

IMMEDIA GROUP

MEDIA

IME.L

26p

Market Cap: £3.7m

SHARE PRICE (p)



12m high/low

33p/17p

Source: LSE Data

KEY INFORMATION

Enterprise value	£3.3m
Index/market	AIM
Next news	AGM - 26 June 2019
Gearing	N/A
Interest cover	N/A

IMMEDIA GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

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Gaining momentum.....

.....across many fronts

Immedia has delivered, in line with our previous forecasts, a significant improvement in its full year results, bringing the Group back into profitability and enhancing its cash balances. FY18 PBT of £106K represents an impressive swing of £800K from last year's result. This has been driven by a combination of strong turnover growth, gross margin improvement and tight cost control. While much of this benefit came from the Nationwide contract, trading relationships strengthened with other key clients, notably JD Sports and Subway, resulting in further expansion of geographic coverage, which is set to continue. The current year is performing in line with company expectations with a good pipeline of opportunities. With Immedia in advanced talks with key target clients, further trading updates are anticipated over the course of the current year.

- A year of strong progress:** The improvement in Immedia's FY18 results has been driven by a 32% increase in turnover to £4.7m. This, together with a 3.4% improvement in gross margin to 53.8%, resulted in a 41% increase in gross profit to £2.521m. Operating costs were tightly managed, including a full year benefit of cost reductions in the AVC division, such that they reduced by 2.9% over the year. This saw both operating profit and PBT increase by around £800K from last year to £111K and £106K respectively. Cash balances consequently rose to £370K at the year end, excluding finance leases of £77K.
- Strengthening client relationships, content reach and geographic spread:** Immedia has strengthened its relationships over the year with key clients, notably JD Sports and Nationwide Building Society, launching the JD-X app with the former and rolling out a national equipment installation for the latter. Immedia's content provision has been extended to other smart devices, including voice activated devices, such as Alexa and Google Home, thereby enhancing the appeal and reach of its audio and service offering. Retail services for JD and Subway have also been extended into additional territories.
- Current trading outlook and forecasts** Immedia is building a strong pipeline of opportunities and trading in line with expectations in the year to date. Subsequently, our FY19E EBITDA and PBT estimates are broadly unchanged, while we await further news on client wins.

FYE DEC (£M)	2016	2017	2018	2019E	2020E
Revenue	2.61	3.55	4.69	5.16	5.67
Adj EBITDA	(0.08)	(0.51)	0.26	0.30	0.34
Fully Adj PBT	(0.16)	(0.69)	0.11	0.16	0.20
Fully Adj EPS (p)	(1.17)	(4.89)	1.08	1.13	1.38
EV/Sales (x)	1.3x	0.9x	0.7x	0.6x	0.6x
EV/EBITDA (x)	-39.7x	-6.4x	12.6x	10.9x	9.6x
PER (x)	N/A	N/A	23.6x	22.6x	18.4x

Source: Company Information and Progressive Equity Research estimates

Moving ahead with a more confident tone

The FY18 results show a significant turnaround from those of FY17, marking a return to profitability, combined with a further increase in cash balances.

The improvement has been broad-based, across a number of clients, and from both the Newbury and Aberdeen (production) divisions. The Newbury division has enjoyed a major installation programme to the whole of the Nationwide Building Society estate, delivered from the Group's Dreamstream-X platform. In addition, it successfully launched the JD-X app for JD Sports Fashion plc (JD). Delivered via the Dreamstream-X platform, this enables the delivery of customised music and entertainment across 21 channels to the JD customer base. There is an appetite to extend the concept of JD-X to other global territories in both physical and digital channels.

Retail services for the Subway restaurant chain have also been extended into additional territories. We expect this expansion of geographic coverage to continue in FY19E.

The Aberdeen-based production division, formed through the acquisition of AVC, also enjoyed a strong year, which saw revenue grow with the annualising benefits of cost-cutting measures introduced in 2017. Key verticals for this division are energy, sport, tourism and education. In 2018, the division filmed in all 14 venues over 8 weeks for FIFA during the football World Cup in Russia. It also carried out projects for other clients including Maersk, Weir Oil and Gas, Halliburton and Visit Aberdeenshire. With market conditions remaining challenging in the local economy, which is largely dependent on the oil and gas industries, a key focus for this division has been and remains to extend its reach to the wider UK market and indeed beyond.

With a strong pipeline of exciting opportunities, and with Immedia in "advanced dialogue" with a number of substantial potential clients, there is a more optimistic tone of cautious confidence in the results statement about the prospects for the Group. This is highlighted by CEO Bruno Brookes's expectation of bringing the market updates during the course of the current year. In addition, Immedia's recently announced win of a multi-year contract with the salon Group, Headmasters, underpins the Group's confidence in business development, specifically with higher quality brands.

FY18 results

Overview

Looking firstly at the financial results, the following table summarises the key operating metrics of Immedia's FY18 results, together with the variance i.e. improvement achieved year-on-year. This shows in effect a very high level of incremental contribution or drop through at EBITDA, EBIT and PBT levels relative to the top line turnover gain.

Immedia Group – summary of FY18 results – (£'000 unless stated otherwise)

	2018	2017	y/y Variance
Revenue	4,686.9	3,548.7	1,138.2
Adj EBITDA	262.6	(512.8)	775.4
Adj EBIT	110.7	(692.1)	802.8
Reported PBT	106.2	(693.3)	799.5
Profit after tax	155.7	(671.6)	827.3
Fully diluted EPS (p)	1.08	(4.89)	6.0
Year end cash	369.7	53.7	316.0

Source: Immedia, Progressive Equity Research

Revenues

Immedia added over £1.1m of revenues to its top line in FY18, an impressive increase of just over 32% for the year. The turnover increase in H2 was an even more impressive figure of 57%, following on from the 9.2% growth rate achieved in H1. Across the year, the gross margin rate expanded by 335bps to 53.8%, compared with 54% in FY17. As with the turnover performance, H2 saw a superior performance on this metric, with an achieved gross margin of 54.7%, compared with 52.5% in H1. The gross margin expansion therefore magnified the top line growth, with gross profit growth of just under 41% (or £730K).

Costs and cash management

Operating costs were tightly managed, including a full year benefit of cost reductions in the AVC Immedia division, such that they reduced by 2.9% over the year. This saw both operating profit and PBT increase by around £800K from last year to £111K and £106K respectively. The operating margin achieved was 2.4%, an improvement of almost 22% compared with the prior year.

The management of costs and cash resources remains a key priority of the Group. In FY18, a particular focus was on the stabilisation of costs in the AVC Immedia division following its acquisition. This was successfully achieved, with cash monitoring remaining a focus across the Group. Cash collections from customers also improved, with debtors falling from 14.6% to 13.7% of turnover, and debtor days therefore falling from 52 to 50 days.

Cash balances consequently rose from this combined performance to £370K at the year end, excluding finance leases of £77K. Inclusive of these finance leases, FY18 net funds increased to £293K from £47K in FY17. The fair value of the Group's stake in AudioBoom Group PLC stood at £60K at the year-end, compared with the prior year value of £172.8K. The net fair value loss of £112.8K is recognised in Other Comprehensive Income. As at the date of approval of the prelims statement, the fair value has risen to stand at £114K.

Extending technological reach

FY18 saw significant progress in terms of customised solutions delivered to key clients, including JD Sports, Subway and Nationwide Building Society, which we reference elsewhere in this note. In addition, in December 2018, Immedia announced an agreement with leading voice aggregator Spoken Layer to extend the reach of its multimedia content offering to smart devices and other audio platforms. These include Amazon Alexa, Google Home, Apple podcasts, Overcast and iHeart. This will greatly enhance the appeal and reach of its audio and service offering on behalf of clients.

Trading outlook and forecasts

As said previously, the tone on the outlook and the Group's prospects is quietly confident. Following the efforts over the past 18 months to drive efficiencies within the Group, Immedia is now well-placed to leverage client engagement and conversion of its growing and significant pipeline.

The appointment of Paul Atherton as Director of Partnerships has enabled greater levels of client engagement. This will be a critical area for Immedia, as there will inevitably be a degree of churn within the client base, especially with some of its more traditional contracts reaching the end of their contract life. Management rightly highlights the contribution of the Nationwide project to the improved results of FY18, and also that new projects need to be won to replace that revenue stream.

There has already been one announcement of a client win in FY19E, which underpins management's confidence on the outlook. Immedia has won a four-year contract with Headmasters to develop its in-salon audio channels across its 56 premium hairdressing salons across the UK, with a focus around London and the South East. The music and conversation channel has been developed to enhance the total premium brand experience and to increase Headmasters' appeal to its largely Millennial and High Net Worth (HNW) customer base. The new live streaming channel also allows the company to engage with employees outside normal business hours with training on new products and styles, as well as other initiatives, including employee communication and rewards.

The table below summarises the key operating metrics of our new forecasts. Our turnover forecasts are based on the assumption of a 10% increase for both FY19E and FY20E. This is an unchanged assumption for FY19E, albeit from the higher turnover base delivered in FY18. We have conservatively assumed a gross margin of 52.5% for these outer years at this stage, compared with the 53.8% achieved in FY18. Costs will be managed to grow at a slightly lower rate than top line growth.

Immedia Group – FY19E and FY20E forecast summary

	2018	2019E	2020E
Revenue	4,686.9	5,155.6	5,671.2
Adj EBITDA	262.6	302.0	344.2
Adj EBIT	110.7	168.4	205.0
Reported PBT	106.2	162.7	199.1
Profit after tax	155.7	162.7	199.1
Fully diluted EPS (p)	1.08	1.13	1.38
Year end cash	369.7	598.5	820.5

Source: Immedia, Progressive Equity Research

This combination delivers modest expansion of EBITDA, operating profit and PBT margins across the forecast period, along with – more importantly – continued strong cash generation to support the business and its future growth plans.

A more detailed summary of our forecasts and valuation metrics can be found on the following page of this report.

Financial Summary: Immedia Group

Year end: December (£m unless shown)

	2016	2017	2018	2019E	2020E
PROFIT & LOSS					
Revenue	2.61	3.55	4.69	5.16	5.67
Adj EBITDA	(0.08)	(0.51)	0.26	0.30	0.34
Adj EBIT	(0.16)	(0.69)	0.11	0.17	0.20
Reported PBT	(0.18)	(0.69)	0.11	0.16	0.20
Fully Adj PBT	(0.16)	(0.69)	0.11	0.16	0.20
NOPAT	(0.15)	(0.67)	0.16	0.17	0.20
Reported EPS (p)	(1.38)	(4.89)	1.08	1.13	1.38
Fully Adj EPS (p)	(1.17)	(4.89)	1.08	1.13	1.38
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	0.08	(0.05)	0.37	0.31	0.30
Free Cash flow	(0.02)	(0.07)	0.33	0.23	0.22
FCF per share (p)	(0.13)	(0.48)	2.29	1.59	1.54
Acquisitions	(0.20)	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00
Shares issued	0.00	0.00	0.00	0.00	0.00
Net cash flow	(0.23)	(0.07)	0.32	0.23	0.22
Overdrafts / borrowings	0.00	0.00	0.00	0.00	0.00
Cash & equivalents	0.13	0.05	0.37	0.60	0.82
Net (Debt)/Cash	0.13	0.05	0.37	0.60	0.82
NAV AND RETURNS					
Net asset value	0.84	0.18	0.22	0.32	0.46
NAV/share (p)	5.83	1.22	1.52	2.24	3.21
Net Tangible Asset Value	0.30	0.20	0.23	0.17	0.10
NTAV/share (p)	2.11	1.40	1.57	1.16	0.71
Average equity	0.98	0.51	0.20	0.27	0.39
Post-tax ROE (%)	(15.9%)	(136.7%)	53.9%	60.2%	50.8%
METRICS					
Revenue growth	10.3%	36.0%	32.1%	10.0%	10.0%
Adj EBITDA growth	(251.6%)	517.7%	(151.2%)	15.0%	14.0%
Adj EBIT growth	(1921.6%)	346.3%	(116.0%)	52.1%	21.7%
Adj PBT growth	(2142.5%)	345.5%	(115.3%)	53.2%	22.4%
Adj EPS growth	(2207.7%)	318.2%	(122.1%)	4.5%	22.4%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	(5.9%)	(19.5%)	2.4%	3.3%	3.6%
VALUATION					
EV/Sales (x)	1.3	0.9	0.7	0.6	0.6
EV/EBITDA (x)	(39.7)	(6.4)	12.6	10.9	9.6
EV/NOPAT (x)	(21.9)	(4.9)	20.3	19.6	16.1
PER (x)	N/A	N/A	23.6	22.6	18.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(0.5%)	(1.9%)	9.0%	6.2%	6.1%

Source: Company information and Progressive Equity Research estimates

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