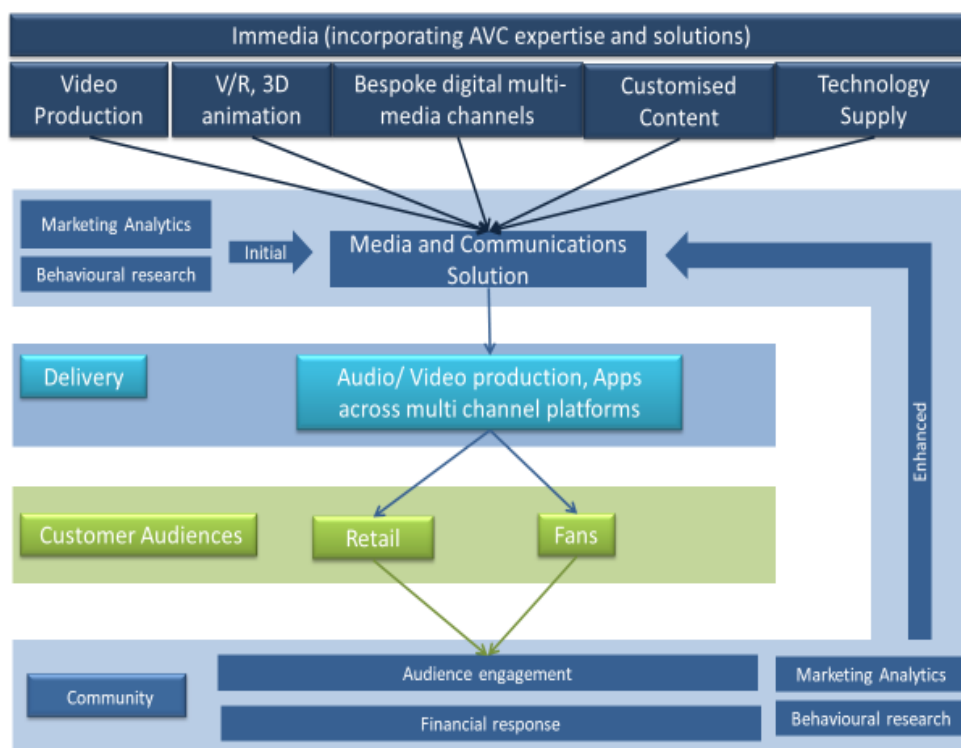
In August 2017, the Group appointed Tim Hipperson as its new Non-Executive Chairman, succeeding Geoff Howard-Spink. Tim is the CEO of Morph Management Ltd, a strategic and M&A consultancy business which advises both private equity and venture capital firms on investment opportunities in technology based companies. Prior to his appointment as Chairman Tim was a consultant to the Board of Immedia, advising on the evolution of corporate strategy. Tim has won various business awards and has specialist knowledge in digital technology, data, content development, media and mobile. Tim has held CEO positions within WPP, Interpublic Group and Publicis Groupe where he has a proven track record of assisting companies in developing and delivering innovative business and business change plans, mergers, acquisitions, and significant growth. Most recently he held the position of CEO of Weve Limited, a joint venture business owned by EE, Vodafone and O2. We anticipate Tim will be instrumental to the Group's growth and expansion.

Group Offering

Platforms and Content

Immedia's product offerings assist brands in managing multimedia content across a range of platforms. The Group's offering allows brands to create engaging experiences with their target audiences in new and innovative ways. Immedia's pioneering apps enhance dwell times, feature music videos and promote sales offers. Immedia's offering serves to increase levels of social engagement between the brand and its target audience, to drive increased traffic, create communities for its client's customers, assist in curating brand culture and ultimately enhance the customer experience. Immedia Group is positioning itself as an agency that can not only assist brands in engaging with their audiences in new ways but ultimately become media owners. The Group launched the DreamStream X platform in November 2017, which offers brands the opportunity to convert owned media channels into interactive entertainment channels. The DreamStream X platform allows brands to extend their media communications to relevant out of store audiences.

Immedia Group Offering



Source: Progressive Research

Apps

Immedia designs and delivers music, entertainment and communications strategies for brands. Its solutions are 'customer interactive' in both physical and digital spaces. For example, Immedia has recently won a contract to deliver a music and entertainment strategy for JD Sports Fashion Plc ("JD"), across its UK retail locations and via the JD Sports shopping app.

The JD-X in-app experience offers a live and interactive radio station together with 20 other specialist music channels and an interactive video channel called Shout which promotes social integration and sharing with its users.

Video/ Virtual Reality/ Animation (3D)

With the acquisition of AVC, the Immedia Group acquired experience in Virtual Reality, 3D animation and video production. The use of immersion technologies such as VR allow the consumer to digitally interact with the product in a lifelike manner, thereby recreating the instore experience in a digital environment. It provides the client with a virtual simulated tactile experience.

AVC has a wealth of experience with using 3D applications for the creation of workplace training videos. For instance, for a major oil company, AVC has designed a 3D animation video for training and health and safety procedures for employees on its offshore oil rigs.

AVC's VR and animation skills allow the Group to collaborate with other agencies to create new business opportunities. AVC has gained opportunities to work with large agencies which lack the required skill set to deliver increasingly sophisticated campaigns.

Marketing Analytics

Data Analytics are at the heart of Immedia Group. The data gathered through timely multichannel interactions is used to continuously improve the user experience, identify developing trends, inform the brand, add value to the user and ultimately increase revenue.

The influence of an Immedia campaign can be illustrated by Superdrug Live for which Immedia won the Instore Customer Initiative of the Year award in 2015 from Retail Week Magazine. Superdrug generated a c.10% uplift in sales in the product categories promoted by Superdrug Live in the period following promotion on Superdrug Live. The data gathered provided tangible evidence by analyzing the timing of the promotions against point of sale information from the tills.

Financials

FY17 Results

The FY 2017 saw Revenue of £3.5m, showing positive year on year progress aided by the first full year contribution of AVC. Costs were elevated as the Group integrated and restructured AVC resulting in an Adjusted EBIT loss of £0.7m against a loss of £0.2m delivered in 2016. It should be noted the Group did not report the one-off restructuring costs associated with AVC below the line, choosing to be conservative.

The FY 2017 outlook statement notes that there are very high levels of engagement with new and existing clients and the Group is positive about its prospects in 2018.

FY17 Results

	FY17	FY16	y/y Variance
Revenue	3.5	2.6	0.9
Adj EBITDA	(0.5)	(0.1)	(0.4)
Adj EBIT	(0.7)	(0.2)	(0.5)
Reported PBT	(0.7)	(0.2)	(0.5)
Fully adj PBT	(0.7)	(0.2)	(0.5)
NOPAT	(0.7)	(0.2)	(0.5)
Reported EPS (p)	(4.9)	(1.2)	(3.7)

Source: Immedia Group and Progressive Research

Estimates

A key assumption in our forecast is the contribution of the recently announced UK major financial institution equipment contract, a robust performance from AVC and a step down in the central cost in FY2018E. We estimate FY2018E Revenue of £4.4m with a 10% increase in FY2019E to £4.9m. We have assumed a Group gross profit margin of 58% in FY2018E up from c.50% in 2017 given the mix effect of equipment installation. We have assumed flat Group central costs before depreciation and amortization in FY2018E of c. £2.3m and 5% inflation in FY2019E. Lastly, we estimate cash and cash equivalents of c. £0.48m in FY2018E rising to c £0.73m in FY2019E. We are confident in this assumption, as we believe the appointment of Sam Lakhani as Group Financial Controller in 2016 brings an increased focus on cost and cash management disciplines across the Group. Our FY2018E revenue assumptions account for the contribution from the UK major financial institution and retention of its current contract base. We believe our 10% y/y revenue increase from FY2018E to FY2019E is achievable given the record level of inquiries the Group is receiving, new product launches such as DreamStream X and the potential for upscaled work with existing clients.

Tax is calculated at the UK standard corporate tax rate of 20%. We believe we have been prudent in our assumptions but note risks to our estimates include the integration costs of AVC remaining higher for longer than currently envisaged and potential contract delays.

Estimates

	2018E	2019E
Revenue	4.4	4.9
Adj EBITDA	0.3	0.3
Adj EBIT	0.1	0.2
Reported PBT	0.1	0.2
Fully adj PBT	0.1	0.2
NOPAT	0.1	0.2
Reported EPS (p)	0.0	0.0
Fully adj EPS (p)	0.0	0.0

Source: Progressive Research

We would also highlight to investors that Immedia Group has a stake in Audioboom Plc. Audioboom is currently in the process of undertaking a reverse takeover of Triton Digital Canada Inc. The shares have been held as available for sale since 2016 and it remains to be seen what action Immedia Group will undertake concerning this investment.

Sensitivity Analysis

Given Immedia is highly operationally geared, we have included a sensitivity analysis to highlight the effects of potential new or upscaled contracts or the loss of existing contracts within the core Immedia Group. We have provided an upside/downside scenario in the figure below to highlight the sensitivity of our central adjusted EPS estimates to changes in revenue. Our upside scenario assumes a 10% increase to our revenue estimate, gross margins in line with estimates and central costs as a percentage of sales flat to estimates. Our downside scenario assumes a 10% reduction in our estimated revenue, gross margins in line with estimates and central costs flat to estimates as a percentage of sales.

Sensitivity Analysis

	2018E	2019E
<u>Upside scenario</u>		
Revenue	4.9	5.4
Adj EBITDA	0.5	0.6
Adjusted PBT	0.4	0.4
Adjusted EPS (p)	2.8	3.2
<u>Downside Scenario</u>		
Revenue	4.0	4.4
Adj EBITDA	0.0	0.0
Adjusted PBT	(0.1)	(0.1)
Adjusted EPS (p)	(1.0)	(0.8)

Source: Progressive Research

The upside scenario could be exceeded with greater contract momentum than assumed in our central case and lower central costs. The downside scenario illustrates the volatility to which smaller companies can be prone. Immedia Group's financial results have historically been volatile but, as noted above, the recent Board and Group Financial Controller appointments, as well as a sharpened strategic focus, should result in a reduction of volatility going forward.

Risks and Challenges

Contract concentration is a risk for the Immedia Group. As of the 2017 Annual Report, three customers each represented exposure of 10% or more of revenue. The loss of one of those key customers would create a materially negative effect on revenue, but we would note that the current contracts within the core Immedia Group do not expire until FY2019. The recent acquisition of AVC Media should serve to reduce revenue volatility over time as it has higher volume, lower value contracts. Elevated costs as Immedia supports and reshapes AVC remain a challenge, but a clear strategy for rationalising costs appears to be in place.

In the near term we would highlight the ongoing Brexit negotiations, weak sterling and slowing real wage growth as creating uncertainty in economic forecasts and business confidence, which could constrain marketing spend. That being said, we believe the changing priorities within marketing budgets are prompting companies to shift spend to owned media, content and other connected technologies. In such an environment Immedia Group is well placed.

Board of Directors

Tim Hipperson, Non-Executive Chairman

Tim is the CEO of Morph Management Ltd, a strategic and M&A consultancy business which advises both private equity and venture capital firms on investment opportunities in technology-based companies. Tim has won various business awards and has specialist knowledge in digital technology, data, content development media and mobile. Tim has held CEO positions within WPP, Interpublic Group and Publicis Groupe where he has a proven track record of assisting companies in developing and delivering innovative business and business change plans, mergers, acquisitions, and significant growth. Most recently he held the position of Interim CEO of Weve Limited.

Bruno Brookes, Chief Executive

Bruno Brookes founded Immedia Group plc in 1999. Bruno was best known for his primetime radio shows at BBC Radio 1, including the UK Top 40, Bruno at 5.45 and the weekend breakfast show with Liz Kershaw. He also launched Radio 5 and appeared on and hosted many TV shows including Top of the Pops, Beat The Teacher, and Sky's Tight Lines. He has received numerous awards for his broadcast and TV work including two SONY Golds. In 1995 Bruno founded the Radio and Television School of Excellence and trained many fledgling presenters who have since become successful and recognized broadcasters in both radio and TV. He was responsible for the launch of Storm Live, the first live interactive internet radio/TV station and Impulse Live, the first real time and interactive radio station to high street retailers. Bruno has been Chief Executive of Immedia Group since its inception.

Mark Horrocks, Non-Executive Director and Chairman of Remuneration Committee

Mark entered the city in 1983 as a Financial Analyst at the Guardian Exchange Group, where he went on to manage over £2bn in assets within the portfolios of the flagship Pensions and Life fund. In 1997 Mark left the Guardian Exchange Group to pursue his interest in small company investments and has served on various listed small companies. He is currently a partner at Intrinsic Capital LLP.

Simon Leathers, Non-Executive Director and Chairman of Audit Committee

Simon is a qualified chartered accountant. He has 16 years of corporate finance experience with PwC, Evolution Securities, Daniel Stewart & Co, Fox-Davies Capital, BDO and Shard Capital. Simon is a member of the Remuneration Committee and the Audit Committee, of which he is Chairman.

Ross Penney, Business Affairs Director

Ross graduated from Cambridge in 1986 and holds an MBA from Imperial College London. Ross was Head of Licensing at Video Performance Limited while undergoing his studies. He founded the Kronos consultancy in 1998 and moved to Cube thereafter, which was acquired by Immedia Group plc in 2006. He is responsible for all aspects of legal and business affairs at Immedia, including contracts and music licensing.

Risks

Risks		
Risk	Risk/Impact	Management Action / Comments
Contract Risk	In a similar manner to other small companies servicing rather large clients, a small number of contracts constitute a large proportion of Group revenue	<p>The acquisition of AVC Media will serve to reduce contract risk given the higher volume, lower value contract mix.</p> <p>The management team is also working to broaden the end customer base to reduce sector risk.</p> <p>The financial scenario analysis attempts to highlights the impact of a 10% increase or decrease in revenue.</p>
Economic	Risk derived from the production, distribution, and consumption of goods and services.	<p>Economic risk can be reduced, but not completely mitigated.</p> <p>Immedia does not operate in high economic risk Geographies. Its geographic revenue split is UK (95%), EEA (0.5%), ROW (4.5%)</p> <p>The management team is also working to broaden the end customer base to reduce sector risk and ensure through cycle performance.</p> <p>AVC's revenue has proved to be cyclical given its clients' end market mix. The Group continues to focus on broadening its client base and cross selling into the core Immedia client base.</p>
Regulation of Licensing	Changes to the regulation of licensing, including licensing costs and other pricing aspects.	<p>Immedia Group has expertise in licensing but unforeseen changes in the regulation of licensing may arise in the future.</p> <p>Licensing regulation varies from region to region and the company has been prudent in its geographic expansion to avoid licensing complexity given the company's size.</p> <p>The Group when required is able to source lower cost material outside the iconic music licensing regime.</p>
Competition	The risk of new technology development or disruptive entrant	<p>Continuous development of the Immedia Group product and service offering.</p> <p>Exclusivity of solutions.</p> <p>Bespoke, high quality content delivery in a timely manner.</p> <p>Continuous review of costs.</p>
Investing	Acquisition risk or other investment strategies	<p>Immedia Group invested in Audioboom (BOOM - MC £19m) on a pre-IPO basis. The investment was a strategic one, and Immedia Group does not as a rule invest in other listed companies. Its initial investment of £90k is below the fair market value. The company recognized the volatility associated with the MTM on the investment and has classified it as AFS.</p> <p>Select M&A strategies may be sought from time to time, if it is deemed in the best interest of the overall Group.</p> <p>For example the AVC Media transaction was paid for in cash and was bought out of administration. AVC was well known to the Group and had experienced a period of adverse trading, which allowed Immedia to acquire a unique asset in a timely manner.</p>

Source: Company Information, Progressive Research

Risks continued

Risk	Risk/Impact	Management Action / Comments
Employee Risk	The loss of Key personnel - Chief Executive Bruno Brookes	As founder and Chief Executive Bruno Brookes has been a driving force behind Immedia Group. His vision and experience have been instrumental in growing and shaping the Group. Bruno has built a very strong team around him that share his vision and passion, which serve to assist in the mitigation of key man risk.
Credit/Bad Debt	The risk that a counterparty fails to discharge its obligations	The Group's top ten contracts are with very large institutions of good credit standing. The Group's historical bad debt experience has been low.

Source: Company Information, Progressive Research

Key Shareholders

Top 10 Shareholders

Mr Mark Horrocks	28.3%
Mr Trevor N Brookes	18.2%
Dr John R Gayner	16.2%
Immedia Group Employee Benefit Trust	5.7%
Mr Geoff Howard-Spink	3.1%
Mr Samuel R Penney	3.0%
Mr N Trafford	2.1%
Alliance Trust	2.1%
Mr Nathaniel Rubner	2.0%
Hargreaves Lansdown Asset Management	1.9%

Source: Equiniti

* % Ownership based on weighted average number of shares in issue of 14,556,844

Financial Summary

Summary Financials

PROFIT & LOSS (£m)	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Revenue	2.58	2.37	2.61	3.55	4.44	4.88
Adj EBITDA	0.20	0.05	(0.08)	(0.51)	0.27	0.31
Adj EBIT	0.15	0.01	(0.18)	(0.69)	0.13	0.17
Reported PBT	0.15	0.01	(0.18)	(0.69)	0.12	0.16
Fully adj PBT	0.15	0.01	(0.16)	(0.69)	0.12	0.16
NOPAT	0.16	0.01	(0.15)	(0.69)	0.10	0.13
Reported EPS (p)	(0.63)	(0.69)	(1.38)	(4.89)	0.01	0.01
Fully adj EPS (p)	1.12	0.06	(1.17)	(4.89)	0.01	0.01
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00

CASH FLOW & BALANCE SHEET	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Operating cash flow	(0.05)	0.26	0.08	(0.05)	0.45	0.36
Free Cash flow (£m)	(0.07)	0.14	(0.02)	(0.07)	0.40	0.25
FCF per share (p)	(0.00)	0.00	(0.00)	(0.00)	0.00	0.00
Acquisitions	(0.00)	(0.00)	(0.20)	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Shares issued	0.00	0.00	0.00	0.00	0.00	0.00
Net cash flow	(0.29)	0.03	(0.23)	(0.07)	0.40	0.25
Overdrafts / borrowings	(0.08)	0.00	0.00	0.00	0.00	0.00
Cash & equivalents	0.18	0.35	0.13	0.05	0.45	0.70
Net (Debt)/Cash	0.11	0.35	0.13	0.05	0.45	0.70

NAV AND RETURNS	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Net asset value	1.57	1.12	0.84	0.18	0.24	0.35
NAV/share (p)	11.43	8.17	6.11	1.28	1.75	2.56
Net Tangible Asset Value	1.36	0.92	0.41	(0.19)	(0.09)	0.05
NTAV/share (p)	9.94	6.70	3.02	(1.39)	(0.62)	0.34
Average equity	1.36	1.34	0.98	0.51	0.21	0.30
Post-tax ROE (%)	-6.4%	-7.0%	-19.3%	-132.4%	48.1%	44.6%

METRICS	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
Revenue growth	-9%	-8%	10%	36%	25%	10%
Adj EBITDA growth	-58%	-73%	-252%	518%	-152%	17%
Adj EBIT growth	-62%	-96%	-3030%	276%	-118%	32%
Adj PBT growth	-62%	-95%	-2143%	345%	-118%	32%
Adj EPS growth	-62%	-95%	-2208%	318%	-100%	32%
Dividend growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Adj EBIT margins	6%	0%	-7%	-20%	3%	3%

VALUATION	FY-14A	FY-15A	FY-16A	FY-17A	FY-18E	FY-19E
EV/Sales	1.4	1.6	1.4	1.0	0.8	0.8
EV/EBITDA	18.21	67.93	(44.81)	(7.25)	13.98	11.98
EV/NOPAT	23.82	436.98	(24.74)	(5.38)	36.64	27.84
PER	24.5	495.4	n.a.	n.a.	3,781.0	2,861.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Information, Progressive Research Estimates

Disclaimers and Disclosures

Copyright 2018 Progressive Equity Research Limited (“PERL”). All rights reserved. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.