

IMS - Buy

Target Price: PLN 3.73 | Close as of 02/09/2020: PLN 2.98

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2Q'20 in line with preliminary, solid FCF (POSITIVE)

IMS reported 2Q'20 final figures with following highlights:

- **Sales, EBITDA, net profit** in line with preliminary figures published
- **FCF of PLN 2.1mn** (vs PLN -0.3mn a year ago) thanks to solid OCF of PLN 2.6mn (vs PLN 0.2mn a year ago)
- **ND/EBITDA of 0.5x (vs 0.7x a year ago)**
- **Cash of PLN 3.95mn (vs PLN 1.3mn a year ago)**
- # of employees amounted to 45 (vs 58 a year ago)

Moreover:

- Number of subscription locations amounted to 20,113 as of July 2020 (+280 YTD and +69 m/m)
- As of report date, IMS has PLN 16mn of unused credit lines

OPINION: POSITIVE

Final 2Q'20 brought no major surprise compared to main PnL lines presented in preliminary figures, however FCF came strong at PLN 2.1mn (vs PLN -0.3mn a year ago), what led to a decrease of ND/EBITDA ratio to 0.5x (from 0.7x a year ago) and solid PLN 3.95mn of cash reported as of end June. This confirms stable liquidity position and ability to pay out dividend (DPS of PLN 0.05).

Subscription revenues accounted for 83% of total sales vs 48% a year ago, whereas average sales per location came 30% lower y/y (the largest drop was observed in aroma segment with 42% decline y/y – vs 60% decrease expected by us). Margin-wise, both audio & video and aroma segments reported similar margin y/y, what is a decent result in our view. A decrease in profitability was observed mainly in ad services (42% vs 65% a year ago) and digital signage (22% vs 35% a year ago).

On the costs side IMS demonstrated solid discipline as SG&A decreased by 53% y/y (whereas sales dropped by 55% y/y). Share of external services amounted to 37% (vs 48% a year ago). Regarding SG&A, IMS received government support (anti-crisis shield) of PLN 366k in total.

FCF came strong at PLN 2.1mn (vs PLN -0.3mn a year ago) thanks to positive trends in terms of working capital (receivables primarily). As a result, cash as of 2Q'20 amounted to PLN 3.95mn (+197% y/y).

Prel. 2Q20

| P & L (PLN mn) | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | y/y | q/q | IMS | diff |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|------|------|
| Revenue | 14.41 | 13.49 | 17.61 | 10.41 | 6.51 | -55% | -37% | 6.51 | 0% |
| Operating expenses | 11.80 | 11.23 | 14.27 | 9.17 | 5.59 | | | | |
| Profit (loss) on sales | 2.79 | 2.26 | 3.53 | 1.35 | 0.90 | | | | |
| Other operating revenues/exp | -0.01 | 0.12 | 0.97 | 0.03 | -0.13 | | | | |
| EBITDA | 4.10 | 4.11 | 6.29 | 2.78 | 2.24 | -45% | -19% | 2.24 | 0% |
| EBIT | 2.79 | 2.38 | 4.50 | 1.38 | 0.77 | -72% | -44% | 0.8 | 0% |
| Financial activity, net | -0.10 | -0.15 | -0.17 | -0.24 | -0.08 | | | | |
| EBT | 2.69 | 2.22 | 4.33 | 1.14 | 0.69 | | | | |
| Income tax | 0.54 | 0.43 | 0.60 | 0.25 | 0.04 | | | | |
| Net profit after minorities | 2.15 | 1.79 | 3.76 | 0.94 | 0.48 | -78% | -48% | 0.5 | 0% |
| Margins | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | y/y | q/q | | |
| Profit (loss) on sales | 19.4% | 16.7% | 20.1% | 13.0% | 13.8% | -5.6 pp | 0.8 pp | | |
| EBITDA | 28.4% | 30.4% | 35.7% | 26.7% | 34.4% | 6 pp | 7.7 pp | | |
| EBIT | 19.3% | 17.6% | 25.6% | 13.2% | 11.8% | -7.5 pp | -1.4 pp | | |
| EBT | 18.7% | 16.5% | 24.6% | 11.0% | 10.6% | -8.1 pp | -0.4 pp | | |
| Net profit after minorities | 14.9% | 13.3% | 21.3% | 9.0% | 7.4% | -7.5 pp | -1.6 pp | | |
| BS and CF | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | y/y | q/q | | |
| Receivables | 12.15 | 9.79 | 14.44 | 9.13 | 7.53 | -38% | -18% | | |
| Cash | 1.33 | 1.89 | 1.29 | 1.35 | 3.95 | 197% | 193% | | |
| Equity | 17.27 | 18.95 | 19.88 | 19.35 | 19.81 | 15% | 2% | | |
| Total assets | 47.37 | 45.37 | 52.53 | 48.39 | 48.54 | 2% | 0% | | |
| net debt | 11.9 | 8.5 | 9.7 | 10.2 | 8.3 | -30% | -18% | | |
| net debt/EBITDA LTM | 0.7 | 0.5 | 0.5 | 0.6 | 0.5 | | | | |
| OCF | 0.21 | 6.01 | 3.22 | 3.05 | 2.56 | 1119% | -16% | | |
| CAPEX | -0.48 | -1.12 | -0.62 | -0.37 | -0.46 | -4% | 23% | | |
| FCF | -0.27 | 4.88 | 2.61 | 2.68 | 2.10 | | -21% | | |
| Sales split by segments | | | | | | | | | |
| Audio & video subscriptions | 4.86 | 4.97 | 5.17 | 4.89 | 3.97 | -18% | -19% | | |
| share (%) | 34% | 37% | 29% | 47% | 61% | | | | |
| Aroma subscriptions | 1.99 | 1.93 | 2.28 | 1.95 | 1.42 | -29% | -27% | | |
| share (%) | 14% | 14% | 13% | 19% | 22% | | | | |
| Audio & video ad services | 5.05 | 3.83 | 7.54 | 2.77 | 0.69 | -86% | -75% | | |
| share (%) | 35% | 28% | 43% | 27% | 11% | | | | |
| Digital Signage systems | 0.90 | 1.27 | 1.43 | 0.29 | 0.16 | -82% | -45% | | |
| share (%) | 6% | 9% | 8% | 3% | 2% | | | | |
| Events | 1.08 | 1.03 | 0.63 | 0.12 | 0.00 | -100% | -100% | | |
| share (%) | 7% | 8% | 4% | 1% | 0% | | | | |
| Others | 0.53 | 0.46 | 0.56 | 0.39 | 0.28 | -46% | -28% | | |
| Result on segment | | | | | | | | | |
| Audio & video subscriptions | 7.3 | 11.0 | 14.9 | 3.7 | 2.8 | -62% | -25% | | |
| margin (%) | 60% | 61% | 61% | 62% | 59% | | | | |
| Aroma subscriptions | 2.3 | 3.4 | 4.7 | 1.2 | 0.9 | -62% | -27% | | |
| margin (%) | 56% | 55% | 54% | 56% | 56% | | | | |
| Audio & video ad services | 5.5 | 8.4 | 14.0 | 1.7 | 0.3 | -95% | -83% | | |
| margin (%) | 65% | 68% | 71% | 62% | 42% | | | | |
| Digital Signage systems | 0.7 | 1.2 | 1.8 | 0.1 | 0.0 | -95% | -78% | | |
| margin (%) | 35% | 37% | 39% | 51% | 22% | | | | |
| Events | 0.5 | 0.8 | 1.1 | 0.0 | 0.0 | -96% | 188% | | |
| margin (%) | 32% | 32% | 32% | 7% | 36% | | | | |
| Others | 0.4 | 0.5 | 0.3 | 0.1 | 0.2 | -56% | 172% | | |
| Subscriptions | | | | | | | | | |
| # of locations, of which: | 18 253 | 18 871 | 19 833 | 20 081 | 20 044 | 1 791 | -37 | | |
| audio & video | 14 897 | 15 279 | 15 880 | 16 020 | 15 999 | 1 102 | -21 | | |
| aroma | 3 356 | 3 592 | 3 953 | 4 061 | 4 045 | 689 | -16 | | |
| Average revenue per location (PLN/month) | 127 | 124 | 128 | 114 | 90 | -30% | -22% | | |
| audio & video | 111 | 110 | 111 | 102 | 83 | -25% | -19% | | |
| aroma | 202 | 185 | 202 | 162 | 116 | -42% | -28% | | |

Source: Factset, Erste Group Research

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