

Final results – In-line with upgraded expectations

1 Year Chart



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Ocean Outdoor Limited is a research client of Radnor Capital Partners Ltd.

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The final results have provided more colour to the FY21 recovery. Unsurprisingly, the results were in-line with expectations that had been upgraded back in September 2021 and more recently in February 2022.

Ocean’s unique proposition of a digital first screen estate in prime retail, roadside and city centre locations has seen it lead the sector in terms of revenue recovery. Of particular note has been the contribution from Ocean Labs, where product and service innovations has seen new advertisers coming into the Digital Out of Home fold.

Performance outside the UK was always going to lag given timing differences in the easing of lockdown restrictions. However, the performance across all territories was still strongly positive. Q1 FY22 has also started in a similar vein. The macro backdrop has resulted in a natural note of caution, although we do note this has yet to have any material impact on current year trading.

The recommended Offer for Ocean by the group’s largest shareholder, Atairos, has, understandably, overshadowed much of the detail in the final results. Pitched at \$10.40 a share in cash, with an equity option as well, this represents a 22% premium to the six month VWAP and 18% premium to the undisturbed price prior to the announcement of the strategic review in November 2021.

- **FY results ahead of already upgraded expectations:** +44% revenue growth and 15% adjusted EBITDA margins are both ahead of expectations that had been upgraded in September 2021 post the H1 results and also at the February 2022 trading update.
- **Recovery momentum maintained:** Previous trading updates had pointed to a strong H2 recovery accelerating across all the group’s key territories as lockdowns eased and footfall returned to the core retail and city centre locations. Group revenue was +44% YoY despite a Q1 that was still Covid disrupted. Group EBITDA (pre IFRS16) moved back into positive territory as cost growth lagged revenue growth. The UK (+69%) and Netherlands (+31%) were the strongest contributors to FY21 revenue. The Nordics (+20%) faced stronger comparatives and a weaker Swedish outcome.
- **Recommended Offer:** Following on from the November 2021 strategic review announcement, the group has announced a recommended offer for Ocean by the group’s largest shareholder (38%), Atairos. Irrevocables representing 46.3% have been received from the Directors and founders of Ocean. The cash offer is priced at \$10.40, with an equity option available in the unlisted vehicle. The offer premium is 22% based on the 6 month VWAP. Subject to shareholder approval, the acquisition is expected to complete in mid June 2022.

December, £m	Revenue	EBITDA adj	PBT adj	EPS (p)	Net Cash	EV/EBITDA	PER
FY 2019A	139.6	32.9	26.4	41.4	26.9	12.4	19.4
FY 2020A	86.2	-0.4	-10.7	-18.1	25.1	-	-
FY 2021E	124.4	18.3	8.7	12.6	29.4	22.4	63.8
FY 2022E	151.9	34.0	25.2	37.9	31.5	12.0	21.2
FY 2023E	168.3	41.0	32.4	45.8	53.5	9.9	17.6

EBITDA on a pro-forma, pre IFRS16 basis

Source: Radnor Capital Partners

Final Results – Key Headlines

Ocean Outdoor, the leading digital out of home advertising operator has released final results for the year ended December 2021. We had previously upgraded our FY21 and FY22 estimates following the H1 results in September 2021 (link to our H1 FY21 results coverage [here](#)) and also the February 2022 full year trading update (link to our February note [here](#)).

Key headline from the results are below.

- Net revenue growth YoY **+44%** to **£124.4m**.
 - Q1 2021 was impacted by Covid restrictions in place across a number of group territories. The UK was first of the group's territories to exist lockdown in Q2 with the Netherlands and Nordics (excluding Sweden) lagging the UK by 1-2 months.
 - The recovery trend through the year was maintained with H2 net revenue +68% YoY and Q4 up 67.5% YoY
 - Q4 2021 was +7.2% compared to the pre Covid Q4 2019 comparative
 - H1 revenue growth was +11% YoY, although this masked a sharp difference between Q1 (in line with Q1 2020) and Q2 which more than doubled compared to Q2 2020.
- **UK (+69% YoY, £66.2m)**. According to WARC, the UK out of home advertising market grew by c.25% in 2021, with the digital out of home growing by 36%. This suggests that Ocean UK materially outperformed beat the broader market, which is testament to the combined strength of Ocean's digital and premium screen estate (prime retail, city centre and roadside). Notable news-flow in the UK included the signing of a 10 year deal with the St James Quarter development in Edinburgh and a long term exclusive deal with the Canary Wharf Group; both of these adding to Ocean's premium digital portfolio in the UK.
- **Netherlands (+31% YoY, £22.5m)**. Similarly to the UK, the Netherlands saw recovery momentum accelerate throughout the year with a particularly strong Q4 outcome (c.45% of annual revenue). The proportion of Netherlands revenue represented by digital screens grew from 73% in the pre pandemic FY19 to 78% in FY22. Alongside the high profile launch of the Westfield Mall of the Netherlands, Ocean also won new large format digital screen contracts in malls in Haarlem and Hilversum.
- **Nordics (+20% YoY, £35.6m)**. This segment contains a number of distinct markets (predominantly Sweden, Denmark and Germany) and delivered a mixed performance. Sweden did not suffer from the same extent of lockdown restrictions as other markets and as a result did not witness the same recovery effect as others. Ocean saw continued progress with expanding the premium digital and analogue screen estate (Westfield in Denmark is a good example). Although continuing to grow; the digital exposure in the Nordics is lower than in other Ocean territories and there is a greater exposure to mass transit venues. One of these contracts in Sweden did not perform to target and held back profit growth as a result
- On a pre IFRS16 basis (the most relevant measure), adjusted EBITDA came in at **£18.3m** (FY 2020: **-£0.4m**).

- FY21 adjusted EBITDA margins came in at 15.0%, with H2 margins of 27.7% more than offsetting the £4.6m adjusted EBITDA loss in H1
- We estimate the drop through rate of this revenue outperformance to be c.39%, which is an encouraging underpin to our FY22 adj EBITDA margin estimate of 22.4%. Ocean is likely to remain H2 weighted in terms of revenue and profits.
- In terms of geographic contribution, the UK and Netherlands led the way
- **UK.** Adjusted EBITDA of £12.2m (FY20: -£1.0m)
- **Netherlands.** Adjusted EBITDA of £5.5m (FY20: £0.4m)
- **Nordics.** Adjusted EBITDA of £0.6m (FY20: £0.2m)
- Group adjusted PBT (pre IFRS16) came in at £8.3m, in line with our expectations and a sharp improvement on the £10.7m adjusted PBT loss reported in FY20.
- Group net cash came in at £29.4m, reflecting a gross cash position of £42.0m and £12.5m drawn against the group debt facility. The key driver behind the better than expected net cash outcome was a combination of better profitability; a small reduction in the final capex outcome and material timing benefits for certain non trading creditors (Covid related) and overall good working capital management.
- **Outlook commentary.** Our clear sense is that management are naturally, and understandably, cautious given the challenging macro backdrop. However, it is also clear that near term trading has yet to see any material negative impacts. At worst the commentary has focused on a slight reduction in visibility as agency customers are booking campaigns later than would normally be the case. The company has reiterated its commentary around the strength of Q1 trading (+110% up YoY in revenue terms against a Covid impacted comparative) and continued expectation that FY22 should come in ahead of FY19.

Ocean Outdoor

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Price (p): 804 p
Market Cap: £ 434m
EV: £ 408m

PROFIT & LOSS (Pro forma treats all acquisitions as if owned since 1st Jan 2018)

Year to 31 December, £m	2019	2020	2021	2022E	2023E
Billings - Pro Forma	171.6	104.7	152.7	189.2	209.9
UK	71.7	39.2	66.2	82.8	92.3
Netherlands	26.4	17.3	22.5	24.6	27.4
Nordics	41.5	29.7	35.6	44.6	48.6
Revenue - Pro Forma	139.6	86.2	124.4	151.9	168.3
Direct Operating Expenses	(75.5)	(59.8)	(77.2)	(82.0)	(89.2)
S,G & A	(31.2)	(26.8)	(29.0)	(35.8)	(38.0)
EBITDA - Pro Forma, pre IFRS16	32.9	(0.4)	18.2	34.0	41.1
EBITDA - Pro Forma, post IFRS16	51.2	40.1	56.1	82.6	94.9
Depreciation	(7.0)	(10.0)	(9.4)	(8.8)	(8.7)
Goodwill	(19.8)	(24.8)	(24.4)	(15.6)	(15.6)
Lease Depreciation - IFRS16	(19.7)	(32.9)	(33.1)	(33.9)	(35.9)
Lease Interest - IFRS16	(6.9)	(9.6)	(8.5)	(10.6)	(11.2)
Net Finance Charge (pre IFRS16)	(0.1)	(0.8)	(0.5)	(1.6)	(1.6)
PBT - Pro Forma Adjusted	26.4	(10.7)	8.3	25.2	32.4
PBT - Reported	(7.8)	(156.4)	(30.1)	12.1	21.9
Tax	(0.5)	4.8	0.0	(5.6)	(9.4)
Tax - Adjusted	(4.3)	1.0	(1.6)	(4.8)	(7.8)
No. shares m, diluted	53.6	53.7	53.8	53.8	53.8
EPS (p), Pro Forma Adjusted	41.4 p	(18.1) p	12.6 p	37.9 p	45.8 p
EPS (p), Reported	(15.5) p	(282.4) p	(55.9) p	12.1 p	23.3 p

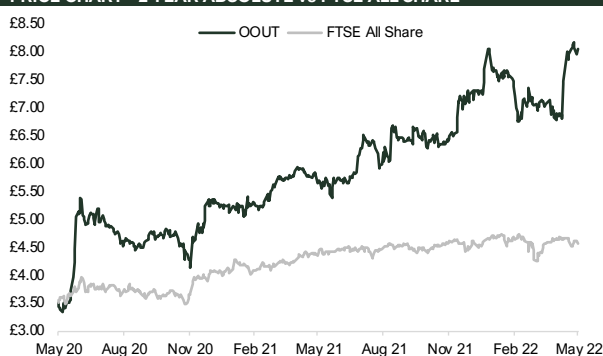
CASH FLOW

Year to 31 December, £m	2019	2020	2021	2022E	2023E
Net Income - Reported	(6.7)	(151.7)	(30.1)	6.5	12.5
(+) Depreciation & Amortisation	26.7	150.0	33.8	24.4	24.3
(+) Lease Depreciation	19.7	32.9	33.1	33.9	35.9
(+) Net Finance Charge (incl Lease)	6.9	10.5	8.9	12.2	12.8
Other	(0.0)	0.2	0.5	-	-
Working Capital	0.1	0.8	1.8	(8.2)	8.3
Operating Cashflow	46.7	27.4	47.3	68.9	93.8
Cash Tax	(2.4)	(2.7)	0.3	(5.6)	(9.4)
Cash Interest	0.5	0.0	0.0	(0.6)	(0.6)
Net Op Cashflow	44.8	24.7	47.6	62.7	83.8
Capex	(12.1)	(6.4)	(4.6)	(8.0)	(8.0)
Lease Liability	(24.6)	(24.2)	(32.5)	(48.6)	(53.9)
Free Cashflow	8.1	(5.9)	10.5	6.1	22.0
Net M&A	(126.0)	-	(5.7)	-	-
Investment in Associate	(13.3)	-	-	-	-
Issue of Shares	-	-	0.3	-	-
Other Non Operating	(2.5)	4.6	7.2	0.0	-
Net Cashflow	(133.7)	(1.3)	12.3	6.1	22.0
Net Cash (Debt)	26.9	25.1	29.4	31.5	53.5

BALANCE SHEET

Year to 31 November, £m	2019	2020	2021	2022E	2023E
Intangibles	367.4	230.1	206.5	198.8	183.2
P,P+E	47.4	42.9	36.0	37.6	36.9
Right of Use Asset	148.6	182.5	164.9	192.2	203.4
Tax Asset & Other	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	576.7	460.6	413.6	433.6	428.6
Debtors	55.5	39.3	57.1	53.2	53.9
Cash	26.9	30.0	42.0	44.0	66.0
Creditors	(76.4)	(64.0)	(81.1)	(83.5)	(92.6)
Lease & Tax	(29.3)	(41.2)	(48.5)	(37.9)	(39.3)
Net Current Assets	(23.3)	(35.9)	(30.6)	(24.3)	(12.0)
Lease	(136.2)	(161.0)	(144.0)	(181.8)	(192.5)
Bank Debt	-	(4.9)	(12.5)	(12.5)	(12.5)
Tax & Other	(43.0)	(35.0)	(33.1)	(33.1)	(33.1)
Net Assets	374.1	228.7	206.0	194.5	191.0

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Atairios	38.0%
Anchorage Capital	12.3%
Jupiter Asset Management	7.0%
Permian	6.9%
Directors	5.4%
	69.6%

Announcements

Date	Event
May 2022	Recommended cash offer by Atairios at \$10.40
May 2022	Final results FY21
Feb 2022	Full year trading update
Nov 2021	Positive trading update & strategic review
Sep 2021	H1 results FY21
Sep 2021	Westfield Denmark contract
May 2021	Final results FY20
Feb 2021	BT Sport content partnership
Feb 2021	Q4 trading update

RATIOS

	2019	2020	2021	2022E	2023E
RoE	5.9%	-4.2%	3.3%	10.5%	12.9%
RoCE (pre IFRS16)	6.0%	-3.7%	3.3%	9.8%	13.4%
Asset Turnover (x)	4.1x	5.3x	3.3x	2.9x	2.5x
NWC % Revenue	-36.0%	-76.5%	-58.3%	-44.9%	-46.4%
Op Cash % EBITDA	67.1%	n/a	81.2%	59.6%	97.4%
Net Debt / EBITDA	neg	neg	neg	neg	neg

VALUATION

Fiscal	2019	2020	2021	2022E	2023E
P/E	19.4x	neg	63.8x	21.2x	17.6x
EV/EBITDA	12.4x	neg	22.4x	12.0x	9.9x
Price to Book	1.2x	1.9x	2.1x	2.2x	2.3x
FCF Yield	2.0%	-1.4%	2.6%	1.5%	5.4%

Revenue growth	12.1%	-38.3%	44.4%	22.1%	10.8%
EBITDA growth	8.2%	neg	neg	87.0%	20.7%
EPS growth	-8.9%	neg	neg	201.3%	20.6%
FCF growth	-63.6%	-172.4%	-279.7%	-42.1%	260.9%

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