

IMS - Buy

Target Price: PLN 3.73 | Close as of 24/11/2020: PLN 2.65

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3Q20 EBITDA 7% above our forecasts thanks to solid opex control and lower than expected discounts granted to clients (POSITIVE)

IMS reported 3Q'20 final figures with following highlights:

- **Sales** of PLN 8.9mn (-34% y/y and +37% q/q) came 4% above our estimates
- **EBITDA** of PLN 3mn (-27% y/y and +36% q/q) arrived 7% above our forecasts
- **Net profit** of PLN 1.2mn (-31% y/y and +155% q/q) came 22% above our estimate
- **FCF of PLN -0.3mn (vs PLN 4.9mn a year ago)**
- **ND/EBITDA of 0.7x** (vs 0.5x a year ago)
- **Cash** of PLN 1.1mn (vs PLN 1.89mn a year ago)
- # of employees amounted to 47 (vs 58 a year ago)

Moreover:

- **Number of subscription locations** amounted to 20,292 (**+459 YTD and +248 q/q – similar performance to 1Q20**)
- Unused credit lines of PLN 16mn
- **Earn-out settlement** (connected with APR acquisition) of PLN 2.55mn, bringing total sum paid for APR at PLN 6.3mn (implying P/E of 6x). 4 parts remaining for 12-month periods starting July 2020/21/22/23 (in total 25% of net profit)

OPINION: POSITIVE

IMS delivered 3Q20 financials that came above our expectations (7% on EBITDA level and 22% in terms of net profit), proving for another quarter in a row how agile and flexible the Company is (especially in terms of payroll adjustment). Primarily, we were positively surprised with recurring revenues from subscription locations – both aroma and audio&video came 13%/12% above our forecasts on the back of lower than expected discounts granted to clients (what should be seen to the upside going forward along with the stabilization in shopping malls). Simultaneously, IMS was able to lift margins in aroma and digital signage segments (further improvement expected next year with implementation of “Aroma Next Generation” project).

On the negative side we see weak FCF of PLN -0.3mn vs PLN 4.9mn a year ago – the Company ended 3Q20 with cash of PLN 1.1mn (impacted by one-off events such as dividend payment of PLN 1.55mn and earn-out

settlement of PLN 2.55mn).

Going forward, reopening of shopping malls from 28th November should allow the Company to soften likely sales decline in audio & video ad services. Most probably lower number of new subscription locations at year-end (YTD +459 vs our forecast of 800 in 2020) should be offset by limited discounts offered to the clients.

Conference call after 3Q20 (with Q&A session) at Erste – 30th November at 11:00 – please feel invited.

							Exp. 3Q20		
P & L (PLN mn)	3Q19	4Q19	1Q20	2Q20	3Q20	y/y	q/q	Erste	diff
Revenue	13.49	17.61	10.41	6.51	8.91	-34%	37%	8.58	4%
Operating expenses	11.23	14.27	9.17	5.59	7.63	-32%	37%	7.30	5%
Profit (loss) on sales	2.26	3.53	1.35	0.90	1.30				
Other operating revenues/exp	0.12	0.97	0.03	-0.13	0.16				
EBITDA	4.11	6.29	2.78	2.21	3.02	-27%	36%	2.82	7%
EBIT	2.38	4.50	1.38	0.77	1.46	-38%	90%	1.32	11%
Financial activity, net	-0.15	-0.17	-0.24	-0.08	-0.09				
EBT	2.22	4.33	1.14	0.69	1.38				
Income tax	0.43	0.60	0.25	0.04	0.20				
Net profit after minorities	1.79	3.76	0.94	0.48	1.23	-31%	155%	1.01	22%
Margins	3Q19	4Q19	1Q20	2Q20	3Q20	y/y	q/q		
Profit (loss) on sales	16.7%	20.1%	13.0%	13.8%	14.6%	-2.1 pp	0.8 pp		
EBITDA	30.4%	35.7%	26.7%	34.0%	33.8%	3.4 pp	-0.1 pp		
EBIT	17.6%	25.6%	13.2%	11.8%	16.4%	-1.2 pp	4.6 pp		
EBT	16.5%	24.6%	11.0%	10.6%	15.4%	-1 pp	4.9 pp		
Net profit after minorities	13.3%	21.3%	9.0%	7.4%	13.8%	0.5 pp	6.4 pp		
BS and CF	3Q19	4Q19	1Q20	2Q20	3Q20	y/y	q/q		
Receivables	9.79	14.44	9.13	7.53	8.01	-18%	6%		
Cash	1.89	1.29	1.35	3.95	1.13	-40%	-72%		
Equity	18.95	19.88	19.35	19.81	19.50	3%	-2%		
Total assets	45.37	52.53	48.39	48.54	44.85	-1%	-8%		
net debt	8.5	9.7	10.2	8.3	10.4	22%	25%		
net debt/EBITDA LTM	0.5	0.5	0.6	0.5	0.7				
OCF	6.01	3.22	3.05	2.56	0.31	-95%	-88%		
CAPEX	-1.12	-0.62	-0.37	-0.46	-0.60	-46%	32%		
FCF	4.88	2.61	2.68	2.10	-0.30	-106%	-114%		
Sales split by segments									
Audio & video subscriptions	4.97	5.17	4.89	3.97	4.76	-4%	20%		
share (%)	37%	29%	47%	61%	53%				
Aroma subscriptions	1.93	2.28	1.95	1.42	1.79	-7%	27%		
share (%)	14%	13%	19%	22%	20%				
Audio & video ad services	3.83	7.54	2.77	0.69	1.73	-55%	152%		
share (%)	28%	43%	27%	11%	19%				
Digital Signage systems	1.27	1.43	0.29	0.16	0.45	-65%	182%		
share (%)	9%	8%	3%	2%	5%				
Others	0.46	0.56	0.39	0.28	0.18	-60%	-35%		
Result on segment									
Audio & video subscriptions	3.7	3.9	3.7	2.8	3.3	-10%	19%		
margin (%)	63%	63%	62%	59%	59%				
Aroma subscriptions	1.1	1.3	1.2	0.9	1.1	-1%	26%		
margin (%)	53%	51%	56%	56%	56%				
Audio & video ad services	2.9	5.6	1.7	0.3	0.9	-67%	227%		
margin (%)	75%	74%	62%	42%	54%				
Digital Signage systems	0.5	0.6	0.1	0.0	0.2	-51%	656%		
margin (%)	39%	44%	51%	22%	53%				
Others	0.1	-0.2	0.1	0.2	-0.1	-221%	-142%		
Subscriptions									
# of locations, of which:	18 871	19 833	20 081	20 044	20 292	1 421	248		
audio & video	15 279	15 880	16 020	15 999	16 202	923	203		
aroma	3 592	3 953	4 061	4 045	4 090	498	45		
Average revenue per location (PLN/month)	124	128	114	90	108	-13%	21%		
audio & video	110	111	102	83	99	-10%	19%		
aroma	185	202	162	116	147	-21%	26%		

Source: Factset, Erste Group Research

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