

Price Data

Price:	132p
Shares in Issue:	364m
52 Week High/ Low:	136p/116p
Market Cap:	£480m
Market:	Main
Broker:	Dowgate/HSBC
Ticker:	SFOR.L
Target Price:	220p

Share Price Performance

BUY



Source: Google finance

Activities

A new era, new media solution embracing data, content and technology serving global, regional and local digital brands.

Senior Management

Sir Martin Sorrell	Exec Chairman
Peter Rademaker	Group CFO
Victor Knaap	Exec Director
Wesley ter Haar	Exec Director
Peter Kim	Exec Director
Christopher Margin	Exec Director

Major shareholders

MediaMonks mgmt.	15.5
Sir Martin Sorrell	13.6
Toscafund	10.1
Stanhope Capital	7.6
Canaccord Genuity	7.4
S4 Capital EBT	4.2

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Faster, Better, Cheaper

Since its formation last spring, S4 Capital has made great progress in building a new age, new era, new approach marketing services group. The group is purely focused on digital and, of the Holy Trinity of areas it is targeting, has already established strong positions in digital content through MediaMonks and digital media planning & buying via MightyHive, with first party data set to follow in due course. The group's mantra of providing content and services Faster, Better, Cheaper than legacy agencies is resonating strongly with clients, particularly digital and millennial facing brands. Starting with a clean sheet of paper, S4 Capital is built on a unitary structure with a single P&L to avoid the duplication of costs and lethargic delivery that afflicts legacy agencies, while this approach strongly appeals to entrepreneurial management teams that are keen to buy into, rather than sell out to, a larger entity that can provide the platform for their next stage of their growth.

- **MediaMonks.** An award-winning digital creative content and production company, MediaMonks grew revenues +46% in 2018, with EBITDA more than doubling. New business was very strong in Q4, underpinning further robust progress this year.
- **MightyHive.** A leading programmatic consultancy, MightyHive joined S4 Capital at the end of 2018. Prior to acquisition, the company grew revenues and EBITDA at a 3yr CAGR of over 100% and given structural tailwinds, we forecast very rapid growth to continue.
- **Forecasts.** We show PF18 PBT/EPS estimates assuming full ownership of MediaMonks and MightyHive for 12m and arrive at £16.5m/3.2p. We update our forecasts for the acquisition of MightyHive and raise our PBT/EPS estimates by +13% to £28.0m/5.4p (was £19.2m/4.8p) for 2019E and +25% to £38.5m/7.4p (was £23.7m/5.9p) for 2020E.
- **Scenario analysis.** We view our forecasts as highly conservative and have produced upside scenarios for faster than modelled organic growth and the benefit from further value-enhancing M&A.

Financials and valuations

Year to December (£m)	2017	2018E	2019E	2020E
	Pro Forma			
Revenues	[86.1]	131.8	174.6	220.4
Gross Profit	[70.3]	104.0	139.3	178.0
Adjusted EBITDA	[12.5]	20.6	31.9	42.1
Adjusted PBT		16.5	28.0	38.5
Adjusted EPS (p)		3.2	5.4	7.4
DPS (p)		0.0	0.0	0.0
Adjusted P/E (x)		41.7	24.6	17.8
Net cash/(debt)		(31.6)	(21.6)	(3.8)

Source: S4 Capital (historic), Dowgate Capital (forecast), figures in brackets are illustrative

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The S4 Capital Group

Industry backdrop

As has been widely reported, the global marcoms industry is undergoing fundamental change at a rapid pace.

A number of the major categories that the industry serves, notably consumer packaged goods, retail and automotive, have for at least a decade struggled with modest GDP growth, minimal inflation and therefore limited pricing power.

At the same time, digital transformation has radically disrupted all stages of the value chain, from innovation, to manufacturing, through distribution to marketing.

Concurrently, the marketing communications has undergone an unprecedented upheaval with oligopolistic power in digital marketing concentrated in the triopoly of Facebook, Google and Amazon (which is growing particularly rapidly) in many geographies and Tencent, Alibaba and Baidu in China.

Further, consulting groups notably Accenture and Deloitte have been developing creative capabilities that complement their existing operations.

Meanwhile clients are increasingly in-housing aspects of their digital media buying to gain better sight of their own first party data which is often withheld by the walled gardens of the triopoly.

Anecdotally, some clients which have had their own departments denuded over the past decade, are increasingly feeling suffocated by the global marcoms holding companies who have embedding teams into their workplace. Accordingly, they wish to take back control of the marketing function as they believe they have become overly dependent on their agency partners.

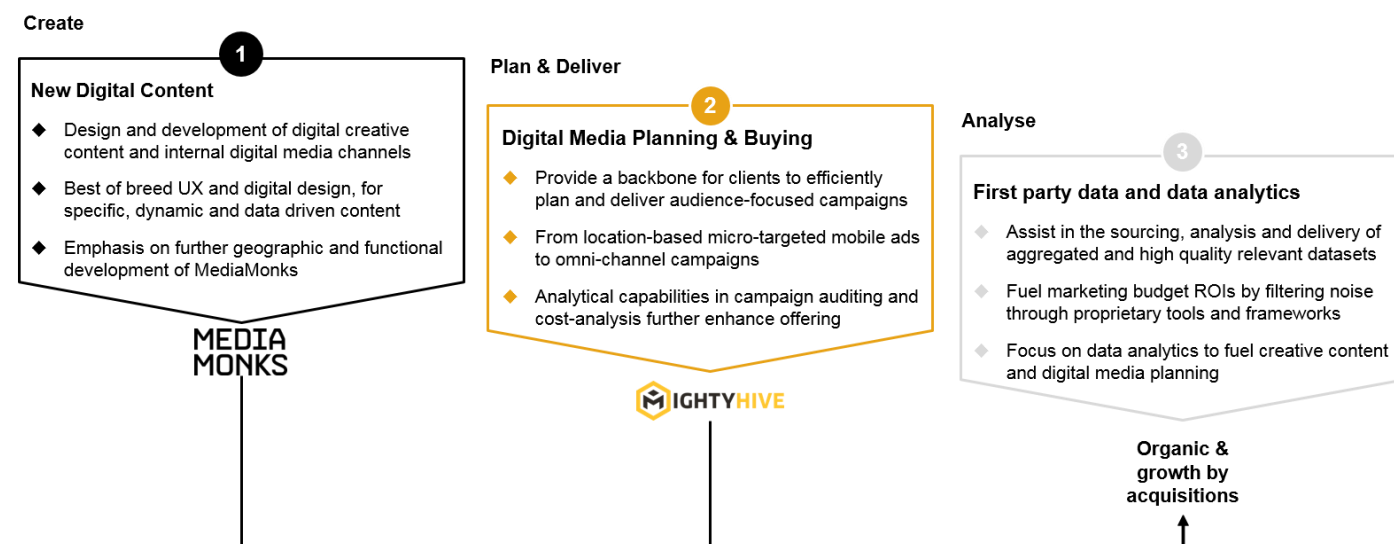
The pressure on the existing marketing communications holding companies has become clear over the past few years, most notably at WPP which has responded with a root and branch restructuring to simplify its business and become more agile to meet client needs.

However, although this creative destruction is challenging for established players with legacy business models, it affords great opportunities to well-funded, entrepreneurial disrupters.

S4 Capital corporate strategy

It is against this backdrop that Sir Martin Sorrell has created S4 Capital with a stated purpose to provide global, multinational, regional, local clients and influencer-driven millennial brands with new age & new era digital marketing services.

The S4 Capital Strategy



Source: S4 Capital

The above chart details both the S4 strategy and progress to date. The strategy is to create a global digital platform that can Create, Plan & Deliver and Analyse.

The first step was the acquisition of MediaMonks, which merged with S4 Capital in July. As we will detail later in this note, MediaMonks designs and develops new creative content and internal digital media channels. It offers a best of breed User Experience and digital design for specific, dynamic and data-driven content. We see considerable scope for MediaMonks significantly to expand its geographic reach and customer base as part of the enlarged S4 Capital group.

The second step was the merger in December with MightyHive, a digital media planning and buying agency, which facilitates its clients to efficiently plan and deliver audience-focused campaigns. It helps clients to execute a broad range of digital activities, from location-based micro-targeted mobile advertisements to omni-channel campaigns. Further, it has analytical capabilities in campaign auditing and cost-analysis that further enhances its offering. As with MediaMonks, we see a material opportunity for MightyHive to broaden both its geographical reach and its client base as part of the enlarged S4 Capital group.

The third step that has been identified, but not yet executed, by S4 Capital is to acquire capability in first party data and data analytics. S4 Capital has identified the need to have capacity to assist in the sourcing, analysis and delivery of aggregated and high-quality relevant datasets. Further, the application of proprietary tools and frameworks will filter noise and thereby fuel the return on investment delivered by marketing budgets. The importance to global corporations having first party data

was illustrated by the recent \$1bn acquisition of Dollar Shave Club by Unilever, a move which was widely attributed to its desire to gain access to a Direct to Consumer (D2C) brand of scale. We agree with the assertion by S4 Capital that data analytics will deliver strong synergies both with MediaMonks in digital content and MightyHive in digital media planning and buying.

The global marketing communications holding companies have been established over many decades through a process of merger and acquisition, often with one holding company buying another. This has led to vast, unwieldy structures with considerable overlap and a siloed approach that compromises the timely delivery of a high-quality creative service at a reasonable price.

Starting with a blank sheet of paper, S4 Capital is organised primarily on a unitary basis, with key people incentivised through significant equity ownership in the enterprise as a whole.

This approach enables S4 Capital to execute on its mantra to serve its clients *Faster, Better, Cheaper* than the legacy holding companies.

Company history

In this section we detail the key steps in the corporate history of S4 Capital.

Derriston Capital was formed in 2016 and its shares were admitted to the Official List on 29th December when it raised £2.3m via a placing at 10p per share.

On 29th May, S4 Capital completed an equity issue to raise £51m in cash, with 78% provided by Sir Martin Sorrell and the balance by institutional and other investors.

On 30th May, S4 Capital reversed into Derriston Capital with the objective of building a multinational communications services business.

On 9th July, S4 Capital announced a merger with MediaMonks, a digital content and production company. The consideration was €288m, with an enterprise value of €300m. The consideration was funded by the net proceeds of the July placing (£143.3m), The MediaMonks subscription (£52.9m), drawdown of the term loan (£50m), the affiliate subscription (£10.4m) and the existing cash resources of S4 Capital.

On 28th September, shares in S4 Capital were admitted to the Official List.

On 4th December, S4 Capital announced a merger with MightyHive, a programmatic solutions provider. The consideration was an enterprise value of \$150m. MightyHive shareholders (79% of total) received their consideration 50% in cash and 50% in new S4 Capital shares, while third party investors (21%) received their consideration in cash. The cash portion of the consideration was funded by the issue of 67.3m new S4 Capital shares at 110p per share to raise £74m.

Shareholders

The current shareholders of S4 Capital are shown in the table below.

Shareholders

Shareholder	Shares, m	Shares, %	Cumulative %
MediaMonks management	56.3	15.5	15.5
Sir Martin Sorrell	46.4	13.6	29.1
Toscafund	36.8	10.1	39.2
Stanhope Capital	27.5	7.6	46.8
Canaccord Genuity	26.9	7.4	54.2
S4 Capital EBT	15.3	4.2	58.4
Rathbones	15.0	4.1	62.5
Jarvis Investment Management	10.0	2.8	65.3
Lansdowne Partners	9.9	2.7	68.0
Pete Kim	9.7	2.7	70.7
Chris Martin	8.5	2.4	73.1
Other Directors	3.1	0.8	73.9

Source: RD:IR, December 2018

In addition to the ordinary share capital detailed above, S4 Capital has a B share that is owned by Sir Martin Sorrell. The B share gives the following rights:-

- Appoint one director of the company from time to time and remove or replace such director from time to time
- ensure no executives are appointed or removed without his consent
- ensure no shareholder resolutions are proposed (save as required by law) or passed without his consent
- save as required by law, ensure no acquisition or disposal by the Company in excess of £100,000 may occur without his consent.

The B share loses its B share rights if it is transferred by Sir Martin Sorrell or if he sells any of the ordinary shares he holds in S4 Capital other than to pay tax arising in connection with his shareholding. S4 Capital has put in place an incentive arrangement to provide a financial reward to executives of the group for delivering shareholder value, conditional on achieving a preferred rate of return, which has been set at 6% p/a.

The incentive shares entitle the holders to up to 15% of the growth in value of S4 Capital, which is defined as the growth in the market capitalisation adjusted for any dividends or distributions. Currently, there are 4,000 Incentive Shares in issue which are owned by Sir Martin Sorrell. The directors have authority to issue a further 4,000 Incentive Shares. The issue of further incentive shares will not increase the total entitlement of Incentive Shareholders but will instead dilute the interest of existing holders of the Incentive Shares.

The incentive shares entitle the holder(s) to a return upon a sale/merger of S4 Capital or its liquidation. If these events have not occurred by 9th July 2023, Sir Martin Sorrell can serve notice requiring S4 Capital to acquire the incentive shares on or before 9th July 2025. Once triggered, the incentive shares then reset for a further seven years. The consideration payable for the incentive shares will be satisfied by the issue of new S4 Capital shares.

Management

The chart below illustrates the current management structure of S4 Capital.

S4 Capital Board and Senior Management



Source: S4 Capital

The board directors of S4 Capital are shown below.

- **Sir Martin Sorrell: Executive Chairman.** Sir Martin was CEO of WPP from 1986 to 2018, which made him the longest-serving director of a FTSE 100 company. Sir Martin acquired a significant shareholding in WPP in 1985 when its market capitalisation was £1m; the group had a market value of over £15bn when he left. He was a NED of Arconic from 2012-17 and Delta Topco (the holding company for Formula One) from 2006-17.
- **Peter Rademaker: Group Chief Financial Officer.** Peter joined MediaMonks as Chief Financial Officer in 2015. He has over 20yrs experience as financial officer in the media and entertainment industry and has held senior positions at CMI Holding, Endemol Nederland, Eyeworks and Talpa.
- **Victor Knaap: Partner & Chief Executive Officer.** Victor is Chief Executive Officer and Partner of MediaMonks. Since joining in 2003, his role has been to lead the company's international expansion.
- **Wesley ter Haar: Co-Founder & COO of MediaMonks.** Wesley was the co-founder of MediaMonks in 2001 and is currently Chief Operations Officer. He is a member of SoDa's Board of Directors, which is the international organisation of the Digital Society.
- **Pete Kim: Co-Founder & Chief Executive Officer of MightyHive.** Pete is co-founder and Chief Executive Officer of MightyHive. Prior to founding MightyHive, he was Head of Business Development for Google's Media Platforms and before this Director of Dynamic Advertising at Yahoo.
- **Chris Martin: Co-Founder & Chief Operating Officer.** Chris was the co-founder of MightyHive and is the Chief Operating Officer. Before founding MightyHive, he was Director of Targeting Operations at Yahoo! and Controller for Yahoo! M&A.

- **Rupert Faure Walker: Non-Executive Director.** Rupert qualified as a Chartered Accountant with Peat Marwick Mitchell in 1972. He joined Samuel Montagu in 1977, was appointed a director in 1977 and was head of Corporate Finance from 1993-98. He was a Managing Director of HSBC Investment Banking until his retirement in 2011.
- **Sue Prevezer QC: Non-Executive Director.** Sue is a qualified solicitor and barrister and sits as a Deputy High Court Judge, an arbitrator and as a CEDR Mediator. She has co-managed the London office of Quinn Emanuel Urquhart and Sullivan (UK) since its inception in 2008.
- **Paul Roy: Non-Executive Director.** Paul was CEO of Smith New Court, which was acquired by Merrill Lynch in 1995 and he became Co-President of its Global Markets & Investment Banking division. In 2003 he co-founded NewSmith Capital Partners, which was acquired by Man Group in 2015. He was chairman of the British Horseracing Authority from 2007-13 and now chairs Retraining Racehorses. He became chairman of NewRiver REIT in 2009 and Sky Bet in 2015.
- **Daniel Pinto: Non-Executive Director.** Daniel is CEO and Founding Partner of Stanhope Capital. He chairs the Executive Committee and was formerly at UBS Warburg. He is also Chief Executive of a private equity fund backed by CVC Partners.

Starting with a blank sheet of paper, S4 Capital is organised primarily on a unitary basis, with key people incentivised through significant equity ownership in the enterprise as a whole.

MediaMonks

In this section we detail the activities and historic financial performance of MediaMonks, discuss its competitive position and client list, provide case studies which illustrate its creative output and detail financial forecasts through to 2020E.

Company description

Founded in the Netherlands in 2001, MediaMonks has grown to become an award-winning digital creative content and production company.

The company develops digital content and digital ecosystems for brands and advertising agencies. It operates through three pillars that provide Creative Content & Innovation (digital campaigns involving Virtual Reality, Augmented Reality and Artificial Intelligence), Assets at Scale (localisation and transcreation of digital visuals and text) and Platforms & eCommerce (website and app development for eCommerce).

It partners with clients across industries and markets to craft work for leading businesses and brands, including adidas, Corona, Google, Johnson & Johnson, Netflix and Shell. The group is increasingly leveraging its scale and geographic reach to work with multinational brands. In addition, a key focus has been to work directly with brands rather than through their advertising agencies.

MediaMonks is headquartered in Amsterdam and has service offices in New York, Los Angeles, San Francisco, London, Singapore, Dubai, Mexico City and Shanghai. It has production hubs in Stockholm, Buenos Aires and Sao Paolo. It has an in-house team of over 900 employees (called 'monks') with an average age of 33.

The company has a very strong creative reputation and to date has won 128 awards at Cannes Lions and 220+ awards from the FWA (Favourite Website Awards), which was established in 2000 to showcase cutting edge innovation in digital design.

The group showcases its highly creative work on its website. In particular, we highlight the group's recent mixtape which is available at:

<https://www.mediamonks.com/>

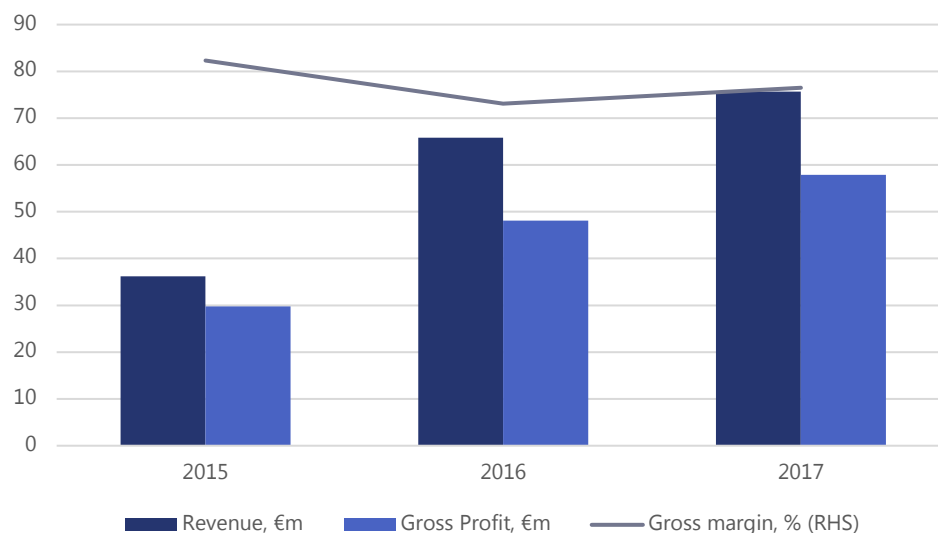
The group also highlights its Latest & Greatest work, accessible by the link below:

<https://www.mediamonks.com/campaigns-content/work>

Revenues

MediaMonks has delivered very robust growth in revenues and gross profits over the three years prior to its merger with S4 Capital, primarily driven by organic expansion.

MediaMonks Revenues, Gross Profit and Gross Margin, 2015-17



Source: S4 Capital

From a revenue base of €36.2m, revenues leapt +82% to €65.8m in 2016, and by a further +15% in 2017 to reach €75.7m.

As revenues includes services and materials provided by third parties which are charged to clients (eg hardware costs in experiential productions and the cost of shoots for television commercials), MediaMonks generally focuses on its own contribution, that is its Gross Profit. Throughout this note, we will show both revenues and gross profit for the sake of transparency.

Gross profit in 2015 was €29.8m which was delivered at a gross margin of 83% of turnover. Gross profit advanced +61% to €48.1m in 2016 and then on to €57.9m in 2017. The margin was variable over the period, falling to 73% in 2016 before rebounding to 77% in 2017, which reflected the different business mix.

Growth was primarily organic and, as we detail below, was particularly rapid in the Assets at Scale and Platforms & eCommerce pillars.

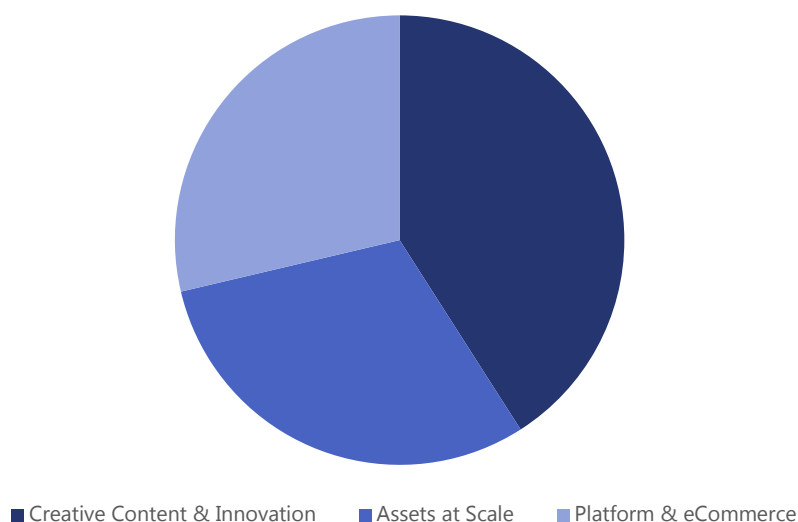
MediaMonks made a series of bolt-ons over the period, including Stopp (a production facility in Stockholm), Cricket Brasil Servicos de Internet (a production facility in Sao Paolo) and inTacto (a production hub in Buenos Aires). It was also active in opening new offices including Dubai (2015) and Shanghai (2016).

Revenue by pillar

MediaMonks is managed internally through three pillars: Creative Content & Innovation (digital campaigns involving Virtual Reality, Augmented Reality and Artificial Intelligence), Assets at Scale (localisation and transcreation of digital visuals and text) and Platforms & eCommerce (website and app development for eCommerce).

The revenue mix for these three pillars is shown in the chart below.

MediaMonks Revenues by pillar, 2017



Source: S4 Capital

In 2017, the three pillars were approximately even in terms of their revenues and even more so as measured by gross profit.

The Creative Content & Innovation pillar generated revenues of €31.0m in 2017, equal to 41% of the company total. The pillar incurs a higher proportion of costs provided by third parties that are passed through to clients and therefore has a lower gross margin (2017: 65%) than the other pillars. In 2017, the pillar generated 35% of company gross profit.

The Assets at Scale pillar generated revenues of €21.7m in 2017, equal to 29% of the company total. The pillar has limited cost of sales, and in 2017 generated gross profit of €20.1m, at a gross margin of 93%. This represented 35% of company gross profit.

The Platform & eCommerce pillar generated revenues of €23.0m in 2017, equal to 30% of the company total. The pillar also has a relatively higher level of third-party pass-through costs and operated in 2017 at a gross margin of 76%. The pillar generated gross profit of €17.5m, equal to 30% of the company total.

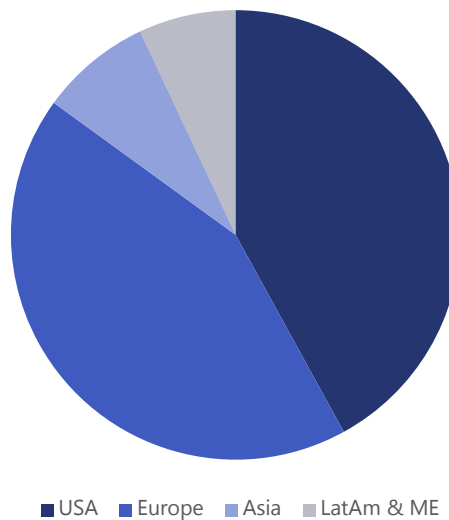
Projects are allocated to a pillar at the initial proposal phase, with the pillar leadership team being given responsibility of the project through its life cycle.

Revenue by geography

From its origins in the Netherlands, MediaMonks has expanded to operate throughout Europe, the USA, Asia and Latin America & the Middle East.

The pipeline of work largely stems from the relationship cultivated at the service offices, while the project work is carried out by the major production hubs.

MediaMonks Revenues by geography, 2017



Source: S4 Capital

As shown above, Europe and the USA are regions which generate the greater proportion of MediaMonks' revenues, accounting for 43% and 42%, respectively of company revenues in 2017.

Within Europe, the Netherlands remains the largest market by far, accounting for 72% of the total for the region.

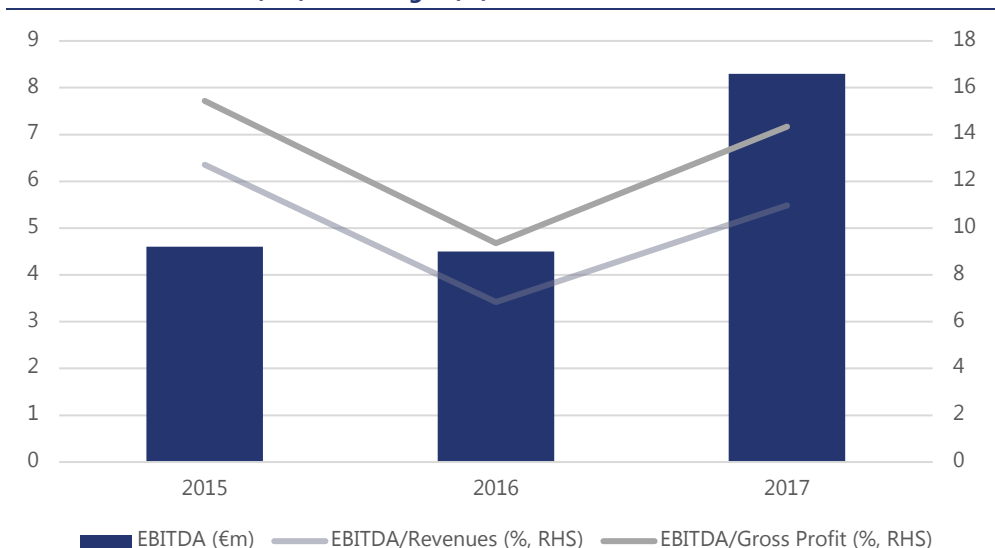
The balance of MediaMonks revenues are generated in Asia (8% of 2017 revenues), South America (5%) and the Middle East (1%).

Growth has been very strong in all regions over the period 2015-17. Over this period, revenues in the Netherlands nearly doubled to €23.5m, rose over +30% to €9.1m in other EU countries and more than doubled both in the USA (to €31.7m) and Asia (to €6.3m).

EBITDA

The very robust revenue growth delivered by MediaMonks has been accompanied by a similarly strong advance in EBITDA.

MediaMonks EBITDA (€m) and Margin (%), 2015-17



Source: S4 Capital

In 2015, MediaMonks generated EBITDA of €4.6m at a margin of 12.7% on revenues and 15.4% on gross profit.

In 2016, profitability was curtailed by two factors. First, the company redesigned its processes and invested in the integration of systems to underpin growth. Second, it made a significant investment in people and its operational infrastructure (including setting up/acquiring production hubs in South America and Sweden) to support the growth which was anticipated, and subsequently delivered, in 2017.

Accordingly, EBITDA was held in 2016 at €4.5m, with margin contracting to 6.8% on revenues and 9.4% on gross profit.

As expected, EBITDA rebounded strongly to €8.3m in 2017, with margin rebuilding to 11.0% on revenues and 14.3% on gross profit.

The three pillars of MediaMonks have very different EBITDA profiles. The Creative Content & Innovation pillar trades at approximately breakeven and is a gateway for clients into the MediaMonks group.

MediaMonks then generates materially higher margins from the two remaining pillars, with Assets at Scale delivering a 22% EBITDA/revenues margin in 2017 and Platform & eCommerce 18%. On an EBITDA/gross profit basis, the margins were approaching 30% and 20%, respectively.

Acquisition terms

The consideration payable for MediaMonks is €300m on an enterprise basis, with the equity valued at €288m. The consideration was paid from:

- The proceeds of the July placing (€143.3m).
- Subscription by the MediaMonks Subscribers for 40.0m S4 Capital shares (€52.9m).
- Subscription by the Affiliate Subscribers for 7.9m S4 Capital shares (€10.4m).
- The drawdown of the €50m term loan.
- The existing cash resources of S4 Capital.

The EV of €300m represents a multiple of 4.0x revenues and over 36x EBITDA for 2017, which reflects the very high growth rates which were subsequently delivered in 2018 and the expectations for continued robust growth in 2019.

On our 2019 estimates, the multiple falls to 2.3x revenues and under 12x EBITDA, which we view as highly attractive for a company with the market position and growth characteristics of MediaMonks.

Assets at Scale

The Assets at Scale pillar is focused on asset production across programmatic advertising, precision marketing, content production and the localisation and transcreation of rollouts. Localisation and transcreation typically involve the customisation of visuals and texts for different regions or for targeted consumer groups. MediaMonks uses innovative techniques to ensure the rapid creation of content, for example shooting using two cameras, one horizontal (for computers/tablets) and one vertical (for phones).

The Assets at Scale pillar enables clients with the large-scale rollout of content across multiple markets, channels or touchpoints. Central to this is the utilisation of data, both the client's own first party data and data from third parties, which facilitates greater personalisation of messages and marketing.

Because clients typically need content to be adapted over time, the Assets at Scale pillar undertakes engagements that last 1-12 months, though many are repeat assignments that fall within the framework of a retained relationship.

At the time of IPO, MediaMonks provided the following case study to illustrate how the Assets at Scale pillar works for its clients.

Case study: Dr.Ci:Labo online rebranding.

To relaunch Johnson & Johnson's newly acquired Dr.Ci:Labo line across the Asia Pacific region with a fresh and more consistent look, MediaMonks produced three videos to help establish a new online branding for Dr.Ci:Labo. In addition to the videos, MediaMonks created 200 high-end assets from the same shoot were used to promote the new branding on social media channels.

From a single shoot, MediaMonks created over 192 content assets within three weeks. These were pre-tailored for placement on multiple channels using the Hero (one off, high impact), Hub (targeted at specific users) and Hygiene (regular content with a practical angle) approach to content generation. MediaMonks' ability to render a large number of assets from a single shoot brought cost per asset down to under 2% of the initial cost of the videos.

The market for the services provided by the Assets at Scale pillar are growing rapidly, with management estimating an industry growth rate of +9% p/a through to 2022.

Assets at Scale

Year to December, €m	2017	2016	Change, %	Share of Group, %
Revenues	23.0	11.0	110	30
Gross Profit	17.5	9.8	80	30
EBITDA	5.2	1.3	302	
EBITDA/Revenues, %	22.4	11.7	10.8	
EBITDA/Gross Profit, %	29.4	13.1	16.3	

Source: S4 Capital

The Assets at Scale pillar was a key driver of growth of both revenues and profits prior to the merger of MediaMonks and S4 Capital.

As shown above, revenues more than doubled in 2017 to reach \$23.0m, while gross profit advanced +80% to €17.5m.

The recurring nature of the pillars revenues combined with the use of smart production to generate multiple assets from a single shoot results in significant savings for clients enables high margins for MediaMonks.

The EBITDA/revenues margin expanded by +10.8pts to 22.4%, while EBITDA/gross profit more than double to approaching 30%.

Platforms & eCommerce

The Platforms & eCommerce division develops websites and apps with a focus on eCommerce and primarily for multinational brands. The services provided aim to create an improved user experience (UX) through digital design and development that enhances the customer funnel of the client.

MediaMonks is able to use the creativity and programming capability of its inhouse teams to develop user-friendly platforms for clients. In many cases, this will help the client navigate a digital transformation process for their business.

The core capabilities of the Platform and eCommerce pillar are the design, development, maintenance, testing and hosting of large-scale digital ecosystems. These typically comprise websites, CRM implementation and eCommerce.

The scale and scope of the work undertaken results in work streams that are recurring in nature, with long-term engagements of teams that adopt an agile working structure.

At the time of IPO, MediaMonks provided two case studies to demonstrate the work that the pillar executes for its clients.

Case study 1: Weber

Localised across domains, the all-new Weber.com represents the global hub for the brand's digital transformation. To actualize Weber's ambition of being the ultimate grilling brand, MediaMonks created a platform that offers visitors localised content to drive sales.

Case study 2. US Air Force

MediaMonks' user research and testing revealed that prospective recruits for the US Air Force had a variety of interests and priorities, so MediaMonks developed a user experience (UX) that fluidly adapts to each potential recruit. With every new data point that the site learns about users, the content adapts to match the characteristic of that individual. This includes new images, new headlines and new body copy – each visitor's journey through the site is tailored to them. Where most sites use a single user flow for all people, MediaMonks created a site that dynamically routes users toward a decision based upon their specific circumstances and priorities.

The market for the services provided by the pillar are growing rapidly, with management estimating an industry growth rate of +9% p/a through to 2022.

Platforms & eCommerce

Year to December, €m	2017	2016	Change, %	Share of Group, %
Revenues	21.7	18.6	17	29
Gross Profit	20.1	16.7	20	35
EBITDA	3.9	3.6	7	47
EBITDA/Revenues, %	17.8	19.4	(1.5)	
EBITDA/Gross Profit, %	19.3	21.6	(2.3)	

Source: S4 Capital

The Platforms & eCommerce pillar delivered strong growth prior to the merger with S4 Capital.

In 2017, revenues advanced +17% to €21.7m while gross profit increased +20% to €20.1m. The pillar has the highest gross margin of the businesses that comprise MediaMonks at 93% reflecting the limited pass through costs.

The EBITDA/revenues margin edged back slightly to 18%, while EBITDA/gross profit emerged at 19.3%.

Creative Content & Marketing Innovation

The Creative Content & Marketing Innovation pillar produces digital campaigns involving virtual reality (VR), augmented reality (AR) and experiential content, such as interactive films and games. The pillar is also an early adopter of Artificial Intelligence (AI) technology.

MediaMonks uses this pillar to showcase emerging technologies and to this end has developed an internal Lab team. The projects undertaken by this pillar are used to attract clients and demonstrate the calibre of truly innovative work of which MediaMonks is capable.

Although the pillar operates at a lower margin, it is a means of showcasing the talent of the group. Clients that are attracted by the innovation and award-winning creativity provided by this pillar, are then cross-sold higher margin services in the Assets at Scale and Platforms & eCommerce pillars. In addition, the high profile, award winning creative work produced in this pillar attracts talent to MediaMonks in a highly competitive industry.

The highly creative and innovative nature of the work undertaken, which is centred on the pioneering adoption of emerging technologies such as AR, AI and voice, ensures that MediaMonks keeps abreast of industry developments and enables the cross-fertilisation of expertise in these new areas across other pillars of the group.

At the time of IPO, MediaMonks provided a detailed case study to showcase the output of the Creative Content & Marketing Innovation pillar.

Case study: Audi Q5

Audi's objective was to demonstrate what the new Audi Q5 and its Quattro technology had to offer, in a fun and playful way. The initial brief was to produce a 360 degree film and a television commercial, with the purpose of reconnecting with the childhood memory of playing with cars in a sandbox. MediaMonks' approach was to use the power of virtual reality (VR) to turn a physical sandbox into a virtual playground where users could test drive the new Audi Q5. As part of an in-store installation, users could shape the terrain of the physical sand box. This was then scanned in real-time in 3D, based on 200,000 measure points. To capture the sandbox in such detail, the sandbox was analysed with bursts of infrared light that are captured by a camera, measuring the height differences relative to the camera. The height-depth scan was then rendered into a 3D model of the sandbox, which the users can explore in VR, sitting in a virtual Audi Q5.

The end result was a real-time VR experience connecting the physical and virtual world, by first the creation of a unique driving experience in the sandbox and then giving users the opportunity to enter the same world in VR. Starting its life in European showrooms, the VR experience has gone on to become a travelling installation across Europe and the US and has been viewed more than 25m times across social media. It also became one of the most awarded projects of 2017, winning FWA of the Day, FWA of the Month and Yellow D&AD Branded Content Pencil, 5 Cannes Lions, Ciclope Grand Prix, Gold at the Clio awards and five Eurobest awards.

The management of MediaMonks estimate that the addressable market for this pillar will grow at 9% p/a through to 2022.

Creative Content & Marketing Innovation

Year to December, €m	2017	2016	Change, %	Share of Group, %
Revenues	31.0	36.3	(15)	41
Gross Profit	20.3	21.7	(6)	35
EBITDA	(0.8)	(0.4)	n/a	
EBITDA/Revenues, %	(2.4)	(1.0)	n/a	
EBITDA/Gross Profit, %	(3.7)	(1.7)	n/a	

Source: S4 Capital

Although revenues fell in 2017, this reflects a change in the mix of business undertaken by the pillar and on a gross profit basis, results were broadly unchanged on the prior year.

As noted above, the pillar operates at a lower margin or modest loss as it is charged with encouraging clients into the group which are then cross-sold higher margin services in the Assets at Scale and Platform and eCommerce pillars.

Competitive landscape

The advertising and marketing industry is worth over \$1 trillion per year, which is approximately evenly divided between advertising and other forms of marketing. Within the \$500bn advertising industry, digital commands a c40% share and is by far the fastest growing, particularly at the expense of printed media.

Within the \$200m digital advertising market, MediaMonks is active in digital content development and production, which is a segment worth \$25-30bn.

In addition, MediaMonks is also active in the \$50-75bn market for the development and support of internal platforms, primarily websites and apps. It is not active in the segments relating to enterprise resource planning (business/tech/HR services) software and hosting.

Multinational companies

MediaMonks is one of the few players that combines award-winning creative capabilities with efficient production at scale, technical platform programming capabilities, data analysis and a global footprint with local presence in markets.

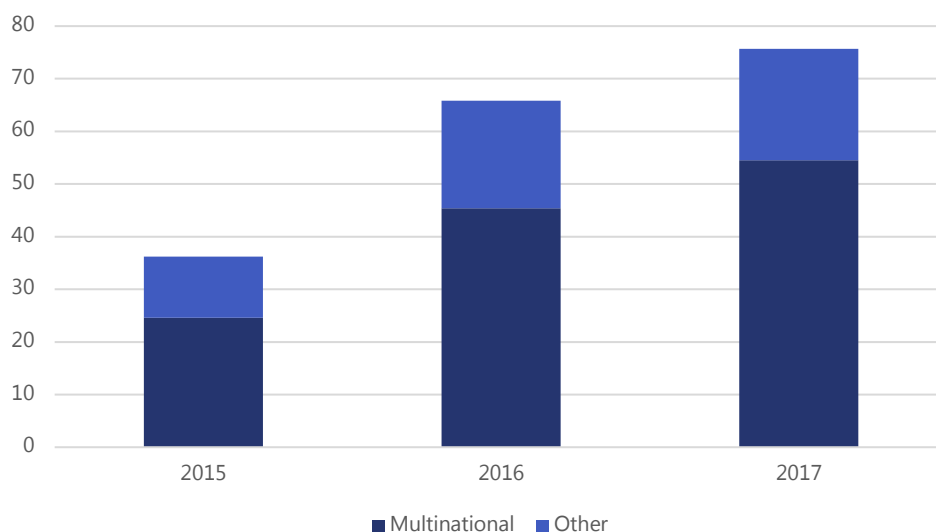
Accordingly, the group is targeting multinational companies that are well placed to benefit from having one global supplier for creative content as it is the most effective and cost-efficient way to have consistent content in global campaigns.

MediaMonks estimates that its addressable market in content development for multinational companies is €15-17bn and is growing +3% p/a to 2022. It estimates the platform development market for multinational companies is smaller at €2-4bn, but is growing more rapidly by +10% p/a through to 2022.

The barriers to entry are high as multinational companies require significant global scale. In addition, multinational companies increasingly demand sophisticated data analytics which enables them to roll out creative content quickly. The combination of global scale and the application of data analytics yields a highly effective price per asset.

While large technology and consulting businesses have global reach, they are not known for their creative expertise and are increasingly attempting to buy-in these skills. By contrast, local production hotshops may offer creativity but lack the data analytical skills and geographic reach demanded by sophisticated multi-national clients.

MediaMonks revenues by Multinational and Other client source (€m), 2015-17



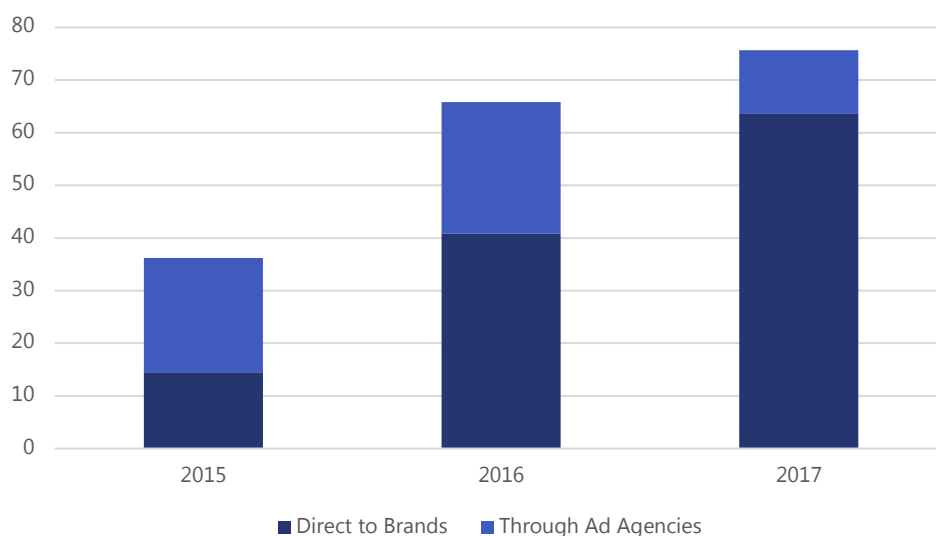
Source: S4 Capital

Approximately 70% of MediaMonks' revenues in 2015-17 were derived from multinational companies. Multi-national clients include Amazon, Google, adidas, Netflix, Heineken, Johnson & Johnson, GE and Weber.

Direct to Client

Historically, MediaMonks was hired as a production company through global advertising agencies. But over the past three years it has significantly grown the proportion of its revenues that are delivered directly to brands. MediaMonks has been able to build its direct relationships as brands have decoupled their productions needs, enabling them to exercise more control over their content requirements. This trend has a positive impact on gross margin as MediaMonks deepens its relationship with clients, enabling it to cross and upsell its offering.

MediaMonks revenues by Direct to Brands and Through Ad Agencies (€m), 2015-17



Source: S4 Capital

Client concentration

MediaMonks has a diverse blue-chip client base with limited dependency on any individual client. The table below shows the contribution from the company's Top 10 clients and how this spend has developed over time.

MediaMonks top 10 clients 2015-17

2015	2016	2017
Confidential	Confidential	Confidential
Google	Google	Google
Netflix	Heineken	Adidas
Diageo	Eithad	Slimming World
Slimming World	Netflix	GE
Sonos	Slimming World	Weber
Adidas	Weber	Heineken
US Air Force	GE	Kodak
Jumeirah	Lego	Netflix
Intel	Nike	Jumbo

Source: S4 Capital

Over the period 2015-17, the top 25 clients generated between 50% and 66% of total company revenues.

We believe there is considerable scope for MediaMonks to develop its customer base in two keys areas.

First, the five largest global advertisers are P&G, Samsung, Nestle, Unilever and L'Oreal with a combined spend approaching €50bn. However, these advertisers are not currently top 20 clients of MediaMonks.

Second, we see particular scope for MediaMonks to deepen its relationship with the FAANGs, ie Facebook, Amazon, Apple, Netflix and Google. Given the size and growth trajectory of these companies, we believe a key focus for MediaMonks will be to develop these clients.

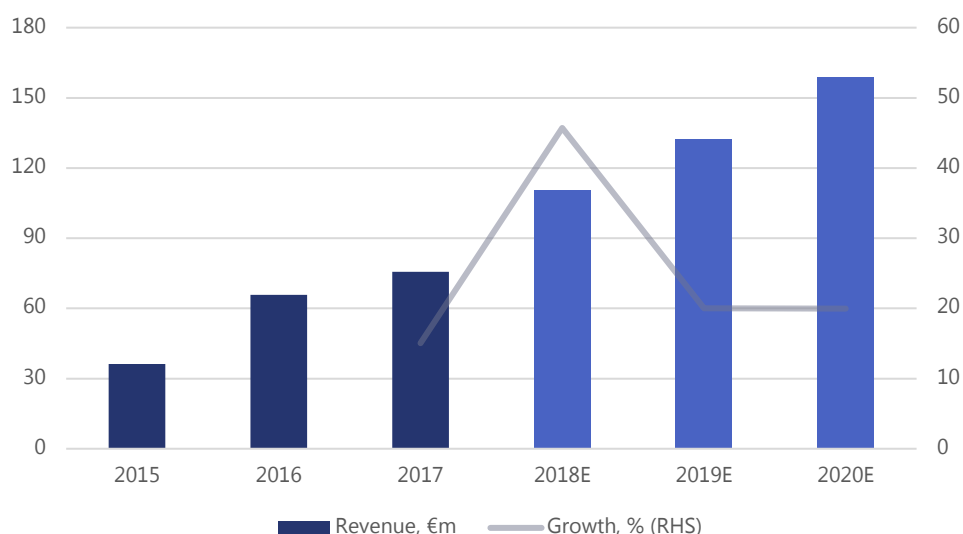
MediaMonks Forecasts

In this section we detail our revenue and EBITDA forecasts for MediaMonks over the forecast period to 2020E. Our forecasts are in euros and we then translate this into sterling for consolidated estimates in the Group Forecasts section.

Revenues

From a base of €36.2m, revenues leapt +82% to €65.8m in 2016, and by a further +15% to €75.7m in 2017. Growth was primarily organic and was particularly rapid in the Assets at Scale and Platforms & eCommerce pillars.

MediaMonks Revenues (€m) and growth (%), 2015-20E



Source: S4 Capital, Dowgate Capital estimates

At the time of the IPO, S4 Capital disclosed that MediaMonks had delivered revenues for the 5m to May of €45m, while LTM revenues to May were €90.4m. This represented growth of +20% over the 12m to December 2017.

S4 Capital released a Q3 trading update in November that stated MediaMonks delivered a 'very strong' Q3 performance that was in line with expectations.

Revenues in Q3 advanced +45% to €29.3m (£26.2m); I-f-I revenues rose +46%. This strong performance led to revenues rising 48% to €83.4m (£73.8m) for the 9m; I-f-I revenues were up +54%.

Assets at Scale doubled its gross and net revenues in Q3, which reflected the growth experience in global digital advertising. Platforms & eCommerce grew strongly, both in Q3 and for the 9m. Finally, the Creative Content & Marketing Innovation pillar performed solidly and, in line with management expectations

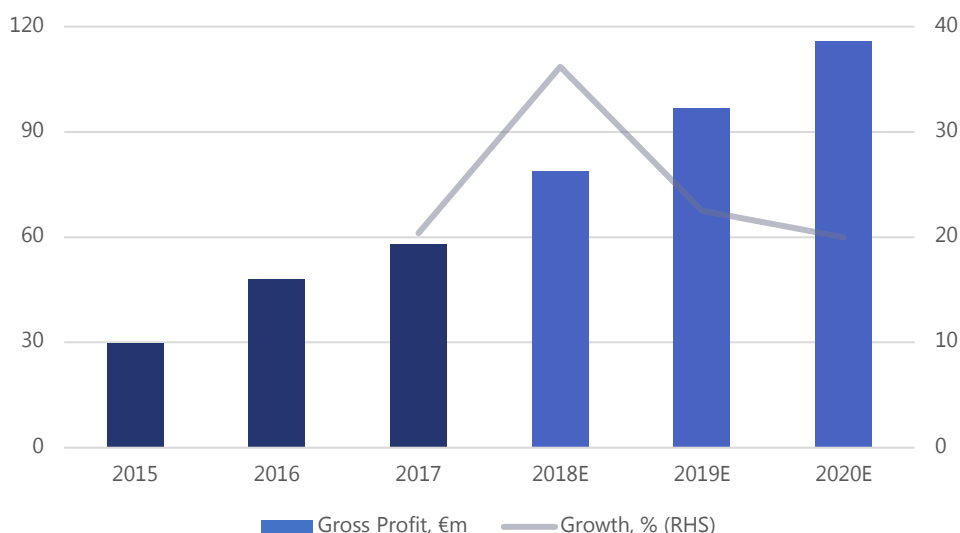
MediaMonks enjoyed continued success in deepening relationships and winning new business in the period. Notable assignments include Compass, Coty, Instagram, Mondelez, Posadas and PVH/Tommy Hilfiger.

S4 Capital released an 11m trading update in December which confirmed that trading had continue to progress in line with expectations. Euro reportable Revenues were up +46% while on a l-f-l basis the increase was +51%. We set our 2018E revenue estimate at €110.3m, which is a 46% increase and therefore consistent with the guidance from the 11m trading update.

At the 11m update, S4 Capital reported that it had enjoyed a very successful period for new business, winning digital content assignments with two major global package goods companies that will benefit 2019. In December *Campaign* wrote that MediaMonks was poised to win the P&G/Braun digital advertising account.

Nevertheless, we believe it is prudent to take a conservative view of 2019 at this early stage, though see considerable scope to revise our estimates upwards as we progress through the year. We model growth of +20% both in 2019E (to €132.4m) and 2020E (€158.8m). Given the conservatism of these forecasts we include an upside scenario analysis later in this report.

MediaMonks Gross Profit (€m) and growth (%), 2015-20E



Source: S4 Capital, Dowgate Capital estimates

As noted above, S4 Capital released a Q3 trading update in November that stated MediaMonks delivered a 'very strong' Q3 performance which was in line with expectations. Gross Profit rose 32% to €20.4m (£18.3m) in Q3 and 40% to €59.7m (£52.8m) for the 9m period. Like-for-like, Q3 and 9m were up 33% and 45%, respectively.

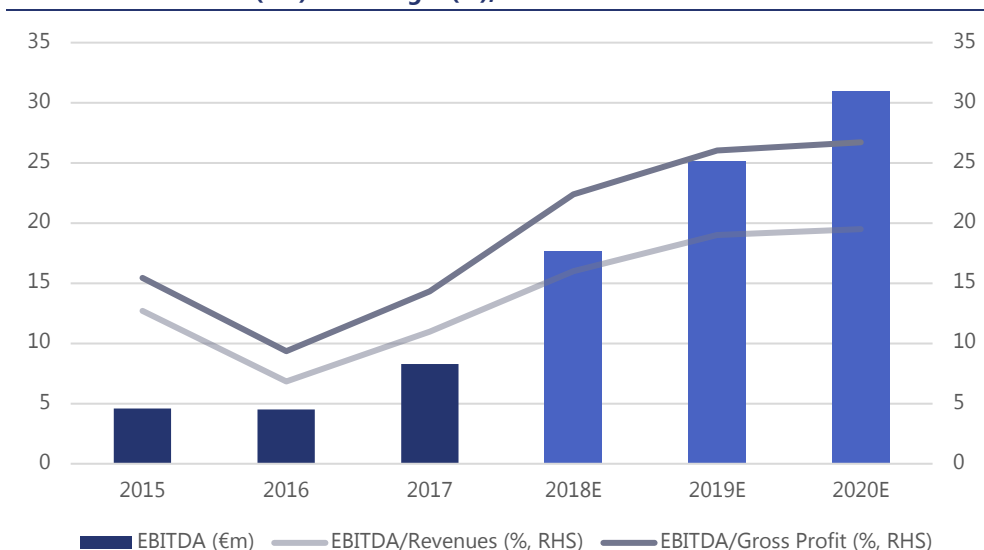
S4 Capital released an 11m trading update in December which confirmed that trading had continue to progress in line with expectations. Euro reportable gross profit was up c40%, while on a l-f-l basis the advance was stronger still at 44%.

As with revenues, we set our 2018 Gross Profit estimate in line with the FY18 guidance provided at the 11m update, which is for €78.8m with gross margin of 71.5%. We model a gross margin of 73.0% both for 2019E and 2020E. Accordingly, we forecast growth of +22.5% to €96.6m for 2019E followed by +20% to €115.9m in 2020E.

EBITDA & margin

In 2015, MediaMonks generated EBITDA of €4.6m at a margin of 12.7% on revenues and 15.4% on gross profit. In 2016, profit was curtailed by a combination of the company redesigning its processes and investing in people and infrastructure ahead of anticipated growth in 2017. Accordingly, EBITDA was held in 2016 at €4.5m, with margin on revenues and gross profit contracting to 6.8% and 9.4%, respectively. As expected, EBITDA rebounded strongly to €8.3m in 2017, with margin rebuilding to 11.0% on revenues and 14.3% on gross profit.

MediaMonks EBITDA (€m) and margin (%), 2015-20E



Source: S4 Capital, Dowgate Capital estimates

The very strong revenue momentum enjoyed in 2018 was accompanied by robust growth in EBITDA. At the time of the IPO, S4 Capital reported that EBITDA for the 5m to May was €16.3m, which was close to double the €8.4m delivered in all of 2017. The EBITDA margin was 18.0% of revenues and 23.8% of gross profit.

S4 Capital released a Q3 trading update in November that stated MediaMonks had delivered a 'very strong' Q3 performance, in line with expectations. The EBITDA/gross profit margin was steady at over 20% in Q3 and YTD was 25%, up from 15% in 9m last year.

S4 Capital released an 11m trading update in December which confirmed that trading had continue to progress in line with expectations. Operating EBITDA was up +118% on a Euro reportable basis and by +111% life-for-like.

For 2018, we have set our EBITDA forecast at €17.6m, which is consistent with the +118% guidance at the 11m trading update. This equates to an EBITDA margin of 16.0% on revenues, rising to an impressive 22.4% on gross profit.

For 2019, we model EBITDA of €25.1m, predicated on an increase in margin of +3.0pts to 19.0% on revenues and +3.7pts to 26.0% on gross profit.

We model a further +50bp increase in EBITDA/revenues to 19.5% in 2020, taking EBITDA to €31.0m. This equates to an EBITDA/gross profit margin of 26.7%.

MightyHive

In December, S4 Capital announced a merger with MightyHive, a leading programmatic consultancy. In this section we detail the activities of MightyHive, its client base, how it guides its clients through what it terms the 'Spectrum of Control' and its financial performance along with our forecasts to 2020E.

Company description

Advertisers have continued to shift their budgets to digital, which now accounts for approximately 40% of the \$500bn global advertising market. Within this, programmatic advertising, which is the automated bidding on advertising inventory in real time, for the opportunity to show an advertisement to a specific customer in a specific context, has continued to grow apace. The programmatic market was valued at \$70bn in 2018 and is growing at 20% p/a.

Although programmatic advertising has become the main method for trading digital media globally, brands are increasingly moving away from traditional agency relationships to increase the effectiveness and efficiency of their marketing budgets, improve transparency and accelerate the speed and agility with which they can operate.

In the words of Marc Pritchard, Chief Marketing Officer of Proctor & Gamble, the world's largest advertiser:

'We had too many people between us and the consumer [and] taking too long to get things done. We have to move a lot faster. As we all chased the holy grail of digital, we relinquished too much control – chasing shiny objects, overwhelmed by big data and ceding power to algorithms. We are going to take more control of our media planning, data and analytics'.

Founded in 2012 by Pete Kim, former head of Business Development at Google's Media Platforms, MightyHive is a leading programmatic consultancy that partners with global brands and agencies to help them realise transformative marketing results. The company is headquartered in San Francisco with offices in New York, London, Toronto, Singapore, Stockholm and Sydney.

MightyHive provides consulting and services in the areas of media operations and training, data strategy and analytics which enables clients to bypass traditional advertising and media agencies by building in-house capabilities. It enables marketers to use their own data, make the most of their technologies and gain the knowledge they need to compete and innovate. It has the skills base to keep fully abreast of developments in the advertising and marketing technology sector, but does not want to own proprietary technology platforms itself.

The company has a highly experienced and entrepreneurial management team with over a century of sector experience at leading technology companies like Google, Yahoo!, Salesforce, Microsoft and AOL.

Acquisition terms

The merger with S4 Capital valued MightyHive at \$150m on a cash and debt free basis, with a normalised level of working capital. This valued MightyHive at 13.5x LTM October 2018 EBITDA of \$11.1m, which we view as a fair price given the growth trajectory of MightyHive.

The consideration was satisfied \$91m in cash and \$59m in new S4 shares. Third party investors in MightyHive, who owned 22% of the company, received their consideration of \$33m in cash.

The remaining MightyHive shareholders, essentially senior management, received an equal mixture of cash (\$59m) and new S4 Capital shares (\$59m).

MightyHive management shares are restricted for 2yrs and key executives signed long-term contracts

The cash consideration of the transaction was funded by a placing and open offer to raise £74m, with 67.3m new shares issued at 110p.

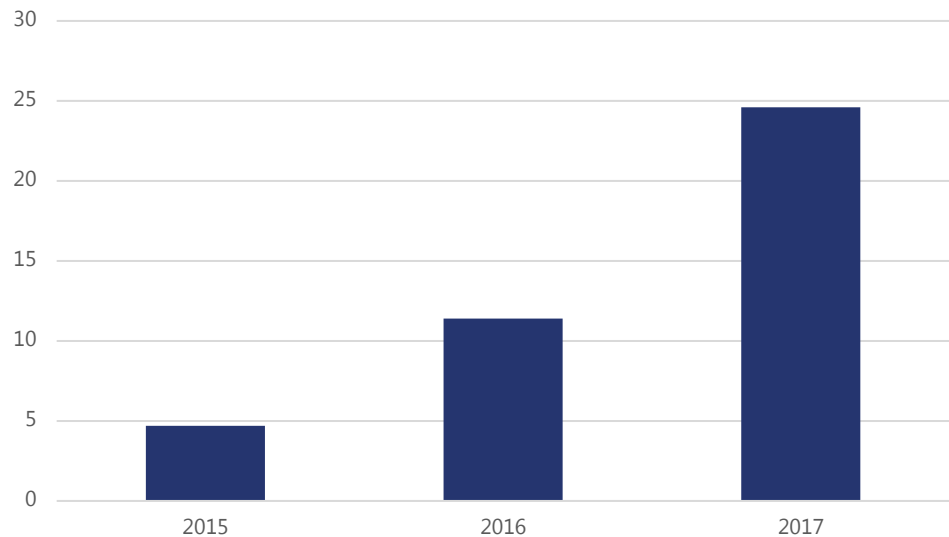
The capital raising was led by the Stanhope Entrepreneurs Fund which invested £28m. SEF has become a strategic partner for S4 and Daniel Pinto, Founding Partner & CEO of Stanhope Capital, has joined the board.

Stanhope Capital is a global investment firm that provides asset management and advisory services to private clients, corporations and non-profit organisations. Founded in 2004, it has \$10bn+ of assets and has established itself as one of Europe's leading alternatives to traditional private banks and asset management firms. Sir Martin Sorrell is a member of the advisory board of Stanhope Capital.

Revenues

MightyHive has delivered very robust revenue growth over the three years prior to the merger with S4 Capital.

MightyHive Revenues (\$m), 2015-2017



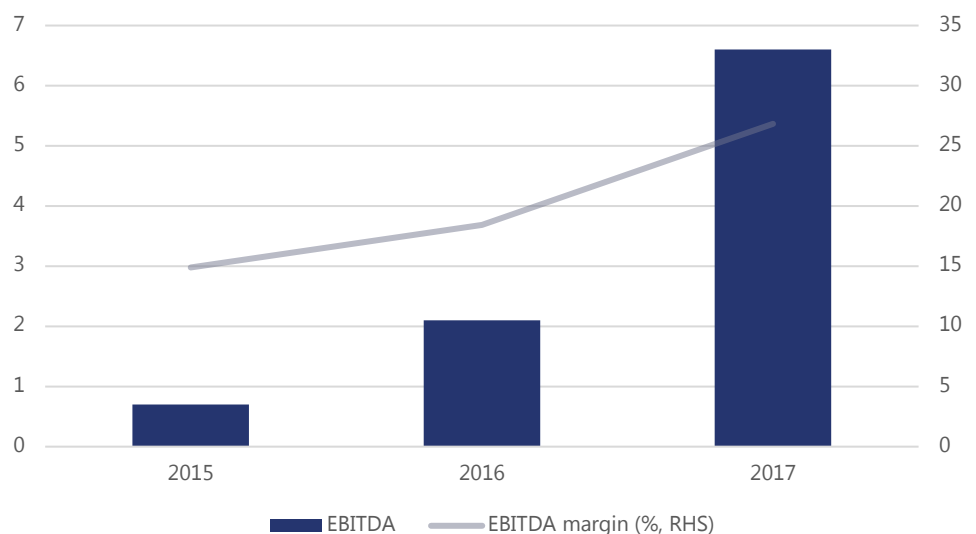
Source: S4 Capital

From a base of \$4.7m in 2015, revenues more than doubled to \$11.4m in 2016 and then more than doubled again to \$24.6m in 2017.

EBITDA

The very strong growth in revenues was more than matched by EBITDA. From \$0.7m in 2015, EBITDA tripled to \$2.1m in 2016 and then tripled again to \$6.6m in 2017. Over this period, the EBITDA margin rose from 15% to 27% in 2017 as the company scaled.

MightyHive EBITDA (\$m) and margin (%), 2015-17



Source: S4 Capital

MightyHive services

The central purpose of MightyHive is to help their clients '*find simplicity in complexity*'.

The company recognises that there are three significant barriers to clients taking control of their digital advertising and marketing. First, there is massive confusion as the technology is complex and marketers find it hard to know what the right solution is. Second, clients find it hard to find partners with the knowledge, skill and integrity to guide them through the in-housing process. And third, many clients are resistant to change.

MightyHive can help clients through every stage of the in-housing process. Central to this is the recognition that there is a '*Spectrum of Control*' which encompasses four stages. First, existing agency relationships which are outsourced and non-transparent. Second, a number of agencies are working hard to improve their transparency, and although marketers' spend remains outsourced, there is greater accountability. Third, agency groups have started to establish teams for major clients, whereby agency staff are physically located in the offices of a client and become embedded with that client. Finally, the fourth stage of the process is full in-housing, whereby clients take direct control of their marketing budgets.

MightyHive notes that there are five critical execution areas where clients may choose to in-house the marketing function. These comprise audience, creative, media, measurement and technology contracts.

MightyHive believes that the Spectrum of Control ranges from outsourcing all areas of the marketing function, which is easiest but has the most limited performance potential, to full in-housing of all areas which is hardest to execute but has the most potential. It notes that many clients are moving to a hybrid structure, whereby some areas are insourced while others remain outsourced.

The company notes that where clients end up on this spectrum depends on a number of factors. First, the scale of the client's media budget is critical, as larger budgets entail larger fees for agencies that could be redirected to in-house capabilities which could be more effective and efficient. Second, clients want control of their own data and are increasingly concerned about privacy, notably in financial services and healthcare. Third, clients with diverse products, particularly with a highly heterogeneous audience are more likely to require the agility that comes from in-housing.

MightyHive cautions its clients that moving in house is a process that needs to be managed carefully, with a full in housing programming taking anywhere from 6m to two years. It typically guides to starting technical contracts first, as it believes that once a client's tech stack is in house then the client gets access to data which is precluded when technology is outsourced. Having control of their own data, then allows clients to measure the efficiency and effectiveness of their marketing more accurately.

The chart below illustrates the range of MightyHive's services as it guides its clients through the in-housing process.

MightyHive services



Source: S4 Capital

MightyHive has developed deep expertise in the foundational technologies of advertising technology and know how to make the most of these platforms to dramatically enhance a client's media buying, tracking and targeting.

The company has established teams which can help clients design the technical architecture of their internal trading desks, troubleshoot the minutiae of campaigns and provide full service management of display, video and search campaigns.

MightyHive enables its customers to sort through hundreds of technology solutions and providers and objectively audit and score customers' data sources and platforms for their efficiency, transparency and efficacy for programmatic.

MightyHive can provide technical resources for systems integration and API development so that they can leverage customer data for media activation and allow campaign data to flow into a client's own internal reporting tools.

The clients of MightyHive get access to MightyDesk, a portal that provides access to quick, actionable insights on campaigns, reports and advertising buying and decision making through a central location. In addition, MightyHive has developed workflow tools for campaign trafficking and updates, making them faster and less prone to human error which we detail below.

MightyHive can onboard a client's own programmatic team and the company has developed significant expertise in helping marketers develop their own programmatic trading desk platforms. MightyHive also helps marketing organisations fast track their training and technical expertise by advising on strategy and platform usage.

As a key concern for marketers developing an in-house programmatic team is that this team's industry knowledge can become stale over time, after installation of an in-house team MightyHive provides ongoing training to ensure that the in-house team remains fully abreast of new industry developments.

The services offered by MightyHive fall into three key categories, detailed below:

Implementation & support

MightyHive provides training and support for teams which can be tailored to the client's level of platform experience and programmatic background. It also advises on the implementation of new technology platforms, including their deployment, setup and offers on-demand troubleshooting. The company also helps its clients transition their marketing platform from the Google Marketing Platform to other solutions. Finally, it offers end to end training from platform fundamentals to advanced techniques, customer training seminars, online FAQs and new feature support and training.

Campaign Management

MightyHive offers full service campaign management for its clients. This comprises the architecture, setup and optimisation of a client's in-house systems for search, display, mobile and video campaigns. The company works hard to improve the quality of media the client buys, which is an area of increasing concern, through a focus on malware and fraud detection. MightyHive can help use data analytics to integrate, analyse and provide insights from data in addition to offering creative services including the design, and creation of rich media creative and SEM copy.

Consulting services

MightyHive provides comprehensive guidance for marketing organisations that are building their own in-house programmatic capabilities. First, it provides insourcing support to help the client select the right team architecture and technology platform. Second, MightyHive can deliver a custom integration, including the provision of bespoke dashboards and API integration. Finally, the provision of campaign, data and analytics efficiency audits enables the client to review their data flow and architecture.

MightyHive provides solutions in the following areas –

- Ad Serving and Measurement
- Amazon Advertising Platform
- First Party Data On-Boarding
- Dynamic Creative
- Programmatic Media Buying
- Programmatic In-Housing
- Search Marketing
- Site Analytics and Attribution
- Social

MightyHive proprietary tools

MightyHive has developed proprietary tools that its account managers and clients to manage their programmatic advertising campaigns. We highlight that the company has no intention of developing its own technology platform.

- **MightyDesk.** As noted above, clients and account managers use MightyDesk to monitor and manage programmatic campaigns. It is a proprietary, web-based workflow and reporting interface that is fully integrated with the leading programmatic technology platforms and the client's CRM systems. This enables MightyHive to use the client's own first party data to target advertising buying and inform strategy. The intuitive user interface has been cited as a key factor in the ability of MightyHive to onboard the in-house programmatic teams of clients.
- **Site Tool.** Site Tool is a Google Chrome extension that tracks pixel activity and associated data. This allows Account Managers and MightyHive clients to understand web page and third party browsing activity. Site tool measures network activity and tracks query parameters to help identify issues relating to performance and data leakage. The tool is distributed to all MightyHive advertiser and agency clients to enable them to visualise the data activity behind the content that they create and consume.
- **Custom Audience Tool.** Custom Audience Tool (CAT) is a fast and easy way for marketers to create and target custom audiences using a combination of offline and online data. The CAT enables clients to design a targeted campaign using a cloud-based architecture that protects their own data.
- **Mighty PACK.** Mighty Pack is a suite of tools that is used to increase the speed of the trafficking of campaigns on client platforms that do not have pre-existing bulk ad deployment tools. Advertising trafficking is the process of technically setting up an advertising campaign, including creative placements, targeting options, campaign dates, capping impressions or click volumes. With Mighty PACK campaigns that could take a day to process historically, can now be built and edited in less than five minutes.
- **Waldo.** Waldo is a campaign management tool that MightyHive Account Managers use to monitor client spend and activity across that Account Manager's entire book of business. It uses dynamic reports that track client spend, campaign performance and data from multiple adtech platforms into a single source. It can be integrated with the finance and business operations systems of clients, with data from MightyHive populating the fields of a client's own digital advertising systems.
- **Apollo.** Apollo is a high volume data capture infrastructure that collects impression level transactions from Google. This enables a detailed analysis of campaign, inventory and creative collateral performance. It is a solution for interfacing with the advertising products offered by Google. In particular, Apollo works to integrate with a client's own data system and can be designed to configure data from Google that is typically too large and complex for the client to manage directly.

Platform expertise

MightyHive has a very broad range of experience and works with the following platforms: –

- **Programmatic buying platforms:** Google Display & Video 360, The Trade Desk, Facebook, Amazon DSP and Brightroll
- **Ad Servers:** Google Display & Video 360 and Google Campaign Manager
- **Search Management Platforms:** Google Search Ads 360
- **Creative:** Google Studio, Amazon, Google Web Designer, Facebook and Criteo.
- **Insights.** Adobe Audience Manager, Google Analytics 360 and Google Attribution 360
- **TAG management.** Google Tag Manager, Optimize 360, Analytics 360, Adobe Analytics and Tealium

In our view, MightyHive has carved out a very strong niche in the rapidly growing area of supporting clients move their programmatic buying capabilities in house.

Partnership with Google

MightyHive has a strong relationship with Google and we note that CEO Pete Kim was previously Head of Business Development for Google's Media Platforms before founding MightyHive. As Google chooses not to engage directly with marketers in the advertising ecosystem, it partners with preferred 'resellers' who help marketers establish and then optimise their digital marketing spend with Google.

MightyHive was the first certified marketing partner for the Google Marketing Platform in 2012 and has since developed this relationship across all aspects of buying, creative, audience, business intelligence, measurement & attribution and analytics. MightyHive has worked on the integration of over 50,000 end marketers.

Partnership pipeline

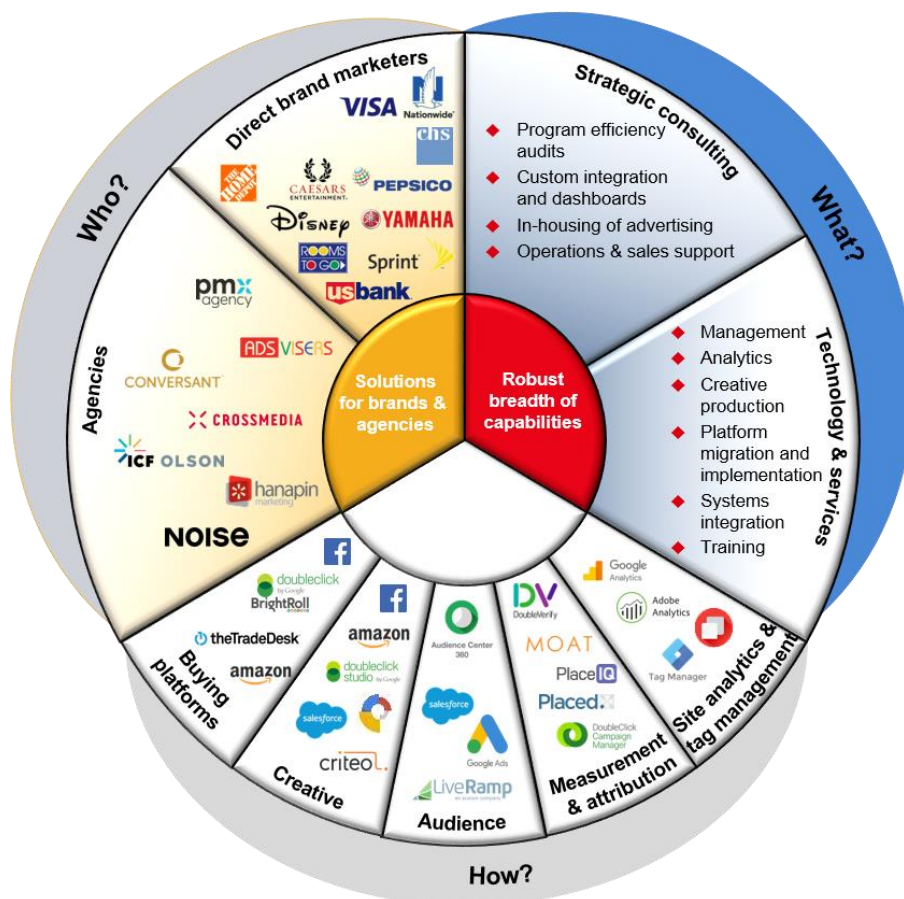
To satisfy client demand, MightyHive is developing its partnerships with the other leading companies in the programmatic advertising industry with the ultimate intention of establishing relationships of the calibre of Google throughout the wider industry. In particular, the company is targeting relationships with Facebook, Amazon and Salesforce.com in the area of programmatic advertising.

Further, MightyHive is exploring the deepening of its relationships with marketing technology groups, notably Adobe and Oracle. In combination with Salesforce.com, these groups have considerable expertise in adjacent areas to programmatic advertising. These include the digital monitoring products, customer data platforms, marketing automation, sales enablement and analytics. We see scope for MightyHive to develop, over time, a diversified marketing technology expertise that would broaden and deepen its relationships with clients while providing a material revenue upside opportunity.

Client base

The diagram below illustrates the MightyHive offering of a range of strategic consulting and technology & services capabilities, with expertise on all major platforms across buying, creative, audience, measurement & attribution and site analytics & tag management to a broad range of clients including brands and agencies.

MightyHive client base



Source: S4 Capital

MightyHive has a broad base of blue-chip clients including Sprint, Nationwide, Caesar's Entertainment, OpenTable, Pandora, Mondelez International, Carlsberg, Autodesk, Yamaha, Sephora, SAP, Boost Mobile and ACE Hardware.

The company offers solutions for three customer bases of Enterprise Marketing Organisations, Mid-Size Marketers and Agencies and we detail the offering in each category below.

Enterprise Marketing Organisations

MightyHive has a strong position with Enterprise Marketing Organisations, which are very large, typically global or multinational, businesses with considerable scale and budgets, but also enormous complexity as they grapple with the challenges of executing omnichannel campaigns for many brands.

MightyHive can provide expert guidance to help steer these EMOs as they bring their media buying in-house or help them to tailor their programmatic marketing strategy.

The MightyHive team provides end-to-end services designed to help marketers use their data, make the most of their technologies, and gain the knowledge they need to compete and innovate. For businesses with the scale and complexity of an EMO, MightyHive offers teams which can assist these clients design their internal trading desks, troubleshoot the fine detail of their campaigns, or provide full-service management of display, video, and search campaigns.

All MightyHive clients get access to MightyDesk, a portal that provides access to quick, actionable insights on campaigns, reports, and advertising buying and decision-making through a central location. In addition, MightyHive has developed workflow tools for campaign trafficking and updates, making them faster and less prone to human error.

The first stage of the process for EMOs is typically for MightyHive to conduct an audit of an organisation's existing data sources, scoring them for efficiency, transparency and efficacy. MightyHive can also provide the technical resources that enable an organisation to integrate systems and develop Application Programming Interfaces (APIs) which facilitate the leverage of customer data and allow campaign data to flow through to internal reporting tools.

MightyHive can help organisations recruit and onboard their own in-house programmatic team, and in particular a key focus is the development of an organisation's own trading desk program.

MightyHive highlights its service offering to Enterprise Management Organisations as the following three key areas:

- **Implementation support.** MightyHive provides support for organisations that already have insourced programmatic capabilities but want ongoing assistance, for example on new features to ensure continued best practice.
- **Full-service management.** The company can provide full-service programmatic set-up and optimisation for clients who require hands-on support, which is typically clients with comparatively limited resources or that are in the process of hiring their own in-house teams. MightyHive will provide a dedicated account team that manage the customers' programmatic buying.
- **Programmatic advisory.** MightyHive provides expert guidance and advice to clients that are in-sourcing their programmatic buying, for example on systems integration.

MightyHive has established strong relationships with leading Enterprise Marketing Organisations and notes its successful relationship with Sprint, a leading US mobile network operator.

'Sprint is simplifying, streamlining and optimising our digital efforts so that we can fuel growth, achieve our strategic goals and create cost savings. Selecting MightyHive as our partner is a key step in this process. Their deep expertise in programmatic and advisory capabilities made them a natural choice'.

Rob Roy, Chief Digital Officer, Sprint

Mid-Size marketers

MightyHive has a strong position with Mid-Size Marketers (MSMs) and in particular helps them to make the transition from platforms, notably Google Display Network and Facebook, to their own client teams.

The company provides MSMs with a template for developing their own teams, followed by training, platform integration, programmatic strategy and data analysis. It provides a dedicated account manager to provide ongoing technical support that covers training, templates, strategy and data. The company provides best practice recommendations, live training seminars and access to a catalogue of online videos and FAQ to help clients build their knowledge.

MSM clients have access to MightyDesk, a console that provides access to quick, actionable insights on campaigns, reports and advertising buying and decision-making through a central location. Further, it offers a Custom Audience Tool that enables MSMs to create campaigns to reach their best customers.

Major technology platforms are typically averse to providing agency services and prefer to partner with 'resellers'. MightyHive has established an excellent relationship with Google and is both a designate Sales Partner and certified Google Marketing Platform Partner.

Reflecting the changing needs of their MSM clients, MightyHive offers a range of service tiers and offerings that can be modified as the needs of its customers change. The company offers a range of implementation and support levels, which are as follows:

- **Self-service.** MightyHive offers this option for experienced media buying teams that want to use the ad platform to set up campaigns, execute strategy and generate reports. A MightyHive account manager provides basic platform and technical support.
- **Support.** For clients with limited programmatic experience who want to learn quickly and then manage their own campaigns, a dedicated MightyHive account manager will train the client's team, set up initial campaign strategy and provide ongoing technical and strategic support.
- **Full-service.** Recommended for teams with limited resources, MightyHive provides a dedicated account manager who provides full service campaign set up, platform operations and optimisations.

Agencies

In addition to working directly with clients ranging in size from Enterprise Marketing Organisations to Mid-Size Marketers, MightyHive works with agencies to help them launch or develop their programmatic offerings.

The company offers a range of services, from supplying training and implementation support to a fully managed service. The team can set up campaigns in 24-48hrs and implement advertising tags and trackers to ensure that performance data flows seamlessly.

MightyHive can enable agencies to take over management immediately or it can provide auxiliary support. The company also provides sales support, helping agencies win accounts by providing programmatic strategy and estimated performance across display, video and search.

Agencies are assigned a dedicated account manager who is a single point of contact for support, training and implementation.

MightyHive will then work with agencies to fast track their training, proficiency and platform usage. MightyHive has developed the expertise to help agencies develop their own programmatic trading desks through hands on training, reference materials and new feature support.

Agencies have access to MightyDesk, which provides access to quick, actionable insights on campaigns, reports and advertising buying & decision making.

MightyHive notes the success it has had with leading independent agencies, including 270 Strategies (a grassroots organisation which worked with the Obama organisation) and Digital Partner Fusion (a US internet marketing service).

'The experts at MightyHive help us maximize the efficiency of every branding and direct response campaign we run. They're invaluable partners at every step of the process. From campaign strategy, to planning, to execution to reporting and optimisation, MightyHive helps us to make the most out of our client's digital advertising revenues'

JD Bryant, Digital Strategist, 270 Strategies

'In the fast-moving and often chaotic world of programmatic advertising, MightyHive has become a trusted partner that I have come to rely upon. In addition to strong strategic advice, I appreciate their product recommendations, campaign execution and intelligence on the latest trends in the marketplace. MightyHive has consistently delivered.'

Scott Jenson, SVP, Digital Partner Fusion

Cross-selling

MightyHive provides a range of services that span platform implementation, systems integration, training, programmatic efficiency audits and full-service campaign management to campaign support and strategy. The table below shows the service offerings taken by MightyHive's 10 largest customers in H1 2018.

Customer base profile and service offering, H1 2018

Client		Systems integration	Training	Programmatic efficiency audits	Full-service campaign management	Campaign support/strategy
Client #1	✓	✓		✓	✓	
Client #2		✓	✓	✓	✓	
Client #3	✓	✓	✓	✓		✓
Client #4			✓	✓		✓
Client #5		✓	✓	✓		✓
Client #6		✓	✓	✓		✓
Client #7		✓	✓	✓	✓	
Client #8			✓	✓		✓
Client #9		✓	✓	✓		✓
Client #10		✓	✓	✓	✓	

Source: S4 Capital

The first and third largest customers used MightyHive for platform implementation and eight of the top ten for systems integration. Almost all customers used MightyHive for training and programme efficiency audits, and MightyHive was used by all customers either for full service campaign management or campaign support & strategy.

MightyHive enjoys very strong, entrenched relationships with its customers and this provides considerable scope for cross-selling and upselling its own services.

Customer retention

MightyHive has significant repeat sales and benefits from high revenue visibility. As shown in the chart below, MightyHive has very high client retention rates and particularly with its largest customers.

Client retention rates (%), H1 2017 to H1 2018



Source: S4 Capital

In 1H17-1H18 client retention averaged 84% for all clients, rising to 95% for clients paying \$25,000+ per year and on to an impressive 98% for those clients spending over \$100,000 per year.

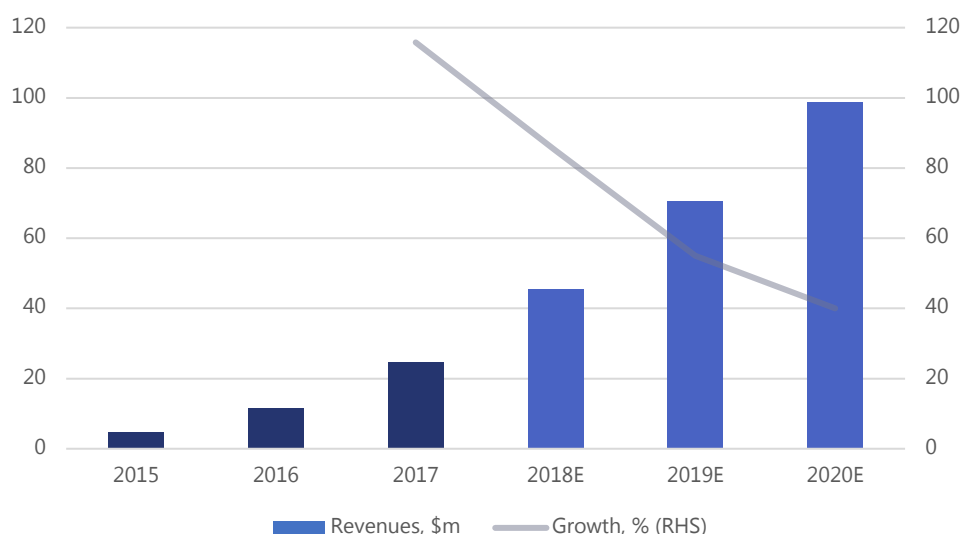
Financials

In this section we detail our revenue and EBITDA forecasts for MightyHive over the forecast period to 2020E. Our forecasts are in US\$ and we then translate this into sterling for consolidated estimates in the Group Forecasts section.

Revenues

MightyHive has delivered very robust revenue growth over the three years prior to the merger with S4 Capital. From a base of \$4.7m in 2015, revenues more than doubled to \$11.4m in 2016 and then more than doubled again to \$24.6m in 2017.

MightyHive revenues (\$m) and growth (%), 2015-20E



Source: S4 Capital, Dowgate Capital estimates

At the time of the merger with S4 Capital, MightyHive reported that revenues for the LTM to October 2018 were \$40.7m, which represents an increase of +65% on the year to December 2017. For FY18E we have modelled an increase of 85% to \$45.5m to reflect the strong trajectory reported at the time of acquisition continuing through to the year end.

We note that MightyHive has a substantial pipeline of business coming through in 2019. In November, Digiday reported that MightyHive would be working with Bayer to in-house all of its digital media buying by 2020. Josh Palau, VP Digital Strategy and Platforms at Bayer said that *'Bayer was attracted to using a transition agency like MightyHive because it allows [us] to avoid a lot of the growing pains when it comes to bringing media in-house. Unlike other agencies, MightyHive promises that a company will be self-sufficient after a dedicated time period'*.

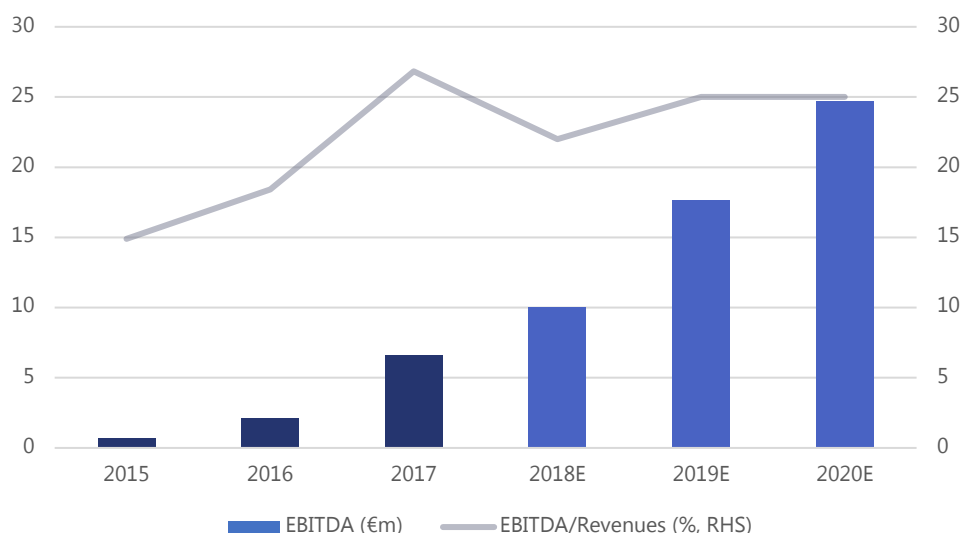
Other recent appointments include working with Sony and Goldman Sachs on Marcus. We therefore expect continued strong revenue growth in 2019 and model revenues +55% to \$70.5m.

Looking into 2020, we see no reason for the growth trajectory to fade but feel it is prudent to model a moderation of growth to 40% at this early stage. This generates a revenue estimate of \$98.8m, which we view as highly conservative.

EBITDA & margin

The very strong growth in revenues has been more than matched by EBITDA. From \$0.7m in 2015, EBITDA tripled to \$2.1m in 2016 and more than tripled to \$6.6m in 2017. The EBITDA margin rose from 15% in 2015 to 27% in 2017 as the company scaled.

MightyHive EBITDA (\$m) and margin (%), 2015-20E



Source: S4 Capital, Dowgate Capital estimates

At the time of the merger with S4 Capital, MightyHive reported that EBITDA for the LTM to October 2018 was \$11.1m. This represents a near doubling of EBITDA compared with the 12m to December 2017.

The EBITDA margin for the LTM to October 2018 was 27.3%, which is expansion of a further +50bp on the 26.8% recorded for the year to December 2017.

We model a margin of 22% for FY18, which we believe should prove conservative given the performance for the 10m to October. This generates a FY18 EBITDA estimate of \$10.0m.

Predicated on our bullish view of revenue growth in 2019E and 2020E, we expect continued robust growth in EBITDA and progress on margin, even allowing for investment in the company to underpin revenue growth.

For 2019E we model that EBITDA will advance +76% to \$17.6m at a margin +300bp to 25.0%.

Looking into 2020E, we estimate an increase of +40% to \$24.7m, with margin maintaining at a strong 25.0%.

The enlarged group

At the time of its merger with MightyHive, S4 Capital highlighted four key attractions of the combination, which are shown below:

- **Growth.** The merger with MightyHive will further accelerate the growth of S4 Capital, reflecting the very strong organic revenue growth trajectory of MightyHive. We concur with this assertion, and we forecast revenue growth of +55% and +40% for MightyHive in 2019E and 2020E, respectively, compared with our estimate of +20% in both years for MediaMonks.
- **Scale.** The merger with MightyHive materially enlarges S4 Capital, providing an expanded global presence with the group's footprint increased to 15 locations, and its clients from c350 to over 1,000 on a combined basis
- **Combination benefits.** The merger with MightyHive provides attractive synergy potential for the enlarged group. In particular, S4 Capital sees substantial potential benefits from the Assets at Scale pillar of MediaMonks and the consulting practice of MightyHive. We reproduce two illustrative case studies provided by S4 Capital at the time of acquisition below. In addition to revenue synergies, we also note that S4 Capital sees potential for cost synergies from co-location on one site for all offices and centralised back office functions (London, New York, West Coast, Singapore and also new office expansion).
- **Returns.** The merger with MightyHive will provide significant value to S4 Capital shareholders in the first full year of the acquisition. The guidance from S4 Capital that the transaction is expected to be significantly accretive to EPS by the end of the first year is consistent with our forecasts for +13% EPS accretion in 2019E and +25% in 2020E.

Illustrative case studies

At the time of the merger with MightyHive, S4 Capital provided two illustrative case studies of how the enlarged business could drive revenue synergies. We view the ability to offer a highly-differentiated service underpinned by full transparency and comprising a full suite of products and services from in housing, through the creation of creative production assets to consulting services.

MediaMonks already has a strong relationship with Netflix, which is one of the company's 20 largest clients. MediaMonks works with Netflix to create content to help them to promote their series, and the company is able to generate bespoke assets for Netflix that combine a significant reduction in cost with rapid turnaround time for advertisements.

S4 Capital believes that there is scope for MightyHive to leverage the relationships that MediaMonks has with groups such as Netflix. In particular, it believes there is potential to help clients better understand their first party data and then target their audiences more effectively, in the case of Netflix to ensure that they are deploying the right content to the right people at the right time.

Case study 1: Netflix

**MEDIA
MONKS**

NETFLIX

Current offering

Create

- ◆ Netflix asked MediaMonks to help them promote their series (e.g. Narcos)
- ◆ To do so, MediaMonks created tailored dynamic scalable content based on a 5 segment structure for digital ads (intro, segments 1-4 and outro)
- ◆ They created a range of options of content (e.g. 3 or 5) for each segment (1-4), creating 375 (i.e. 3x5x5x5) possible bespoke advertisings for Narcos
- ◆ As a result of MediaMonks' highly differentiated dynamic content capabilities, Netflix has been able to achieve:
 - ◆ Creative display advertisements that effectively connect interests to Netflix titles, resulting in c.1.5m possibilities
 - ◆ Global reduction in costs (c.40%) and in advertising turnaround time (12 to 4 weeks)
 - ◆ Increased interactions, display times and click-through-rates

Plan, Deliver & Analyse

- ◆ Significant opportunity for MightyHive to leverage MediaMonks' Netflix relationship
- ◆ MightyHive could help Netflix analyse its first party data to better understand how to target their audience more effectively, deploying the right content to the right people at the right time

Source: S4 Capital

The second case study builds on the strong relationship that MightyHive currently enjoys with Sprint, which we noted above. MightyHive helped Sprint move its programmatic buying in house in Q3 2017 by advising on the deployment of its advertising technology stack and training marketing teams that took over media buying from Sprint's full-service agency. As noted in the case study, moving programmatic buying in house resulted in a significant increase in efficiency and effectiveness, with Sprint estimating its savings at \$150m.

Given the success of this implementation, S4 Capital believes that there is potential for MightyHive to introduce MediaMonks to Sprint. In particular, there is scope for MediaMonks to create highly tailored digital content to address different customers.

Case study 2: Sprint



Plan, Deliver & Analyse

- ◆ In Q3 2017, Sprint tapped MightyHive to bring programmatic buying in-house
- ◆ Sprint needed a partner to advise on the optimal deployment of the organisation's ad tech stack, transition media buying capabilities from its previous full-service agency, and train and hire marketing team members
- ◆ By employing MightyHive's highly differentiated approach based on best-in-class ad-tech, data strategy, media strategy and training and hiring, Sprint achieved:
 - ◆ Significant y-o-y reduction in cost-per-click and cost per acquisition as well as material y-o-y increase in quality traffic
 - ◆ Double-digit improvements in KPIs for search and programmatic campaigns
 - ◆ c.\$150m cost savings, mainly through marketing efficiencies

Create

- ◆ Significant opportunity for MediaMonks to leverage MightyHive's Sprint relationship and understanding of the client's critical needs and help them create highly tailored and bespoke digital content to address different customers

Source: S4 Capital

We have not included any revenue synergies in our forecasts, but we concur with the assertion made by S4 Capital that these could be substantial. Both MediaMonks and MightyHive start from the strong position of having impressive clients bases and reputations for being best in class in areas which are benefiting from robust structural tailwinds.

We also believe that S4 Capital will benefit from the relationships that Sir Martin Sorrell has established in his decades in the advertising and marketing communications industry, notably developing the 'team' approach to cross-sell integrated services to clients.

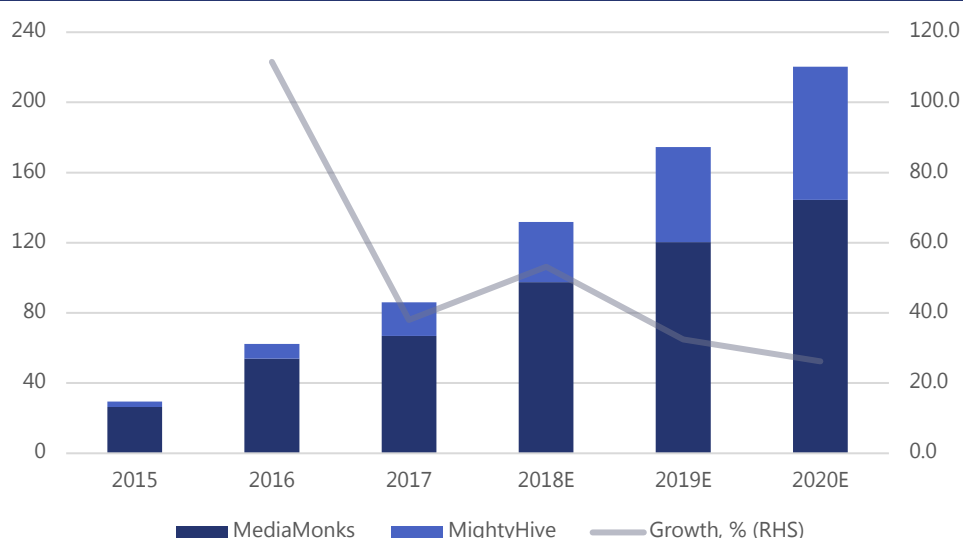
Group forecasts

In this section we detail our forecasts through to December 2020E.

Revenues

In the company sections above, we have detailed our estimates for MediaMonks (in Euros) and MightyHive (in US\$). On a group basis, we convert both contributions into sterling. The chart below is illustrative for 2015-18 as MediaMonks only became part of S4 Capital part way through 2018 and MightyHive at the very end of the year. We provide illustrative revenues as if MediaMonks and MightyHive had been part of S4 Capital throughout the period 2015-18 to show the growth trajectory.

Group revenues (£m), Illustrative 2015-18E, DC estimates for 2019-20E



Source: S4 Capital, Dowgate Capital estimates; Illustrative 2015-18 showing 12m of MM & MH

The table below shows PF18 revenues of £131.8m; this assumes MediaMonks and MightyHive were part of S4 Capital from 1st January and represents growth of +53% over 2017 on the same basis. We forecast revenue growth of +32% to £174.6m for 2019E, consistent with our previous comment that revenues would be c€200m following MightyHive. Our 2020E estimate £220.4m represents growth of +26%.

Revenues PF18-20E

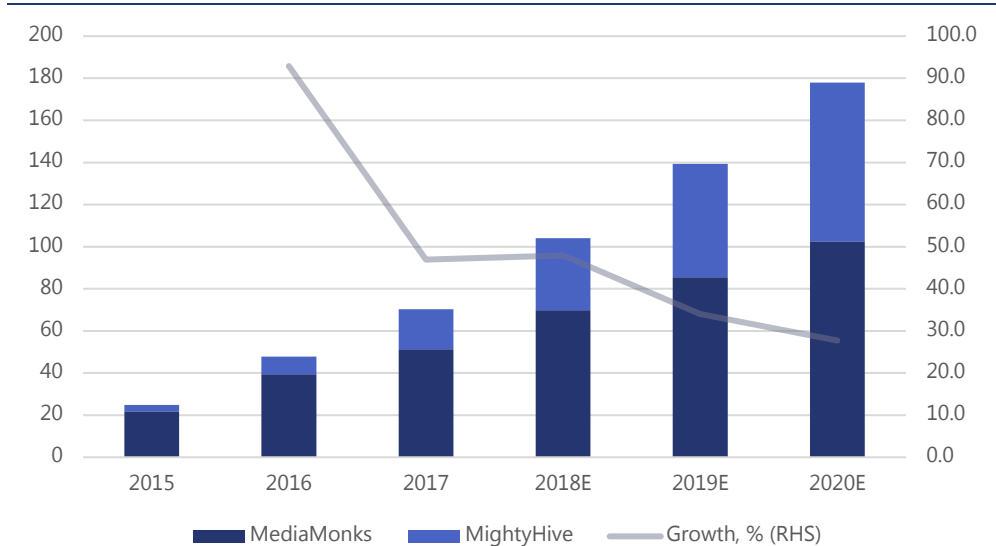
Year to December	2017	2018E Pro Forma	2019E	2020E
MediaMonks, €m	[75.7]	110.3	132.4	158.8
MediaMonks, £m	[67.0]	97.6	120.3	144.4
Growth, %	[15]	46	20	20
MightyHive, \$m	[24.6]	45.5	70.5	98.8
MightyHive, £m	[19.1]	34.2	54.3	76.0
Growth, %	[116]	85	55	40
Group, £m	[86.1]	131.8	174.6	220.4
Growth, %		53	32	26

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes

Gross Profit

Mirroring the illustrative chart above for revenues, below we show how gross profit would have performed in 2015-18 had S4 Capital owned both MediaMonks and MightyHive throughout the period. We then show our estimates for 2019-20E.

Group Gross Profit (£m), Illustrative 2015-18E, DC estimates for 2019-20E



Source: S4 Capital, Dowgate Capital estimates; Illustrative 2015-18 showing 12m of MM & MH

As with revenues, we show a pro forma 2018 gross profit estimate in the table below that includes MediaMonks and MightyHive for a full 12m from 1st January.

In 2019, we forecast a +48% increase in gross profit to £104.0m over our pro forma 2018 estimate. We expect continued robust growth both at MediaMonks (+23%) and in particular MightyHive (+55%).

We expect strong growth will continue into 2020E, though have prudently modelled a moderation of growth to +28% (MediaMonks +20%, MightyHive +40%).

Gross Profit

Year to December	2017	2018E Pro Forma	2019E	2020E
MediaMonks, €m	[57.9]	78.8	96.6	115.9
MediaMonks, £m	[51.2]	69.8	85.5	102.6
Growth, %	[20]	36	23	20
MightyHive, \$m	[24.6]	45.5	70.5	98.8
MightyHive, £m	[19.1]	34.2	53.8	75.4
Growth, %	[116]	85	55	40
Group, £m	[70.3]	104.0	139.3	178.0
Growth, %		48	34	28

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes

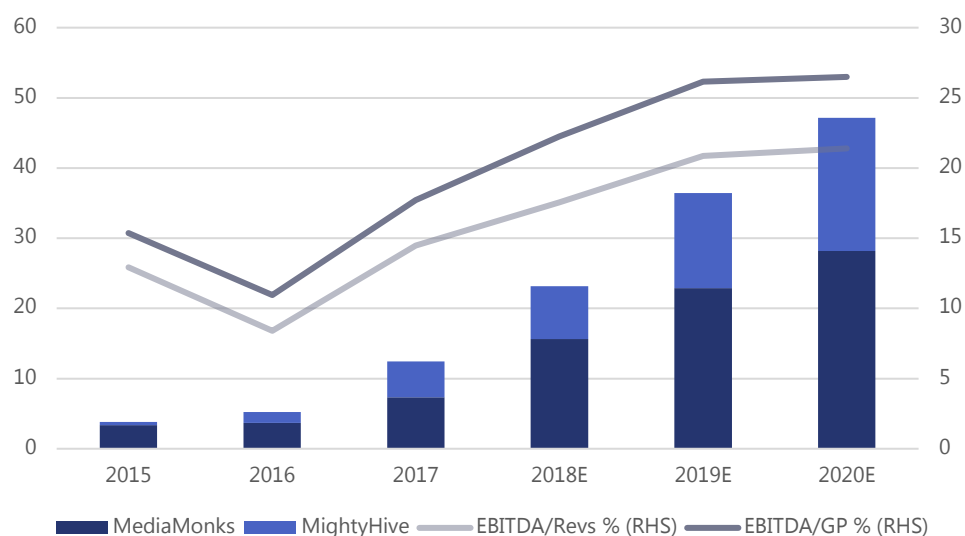
EBITDA & margin

The chart below shows the Operational EBITDA of S4 Capital (excluding Central costs and New office investment) on an illustrative basis as if it had owned both MediaMonks and MightyHive for the period from 2015 through to 2018E.

Over this period, we calculate operational EBITDA will have leapt more than 6x from under £4m in 2015 to £23.1m in 2018E.

In this period, the EBITDA/revenues margin rose from under 13% in 2015 to 17.6% in 2018E, while the EBITDA/gross profit margin expanded from 15.4% to 22.3%.

EBITDA (£m) and Margin (%), Illustrative 2015-18E, DC estimates for 2019-20E



Source: S4 Capital, Dowgate Capital estimates; Illustrative 2015-18 showing 12m of MM & MH

We forecast operational EBITDA of £36.4m in 2019E, comprising £22.9m from MediaMonks and £13.6m from MightyHive. This is consistent with our previous comment that we expected S4 Capital to deliver EBITDA of c€40m following the MightyHive transaction. This represents a 57% increase over the pro forma operational EBITDA of £23.5m that we calculate will have been delivered in 2018E.

We calculate operational EBITDA/revenues margin will advance +330bp to 20.9% while the operational EBITDA/gross profit margin will rise +380bp to 26.1%.

Looking into 2020E we estimate an increase in operational EBITDA to £47.1m, an increase of 29% over our 2019E forecast. This comprises £28.2m from MediaMonks and £19.0m from MightyHive.

We calculate operational EBITDA/revenues margin will advance +50bp to 21.4% while the operational EBITDA/gross profit margin will rise +40bp to 26.5%.

EBITDA

Year to December	2017	2018E Pro Forma	2019E	2020E
MediaMonks, €m	[8.3]	17.6	25.1	31.0
MediaMonks, £m	[7.3]	15.6	22.9	28.2
EBITDA/Revenues, %	[11.0]	16.0	19.0	19.5
EBITDA/Gross Margin, %	[14.3]	22.4	26.0	26.7
MightyHive, \$m	[6.6]	10.0	17.6	24.7
MightyHive, £m	[5.1]	7.5	13.6	19.0
EBITDA/Revenues, %	[26.8]	22.0	25.0	25.0
EBITDA/Gross Margin, %	[26.8]	22.0	25.0	25.0
New office & Investment cost		(0.5)	(2.5)	(2.5)
Central costs		(2.0)	(2.0)	(2.5)
EBITDA, £m		20.6	31.9	42.1
EBITDA/Revenues, %		15.7	18.3	19.1
EBITDA/Gross Profit, %		19.9	22.9	23.7

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes

The table above shows our EBITDA forecasts for S4 Capital after allowing for New office & Investment costs and Central costs.

For 2018E, we have included a full 12m EBITDA contribution from MediaMonks and MightyHive, allowed for Central costs of £2.0m and New office & Investment costs of £0.5m. We note the appointment of Michel de Rijk as Chief Executive Officer of Asia-Pacific. Starting in 2019 and based in Singapore, he is tasked with building S4 Capital businesses across its three areas of digital content, digital media planning & buying and first party data. He joins from GroupM, the media investment division of WPP. On a pro forma basis, we estimate EBITDA of £20.6m for 2018E. This equates to an EBITDA/revenues margin of 15.7%, rising to 19.9% for EBITDA/gross profit.

Our forecasts for 2019E include a full 12m contribution from MediaMonks (£22.9m) and MightyHive (£13.7m). We model Central costs of £2.0m and New office and investment costs of £2.5m. We arrive at Group EBITDA of £31.9m, up +55% on PF18, and which we view as conservative given the growth trajectory both of MediaMonks and MightyHive. This forecast equates to an EBITDA/revenues margin of 18.3%, up +260bp on PF18, rising to 22.9% on an EBITDA/gross profit basis.

We model EBITDA of £42.1m in 2020E, an increase of +% over 2019E. This comprises operational EBITDA of £46.4m (MediaMonks £28.2m, MightyHive £18.2m) and then £2.5m of Central costs and £2.5m of New office and Investment costs. The EBITDA/revenues margin increases +80bp to 19.1%, while EBITDA/gross profit rises +80bp to 23.7%.

PBT & EPS

The table below shows our EBITDA estimate down to EPS.

PBT (£m) and EPS (p)

Year to December	2018E Pro Forma	2019E	2020E
EBITDA, £m	20.6	31.9	42.1
Growth, %		55	32
EBITDA/Revenues margin, %	15.7	18.3	19.1
Change, %		2.6	0.8
D&A, £m	2.0	2.4	2.9
Change, %		24	17
Adjusted Operating Profit, £m	18.7	29.5	39.3
Change, %		58	33
AOP/Revenues margin, %	14.2	16.9	17.8
Change, %		2.7	0.9
Average net debt, £m	(31.6)	(26.6)	(12.7)
Interest rate, %	5.0	5.0	5.0
Net interest, £m	(2.2)	(1.5)	(0.8)
Normalised PBT	16.5	28.0	38.5
Tax rate - Normalised (%)	30.0	30.0	30.0
Tax charge - Normalised	(4.9)	(8.4)	(11.5)
Normalised earnings	11.5	19.6	26.9
Shares - Average, m	364.3	364.3	364.3
Shares - Period end, m	364.3	364.3	364.3
Normalised EPS, p	3.2	5.4	7.4
Earnings growth, %		70	38
DPS, p	0.0	0.0	0.0

Source: S4 Capital, Dowgate Capital estimates

We model Depreciation and Amortisation of Internally Generated Assets at 1.5% of revenues in PF18E, which includes a full 12m of MediaMonks and MightyHive. For 2019E and 2020E we model a slight moderation in D&A/revenues to 1.4% and 1.3%, respectively, as the business scales. This generates D&A of £2.5m and £2.9m.

We model average interest on average net debt at an all-in cost of 5%. This generates an interest cost of £2.2m in PF18 and £1.5m in 2019. We expect strong cash generation over the forecast period which, excluding further transactions, would result in the company moving to a negligible net debt position by the end of 2020E.

We model a blended tax rate of 30% and do not currently forecast a dividend.

Net debt & Leverage

We note that S4 Capital is targeting a leverage ratio of under 2.0x EBITDA.

Net debt (£m) and leverage (x)

Year to December	2018E Pro Forma	2019E	2020E
Closing net cash/(debt)	(31.6)	(21.6)	(3.8)
EBITDA	20.6	31.9	42.1
Net debt/EBITDA (x)		0.7	0.1

Source: S4 Capital, Dowgate Capital estimates

We forecast the group will finish 2018E with net debt of £31.6m, equal to approximately €35m of its €50m facility.

We forecast strong cash generation over the period to 2020E, which will see leverage fall to a modest 0.7x by the end of 2019E and the group move to a negligible net debt position during 2020E.

We allow for working capital absorption of £6m in 2019E and 2020E as the business scales and new offices are launched. Similarly, we model capex of £6m in both years to allow for investment in new offices and continued build out of infrastructure.

We expect the group to remain alive to opportunities both to build scale in its existing divisions of Digital Content and Digital Media Planning & Buying and to build a presence in its third target area of First Party Data & Analytics.

The group has sufficient firepower to fund bolt-on acquisitions from its existing resources and cash generated over the forecast period.

Sensitivity analysis 1: Organic upside

S4 Capital is one of the very fastest growing quoted companies in the UK and in PF18 revenue growth is +53% (MediaMonks +46%, MightyHive +85%).

We have modelled continued strong revenue growth of +32% in 2019E (MediaMonks +20%, MightyHive +55%) and +26% in 2020E (MediaMonks +20%, MightyHive +40%).

This generates growth in EPS to 5.4p in 2019E and then on to 7.4p in 2020E.

Sensitivity analysis 1: Organic upside

Year to December	PF 2018	Current 2019	Synergy 2019	Upside 2019	Current 2020	Synergy 2019	Synergy 2020	Upside 2020
Revenues	131.8	174.6	13.2	187.8	220.4	13.2	18.8	252.3
Growth, %		32		42	26			34
EBITDA	23.1	36.4	4.0	40.4	47.1	4.0	5.6	56.7
EBITDA margin, %	17.6	20.9		21.5	21.4			22.5
New office & Investment cost	(0.5)	(2.5)		(2.5)	(2.5)			(2.5)
Central costs	(2.0)	(2.0)		(2.0)	(2.5)			(2.5)
D&A, £m	(2.0)	(2.4)		(2.4)	(2.9)			(2.9)
Adjusted Operating Profit	18.7	29.5		33.4	39.3			48.9
AOP margin, %	14.2	16.9		17.8	17.8			19.4
Net interest, £m	(2.2)	(1.5)		(1.5)	(0.8)			(0.8)
Normalised PBT	16.5	28.0		31.9	38.5			48.1
Tax rate - Normalised	30.0	30.0		30.0	30.0			30.0
Tax charge - Normalised	(4.9)	(8.4)		(9.6)	(11.5)			(14.4)
Normalised earnings	11.5	19.6		22.3	26.9			33.7
Shares - Average	364.3	364.3		364.3	364.3			364.3
Normalised EPS, p	3.2	5.4		6.1	7.4			9.2
Accretion, %				14				25

Source: S4 Capital, Dowgate Capital estimates; PF 2018 illustrates 2018 as if MM and MH had been owned for a full 12m

In the table above, we show a sensitivity analysis that illustrates an organic upside scenario should growth +10% p/a faster than we have modelled in our formal forecasts. We have been encouraged by the ambition shown by Sir Martin Sorrell in his comments that he is targeting two clients of \$20m in 2019, compared with a largest client of under \$10m last year and given his industry contacts and scope for up and cross-selling, we view our upside scenario as realistic.

We have modelled a flow through of incremental revenues of 30% for both businesses which compares with what the companies delivered prior to acquisition in 2017 (MediaMonks 28%, MightyHive 33%).

This generates accretion in EPS to 14% in 6.1p in 2019E and +25% to 9.2p in 2020E.

Sensitivity analysis 2. Acquisition upside

S4 Capital has made impressive progress in building its presence since its formation. To date, it has completed two large acquisitions (MediaMonks €300m, MightyHive \$150m) in Digital Content and Digital Media Buying & Planning. This establishes a position in two of three areas of the Holy Trinity which it is targeting.

Acquisition upside

Year to December	Existing	Acquisition	Upside 2019E
Revenues	174.6	50.0	224.6
EBITDA	36.4	10.0	46.4
<i>EBITDA margin, %</i>	<i>20.9</i>	<i>20.0</i>	<i>20.7</i>
New office & Investment cost	(2.5)		(2.5)
Central costs	(2.0)		(2.0)
D&A, £m	(2.4)	(0.7)	(3.1)
Adjusted Operating Profit	29.5	9.3	38.8
<i>AOP margin, %</i>	<i>16.9</i>		<i>17.3</i>
Average net debt	(26.6)	(30.0)	(56.6)
Interest rate	5.0	5.0	5.0
Interest	(1.3)	(1.5)	(2.8)
Net debt/EBITDA	0.7		1.2
Normalised PBT	28.2	7.8	36.0
<i>Tax rate - Normalised (%)</i>	<i>30.0</i>	<i>30.0</i>	<i>30.0</i>
Tax charge - Normalised	(8.4)	(2.3)	(10.8)
Normalised earnings	19.7		25.2
Shares - Average	364.3	66.7	431.0
Normalised EPS, p	5.4		5.8
<i>Accretion, %</i>			<i>8</i>

Source: S4 Capital, Dowgate Capital estimates

We expect that S4 Capital will remain acquisitive and in particular believe it is keen to establish a position in First Party Data & Data Analytics.

In the table above we model an acquisition of £120m at 12x EBITDA which is funded half in new equity to the vendors (44.4m shares at 135p to raise £60m) and a quarter each by a share placing (22.2m shares at 135p to raise £30m) and an additional £30m debt. An acquisition on this basis would enhance PF19E EPS by +8% to 5.8p.

We note that acquisition in First Party Data & Data Analytics are scarce, and therefore could attract a higher multiple in a competitive auction. While we believe the group has the appetite for further transactions, it remains dependent on the flow of suitable acquisitions. We believe the group will remain disciplined and prioritise demonstrating the effectiveness of its model and delivering synergies, over acquisitions which are too aggressively priced.

Profit & Loss

Profit & Loss

Year to December £m	2017 Illustrative	2018E Pro forma	2019E	2020E
£:Euro	1.13	1.13	1.13	1.13
£:\$	1.29	1.33	1.31	1.31
Profit & Loss				
Revenues				
MediaMonks, €m	[75.7]	110.3	132.4	158.8
MediaMonks, £m	[67.0]	97.6	120.3	144.4
Growth, %	[15.0]	45.7	20.0	20.0
MightyHive, \$m	[24.6]	45.5	70.5	98.8
MightyHive, £m	[19.1]	34.2	54.3	76.0
Growth, %	[115.8]	85.0	55.0	40.0
Group, £m	[86.1]	131.8	174.6	220.4
Growth, %		53.2	32.4	26.2
Gross Profit				
MediaMonks, €m	57.9	78.8	96.6	115.9
MediaMonks, £m	51.2	69.8	85.5	102.6
Growth, %	20.4	36.2	22.5	20.0
MightyHive, \$m	24.6	45.5	70.5	98.8
MightyHive, £m	19.1	34.2	53.8	75.4
Growth, %	115.8	85.0	55.0	40.0
Group, £m	70.3	104.0	139.3	178.0
Growth, %	0.0	47.9	34.0	27.7
Gross margin				
MediaMonks	76.5	71.5	73.0	73.0
Change, %		(5.0)	1.5	0.0
MightyHive	100.0	100.0	100.0	100.0
Change, %		0.0	0.0	0.0
Group	81.7	78.9	79.8	80.8
Change, %		(2.8)	0.9	1.0

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes
Pro Forma assumes S4 Capital owned MediaMonks and MightyHive from 1st January 2018

Profit & Loss (continued)

Profit & Loss (continued)

Year to December £m	2017 Illustrative	2018E Pro forma	2019E	2020E
EBITDA				
MediaMonks, €m	[8.3]	17.6	25.1	31.0
MediaMonks, £m	[7.3]	15.6	22.9	28.2
Growth, %	[84]	113	43	23
EBITDA/Revenue, %	[11.0]	16.0	19.0	19.5
Change, %	[4.1]	5.0	3.0	0.5
EBITDA/Gross Margin, %	[14.3]	22.4	26.0	26.7
Change, %	[5.0]	8.0	3.7	0.7
MightyHive, \$m	[6.6]	10.0	17.6	24.7
MightyHive, £m	[5.1]	7.5	13.6	19.0
Growth, %	[214]	52	76	40
EBITDA/Revenue, %	[26.8]	22.0	25.0	25.0
Change, %	[8.4]	(4.8)	3.0	0.0
EBITDA/Gross Margin, %	[26.8]	22.0	25.0	25.0
Change, %	[8.4]	(4.8)	3.0	0.0
New office & Investment cost		(0.5)	(2.5)	(2.5)
Growth, %			n/a	0
Central costs		(2.0)	(2.0)	(2.5)
Growth, %			0	25
EBITDA, £m	12.5	20.6	31.9	42.1
Growth, %		0	55	32
EBITDA/Revenues, %		15.7	18.3	19.1
Change, %			2.6	0.8
EBITDA/Gross profit, %		19.9	22.9	23.7
Change, %			3.1	0.8

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes
Pro Forma assumes S4 Capital owned MediaMonks and MightyHive from 1st January 2018

Profit & Loss (continued)

Profit & Loss (continued)

Year to December	2017 Illustrative	2018E Pro forma	2019E	2020E
EBITDA, £m	12.5	20.6	31.9	42.1
D & A of IGA		2.0	2.4	2.9
<i>Change, %</i>			24	17
<i>D&A as % of revenues</i>		1.5	1.4	1.3
<i>Change, pts</i>		0.0	(0.1)	(0.1)
Adjusted Operating Profit, £m		18.7	29.5	39.3
<i>Change, %</i>			57.9	33.2
<i>AOP/Revenues margin, %</i>		14.2	16.9	17.8
<i>Change, %</i>		0.0	2.7	0.9
<i>AOP/Gross Profit, %</i>		18.0	21.2	22.1
<i>Change, %</i>		0.0	3.2	0.9
Average net debt, £m		(31.6)	(26.6)	(12.7)
<i>Interest rate, %</i>		5.0	5.0	5.0
Net interest, £m		(2.2)	(1.5)	(0.8)
Associates		0.0	0.0	0.0
Exceptionals - Operating		0.0	0.0	0.0
Exceptionals - Capital		0.0	0.0	0.0
Normalised PBT		16.5	28.0	38.5
Headline PBT		16.5	28.0	38.5
<i>Tax rate - Normalised (%)</i>		30.0	30.0	30.0
Tax charge - Normalised		(4.9)	(8.4)	(11.5)
<i>Tax rate - Headline (%)</i>		30.0	30.0	30.0
Tax charge - Headline		(4.9)	(8.4)	(11.5)
Normalised earnings		11.5	19.6	26.9
Headline earnings		11.5	19.6	26.9
Shares - Average (m)		364.3	364.3	364.3
Shares - Period end (m)		364.3	364.3	364.3
Normalised EPS, p		3.2	5.4	7.4
Headline EPS, p		3.2	5.4	7.4
<i>Earnings growth, %</i>			70	38
DPS		0.0	0.0	0.0

Source: S4 Capital, Dowgate Capital estimates; figures in square brackets are for comparison purposes
Pro Forma assumes S4 Capital owned MediaMonks and MightyHive from 1st January 2018

Cash Flow & Balance Sheet

Cash Flow & Balance Sheet

Year to December	2018E Pro forma	2019E	2020E
Cash Flow			
Operating Cash Flow			
Operating Profit	18.7	29.5	39.3
Depreciation	2.0	2.4	2.9
Working Capital	(3.0)	(6.0)	(6.0)
Exceptionals	(3.0)	0.0	0.0
Operating Cash Flow	14.6	25.9	36.1
Interest	(2.2)	(1.5)	(0.8)
Tax	(4.9)	(8.4)	(11.5)
Other	0.0	0.0	0.0
Operating Flow	7.5	16.0	23.8
Capital Expenditure	(3.0)	(6.0)	(6.0)
Other	0.0	0.0	0.0
Trading Cash Flow	4.5	10.0	17.8
Dividends	0.0	0.0	0.0
Acquisitions & Disposals	(398.1)	0.0	0.0
Share issues	370.0	0.0	0.0
Other	0.0	0.0	0.0
Financing Items	(28.1)	0.0	0.0
Net Flow	(23.6)	10.0	17.8
Balance Sheet			
Opening net cash/(debt)		(31.6)	(21.6)
Closing net cash/(debt)	(31.6)	(21.6)	(3.8)
Average net cash/(debt)	(31.6)	(26.6)	(12.7)

Source: S4 Capital, Dowgate Capital estimates
Pro Forma assumes S4 Capital owned MediaMonks and MightyHive from 1st January 2018

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- BUY is an expected return greater than 10%;
- HOLD is an expected return -10% to +10%;
- SELL is an expected return less than -10%.

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	Corporate No.	Corporate %	No.	%
Buy	33	100	33	100
Hold	0	0	0	0
Sell	0	0	0	0

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