Future

Half-year figures

Scaling benefits coming through

Media

Future has delivered strong H118 figures, with management confident of meeting full year expectations. We have updated our forecasts to include the two recently completed transactions, Newbay Media in the US and four specialist titles acquired from Haymarket in the UK. Management's ambitious growth strategy is playing out as envisaged, with diversifying revenue streams and broadening market reach based on good-quality content and data. The US opportunity is particularly attractive. Good momentum underpins the valuation, with some further possible upside.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)	EV/EBITDA (x)
09/16	59.0	2.3	9.2	0.0	50.1	N/A	44.0
09/17	84.4	8.3	21.0	0.0	21.9	N/A	20.8
09/18e	110.0	14.4	22.9	1.0	20.1	0.2	12.7
09/19e	124.5	17.4	26.0	2.0	17.7	0.4	10.7

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

Focus on the big picture and on the detail

As anticipated, the Media business is providing the top-line stimulus, with y-o-y organic revenue growth of 31% in H118, while the Magazine division came out 1% ahead, with FY17's Home Interest acquisition offsetting the (expected) decline in print. The benefits of the investment made to build the content platform and tech stack are showing through. Audience data are helping to improve the focus and relevancy in content, setting a strong context for driving e-commerce, which showed organic growth of 76% in the period to just shy of 15% of group revenues. Within digital display advertising, FY17's internal programme to improve viewability and optimise programmatic yields has helped raise revenues in this segment by 33% (22% of group). The shift in mix, as well as the operating leverage as the business scales up, is lifting underlying EBITDA margins. However, we assume some margin dilution from the acquisitions during their early months in the group, resulting in group EBITDA margin of 16% for FY18, slightly below H118 levels.

US remains key opportunity

Monetisation of the US audience is improving, but is still a long way below that of the UK. Revenue per user was £0.74 in FY17 (versus the UK at £1.40). On a rolling annualised basis to March 2018, this figure had risen to £0.80, but the UK figure had climbed faster, to £1.58 as the newer income streams from digital advertising and e-commerce have started to gain traction. Newbay adds further diversification of the revenue base, introducing B2B opportunities in information and events.

Valuation: Good momentum

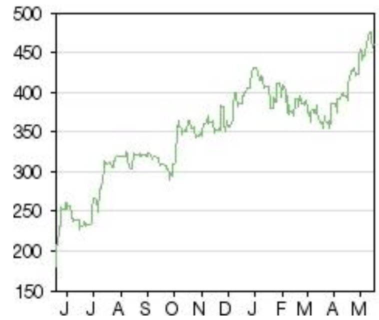
Future's shares have performed strongly, increasing over 2.5x over the last year, as the implementation of management's strategy has translated into good organic growth and successfully integrated acquisitions. There is momentum behind rolling out best practice in digital advertising and e-commerce globally, which is starting to come through in the financial returns. We feel that the current rating does not fully reflect the opportunity.

17 May 2018

Price	**460.0p**
Market cap	**£212m**

Net debt (£m) at 31 March 2018 (prior to deals)	2.0
Shares in issue	46.1m
Free float	99.5%
Code	FUTR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	18.0	17.7	156.1
Rel (local)	10.2	11.1	147.9
52-week high/low		475.0p	179.9p

Business description

Future is an international media group and leading digital publisher, with a scalable platform and a range of leading consumer brands. It operates two separately managed, brand-led divisions: Media and Magazine.

Next events

Annual results	November 2018

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739

Bridie Barrett +44 (0)20 3077 5700

media@edisongroup.com

Edison profile page

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Progress across the board

Group organic revenue growth of 7% would be respectable in an overall media environment, but masks the underlying blend of 31% organic growth in the Media division and 1% in Magazine. Adding in the acquisitions (principally Home Interest, from August 2017, with some additional impetus from a full six months from both Imagine and TeamRock), group revenues were ahead by 25%. The inclusion of the Home Interest magazine titles ensured that divisional revenues were 1% ahead of the previous year, despite continued print decline.

Acquisitions added in to numbers

The outlook statement states that management is confident of meeting full year expectations. Having had a strong H118, this implies that there may have been some timing benefit between the two halves. This is certainly the case in Events, where five of the seven annual Homebuilding & Renovating shows have already taken place. The changes to our forecasts therefore reflect the incorporation of the two transactions; the Haymarket titles for four months of FY18e and Newbay for five and full years for FY19e.

Exhibit 1: Adjustments to forecasts

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017	21.0		N/A	8.3		N/A	11.0		N/A
2018e	22.1	22.9	+4	13.6	14.4	+6	16.7	18.0	+8
2019e	23.1	26.0	+13	14.6	17.4	+19	17.9	21.3	+19

Source: Company accounts, Edison Investment Research

We would anticipate that the financial performance of the Haymarket titles will follow a similar path to previous acquisitions as they are migrated onto Future's platforms and start to benefit from the introduction of its disciplines.

Newbay is less-trodden ground and we have been cautious in our growth assumptions, although management expects it to be earnings enhancing in FY19e, its first full year of ownership. It brings in a range of additional verticals, some adjacent to existing group IP, others giving greater diversification. There will undoubtedly be opportunities for cross-selling, as well as the operational benefits from using Future's platforms and systems, which should lift achievable margins.

US management and operational infrastructure is being strengthened and the headquarters relocated from San Francisco to New York, to give greater time overlap with other group operations.

Cash conversion remains strong

Adjusted cash conversion in H118 was 127% on operating cash flow of £11.1m. We would expect there to be a working capital outflow in H2 as the newly acquired assets are reinvigorated. The funding of both deals was weighted towards cash (Haymarket titles were purchased on 1 May 2018 for £13m, including the issue of 370,708 shares; Newbay was purchased on 4 April 2018 for £8.6m cash and £1.1m in shares, with a further potential deferred payment of £3.9m in January 2019).

Our revised balance sheet shows net debt increased to £22.5m as at end December 2018, reducing to just under £11m by end of FY19 as the operating cash flow picks up more strongly.

Exhibit 2: Financial summary

£'m	2015	2016	2017	2018e	2019e
30 September	IFRS	IFRS	IRFS	IRFS	IRFS
INCOME STATEMENT	check				
Revenue	59.8	59.0	84.4	110.0	124.5
Cost of Sales	(40.6)	(16.0)	(23.4)	(34.6)	(36.8)
Gross Profit	19.2	43.0	61.0	75.5	87.8
EBITDA	3.6	5.2	11.0	18.0	21.3
Operating profit (before except.)	0.8	2.8	8.9	15.4	18.2
Amortisation on acquired intangibles	(2.3)	0.0	(2.3)	(7.5)	(8.0)
Exceptionals	(2.5)	(16.5)	(3.7)	(3.5)	0.0
Share-based payments	0.0	(0.5)	(2.1)	(2.8)	(2.8)
Reported operating profit	(4.0)	(14.2)	0.8	1.6	7.4
Net Interest	(0.6)	(0.5)	(0.6)	(1.0)	(0.8)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Profit before tax (norm)	0.2	2.3	8.3	14.4	17.4
Profit before tax (reported)	(2.3)	(14.9)	0.2	0.6	6.6
Reported tax	0.3	0.5	1.4	(1.3)	(1.3)
Profit after tax (norm)	0.5	2.3	8.6	11.6	13.4
Profit after tax (reported)	(2.0)	(14.4)	1.6	(0.7)	5.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.7	0.2	0.0	0.0	0.0
Net income (normalised)	0.6	2.3	8.6	11.6	13.4
Net income (reported)	(1.3)	(14.2)	1.6	(0.7)	5.3
Basic average number of shares outstanding (m)	22	24	37	46	47
EPS - basic normalised (p)	2.7	9.5	23.2	25.3	28.6
EPS - normalised, fully diluted (p)	2.7	9.2	21.0	22.9	26.0
EPS - basic reported (p)	(5.9)	(58.8)	4.3	(1.6)	11.3
Dividend per share (p)	0.0	0.0	0.0	1.0	2.0
Revenue growth (%)	(9.4)	(1.3)	43.1	30.3	13.2
Gross margin (%)	32.1	72.9	72.3	68.6	70.5
EBITDA margin (%)	6.0	8.8	13.0	16.4	17.1
Normalised operating margin (%)	1.3	4.7	10.5	14.0	14.6
BALANCE SHEET					
Fixed assets	44.9	36.1	97.9	113.1	104.3
Intangible assets	43.8	33.2	92.3	107.1	98.2
Tangible assets	0.6	0.5	1.0	1.1	1.2
Investments & other	0.5	2.4	4.4	5.7	4.7
Current assets	19.5	15.8	24.5	39.4	48.9
Stocks	0.5	0.4	0.7	0.7	0.7
Debtors	15.3	12.4	13.6	23.7	24.9
Cash & cash equivalents	2.5	2.9	10.1	14.9	23.2
Other	1.2	0.1	0.1	0.1	0.1
Current liabilities	(25.9)	(25.1)	(36.4)	(42.4)	(43.1)
Creditors	(20.7)	(21.4)	(29.9)	(35.9)	(36.6)
Tax and social security	(0.9)	(1.4)	(3.2)	(3.2)	(3.2)
Short-term borrowings	(4.3)	(2.3)	(3.2)	(3.2)	(3.2)
Other	0.0	0.0	(0.1)	(0.1)	(0.1)
Long-term liabilities	(7.1)	(5.6)	(24.7)	(38.4)	(35.0)
Long-term borrowings	0.0	(0.1)	(16.9)	(34.2)	(30.8)
Other long-term liabilities	(7.1)	(5.5)	(7.8)	(4.2)	(4.2)
Net assets	31.4	21.2	61.3	71.6	75.0
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	31.4	21.2	61.3	71.6	75.0
CASH FLOW					
Operating cash flow before WC and tax	0.8	5.2	11.0	18.0	21.3
Working capital	(8.0)	(2.1)	4.7	(4.1)	(0.4)
Exceptional & other	(0.4)	0.0	(3.7)	(4.0)	0.0
Tax	(0.5)	(0.7)	(1.4)	(4.6)	(1.3)
Net operating cash flow	(8.1)	2.4	10.6	5.3	19.5
Capex	(2.0)	(2.5)	(2.6)	(2.3)	(2.3)
Acquisitions/disposals	1.3	(0.3)	(31.8)	(20.2)	(3.9)
Net interest	(0.6)	(0.4)	(0.6)	(1.0)	(0.8)
Equity financing	0.0	3.1	21.0	2.8	0.0
Dividends	0.0	0.0	0.0	0.0	(0.8)
Other	0.0	(0.1)	0.2	1.7	0.0
Net cash flow	(9.4)	2.2	(3.2)	(13.7)	11.7
Opening net debt/(cash)	(7.5)	1.8	(0.5)	10.0	22.5
FX	0.1	0.1	0.0	0.0	0.1
Other non-cash movements	0.0	0.0	(7.3)	1.2	0.0
Closing net debt/(cash)	1.8	(0.5)	10.0	22.5	10.7

Source: Company accounts, Edison Investment Research. Note: FY19e includes potential deferred £3.9m payment for Newbay.

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia