

# isentia

## Execution will create significant value

### ADD

Current price:	A\$0.24
Target price:	A\$0.43
Previous target:	A\$
Up/downside:	80.8%
Reuters:	ISD.AX
Bloomberg:	ISD AU
Market cap:	US\$33.47m
	A\$48.00m
Average daily turnover:	US\$0.09m
	A\$0.13m
Current shares o/s	202.0m
Free float:	83.9%

- isentia (ISD) is the dominant Australian media intelligence and insights solutions provider in ANZ and the largest provider in a fragmented Asian market.
- A series of unfortunate events has decimated the share price. However, a series of positive events in the last 12 months has put ISD back in the game, in our view. These are: 1) a major Board refresh; 2) a new CEO, CFO, CTO and CPO who have reshaped and are delivering the new strategy; and 3) a positive interim copyright ruling.
- These changes focus on narrowing ISD's price and technology gap to peers, which has caused significant customer (and earnings) losses over the last few years. Faster response times and lower costs, through automation, are critical components. Aspirational targets, albeit seemingly softened at ISD's recent AGM, are for ~50% EBITDA growth by FY22. Our forecasts sit below these aspirational targets as even partial achievement would create substantial share price upside.

### What ISD does

ISD is the market leader in APAC in media intelligence. It helps enterprise and government clients monitor, analyse and action brand-related activities. For example, PR and communications teams monitor and sometimes react to negative or positive publicity from TV, newspapers and/or social media. ISD is the incumbent ANZ operator (a quasi-cash cow); has a leading position in South Asia (profitable and fast growing); and has a North Asia presence (which is currently subscale and has room for improvement).

### What went wrong (failure to innovate and a fixed cost base)

Management distraction due to trying to integrate and fix the King Content acquisition combined with a fixed and inflexible key input price (Copyright costs), as well as underinvestment in technology, products and processes, allowed competitors to take market share. Competitors won on quicker response times, cheaper solutions and debatably better customer service. ISD lost customers and revenue but could not meaningfully lower its costs. From FY16 to FY19 ISD lost A\$33.5m of revenue (-21%), A\$27.9m of EBITDA (-55%), and -96% of its market cap.

### What looks to be going right (automation and a flexible cost base)

ISD's strategy is to reduce manual costs and invest those savings back into technology and platforms to drive a faster and better user experience. The automation of content collection has virtually tripled in the last 18 months, from ~30% in August 2018 when new CEO Ed Harrison joined ISD to more than 80% now. Work is still required but innovation has meaningfully improved ISD's response times, narrowing the competitive gap and lowering its cost base. ISD has also resolved a critical input cost (via a favourable interim copyright ruling). Flexing the cost base allows ISD to invest in quality solutions to generate the broadest data sets and best relevance models, which should help it regain its leading position in Australia and commence the full integration of Asia.

### Investment view – ADD rating; A\$0.43 price target

Management has an aspiration target for ~A\$35m of EBITDA in FY22 but recent AGM commentary suggests this may take longer. Regardless, a return to growth and even partial achievement of this aspiration target is sufficient, in our view, to create substantial share price upside potential. Our forecast sits below this aspiration target. Our view is there is limited downside, and if ISD returns to earnings growth, there is material upside. The competitive landscape and execution are the key risks. We initiate coverage with an Add rating and A\$0.43 price target.



Price performance	1M	3M	12M
Absolute (%)	-7.7	-46.7	-12.7
Relative (%)	-7.6	-48.7	-35

#### Nick HARRIS

T +61 7 3334 4557

E nick.harris@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

– isentia

Financial Summary	Jun-18A	Jun-19A	June-20F	June-21F	June-22F
Revenue (A\$m)	137.1	122.5	109.9	111.3	114.7
Underlying EBITDA (A\$m)	33.1	23.1	20.7	23.8	26.5
Normalised NPAT (A\$m)	11.5	9.2	8.1	8.9	10.7
Normalised EPS growth	nm	-20%	-12%	8%	19%
Normalised P/E (x)	4.2	5.2	6.0	5.5	4.6
EV/Underlying EBITDA (x)	4.0	3.4	3.6	2.5	1.8
Free Cash Flow Yield	39%	45%	9%	30%	29%

SOURCE: MORGANS, COMPANY REPORTS

## isentia

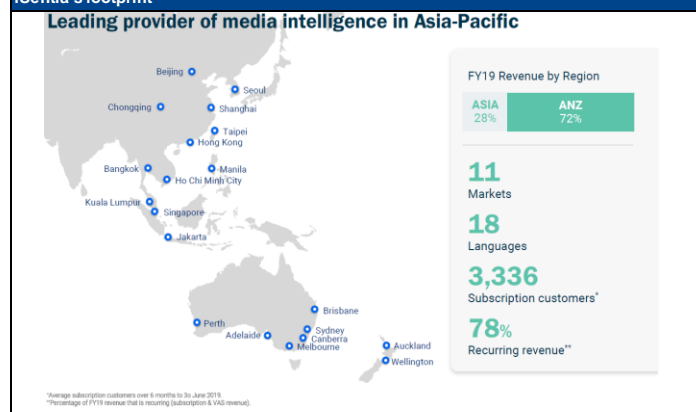
as at December 31, 2019

Market cap (A\$m):	48.00	Rating:	ADD
Shares outstanding (m):	202.0	Price (A\$):	0.24
Free float (%):	83.9	Target price (A\$):	0.43
Website:	isentia.com	Upside/downside to target price (%):	80.8

## Company description

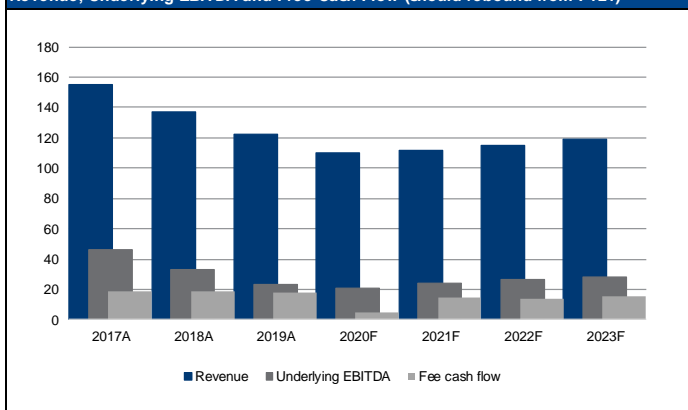
isentia (ISD) is the incumbent and leading provider of media intelligence in Australia with an estimated ~65% market share. ISD is also one of the largest media intelligence providers in Asia. Media intelligence consists of monitoring (reactively monitoring publicity on a brand matter relating to a public department, or product) and media insights (proactively seeking insights and analytics around key items). Media intelligence is where ISD monitors millions of media sources continuously and reports back to the business (typically the Public Relations or Communications Manager) on what is being said about the business or brand. Monitoring occurs across radio, television, cable television, newspapers and social media.

## iSentia's footprint



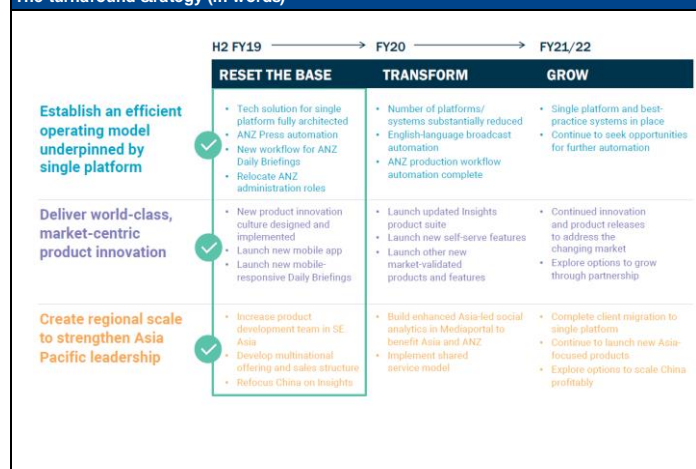
SOURCE: COMPANY

## Revenue, Underlying EBITDA and Free Cash Flow (should rebound from FY21)



SOURCE: MORGANS, COMPANY

## The turnaround strategy (in words)



SOURCE: MORGANS, COMPANY

## The turnaround strategy (in numbers)

Management have been set 3 year aspiration growth targets (from FY19 to FY22). We explain these below (with a few of our own assumptions on cashflow conversion). Our forecasts sit below ISD's aspiration targets.

	FY19 A	FY20 (Guidance +Morgans E)	FY21 (Morgans E)	FY22 (Morgans E)
ANZ Revenue	88	75	84	93
Asian Revenue	35	35	39	43
Total Revenue	122	110	122	136
Operating costs	99	90	96	101
Underlying EBITDA	23	20	26	35.1
Capital expenditure	-8	-11	-9	-10
Implied free cash flow (EBITDA - capex)	15	10	17	25
Free cash flow to market capitalisation	28%	18%	33%	48%

	FY20 / FY19	2 year CAGR (FY20 to FY22)	3 year CAGR (FY19 to FY22)	Managements 3 year CAGR targets (FY19 to FY22)
ANZ Revenue	-14%	11%	1.9%	1-3%
Asian Revenue	-1%	12%	7.5%	5-10%
Total Revenue	-10%	24%	3.6%	na
Operating costs	-10%	12%	0.5%	na
Underlying EBITDA	-13%	32%	15.0%	10-20%

SOURCE: MORGANS ESTIMATES

## ISD's product set - media monitoring (live alerts) and Dashboard analytic (self help)

**Live Alerts**

- New real-time SMS alerting system using voice to text technology
- Delivers shareable broadcast content to clients
- Strong growth in usage since launch

**Dashboard Analytics**

- Powerful on-platform analytics tools including multi-dashboard capabilities, integrated reporting and customisable data visualisation
- 44 new features released since launch
- Available to clients across Asia-Pacific

SOURCE: MORGANS, COMPANY

## Outlook

**History and turnaround plan:** iSentia was once a market darling but has fallen substantially due market share and earnings losses. Two key problems were ISD's fixed price purchasing of media (Copyright) and fixed cost base (mostly manual labour). ISD's costs didn't change so as they lost customer and revenue this came directly off EBITDA. ISD's cost base is now significantly more variabilised - Copyright (through an interim legal ruling) and operating costs (with technology like voice-to-text rather than manual entry). Having largely resolved their input costs, the new management team is focussed on refreshing the technology platform, to catch up with competitors are offer faster and more innovative technology solutions. Overseas expansion, particularly into South East Asia, is another pillar of growth for ISD.

## FY20 outlook commentary:

- 1) Revenue expected to decline yoy at a similar rate as FY19;
- 2) Underlying EBITDA of A\$20-23m (flat to down 13% yoy) excluding AASB16;
- 3) Capex A\$10-11m; and
- 4) Significant OPEX & CAPEX investment in building new products and technology.

**Medium term outlook:** No further guidance has been provided. However assuming management aspire to achieve their publicly stated targets (as shown above) then EBITDA would need to grow at ~30% pa in both FY21 and FY22.

SOURCE: MORGANS, COMPANY

Figure 1: Financial summary

Profit and loss	Jun-18A	Jun-19A	June-20F	June-21F	June-22F	iSentia - valuation detail: ASX:ISD				
Revenue	137.1	122.5	109.9	111.3	114.7	Share Price	\$0.24	Market Cap	A\$48.2m	
Operating costs	-113.2	-95.4	-89.2	-87.5	-88.2	Price Target	\$0.43	TSR	80.8%	
EBITDA (Underlying)	33.1	23.1	20.7	23.8	26.5	Rec	ADD			
EBITDA (reported)	24.0	27.1	20.7	23.8	26.5					
Depreciation & Amortisation	-1.8	-2.0	-16.2	-17.6	-17.3			WACC	Valuation	Upside
Impairments	-0.2	-41.0	0.0	0.0	0.0	DCF	10.0%	\$0.51	114%	
EBIT	7.7	-28.9	4.5	6.2	9.2	EV/EBITDA (NPV of FY22 on 3.6x)		\$0.39	62%	
Net Interest Income	-2.2	-2.2	-1.7	-1.2	-0.6	Steady state ROE (FY20)		\$0.40	68%	
Pre-tax Profit	5.7	-31.1	2.9	5.0	8.6	Equally weighted valuation		\$0.43	81%	
Tax	-4.2	-3.2	-0.8	-1.4	-2.4	Price target		\$0.43	81%	
Reported Profit	1.3	-34.3	2.1	3.6	6.2					
Exceptional items	-10.2	-43.5	-6.0	-5.3	-4.5					
Normalised Profit *	11.5	9.2	8.1	8.9	10.7					
* Excludes non-cash amortisation & one-offs										
FY20 guidance										
The rate of year on year revenue decline in FY20 is expected to be similar to FY19										
Underlying EBITDA of A\$20-23m (excluding AASB16)										
Capex of A\$10-11m										
Significant OPEX & CAPEX investment in building new products and technology										
Copyright (CAL) - moves from fixed to volume-based fees & levels playing field										

SOURCE: MORGANS RESEARCH, COMPANY

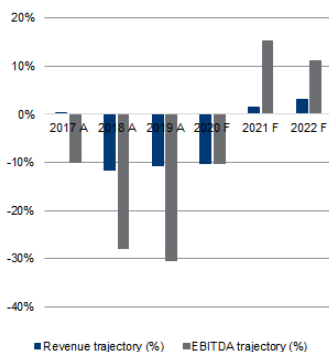
## Contents

Executive summary – why pay attention to ISD .....	5
Our six key points explained in more detail.....	6
1. Earnings stabilisation - FY20 the trough, hopefully .....	6
2. New Board and new Executive team with a strategic reset.....	11
3. Interim copyright ruling – positive outcome .....	12
4. Technology stack and culture (turning strategy into reality) .....	13
5. Lowering labour costs .....	15
6. Growing in Asia .....	17
Company overview in more detail .....	18
Competitive landscape.....	19
Valuation.....	22
Risks.....	23
Rewards.....	23
ASX announcement timeline.....	24
Valuation timeline.....	24
FY20 update at AGM .....	25

## Executive summary – why pay attention to ISD

ISD is an incumbent operator that has mis-stepped. From its peak in FY16 to its trough in CY19 ISD's market capitalisation declined 96% while EBITDA has declined 60%. The acquisition of King Content in August 2015 was disappointing and distracted management who focussed on fixing problems and integrating King Content into ISD. A fixed priced copyright agreement in April 2016, combined with lack of innovation, meant that customers and earnings declined thereafter.

The previous team made mistakes and a new turnaround team has been bought into fix this. It began making meaningful progress from mid CY2019. Management has an aspiration target to grow EBITDA from ~A\$23m in FY19 to ~A\$35m EBITDA in FY22. Turnarounds rarely go to schedule and ISD's AGM commentary suggests this may take longer. However, partial achievement or a return to EBITDA growth, should create value. ISD looks interesting given:



- 1) After significant declines **earnings have broadly stabilised** and FY20 should be the trough year. Assuming earnings do not decline further then we estimate ISD is worth 40cps. This is 68% upside from today's share price and warrants a closer look. Earnings stabilisation or even modest EBITDA growth will, in our view, create substantial share price upside potential.
- 2) **A new Board and new Executive team (CEO, CFO, CTO, CPO)** have been at the helm for ~12 months and **have reset the strategy and balance sheet**. The strategy is to automate as much as possible and release small continuous product improvements. For example, using voice to text technology (for ingesting TV and radio), to partially replace manual entry. This creates instantaneous data for client alerts and lowers operating costs. Today, for many but not all customers, speed to market and ease of use are more important than quality.
- 3) The new strategy has led to a reinvigorated technology platform. Upgrades are still a work in progress but **ISD virtually tripled the automation of content ingestion** in FY19, going from ~30% in August 2018, when new CEO Ed Harrison joined ISD, to more than 80% in August 2019. Incremental, rather than big bang product delivery, meant the **rate of product feature releases on the ISD platform also tripled over the course of FY19**. Work is still required but these statistics indicate meaningful progress has been made in a short amount of time.
- 4) The increased use of automation is important for customer satisfaction but concurrently allows ISD to lower and flex its labour costs. Labour is ISD's largest cost by some margin. Replacing slow and inflexible manual labour with software and software developers (full time and contractors) allows ISD to **flex its cost base, while also improving speed to market, and the user experience**.
- 5) ISD's **second largest input cost is copyright and ISD has, until recently, been priced out of the market** (high and fixed copyright cost from FY16 to 1H FY19). In April 2019 a court **provided a positive ruling for ISD on an interim basis** with a final ruling due in late CY2020. Access to content on the same terms as competitors allows ISD to overcome a significant disadvantage and customer losses over the last three years.
- 6) ANZ is ~80% of EBITDA (pre overheads) so we have concentrated mostly on this. However, growth in South East Asia (SEA) is also a crucial component. ISD has hired a new CEO and management team in Asia. They will progressively migrate from multiple technology platforms to a **single AWS based platform in Sydney**. This will help **deduplicate systems and processes, remove costs and allow for double digit revenue growth to drive double digit EBITDA growth in SEA**. SEA is a profitable, double digit growth area, while Northern Asia remains a challenging work in progress. SEA is predominately social media so lessons learnt here will help ISD lead its ANZ social media products.



## Our six key points explained in more detail

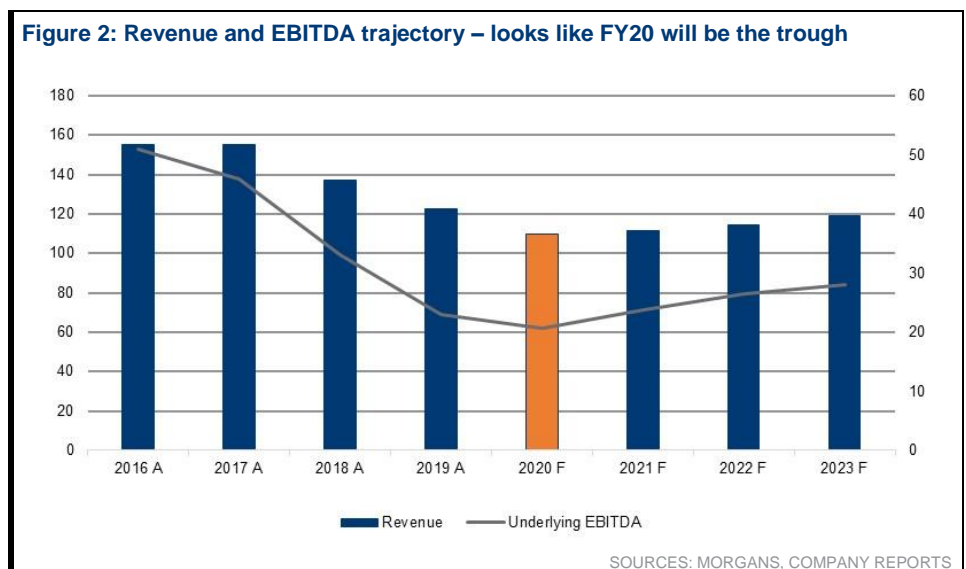
### 1. Earnings stabilisation - FY20 the trough, hopefully

In August 2019 ISD guided to FY20 revenue to be lower yoy but the rate of revenue decline to slow. This appeared, based on the share price reaction at the time, to be the bottom for ISD from an earnings perspective. Investors appear very focused on ISD's revenue trajectory as cost savings only last so long. In November 2019, at its AGM, ISD guided to FY20 revenue to decline at a similar rate to FY19. This implied that the bottom was not yet in, and in fact, a key competitor has become more aggressive in 1H20.

Despite lower-than-originally-anticipated revenue, ISD held guidance for **underlying EBITDA** to be in the range of A\$20-23m (excluding AASB16). EBITDA has declined from a peak of A\$51m in FY16 to a likely trough of A\$20m in FY20. The Board has set a three-year underlying EBITDA target for a 10-20% Compound Annual Growth Rate (CAGR) from FY19 to FY22. AGM guidance appears to have softened or delayed this target but regardless of the magnitude and timing EBITDA is "expected to recover as remediation and transformational investments translate into revenue and earnings growth."

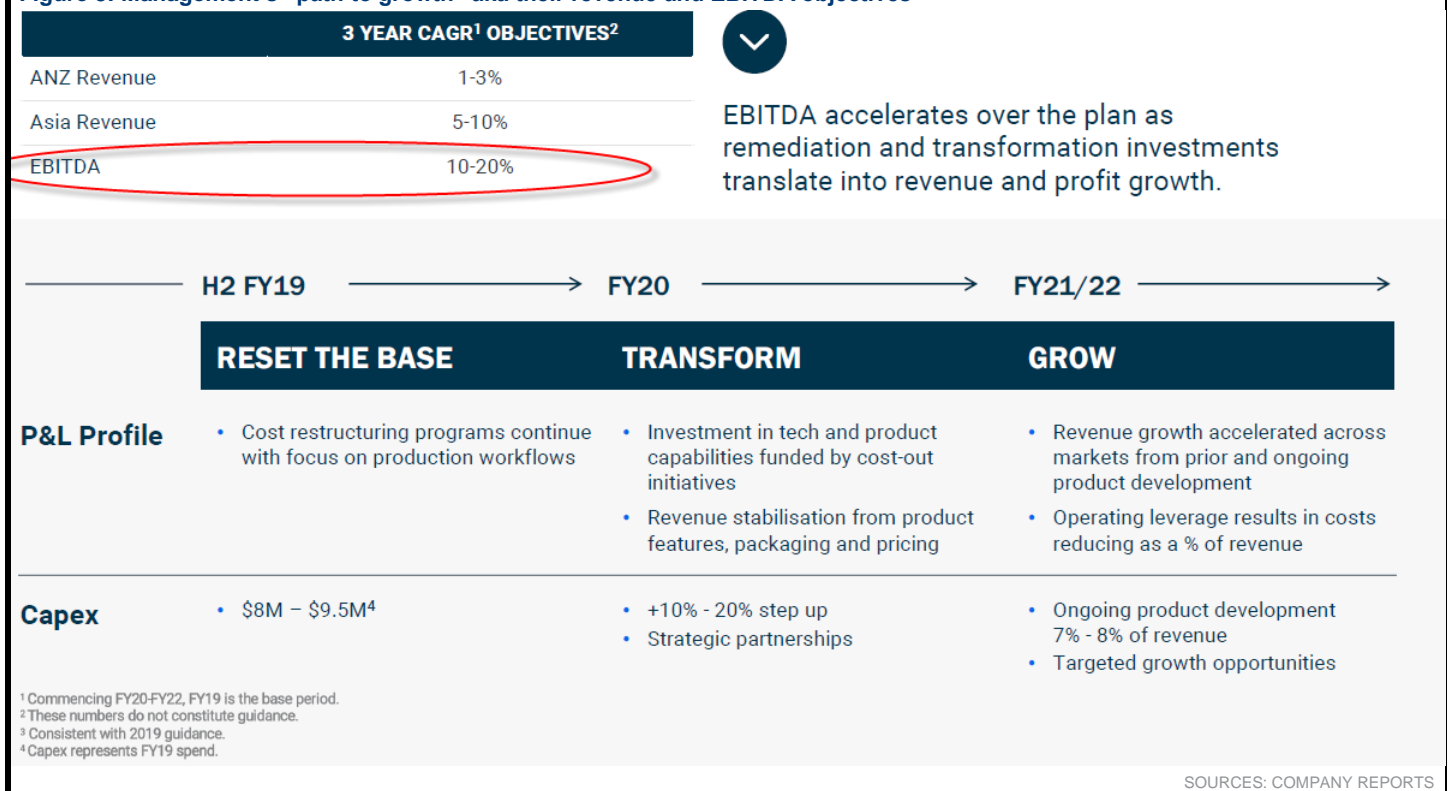
From an investor perspective most appear very focused on ISD's ability to return to revenue growth as this obviously makes growing earnings easier. Revenue will decline again in FY20 and we forecast 1% revenue growth in FY21. Our forecasts assume ANZ revenue declines 1% and Asia revenue grows 7% in FY21. We forecast mild ANZ revenue growth thereafter with Asia growing at a faster rate.

**Figure 2: Revenue and EBITDA trajectory – looks like FY20 will be the trough**



ISD's double digit free cash flow yield and low EV/EBITDA multiple, vs peers, implies to us that investors expect EBITDA to decline by a further 40% from FY20 levels (see page 22 for further explanation). Earning stabilisation is key to business longevity, rebuilding investor confidence, and if it's converted to earnings growth, the potential for ISD's trading multiple to rerate. This is why we have concentrated firstly, in our report, on the earnings trajectory.

Figure 3: Management's "path to growth" aka their revenue and EBITDA objectives



### Flowing EBITDA into valuations

Once investors gain confidence in the base earnings, more specifically that they have stopped declining, the focus will move to what those earnings are worth. Today ISD trades on ~3.6x EV/EBITDA. Assuming earnings return to growth, as we do, then this multiple has meaningful upside risk.

For valuation context when ISD listed on the ASX in FY15 it raised A\$283m (at 11.0x EV/EBITDA). The stock traded as high as 18x EV/EBITDA (Figure 22 on page 25) pre its downgrade cycle. SaaS peers currently trade on ~25x EV/EBITDA (albeit with rapid growth not declining earnings).

Management's aspirational targets are highlighted in red in Figure 3 above. As Figure 4 on the following page shows, if we apply the middle of its EBITDA range (its targets, not ours) and hold ISD's current trading multiple, then there is 154% upside from today's share price (when that EBITDA target is met (debt also reduces along the way). Our more conservative forecasts suggest a modest 80% upside from today's share price.

Our key assumptions in the above valuation are shown below. They include: 1) ISD's EV/EBITDA holds at ~3.6x; 2) the company generates FY22 EBITDA in the middle of its target range; 3) ISD has zero net debt at the end of FY22 (free cash flow generated between now and then extinguishes its current A\$29m of net debt); and 4) the share count increases from 200m today to 206m due to the issue of performance shares to staff.

**Figure 4: Theoretical valuation bridge (mid-point of ISD's aspirational EBITDA target)**

	Today / FY20F	FY22F
Current Share Price	A\$0.24	
Shares on issue (m)	201	
Market capitalisation / Equity value	48.2	
Net Debt	25.5	
Enterprise Value	73.7	
EBITDA	20.7	
EV/EBITDA multiple	3.6 x	3.6 x
EBITDA		35.3
Enterprise value		125.6
Net Debt		0.0
Market capitalisation / Equity value		125.6
Shares on issue (m)		206
Implied share price		A\$0.61
Implied upside		154%
IRR from today		45%

SOURCES: MORGANS, COMPANY REPORTS

History tells us that turnaround stories often take longer than initially anticipated. Consequently, our forecasts and price target sit below the numbers shown above. Our view is that management simply needs to execute on its strategy (which is easier said than done). Our investment thesis is predicated on the view that partial execution should be enough to deliver modest revenue, EBITDA and free cash flow growth which will create shareholder value.

**Figure 5: Our forecasts sit well below management's aspirational revenue and EBITDA targets (A\$m)**

SOURCES: MORGANS ESTIMATES; COMPANY REPORTS



## What is required to deliver revenue growth

In our experience, equity investors tend to take a simplistic, albeit quite efficient approach, of judging success based on revenue trajectories. More simply put, the equity market is less likely to reward execution of ISD's strategy until ISD demonstrates that the revenue trajectory is improving (which means customers are buying ISD's new and improved products/solutions) and the strategy works.

ISD explained a clear strategy which includes improving the technology stacks and taking costs out of the business. Management has done well on this front and both are crucial parts of delivering the announced strategy. These steps are a critical precursor to delivering revenue growth.

ISD needs to get its customer solutions right (product and technology stack) and improve pricing (better copyright terms and automation), in order to entice and retain customers. Automation comes with upfront costs and manual costs cannot be removed until the automation is complete. The ISD team is balancing a fine line. To deliver revenue growth ISD needs to concentrate on:

- Retaining, on a net basis, customers in ANZ (ISD's biggest region). ISD has ~65% market share and is consequently being attacked by aggressive competitors.
- Legacy issues (higher input prices and slower technology response times and product releases) meant in **CY17 ISD started losing Au customers to competitors**.
- Not all customers care most about price. ISD's quality of service and value-added services (some of which peers do not offer) has helped ISD retain the majority of customers despite ISD's competitive disadvantage.
- Lost customers and price deflation meant that the ANZ revenue decline for ISD was ~13% in FY18, FY19 and likely the same in FY20.
- To slow the revenue decline, and return to revenue growth in ANZ, ISD needs to win back lost customers and bring new value-added services into its product offering. In the absence of new customer wins we would expect ISD's SaaS media intelligence segment to suffer ongoing price deflation. However, we expect ISD's VAR service to return to revenue growth from FY21 as it introduces new products to the market and which, all going to plan, existing customers will pay ISD more to use.
- ISD lost many customers in CY17 / FY18. Customers are typically on two-year contracts with ISD and its competitors. With these contracts coming up for renewal it's possible that ISD's reinvigorated Au product and lower pricing could see ISD win back customers in CY20.
- ISD's government contract win rate from Aus Tender in 1H20 suggests it has won 55% of government work by tender value and 54% by number of contracts. This is down from 65% of contract value and in-line with 54% of number of contracts in FY18.

**Figure 6: Austender winners of public government contracts (note this is not necessarily relative of the entire market as not all tenders are published)**

	iSentia	Meltwater	Stream	Other
Total Contract Value 1H20	55%	1%	41%	4%
Total Contract Value FY19	65%	3%	4%	28%
Total Contract Value FY18	68%	0%	11%	21%
Number of Contracts 1H20	54%	4%	33%	8%
Number of Contracts FY19	54%	18%	11%	18%
Number of Contracts FY18	55%	8%	6%	31%

SOURCES: MORGANS ESTIMATES AND AUS TENDER

Below are some of the data points on ISD's win rates. We highlight that not all government agencies publish their tenders so this data is not reflective of the entire government market. We expect ISD's "all in government win rate" is higher than illustrated below but remains under pressure. We explain the competitive dynamics in more detail in the "competitive landscape" section of this report which can be found on page 19.

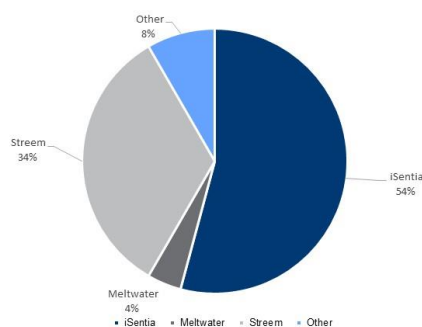
**Figure 7: Winners of public government contracts since 1 July 2019**

Published date	Value (A\$)	Winner	Customer	CN ID:
13-Nov-19	44	iSentia	Future Fund Management Agency	CN3640473
12-Nov-19	70	Meltware	Independent Parliamentary Expenses Authority	CN3640013
11-Nov-19	27	iSentia	Great Barrier Reef Marine Park Authority	CN3639934
01-Nov-19	45	Streem	Tertiary Education Quality and Standards Agency	CN3638171
01-Nov-19	48	Streem	Australian Financial Security Authority	CN3638119
30-Oct-19	1,365	Streem	Department of Defence	CN3637390
14-Oct-19	47	Streem	Australian Securities and Investments Commission	CN3634071
04-Oct-19	195	iSentia	Australian Signals Directorate	CN3632535
03-Oct-19	455	iSentia	Department of the Environment and Energy	CN3632081
27-Aug-19	48	iSentia	Aged Care Quality and Safety Commission	CN3622984
09-Aug-19	94	Streem	Australian Federal Police	CN3618966
07-Aug-19	211	Streem	Department of Veterans' Affairs	CN3618146
31-Jul-19	900	Streem	Department of the Prime Minister and Cabinet	CN3616004
26-Jul-19	38	iSentia	Royal Australian Mint	CN3614082
17-Jul-19	1,214	iSentia	Department of Education and Training	CN3611838
16-Jul-19	245	Khoros	Department of Human Services	CN3611055
12-Jul-19	39	iSentia	Department of the House of Representatives	CN3610317
12-Jul-19	13	Macq Media	Department of Parliamentary Services	CN3609937
12-Jul-19	55	iSentia	Department of Parliamentary Services	CN3609934
12-Jul-19	1,395	iSentia	Department of Health	CN3609840
11-Jul-19	42	Streem	Digital Transformation Agency	CN3609484
11-Jul-19	82	iSentia	Australian Communications and Media Authority	CN3609460
10-Jul-19	104	iSentia	Organ and Tissue Authority	CN3609195
08-Jul-19	14	iSentia	Department of the Prime Minister and Cabinet	CN3608273

SOURCES: [www.tenders.gov.au](http://www.tenders.gov.au)

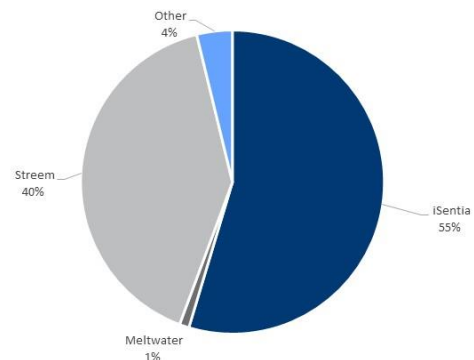
ISD has historically held ~70% market share (by \$ value). AusTender figures show ISD is tracking at 54% by dollar value and coincidentally number of contracts won in 1H20. This data could be misleading in isolation as ISD has many corporate and enterprise customers who are not included in the government tender data. We also note this data is heavily skewed by one large contract win for Stream. There was a large (A\$1.4m) contract which Stream won in October 2019. If we exclude this, which is not really fair but just for comparison purposes it shows ISD is tracking at 68% of the dollar value market.

**Figure 8: Number of contracts won (ISD won 13 of 24)**



SOURCES: MORGANS, : [WWW.TENDERS.GOV.AU](http://WWW.TENDERS.GOV.AU)

**Figure 9: Value of contracts won (ISD won \$3.7m of \$6.8m)**



SOURCES: MORGANS, [WWW.TENDERS.GOV.AU](http://WWW.TENDERS.GOV.AU)

## 2. New Board and new Executive team with a strategic reset

80% of the Board and Executive team have been replaced in the last 18 months. This comprises of 5 of 7 Board members and 4 of 4 Executives. The revised team has reset the strategy. While the strategy is clearly not without risk the team at ISD is committed and incentivised to drive change.

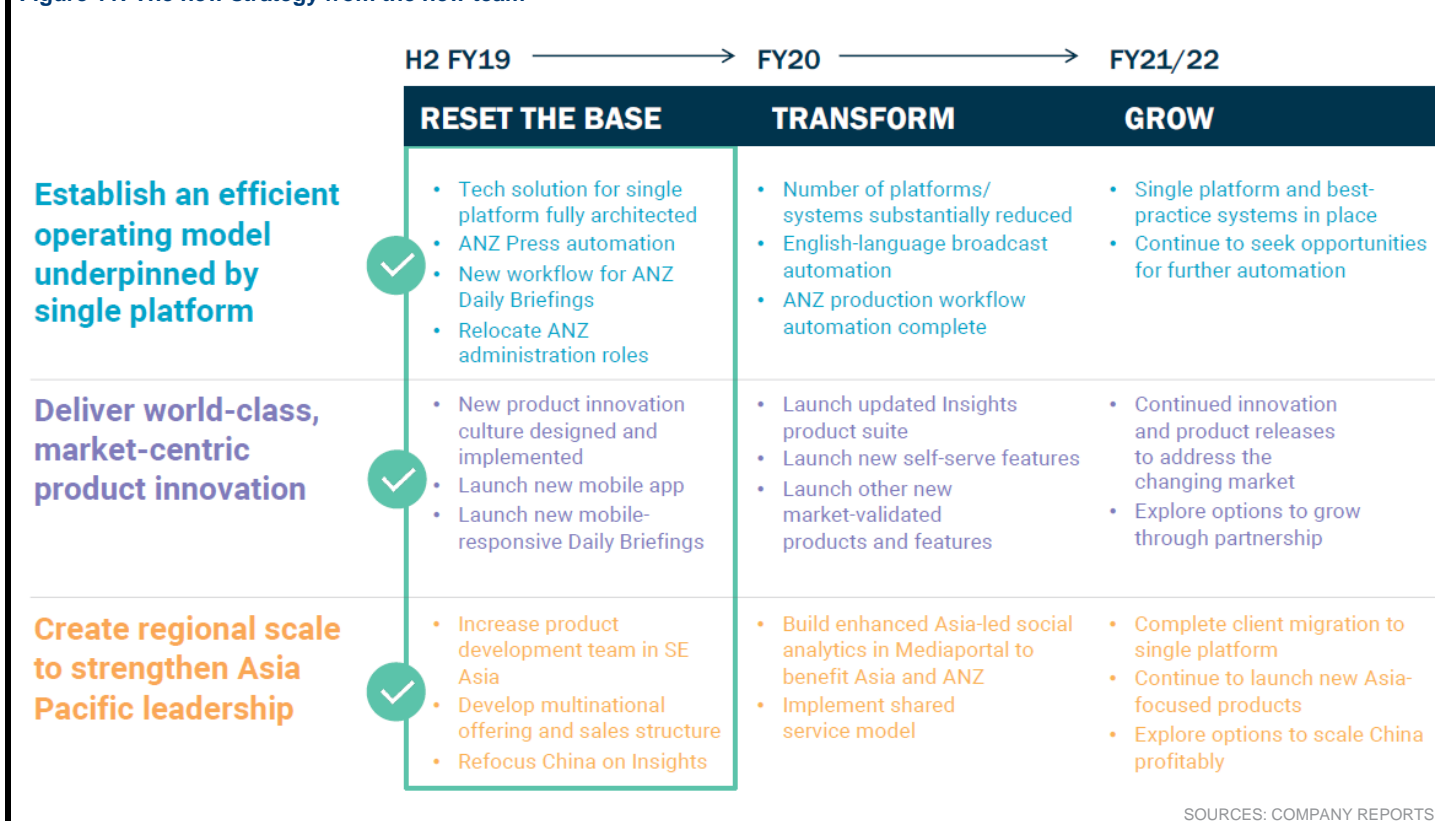
**Figure 10: Board and Executives**

Position	Joined ISD	Ordinary shares owned	Rights	Background
Non-Exec Chairman; Doug Snedden	Nov-17	0.4		Doug has over 30 years' experience in finance, consulting, strategic management and outsourcing. Doug has previously worked as Country Managing Director of Accenture Australia. Doug is Chair of Odyssey House NSW, McGrath Foundation and the Chris O'Brien Lifehouse and a non-executive director of OFX Limited. He is also a member of the National Library of Australia Council, a director of Frisk Pty Ltd and a member of the Australian Institute of Company Directors.
NED; Fiona Pak-Poy	May-14	0.2		Fiona brings significant experience gained particularly with technology companies. Fiona is a director of Novotech and The Sydney School of Entrepreneurship and a member of ASIC's Director Advisory Panel. Fiona is currently a NED of Tyro Payments. Previously, she was a member of the board of MYOB Group Limited, the Securities Industry Research Centre of South East Asia ('SIRCA'), PageUp People, StatePlus, and the Federal Government's National Precincts Board and Innovation Australia Board where she Chaired or was a member of a number of the innovation committees. Fiona was a General Partner of an Australian venture capital fund that invested in Australian technology companies and was a strategy consultant with The Boston Consulting Group in the US and Australia.
NED; Travyn Rhall	Jul-18	0.8		Travyn has over 30 years' experience leading businesses operating across Europe, Asia Pacific, North and South America, Africa, and the Middle East. Most recently, he was Global CEO of Kantar Insights, a division of Kantar, the data investment management arm of WPP plc, an FTSE100 media, marketing and communications group. From 2006 to 2015, Travyn was Regional CEO of Millward Brown for Africa, Middle East and Asia Pacific, and then Global CEO. Travyn is a Fellow of the Institute of Company Directors and the Market and Social Research Society of Australia.
NED; Justin Kane (Gilead Capital *)	Jul-18	*		Justin is Director of Research and a Founding Partner of Gilead Capital LP, an investment management firm located in New York. Gilead Capital is the Company's largest shareholder and at the date of this report owns 15.4% of issued capital. Justin has extensive experience in the investment management and technology industries.
NED; Abigail Cheadle	Jan-19	0.0		Abigail is a Chartered Accountant with experience gained in Australia, Russia, Asia and the Middle East. She has held executive directorships and senior management positions in major accounting and risk management firms including Kroll, KordaMentha, Deloitte and Ernst & Young. Abigail is a non-executive director and chair of the audit and risk committee of Quantum Intellectual Property Ltd and was formerly a non-executive director and chair of the audit and risk committee of SurfStitch Group Limited.
NED; Jeffrey Strong (Gilead Capital *)	Jul-18	30.9		Jeffrey is the Chief Investment Officer, Managing Partner and a Founding Partner of Gilead Capital LP. He has a long career in investment management and broad experience as a director on company boards across Europe and North America. Jeffrey is a Director of MCS Holdings Ltd and Computer Programs Systems, Inc. and was previously a Director of Landauer Inc, TPC Group and Treveria plc.
CEO/MD; Ed Harrison	Aug-18		0.9	Ed has over 25 years' experience across many types of media including print, outdoor and digital in Australia, New Zealand and the United Kingdom. Ed came to Australia in 2001 to set up JC Decaux's business in Victoria and South Australia. From 2003 to 2008, he was General Manager (Australia) of JC Decaux, the world's largest out-of-home advertising company, as it established a dominant position in Australian street furniture. Ed then joined Fairfax Digital, a leading provider of online news, information and classified websites. As Group Sales Director at Fairfax Media, Ed was responsible for sales operations across 300 newspaper, magazine and digital brands with a diverse customer base and combined revenue of \$500 million. From 2014 to June 2018, Ed was the CEO of Yahoo!7, a joint venture between Seven West Media and Verizon, which delivered digital media products and original content to over nine million monthly users.
CFO; Peter McClelland	Feb-19		0.9	Mr McClelland brings strong financial, operational and strategic expertise with an impressive track record executing complex business strategies across a range of industry sectors, including leading media and retail companies. As CFO and COO of leading out-of-home advertising company oOh! Media, Mr McClelland was instrumental in building the scale and diversity of the business.
CPO; Jen Marshall	Jan-19		na	Ms Marshall was formerly CEO of Brainmates, a produce management training and consulting firm. Marshall brings extensive experience from across digital, product and media segments from previous roles at Fairfax, Optus and Sky News.
CTO; Paul Russell	Nov-18		na	Mr Russell has spent 15 years leading technology teams. He was formerly Technology Director at Yahoo!7, CIO at Fairfax Digital, MD of SoftwareSeni and Exec GM of Salmat.
Total rights			2.3	
Inside ownership		32.3	2.3	
Total shares on issue including rights			202	
Inside ownership		17%		

SOURCES: COMPANY REPORTS

The new Board and Executives presented their new strategy as shown below. In our view this seems like a simple, well thought out and appropriate strategy. It's about becoming more customer centric through simplification and automation. This in turn brings speed to market and costs out of the business. As with all things strategic, not everything will go to plan, however management motivation and culture alignment should allow ISD to adjust as required.

Figure 11: The new strategy from the new team



### 3. Interim copyright ruling – positive outcome

ISD has a relationship with Copyright Agency Ltd (CAL) which provides ISD with a licence to reproduce and communicate to its customers licensed works (eg an aggregation of all the times the client's name is mentioned in the media). CAL is an entity that has been authorised by CopyCo (another entity owned by prominent media companies such as News Corp Australia, Nine, Bauer Media and Seven West Media) to sublicense the copyright of its publisher members and their related corporations.

The initial agreement between ISD and CAL was executed in 1999 and had been rolled/amended on an ongoing basis. Historically (pre 2016), the nature of the contract meant that ISD paid a 'volume-based' (variable) fee for the reproduction and communication of press clippings (i.e. a cents per article rate). In April 2016, ISD entered into a revised agreement with CAL which incorporated a minimum total annual licence fee, in addition to a volume-based fee depending on the nature of the activity. What this meant in simple terms is that on a total dollar basis, the fee being paid to CAL increased meaningfully.

As we understand it, ISD was effectively paying a large and largely fixed biannual fee for access to content. Content comes from newspapers, free-to-air and other content suppliers that ISD reproduces for their clients to see what is being said about them. Higher input costs, combined with very labor-intensive internal processes, resulted in slower response times. This combined with an outdated user interface meant ISD started losing customers, revenue and earnings.

In the interim ruling, it was outlined that ISD noted that specifically due to the differential in the licence fees, it claimed to have lost 7 'Platinum' clients, 36 'Gold' clients, 53 'Silver' clients, and 75 'Bronze' clients to Meltwater. ISD also purported that Meltwater promotes its services to clients by emphasising that its copyright costs are lower than ISD's. It was also noted in a number of examples of customer losses (i.e. NSW State Government Tender; long-term relationship with UBS) that pricing was a key deliverable.

While the quantum of the increase in copyright has not been disclosed by ISD, in FY17 ISD noted that its increased expenses was 'mainly due to [a] A\$5.3m copyright cost increase'. The subsequent year's deterioration in the earnings has been attributed to the above customer churn, given that ISD was required to re-price its services higher to try to mitigate some of the higher expenses. This also resulted in higher customer losses to competitors who had lower prices. In our discussions over the years with various former ISD senior management, they have reiterated that this unbalanced CAL agreement was one of the company's largest challenges.

To resolve this issue legal action was instigated. There are three parties (two excluding ISD) that all claim "the proposed industry model terms offered by CAL are [now were] unreasonable." In April 2019 ISD had a favourable interim ruling from the courts. Addressing this in its FY19 annual report it commented "isentia made progress in the Copyright Tribunal as part of our campaign to achieve a level playing field for all media intelligence providers in Australia. In April 2019, the Tribunal made orders granting isentia an interim copyright licence to apply from 1 December 2018. The interim licence terms mean that for the first time since mid-2016, isentia's copyright costs will include a volume-based fee component and will be more in line with our competitors. Our action in the Copyright Tribunal is ongoing and a final hearing date for our application has been set for late 2020."

Managing Director and CEO Ed Harrison said: "The interim licence is an important first step in levelling the playing field. The shift to a more variable copyright cost is a positive outcome for isentia as it gives us greater control over our second largest cost line. While we are pleased with this result, our action in the Copyright Tribunal is ongoing as we seek a final determination and parity in copyright pricing across the Australian media intelligence industry."

Based on the interim ruling judgment, it was noted that some 'relief' was provided to CAL in terms of reducing the licence fee the full amount (i.e. ISD is still effectively paying more than its competitor Meltwater), however we understand that the interim ruling goes a long way in regards to levelling the playing field for the industry.

#### 4. Technology stack and culture (turning strategy into reality)

New CEO, Ed Harrison, joined ISD in August 2018 and by February 2019 had clearly annunciated the new strategy. To explain how Ed and ISD plan to revitalise the business in more detail we have extracted a few key points from ISD's FY19 annual report:

"The strategy is based on three key pillars:

- 1) establish an efficient operating model, underpinned by a single technology platform;
- 2) deliver world-class, market-centric product innovation; and
- 3) create regional scale to strengthen Asia-Pacific leadership.

Crucially, each of these pillars is supported by a material shift in culture and capability. We have used natural language processing and improved search technology to automate the processing of newspaper content and the process by which data is parsed for relevance and delivered to clients."

When CEO, Ed Harrison, joined isentia (August 2018), less than a third of the press workflow was automated. By August 2019 (12 months later), that figure was over 80%.

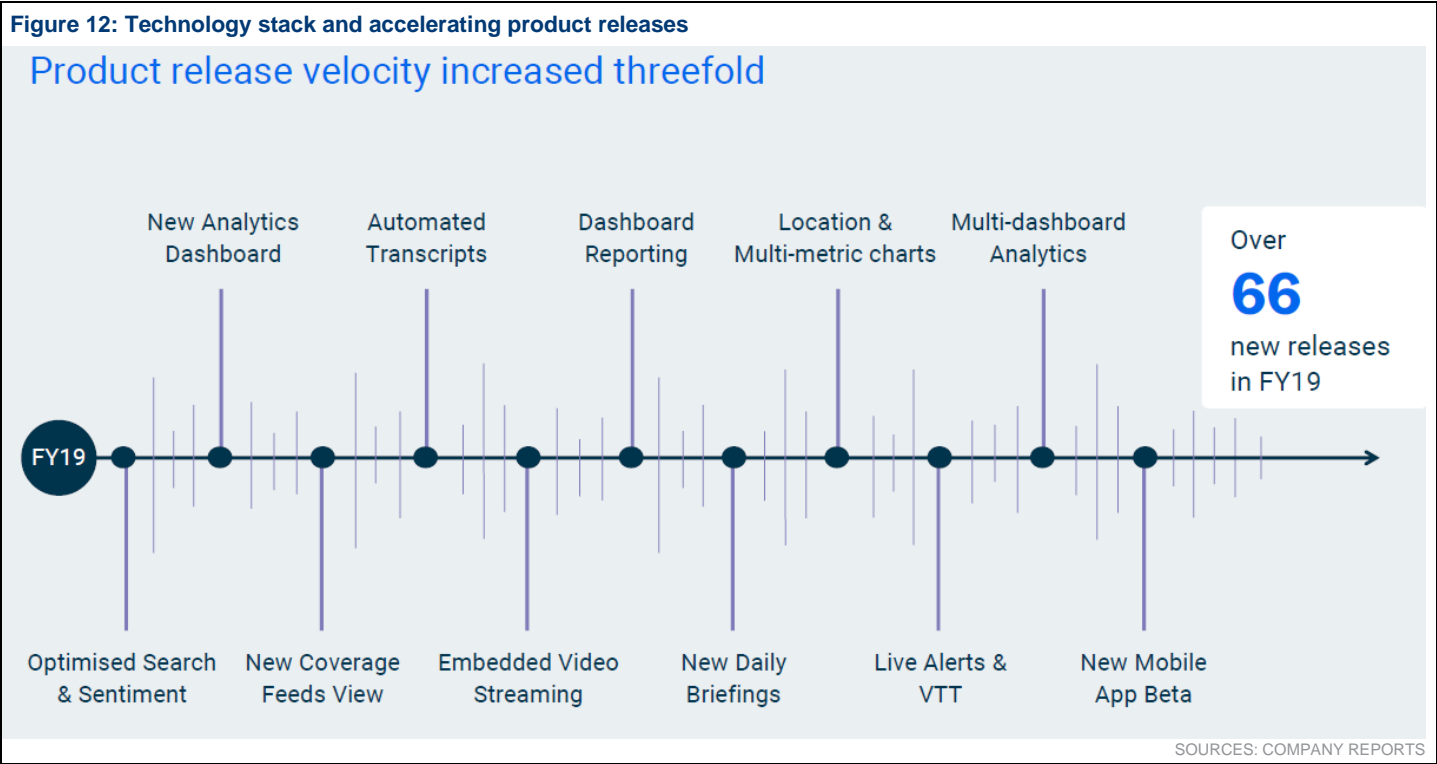
ISD’s FY19 annual report notes “there has been a fundamental shift in isentia’s product development profile which is now focused on incremental, low risk, shorter payback projects. This has resulted in a tripling of product release velocity. During FY2019, important new releases have provided customers with real-time delivery and better analytics tools. This agile product development means we can better meet our clients’ expectations for ever faster delivery of content and for products that are innovative and market leading.”

“Incremental product delivery has de-risked the company’s investments and generated good results. The number of product and feature releases has more than tripled to 66 in FY2019. Major product launches during the year included Live Alerts, a large suite of on-platform analytics tools and a new mobile app which is in beta testing with clients. In Asia, we established regional product and tech teams, as well as new multi-market sales capabilities.”

Reflecting on the progress made to-date, Chairman Doug Snedden commented: “Since joining Ed Harrison has driven cultural and operational change, appointed a new leadership team, improved sales productivity and stepped up innovation and investment in product development. This ongoing shift from investment in operations to investment in technology continues to improve productivity, reduce costs and, most importantly, deliver higher quality services to our clients.”

Figure 12: Technology stack and accelerating product releases

Product release velocity increased threefold



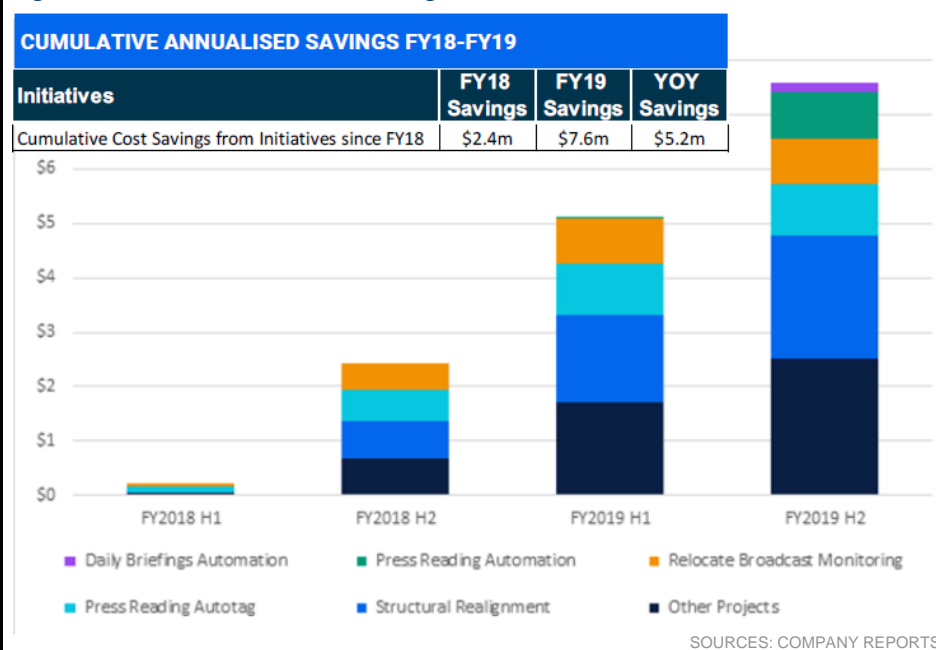


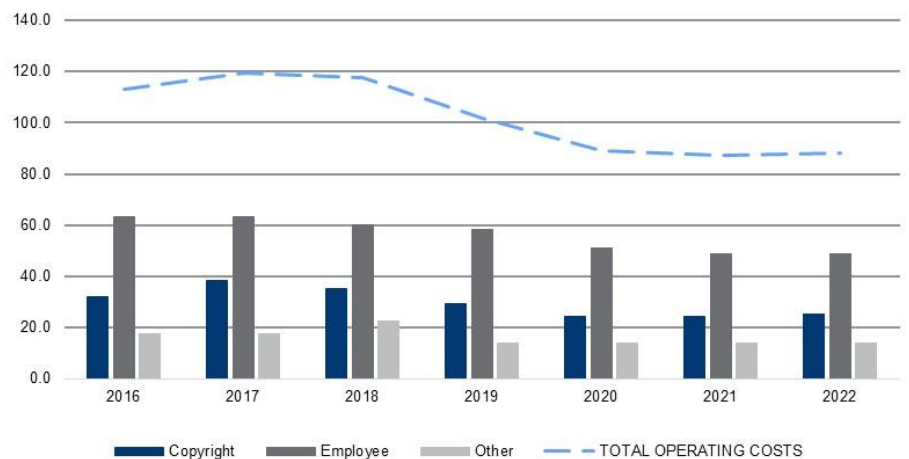
## 5. Lowering labour costs

Speed is typically a key priority for many clients, especially those needing to react to negative publicity. This was a problem for ISD but it has, in the last 18 months, embraced technology to improve speed to market. It now offers “Live Alerts” which is a temporary technology solution to give clients immediate real time alerts when company names are mentioned in the media. This is part of a longer term strategy to integrate live alerts and many new features into the core media monitor platform as a single source of the truth. This will, all going to plan, mean automation and better processes create faster response times and happier clients. This also has the intended side benefit of lowering ISD’s manual labour costs. ISD has historically had ~200 people in Manila watching live television and listening to radio. These people are very accurate in terms of context and spelling customer and/or brand names correctly. However, this is a slow and expensive process compared to voice to text translation engines.

Having successfully implemented a voice-to-text technology, ISD has begun replacing low skilled labour (offshore manual data entry) with technical development staff to build a better, faster and more flexible technology stack. It needs to be noted that the quality of the content from automated voice to text technology is typically not as high as manual voice to text conversion. The Artificial Intelligence/ Natural Language Process algorithms are still learning. Consequently, this natural language processing software is sanity checked manually by ISD staff for Tier 1 clients. Use of technology has allowed ISD to lower its headcount and free up capital to be spent on improving the technology rather than paying for more staff. This also allows ISD to scale better so, assuming it can win more customers, operating costs should not grow at the same rate as revenue, and margins should expand.

Figure 13: ISD’s cumulative cost savings

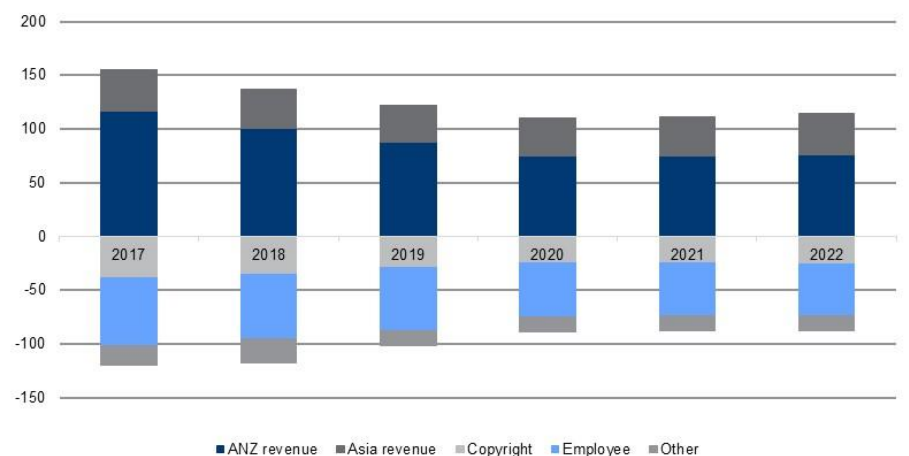


**Figure 14: Operating costs (A\$m)**

SOURCES: MORGANS, COMPANY REPORTS

We forecast employee costs to drop from 57% of FY19 OPEX to 55% over time. There is a significant mix change in this figure with lower cost manual labour being replaced with more costly (or a per person basis) software developers (both full time and contractor). The use of contractors allows ISD to better flex its cost base while full time staff are clearly required for continuity and internal accountability.

We forecast COGS (including copyright) to hold at ~29% of revenue but decrease in dollar terms. We forecast other to grow from ~14% of revenue in FY19 to 15% by FY22.

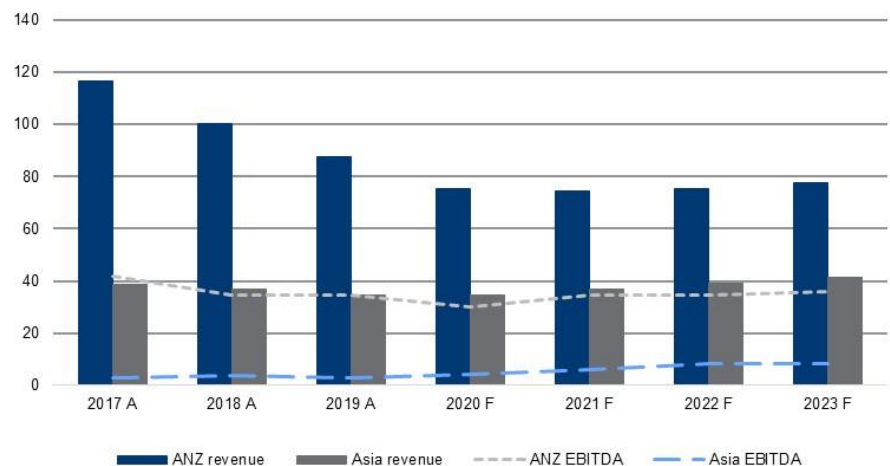
**Figure 15: Revenue and operating costs trajectory, on our forecasts (A\$m)**

SOURCES: MORGANS, COMPANY REPORTS

## 6. Growing in Asia

Management segment the ISD business in two parts ANZ (Australia and New Zealand) and Asia. ANZ is the core and accounts for ~70% of revenue and 90% of EBITDA (pre shared overheads). Technically, both have experienced revenue decline over the last few years, but Asia is a tale of two halves (North and South as shown in Figure 17 overleaf). In its FY19 result ISD called out “double digit revenue growth in South East Asia offset by challenges in North Asia”.

**Figure 16: Geographic revenue and EBITDA split (A\$m)**



SOURCES: COMPANY

CEO Ed Harrison set ISD’s strategy in February 2019 and quickly began implementing this in ANZ. This process will take some time to fully implement but with the wheels in motion in ANZ the focus moved to Asia. Asia consists of South Asia which is growing revenue at double digit rates, and North Asia where revenue is declining, and which is generally problematic for ISD. We expect the initial focus on Asia to be overall system simplification and cost out. Over time we expect ISD will look to continue organically growing South Asia. In North Asia we expect ISD to either acquire to generate economies of scale, or if no suitable acquisition targets arise, to divest the North Asian business of ISD. ISD has hired a new Asian CEO and revamped the Asian management team so the Asian strategy is likely to take shape in the coming year.

As it stands today ISD’s Asian business operates multiple software platforms. This is a function of various acquisitions that have yet to be fully integrated. Logically it doesn’t make sense to have multiple systems that require multiple maintenance and upgrades. The plan, as we understand it, is to move to a single global platform hosted out of Sydney (services ANZ and Asia). This is partially why ISD has abnormally high capex in FY20. A single platform will create economies of scale and allow ISD to remove costs in Asia. ANZ EBITDA margins are triple those of Asia so, country specific quirks aside, there is ample room to expand Asian EBITDA margins.

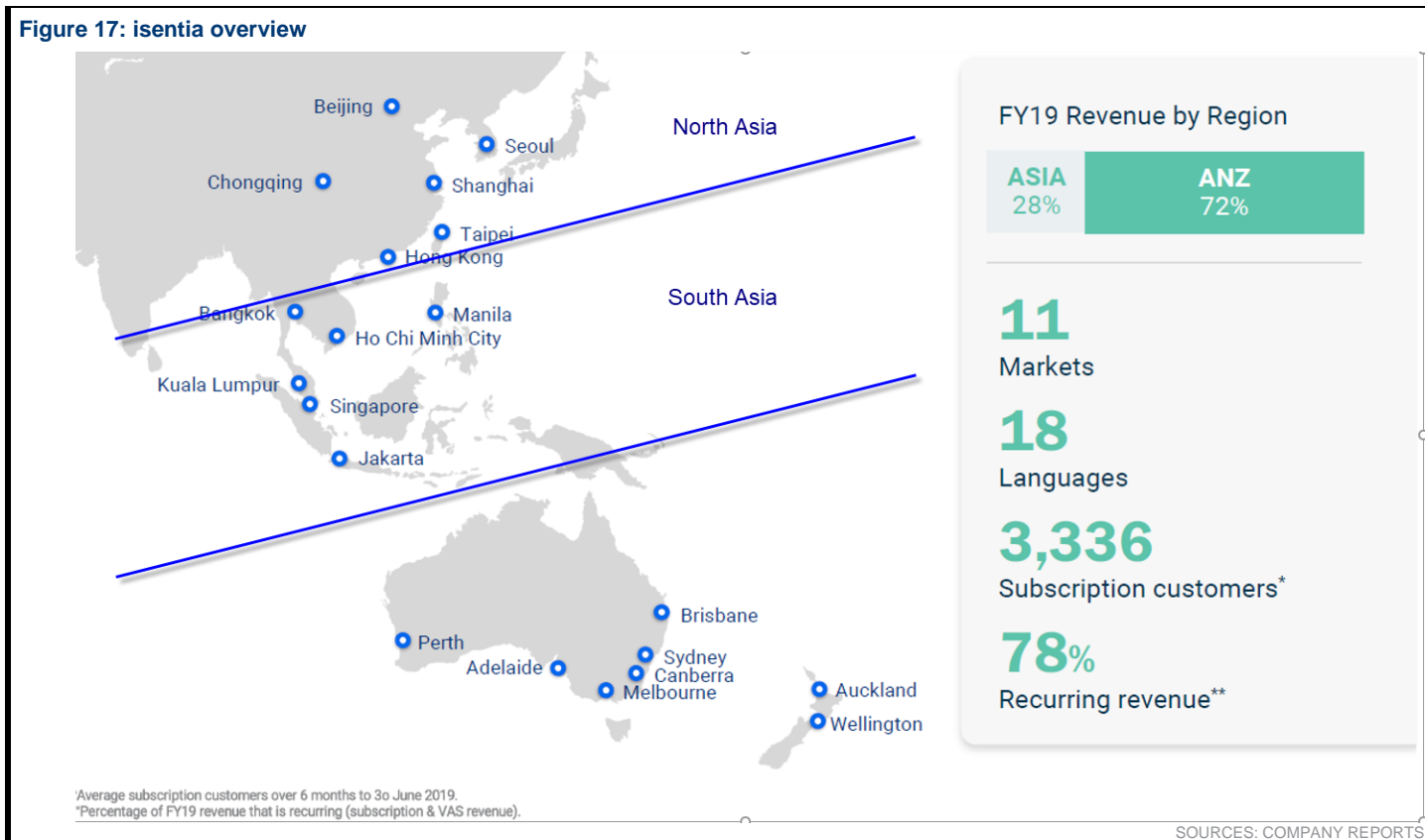
From a country specific perspective, we understand that Asia is a much more social media centric market, versus ANZ which is more focussed on traditional media (news, newspapers and radio). This means that ISD’s Asian social media business is technically and practically more advanced than its ANZ social media business. As ISD merges platforms it will take best in breed technology and lessons learnt from Asia and feed these into the ANZ platform, in which all regions will ultimately operate. In addition to lowering costs and simplifying the business this should also mean ISD has a social media platform advantage over peers. Asia is a large opportunity for ISD and this upside is only just beginning to be addressed.

## Company overview in more detail

Despite the challenges of the last few years, isentia remains the market leader for media monitoring and reporting in Australia. It provides the most comprehensive media intelligence solution to governments and corporations across the Asia-Pacific region. Media monitoring often requires further action and this, combined with quality personalised services, is where ISD stands-out from its technology peers who simply offer platforms.

ISD provides critical services to 3,336 customers, keeping them informed about conversations on traditional and social media that affect their brand, policy or reputation. ISD is a recurring revenue business with 78% of FY19 revenue under contract.

Figure 17: isentia overview



Geographically ISD is dominant in Australia and New Zealand where 72% of FY19 group revenue was generated. ISD generates revenue from two main sources:

- Software-as-a-Service (SaaS) revenue from its flagship Mediaportal platform which provides customers access to time critical and highly relevant information as well as tools to analyse and report on media intelligence. SaaS accounted for 70% of FY19 revenue; and
- Value Added Services (VAS) when ISD provides social media insights and monitoring, customised quantitative and qualitative analysis, and in depth analysis as required by customers.
- The average customer spend varies substantially from ~A\$10k per annum to in excess of A\$2m per annum. Consequently, using an average is not meaningful.
- In ANZ VAS is traditionally stapled with SaaS revenue as customers monitor and then react to events. Consequently, VAS has typically been ~25% of SaaS revenue.
- In Asia VAS has typically been >100% of SaaS revenue as customers seem to be more focussed on Social Media and less on reactive to broadcast media.

## Competitive landscape

Each country has a different competitive landscape but in Australia where ISD is the dominant/incumbent player its two closest competitors are Meltwater and Stroom. Stroom is, from our perspective, the most aggressive and is making headway, especially in 2HCY19.

Historically ISD has suffered from lower revenue per customer and a loss of customers to competitors hence the competitive landscape is critical to understand. One such example is that in November 2019 the Department of Defence moved its media monitoring contract from isentia to Stroom and saved 42% in the process. We assume this was largely a comparable contract, although we don't have the details to confirm there was no scope decrease.

This media monitoring services contract was awarded to isentia in September 2017 at a Contract value of A\$2.4m. This two-year media monitoring contract expired in August 2019. In October 2019 this two-year contract was awarded to Stroom with a contract value of A\$1.4m (a 42% lower price).

ISD has a mix of business and government customers. However, there is publicly available data which shows Australian government contracts, pricing and winners and losers. This data is not exhaustive to government departments or, for that matter, ISD's overall customer base but is nonetheless a publicly available reference point. If we examine this data it shows that in 1H20 Stroom was very aggressive with respect to customer wins. **From 1 July 2019 to the end of November 2019 isentia won 55% of the total contract value (from 65% in FY19); Stroom won 41% (from 4% in FY19);** Meltwater won 1% (from 3% in FY19); and others won 4% (from 28% in FY19). Stroom is at 26% in 1H20 even if we unfairly remove that one large contract it won. This data suggests that isentia is losing market share at a fairly rapid rate despite new product initiatives.

In assessing these data points, it needs to be noted that ISD's strategy was only put in place through the course of CY2019. Given the early stages of this turnaround strategy, work completed and work in the pipeline, is not well reflected in the current tender win rates. Stroom is relatively new and has been winning work in recent years but its ability to retain customers has yet to be meaningfully tested. For example Stroom's sales pitch has been sufficient to convince clients to join the business but market data doesn't yet illustrate whether reality matches the sales pitch and whether Stroom has delivered all that was promised to its new customers. Stroom win rates seemed to have picked up in 1H CY18. These Stroom contracts appear to be mostly three year contracts so it may not be until early 2021 that Stroom's retention rates will become well known. Meltwater's win rate appears to have picked up in 2H CY18 so it seems likely that its retention rates will be better known from 2H CY20.

Logic dictates that ISD has another ~12 months to sharpen its product offering in an attempt to aggressively tender and win back customers lost to Stroom and Meltwater. This also suggests a revenue inflection point is ~18 months from today.

In its legal case with CAL ISD noted that due to a "differential in the licence fee regime it had lost 7 Platinum, 36 Gold, 53 Silver and 75 Bronze clients to Meltwater". The same paper sites ISD holds 70% market share by value of a A\$110m per annum Australian media monitoring market. Meltwater is estimated to have ~28% and Stroom 2%.

**Stroom** is a Sydney based company founded in 2013 by Elgar Welch, a former government adviser and Antoine Sabourin, a software engineer. Its mission is to deliver "realtime media monitoring and analysis". Stroom's clients include the AFL, AGL, Airbnb, ANZ, Airbnb, ooH!media, the Australian government, Grain Corp, ANZ, Aldi, Deloitte, WPP, Microsoft, Myer, and The Iconic.

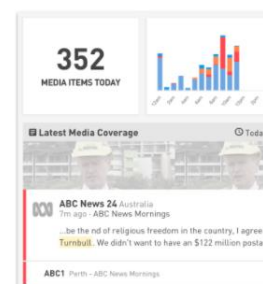
Stroom has developed a narrow concentration on government and its sales focus appears to be: 1) speed to deliver broadcast media (instantaneous response); and 2) greater usability (a better user interface). As we understand it Stroom does not offer insights and analytics. We also understand that Stroom's ingestion of social media content (for reporting to clients) is limited to influencers rather than the whole social media platform.

**Figure 18: Scream****PRINT**

Print clips delivered before you wake from 500+ metro, regional and suburban newspapers and magazines Australia-wide

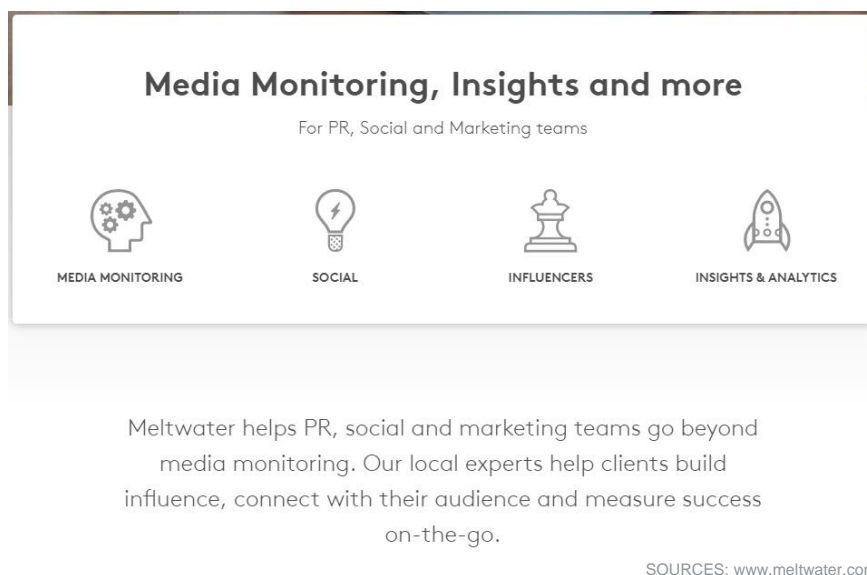
**ONLINE**

Surface online news within minutes of publication from thousands of relevant metropolitan, regional, suburban, specialist, trade and niche news websites, including guaranteed behind-the-paywall access



SOURCES: Scream

**Meltwater** is a global private equity backed media intelligence company. It offers media Intelligence & social listening tools for measuring, managing and magnifying corporate reputation. At last count it had ~1,600 staff. As we understand it, its focus tends to be more on providing media monitoring services to large multinational clients. [Meltwater Group](#) is a Norwegian founded company with offices in North America, Europe and Asia. It entered the Australian market in 2007. Meltwater is a global company with 30k clients including Amazon Web Services; Google; Lite n' East and Décor.

**Figure 19: Meltwater**

Meltwater undertook 10 acquisitions between 2013 and 2018 to establish a physical presence (buying customers/market share) and/or to acquire technology (source: Crunchbase).



## ISD key points of difference and how it relates to keeping customers

Automation and consolidating multiple technology platforms into one to allow for better innovation are critical for ISD. However, this is business as usual catchup which gets it back into the game, in our view. **ISD's competitive advantage relates to:**

- 1) **its breadth of data sets (a wider range of content being assessed);**
- 2) **higher touch / customer service model (not just an end user control DIY platform); and**
- 3) **relevance model (the ability for ISD's specialist staff to create and continually refine the best search strings to deliver contextually relevant content for the end customers).**

Peers MeltWater and Stream are largely technology platform plays with lower customer service levels than ISD. Stream does not do social media. ISD has specialist staff who are constantly refining ISD's client facing algorithms so that clients get relevant content rather than all content. The comparison being information overload (if a client gets an alert every time their company name is mentioned) versus only getting an alert if their company name is mentioned in an extremely positive or extremely negative context.

As we understand it ISD's competitors tend to use price as the key lever over which to compete against ISD. More specifically Stream has good technology and a self-service platform. By virtue of this being self-serve, Stream has lower customer support levels and can charge less. ISD by comparison assists the customer with the configuration of portals and search criteria. Configuring alerts, tracing their origins etc is a technical process and not all customers are technically attuned to doing this, hence ISD's customer assistance /value added service.

**In its annual report ISD noted that “across FY19 we won over 100 clients back from our competitors. We are able to do this because we provide the most comprehensive suite of on-platform media intelligence products alongside an unrivalled portfolio of managed services.”**

ISD's primary platform, Mediaportal, provides clients with sophisticated analytics tools and dashboards, and ongoing product upgrades. Customers use ISD to “better understand the implications of the data they receive. This is further supplemented by our award-winning Insights products, through which our teams of analysts and researchers are able to deliver deep insights into any number of issues. This combination of powerful technology and human experience is why our clients chose to keep us by their side on a daily basis and, particularly during times of crisis.”

## Valuation

There are many ways to value ISD and most methods come up with a valuation substantially higher than the current share price. They do, however, assume that management can stop earnings from declining further, and make progress towards their growth targets.

- **Price target vs valuation** – as the valuations below show, there is substantial upside potential, upon successful execution, even if it's not to the aspirational levels outlined. We see this as achievable, assuming all goes to plan.

**Figure 20: Combined valuation**

	Valuation	Weighting	
DCF	\$	0.51	33%
EV/EBITDA (NPV of FY22 on 3.6x)	\$	0.39	33%
Steady state (FY20 ROE)	\$	0.40	33%
Blended valuation		\$	0.43
Premium / (discount)			0%
Price Target		\$	0.43

SOURCES: MORGANS ESTIMATES

We see potential for substantially higher valuations upon successful execution but have not included these bull market valuations in our current valuation.

- **Steady state ROE valuation of A\$0.40** - based on FY20 earnings holding steady. We forecast ISD to generate a cash ROE of 13% in FY20 (versus a 10% WACC). Assuming cash profits stabilise at this level, and there is no growth, we think ISD's earnings are worth 40cps.
  - Using the same ROC vs WACC logic from our steady state valuation above, we can imply that based on the current share price of 24cps, the investment market is implying that ISD's earnings will decline a further 40% from the FY20 level.
  - ISD's cash ROE would need to drop from 13% in FY20 to 8% to justify the current 24 cent share price. This would equate to cash NPAT of A\$4.8m rather than the A\$8.1m we currently forecast in FY20 (which we have extrapolated from management's EBITDA guidance).
- **NPV of our FY22 EBITDA forecast** of A\$26m. Assuming ISD hits our FY22 EBITDA forecast (which sits 25% below its FY22 aspiration EBITDA target), and its trading multiple holds at 3.6x EV/EBITDA (today's level), then we think the stock is worth A\$0.47 per share (in FY22). Discounting this back into today's dollars with our 10% WACC gives us a **A\$0.39 valuation (today)**.
  - We think there is potential for ISD's EV/EBITDA multiple to expand substantially if it can demonstrate the company has returned to growth. For example, if we apply 11x EV/EBITDA (ISD's IPO multiple) to our FY22 EBITDA of A\$26m, we get a A\$1.43 per share valuation (in FY22). However, this is a bull case and we do not capture any multi re-rate, in our 39 cent NPV of FY22 EBITDA.
- **Discounted Cash Flow (DCF) of A\$0.51**. Using a 10% Weighted Average Cost of Capital and 10 year forecasts.
  - Our 10 year Compound Annual Growth rates (from FY20 to FY30) are:
    - 3% for revenue; 8% of EBITDA and 7% for free cash flow (ignoring FY20 peak capex).
  - We forecast EBITDA margins to peak at 25%.
  - We assume 2% growth in our terminal value which equates to 4.8x EV/EBITDA. Roughly two-thirds of our DCF based valuation is attributed to this terminal value.

## Risks

- **Rebasing earnings** – ISD's EBITDA and cash generation have declined materially over the last few years. We are counting on FY20 being the trough year and earnings improving thereafter. In a competitive environment, there are no guarantees that earnings will improve from here; they could continue to decline. Our valuation is based on growing earnings so a changing trajectory (declining earnings) would lower our valuation materially.
- **Execution** – ISD is a turnaround story. It is rare that turnaround stories go exactly to plan. With this in mind and considering in 1H20 we have already seen revenue slowdowns due to increased competition we prefer to leave room for error. In the tangible world things often take longer and cost more than anticipated and this could prove to be the case with ISD. That said, we argue that investors are not paying for success so failure to achieve stated targets is unlikely to result in a material share price de-rate from current levels.
- **Management** – ISD's revitalised strategy is dependent key management, retention of those staff, and their ability to lead change in the organisation.
- **Copyright Agency Ltd (CAL)** - ISD had a favourable interim legal ruling with respect to purchasing content from key supplier CAL. The final ruling is expected toward the end of CY20 and is anticipated to be broadly similar to the interim ruling. However, until the final ruling is declared this remains a risk.

## Rewards

- **Share price appreciation** – in our view the key reward for ISD shareholders is earnings stabilisation then growth, which should lead to share price appreciation. This view is predicated on management being able to partially deliver its aspiration public growth targets.
- A **takeover target** – ISD was once owned by private equity. Private equity often create value through cash generation and cost reduction. ISD ticks both these boxes so could be an acquisition target for either private equity or a trade buyer looking to bolster its APAC presence.
- **Acquisitions** – Once ISD gets its debt to a comfortable level, which has not yet been defined by the Board, then its substantial free cash generation will be either returned to shareholders via dividends or acquisitions to build scale, most likely in Northern Asia where ISD is currently sub-scale. We assume no acquisitions in our forecast. However, it is worth pointing out that management could achieve its FY22 aspirational EBITDA target through acquisition.
- Our forecasts assume a **return to paying dividends in FY22**. Our assumed dividend policy is that 10% of free cash flow will be distributed to shareholders in the form of dividends. This equates to a ~3% cash yield on today's share price. Given the strong free cash flow of ISD (a ~30% FCF yield on our FY22 forecasts), realistically we would expect the Board to distribute most of this free cash flow to shareholders, if it is not able to find compelling acquisition targets.

## ASX announcement timeline

Below we highlight a few of the key non-financial events for ISD and the share price at the end of that month.

**Figure 21: Noteworthy events**

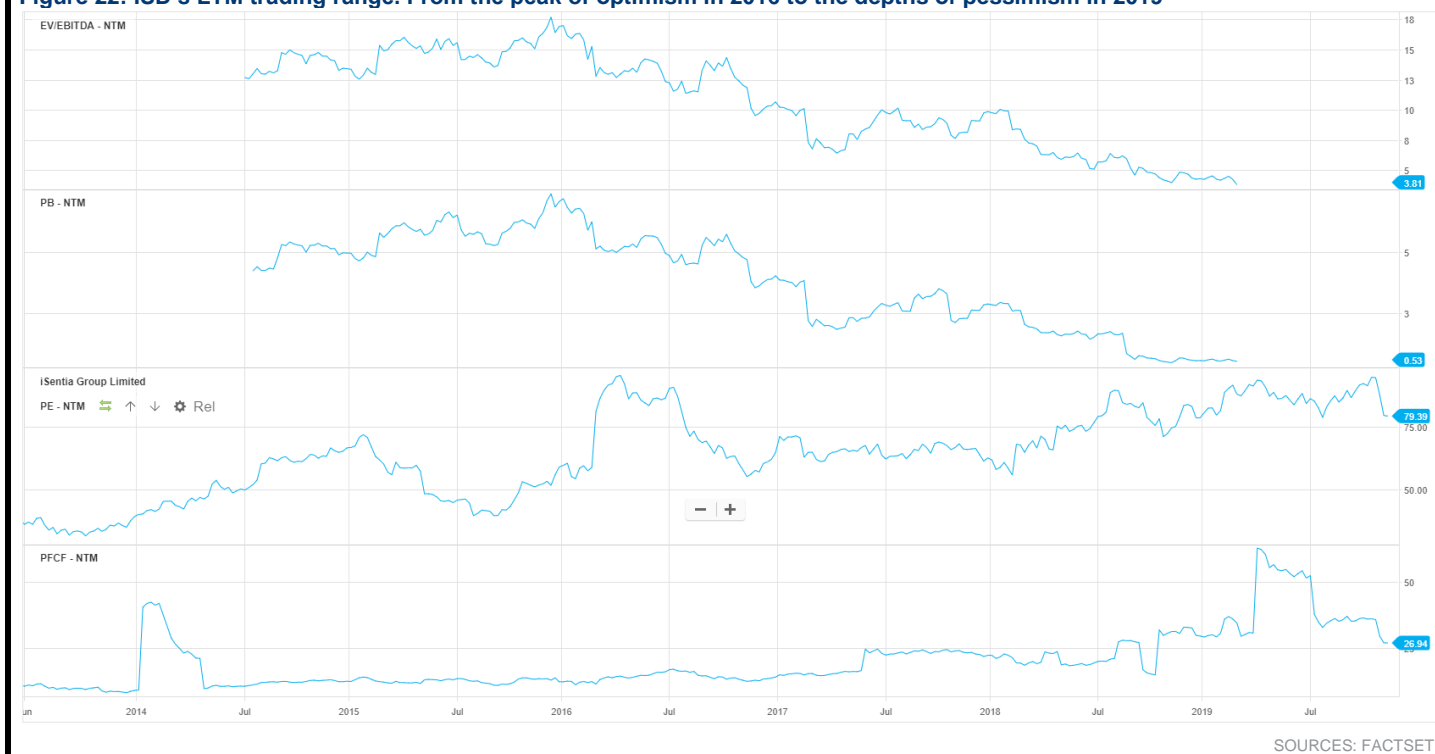
Date	Event	Share price	Movement vs last announcement	Movement vs IPO price
Today		\$ 0.26	-16%	-87%
Nov-19	AGM Guidance - FY20 revenue decline is likely similar to FY19. EBITDA guidance unchanged at \$20-23m (cost savings offset weaker revenue)	\$ 0.31	-21%	-85%
Aug-19	FY20 guidance - revenue will be lower but the rate of revenue decline is expected to slow yoy. EBITDA will be A\$20-23m (ex AASB16). Capex of A\$10-11m. ISD is undertaking a significant OPEX & CAPEX investment in building new products and technologies.	\$ 0.39	86%	-81%
Apr-19	Copyright update (positive)	\$ 0.21	-16%	-90%
Jan-19	NED appointment, Abigail Cheadle	\$ 0.25	-24%	-88%
Nov-18	Update on copyright	\$ 0.33	35%	-84%
Oct-18	CFO appointment - Peter McClelland (starts Feb 19)	\$ 0.25	0%	-88%
Oct-18	NED resignation - Pat O'Sullivan	\$ 0.25	-69%	-88%
Jul-18	NED appointments - Travyn Rhall & Justin Kane (representing Gilead Capital which owns 15.4% of ISD shares)	\$ 0.79	0%	-61%
Jul-18	NED resignation - Geoff Raby	\$ 0.79	0%	-61%
Jul-18	CEO appointment - Ed Harrison (starts Aug 18)	\$ 0.79	13%	-61%
Jun-18	ISD makes application to Copyright Tribunal to change "unreasonable" terms	\$ 0.70	-20%	-66%
May-18	ISD removed from ASX200	\$ 0.88	-14%	-57%
Feb-18	CEO resignation - John Croll (joined ISD in 1999 / pre IPO)	\$ 1.02	3%	-50%
Nov-17	Chairman appointment - Doug Snedden appointed (from Nov 17)	\$ 0.99	0%	-51%
Oct-17	Chairman resignation - Doug Flynn (from Nov 17)	\$ 0.99	-54%	-51%
Jun-17	Prior CFO appointed - James Orlando	\$ 2.15	22%	5%
May-17	CFO resignation - Nimesh Shah (joined ISD pre IPO)	\$ 1.76	-49%	-14%
Jun-16	South Korean acquisition on 2.5x L2Y revenue and "immediately EPS accretive"	\$ 3.47	-4%	70%
Apr-16	ISD signs new Copyright agreement. Pitched as "Costs associated with the new arrangements will be passed on to Isentia's clients in the usual way. Isentia expects no impact on FY16 earnings."	\$ 3.63	-25%	78%
Dec-15	ASX200 index inclusion	\$ 4.83	38%	137%
Aug-15	King Content acquisition	\$ 3.50	26%	72%
Dec-14	First copyright /scrapping agreement signed on behalf of FairFax & NewsCorp	\$ 2.77	36%	36%
May-14	ISD Prospectus lodged with ASIC. ISD IPO priced at \$2.04 per share or 11.0x EV/EBITDA	\$ 2.04		

SOURCES: ASX; MORGANS, COMPANY REPORTS

## Valuation timeline

We estimate EBITDA will decline 60% from peak (A\$51m in FY17) to trough (A\$20m in FY20) while the share price has declined 90% from peak to trough.

The peak of optimism was December 2015 (post IPO, acquisition and ASX200 index inclusion and where ISD traded on ~18x historical EV/EBITDA). Peak pessimism was in April 2019 when ISD traded on 2.5x historical EV/EBITDA. Today it trades on 3.4x historical and on 3.6x FY20 EV/EBITDA, on our estimates.

**Figure 22: ISD's LTM trading range. From the peak of optimism in 2016 to the depths of pessimism in 2019**


### FY20 update at AGM

We have paraphrased some key company commentary from ISD's FY19 AGM as follows.

South-East Asia continues to perform strongly, delivering double digit revenue growth for the year to date. North Asia remains difficult with a structural decline in traditional print monitoring. Furthermore, the political situation in Hong Kong has weighed significantly on revenues in North Asia. Australia has underperformed our expectations to date. As a result, we now expect that the rate of revenue decline in FY20 is less likely to slow and instead more likely to resemble FY19. The hard work we have done to increase the flexibility in our cost base over the past two years is paying off and means that the softer revenue outlook is not expected to impact EBITDA.

ISD's FY19 AGM revenue commentary is weaker compared to guidance from ISD's August 2019 result which was that ISD expected the rate of revenue decline to slow. However, the company's ability to flex their cost base means that even though revenue will be weaker than anticipated EBITDA is not anticipated to change versus August 2019 guidance.

**Queensland**

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
Partners	
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

**New South Wales**

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor	+61 2 8215 5000
Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
House	
Armistdale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

**Victoria**

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

**Western Australia**

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

**South Australia**

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

**Australian Capital Territory**

Canberra	+61 2 6232 4999
----------	-----------------

**Northern Territory**

Darwin	+61 8 8981 9555
--------	-----------------

**Tasmania**

Hobart	+61 3 6236 9000
--------	-----------------

**Disclaimer**

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

**Disclosure of interest**

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

**Regulatory disclosures**

Analyst owns shares in the following mentioned company(ies): isentia

This report was prepared solely by Morgans Financial Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their Analyst holdings. The following Analyst(s) have a threshold interest in the financial products referred to in this publication: Nick Harris. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Recommendation structure**

For a full explanation of the recommendation structure, refer to our website at [morgans.com.au/research\\_disclaimer](https://morgans.com.au/research_disclaimer)

**Research team**

For analyst qualifications and experience, refer to our website at [morgans.com.au/research-and-markets/our-research-team](https://morgans.com.au/research-and-markets/our-research-team)

**Research coverage policy**

For an overview on the stock selection process, refer to our website at [morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy](https://morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy)

**Research independence statement**

[morgans.com.au/Research-Independence-Statement](https://morgans.com.au/Research-Independence-Statement)

**Stocks under coverage**

For a full list of stocks under coverage, refer to our website at [morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage](https://morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage) and [morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage](https://morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage)

**morgans.com.au**

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.