EDISON

Future

Capital markets day

Stateside opportunity

Media

Future's capital markets day (CMD) focused on its opportunity to grow brand reach globally, together with demonstrating the scalability of its platform to deliver that growth. There are particularly attractive prospects in the US market, where media revenue per online user is significantly less than it is in the UK. Our forecasts are unchanged at this point, but the emphasis on closing this revenue gap points to further strong growth potential. Management has an impressive M&A record, adding assets and driving returns on the brands. Progress has been reflected in the strong share price performance, but we still consider that the current rating does not fully reflect the opportunity.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	59.0	2.3	9.2	0.0	42.9	N/A
09/17	84.4	8.3	21.0	0.0	18.8	N/A
09/18e	91.4	13.6	22.1	0.5	17.9	0.1
09/19e	92.1	14.6	23.1	1.0	17.1	0.3

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

Narrowing the revenue gap

The CMD covered in some detail the technology infrastructure that the group has put in place to support the expansionary strategy. Operational management also outlined the ways that the group's content is tailored to satisfy the requirements of demanding audiences and to deliver commercial revenue streams in advertising and in e-commerce. Adding e-commerce is accelerating the financial return on the Home Interest portfolio purchased in July 2017. The greatest opportunity, though, is in building up US e-commerce revenues. Future's brands reach a global online audience of 57m, of whom 40% are in the US. However, the region only represented around 16% of group revenue in FY17. Media revenue per online user in the US of £0.73 is a long way short of the £1.79 earned in the UK.

Fast integrations, strong cash discipline

Our outlook note (November 2017) examined recent acquisitions, highlighting how quickly they have been integrated. The disciplines established for bringing acquired businesses across onto Future's strengthened tech stack are now well established and allow additional monetisation channels to be operational and contributing to earnings at an early stage. With the heavy lifting on systems complete, and with the changing revenue mix, the cash profile is strengthening. Our model indicates Future moving into net cash (barring acquisitions) by end FY19.

Valuation: Further upside potential

The shares have performed strongly, more than doubling over the last year, as the implementation of management's strategy has translated into good financial performance. Although our forecasts are not being reviewed at this juncture, it is clear that there is good momentum behind rolling out best practice in e-commerce globally, which should then come through in the financial returns.

8 February 2018

Price	**395p**
Market cap	**£181m**

Net debt (£m) as at 30 September 2017	10.0
Shares in issue	45.7m
Free float	99.5%
Code	FUTR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(4.8)	8.5	118.2
Rel (local)	1.0	12.0	113.3
52-week high/low		430.00p	159.13p

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

AGM	February 2018
H118 trading update	April 2018

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Edison profile page

Future is a research client of Edison Investment Research Limited

Global potential

Future concentrates on areas of content that have appeal well beyond its original territories. Consumers worldwide are interested in the same mobile phones, gaming, consumer tech and music. Future's portfolio of brands is already reaching a global audience, with online users numbering 24m in the US and Canada, 10m in the UK, a further 10m across the rest of Europe, 8m in Asia, 3m in Australia and New Zealand and 1m in each of South America and Africa. In the UK and US, around half of those users are under the age of 35, with a ratio of males:females of about 1.6x, making this a very attractive cohort for advertisers.

Future's headcount is concentrated in the most efficient location, the UK, with the IT developers based in Bath (where they cost around half of the level that they would in San Francisco) and telesales based in Bromsgrove. There are customer-facing offices in the US and Australia to make sure that the organisation stays close to its user and client bases.

Improving the underlying tech

The group has assembled a robust tech stack, with a web platform that includes content management system, content localisation and automated content tagging, as well as a content commissioning portal that facilitates content re-use, an asset storage system and a magazine platform. It has also built an ad Tech platform that results in significantly higher levels of viewability (the average across the portfolio has risen from around 40% in December 2016 to 68% currently) and in a substantial uplift in the number of impressions, as well as in the achieved margin per campaign. With programmatic header bidding, the number of SSP (supply side platform) partners has risen from two to 11 and CPMs (cost per 1,000 impressions) have increased by 175% on the level in June 2106. The group's Hawk e-commerce platform is constantly expanding its product database, with a very high match rate (87% of automated matches are successful).

Grasping the US opportunity

Programmatic advertising and Hawk are particularly important if the commercial opportunity in the US is to be grasped. As stated above, £0.73 is earned per online user in the US compared with £1.79 in the UK. It is both the advertising and the e-commerce piece that will help to close that gap, but the latter can earn more than double per page view than the advertising component. It is obviously important that the platform gives a smooth customer experience as well as providing the retail partners a further, efficient route to market.

Future has grown its retail partner base to 7,285 globally, with a database of over 250m products. Hawk has been built to allow new retailers to be added easily, which will be important with the scaling up in the US. It earns revenue when a customer clicks through and completes a successful transaction. Commission levels are negotiated retailer by retailer and leads are matched with local and global retailers. Amazon is obviously a key partner, given its dominance in e-commerce worldwide and Future also has a key relationship with eBay, given that its consumers will not always be looking for new product. However, with much of the driving content being targeted at specialists and particular interest groups, specialist retailers are a very important part of the mix.

The data derived from the 57m monthly unique users and their clickstreams is of itself a very valuable piece of IP, which is used to guide content creation as well as improving conversion rates.

While it is very tempting to mechanistically calculate the impact of closing the US/UK gap and add it in to top line forecasts, we regard it as giving strong support to the estimates with potential for further upside.

Not just the US

With the infrastructure in place, and content that it is relevant globally, there are obviously good opportunities to generate diverse revenue streams in many other territories. This does not have to be direct, but could be via strategic partnerships, such as that in India, with Times of India, which licenses platform and content from Future in SaaS form.

As described above, the web platform allows for online multi-language content creation and enables the content to be localised for particular markets, opening up a new commercial proposition for advertisers.

Adding to the mix

As well as driving the digital revenue streams harder, Future is also likely to continue to grow through acquisition, adding brands and verticals that can be ‘plugged in’ to their systems and platforms along what is becoming a well-trodden route. It currently operates in seven verticals and with over 90 brands. Having a range of verticals provides an element of portfolio effect as they move through different cycles.

Brands proliferation is not such an issue when dealing with audiences of enthusiasts, who may well be reluctant to ‘share’ with even slightly different interest groups. Future has a good record in working on improving search rankings and discoverability. Where assets are available in magazine format, they can be readily assimilated and websites launched on short time scales measured in weeks rather than months. The acquisition of Home Interest during 2016 has added to existing group expertise in running events, building another key revenue stream which may be applicable to other brands and verticals coming into the group.

Exhibit 1: Financial summary

£'m	2015	2016	2017	2018e	2019e
30 September	IFRS	IFRS	IRFS	IRFS	IRFS
INCOME STATEMENT					
Revenue	59.8	59.0	84.4	91.4	92.1
Cost of Sales	(40.6)	(16.0)	(23.4)	(23.2)	(21.6)
Gross Profit	19.2	43.0	61.0	68.2	70.5
EBITDA	3.6	5.2	11.0	16.7	17.9
Operating profit (before except.)	0.8	2.8	8.9	14.2	15.0
Amortisation on acquired intangibles	(2.3)	0.0	(2.3)	(6.2)	(6.2)
Exceptionals	(2.5)	(16.5)	(3.7)	(1.0)	0.0
Share-based payments	0.0	(0.5)	(2.1)	(2.5)	(2.5)
Reported operating profit	(4.0)	(14.2)	0.8	4.5	6.3
Net Interest	(0.6)	(0.5)	(0.6)	(0.6)	(0.5)
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	13.6	14.6
Profit before tax (reported)	(2.3)	(14.9)	0.2	3.9	5.9
Reported tax	0.3	0.5	1.4	(1.9)	(1.1)
Profit after tax (norm)	0.5	2.3	8.6	11.0	11.8
Profit after tax (reported)	(2.0)	(14.4)	1.6	2.0	4.8
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	11.0	11.8
Net income (reported)	(1.3)	(14.2)	1.6	2.0	4.8
Basic average number of shares outstanding (m)	22	24	37	46	47
EPS - basic normalised (p)	2.7	9.5	23.2	24.2	25.4
EPS - normalised, fully diluted (p)	2.7	9.2	21.0	22.1	23.1
EPS - basic reported (p)	(5.9)	(58.8)	4.3	4.3	10.2
Dividend per share (p)	0.0	0.0	0.0	0.5	1.0
Revenue growth (%)	(9.4)	(1.3)	43.1	8.3	0.7
Gross margin (%)	32.1	72.9	72.3	74.6	76.6
EBITDA margin (%)	6.0	8.8	13.0	18.3	19.5
Normalised operating margin (%)	1.3	4.7	10.5	15.6	16.3
BALANCE SHEET					
Fixed assets	44.9	36.1	97.9	92.2	86.1
Intangible assets	43.8	33.2	92.3	85.6	78.5
Tangible assets	0.6	0.5	1.0	2.0	3.0
Investments & other	0.5	2.4	4.4	5.4	4.4
Current assets	19.5	15.8	24.5	30.0	40.2
Stocks	0.5	0.4	0.7	0.7	0.7
Debtors	15.3	12.4	13.6	16.0	18.4
Cash & cash equivalents	2.5	2.9	10.1	13.2	21.0
Other	1.2	0.1	0.1	0.1	0.1
Current liabilities	(25.9)	(25.1)	(36.4)	(37.0)	(37.6)
Creditors	(20.7)	(21.4)	(29.9)	(30.5)	(31.1)
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)	(19.4)	(16.0)
Long-term borrowings	0.0	(0.1)	(16.9)	(14.3)	(10.9)
Other long-term liabilities	(7.1)	(5.5)	(7.8)	(5.1)	(5.1)
Net assets	31.4	21.2	61.3	65.8	72.7
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	31.4	21.2	61.3	65.8	72.7
CASH FLOW					
Operating cash flow before WC and tax	0.8	5.2	11.0	16.7	17.9
Working capital	(8.0)	(2.1)	4.7	(1.8)	(1.8)
Exceptional & other	(0.4)	0.0	(3.7)	(1.0)	0.0
Tax	(0.5)	(0.7)	(1.4)	(4.6)	(1.1)
Net operating cash flow	(8.1)	2.4	10.6	9.3	15.0
Capex	(2.0)	(2.5)	(2.6)	(3.0)	(3.0)
Acquisitions/disposals	1.3	(0.3)	(31.8)	0.0	0.0
Net interest	(0.6)	(0.4)	(0.6)	(0.6)	(0.5)
Equity financing	0.0	3.1	21.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	(0.4)
Other	0.0	(0.1)	0.2	0.0	0.0
Net cash flow	(9.4)	2.2	(3.2)	5.7	11.2
Opening net debt/(cash)	(7.5)	1.8	(0.5)	10.0	4.3
FX	0.1	0.1	0.0	0.0	0.1
Other non-cash movements	0.0	0.0	(7.3)	0.0	0.0
Closing net debt/(cash)	1.8	(0.5)	10.0	4.3	(7.0)

Source: Company accounts, Edison Investment Research

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