

Media

The Media Landscape: A View From The City

From saving to spending?

June 2013

Lorna Tilbian

Head of Media

l.tilbian@numis.com

+44 (0) 20 7260 1234

Contents

Key themes for 2013

Large Cap winners – £2bn+

Small Cap winners – Sub £2bn

Cash flow, debt and liquidity

Dividend, cover and yield

Guide to Fair Value

All share prices as on 6th June 2013.

Numis acts as an adviser to Centaur, Chime, DMGT, Ebiquity, Future, Huntsworth, ITE, M&C Saatchi, Motivcom, Rightmove, TLA, Trinity Mirror, UTV, Wilmington and YouGov.

Key themes for 2013

- **Cautiously optimistic macro outlook**
 - Our models are conservative and we provide upside scenarios for strong growth/capital usage.
 - We expect fastest growth in emerging markets, then US though see ongoing downside risks in Europe.
 - We see structural tailwinds in digital, notably video and mobile.

- **Balance sheets even more robust now, liquidity remains strong**
 - In Media 2012, we highlighted balance sheet strength with sector net debt/EBITDA of 1.0x.
 - FY13 sector net debt/EBITDA of 0.7x; cash at Blinkx, Euromoney, ITE, ITV, Perform & Rightmove.
 - Within sector net debt of -£10bn, gross debt is -£16bn and gross cash is £6bn.

- **M&A to accelerate in 2013?**
 - Modest M&A in 2012: Aegis/Dentsu, WPP/AKQA and B2B portfolio rationalisation.
 - Scope for bolt-on acquisitions in all sub-sectors in 2013, particularly digital and emerging markets.
 - Valuation discount and concentrated shareholder lists make small-caps attractive.

Key themes for 2013

- **Capital returns increased in 2012, could do so again in 2013**
 - Prior to 2012, only the very strongest companies (BSkyB, Rightmove) were returning capital.
 - In 2012, DMGT and Reed both announced rolling buyback programmes.
 - ITV announced a 4p/£156m special dividend at its finals in March.

- **Structural growth opportunities**
 - We continue to be attracted to data/online subscription models in both B2B and B2C.
 - In our view, agencies can monetise mobile and online video more effectively than paid search.
 - Adjacent areas in broadcasting, eg addressable advertising, should start to gain traction in 2013.

Large Cap winners – £2bn+

■ **Broadcasting - BSkyB**

- We believe BSkyB offers best in class content, functionality, value and service.
- BT Sports channel unlikely to impact BSkyB materially, uncertainty creates buying opportunity.
- Higher Premier League costs captured in forecasts, scope for further capital return at finals in July.

■ **B2B - DMGT**

- A key pick in 2012, we see DMGT as well positioned for another strong year.
- DMGT enters 2013 with a more focussed B2B biased portfolio (78% of our 2013 EBITA).
- A quality B2B play with an interesting cyclical kicker in the form of Associated, particularly mailonline.
- Good momentum across the board and valuation remains attractive.

■ **B2C - Rightmove**

- More positive commentary on outlook for the UK housing market bodes well.
- Strong earnings momentum into 2013 as a result of the successful roll out of the microsite initiative.
- Cash flow remains very strong, share buyback continues.

■ **Agencies - WPP**

- The group has strong exposure to digital (32% of revenues) and emerging markets (29%)
- Agencies are better placed to benefit from growth in online video and mobile than paid search.
- A well-structured balance sheet to drive shareholder value through dividends, buybacks and bolt-ons

Small Cap winners – Sub £2bn

▪ **Broadcasting - Blinkx**

- We view the structural growth in online video as providing a healthy industry backdrop for Blinkx.
- Full year results in May demonstrated the group's success in increasing the sell through and pricing of inventory following recent acquisitions.
- We view our forecasts as very conservative and also note net cash on the balance sheet.

▪ **B2B – ITE**

- A strong start to 2013 with good H1 results and confident outlook.
- Currency headwinds and lagging concerns around Mosbuild had subdued share price performance.
- Medium-term benefit from optimising venues, driving international sales and geocloning.
- Strong balance sheet provides fire power for further bolt on acquisition.

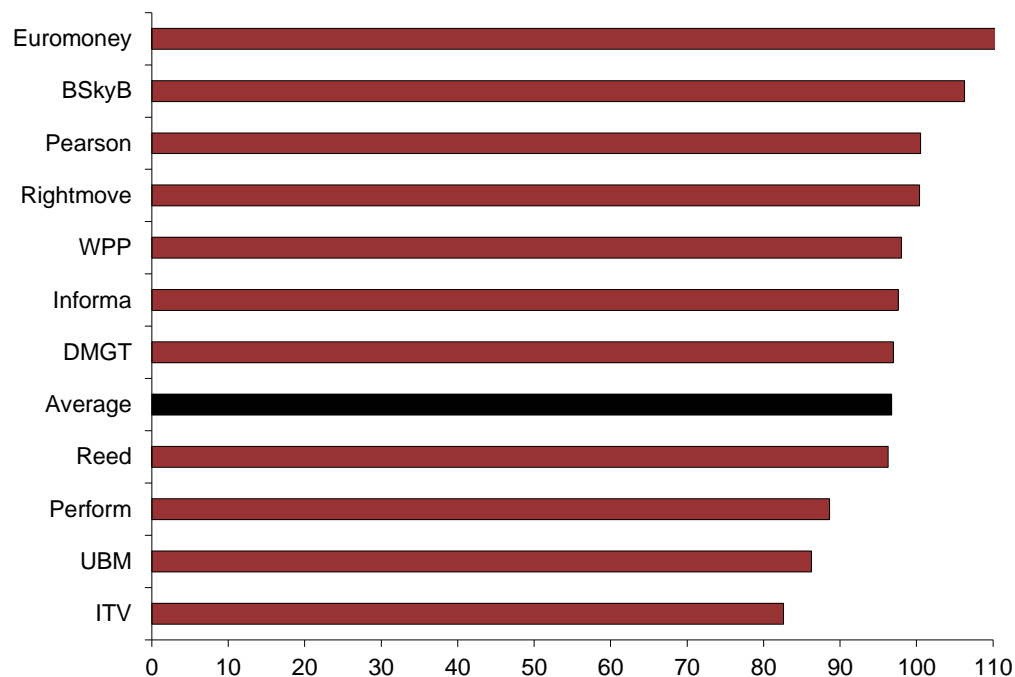
▪ **Broadcasting - Perform**

- Perform was one of our 2012 picks and retains its position in 2013.
- A pure play in online sports both B2B (online betting services provider) and B2C (online subscriptions, ePlayer on newspaper websites).
- We see upside from Watch&Bet renewals with newsflow likely over the summer.
- We see continued scope to drive EPS through bolt-on acquisitions.

Cash flow, debt and liquidity

Cash conversion for £1bn+

EBITDA to operating cash flow conversion (%), 2004-14E



- Operating cash flow conversion of 97% 2004-13E
- Cyclical swings at WPP wash through
- Lower conversion at UBM due to restructuring
- ITV also lower due to restructuring and pension

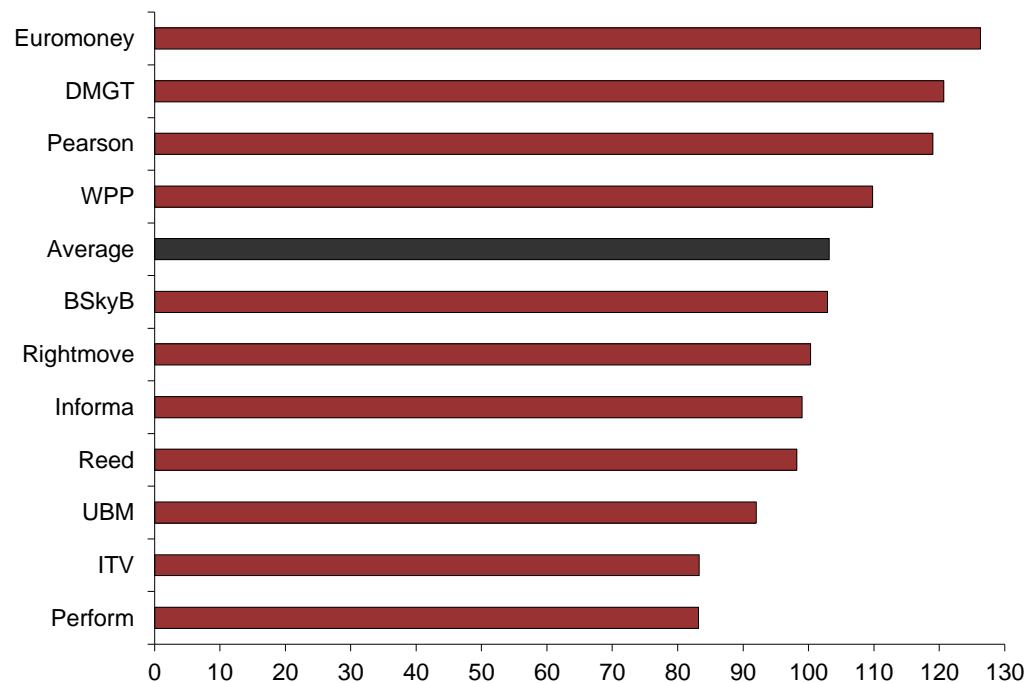
Source: Numis Securities Research Department

Operating cash flow = operating profit + depreciation + changes in working capital + other adjustments (eg pension, restructuring & redundancy)

Cash flow, debt and liquidity

Cash conversion for £1bn+

Attributable profit to trading cash flow conversion (%), 2004-14E



Source: Numis Securities Research Department

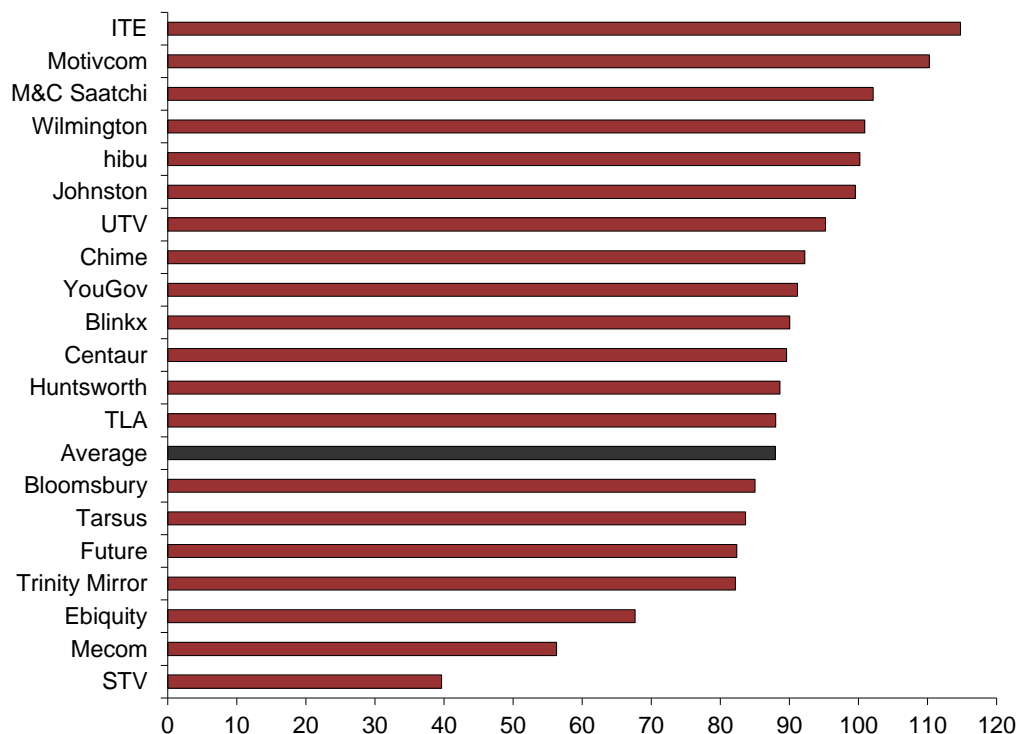
Trading cash flow = operating cash flow – interest – tax – capex

- Conversion of attributable profit to trading cash flow is 103%
- Euromoney, DMGT, WPP and Pearson are all well over 100%
- UBM and ITV both below average
- Perform is investing in future growth through capex and working capital

Cash flow, debt and liquidity

Cash conversion for under £1bn

EBITDA to operating cash flow conversion (%), 2004-14E



- Operating cash flow conversion of 88% for 2004-14E
- ITE and Motivcom are well over 100%
- Ebiquity is investing to take advantage of structural opportunities
- STV, Mecom and Trinity Mirror impacted by restructuring costs
- Hibu has good conversion due to shrinking print business

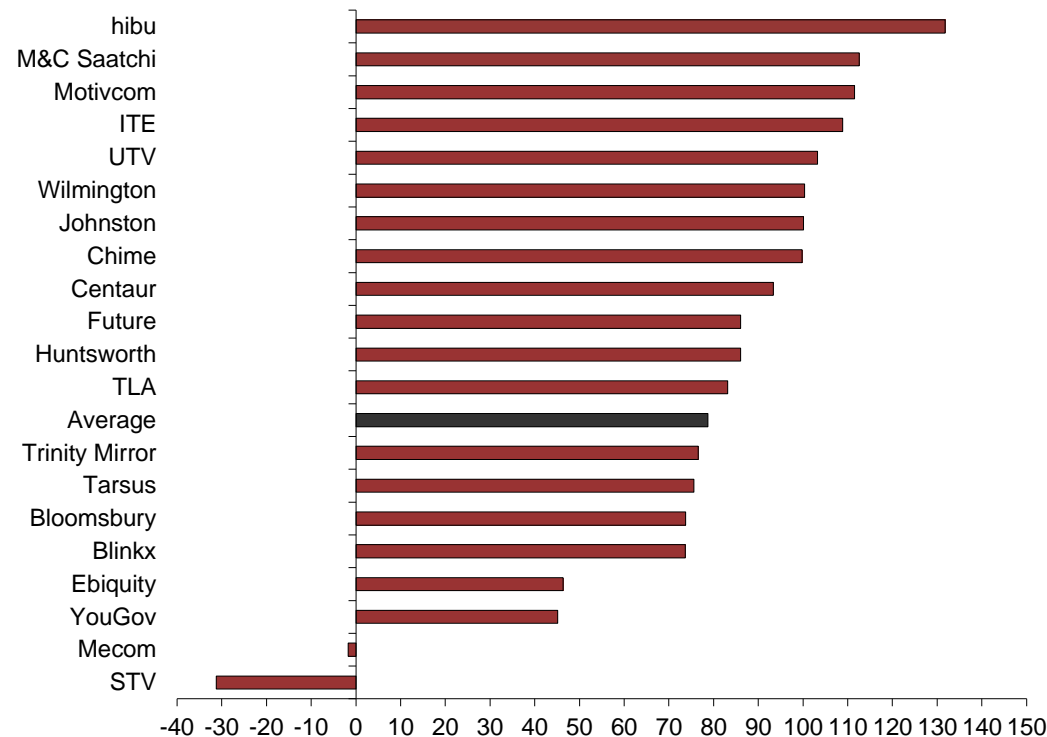
Source: Numis Securities Research Department

Operating cash flow = operating profit + depreciation + changes in working capital + other adjustments (eg pension, restructuring & redundancy)

Cash flow, debt and liquidity

Cash conversion for under £1bn

Attributable profit to trading cash flow conversion (%), 2004-14E



Source: Numis Securities Research Department

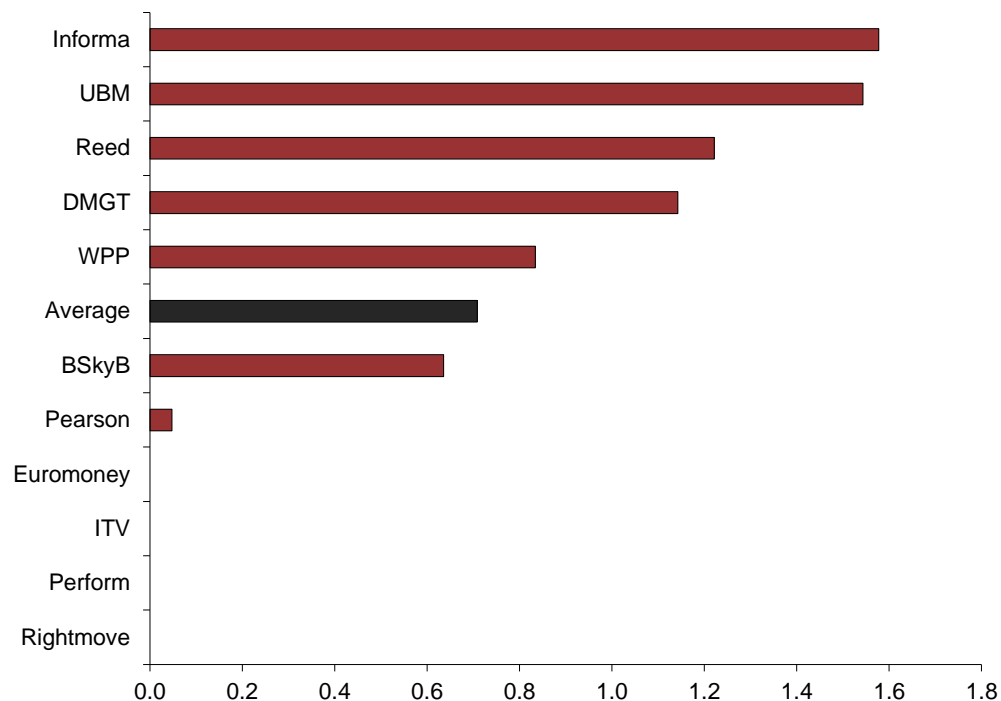
Trading cash flow = operating cash flow – interest – tax – capex

- Hibu benefits from a shrinking print business
- Strong operating conversion flows through to trading for ITE, M&C Saatchi and Motivcom
- STV and Mecom have negative trading cash flow due to restructuring, pension and penalty interest
- Ebiquity is investing in capex to meet structural growth opportunities

Cash flow, debt and liquidity

Net debt/EBITDA for £1bn+

Net debt/EBITDA (x), 2013



Source: Numis Securities Research Department

- Sector net debt/EBITDA is modest at 0.7x
- Leverage of c1.5x is not overly concerning at Informa or UBM
- Pearson has a strong balance sheets following disposals and reinvestment of proceeds
- Euromoney, ITV, Perform and Rightmove have net cash at NSe FY13

Cash flow, debt and liquidity

Gross debt, gross cash and net interest

Gross debt, gross cash and net interest

Group	Net debt	Gross debt	Gross cash	Net interest for FY13 (£m)		Accretion to EPS (%)
	(£m)	(£m)	(£m)	NSe	At 6%	
BSkyB	(876)	(2,406)	1,530	(105)	(63)	4
DMGT	(613)	(720)	107	(45)	(33)	4
Euromoney	(31)	(44)	14	(4)	0	3
Informa	(845)	(898)	53	(29)	(41)	(4)
ITV	92	(631)	723	(24)	3	5
Pearson	(1,178)	(2,381)	1,203	(59)	(33)	3
Perform	25	(10)	34	(3)	0	13
Reed	(3,318)	(3,850)	532	(215)	(170)	3
UBM	(537)	(645)	108	(29)	(26)	1
WPP	(2,861)	(4,212)	1,351	(196)	(124)	5
Total	(10,142)	(15,797)	5,656			

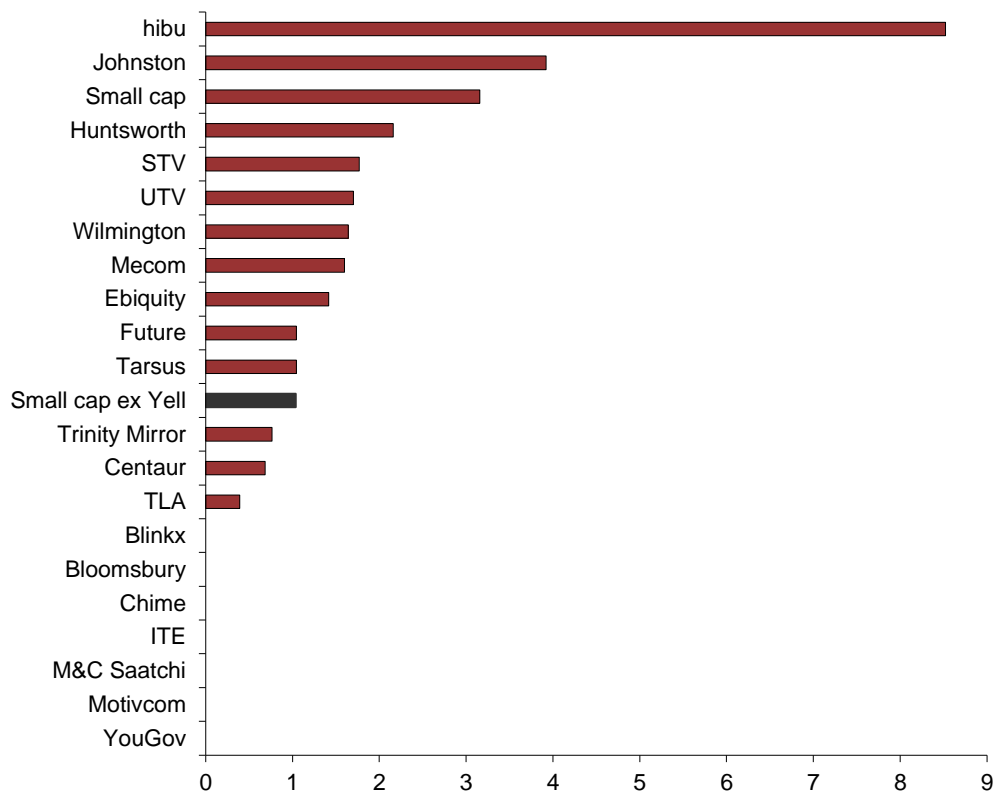
Source: Numis Securities Research Department

- Sector net debt of -£10bn comprises gross debt of -£16bn and gross cash of £6bn.
- Gross debt has good maturities and is (mostly) at good rates.
- Gross cash provides considerable optionality for acquisitions and capital returns.
- Enhancement from using gross cash will be material given negligible interest foregone.

Cash flow, debt and liquidity

Net debt/EBITDA for under £1bn

Net debt/EBITDA (x), 2013



- Net debt/EBITDA is heavily distorted by hibu, which accounts for three quarters of sub-£1bn debt
- Johnston is also too highly leveraged at 4x
- We expect debt to reduce rapidly at Huntsworth, STV and UTV
- Blinkx, Bloomsbury, Chime, ITE, M&C Saatchi, Motivcom, and YouGov all have net cash

Source: Numis Securities Research Department

Dividend, cover and yield

Dividend, cover and yield for £1bn+

Dividend, cover and yield

Group	Average yield	NSe (p)	2013 EPS	NSe (p)	Cover (x)	2013 DPS	Dividend at 2x cover	
	2003-07 (%)		Growth, %			Yield (%)	DPS (p)	Yield (%)
BSkyB	1.5	56.3	12	28.2	2.0	3.6	28.2	3.6
DMGT	1.8	52.6	10	19.0	2.8	3.3	26.3	4.5
Euromoney	3.8	70.7	7	23.6	3.0	2.6	35.4	3.9
Informa	2.5	43.0	7	19.2	2.2	4.1	21.5	4.6
ITV	2.6	9.2	11	3.0	3.1	2.7	4.6	4.1
Pearson	4.1	92.7	9	48.0	1.9	4.1	46.4	3.9
Perform	n/a	15.4	45	0.0	0.0	0.0	7.7	1.9
Reed	2.7	52.2	4	23.5	2.2	3.6	26.1	3.9
Rightmove	0.9	66.0	8	26.0	2.5	1.7	33.0	2.2
UBM	2.4	65.0	9	30.3	2.1	4.3	32.5	4.6
WPP	1.6	79.2	9	32.0	2.5	3.4	39.6	4.2
Sector	2.4		12		2.2	3.0		3.8

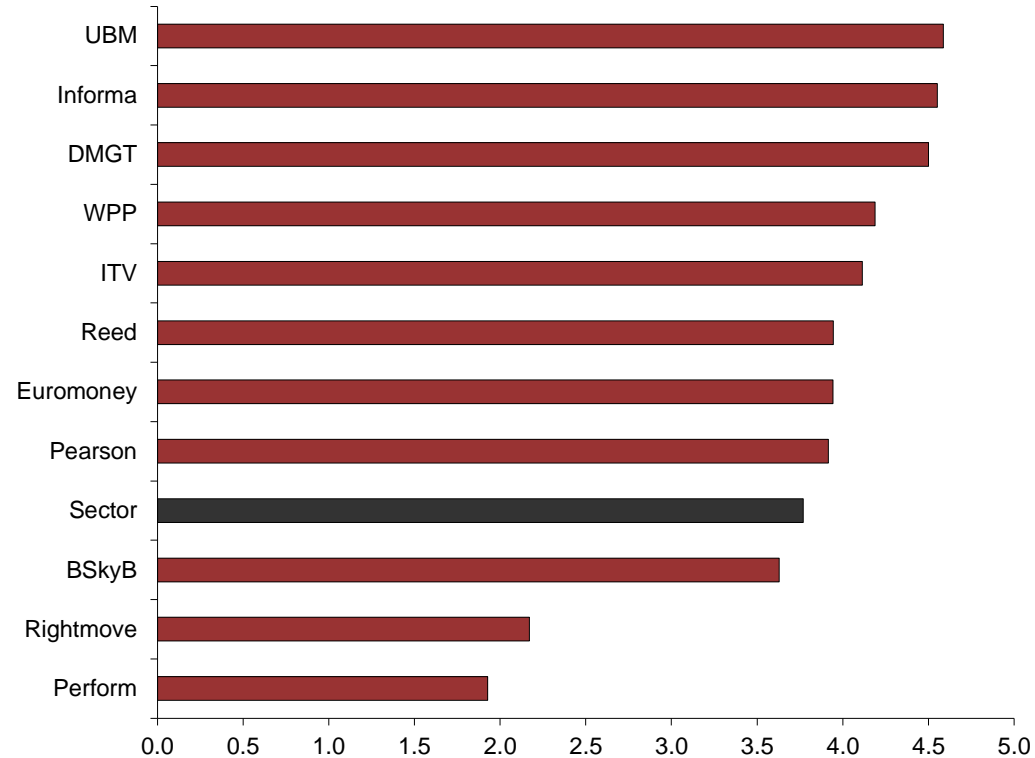
Source: Numis Securities Research Department

- Sector yield is 3.0% with cover of 2.2x; this compares with historic 2.4%.
- We have modelled an increase in sector pay-out ratio to 50% which increases yield to 3.8%.
- With 2x covered dividends, DMGT, Informa and UBM yield c4.5%.

Dividend, cover and yield

Yield on 2x covered dividend for £1bn+

Yield on 2x covered dividend, 2013



- With a 50% payout ratio the sector would yield 3.8%
- With a 2x covered dividend DMGT, Informa and UBM would yield c4.5%

Source: Numis Securities Research Department

Dividend, cover and yield

Dividend, cover and yield for under £1bn

Dividend, cover and yield

Group	Average yield	NSe (p)	2013 EPS	NSe (p)	Cover (x)	2013 DPS	Dividend at 2x cover	
	2003-07 (%)		Growth, %			Yield (%)	DPS (p)	Yield (%)
Blinkx	n/a	3.2	54	0.0	n/a	0.0	1.6	2.5
Bloomsbury	1.2	13.3	8	6.0	2.2	5.3	6.6	5.9
Centaur	1.9	6.8	17	2.6	2.6	5.3	3.4	7.0
Chime	0.7	22.8	11	7.0	3.2	2.9	11.4	4.6
Ebiquity	n/a	8.7	18	0.0	n/a	0.0	4.3	4.7
Future	2.0	1.3	19	0.3	4.4	1.8	0.7	3.9
Huntsworth	1.0	7.1	3	3.5	2.0	8.8	3.5	8.8
ITE	2.4	17.9	6	6.9	2.6	2.7	8.9	3.5
M&C Saatchi	2.2	17.0	15	5.5	3.1	3.0	8.5	4.7
Mecom	0.0	16.9	(37)	5.6	3.0	6.1	8.4	9.2
Motivcom	0.4	11.8	13	5.0	2.4	5.0	5.9	5.9
STV	2.8	29.7	(9)	0.0	n/a	0.0	14.9	12.4
Tarsus	n/a	18.7	58	6.9	2.7	3.5	9.3	4.8
TLA	n/a	3.0	25	0.8	3.7	3.9	1.5	7.2
Trinity Mirror	3.7	26.8	(8)	0.0	n/a	0.0	13.4	13.1
UTV	3.0	16.9	2	8.0	2.1	5.9	8.4	6.2
Wilmington	2.7	14.1	7	7.0	2.0	4.4	7.0	4.5
YouGov	0.0	5.3	16	0.6	n/a	0.8	2.7	3.5
Sector average	1.7	13.4	12	3.7	2.8	3.3	6.7	6.2

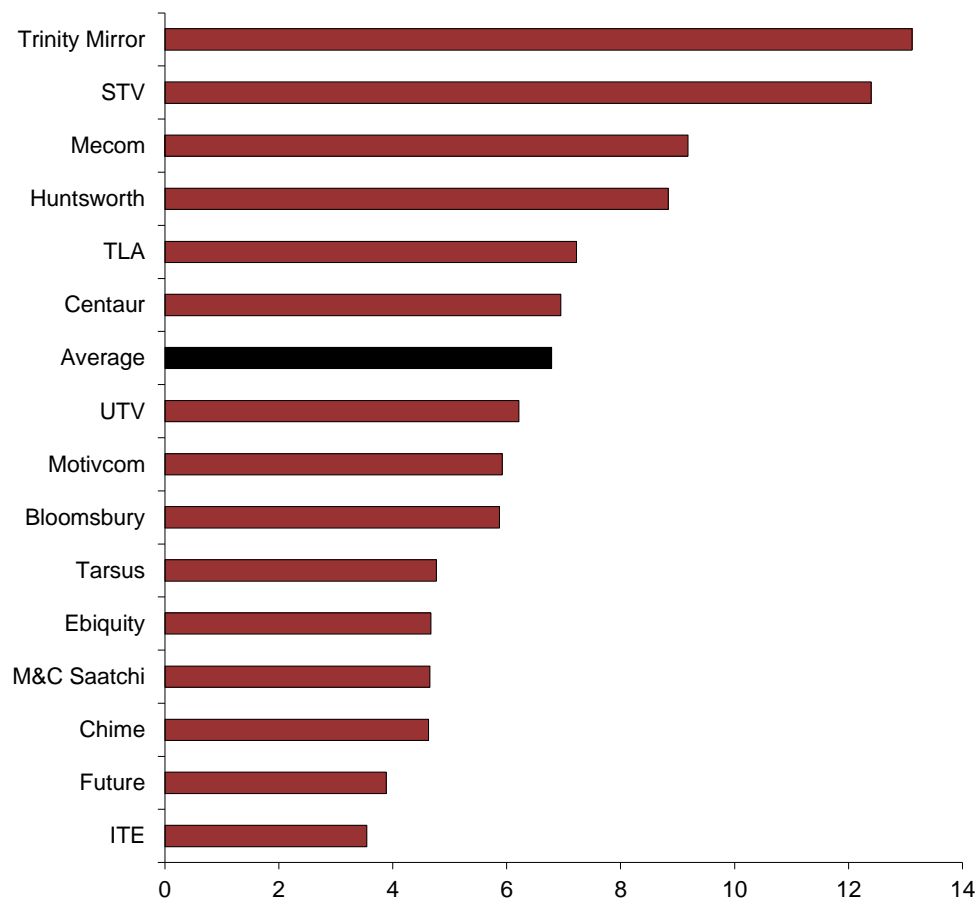
Source: Numis Securities Research Department

- The analysis does not work as well for small cap, notably for Johnston and hibu which we have excluded.
- But some have similar attributes to the larger ones, notably Chime, ITE, M&C, Tarsus & UTV.

Dividend, cover and yield

Yield on 2x covered dividend for under £1bn

Yield on 2x covered dividend, 2013



Source: Numis Securities Research Department

- Assuming 50% payout ratio would give a yield of 7%
- STV and Trinity Mirror would yield 10%+ at 2x cover
- The analysis works best for small-caps that are most like the larger companies
- With a 2x covered dividend all companies look attractive

Guide to Fair Value

www.numis.com



Media: Guide to Fair Value

For FCA purposes this is a Marketing Communication

6 Jun 2013

Group	Rating	Price (p)	Target (p)	Variance (%)	Mkt cap (£m)	EV (£m)	Relative (%)			EV/Revenues (x)			EV/EBITDA (x)			PE (x)			FCF yield (%)			Dividend yield (%)		
							1m	3m	12m	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Agencies																								
Chime*	Buy	265	328	24	227	265	7	7	35	1.7	1.5	1.3	9.1	8.1	6.7	12.5	11.8	10.5	5.2	9.5	10.9	2.7	2.9	3.0
Huntsworth*	Buy	58	80	37	186	226	3	16	16	1.5	1.3	1.2	9.2	8.7	7.1	8.4	10.4	9.3	8.2	6.6	10.5	6.0	6.0	6.0
M&C Saatchi*	Add	267	265	(1)	183	178	6	22	61	1.1	1.0	0.9	9.4	8.4	7.3	18.2	16.6	15.1	6.0	7.1	7.8	1.9	2.0	2.2
Motivcom*	Buy	119	135	14	32	27	14	9	3	0.7	0.9	0.8	4.2	5.1	4.3	11.3	9.3	8.3	22.7	(6.7)	13.0	3.8	4.2	4.6
TLA*	Buy	26	36	38	32	42	4	14	(1)	3.8	3.4	3.0	8.8	7.2	6.1	9.8	8.3	7.4	5.2	10.1	12.1	2.2	3.0	3.8
WPP	Buy	1,101	1,270	15	14,919	17,701	3	2	19	1.8	1.6	1.5	10.4	9.1	8.2	15.0	13.5	12.5	4.7	7.8	8.5	2.6	3.0	3.2
YouGov*	Add	73	90	23	75	67	3	(1)	(13)	1.1	1.1	0.9	10.6	9.3	7.7	15.1	13.4	11.8	1.5	3.6	4.8	0.7	0.9	1.0
B2B																								
Centaur*	Buy	34	71	110	48	91	(24)	(29)	(18)	1.1	1.2	1.1	6.6	6.7	5.7	8.0	6.9	5.8	8.8	10.4	16.8	6.9	7.5	8.1
DMGT*	Buy	741	1,007	36	2,853	3,839	9	4	61	2.0	2.1	2.0	9.9	10.0	9.4	15.2	14.2	13.5	4.0	5.9	6.7	2.5	2.6	2.7
Ebiquity*	Buy	93	133	44	70	85	(1)	(3)	(16)	1.4	1.3	1.1	7.6	6.7	5.8	11.2	10.0	9.1	3.2	7.6	10.7	0.0	0.0	0.0
Euromoney	Add	959	1,164	21	1,222	1,217	(3)	2	(1)	3.2	3.0	2.8	10.7	9.6	9.0	14.3	13.4	12.9	7.8	7.1	8.3	2.3	2.4	2.5
Informa	Add	496	557	12	2,998	3,671	2	(1)	18	3.1	2.9	2.7	10.3	9.5	8.7	12.2	11.5	11.0	7.7	8.7	9.2	3.7	3.9	4.1
ITE*	Buy	281	365	30	698	670	3	2	25	3.9	3.6	3.3	12.6	11.6	10.7	16.3	15.3	14.8	6.3	6.7	6.9	2.3	2.5	2.6
Pearson	Hold	1,190	1,192	0	9,571	10,110	3	1	(14)	1.7	1.6	1.5	9.7	10.3	8.7	14.4	16.0	13.5	6.9	6.2	7.3	3.8	4.0	4.3
Reed Elsevier	Add	729	830	14	16,539	19,842	(1)	(1)	25	3.3	3.2	3.0	10.6	10.0	9.2	14.7	13.7	12.9	6.5	7.3	8.1	3.2	3.3	3.3
Tarsus	Add	223	244	9	215	247	1	3	22	4.7	3.3	4.1	14.2	9.9	13.2	18.4	11.7	16.9	3.5	6.4	4.9	3.0	3.3	3.4
UBM	Hold	701	764	9	1,748	2,217	(7)	(9)	14	3.0	2.6	2.6	12.3	10.6	10.1	14.1	12.9	12.1	5.8	9.2	8.3	3.8	4.0	4.2
Wilmington*	Buy	163	207	27	138	170	6	2	42	2.0	2.0	1.8	10.1	9.4	8.6	13.4	12.1	11.1	7.4	7.9	8.7	4.3	4.3	4.4
B2C																								
Bloomsbury	Hold	126	128	1	94	81	11	17	(11)	1.0	0.8	0.8	8.3	6.3	5.8	10.1	9.6	9.5	3.6	4.9	9.3	4.1	4.3	4.5
Future*	Buy	17	23	36	58	61	(10)	(16)	7	0.6	0.6	0.5	7.4	6.1	5.1	15.4	14.0	9.6	(3.4)	2.5	7.6	0.3	2.1	3.3
hibu	Sell	0	0	n/a	9	1,963	(1)	9	(81)	1.5	1.6	1.6	6.6	8.3	8.4	0.2	0.4	0.6	n/a	n/a	n/a	0.0	0.0	0.0
Johnston Press	Sell	18	9	(49)	110	501	8	32	115	1.6	1.6	1.6	7.6	7.5	7.4	11.5	7.4	7.1	n/a	n/a	n/a	0.0	0.0	0.0
Mecom	Hold	33	43	30	39	149	(21)	(64)	(82)	0.2	0.2	0.2	2.0	3.4	3.3	1.2	7.6	8.4	n/a	(51.0)	28.4	28.1	0.0	0.0
Moneysupermarket	Sell	197	150	(24)	1,088	1,054	(2)	(1)	37	5.2	4.7	4.3	16.1	12.8	11.4	21.5	17.0	15.4	0.9	4.7	5.6	2.9	3.9	4.3
Rightmove*	Add	2,015	2,037	1	2,087	2,032	6	12	14	17.4	15.4	13.6	24.8	21.7	19.1	31.8	28.2	25.5	3.3	3.5	3.9	1.1	1.3	1.5
Trinity Mirror*	Buy	109	132	22	270	659	24	(8)	237	1.0	1.0	0.9	5.3	5.3	4.9	3.6	3.9	3.8	28.9	21.7	24.7	0.0	0.0	0.0
Broadcasting																								
Blinkx	Buy	131	136	4	482	436	40	46	163	4.1	3.3	2.7	27.4	20.2	14.8	34.8	33.0	26.6	3.0	4.4	6.1	0.0	0.0	0.0
BSkyB	Buy	771	1,014	32	12,521	12,960	(9)	(11)	(8)	1.8	1.7	1.6	7.7	7.6	7.1	14.2	13.1	12.2	7.2	7.0	7.4	3.5	3.8	4.1
ITV	Add	127	135	6	4,946	5,321	4	2	48	2.4	2.3	2.1	9.6	9.0	8.2	14.3	13.0	12.2	6.6	5.1	7.1	2.0	2.8	3.5
Perform	Add	575	605	5	1,389	1,362	10	34	34	9.0	6.7	5.6	36.3	24.9	18.7	51.7	38.7	27.9	0.1	2.0	3.6	0.0	0.0	0.0
STV	Buy	134	167	25	52	110	2	(3)	9	1.2	1.0	0.9	6.2	5.5	4.9	4.3	4.5	4.2	19.0	20.0	14.4	0.0	0.0	3.7
UTV*	Buy	145	190	31	139	199	(10)	(3)	(5)	1.7	1.7	1.6	7.3	8.4	7.0	7.7	9.3	7.9	15.3	5.8	11.1	4.1	5.5	6.2

This research was prepared by Numis Securities Ltd, 10 Paternoster Square, London EC4M 7LT +44 (0)20 720 1000. All prices as at 10.00am on 6th June. Numis acts as an adviser/broker.

For FCA purposes this marketing communication has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Important disclosures relating to Numis Securities Limited are on pages 3 to 4 and include the analyst certification on page 3. For investment banking relationships, if any, with companies mentioned in the report, potential conflicts of interest and additional disclosure please refer to pages 3 to 4. When applicable, disclosures regarding ratings may be found at <http://www.numis.com/x/us/regulatory.html>

Registered No 2285918. Authorised and Regulated by The Financial Conduct Authority. A Member of the London Stock Exchange