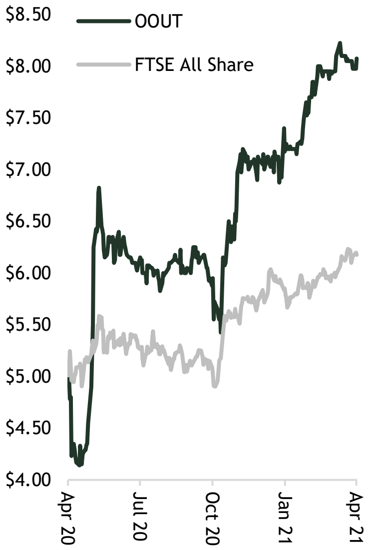
Ocean Outdoor Limited

OOUT | Small Cap | Media | $8.08 | £312m

Initiation of Coverage – Good Boat, Rising Tide

1 Year Chart



Ocean is the leading digital player in European Out of Home media. The portfolio spans multiple European markets and is centred on a UK core and management team, both with a proven track record of delivering growth and innovation. Out of Home media has been outperforming other traditional media for the best part of the last decade as the adoption of new technologies and data has transformed its commercial impact for brands. The structural drivers behind this growth have not gone away.

Unsurprisingly, the national lockdowns experienced over the last year have had a dramatic impact on the Out of Home industry, whose lifeblood is footfall and population mobility. Ocean has suffered alongside all its peers but outperformed many. Management actions on operating costs and re-mixing lease structures has protected from the worst of the impact. However, Ocean is still at the early stages of the post pandemic recovery and FY21 will still see the effect of Q1 lockdowns across Europe. The full revenue and margin recovery that we expect is likely to be phased across FY21 and FY22.

Despite Ocean's outperformance and premium positioning, the shares trade at a valuation discount to the peer group and UK Media sector. This feels overly harsh for a business with a proven track record of delivery.

- **FY20 results:** Final results for FY20 are expected imminently and the key headlines have already been flagged in the Q4 update. The 38% revenue decline is not unexpected and compares well to industry spend data and others in the peer group. Balance sheet remains robust with £25m of net cash.
- **Strength in Out of Home media:** Out of Home had been outperforming other media pre-pandemic and all expectations are that it will outperform post pandemic. This outperformance is being driven by digital growth and Ocean is the leading digital player in the sector.
- **Ocean is a unique proposition:** We see Ocean as offering a unique mix of asset backing with pure media upside. Ocean's audience can only be accessed through Ocean's media, which is protected by exclusive, multi-year contracts. As a result, Ocean has a different cost structure to other media companies and management have managed this cost exposure well through the pandemic.
- **Valuation:** Ocean trades at a material valuation discount to its global listed peer group and the broader UK Media sector. This valuation looks unwarranted with Ocean expected to continue to outperform the peer group as we enter the early stage of the pandemic recovery. In our view, the combination of asset backing, recovery upside and strategic optionality is not reflected in the valuation.

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

MiFID II – this research is deemed to be a minor, non-monetary benefit.

28th April 2021

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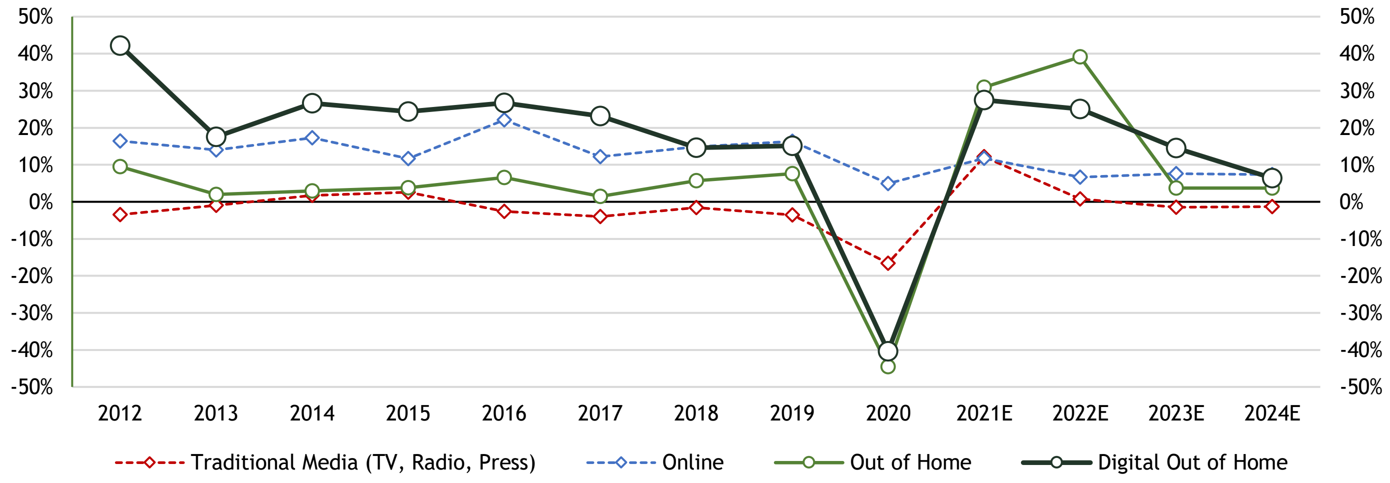
December	*Revenue	*Adj EBITDA	*Adj PBT	*Adj EPS (p)	Net Cash	EV/EBITDA
2018 A	124.5	30.4	28.9	45.4 p	160.5	9.6x
2019 A	141.3	33.2	26.7	40.4 p	26.9	8.8x
2020 E	86.0	(0.4)	(10.1)	(15.4) p	25.6	neg
2021 E	105.5	7.4	(2.4)	(0.4) p	(7.6)	38.8x
2022 E	131.0	30.1	21.0	31.9 p	8.8	9.5x

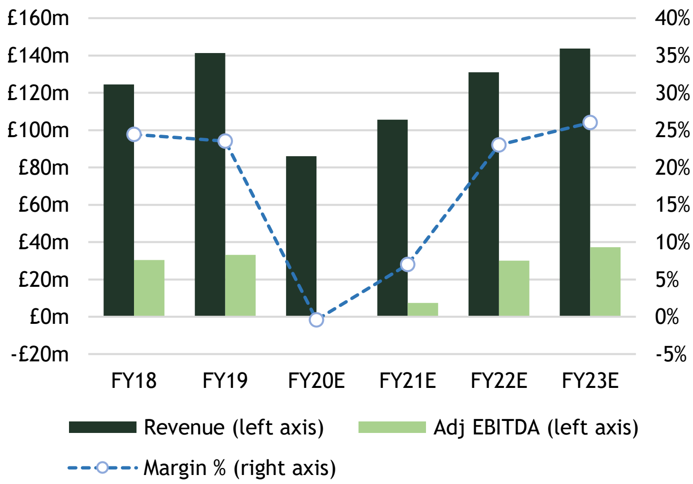
** Pro-forma for acquisitions and pre-IFRS16* *Source: Radnor*

Ocean Outdoor in five key charts

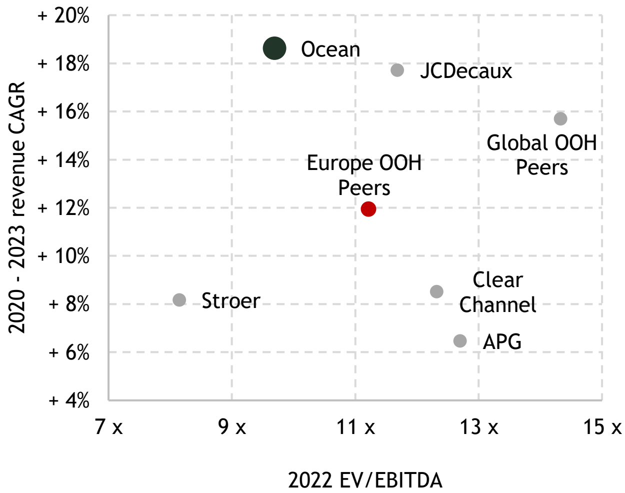
UK advertising spend across traditional, online and Out of Home media – 2012 to 2024



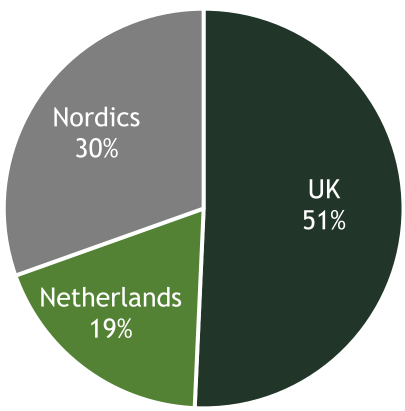
Ocean revenue & EBITDA progression



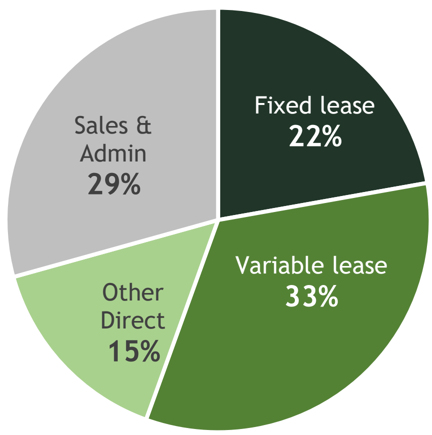
Ocean peer group valuation vs growth



Ocean FY19 geographical revenue split



Ocean FY19 cost structure (Radnor assumption)



Source: GoupM, PWC, Outsmart, IAB, Company, Radnor

Investment Case

Ocean Outdoor is a unique proposition in the UK listed arena; offering investors a pure exposure to not only the Out of Home Advertising market but, critically, the digital transition within this resilient advertising segment.

However, we believe Ocean Outdoor offers investors a number of interesting angles beyond the headline attractiveness of the Out of Home Advertising market.

Historic Strength in Out of Home Media

Despite being one of the older advertising media formats, Out of Home advertising has proven remarkably resilient compared to other traditional media. The digital transition journey within Out of Home has been significant and is likely to continue post-pandemic.

We explore the role and performance of the Out of Home advertising market across Ocean's key geographies in more detail later in this note. At a headline level, **Out of Home advertising has consistently outperformed other traditional formats**. Data from GroupM suggests that between 2012 and 2019 (ie pre pandemic), Out of Home advertising in the UK grew at a CAGR of **+4%** per annum, compared to a 1% CAGR decline for total media spend (excluding pure digital and Out of Home).

Unsurprisingly, the pandemic had a material impact on population mobility and consequently Out of Home advertising spend. At a headline level, Out of Home advertising spend declined between 30% - 40% in 2020 according to a range of industry data. However, all the established external industry forecasters expect the Out of Home market to recover sharply through the course of 2021 with **2022 expected to be ahead of 2019**.

The historic strength in overall Out of Home advertising spend is inextricably linked with the analogue to digital transition. Although not the largest player in terms of absolute scale, Ocean can claim to be one of, if not the, leading digital player in the sector.

Premium Digital Operator

Why does this digital emphasis matter? Simply put, **digital is driving the growth for the media**. In this sense, Out of Home is no different from other media formats where digital has largely supplanted analogue. Digital screens offer significant advantages in terms of content flexibility and throughput, media pricing, responsiveness and opens the door to location and recognition based targeted advertising.

Ocean Outdoor is predominantly a digital screen operator
86% of Ocean's revenue is digital. This compares to an average digital exposure across Ocean's global Out of Home peer group (ie Clear Channel, JCDecaux, Outfront Media, Stroer, Lamar Advertising and the privately owned Global) of c.30%. Ocean's digital exposure is most pronounced in the UK (c.95%) whilst the Netherlands is running north of 60%.

Digital Growth
In a similar vein to other media formats, Out of Home advertising has seen a marked digital transition over the last decade. Within the **+4%** 2012-2019 CAGR for UK total Out of Home advertising, the digital element of Out of Home has grown at a CAGR of **+21%** and now represents c.57% of total spend (31% in 2015). It is highly likely that Digital will continue to grow its share of total Out of Home spend.

The UK is relatively well advanced in terms of digital penetration within Out of Home advertising. Globally, digital penetration is lower at 34% (PWC data). Within Europe, the Nordics are similar to the UK in digital penetration at c.53%, while Germany is lower at 19% and the Netherlands at 24%.

Ocean is not an incumbent operator

Ocean is not burdened with historically over-invested analogue inventory that still needs to be monetised. Although now a well-established player in the Out of Home industry, Ocean, in many ways, displays the characteristics of a disruptor. In terms of pure scale, Ocean is by no means the largest player (JCDecaux and Clear Channel are significantly larger in scale) but still sits within the top tier of operators. Ocean's digital emphasis is the clearest differentiator to the peer group.

Not all digital screens are created equal

A key differentiator for Ocean Outdoor is the quality and positioning of its screen portfolio. This premium positioning is especially prominent in the UK, where Ocean Outdoor has stayed clear of more commoditised areas such as mass transit and street signage.

Geographical breadth

Although the UK represents the historic core of the Ocean business and the group's largest single territory (51% of FY19 pro forma group revenue), the group has been active in building a presence throughout Europe, with 30% of revenue coming from the Netherlands and the 19% in the Nordics.

These markets represent attractive growth opportunities through a combination of varying degrees of digital penetration within Out of Home advertising, general market sophistication and the ability to leverage the skills and experience developed by Ocean's track record in the UK into adjacent markets.

We will explore Ocean's historic acquisitions in further detail but the three main businesses acquired by Ocean since IPO, were themselves leading independent operators in their specific markets.

Although the pandemic has focused management attention on the here and now, there remain further opportunities to bolster existing market presences as well as seek out new market opportunities. However, we do not see Ocean taking an indiscriminate approach here and note the tight strategic rationale behind previous acquisitions.

Managed Well Through the Pandemic

Ocean Outdoor were by no means alone in having to react quickly to the challenges posed by the pandemic. By and large, the UK listed media sector has acquitted itself well in terms of the speed and efficacy of responses to short term revenue dislocations. However, for the majority of the UK media sector, the challenges revolved around immediate operational cost control and product and service transitions away from analogue to digital.

The challenges for Ocean were made more complex by the specific nature of their media where there was no immediate production transition available, and the asset backed nature of the business model where site leases can have a high fixed cost component.

Given the binary impact of national lockdowns across the majority of Ocean's core markets, the 39% decline in revenue as suggested by the Q4 trading update feels like a good result and broadly in line with its peers (FY20 revenue decline of -22% to -47%). We explore Ocean's performance relative to the peer group in more detail but at a headline level, Ocean compares well to its peers.

However, Ocean acted swiftly to re-align the fixed cost element of site leases to profit share arrangements as well as secure cost savings elsewhere in the business.

Steep Earnings Recovery

Although superficially complicated by IFRS16 lease accounting, Ocean is actually a fundamentally simple business. Costs in the business are a central sales & marketing team layered on top of site leases with the underlying landlords in whose land and property the screens are located. These leases are themselves a mix of fixed rent and profit shares.

FY20 saw management act swiftly to reduce costs to protect the business from the severe Covid-19 disruption. FY21 will be year of two halves with H1 still impacted by the varying degrees of national lockdown across Europe. Despite these impacts, Ocean has not stood still, continuing to invest in the portfolio. Whilst we expect revenue to show a sharp recovery in FY21, costs are also likely to rebuild. We are also mindful that the FY21 revenue recovery is still at an early stage for Out of Home with a potentially broader range of outcomes (positive and negative) than would normally be the case.

For FY21 we therefore anticipate a return to EBITDA profitability (+£7.4m), following a small loss in FY20 (-£0.4m). However, we expect the full cost rebuild to have fully washed through during FY21E and thereafter, revenue drop through is expected to be well in excess of 80% and we anticipate £30m of EBITDA in FY22E.

Pre-pandemic, and on a pre-IFRS16 basis, Ocean Outdoor had been generating EBITDA margins between 23% and 25%. We anticipate a full margin recovery by FY22E and historic margins being exceeded in FY23E and beyond.

Future Organic Growth Drivers

Post the natural recovery in Out of Home revenue expected as the various population restrictions across Europe recede through the course of 2021, we believe Ocean will benefit from a number of organic growth drivers over the medium term.

1. **Digital Focus**. Ocean is the purest digital play in the sector and is in prime position from the continuing shift to digital within Out of Home. The structural drivers behind this shift were well entrenched pre-pandemic and every indication is that digital will lead the industry recovery.

2. **Digital Transition**. A number of Ocean's European markets (primarily Netherlands and Germany) are still at an earlier point in the digital adoption curve and Ocean is well positioned as a leading digital operator in these markets to benefit from further structural growth.

3. **Premium Portfolio**. Ocean's digital portfolio is concentrated around premium, high impact and high visibility locations. Critically, Ocean is not exposed to the more commoditised (and higher absolute risk) areas such as public transport, airports and low value, generic street signage. The prominence and quality of Ocean's digital assets (especially pronounced in the UK) have allowed it to innovate and attract inbound interest from brand and content partners.

4. **Acquisition Benefits**. The last acquisition (AdCityMedia) closed just as the pandemic was breaking. The previous two larger deals (Visual Art and Interbest/Ngage) closed through the course of 2019. As a result, the Ocean team have had less than a year "undisturbed" to drive through the revenue and strategic synergies these acquisitions offered before the pandemic struck and management focus shifted towards prioritising business security rather than expansion. These synergy

benefits have not gone away and the recovery pathway out of the pandemic will allow management to get back onto the front foot in a concerted fashion.

5. **Creative Vision.** Although a difficult intangible for investors to measure, Ocean is fundamentally a natively digital, creative business that happens to be good at negotiating, managing and selling advertising space on the physical assets that it operates on behalf of its landlord partners. Ocean calls its core vision *"Digital Cities for Digital Citizens"* and is as much about content, innovation and experience as it is about the nuts and bolts of advertising volume and pricing. The economic opportunity is that success in the former will drive the latter and will position Ocean as the preferred creative partner for both brands and landlords, reinforcing future new site and partner opportunities.

6. **Innovation**. The last few years have seen the Out of Home sector undergo a rapid period of technical innovation and Ocean has been at the forefront of this. Face detection, vehicle detection, augmented reality applications and full fibre connections are areas where Ocean has already rolled out commercial applications. The pandemic has shifted near-term attention away from the possibilities of the media but this emphasis is likely to shift rapidly as trading conditions normalise. We expect Ocean to build on its reputation as an industry innovator as it seeks to build on the premium positioning of its portfolio.

Balance Sheet Strength & Strategic Optionality

The listed global peer group has been facing the extremes of recent trading conditions in the same way as Ocean. However, Ocean's balance sheet is stronger than many of its peers, which provides it with a degree of strategic flexibility that is not enjoyed by others. Combined with the purer digital emphasis and a higher quality site portfolio; this makes Ocean both a strategically valuable asset and also a prime candidate to be a first mover in any potential future industry consolidation. Ocean has been an active acquirer in the past and could continue to be so as it seeks to infill its existing geographical presence in the more attractive European markets.

Valuation Underpinned by Existing Asset Base

Ocean currently trades at a material discount to both its listed global peer group and the broader UK Media sector. Although the pandemic proved a severe shock to the sector, Ocean has both traded well and responded swiftly to the challenges. We expect Ocean to outperform its peers in terms of recovery pace as it benefits from both the expected industry rebound (led by digital Out of Home advertising) and its premium positioning within the industry. Yet we do not see this reflected in comparative valuations.

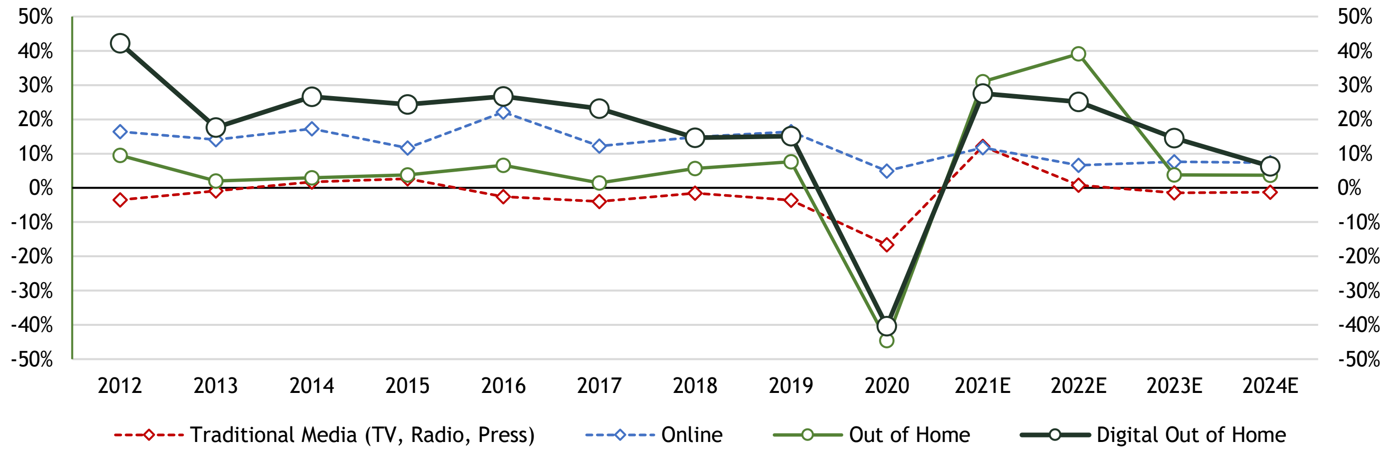
Ocean's business model also blends asset backing (site and content and channel exclusivity) in a way that is not seen with other media owner models in the UK. We believe this provides investors with a de-risked recovery path compared to other media owners.

The combination of recovery outperformance; purest digital exposure and robust balance sheet would be enough to warrant at least a peer group equivalent, if not a premium valuation in our view. For those investors willing to look beyond share illiquidity, Ocean offers both good up-front value and exposure to one of the leading, premium operators in a media niche that itself is expected to outperform over the medium term.

Digital Out of Home Media

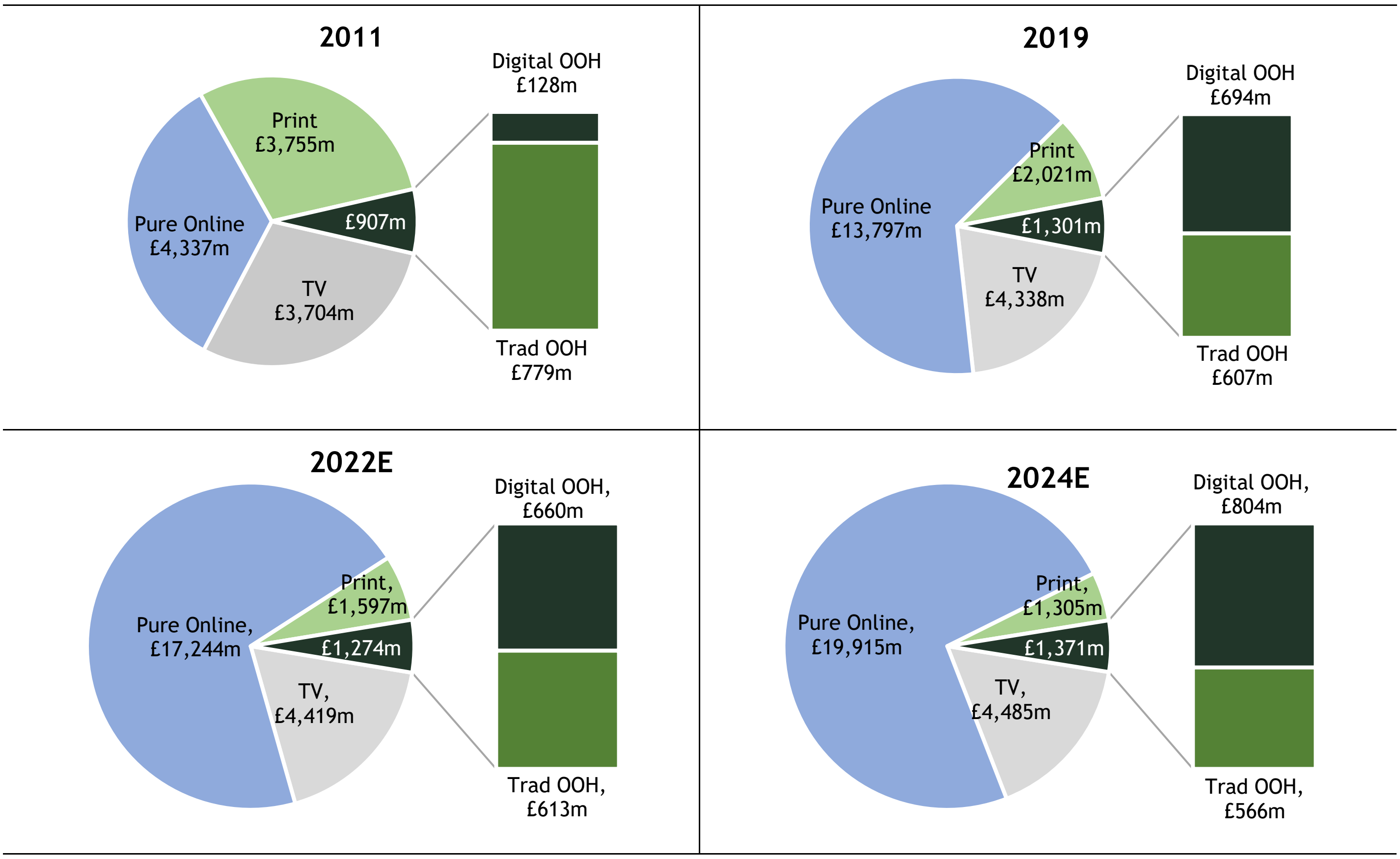
In Figure 1 below, we show the year-on-year percentage change in advertising spend across a range of media lines in the UK. We have taken data from the GroupM advertising forecast, the PWC Global Media & Entertainment Outlook and Outsmart (the trade body for the Out Of Home advertising industry. We have aggregated the spend on traditional media lines, but have excluded online advertising, Out of Home and digital Out of Home.

Figure 1: UK advertising spend by media line, Y o Y percentage growth



Source: GroupM, IAB, OutSmart, PWC

Figure 2: UK advertising spend by media line, £m



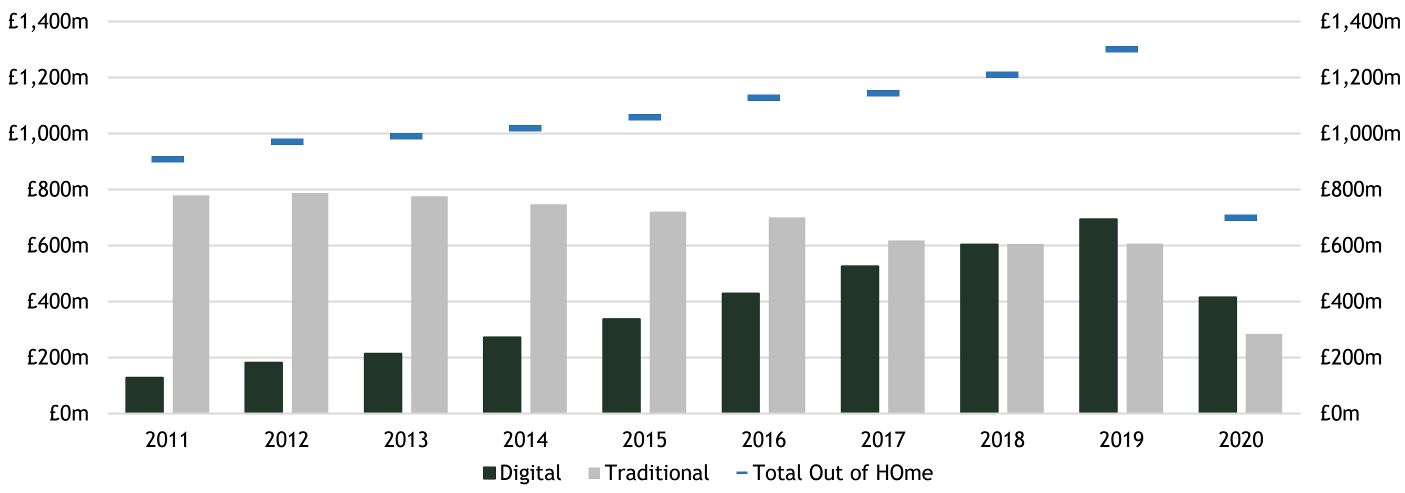
Source: GroupM, IAB, OutSmart, PWC

This data confirms that the two digital lines, online advertising and digital Out of Home, have consistently and materially outperformed more traditional media. This has been a well-established theme within the media sector since the early 2000s. However, perhaps more interestingly, aggregate Out of Home advertising (including digital and traditional) has materially outperformed traditional media (primarily TV, radio and press) all through this period and is expected to show a steeper recovery out of the pandemic trough.

In fact, the only year in the last decade where Out of Home has not outperformed other media lines in terms of overall ad spend growth has been in 2020 as a direct result of the pandemic. Only one other category posted a more severe revenue decline than Out of Home in 2020 (-46%) and that was Cinema (-80%). Given that both these categories rely on their audiences being away from their domestic environment, this is not particularly surprising.

Industry spend forecasts out to 2024E all suggest a rapid recovery in Out of Home advertising through 2021E and 2022E. Both GroupM and PWC anticipate that 2019 pre pandemic spending levels will be reached at some point during 2023E.

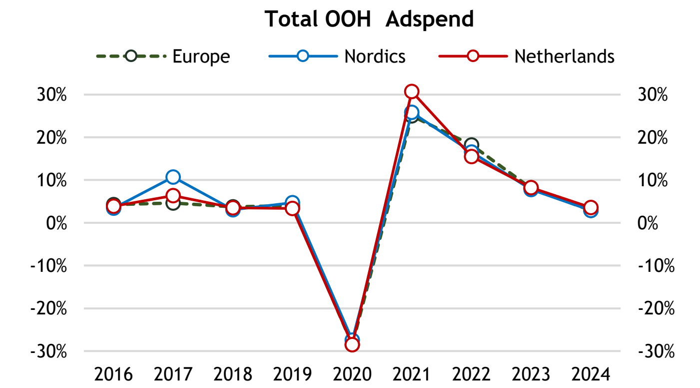
Figure 3: UK Digital vs Traditional Out of Home ad spend, £m

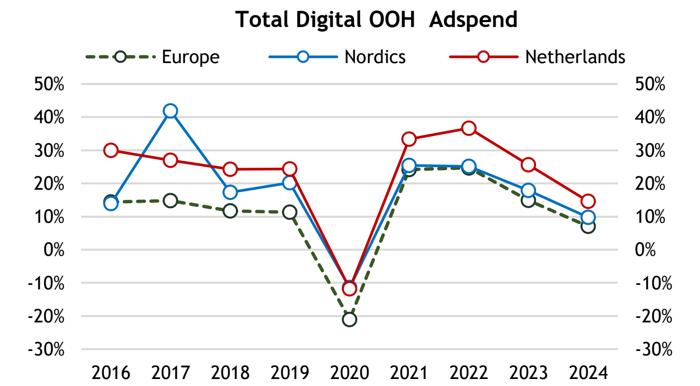


Source: Outsmart, PWC

What about the picture elsewhere in Europe outside the UK, which has always been a highly developed and mature market and one where the digital transition is well established?

Figure 4: Out of Home advertising spend growth in Europe, Nordics & Netherlands, Y o Y % growth





Source: Outsmart, PWC

In Figure 4 above, we can see a broadly similar pattern to the UK with total European Out of Home ad spend growing comfortably in the mid-single digit range pre-pandemic. Similarly, to the UK, digital Out of Home ad spend had been driving this growth.

When looking at the historic spend data and forecasts in the PWC Global Entertainment and Media Outlook 2020-24, we have aggregated the country level data to replicate the Ocean Outdoor group exposure to Europe. What we can see straight away is that **Ocean have concentrated their efforts in the markets where digital Out of Home has been driving the strongest growth.** All of Ocean's territories in the Nordics (incl Germany) and the Netherlands have outperformed Europe in the past and is expected to continue to outperform post pandemic.

Why is Digital Out of Home leading the way?

At a headline, conceptual level it would seem perfectly obvious that digital should be a force for growth; after all, every other aspect of media has been transformed by both the adoption of new technology, devices and data. However, it is worth exploring the impact of digital within Out of Home beyond the obvious visual impact stemming from the simple transition from a static, paper billboard to a full motion screen.

In no particular order, we would highlight the following:

1. **Real Time, Dynamic content.** Perhaps the most profound difference between traditional and digital billboards. Not only does this create a more arresting and engaging visual experience for the audience but it means that content can be uploaded and changed in real time. This creates the opportunity for a greater range and flexibility for advertising time slots and frequency. Campaigns can be planned and conducted on a much more granular basis. Perhaps most interestingly, it means that the screens can display more than just advertising content and opens the door for broader content, be it sports, public information or news. This has profound implications for audience engagement in screen content as well as creating broader commercial opportunities for the screen operators above and beyond pure advertising.

2. **Advantages over search / online display**. Although online advertising (especially paid for search) has been the stand-out winner in terms of attracting marketing budgets, there are limitations and drawbacks. Growing concerns over privacy, ad blocking, cookies and GDPR all suggest that web-based advertising may have hit something of a high watermark. The nature of the physical out of home medium does offer a number of advantages. Digital out of home is a one to many broadcast medium and is only as intrusive as the audience permits it to be. Although technological innovation now allows for a considerably more sophisticated degree of targeted advertising activity than before, it is still active on a broadcast rather than delivered basis and as such does not need active blocking.

3. **Improving sophistication of audience measurement.** This technological innovation is distinct from the physical display screens or the connectivity that allows real time, dynamic content. Yet, this is the innovation that has the most profound commercial impact. Historically, out of home audience measurement or calibration was an inexact science at best. Compared to other media, which offered more granular and reliable audience data, out of home lagged in sophistication which saw marketing budgets diverted elsewhere in the pursuit of verifiable return on investment.

   This dynamic has changed markedly over the last five years. Driven by a concerted effort by the industry (agencies and operators) there have been a number of substantive developments to bridge this data and analytics gap. Most notably in the

UK has been the establishment of Route as a jointly funded and independent Joint Industry Currency (in a similar fashion to BARB in TV or Rajar for radio) in order to establish reliable audience measurement as a basis for media pricing. Route uses deep and sophisticated data sets to measure footfall, population and vehicle movements at a highly localised level. Coupled with geo-spatial mapping techniques it allows an independent and accurate answer to the question; how many people saw a particular screen at a particular moment in time?

4. **Growth in programmatic trading.** A long-standing feature of other media markets, programmatic trading of media inventory has been a relatively new addition to the Out of Home market. Inextricably linked to the improvements in audience measurement and sophistication, programmatic trading is likely to result in a deeper "market" and ultimately attract a new advertising audience who had previously shied away from Out of Home. Automated buying and campaign management platforms are in place at all the major media buying agencies. The Atlas and Plato platforms provided by Out of Home specialist agency, Talon, are good examples of the level of sophistication now being offered (https://talonoutdoor.com/technologies).

5. **Technological innovation**. The marriage of deeper, more sophisticated data around human and vehicle movements and the ability to stream content in real time has opened up a number of opportunities to target and localise advertising in a much more effective way. There have also been a number of advances in recognition and detection-based technologies that can create moments of specific consumer interaction that are highly sought after by marketeers. There are challenges around privacy issues that the industry will need to continue to address. However, technology solutions do exist. For example, Ocean has developed facial detection technology that can identify key characteristics independent of individual identification. This technology can also identify whether the individual is actually looking at a screen and then alter the screen content accordingly, all without breaching GDPR. Similar methodologies can be used to identify vehicles in a roadside advertising context.

Ocean Outdoor – Business model

Group Portfolio

Ocean Outdoor is a digital first operator of Out of Home advertising media; primarily digital screens and signs (86% of group revenue in FY19) and to a lesser extent traditional billboards and other ambient media. In Figure 5 below, we break the group down into its primary geographical components.

Figure 5: Ocean Outdoor – Group Portfolio

UK

£m	FY18	FY19
Revenue	62.2	71.7
Adj EBITDA*	19.1	20.1
Margin %	30.6%	28.1%

UK	
Cities	**13**
Locations	**476**
Digital Share	**82%**

Nordics

£m	FY18	FY19
Revenue	38.5	43.0
Adj EBITDA*	5.4	5.6
Margin %	14.1%	12.9%

Sweden	
Cities	**220**
Locations	**1,000**
Digital Share	**88%**

Norway	
Cities	**18**
Locations	**208**
Digital Share	**65%**

Denmark	
Cities	**30**
Locations	**109**
Digital Share	**82%**

Finland	
Cities	**15**
Locations	**25**
Digital Share	**100%**

Germany	
Cities	**10**
Locations	**14**
Digital Share	**100%**

Netherlands

£m	FY18	FY19
Revenue	23.8	26.6
Adj EBITDA*	5.9	7.6
Margin %	24.9%	28.4%

Netherlands	
Cities	**45**
Locations	**130**
Digital Share	**58%**

* *Adjusted EBITDA stated pre IFRS16, pro-forma for acquisitions in 2018 and 2019*

Source: Company, Radnor

These display assets are installed, maintained and operated by Ocean on physical sites which are leased from third party landlords; including

- **Retail landlords.** Unibail-Rodamco-Westfield is a good example where Ocean operates the Out of Home (mix of full motion digital, static LED and large banner) portfolio across a number of Westfield shopping centres, including the Westfield Stratford, Westfield London and the Westfield Mall of the Netherlands.

- **Prominent site landlords.** Good examples here would be the Piccadilly Lights (Land Securities) and the London Waterloo IMAX (British Film Institute), which are very high profile, high visibility and high impact in terms of prominence and volume of audience.

- **Municipal / private landlords**. The UK and the Netherlands are the best examples here where Ocean operates a number of solutions.

  - **UK - The Loop**. A pedestrian network of 85 full motion 84-inch digital screens across a range of prime city centre locations. This network is branded The Loop and is marketed directly to media buying agencies and potential brand partners.

  - **UK – The Grid**. A city centre network of 37 larger format digital screens across London, Birmingham, Liverpool, Leeds, Manchester, Newcastle, Glasgow and Edinburgh.

  - **UK - XL**. A digital roadside network of 31 extra large format digital screens across Birmingham, Edinburgh, Glasgow, Manchester and Southampton.

  - **UK** - Two other roadside networks in these cities focusing on 37 standard and large format digital screens (mostly static digital but some full motion) split into **Portrait** and **Landscape** networks according to physical screen orientation.

  - **UK** - Finally, the **Central Network** which is a collection of 123 backlit, traditional ambient formats.

  - **Netherlands** – Ocean is the largest roadside digital screen operator in the Netherlands with a network of 94 digital and 81 conventional advertising masts across the key arterial road network and junctions.

Unlike its larger incumbent peers, Ocean is not particularly focused on the larger, mass transit market (national rail, metropolitan rail and underground and airports) although it should be noted that a number of its roadside locations across a range of markets do capture and benefit from pedestrian and vehicular flows at or around major transport hubs.

Business Model

There are three key components to the Ocean business model, and it is this multi-stranded model which makes Ocean a relatively unique play within the listed Media sector in the UK.

The first leg to the Ocean business model is the property element which revolves the around the identification of new advertising sites, the structuring of the lease arrangements with the landlord and the physical installation and maintenance of the advertising media.

The second leg is the selling of the resulting advertising inventory. In terms of group headcount, this commercialisation arm of the business is where the majority of staff are employed.

The third leg could loosely be described as technology, however this is the strand that ties the first two together. These are the internal teams that drive innovation in both the physical assets themselves but also, critically, the way in which the media can be used to drive deeper consumer impacts and engagement.

We cover each of these strands in more detail below.

1. Asset backing through exclusive site leases

At its most fundamental, Ocean is a media owner. It is not an agency business operating on broker / consultancy economics. Although Ocean does not own the freehold, physical ground on which the digital advertising screens are situated, it does enter multi-year, exclusive lease contracts with the underlying landlords.

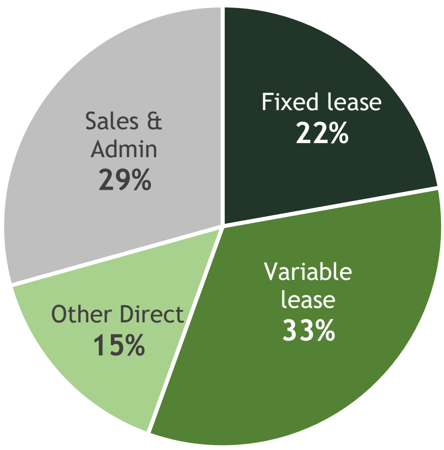
In this sense, we view Ocean as being more akin to media owners such as a broadcaster / publisher as opposed to an agency. Like other media owners, Ocean sells its own inventory on a proprietary basis. For a TV broadcaster, or a publisher, their equivalent to Ocean lease costs would be their P&L investment in their own, or third party, content rights. The key difference between Ocean and other media owners is the exclusive nature of the asset. Unlike TV, where multiple channels compete for audience for a particular time slot, Ocean's audience (for example in a shopping centre) is captive and exclusive. However, as previously discussed, the key challenge for all Out of Home operators (Ocean included) is around audience verification and measurement. The industry has made significant strides in this area over the last decade, which has been a major driver behind Out of Home's relative outperformance versus other traditional media.

Although Ocean does not publicly disclose the length of the lease terms, we can reverse engineer from the IFRS16 lease depreciation charge a weighted average lease term across the group of c.7 years although this does vary across the group's geographies (we understand that a range of 5 – 10 years would be applicable to the group). We believe that Ocean currently enjoys a relatively low level of lease renewal risk with no major leases up for renewal in the next two years. Even in a renewal situation, Ocean has a good track record with only one major competitive tender lease loss over the last 10 years.

Typically (although not exclusively), Ocean will install, maintain, and operate the screens on behalf of the landlord and in return will pay to the landlord either a fixed rent or a combination of fixed rent / minimum guarantee and revenue / profit share. This aspect of the business model is an important driver of group margins. This is a key point of difference between Ocean and a typical marketing agency where people and establishment costs tend to dominate costs.

In Figure 6 below, we show our take on how the Ocean cost base was made up in FY19. The company does not disclose the exact split between fixed and variable lease structure for commercial sensitivity reasons, so this represents our independent assumption.

Figure 6: FY19 pro forma cost analysis (revenue – adj EBITDA)



Source: Radnor

This breakdown is also based on a pre-IFRS16 treatment of lease costs. Historically, lease costs were taken direct through the P&L as a direct operating expense and not capitalised as dictated under IFRS16. In our eyes, IFRS16 has made the transparency of these costs less clear and we do prefer to look at Ocean through a pre-IFRS16 lens.

There is no one standard lease structure employed across the Ocean portfolio but broadly all the leases will fall into one of four different buckets, which we illustrate in Figure 7 below.

Figure 7: Ocean illustrative lease structures

Fixed Rent	-30%	BASE	+30%
Site revenue	**£ 0.35m**	**£ 0.50m**	**£ 0.65m**
Site profit share	0%	0%	0%
Site rent	36%	25%	19%
Fixed direct costs	44%	31%	24%
Gross Profit Margin	**21%**	**44%**	**57%**
Landlord impact	0%	-	0%
Ocean impact	100%	-	100%
Site Capex (*10 year depr*)	**£ 0.75m**	**£ 0.75m**	**£ 0.75m**
RoI	20%	40%	60%
Payback in Years	5.1	2.5	1.7

Profit Share (50%) with Min Guarantee (£75k)	-30%	BASE	+30%
Site revenue	**£ 0.35m**	**£ 0.50m**	**£ 0.65m**
Site profit share	7%	20%	27%
Site rent	21%	15%	12%
Fixed direct costs	44%	31%	24%
Gross Profit Margin	**28%**	**35%**	**38%**
Landlord impact	50%	-	50%
Ocean impact	50%	-	50%
Site Capex (*10 year depr*)	**£ 0.75m**	**£ 0.75m**	**£ 0.75m**
RoI	23%	33%	43%
Payback in Years	4.3	3.0	2.3

Sales & Marketing Agreement	-30%	BASE	+30%
Site revenue	**£ 0.35m**	**£ 0.50m**	**£ 0.65m**
Site profit share	70%	70%	70%
Site rent	0%	0%	0%
Fixed direct costs	0%	0%	0%
Gross Profit Margin	**30%**	**30%**	**30%**
Landlord impact	70%	-	70%
Ocean impact	30%	-	30%
Site Capex (*10 year depr*)	**£ 0.00m**	**£ 0.00m**	**£ 0.00m**
RoI	n/a	n/a	n/a
Payback in Years	n/a	n/a	n/a

Profit Share (50%) with No Min Guarantee	-30%	BASE	+30%
Site revenue	**£ 0.35m**	**£ 0.50m**	**£ 0.65m**
Site profit share	28%	35%	38%
Site rent	0%	0%	0%
Fixed direct costs	44%	31%	24%
Gross Profit Margin	**28%**	**35%**	**38%**
Landlord impact	50%	-	50%
Ocean impact	50%	-	50%
Site Capex (*10 year depr*)	**£ 0.75m**	**£ 0.75m**	**£ 0.75m**
RoI	23%	33%	43%
Payback in Years	4.3	3.0	2.3

Source: Company, Radnor

The gross margin impact sections in the table above outline how the change in gross margin in a positive / negative revenue scenario is shared between Ocean and the landlord.

Each lease is negotiated on a standalone basis, so terms do vary, especially around levels of minimum guarantee. What is clear is that there is stark difference between fixed rent and profit share structures when it comes to the range of gross margin outcomes.

At the most basic level, the higher the proportion of fixed rent leases will depress Ocean margins during times of revenue contraction whilst lifting Ocean margins when revenues are growing. Clearly, during the pandemic, a great deal of management focus has been on re-negotiating and re-balancing fixed rent deals towards profit share structures in order to protect margin.

The upcoming full year results will provide more colour on the extent of the progress made here, but it is clear from the headline guidance given around FY20E EBITDA, that management have been successful in re-balancing this variable / fixed lease mix in order to minimise the impact. Our understanding is that the balance between variable / fixed which had been roughly 60:40 heading into the pandemic has improved to c.75:25.

However, the market is now firmly focused on the pathway out of the pandemic and if the revenue recovery proves to be sustained and we head back towards pre-pandemic levels of trading then remixing back towards fixed rent structures will become the new priority.

From an investor's perspective, the lease structures are a double-edged sword.

- On the plus side, the nature of the physical assets and the contractual longevity and exclusivity around them provide a degree of asset backing that is unusual in the media sector. This speaks to the 30% plus EBITDA margins that the operating subsidiaries are more than capable of generating pre-central overheads.

- On the negative side, lease costs are by their nature contractual and are not as quick to turn on or off as people costs and other variable costs. Although, Ocean management reacted quickly to the pandemic and have been successful in remixing the fixed / variable lease structures, there is an inevitable time lapse as the effects run through the P&L. The opacity and complexity of IFRS16 lease accounting is also unhelpful although we applaud Ocean for presenting their numbers on a pre-IFRS16 basis alongside their statutory reporting as this aids both transparency and investor understanding of the true operating cost structure in the business.

2. Commercialisation (Sales / Technology / Creative)

As a media owner, Ocean sells its inventory to advertisers. Typically, this process is undertaken via a network of media buying agencies through which brands deploy their marketing budgets across the range of media chosen to support a particular campaign.

Although Ocean places a great deal of emphasis on its in-house creative skills and direct relationships with brand owners, a significant majority (> 85%) of Ocean's revenue is channelled through media buying agencies. Historically, Out of Home media agencies were specialists in the space, largely due to the specific knowledge and experience required to navigate and price the media when data was sparse and unreliable. This dynamic has changed markedly over recent years with the growing depth and sophistication of audience measurement data and the trend towards automated buying and campaign measurement platforms. The leading Out of Home media agencies in the sector are:

- Kinetic Worldwide (part of WPP)
- Mediacom (part of WPP)
- Posterscope (part of Dentsu)
- Rapport (part of IPG)
- Talon (last remaining large independent specialist)

Given that Ocean's inventory is primarily digital, the commercialisation of this inventory can vary according to the needs of the advertisers and are inherently flexible spanning all the way from multi-site, multi-months deals down to individual time slots. This marks a considerable change from the analogue model which was based around two-week slots for a poster. The increasing sophistication and automation of buying platforms is perfectly suited to the flexibility offered by a digital screen portfolio.

As we have already outlined, Ocean digital screen portfolio is made up of different networks according to location and format (The Loop, The Grid, XL, Ocean Portrait, Ocean Landscape and the Central Network). Each of these offers a specific solution to advertisers in terms of screen format, location and prominence and make for a tailor-made solution for national campaign builders.

Although the majority of advertising inventory sold by Ocean is broadcast display advertising (often the exact equivalent as a TV spot), Ocean has clearly identified the opportunity to position both itself and its network as a venue for more creative and innovative forms of marketing activity. This concept of developing brand leadership is critical for positioning Ocean's inventory as an attractive advertising destination. Pricing in the industry is dynamic and reflects natural demand and supply variations. By driving demand through building a reputation for creativity and innovation, the outcome will be to improve Ocean's marginal pricing and as a result, revenue yields.

Creative & Content Partnerships

Although Ocean has a proven track record in the sector, we believe it should not be viewed as an incumbent operator. It has been able to position itself clearly as a digital first business. The flexibility of the digital format, and the lack of any legacy assets or inventory weighing down the portfolio has allowed Ocean to offer a differentiated approach.

A good example of how Ocean has differentiated itself from its peers has been its consistent emphasis on creativity and innovation. Third party content partnerships are indicative of this creative emphasis. The first such partnership was signed with Team GB post the London 2012 Olympics but has subsequently broadened out to include content deals with the BBC, Formula E, the Lawn Tennis Association, the NFL, BT Sport and the British Fashion Council.

The premise behind these content partnerships is to showcase partner content on the Ocean screen network and then to use this exclusive content as an opportunity for brands to advertise alongside. Sports and fashion content are highly effective with retail and pedestrian audiences with significantly higher audience impacts and engagement levels as a result.

Each year since 2010, Ocean have also been running the Ocean Digital Creative competition which has become a well-established industry event. In 2021, the competition has been rebadged to reflect the Covid-19 pandemic theme. This event is open to all comers and is intended to unearth new creative talent for using a digital screen network. Previous winners have gone on to win awards at Cannes Lions and it has proven a fertile breeding ground for new creative concepts for digital screen media. The competition encourages the use of new technologies such as face detection / eye tracking and augmented reality. It is worth exploring some of the previous winners as this showcases how new technologies are being adopted (https://oceanoutdoor.com/digital-competition/2019-winners/).

Technology innovation – Ocean Labs

Ocean Labs represents the in-house technology development initiative. As large format digital screens are still a relatively new media, the challenge for any operator is to uncover new ways to increase audience impacts. Although raw creative quality in the delivered content is one aspect of this, the other is through the application of new technologies. Examples of Ocean Labs innovations include:

- **LookOut.** This is the facial detection technology which combines real-time ad serving with facial recognition software that can determine gender, age, engagement levels and attention span. Critically, this application is intended to be fully GDPR compliant and does not involve specific individual identification. The ability to recognise when a consumer is engaged with the screen and immediately serve a more interactive piece of content or launch an augmented reality application is potentially very powerful.

- **Vehicle Detection.** In a similar fashion to LookOut, this technology is not about identifying the car driver but rather identify the type of vehicle itself and use that information to alter and target the nature of the served content. Roadside digital screens, especially those close to major road junctions where traffic is less freely flowing, are the obvious target for such a technology.

- **Live Fibre**. Although all Ocean's digital screens are internet connected, bandwidth usage for live event streaming on large format screens is significant. Ocean currently operate 19 large format screens across the UK with direct fibre connections which means they are optimised for live streaming.

- **Data Feeds.** Ocean has the ability to mix direct data feeds (such as social media posts, sports scores and results, weather information, real time film times and seat availability) into the broadcast stream. Where necessary these can be embedded directly into the ad being served, which can increase the relevance and timeliness of the ad and therefore increase the level of impact.

Ocean Outdoor – M&A history

Ocean Outdoor made its market debut through the reverse take-over of Ocelot Partners Limited (a listed cash shell) in March 2018. The original acquisition was based on a £200m EV for Ocean Outdoor and resulted in a listed vehicle with $140m of available cash post completion. Ocean Outdoor was acquired from Search Capital Partners.

Ocean Outdoor itself was first founded in 2005 and by the time of the Ocelot transaction had already established its reputation as a pure-play leading digital Out of Home operator in the UK. Key sites such as the Piccadilly Lights (in partnership with Land Securities), the London IMAX, the Westfield Holland Park Roundabout and Birmingham Media Eyes had already been part of the portfolio alongside retail and city centre sites in London, Manchester, Birmingham, Edinburgh and Glasgow.

In FY17, Ocean had delivered revenue of £67m and EBITDA of £16m, implying an initial historic EV/EBITDA multiple of 12.5x. Since FY15, Ocean had delivered a revenue CAGR of 7% and an EBITDA CAGR of 9%. Below we outline the key acquisitions made by Ocean Outdoor since June 2018.

June 2018 — Forrest Media — EV: £32m

The first acquisition made by Ocean post the initial Ocelot reverse takeover. Forrest Media extended Ocean's UK footprint with Forrest enjoying a strong position across northern England and Scotland with a particular strength in Edinburgh, Glasgow, Manchester and Newcastle. In total, Forrest added 77 new locations into the UK portfolio.

Forrest was acquired for an enterprise value of £32m and in FY17 delivered revenue of £8.4m and EBITDA of £3m. The historic EV/EBITDA acquisition multiple was 10.7x.

March 2019 — Interbest + Ngage Media — EV: €51m

These acquisitions marked the first foray outside the UK. Interbest and Ngage are leading Out of Home specialist in the Netherlands. Interbest is the largest independent roadside Out of Home advertising operator in the Netherlands with a network of 88 digital and static advertising masts. Ngage Media, unlike Interbest, is a 100% digital operator of 76 screens across 50 locations in the Netherlands. Taken together, digital exposure is 60%.

Combined revenue in FY18 was €25.7m and EBITDA of €7.4m. The historic EV/EBITDA acquisition multiple was 6.9x. The total acquisition enterprise value was €51m.

May 2019 — Beyond / Clear Channel portfolio — EV: £3m

Based in the Netherlands, Beyond was an independent digital Out of Home roadside operator whose portfolio was complimentary to Interbest.

Alongside the acquisition of Beyond, Ocean also acquired a small portfolio of digital mast contracts based in the Netherlands from Clear Channel. This transaction was classified as capital expenditure rather than a pure acquisition.

September 2019 — Visual Art Media — EV: €63m

Visual Art Media is a 100% digital Out of Home operator headquartered in Sweden but active across Sweden, Denmark, Finland and Germany. Visual Art is the largest pure play digital operator in Sweden (c.85% of Visual Art revenue) and operates across 260 locations. The exposure to Denmark, Finland and Germany is earlier stage with the German exposure through a partnership with Unibail-Rodamco-Westfield across 15 (400 faces) of their

German shopping centres. Overall digital exposure for Visual Art Media is 95% of revenue. FY19 revenue was expected to be €29m, delivering €6m of EBITDA. This implies an initial acquisition EV/EBITDA multiple of 10.5x.

Alongside the acquisition of Visual Art Media, Ocean also announced a €15m cash investment in a new 50:50 joint venture digital signage technology company called Visual Art Technologies. This JV has been set up with the former owners of Visual Art Media.

Visual Art Technologies was anticipated to generate c.€18m of revenue with a medium term EBITDA margin expectation of 20%. Visual Art Technologies is a designer, installer and operator of digital signage systems across 24 different countries with a broad range of retail and brand customers (McDonalds and H&M highlighted in the acquisition announcement).

November 2019 AdCityMedia EV: £25m

In November 2019, Ocean announced a recommended cash offer for AdCityMedia AB, a Swedish Out of Home operator listed on the Nasdaq First North Growth market. The final share purchase subsequently completed in February 2020. The offer price was SEK165 per share in cash, representing an aggregate acquisition value of £25m.

AdCityMedia is a digital heavy (62% of FY19 revenue) operator across Sweden, Norway, Denmark and Finland with a portfolio of 4,500 screens in 1,500 locations across a range of key regional cities and urban centres. In a similar fashion to Visual Art Technologies, c.25% of AdCityMedia revenue comes from a digital signage solutions business which manages digital signage assets for a range of third party customers.

FY19 revenue was expected to be £16.5m, delivering £2.2m of EBITDA pre-synergy. This implies an initial historic acquisition EV/EBITDA multiple of 11.4x. At the time of acquisition, Ocean had identified c.£1m of cost synergies between AdCityMedia and Visual Art Media (subsequently branded Ocean Nordics).

In Figure 8 below, we summarise the full M&A history of the group. We can see that, including the initial Ocean reverse takeover and the Visual Art Tech JV, the group has spent £371.9m at an overall blended EV/EBITDA multiple of 10.8x. Looking solely at the "external" acquisitions (ie ignoring Ocean and the Visual Art JV), total M&A spend has been £156.9m at a blended EV/EBITDA multiple of 9.3x.

Figure 8: Ocean Outdoor M&A summary

		Value, £m	Revenue, £m	EBITDA, £m	EV/EBITDA	EV/Sales
Ocean Outdoor	Mar 18	200.0	67.0	16.0	*12.5x*	*3.0x*
Forrest Media	Jun 18	32.0	8.4	3.0	*10.7x*	*3.8x*
Interbest + Ngage Media	Mar 19	43.9	22.1	6.4	*6.9x*	*2.0x*
Beyond Outdoor	May 19	3.0	n/a	n/a	*n/a*	*n/a*
Visual Art Media	Sep 19	56.1	25.8	5.3	*10.5x*	*2.2x*
AdCityMedia	Nov 19	25.0	16.5	2.2	*11.4x*	*1.5x*
		359.9	**139.8**	**32.9**	***10.8x***	***2.6x***
Visual Art Tech JV	Sep 19	15.0				
Total M&A Investment		**374.9**				
"External" M&A Investment		**156.9**	**72.8**	**16.9**	***9.3x***	***2.2x***

FX rates translated at spot prevailing at the date of transaction *Source: Company announcements, Radnor*

Ocean Outdoor – Financials & Estimates

Although we are publishing forward estimates as part of this initiation of coverage, all eyes will be on the upcoming final results for FY20, which are expected on 4th May. The company has already provided headline guidance for the key FY20 outcomes, so we are not expecting any surprises on the key headlines.

Key highlights from the recent Q4 trading update are as follows:

- **Pro-forma revenue of £86.0m, -38% YoY.** To put this revenue decline into context; GroupM estimated the Out of Home overall ad spend declined by 44.5% in 2020, while both Clear Channel and JCDecaux reported revenue declines in excess of 30% (JCDecaux –40%).

- **Adjusted EBITDA loss of -£0.4m.** This compares to £33.0m of adjusted EBITDA in FY19. Within this the group has made substantial progress on operational cost savings with group overheads (excluding site rents) down 15% in the year.

- **Net cash of £25m at the year end.** This comprised gross cash of £30m and £5m drawn on the £35m bank facility.

- **Net capex of £5m.** This is a material reduction on the £15.9m invested in FY19 but does reflect the addition of new sites into the portfolio. This investment should be accretive to group earnings as these sites come on stream during a period of recovery.

Beyond the financial headlines, the group was also able to update the market on operational progress in a year where one eye has also been on positioning the business for the recovery out of the pandemic.

UK

- XL network expansion. Ocean has extended its large format UK roadside digital network, including the Two Towers installation in Birmingham.

Netherlands

- In an extension to the existing relationship with the leading retail property owner, Westfield, Ocean has won a 10-year contract to be the media partner for the Westfield Mall of the Netherlands.

- Ocean has also won the tender for a new screen installation at the Amsterdam World Trade Centre.

- Three existing roadside contracts have been extended and two new screens installed.

Nordics

- Continuing expansion of the retail presence in Sweden, including a 15 mall contract with Centrumkanalen.

- Norway saw a 24 mall contract with Alti extended, while both Finland and Denmark also saw new retail contract wins covering a further 19 malls.

FY20 results & future estimates

Although we are now seeing the gradual easing of lockdown restrictions across much of Europe and a sense of the light at the end of the tunnel growing steadily brighter, much of Ocean's Q1 has been significantly disrupted. At the Q4 update, the company stated that forward guidance remained suspended. It will be interesting to see whether this remains the case at the final results but our sense would be that it remains too early for the company to have a clear picture of the extent of any recovery through the course of 2021.

Our estimates for FY20 have been largely framed by the Q4 trading update in terms of the key headlines for revenue, adjusted EBITDA and the group net cash position. Beyond these headlines, what will we be looking for in the results and how will the answer play through into our longer term estimates?

Pace of revenue recovery

Given the materiality of the revenue decline reported in FY20 (-38%) the pace of the likely revenue rebuild will be front and centre in investors' minds.

It is worth re-iterating the point that Ocean has outperformed the industry (GroupM FY20 Out of Home estimate of -44%) and JCDecaux (-40%). Looking forward to FY21, the key issue is around the continuing impact of lockdowns in Q1 and how they wash through to Q2. Although we do expect the pace of revenue recovery to accelerate through the course of FY21, this is unlikely to recover all of the ground lost in FY20.

We are currently looking for **+23%** revenue growth in FY21 and +**24%** in FY22 to reflect this timing impact of a difficult Q1 FY21. We currently expect FY19 revenue levels to be fully recovered towards the back end of FY22, with FY23 expected to be ahead of FY19. There are undoubtedly **short-term timing risks** to the recovery in FY21 but our sense is that any prolonged post pandemic recovery will see **risks very much to the upside for our FY22 and FY23 revenue estimates**.

To put our revenue growth estimates into context our FY21 and FY22 UK revenue estimates are broadly **in line** with the GroupM forecasts for outdoor ad spend growth and our estimates for Ocean Nordics and Netherlands are slightly below the PWC forecasts. Given the tighter Covid situation in a number of European markets, we are comfortable with taking a more cautious stance in Europe until we have greater clarity.

Against the context of the listed peer group, we expect Ocean to continue to outperform due to its premium portfolio positioning and purer digital focus. The listed peer group is currently expected to see revenue growth of +16% in FY21 and +11% in FY22, which we see Ocean beating comfortably.

Lease Mix and Margins

Lease Mix. A key challenge for the group has been to address the balance between fixed and variable lease structures. Our understanding is that the group has been successful in shifting a good proportion of these leases onto profit shares in order to protect shorter-term profitability. We will look for further detail on the extent of this remix and how this could evolve as we look forward into a period of recovery.

Underpinning our assumptions around group costs is that a higher proportion of profit share based leases will hold back a degree of the natural recovery margin expansion until 2023.

Although we are expecting a sharp revenue rebound in FY21, not all of this will drop straight through to the bottom line.

– The successful shift in **lease mix** towards more variable and profit share structures will result in a lower gross margin contribution as revenues grow. We would expect these to normalise back towards the pre-pandemic lease mix levels over the course of the next couple of years.

– **Cost deferrals** into FY21. As part of the cost and cash preservation efforts made during FY20, a number of rent deferrals were agreed which will unwind over time. At the FY20 interim results, the amount of deferred rent was put at £6.3m.

– **New site expansion.** Ocean has not been standing still during the pandemic and has announced new contract wins across all its main territories. These new sites are a driver of future growth and should be welcomed by investors. However, even though the majority will have been struck on variable terms, a proportion will have fixed rent elements via minimum guarantees, which will increase rent costs for the group.

Overall, we see the critical inflection point for group revenue to be in the £100m to £110m range which is where these returning costs will fully wash through the P&L. Beyond this point, incremental revenue will drop through the P&L in the 80% plus range.

Capex, Balance Sheet and Cashflow

Capex appetite looking forward. Ocean enjoys perhaps the most robust balance sheet in the peer group, yet they remain at a sensitive point in terms of future capex commitments around new site installations. This capex is a pre-requisite behind future revenue and profit growth and guidance here will provide a clear picture around future growth expectations. We are currently expecting a gradual recovery to historic capex levels out to 2023.

Intangible asset impairment. Ocean is not alone in the media sector for having a high proportion of acquired goodwill capitalised on the balance sheet (£356.7m in FY19). The original reverse takeover of Ocelot by Ocean itself created an immediate goodwill balance, which has been compounded by the acquisitions made in 2018 and 2019. Looking across other peers in the UK media sector who have been hard hit by the pandemic, we have seen material impairment charges and it would not be unreasonable to expect similar from Ocean. We have not formally made an explicit forecast around the level of any potential impairments but would be surprised if a degree of goodwill was not impaired. Our current annual goodwill amortisation charge estimate is based around historic starting levels and would clearly be impacted by any impairment charge.

Working capital. Given the extent of the revenue and profitability hit in FY20, the already communicated net debt outcome of £25m suggests that FY20 was also a year of cash preservation. We already assume that FY21 will see a degree of working capital reversal but any further clarity on the shape of that will be welcome.

In the figures below, we show our detailed estimates for Ocean Outdoor. Where possible we have presented these numbers as:

– **Pre-IFRS16.** The adoption of IFRS16 has created an extra (and unnecessary, in our view) layer of complexity in Ocean's financial reporting. Historically, all lease costs (whether fixed or variable) had been charged as an operating expense in the period incurred. However, IFRS16 requires these leases to be taken to the balance sheet as a right-of-use asset and depreciated over their contract life. The corresponding lease liability is also amortised (according to an arbitrary assessment of the group's average debt cost) and this charge is taken through the net finance cost line of the P&L. This has the effect of inflating reported EBITDA which is not a genuine reflection of how the business is managed, nor assessed internally. Ocean reports its headline number on a pre-IFRS16 basis, which means that their adjusted EBITDA is stated after taking all the lease costs as an operating expense. We believe this is the more appropriate way to assess "true" operating profitability and present our headline adjusted EBITDA on a similar basis.

For the balance sheet, we present our estimates on a reported basis (ie including the IFRS16 right-of-use asset and lease liability. However, we do not include the lease liability within our definition of net debt, as this lease liability does not represent an external financing arrangement or source of liquid capital.

– **Pro forma** to include the acquisitions made in 2018 and 2019. Given the materiality of these acquisitions (c.40% of adjusted EBITDA and c.50% of revenue in FY19), to not present the key P&L numbers on a pro forma basis would be to present an inaccurate picture of underlying performance.

Figure 9: Key Radnor P&L estimates

Year to 31 December, £m	2018	2019	2020E	YoY	2021E	YoY	2022E	YoY	2023E
UK	*62.2*	*71.7*	*42.4*	*- 41%*	*53.8*	*+ 27%*	*71.1*	*+ 32%*	*78.4*
Netherlands	*23.8*	*26.6*	*15.7*	*- 41%*	*18.6*	*+ 18%*	*21.4*	*+ 15%*	*23.5*
Nordics	*38.5*	*43.0*	*27.9*	*- 35%*	*33.1*	*+ 19%*	*38.6*	*+ 17%*	*41.7*
Revenue - Pro Forma	**124.5**	**141.3**	**86.0**	*- 39%*	**105.5**	*+ 23%*	**131.0**	*+ 24%*	**143.6**
Direct Operating Expenses	(65.0)	(76.4)	(60.4)	*- 21%*	(69.7)	*+ 15%*	(70.7)	*+ 2%*	(74.7)
S,G & A	(29.1)	(31.7)	(26.0)	*- 18%*	(28.5)	*+ 10%*	(30.1)	*+ 6%*	(31.6)
EBITDA - Pro Forma, pre IFRS16	**30.4**	**33.2**	**(0.4)**	-	**7.4**	-	**30.1**	*+ 308%*	**37.3**
EBITDA - Pro Forma, post IFRS16	*30.9*	*68.5*	*29.8*		*41.2*		*72.1*		*83.3*
Depreciation	(3.2)	(7.0)	(9.2)		(9.2)		(9.1)		(9.3)
Goodwill	(10.1)	(19.8)	(23.8)		(24.0)		(24.0)		(24.0)
Lease Depreciation - IFRS16	-	(19.7)	(32.0)		(32.0)		(33.5)		(35.5)
Lease Interest - IFRS16	-	(6.9)	(10.9)		(11.0)		(11.5)		(12.2)
Net Finance (pre IFRS16)	1.7	(0.8)	(2.1)		(2.2)		(1.6)		(1.6)
PBT - Pro Forma Adjusted	**28.9**	**26.7**	**(10.1)**	-	**(2.4)**	-	**21.0**	-	**28.1**
PBT - Reported	**21.0**	**11.1**	**(48.4)**		**(37.1)**		**(7.6)**		**0.8**
Tax	(0.3)	(0.5)	4.4		2.2		(3.4)		(6.3)
Tax - Adjusted	(5.8)	(5.1)	1.9		2.2		(4.0)		(6.7)
No. shares m, diluted	50.9	53.6	53.3		53.3		53.3		53.3
EPS (p), Pro Forma Adjusted	**45.4 p**	**40.4 p**	**(15.4) p**	-	**(0.4) p**	-	**31.9 p**	-	**40.0 p**
EPS (p), Reported	40.7 p	19.6 p	(82.7) p		(65.5) p		(20.7) p		(10.4) p

Source: Radnor, Company

Figure 10: Key Radnor Cashflow & Balance sheet estimates

CASH FLOW Year to 31 December, £m	2018	2019	2020E	2021E	2022E	2023E
Net Income - Reported	20.7	10.5	(44.0)	(34.9)	(11.0)	(5.6)
(+) Depreciation & Amort.	13.3	26.7	33.1	33.1	33.1	33.2
(+) Lease Depreciation	-	19.7	32.0	32.0	33.5	35.5
(+) Net Finance Charge	(1.7)	7.7	12.5	12.6	13.1	13.8
Other	0.1	(0.0)	-	-	-	-
Working Capital	(5.5)	(2.1)	(8.9)	(22.6)	2.7	(0.8)
Operating Cashflow	**26.8**	**62.5**	**24.7**	**20.1**	**71.3**	**76.2**
Cash Tax	(1.0)	(2.4)	(10.0)	(5.0)	(3.4)	(6.3)
Cash Interest	1.7	0.5	(0.6)	(0.6)	(0.6)	(0.6)
Net Op Cashflow	**27.5**	**60.6**	**14.1**	**14.5**	**67.3**	**69.3**
Capex	(5.2)	(12.1)	(7.0)	(8.0)	(9.0)	
Lease Liability	-	(24.6)	(30.1)	(33.8)	(41.9)	(46.0)
Free Cashflow	**22.2**	**23.9**	**(23.0)**	**(27.2)**	**16.4**	**13.4**
Net M&A	(228.9)	(126.0)	(8.0)	(6.0)	-	-
Investment in Associate	-	(13.3)	-	-	-	-
Issue of Shares	86.7	-	-	-	-	-
Other Non Operating	0.0	(2.4)	4.9	7.5	-	-
Net Cashflow	**(120.0)**	**(117.9)**	**(26.1)**	**(25.7)**	**16.4**	**13.4**
Net Cash (Debt)	**160.5**	**26.9**	**25.6**	**(7.6)**	**8.8**	**22.2**

BALANCE SHEET	2018	2019	2020E	2021E	2022E	2023E
Intangibles	230.0	367.4	345.6	321.6	297.7	273.7
P,P+E	32.0	47.4	45.9	44.7	44.6	45.3
Right of Use Asset	-	148.6	180.6	181.1	189.8	201.3
Tax Asset & Other	6.0	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	**262.0**	**576.7**	**585.4**	**560.8**	**545.4**	**533.7**
Debtors	36.7	55.5	39.6	48.5	55.0	60.3
Cash	160.5	26.9	30.6	4.9	21.3	34.7
Creditors	(44.7)	(76.4)	(51.6)	(38.0)	(47.2)	(51.7)
Bank Debt	-	-	(5.0)	(12.5)	(12.5)	(12.5)
Lease & Tax	(3.3)	(29.3)	(33.0)	(33.0)	(34.4)	(36.2)
Net Current Assets	**149.2**	**(23.3)**	**(19.4)**	**(30.1)**	**(17.7)**	**(5.4)**
Lease	-	(136.2)	(170.8)	(171.3)	(179.6)	(190.5)
Tax & Other	(23.6)	(48.0)	(47.4)	(47.4)	(47.4)	(47.4)
Net Assets	**387.6**	**369.2**	**347.7**	**312.0**	**300.7**	**290.4**

Source: Radnor, Company

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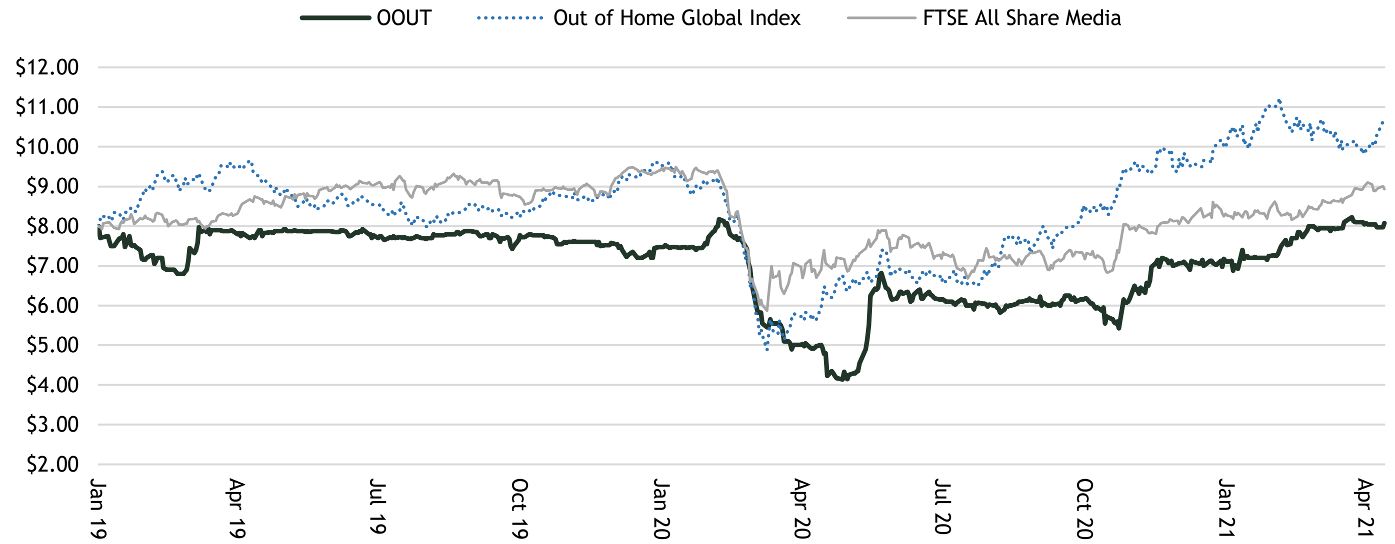
Valuation & Peer Group Comparison

In Figure 11 below, we show the share price performance for Ocean since its January 2019 re-admission compared to the price performance for the global Out of Home peer group and the FTSE All Share Media sector (both rebased to Ocean). In Figure 12, we show the headline valuation multiples for the European and the Global Out of Home peer groups.

Figure 11: Ocean Outdoor share price performance relative to global Out of Home peer group and FTSE All Share



Source: FactSet

Figure 12: Valuation comparatives – **Ocean** vs **Europe peers** vs **Global peers** vs **UK Media**

Company	Ticker	Currency	Market Cap	Net Cash	EV	Revenue CAGR (FY20-23)	EV / EBITDA 2021	EV / EBITDA 2022	EV / EBITDA 2023
Ocean Outdoor	**OOUT**	**GBP**	**312 m**	**26 m**	**286 m**	**+ 19%**	**39.5 x**	**9.7 x**	**7.8 x**
JCDecaux	DEC	Euro	4,603 m	- 1,086 m	5,689 m	+ 18%	21.4 x	11.7 x	10.0 x
Clear Channel	CCO	Dollar	1,146 m	- 4,787 m	5,933 m	+ 9%	17.7 x	12.3 x	9.9 x
Stroer	SAX	Euro	4,025 m	- 704 m	4,729 m	+ 8%	9.3 x	8.2 x	7.6 x
APG	APGN	Euro	651 m	72 m	579 m	+ 6%	16.2 x	12.7 x	11.9 x
Europe Out of Home						**+ 12%**	**16.1 x**	**11.2 x**	**9.8 x**
Lamar Advertising	LAMR	Dollar	9,979 m	- 2,962 m	12,940 m	+ 6%	18.4 x	17.1 x	16.2 x
OUTFRONT Media	OUT	Dollar	3,500 m	- 2,165 m	5,665 m	+ 12%	20.8 x	14.2 x	13.2 x
oOh Media	OML	Dollar	810 m	- 209 m	1,019 m	+ 22%	12.5 x	9.6 x	8.6 x
Focus Media Info	002027	Dollar	24,236 m	994 m	23,243 m	+ 24%	20.0 x	16.4 x	14.0 x
Global Out of Home						**+ 16%**	**17.9 x**	**14.3 x**	**13.0 x**
UK Media Sector							**16.3 x**	**13.7 x**	

Source: FactSet

We can see from Figure 11 above that pre-pandemic, Ocean's share price had broadly kept pace with both the global Out of Home peer group and the broader UK media sector. Post the pandemic lows, Ocean has seen a steady share price recovery in-line with the UK media sector but has not kept pace with the peer group.

We are not surprised to see the Out of Home peer group outperform more general media. As already discussed in this note, Out of Home advertising spend had been outperforming pre-pandemic and, by general consensus, is expected to continue that outperformance post pandemic. Moreover, this outperformance is expected to be driven by the continuing shift of spend to digital formats.

In this sense, we find the Ocean share price underperformance relative to the Out of Home peer group perhaps the more surprising. Ocean has the highest digital exposure within the peer group and is expected to show a faster recovery curve through the next three years.

Figure 13: Revenue growth vs 2022 EV/EBITDA

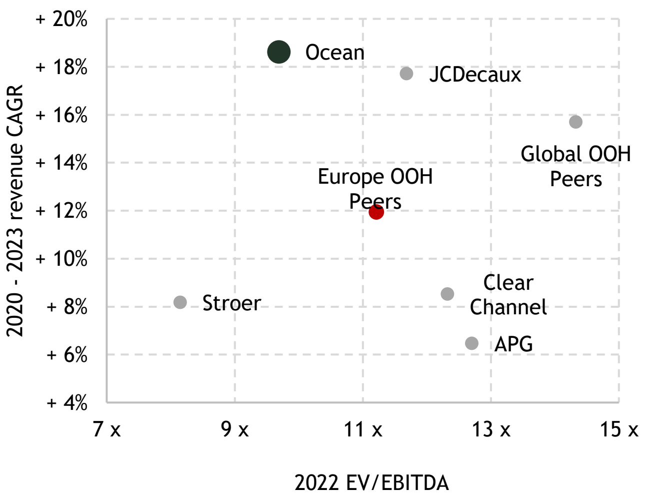
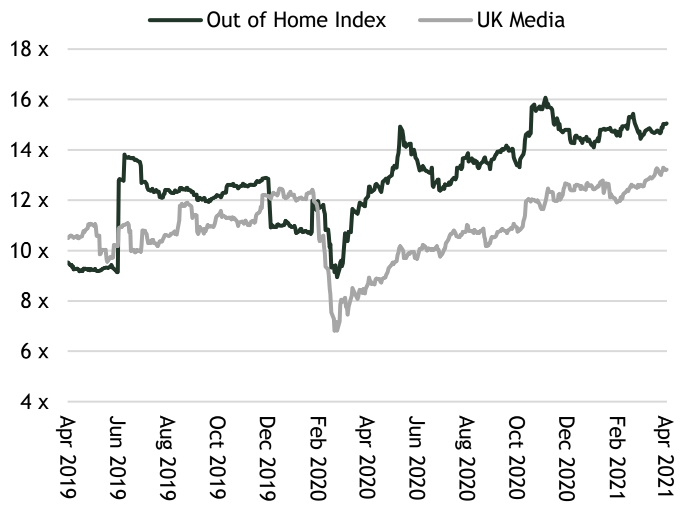


Figure 14: 2022 EV/EBITDA evolution



Source: FactSet

We can see from Figure 13 above the extent to which Ocean is expected to recover revenue at the fastest rate in the European peer group (2020 – 2023 revenue CAGR of 19% vs 12% average for the peers) yet trades at a 15% valuation discount.

We also note that the global Out of Home peer group has consistently traded at a valuation premium to the broader UK media sector, which is a clear reflection of the fact that Out of Home advertising is expected to continue to outperform general ad spend for the foreseeable future.

This valuation discount is after factoring one of the strongest balance sheets in the sector (FY20 net cash of £26m) versus a European peer group where all but one carry material debt levels.

Radnor View:

The combination of recovery outperformance; purest digital exposure and robust balance sheet would be enough to warrant at least a peer group equivalent, if not a premium valuation in our view. For those investors willing to look beyond share illiquidity; Ocean offers both good up front value and exposure to one of the leading, premium operators in a media niche that itself is expected to outperform over the medium term.

Ocean Outdoor OOUT

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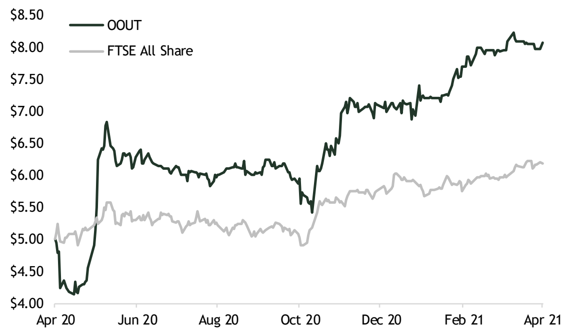
Price (p):	580 p	$ 8.08
Market Cap:	£ 312m	
EV:	£ 286m	

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

Year to 31 December, £m	2018	2019	2020E	2021E	2022E	2023E
Billings - Pro Forma	**152.7**	**173.4**	**105.3**	**129.6**	**163.1**	**179.0**
UK	*62.2*	*71.7*	*42.4*	*53.8*	*71.1*	*78.4*
Netherlands	*23.8*	*26.6*	*15.7*	*18.6*	*21.4*	*23.5*
Nordics	*38.5*	*43.0*	*27.9*	*33.1*	*38.6*	*41.7*
Net Revenue - Pro Forma	**124.5**	**141.3**	**86.0**	**105.5**	**131.0**	**143.6**
Direct Operating Expenses	(65.0)	(76.4)	(60.4)	(69.7)	(70.7)	(74.7)
S,G & A	(29.1)	(31.7)	(26.0)	(28.5)	(30.1)	(31.6)
EBITDA - Pro Forma, pre IFRS16	**30.4**	**33.2**	**(0.4)**	**7.4**	**30.1**	**37.3**
EBITDA - Pro Forma, post IFRS16	*30.9*	*68.5*	*29.8*	*41.2*	*72.1*	*83.3*
Depreciation	(3.2)	(7.0)	(9.2)	(9.2)	(9.1)	(9.3)
Goodwill	(10.1)	(19.8)	(23.8)	(24.0)	(24.0)	(24.0)
Lease Depreciation - IFRS16	-	(19.7)	(32.0)	(32.0)	(33.5)	(35.5)
Lease Interest - IFRS16	-	(6.9)	(10.9)	(11.0)	(11.5)	(12.2)
Net Finance Charge (pre IFRS16)	1.7	(0.8)	(2.1)	(2.2)	(1.6)	(1.6)
PBT - Pro Forma Adjusted	**28.9**	**26.7**	**(10.1)**	**(2.4)**	**21.0**	**28.1**
PBT - Reported	**21.0**	**11.1**	**(48.4)**	**(37.1)**	**(7.6)**	**0.8**
Tax	(0.3)	(0.5)	4.4	2.2	(3.4)	(6.3)
Tax - Adjusted	(5.8)	(5.1)	1.9	2.2	(4.0)	(6.7)
No. shares m, diluted	50.9	53.6	53.3	53.3	53.3	53.3
EPS (p), Pro Forma Adjusted	**45.4 p**	**40.4 p**	**(15.4) p**	**(0.4) p**	**31.9 p**	**40.0 p**
EPS (p), Reported	40.7 p	19.6 p	(82.7) p	(65.5) p	(20.7) p	(10.4) p

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Atairos	19.9%
Anchorage Capital	12.3%
Senator Investments	11.5%
Jupiter Asset Management	7.0%
Permian	6.9%
Directors	5.4%
	63.0%

CASH FLOW

Year to 31 December, £m	2018	2019	2020E	2021E	2022E	2023E
Net Income - Reported	20.7	10.5	(44.0)	(34.9)	(11.0)	(5.6)
(+) Depreciation & Amortisation	13.3	26.7	33.1	33.1	33.1	33.2
(+) Lease Depreciation	-	19.7	32.0	32.0	33.5	35.5
(+) Net Finance Charge (incl Lease)	(1.7)	7.7	12.5	12.6	13.1	13.8
Other	0.1	(0.0)	-	-	-	-
Working Capital	(5.5)	(2.1)	(8.9)	(22.6)	2.7	(0.8)
Operating Cashflow	**26.8**	**62.5**	**24.7**	**20.1**	**71.3**	**76.2**
Cash Tax	(1.0)	(2.4)	(10.0)	(5.0)	(3.4)	(6.3)
Cash Interest	1.7	0.5	(0.6)	(0.6)	(0.6)	(0.6)
Net Op Cashflow	**27.5**	**60.6**	**14.1**	**14.5**	**67.3**	**69.3**
Capex	(5.2)	(12.1)	(7.0)	(8.0)	(9.0)	(10.0)
Lease Liability	-	(24.6)	(30.1)	(33.8)	(41.9)	(46.0)
Free Cashflow	**22.2**	**23.9**	**(23.0)**	**(27.2)**	**16.4**	**13.4**
Net M&A	(228.9)	(126.0)	(8.0)	(6.0)	-	-
Investment in Associate	-	(13.3)	-	-	-	-
Issue of Shares	86.7	-	-	-	-	-
Other Non Operating	0.0	(2.4)	4.9	7.5	-	-
Net Cashflow	**(120.0)**	**(117.9)**	**(26.1)**	**(25.7)**	**16.4**	**13.4**
Net Cash (Debt)	**160.5**	**26.9**	**25.6**	**(7.6)**	**8.8**	**22.2**

Announcements

Date	Event
Feb 2021	BT Sport content partnership
Feb 2021	Q4 trading update
Nov 2020	Q3 trading update
Sep 2020	H1 results
Sep 2020	Westfield contract in Netherlands
Jun 2020	FY19 final results & Q1 update
May 2020	Financing update
Mar 2020	Covid-19 update
Feb 2020	Trading update

RATIOS

	2018	2019	2020E	2021E	2022E
RoE	6.0%	5.9%	-2.4%	-0.1%	5.7%
RoCE (pre IFRS16)	9.7%	6.2%	-2.5%	-0.5%	6.0%
Asset Turnover (x)	2.1x	4.1x	6.8x	5.3x	4.2x
NWC % Revenue	-9.1%	-35.6%	-52.3%	-21.3%	-20.2%
Op Cash % EBITDA	88.2%	113.9%	n/a	-184.4%	97.6%
Net Debt / EBITDA	neg	neg	neg	neg	neg

BALANCE SHEET

Year to 31 November, £m	2018	2019	2020E	2021E	2022E	2023E
Intangibles	230.0	367.4	345.6	321.6	297.7	273.7
P,P+E	32.0	47.4	45.9	44.7	44.6	45.3
Right of Use Asset	-	148.6	180.6	181.1	189.8	201.3
Tax Asset & Other	6.0	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	**262.0**	**576.7**	**585.4**	**560.8**	**545.4**	**533.7**
Debtors	36.7	55.5	39.6	48.5	55.0	60.3
Cash	160.5	26.9	30.6	4.9	21.3	34.7
Creditors	(44.7)	(76.4)	(51.6)	(38.0)	(47.2)	(51.7)
Bank Debt	-	-	(5.0)	(12.5)	(12.5)	(12.5)
Lease & Tax	(3.3)	(29.3)	(33.0)	(33.0)	(34.4)	(36.2)
Net Current Assets	**149.2**	**(23.3)**	**(19.4)**	**(30.1)**	**(17.7)**	**(5.4)**
Lease	-	(136.2)	(170.8)	(171.3)	(179.6)	(190.5)
Tax & Other	(23.6)	(48.0)	(47.4)	(47.4)	(47.4)	(47.4)
Net Assets	**387.6**	**369.2**	**347.7**	**312.0**	**300.7**	**290.4**

VALUATION

Fiscal	2019	2020E	2021E	2022E	2023E
P/E	14.4x	neg	-1634.1x	18.2x	14.5x
EV/EBITDA	8.6x	neg	38.8x	9.5x	7.7x
Price to Book	0.8x	0.9x	1.0x	1.0x	1.1x
FCF Yield	8.3%	-8.0%	-9.5%	5.7%	4.7%
Net Revenue growth	13.5%	-39.1%	22.7%	24.1%	9.6%
EBITDA growth	9.2%	neg	neg	307.8%	23.9%
EPS growth	-11.0%	neg	neg	-9092.4%	25.4%
FCF growth	7.3%	-196.3%	18.5%	-160.3%	-18.6%

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