SHADOWFALL

FUTURE Plc: HERE'S HOPING THE PAST IS NOT NECESSARILY AN INDICATION OF THE...

FOR PROFESSIONAL CLIENTS ONLY. ShadowFall Fund is short Future Plc (Future).

Future is a £1.5bn market cap, UK listed company, valued at 6.8x 2019 sales, where we calculate in the past three years it has acquired 79% of its revenue on a 1.9x sales multiple. We believe there's a fundamental issue with Future's shareholders' hopeful anticipation for Future's future: When we reviewed what Future has bought and respective Glassdoor reviews, we're left with the impression that Future is little more than a collection of generally low quality, often distinct and shrinking assets which carries significant execution risk.

Contrary to its reported FY19 organic revenue growth of 11%, from Future's own disclosures, we calculate that it would have been 1%. When it comes to EBITDA, we question the benefits that the Group's reports from its strategy, such as "Growth from Platform Effect". Our view is that a greater proportion of FY19 EBITDA growth stems from businesses being acquired.

We find: many of the acquired assets have long histories of decline and incur all too frequent reorganisation costs. Post-acquisition, independent data sources suggest to us that some assets have experienced a deterioration in online reach, which we find concerning for a business attempting to broaden its digital exposure. Some assets have what we view as unusual cost structures. On one occasion we find it difficult to reconcile Future's version of an asset's profitability with that of the seller's. In another instance, we find that Future repurchased an asset out of administration which it had sold four years prior – hardly inspiring confidence in its M&A strategy. One of the larger assets appears to have experienced post-acquisition adjustments where the value attributable to websites was determined to be £37.8m or c. 60% lower than previously appraised. We find this concerning for such an acquisitive company where branding and web traffic is important for growth and its balance sheet value is heavily supported by goodwill.

In the present, Future's management have largely cashed in. Less than a month after raising £104.4m through equity, Future's management offloaded £43.7m in stock. Perhaps they had one eye on Future's past, which we believe has been less than distinguished.

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The Future, Present and Past

Future appears to us to be a monumental example of shareholder exuberance. Since 2016, we calculate Future has acquired £174.3m of revenue – constituting 79% (or 170% if including TI Media) of its 2019 revenue. This has come at an average price of 1.9x (1.3x inc. TI Media) **trailing** twelve months (TTM) revenue. Future trades on 4.5x **forward** 2020 revenue. Future's shareholders are banking on its M&A strategy proving a roaring success. So much so that Future's buyers have bid up a private to public valuation arbitrage of 250%+. We believe there's a fundamental issue with Future's shareholders' hopeful anticipation for Future's future: when we reviewed what Future has bought, it doesn't strike us as being all that great. We view the quality of its acquired assets as generally being low, which is probably why Future has typically been able to purchase them on such low prices relative to its own valuation. Further, execution risk may be higher than its management alludes to. We found our examination of Glassdoor reviews to be particularly enlightening, and indicative of a company scratching away for basis points of margin expansion rather than a business with a significant operating leverage opportunity.

In the present, while Future's shareholders stick around for this all to play out, Future's management has largely cashed in. Less than a month after Future completed its largest equity raise to date (£104.4m) to fund what will be its largest acquisition to date (TI Media), Future's management offloaded £43.7m in stock. Perhaps they've had one eye on Future's past, which we believe it's fair to say has been less than distinguished. Having thought that all parties' interests were aligned, we can imagine that such a slap in the face to its shareholders must leave a sting (as we observe with the share price falling from £15.72 to £14.28 per share following the announcement). However, given our view that Future has always had an ever-changing, self-serving management reward structure, which appears at times to be at odds with long term shareholders' interests, we're not entirely sure that such a shareholder reaction should come as a surprise.

Future is a UK listed company, capitalised at £1.5bn. It describes itself as 'a global platform for specialist media', growing revenue both organically and inorganically, providing 'significant operating leverage'.

Since 2009, we calculate that Future has:

- Reported a cumulative £218.2m in adjusted EBITDA.
- Reported a cumulative £108.0m in adjusted operating profit.
- <u>Reported a cumulative statutory operating loss of £18.2m</u>.
- Generated a cumulative £62.0m in Free Cash Flow (FCF).
- Paid £11.2m in dividends.
- Spent a cumulative £470.3m on acquisitions funded via £371.4m in cash, £43.2m in equity and the remaining £55.7m in contingent consideration.
- Paid average multiples of c. 1.3x TTM revenue and 8.3x PBT for its acquired businesses, as compared to Future which currently trades on 6.5x TTM revenue and 29x PBT.
- Raised around £287m in capital; c. £236m in equity issuance and c. £51m in net debt issuance. Most recently a gross £104.4m equity raise on 31 October 2019.
- Seen its management sell significant levels of stock; most recently gross proceeds of £43.7m on 27 November 2019 at a price of £14 per share.

Summary

Future's potential for success rests on the ingenuity of its management in turning a sizeable collection of often distinct and shrinking assets – which it has largely acquired since 2016 – into a cohesive, profitable and cash generative enterprise. Subsequent to a review of its financial statements and the acquired assets, we are incredulous that such a hopeful outcome can be achieved. In particular, we highlight:

1. **Contrary to Future's reported FY19 organic revenue growth of 11%, we calculate from Future's disclosures that it would have been 1%.**

   Based on the revenue contributions that Future provides from its acquired assets in 2018 and 2019 and the methodology it provides for its Like-For-Like organic revenue growth, we calculate that Future's organic revenue growth totalled 1% in FY19. With some companies, we have seen stronger organic revenue growth reported due to more creative definitions, sometimes including growth in the year from acquired businesses or excluding discontinued lines of business. Given that Future does not state these form part of its methodology, we are unable to reconcile how it reports 11% organic revenue growth in FY19.

2. **We believe that a greater proportion of Future's FY19 EBITDA stems from it being acquired than from strategic effects such as "Growth from Platform Effect".**

   In its FY19 Results Presentation, Future indicates in its EBITDA bridge that "Acquired EBITDA" contributed £14.5m in FY19. However, we calculate that in PBT alone, the carry over contribution from 2018's acquisitions and contribution of 2019's acquisitions, would have totalled £15.6m. This conservatively assumes zero growth in PBT for the 2018 contributions. We interpret this to mean that the strategic effects of Future's M&A may be less strong than the wider market believes.

3. **Some of the acquired assets (or those being acquired) have long histories of declining revenue and profit and all too frequent reorganisation costs.**

   For example, **TI Media.** Announced in October 2019[1] for a £140m cash cost, TI Media will be Future's most costly purchase to date, where it will pay c. 0.7x TTM revenue. We calculate that:

   - TI Media's revenue has collapsed by 40% since 2010, or at a **CAGR of MINUS 5.6%**.
   - TI Media's EBITDA margin was 14.0% in 2018, however, when considering reorganisation costs in 2018 of £14.6m, the margin would have been **halved to 7.1%**.
   - TI Media has incurred a total of **£92.3m in reorganisation costs** during 2013-18; averaging £15.4m per annum. **Future's shareholders will presumably hope that TI Media's days of incurring such a scale of reorganisation costs are finally over**.
   - Future indicates cost synergies of £15m from TI Media. Given that TI Media's revenue has fallen by an average of £15.2m per annum since 2013, if Future is unable to halt this degree of decline, then the margin benefit from these synergies would be negative.

[1] Acquisition pending and curently subject to a Competition and Markets Authority (CMA) review. We assume this acquisition will be completed on 1 April 2020.

- **TI Media's own acquisition strategy appears to have been relatively unsuccessful**. TI Media acquired UK Cycling Events in 2015 for £6m. By 2018, UK Cycling Events' EBIT margin had fallen from 28.8% in 2015 to **MINUS 19.4% in 2018**. TI Media acquired Collective Europe in 2016. Two years later, Collective Europe's revenue had **fallen by 22%, to £9.9m, generating £172,000 in EBIT** in 2018.

4. **Other acquired assets in the digital space do not appear to be growing.**

For example, **SmartBrief**. Acquired for £43.7m in July 2019, Future paid 1.5x SmartBrief's 2019 indicative sales. SmartBrief appears to be a reasonable business, however, we have reservations as to whether it is growing.

- In 2015, SmartBrief reported it was serving over 5.8m senior executives. Four years later it reports 'serving nearly 6m senior executives', hardly suggesting rapid growth.

5. **Some assets appear to us to have limited growth and unorthodox cost structures.**

For example, **MoNa Mobile Nations**. Acquired for £90.2m in March 2019, implying that Future paid 10.1x sales and 11.7x PBT for Mobile Nations.

- Mobile Nations has been rocking along for over 9 years and grown its revenue to £8.9m. This doesn't strike us as an especially fast-growing business.
- Mobile Nations claims that it reaches 'more than 500,000,000 consumers annually'. Even if Mobile Nations reached over 1 billion consumers, then at an average of 2p per consumer, the most that Future may expect could be £20m in annual revenue. However, **we calculate that site visits to Mobile Nations' main brands have halved in the past 12 months**, suggesting rapid revenue growth is an unlikely prospect.
- Its revenue aside, **what we find curious is that Mobile Nations' entire cost base apparently comes to £1.2m** (Futures states revenue of £8.9m and PBT of £7.7m). Mobile Nations' LinkedIn profile indicates it has 93 employees, and we count at least 62 from its website. A £1.2m cost base would imply the average annual salary per employee equates to £19,355, and this would assume the company incurs no distribution, marketing, depreciation, amortisation, costs etc.

6. **Some of the larger acquired assets have experienced post-acquisition balance sheet adjustments which in our view raises question marks over Future's due diligence process.**

For example, **Purch Group**. Acquired in September 2018 for £99.8m in cash. Future paid 2.1x 2018 sales and 12.6x 2018 PBT for Purch Group.

- Prior to its acquisition, Purch Group itself had raised c. £100m in June 2015, when it claimed to be achieving revenue of more than $100m. Future acquired part of Purch Group (c. £47.5m in full-year revenue and PBT of £7.9m).
- When initially reported in its 2018 filings, Future detailed a provisional value for Purch Group of other intangible assets as £72.5m and Goodwill as totalling £20.2m. **A year later, in its 2019 report, Future revised down the value of other intangibles by £35.6m. Goodwill had been marked higher by £37.1m.** While this is entirely permissible under accounting standards, it has the helpful benefit of ensuring that significant upfront amortisation is shielded from Future's future Income Statements. For example, when it acquired the smaller Haymarket titles and NewBay Media in 2018, Future indicated that "The publishing rights, brands and websites

will be amortised over a period of five years." If this amortisation policy had been applied to Purch Group on its original, provisional intangible asset value, then we calculate that **Future would report an additional amortisation value of c. £7.1m each year over the next five years.**

- More concerning in our view, post-acquisition, Future's management have reassessed the value of Purch's intangible assets at **half** the initial valuation. We believe this reflects poorly on pre-acquisition due diligence and find this concerning given the importance of acquisitions in the investment case for Future.

7. **We find it difficult to reconcile the performance of assets as reported by Future compared to the performance reported by the sellers of the same assets.**

For example, the **Haymarket** titles. Acquired from the Haymarket Media Group (HMG) for £10.7m in May 2018.

- Future indicates that if the Haymarket acquisition had been completed at the start of its financial year, then it would have contributed £8.9m in revenue and PBT of £2.0m (excluding deal fees, etc). **However, based on HMG's filings, we find it difficult to reconcile how these assets would have achieved PBT of £2.0m**.

8. **Somewhat bizarrely, in our view, Future has bought back businesses it previously sold: a clear case of "Back to the Future"!**

For example, **Team Rock Limited**. Disposed of by Future in 2013, it was bought back out of administration in January 2017.

- Future sold the Team Rock titles in April 2013 for £10.2m. By December 2016, **having chalked up cumulative net losses of £24.8m in just three years**, Team Rock appointed an administrator.
- As well as incurring significant losses, Team Rock was unable to grow its revenues. Team Rock reported revenue of £7.6m in 2014. By December 2016, on a proforma basis, Team Rock was achieving revenue of £5.4m; a 29% decline.
- In January 2017, Future repurchased assets from Team Rock for a cash consideration of £0.8m. **The repurchase of Team Rock contributed 12.6% to Future's revenue growth and 10% to its increase in PBT in 2017**. 2017 was also a year in which Future's share price rose 108%, and its management were awarded **400% of salary** (an amount the board were authorised to award under exceptional circumstances) in the performance share plan. **This 400% PSP award appears to have been sold in November 2019 realising proceeds of £43.7m!**

9. **Acquiring assets which have seemingly more than halved in value from just a few years prior to purchase.**

For example, **Miura (Holdings) Limited**. Future acquired Miura on 21 October 2016. Total consideration was £15.5m, settled by way of issuance of c. 12 million shares.

- Miura was incorporated in March 2013, and a month later, acquired Imagine Publishing for £39m; the latter which had been in business since 2005.
- From the point of acquisition, **Imagine Publishing's revenue declined**. Imagine Publishing's revenue peaked in 2012 at £19.0m and deteriorated to £16.4m by 2016. Following Future's acquisition of Miura, the full-year revenue contribution of the business was indicated to be **weaker still at £15.3m**.
- **Imagine Publishing's deterioration in revenue may explain why Future purchased Miura in 2016 for 60% less than what it was effectively valued at just three years prior in 2013.**
- Miura contributed c. 58% to Future's sales growth and as much as 24% of its adjusted profit before tax in FY 2017; **the year of the 400% PSP award**!

- As is typical for its acquired businesses, **Miura was purchased for 1x trailing sales** as compared to Future which is **currently trading at 6.8x 2019 revenue.**

10. **Indications that Future's buy and build strategy is proving unpopular with its employees.**

One would assume that due to the pace at which Future has acquired companies it would need time to integrate new teams, aligning them with the existing culture and systems. Large scale integrations frequently give rise to the most challenging periods for management teams over their tenures.

- Future's executives paint a picture of integration success, stating at its FY2019 results that all of the 4 key acquisitions over the last 14 months were delivering in line with expectations.
- However, recent employee Glassdoor reviews portray a starkly different picture to management commentary. For example, looking at the reviews for SmartBrief, all of the reviews since its acquisition have been negative. A blunt contrast to the more positive reviews prior to the acquisition.
- Our findings for SmartBrief appear to be a microcosm of the bigger beast. Over the last 12 months, the majority of Glassdoor reviews for Future have been negative. **Some of the views that current and past employees expressed we found to be simply shocking, and we believe are indicative of a company scratching away for basis points of margin expansion rather than a business with a significant operating leverage opportunity.**

11. **A seemingly ever-changing management reward structure which appears to be at times at odds with long-term shareholders' interests and an interconnected management team**.

- We believe that Future has one of the least consistent and most subjective compensation policies we've seen. We find incentives are too frequently short-term in nature or have imprecise or adjusted yardsticks.
- We calculate that in the 3 years to FY19 the CEO and CFO have received single figure remuneration of £31.8m; 83% of this coming from the performance share plan (PSP). To put this into context, **this is 29.4% of the cumulative adjusted operating profit Future has achieved over the entire DECADE past**. When adjusting for what the PSP shares were worth on their exercise date this figure rises to at least £42.8m. Over the period 2014-18, only once has the vesting criteria methodology remained the same as the prior year. **This is against a seemingly unchanged business strategy**.
- The policy of M&A has been the single biggest driver for the financial performance of the business. We question whether management are incentivised to invest the company's capital in creating long-term shareholder value or to conduct M&A in meeting short term financial targets? The fact that management has cashed in a significant portion of its PSP in recent months, sways us to the viewpoint of short-termism.
- The proverbial flip-flopping in PSP criteria repeats in 2018 when the board reverted back to adjusted EPS from adjusted EBITDA, whilst maintaining a similar share price element. **We believe that the hurdle here was equally low.** The adjusted EPS portion of the PSP would be linked to FY20 results. The options were issued on the day of the FY17 results, in which Future reported adjusted EPS of 21.0p. **The criteria for the options to vest in full was set at 26.0p a mere 7% CAGR or, how we prefer to look at it, a 230 bp PBT margin expansion over 3 years with no revenue growth or acquisitions**.

- We were surprised by the level of interconnectivity between the senior management of Future. We find that current CFO Ms. Ladkin-Brand appears to follow CEO Ms. Byng-Thorne throughout their respective CVs. According to an ex-employee's Glassdoor review, we find that Ms. Byng-Thorne's alleged brother, Zack Sullivan, joined Future shortly after she joined. Since joining Future, Mr Sullivan has seemingly rapidly been promoted to the Director of Operations & Marketing and more recently is now the Chief Revenue Officer (CRO) for the group.

12. **Acquired PBT margins consistently lag group adjusted margins, resulting in dreamy consensus PBT forecasts.**

- Given that inorganic revenue in FY2020 is 62% of FY2019's reported revenue and we calculate that these revenues generate a PBT margin of 10.7%, **approximately half that of the group,** we believe the consensus forecast 2020 group PBT margin of 20.5% is somewhat ambitious.
- Furthermore, to meet these expectations this would imply that **the current business would have to improve its PBT margin from 22.7% in 2019, to a whopping 27.4% in 2020, a sizeable 470bps of expansion! Whether its 2019 reported PBT margin of 5.7% will receive the same uplift remains to be seen.**

Company Description

Future describes itself as 'a global platform for specialist media', growing revenue both organically and inorganically, providing significant operating leverage.

The British-based company develops media content and distributes it via a range of online websites and established magazine brands. Its main online brands are: TechRadar, Toms Guide and TopTenReviews. Its magazine brands include: T3, PC Gamer and FourFourTwo.

Future aims to grow revenue both organically and inorganically, with a seemingly insatiable appetite for acquiring new specialist media titles. Future aims to deliver operating leverage over revenues via the use of its own "platform model" (Vanilla and Hybrid). 'Vanilla' is Future's website platform, which standardises content display and implements search engine optimisation ("SEO"). 'Hybrid' is Future's own ad platform which aims to increase the total number of ad dollars on each site through greater content accessibility, ad frequency and by providing more targeted impressions. Sometimes this will occur by moving established websites onto a new platform and other times it will be via the launch of new sites based upon established content, e.g. a website for a magazine title.

In FY19, Future's main revenues were from 'media', which includes digital advertising and eCommerce revenues (70%) with the balance from magazines (30%). 54% of revenue is generated in the US with the remaining 46% generated in the UK.

Media revenues are growing at a reported 32% organic rate mostly driven by eCommerce, whilst Magazines declined 10% organically, for a blended group organic growth of 11%. The Media segment generates an 82% gross contribution margin while magazines generate a 62% margin.

Future reported revenue of £221.5m, adjusted operating profit of £52.2m, and adjusted net income of £41.2m in FY19.

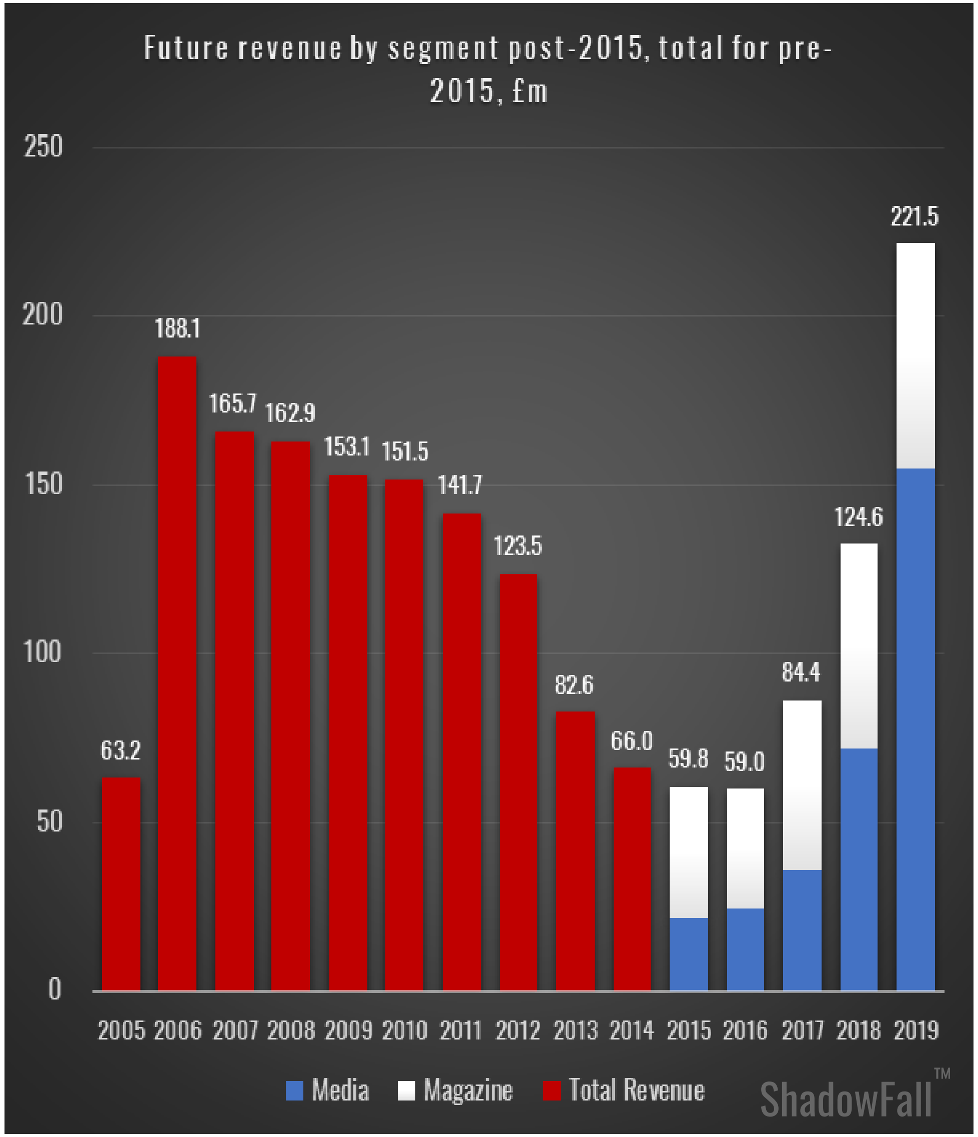

Figure 1: Future revenue by segment post-2015, total otherwise, £m. Source: Future Annual Filings.

Future Plc: Key Information

Future plc market information

	London Stock Exchange
Ticker	FUTR LN
Share price	1490 GBp
Market Cap (M)	£1,460
3 month average daily volume	484,856
3 month average daily value (M)	£7.2
Short interest	2.4%
Days to cover	5.3
Active available quantity (M)	24.5
Active available value (M)	£365.1

	Top holders	% Out
1	Standard Life Aberdeen	8.1%
2	BlackRock Inc	7.5%
3	JPMorgan Chase & Co	5.6%
4	Vanguard Group	5.2%
5	Slater Investments	5.0%
6	Aberforth Partners LLP	4.2%
7	Marlborough Fund Managers	4.2%
8	Invesco	3.9%
9	AXA	3.5%
10	Ameriprise Financial	2.9%
	Total	**50.1%**

Figure 2 Key market information. Source. Bloomberg Finance L.P., Apps Black. Data as of 30 January 2020

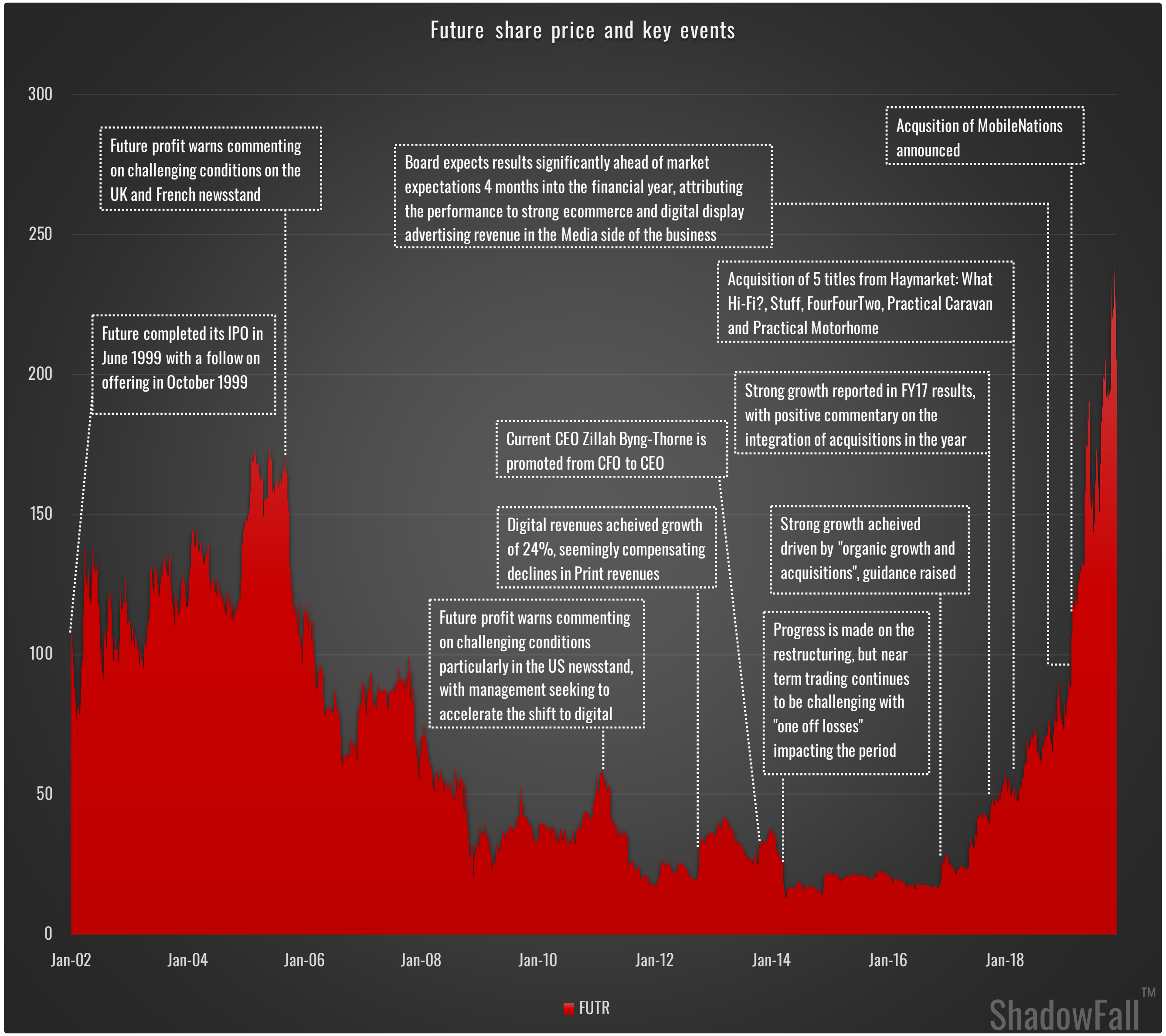

Figure 3 Future Share Price and key events. Source: ShadowFall, Bloomberg Finance L.P.

Organic Revenue and Ebitda growth but not as we know it?

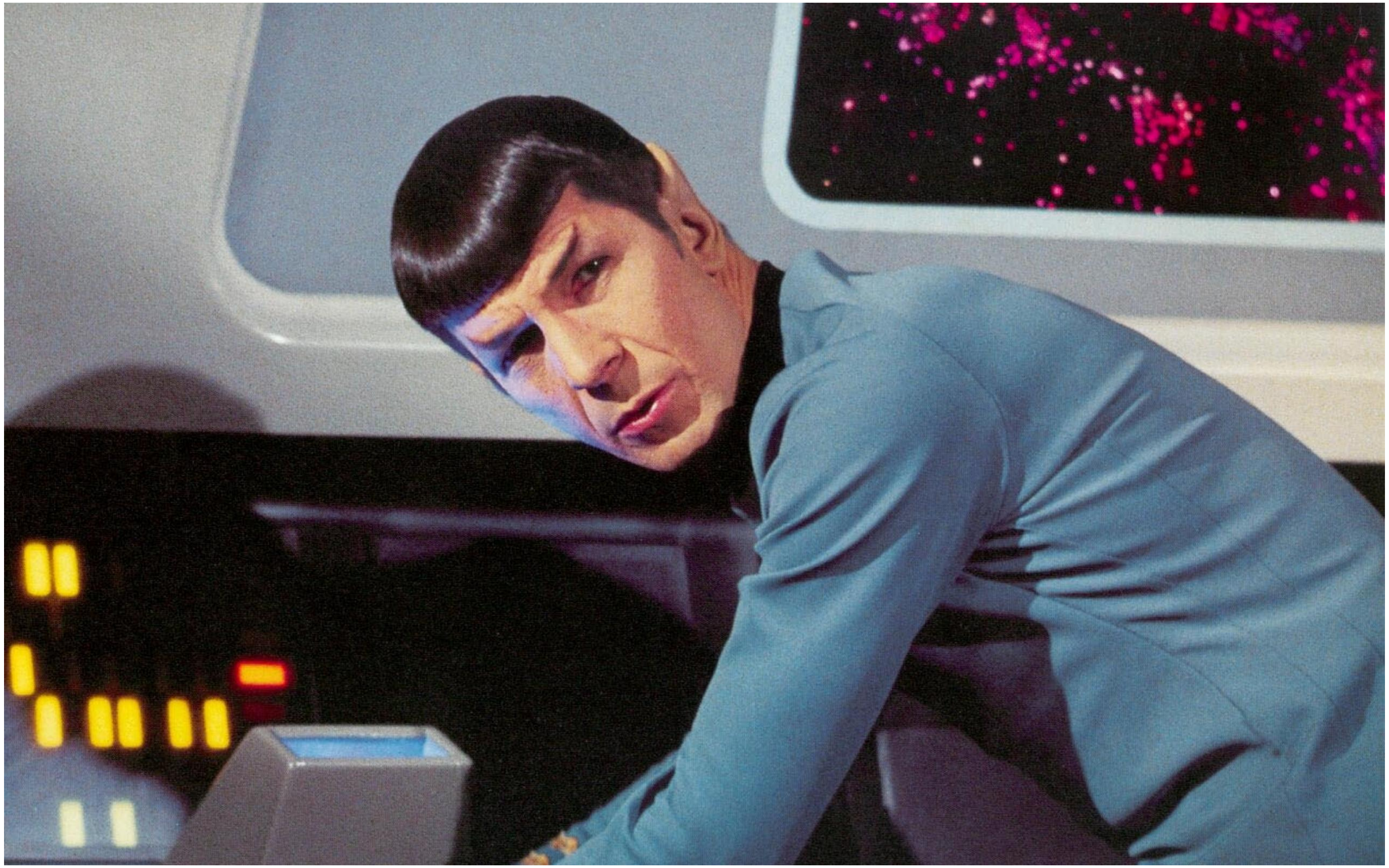

Figure 4 Studio Publicity Still from "Star Trek" Leonard Nimoy circa 1967. "It's life Jim but not as we know it". Contributor: PictureLux, The Hollywood Archive, Alamy Stock Photo

WE CALCULATE 1% ORGANIC REVENUE GROWTH IN FY19 COMPARED TO 11% REPORTED

Since2016, Future indicates or explicitly states that its organic revenue growth has been as follows:

- 2017: 8%
- 2018: 11%
- 2019: 11%

In its FY19 presentation the group states that its 2019 organic like-for-like (LFL) revenue growth excluded all its acquistions made in 2018 and 2019. However, if this is the case, then we calculate that contrary to Future's reported 2019 organic growth of 11%, that its organic revenue growth would have been 1%.

Our calculations are detailed in figure 6 overleaf. Our 1% organic growth calculation also conservatively assumes that the businesses that Future acquired in 2018 and 2019 failed to grow from the point of acquisition. For example, Future acquired NewBay Media, Haymarket Titles and Purch Group in 2018. Collectively these businesses were reported by Future to be achieving full year revenue of £95.5m in 2018. If these businesses had grown by a relatively modest 10% in 2019, then presumably this would have contributed a further £9.6m to 2019's revenue. If this were the case, then we calculate that this would imply that Future's 2019 organic revenue fell by 7%. On a similar basis if these businesses grew by 15% in 2019, then it would suggest 2019 organic revenue fell by 12%.

Using goalseek analysis, the only way we can arrive at Future's 2019 organic revenue equating to 11%, is if the businesses it acquired in 2018 experienced a collective revenue contraction of 11%.

Giving Future the benefit of doubt, we presume that Future uses a conservative approach to its organic revenue calculations and does not include organic growth of its acquisitions in the year of acquisition, since in our view this would represent a more aggressive definition of "organic growth". Further, it would appear to be against the grain of how Future describes it accounts for organic growth.

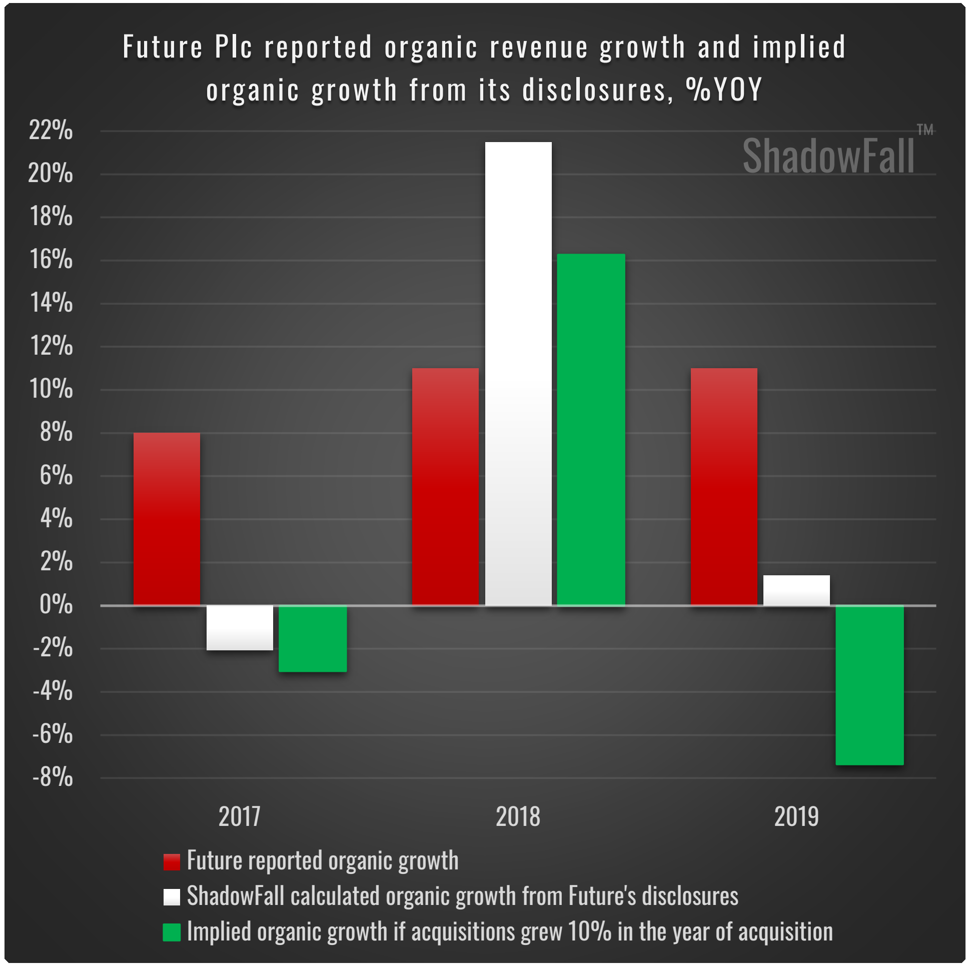

Figure 5 Future reported organic revenue growth and implied organic growth from its disclosures. Source: Future financial statements, ShadowFall calculations.

Revenue contributions of acquired businesses from Future disclosures, £m		2015	2016		2017		2018		2019	
Acquisitions	**Date acquired**		**Revenue contribution in the year of acquisition**	**Full year revenue if acquired at start of financial year**	**Revenue contribution in the year of acquisition**	**Full year revenue if acquired at start of financial year**	**Revenue contribution in the year of acquisition**	**Full year revenue if acquired at start of financial year**	**Revenue contribution in the year of acquisition**	**Full year revenue if acquired at start of financial year**
Noble House Media Limited	05 April 2016		0.2	2.0						
Blaze Publishing Limited	12 May 2016		0.9	2.8						
Next Commerce Pty Ltd	15 August 2016		0.3	0.8						
Miura (Holdings) Limited	21 October 2016				2.5	13.2				
Team Rock Limited	06 January 2017				3.2	4.8				
Ascent Publishing & Centaur Consumer Exhibitions Limite	01 August 2017				14.8	15.3				
NewBay Media, LLC	03 April 2018						13.7	36.8		
Haymarket Titles	01 May 2018						3.5	11.2		
Purch Group, LLC	04 September 2018						3.8	47.5		
Immediate Media Titles*	13 February 2019								0.5	0.8
MoNa Mobile Nations, LLC	01 March 2019								5.6	8.9
SmartBrief, Inc.	29 July 2019								5.2	28.4
Revenue base		**59.8**	**59.0**		**84.4**		**130.1**		**221.5**	
Acquired revenue in the year			1.4		20.5		21.0		11.3	
Acquired revenue from prior year					5.6		33.3		95.5	
FX est gains/(losses)			1.1		1.9		(1.8)		4.1	
Add back acquired revenue from 2 years prior				-		5.6		33.3		
Add back FX est gains/(losses)			-	(1.1)		(1.9)		1.8		
Organic revenue for next reporting year		59.8		57.6		63.9		109.1		
Organic revenue in reporting year			56.5		56.4		77.6		110.6	
L-F-L organic revenue growth year on year			**-6%**		**-2%**		**21%**		**1%**	
If prior year acquired revenue **grew by 10%**				-		0.6		3.3		9.6
Organic revenue in reporting year				56.5		55.9		74.3		101.1
L-F-L organic revenue growth year on year				**-6%**		**-3%**		**16%**		**-7%**
If prior year acquired revenue **grew by 15%**				-		0.8		5.0		14.3
Organic revenue in reporting year				56.5		55.6		72.6		96.3
L-F-L organic revenue growth year on year				**-6%**		**-4%**		**14%**		**-12%**
Reported organic growth						**8%**		**11%**		**11%**
Goal seek for implied growth of acquired revenue to meet reported organic revenue growth						**-104%**		**20%**		**-11%**

Figure 6 Revenue contributions of acquired business from Future disclosures, £m. *Immediate Media Titles is a conservative estimate (if higher contribution then would imply FY 2019 organic growth was weaker. Source: Future financial statements, ShadowFall.

Organic revenue and EBITDA contradictions?

Where we have scepticism regarding Future's calculation of its organic revenue growth, we also have doubts in terms of how it reports its EBITDA; Future provided an EBITDA bridge for the first time at the FY19 results. The principle moving parts to this bridge include the "Organic Growth", "Acquired EBITDA" and the "Growth from Platform Effect". We have two issues with the way Future presents this:

1. The bridge uses FY18 EBITDA inclusive of 2018 acquistions as a starting point

The bridge begins with FY18 EBITDA of £20.7m which then reports a positive organic growth effect of £5.9m and a FX tailwind of £1m, to get to the FY19 underlying EBITDA of £27.6m, before then factoring in "Acquired EBITDA". This £20.7m EBITDA matches the disclosed EBITDA at the FY18 results, which includes the contribution from the 2018 acquisitions of: Purch, Haymarket and NewBay. As a result we believe it is likely that this "organic growth" captures the growth of these 3 assets and therefore includes some acquired growth. Consequently, it seems to us that the 29% organic growth, may not be entirely organic, as management suggested:

> *"and then the organic growth rate, 5.9 million which is 29% growth"*
>
> FY19 Results Presentation

Curiously, if as it appears to us, that 2018 acquired EBITDA growth is included in 2019's "organic growth", then this would appear to be at odds with the methodology used for "Organic LFL revenue growth", which states in the appendix of the same presentation, that it excludes both 2018 and 2019 acquisitions.

2. Is "Acquired EBITDA" correct?

The notes to the bridge indicate that "Acquired EBITDA reflects the trailing 12 months pro-forma EBITDA at the time of acquisition". We find this statement to be somewhat ambiguous and believe it provides for a confusing chain of logic. For simplicity assume that Future acquires an asset at the beginning of 1H19 which pre-acquisition generated EBITDA of £6m in FY18 and post acquisition £9m in FY19.

The contribution to Future's FY19 results would thus be the FY19 EBITDA of £9m. However, under Future's EBITDA bridge, the note indicates that the trailing 12 months pro-forma EBITDA at the time of acquisition is used. Implying that the "Acquired EBITDA" for this acquisition was the FY18 EBITDA of £6m. We believe this poses the following issue:

That any organic EBITDA growth in the asset during FY19 is caputured in the "Growth from Platform Effect". However, if underlying organic growth is 30% then £1.8m or 60% of the FY19 EBITDA growth is actually just general organic growth and has little if anything to do with any platform effects.

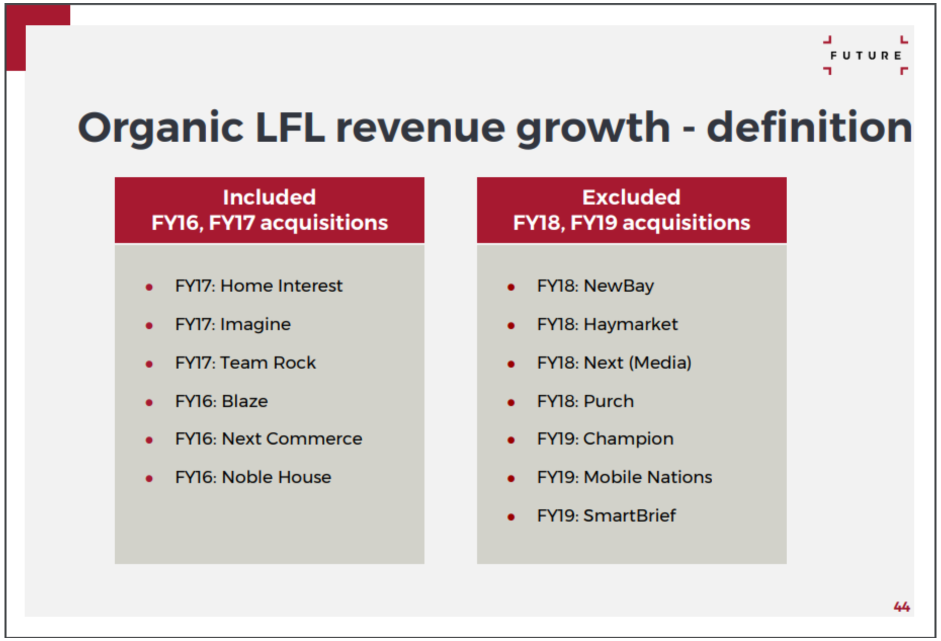

Figure 7: Future's stated organic LFL revenue growth methodology, Source: Future's FY19 results presentation

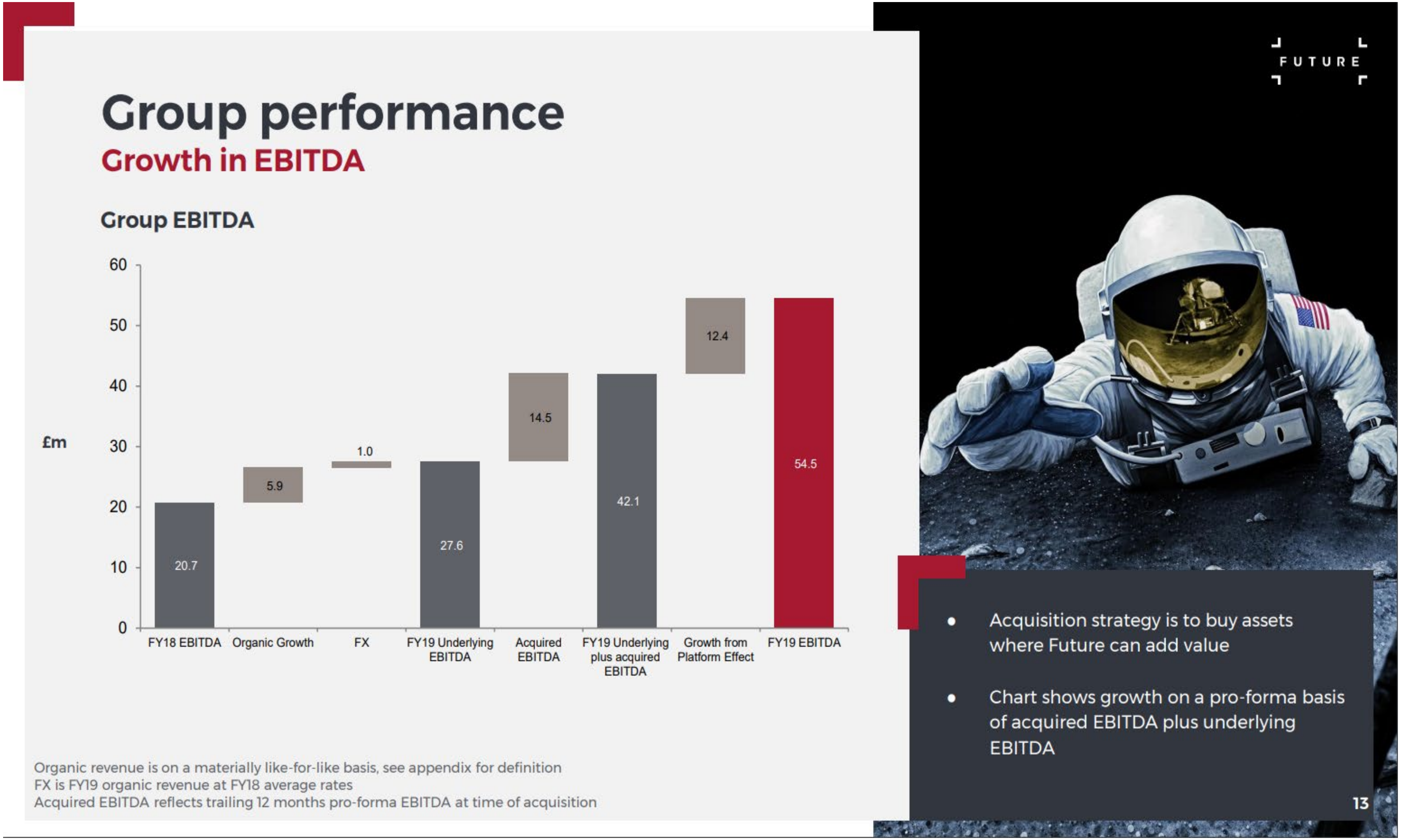

Figure 8: Future's stated EBITDA growth bridge, Source: Future's FY19 results presentation

£15.6M IN ACQUIRED PBT BUT FY19 "ACQUIRED EBITDA" CONTRIBUTION OF £14.5M?

In its FY19 Results Presentation, Future indicates in its EBITDA bridge that "Acquired EBITDA" contributed £14.5m in FY19. However, we calculate that in PBT alone, the carry over contribution from 2018's acquisitions and contribution of 2019's acquisitions from the point of acquisition would have totalled £15.6m (see calculations in figures 9 and 10). This conservatively assumes zero growth in EBITDA for the 2018 contributions.

For example, Purch Group was acquired on 4 September 2018. In its 2018 annual filing, Future states included within its FY18 PBT that £0.1m in PBT came from Purch Group (excluding deal fees, associated integration costs and acquired intangible amortisation). Further, that if Purch Group had been acquired at the start of its 2018 financial year, then Purch Group would have contributed £7.9m in PBT (excluding deal fees, associated integration costs and acquired intangible amortisation) to FY18's results. Hence, we conservatively assume that:

1. Purch's PBT failed to grow in 2019 (as we do with all FY18's acquisitions); and
2. The difference between full year PBT of £7.9m and the FY18 contribution of £0.1m, i.e. £7.8m, falls into FY19 as the acquired PBT contribution to FY19.

Using this conservative approach across the board, reveals some interesting implications:

1. We calculate that the PBT contribution to FY19 from the businesses acquired in 2019 and the carryover from 2018 totals £15.6m. And yet Future reports an "Acquired EBITDA" contribution of £14.5m, i.e. £1.1m less than the likely PBT contribution.
2. If the acquired PBTcontribution was £15.6m in FY19, then this would imply that the Interest (I) and Depreciation relating to these assets was negative £1.1m in FY19. We note that this is adjusted EBITDA and doesn't include amortisation of acquired intangibles.

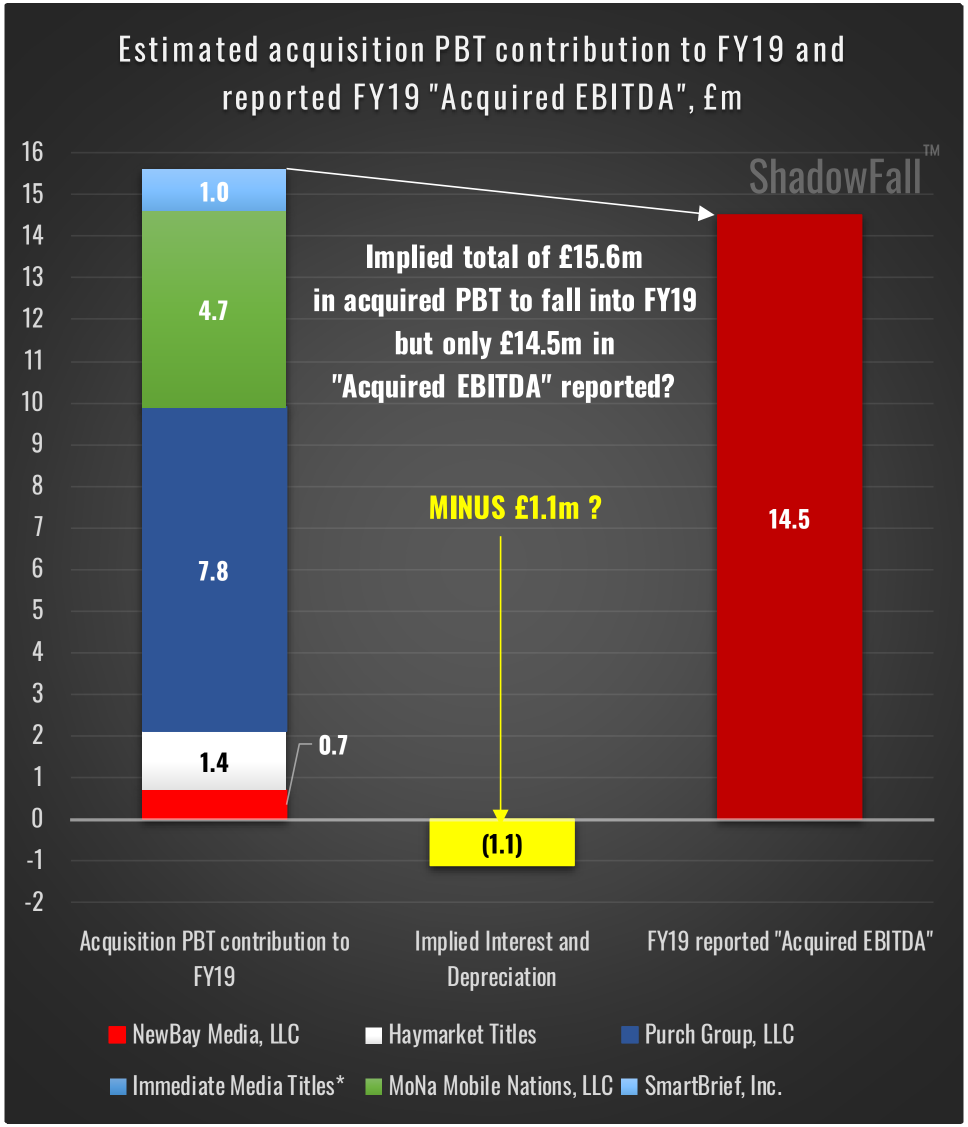

Figure 9 PBT contributions of acquired business from Future disclosures, £m. *Immediate Media Titles PBT is unavailable. Source: Future financial statements, ShadowFall.

ShadowFall™ PBT contributions of acquired businesses from Future disclosures, £m		2018		2019	
		PBT contribution in the year of acquisition	Full year PBT if acquired at start of financial year	PBT contribution in the year of acquisition	Full year PBT if acquired at start of financial year
Acquisitions	Date acquired				
NewBay Media, LLC	03 April 2018	(0.1)	0.6		
Haymarket Titles	01 May 2018	0.6	2.0		
Purch Group, LLC	04 September 2018	0.1	7.9		
Immediate Media Titles*	13 February 2019			-	-
MoNa Mobile Nations, LLC	01 March 2019			4.7	7.7
SmartBrief, Inc.	29 July 2019			1.0	4.3
Acquired PBT in the year		**0.6**	**10.5**	**5.7**	**12.0**
Acquired PBT from prior year				10.5	
Less prior year PBT contribution from point of acquistion				(0.6)	
Total acquired PBT contribution from FY19 acquisitions and carry over from FY18 acquisitions relating to pre-acquired PBT				**15.6**	
2019 reported "Acquired EBITDA"				**14.5**	
Implied associated Interest and Depreciation (I&D)				**(1.1)**	

Figure 10 PBT contributions of acquired business from Future disclosures, £m. *Immediate Media Titles PBT is unavailable. Source: Future financial statements, ShadowFall.

AN M&A STRATEGY OF BUYING RELATIVELY CHEAP ASSETS
&
"DRESSING THEM UP" UNDER A HIGHER VALUED UMBRELLA?

Figure 11 Peter Sellers, Revenge of the Pink Panther, United Artists – "Special delivery". Contributor: Allstar Picture Library, Alamy Stock Photo

Is it really that simple?

Since 2016, Future has embarked on a significant spending spree, making 13 acquisitions at a total cost of £330.3m[2]. The proposed acquisition of TI Media will be Future's 14th and most sizeable acquisition to date at a cost of £140m, bringing Future's total acquisition expenditure to £470.3m.

We calculate that:

- Future has acquired revenues of £174.3m and including TI Media, £375.8m. Either measure significantly exceeds Future's revenue base of £59.8m from 2015.
- Future has paid 1.9x for its acquired revenues or 1.3x acquired revenues if TI Media is included. This compares to Future which currently trades on an enterprise value to sales multiple of 6.5x.
- Future has paid 11.0x its acquired PBT or 8.3x if TI Media is included. This compares to Future which currently trades on an enterprise to PBT multiple of 29x.

Future's strategy has largely rested on acquisitions. Having bought these assets its investors appear to be content in valuing those assets materially higher; a c. 250%+ mark-up at the current juncture. We believe this relatively simple strategy carries significant execution risk. The principal risk is that many of Future's acquired businesses appear to us to be dwindling.

Put another way, if we assume Future acquired each business at fair value and that the value of those assets hasn't changed, then we deduce that this implies the market is now valuing the non-acquired revenues at 12.9x sales!

We believe this is remarkable considering the non-acquired assets mostly consist of TechRadar, a search engine optimisation website platform and a few media brands.

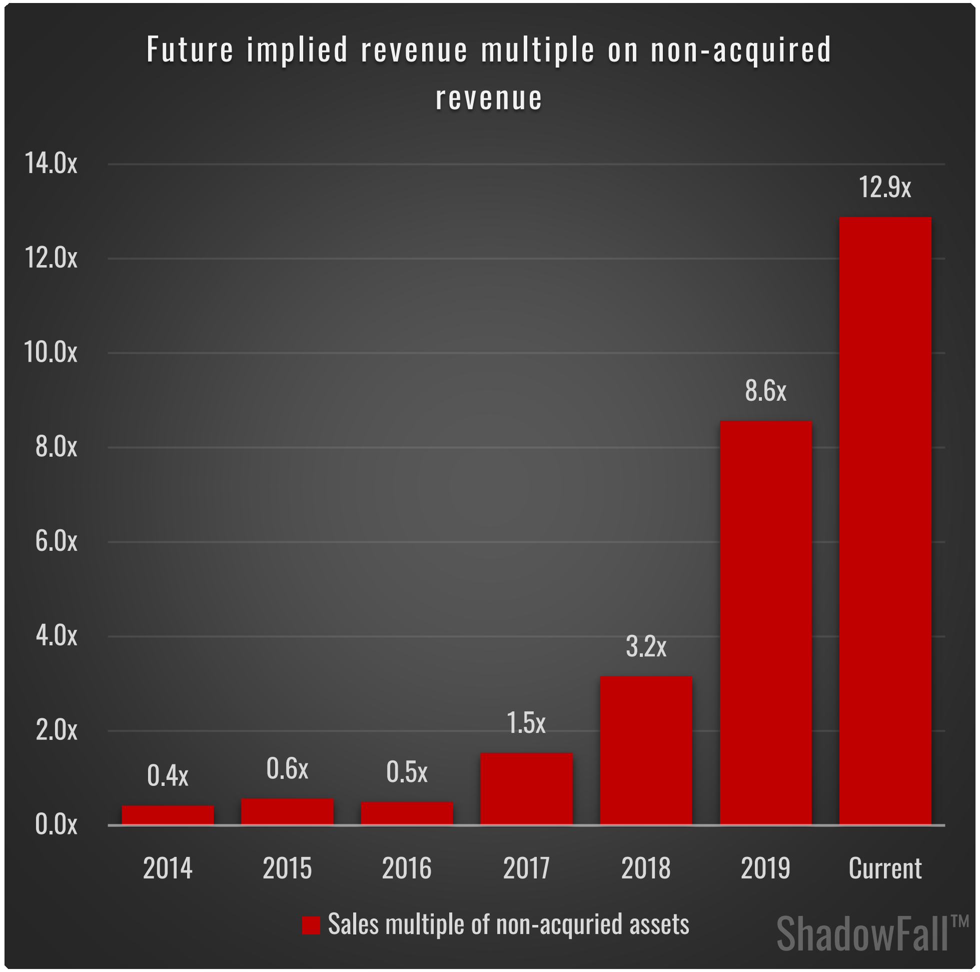

Figure 12: Future implied multiple on non-acquired revenue. Source: Future filings, ShadowFall calculations.

[2] Including deferred consideration.

	Company	Acquired	Price paid, £m	Acquired revenue, £m	Acquired revenue as % of Future's 2019 revenue	Acquired PBT, £m	Consideration	Revenue multiple	PBT multple
1	Barcroft Studios	Dec-19	23.5	10.2	4.6%	EBITDA = 2.5	£14.1m cash, £9.4m equity	2.3x	10.2x
2	TI Media	Oct-19	140.0	201.5	91.0%	EBITDA = 28.7	£140m cash	0.7x	5.3x
3	SmartBrief, Inc.	Jul-19	43.6	28.4	12.8%	4.3	£21.2m cash, £11.6m equity, £10.9m deferred consideration	1.5x	10.1x
4	MoNa Mobile Nations, LLC	Mar-19	90.2	8.9	4.0%	7.7	£42m cash, £4.3m equity, £43.9m deferred consideration	10.1x	11.7x
5	Immediate Media Titles	Feb-19	1.7	na	na	na	£1.7m cash	na	na
6	Purch Group, LLC	Sep-18	99.8	47.5	21.4%	7.9	£99.8m cash	2.1x	12.6x
7	Haymarket Titles	May-18	10.7	8.9	4.0%	2.0	£9.3m cash, £1.4m equity	1.2x	5.4x
8	NewBay Media, LLC	Apr-18	9.9	31.5	14.2%	0.6	£8.8m cash, £1.1m equity	0.3x	16.5x
9	Ascent Publishing & Centaur Consumer Exhibitions Limitec	Aug-17	32.8	13.2	6.0%	2.0	£32.8m cash	2.5x	16.4x
10	Team Rock Limited	Jan-17	0.8	4.8	2.2%	1.0	£0.8m cash	0.2x	0.8x
11	Miura (Holdings) Limited	Oct-16	15.5	15.3	6.9%	2.0	£0.1m cash, £15.4m equity	1.0x	7.8x
12	Next Commerce Pty Ltd	Aug-16	0.9	2.0	0.9%	0.2	£0.3m cash, £0.6m deferred consideration	0.5x	4.5x
13	Blaze Publishing Limited	May-16	0.7	2.8	1.3%	0.1	£0.4m cash, £0.3m deferred consideration	0.3x	7.0x
14	Noble House Media Limited	Apr-16	0.1	0.8	0.4%	-	£0.1m cash	0.1x	na
	Total		**330.2**	**174.3**	**78.7%**	**29.5**	**£231.4m cash, £43.2m equity, £55.7m deferred consideration**	**1.9x**	**11.2x**
	Total including TI Media		**470.2**	**375.8**	**169.7%**	**42.5**	**£371.4m cash, £43.2m equity, £55.7m deferred consideration**	**1.3x**	**11.1x**

Denotes Barcroft Studios reported 2018 revenue.	Denotes ShadowFall PBT estimate.	Denotes data indicated by Future if acquisition had occurred at the start of the respective financial year of acquisition.
Denotes ShadowFall use of Barcroft Studios and TI Media PBT estimate from EBITDA provided by Future.		Denotes TI Media proposed acquisition has been announced although not yet concluded.

Figure 13: Summary of Future's acquisitions, Source: Company filings, ShadowFall calculations. In calculating the PBT for Barcroft Studios and TI Media where a EBITDA figure has been sourced, we have used the group percentage differential between it's EBITDA and PBT as a proxy for these assets.

We believe that figures 14-17 clearly demonstrate the valuation exuberance that is being priced into Future as a result of its spending spree where it has purchased assets for markedly lower prices.

In our view, this lofty private to public valuation uplift leaves little margin for error. Future's potential for success rests on the ingenuity of its management in turning the sizeable collection of often distinct and shrinking assets into a cohesive, profitable and cash generative enterprise. In the pages that follow that review the acquired assets, we are incredulous that such a hopeful outcome can be achieved.

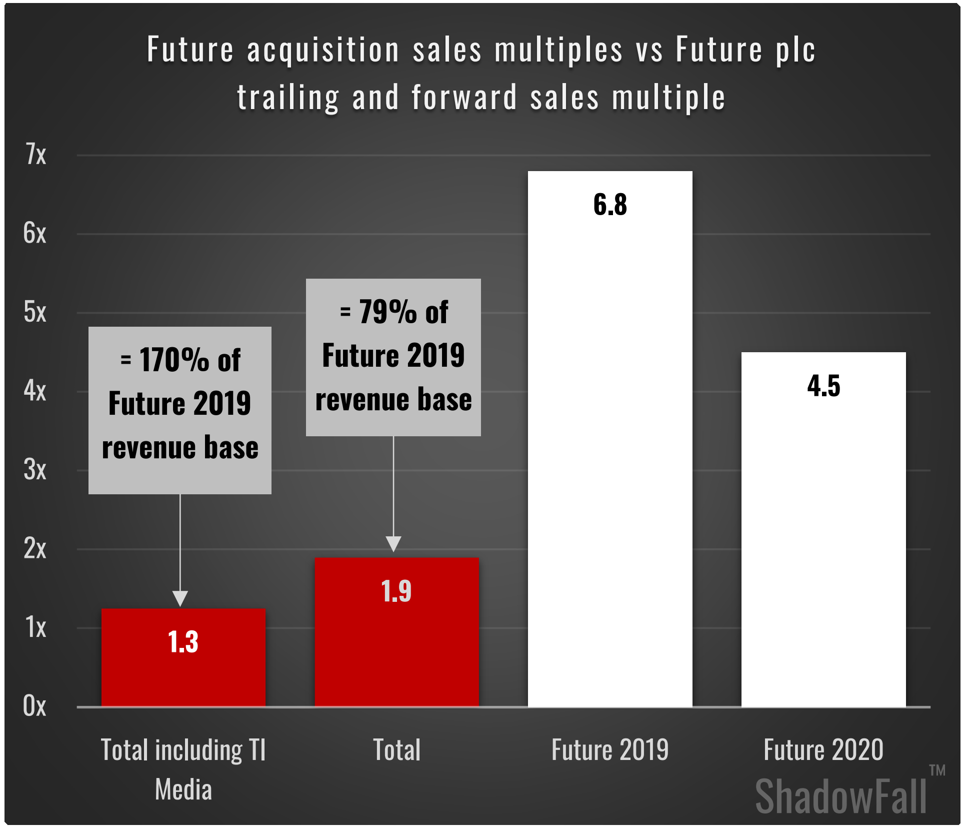

Figure 14 Combined trailing sales multiples of acquired businesses since 2016 as compared to Future's price to revenue multiple. Source: Future filings, Bloomberg L.P, ShadowFall.

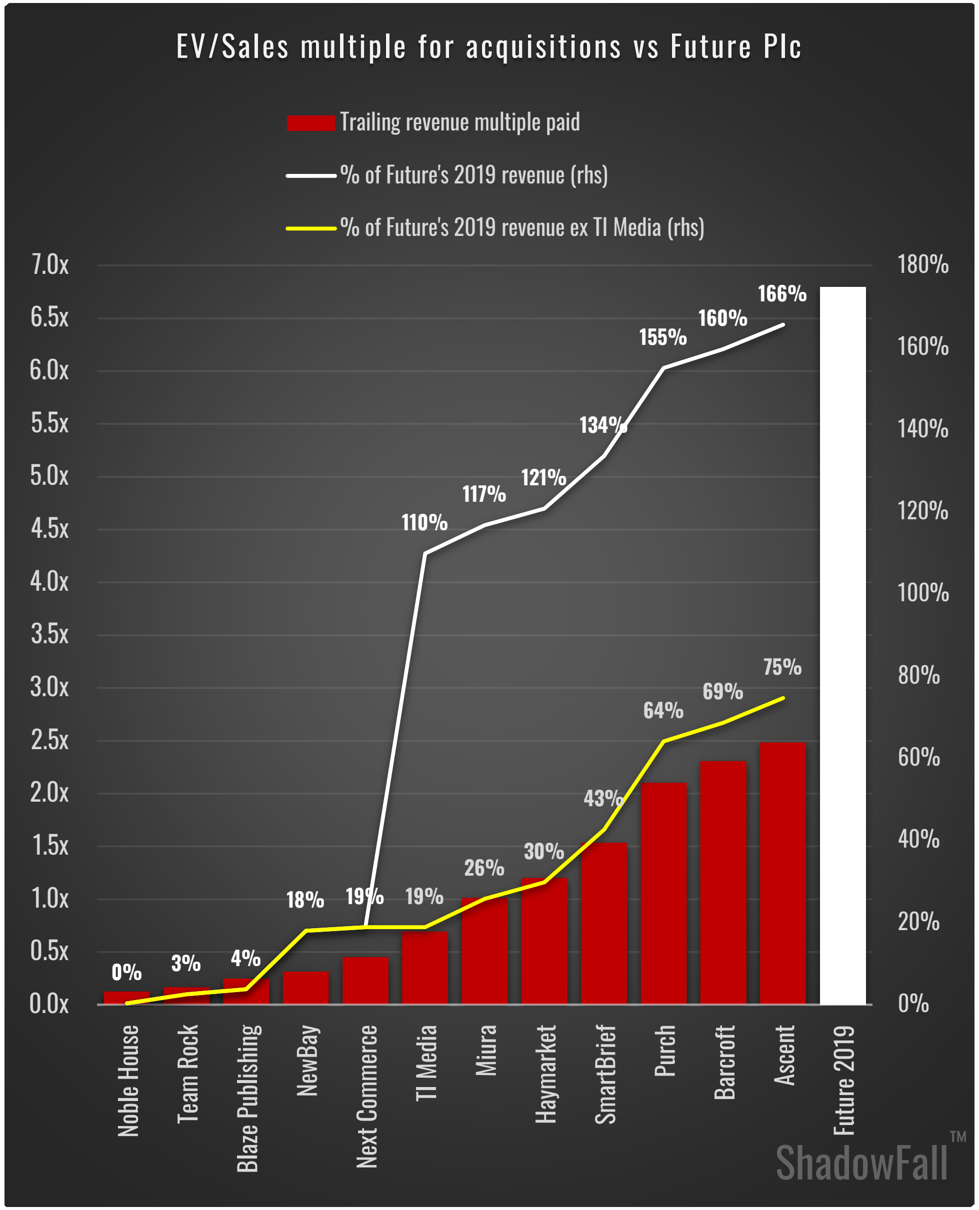

Figure 15 Price paid for acquired businesses and revenue contribution. Excludes Mobile Nations which cost c. 10.1x revenue and would equate to a c. 4% to 2019 revenue. Source: Future filings, ShadowFall.

On a profit multiple valuation, we find the disparity just as significant between what Future has paid for its acquired business as compared to the market valuation of this collection of assets.

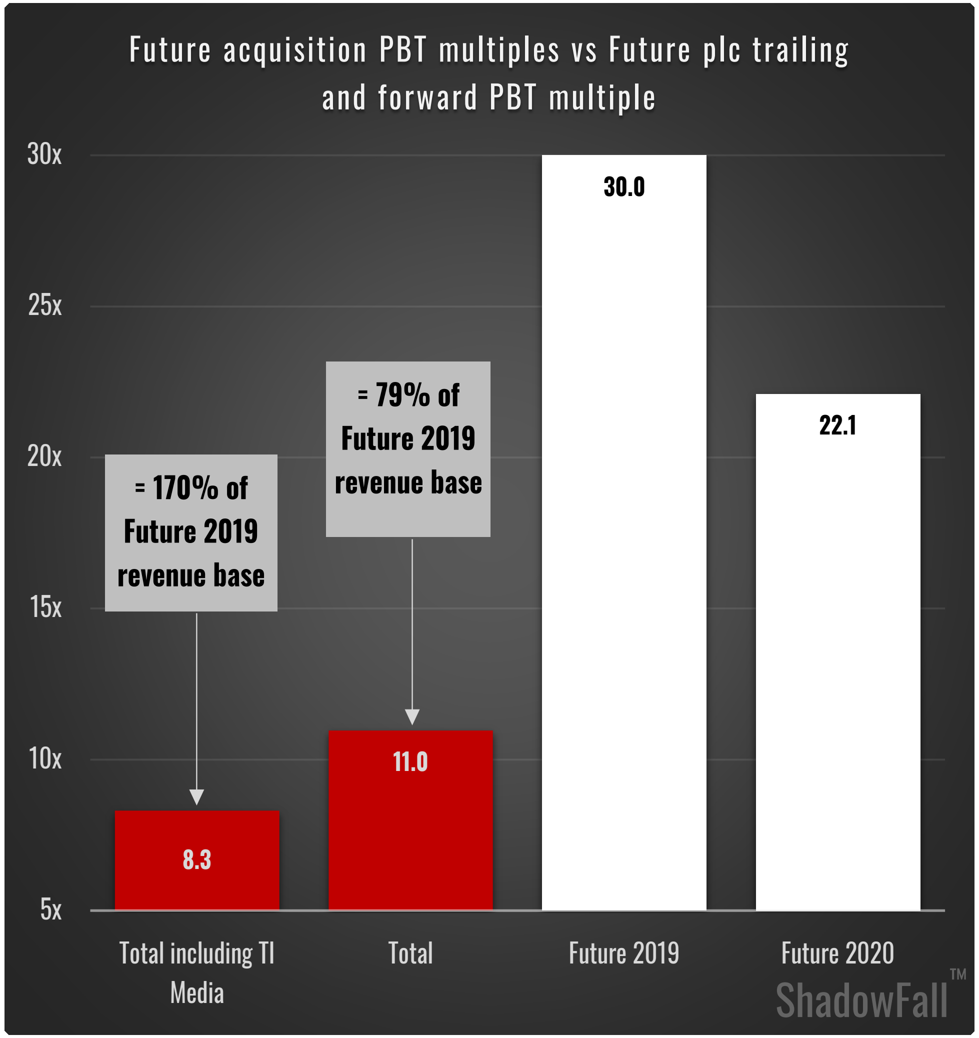

Figure 16 Combined PBT multiples of acquired businesses since 2016 as compared to Future's PBT multiple. Source: Future filings, Bloomberg L.P., ShadowFall.

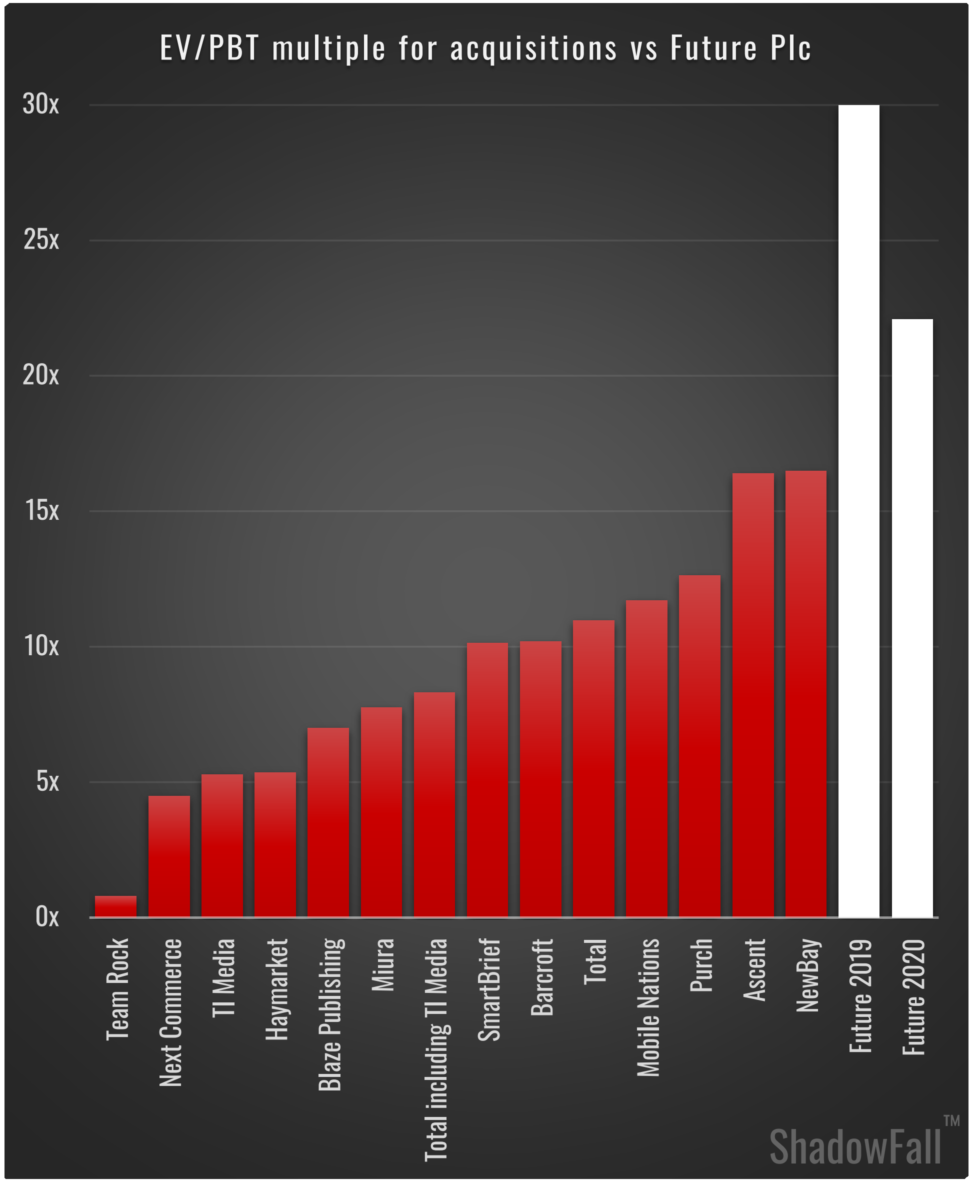

Figure 17 Price paid for acquired businesses. Excludes Mobile Nations which cost c. 11.7x PBT and would equate to a c. 15% to 2019 PBT. Source: Future filings, ShadowFall.

Hoping that the past is not an indication of the Future

As far as Future's past is concerned, its investors must hope that its past is not an indication of its future prospects. As figure 18 demonstrates, Future has historically reported significantly higher adjusted operating profit than its statutory level. The adjusting items have not only been all too frequent, but also significant. Since 2005 we calculate that Future has listed £189m in adjusting items to arrive at its adjusted operating profit.

Without these adjusting items, we calculate that instead of reporting £169.4m in cumulative adjusted operating profit during the period 2005 to 2019, Future would have reported a cumulative operating loss of £15.1m.

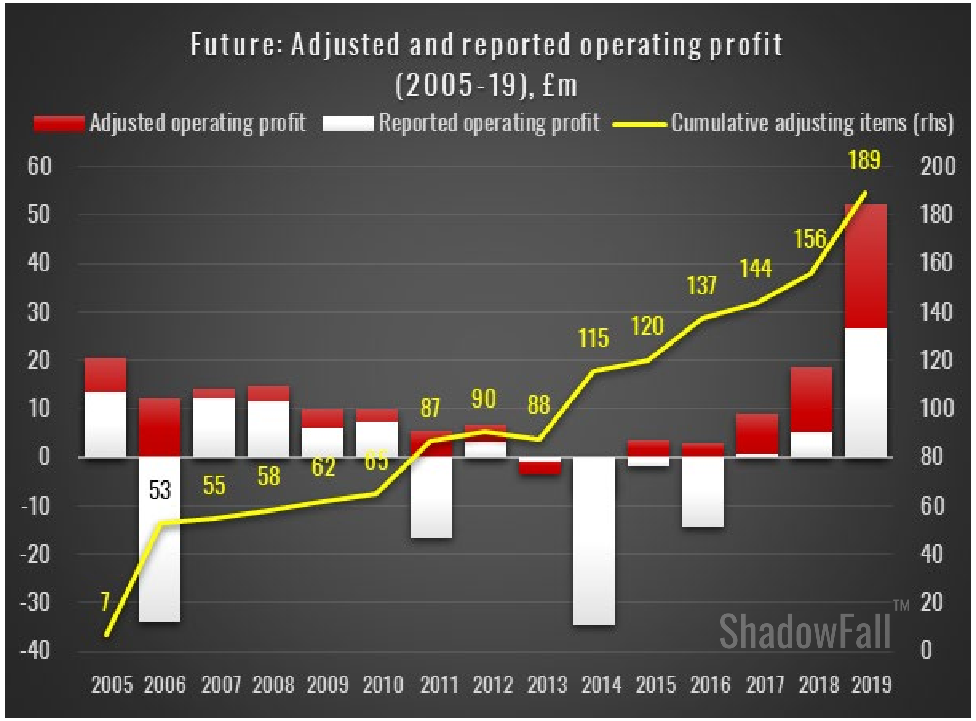

Figure 18 Future's adjusted operating profit as compared to reported profit. Source: Future filings, ShadowFall.

Future's investors may also be dismayed to find that when it comes to its accounting for intangible assets, Future has historically impaired significant balances associated with these items.

For example, Future impaired £43.1m, £17.1m, £26.0m and £13.0m in intangible asset value in 2006, 2011, 2014, and 2016 respectively. As we show overleaf, given the significant change in Future's balance sheet composition over recent years – to a condition where more subjectively valued intangible assets constitute 154% of its Net Book Value – such relatively frequent and sizeable impairments may provide cause for concern.

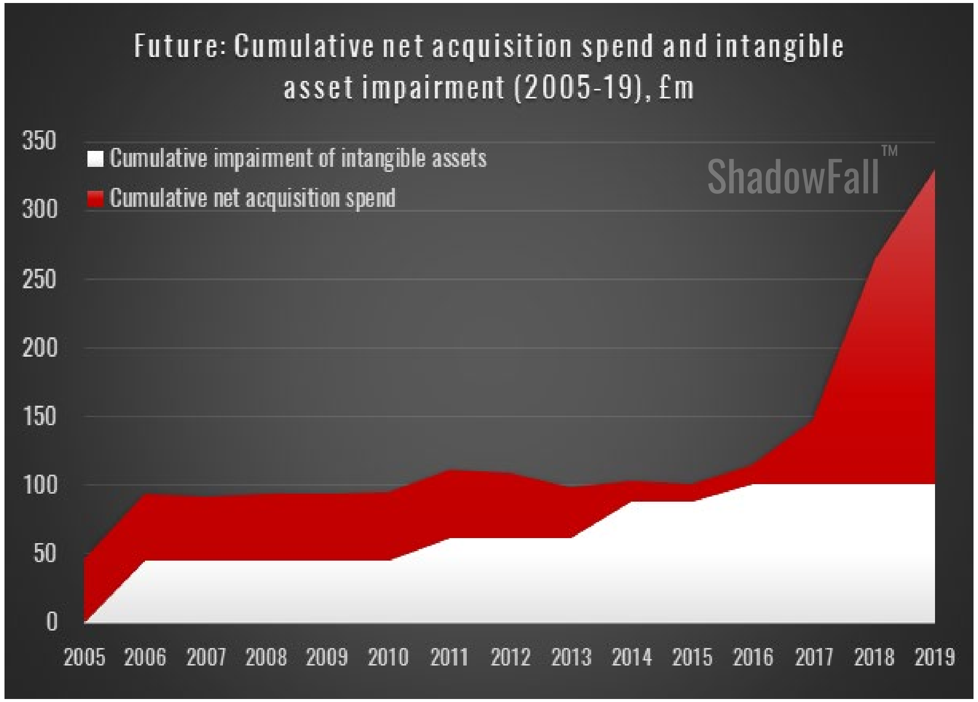

Figure 19 Future's cumulative impairment of intangible assets compared to acquisition spend. Source: Future filings, ShadowFall.

Future's spending spree has largely been funded by equity issuance and debt. We calculate that the group has raised a cumulative £312.8m in capital since 2005. The bulk of which has been in the past two years. During this period, FCF was stronger in 2019 and is forecast to be higher in 2020[3], however in prior years it has been relatively weak and somewhat volatile.

Such acquisition spend has resulted in the group reporting net tangible liabilities of £115.6m in 2019 (2018: NTL £30.8m) and a near 5 fold increase in its share count.

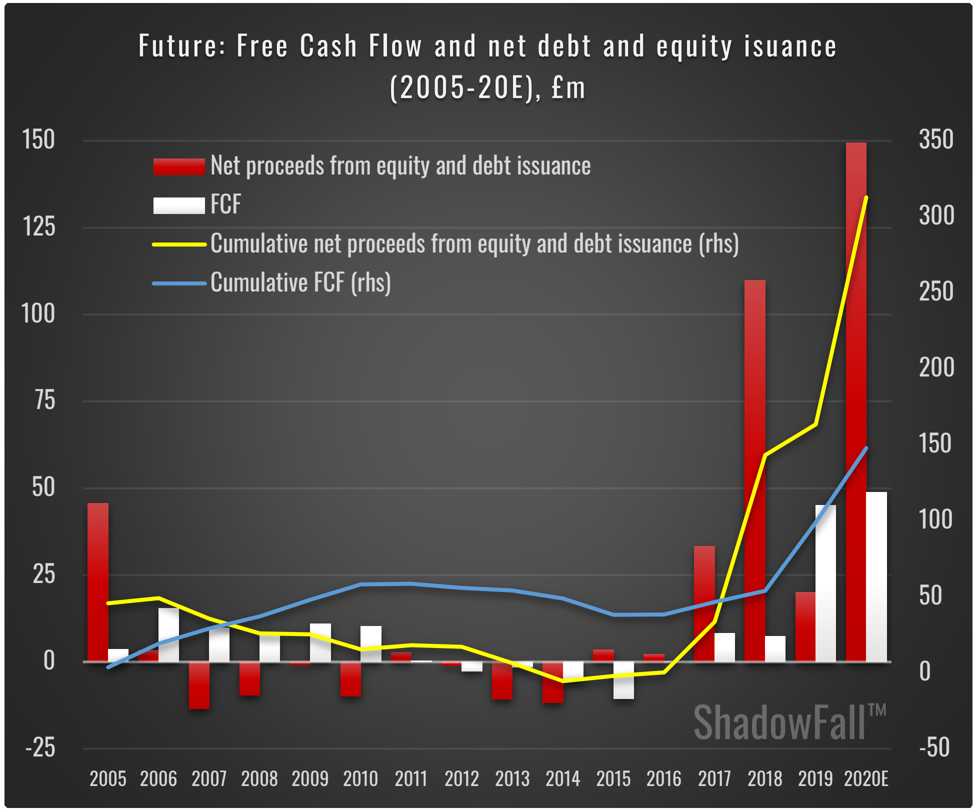

Figure 20 Future FCF generation and capital issuance. Source: Future filings, ShadowFall, 2020 Bloomberg Finance L.P. consensus.

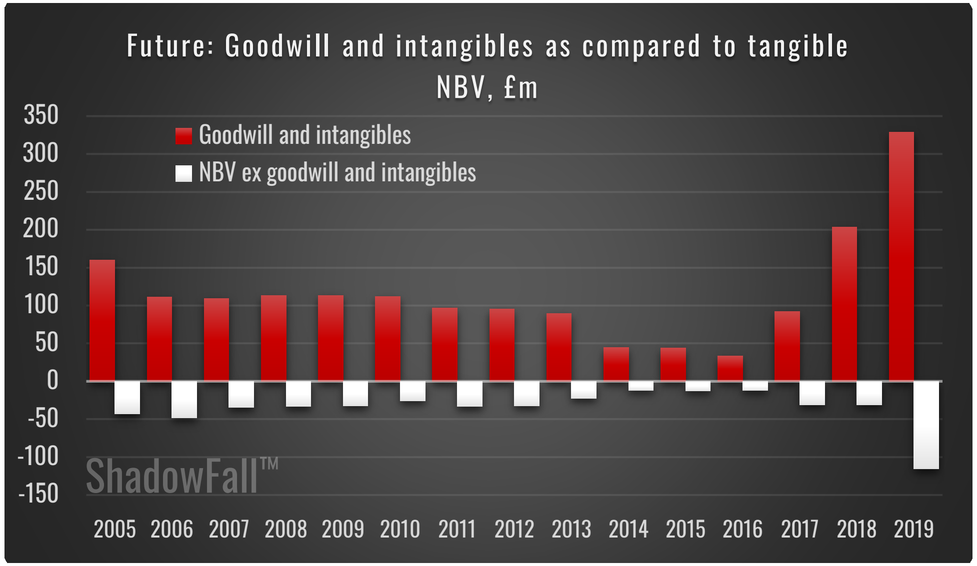

Figure 21 Future balance sheet composition. Source: Future filings, ShadowFall.

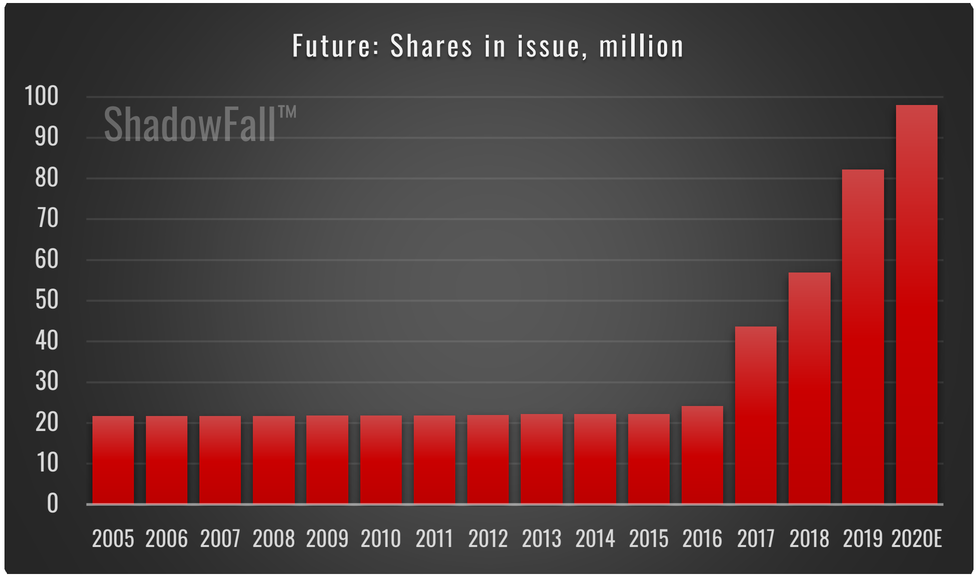

Figure 22 Future share issuance. Source: Future filings.

[3] Bloomberg consensus

GREAT SCOTT!
ACQUIRED 2020 PBT MARGINS OF 10.7% (REPRESENTING 62% OF 2020 REVENUE)
+ EXISTING MARGIN OF 22.7%
= GROUP MARGIN OF 20.6%?!?

Figure 23 Back to the Future, Christopher Lloyd (1985), MCA/Universal Pictures. Contributor: Everett Collection Inc, Alamy Stock Photo

The acquired profits and a dreamy consensus

In the context of all these acquisitions that we believe are of questionable quality; there is one thing we struggle to get our heads around. This is how the market chooses to reward Future's shares, and in doing so, setting elevated earnings expectations, for what we see as almost entirely purchased growth. Notwithstanding the fact that a significant portion of this growth has been funded by shareholders, through rights issues.

We question how much of the PBT uplift comes from operational gearing, or whether it is the significant adjusting items we have previously identified? Acquired PBT margins appear to consistently lag group adjusted margins. Given that at least 85% of revenue growth (2015-19) is acquired (ex. TI Media) and that **TI Media's PBT margins are approximately half that of the group, we struggle to see how current expectations are feasible.**

	Company	Acquired	Price paid, £m	Acquired revenue, £m	Acquired revenue as % of Future's 2019 revenue	Acquired PBT, £m
1	Barcroft Studios	Dec-19	23.5	10.2	4.6%	EBITDA = 2.5
2	TI Media	Oct-19	140.0	201.5	91.0%	EBITDA = 28.7
3	SmartBrief, Inc.	Jul-19	43.6	28.4	12.8%	4.3
4	MoNa Mobile Nations, LLC	Mar-19	90.2	8.9	4.0%	7.7
5	Immediate Media Titles	Feb-19	1.7	na	na	na
6	Purch Group, LLC	Sep-18	99.8	47.5	21.4%	7.9
7	Haymarket Titles	May-18	10.7	8.9	4.0%	2.0
8	NewBay Media, LLC	Apr-18	9.9	31.5	14.2%	0.6
9	Ascent Publishing & Centaur Consumer Ex	Aug-17	32.8	13.2	6.0%	2.0
10	Team Rock Limited	Jan-17	0.8	4.8	2.2%	1.0
11	Miura (Holdings) Limited	Oct-16	15.5	15.3	6.9%	2.0
12	Next Commerce Pty Ltd	Aug-16	0.9	2.0	0.9%	0.2
13	Blaze Publishing Limited	May-16	0.7	2.8	1.3%	0.1
14	Noble House Media Limited	Apr-16	0.1	0.8	0.4%	-
	Total		**330.2**	**174.3**	**78.7%**	**29.5**
	Total including TI Media		**470.2**	**375.8**	**169.7%**	**42.5**

Denotes Barcroft Studios reported 2018 revenue. Denotes ShadowFall PBT estimate.
Denotes ShadowFall use of Barcroft Studios and TI Media PBT estimate from EBITDA provided by Future.
Denotes data indicated by Future if acquisition occurred at the start of the respective financial year of acquisition.
Denotes TI Media proposed acquisition has been announced although not yet concluded.

Figure 24 Summary of Future's acquisitions, Source: Company filings, ShadowFall calculations

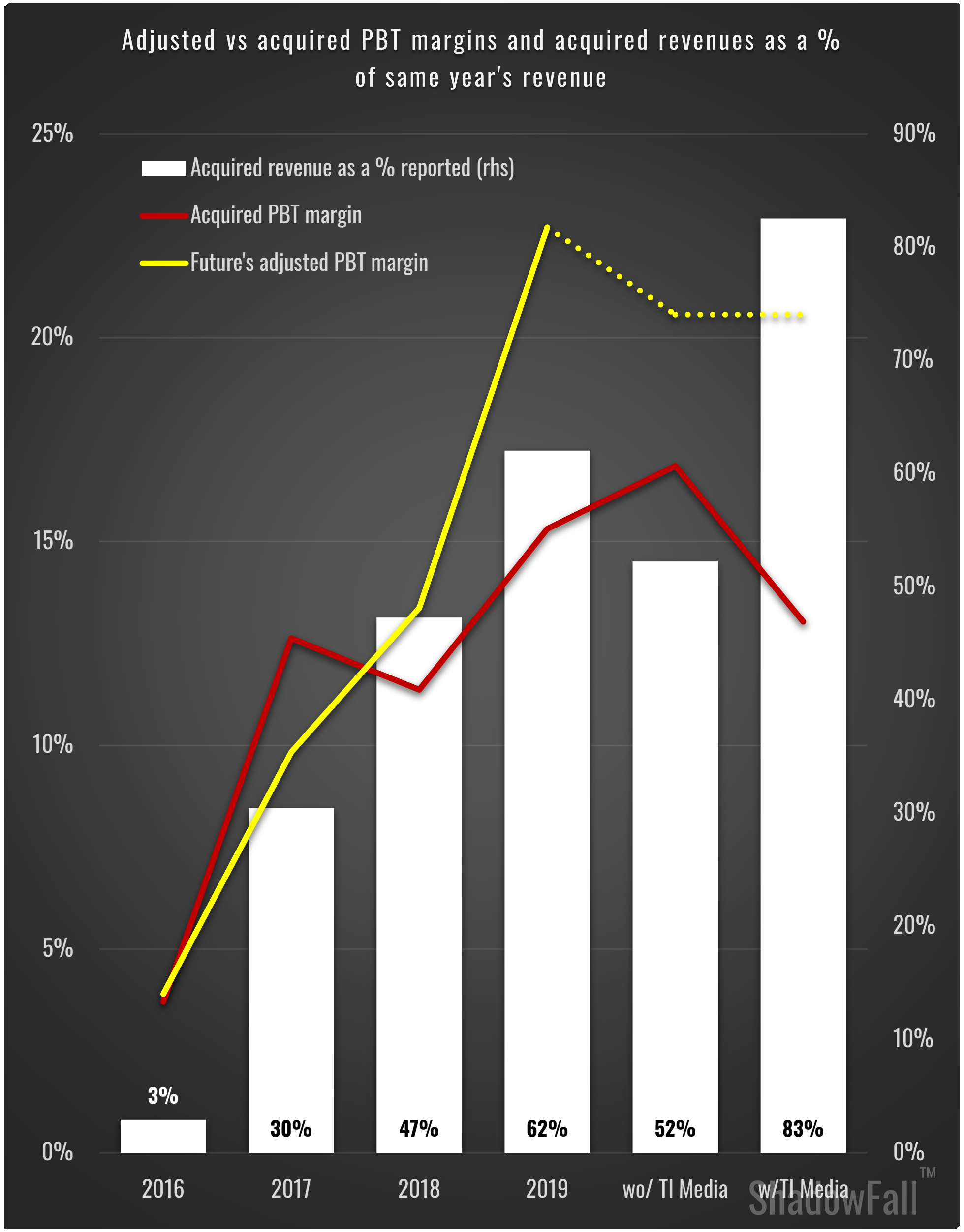

Figure 25: Reported vs acquired revenues and PBT margins, Source: Company Filings, ShadowFall Calculations

When looking at the acquisitions Future has made it is easy to see where the growth of the business has come from. Since 2015 the business has acquired £137.4m or 85% of its £161.7m revenue growth and at least £21m or 44% of its £50.3m Adjusted PBT. We say at least, as the £21m figure is Reported PBT, as we cannot say exactly what portion of adjustments are attributable to these post-2015 acquisitions. We believe that the above is conservative and the true figure is likely higher than the 44%.

Current market expectations for Future are somewhat clouded by the acquisition of TI Media announced in October 2019, which is yet to complete. The figure to the right shows the expected revenue of Future for 2020 as if the TI Media acquisition closed on the 1st April 2020.

Given that the currently announced inorganic revenue for 2020 is 62% of 2019's reported revenue and these revenues generated a PBT margin of 10.7%, we believe the consensus forecast group PBT margin of 20.6% is somewhat ambitious; unless of course – as is all too typical – Future uses significant adjustments.

Alternatively the current business would have to improve its PBT margin from 22.7% in 2019, to a 27.4% in 2020, a sizeable 470bps of expansion!

						2020E	
Acquired revenue FY impact	**2015**	**2016**	**2017**	**2018**	**2019**	**wo/ TI Media**	**w/TI Media**
2015 base	59.8	59.8	59.8	59.8	59.8	59.8	59.8
2016 acquired		1.7	1.7	1.7	1.7	1.7	1.7
2017 acquired			24.0	24.0	24.0	24.0	24.0
2018 acquired				35.8	35.8	35.8	35.8
2019 acquired					75.9	75.9	75.9
2020 acquired						36.0	36.0
2020 acquired with TI Media							136.4
Total acquired		**1.7**	**25.7**	**61.5**	**137.4**	**173.4**	**273.8**
Base + acquired	59.8	61.5	85.5	121.3	197.2	233.2	333.6
Reported	59.8	59.0	84.4	130.1	221.5		
Consensus					221.5	331.8	331.8
Acquired revenue as a % reported	0%	3%	30%	47%	62%	52%	83%

						2020E	
Acquired PBT FY impact	**2015**	**2016**	**2017**	**2018**	**2019**	**wo/ TI Media**	**w/TI Media**
2015 base	3.0	3.0	3.0	3.0	3.0	3.0	3.0
2016 acquired		0.1	0.1	0.1	0.1	0.1	0.1
2017 acquired			3.2	3.2	3.2	3.2	3.2
2018 acquired				3.7	3.7	3.7	3.7
2019 acquired					14.0	14.0	14.0
2020 acquired						8.2	8.2
2020 acquired with TI Media							14.6
Total acquired		**0.1**	**3.2**	**7.0**	**21.0**	**29.2**	**35.7**
Base + acquired	3.0	3.1	6.2	10.0	24.0	32.2	38.7
Reported	3.0	2.3	8.3	17.4	50.3		
Consensus					50.3	68.3	68.3
Future's adjusted PBT margin	5.0%	3.9%	9.8%	13.4%	22.7%		
Consensus PBT margin					22.7%	**20.6%**	**20.6%**
Acquired PBT margin		**3.7%**	**12.6%**	**11.4%**	**15.3%**	**16.9%**	**13.0%**

Figure 26: Summary of acquired revenue & PBT from 2015, Bloomberg consensus. Source: Company Filings, Bloomberg Finance L.P., ShadowFall.

THE ACQUISITION STRATEGY: WHAT IS FUTURE BUYING?

Figure 27 Future Concept. Contributor: Zoonar GmbH, Alamy Stock Photo

THE ACQUISITION STRATEGY

Future prides itself on its acquisition strategy. The deal-hungry management team is intensely focused on creating a platform business model, looking to leverage technology and diversify revenue streams, whilst keeping content focused on specialist media.

They attempt to achieve this through the acquisition of content brands, applying the Future platform model to the asset, in theory driving operational leverage. Future has developed a web platform 'Vanilla' which is a standardised template allowing it to quickly optimise each brand, additionally, it re-uses content across its platforms.

Our findings lead us to the view that Future is more reflective of an aggregator platform without the network effects normally associated with such businesses. Its growth proposition for acquired assets appears to consist of:

1. Developing a website based upon the vanilla platform.
2. Placing more targeted ads with the content.
3. Reusing content from other brands within the Future portfolio.

We would argue that:

- While the re-use of content across the platform is effective from an EBITDA maximisation perspective, it is not good for creating a unique brand.
- As a result, there is a significant risk that once acquired brands are brought onto the Future platform, the revenue growth delivered is one time and non-recurrent. As a result, we believe there is a requirement for the group to continue purchasing increasingly larger assets to meet consensus growth expectations.

We lay out our findings on Future's acquisitions on the following pages.

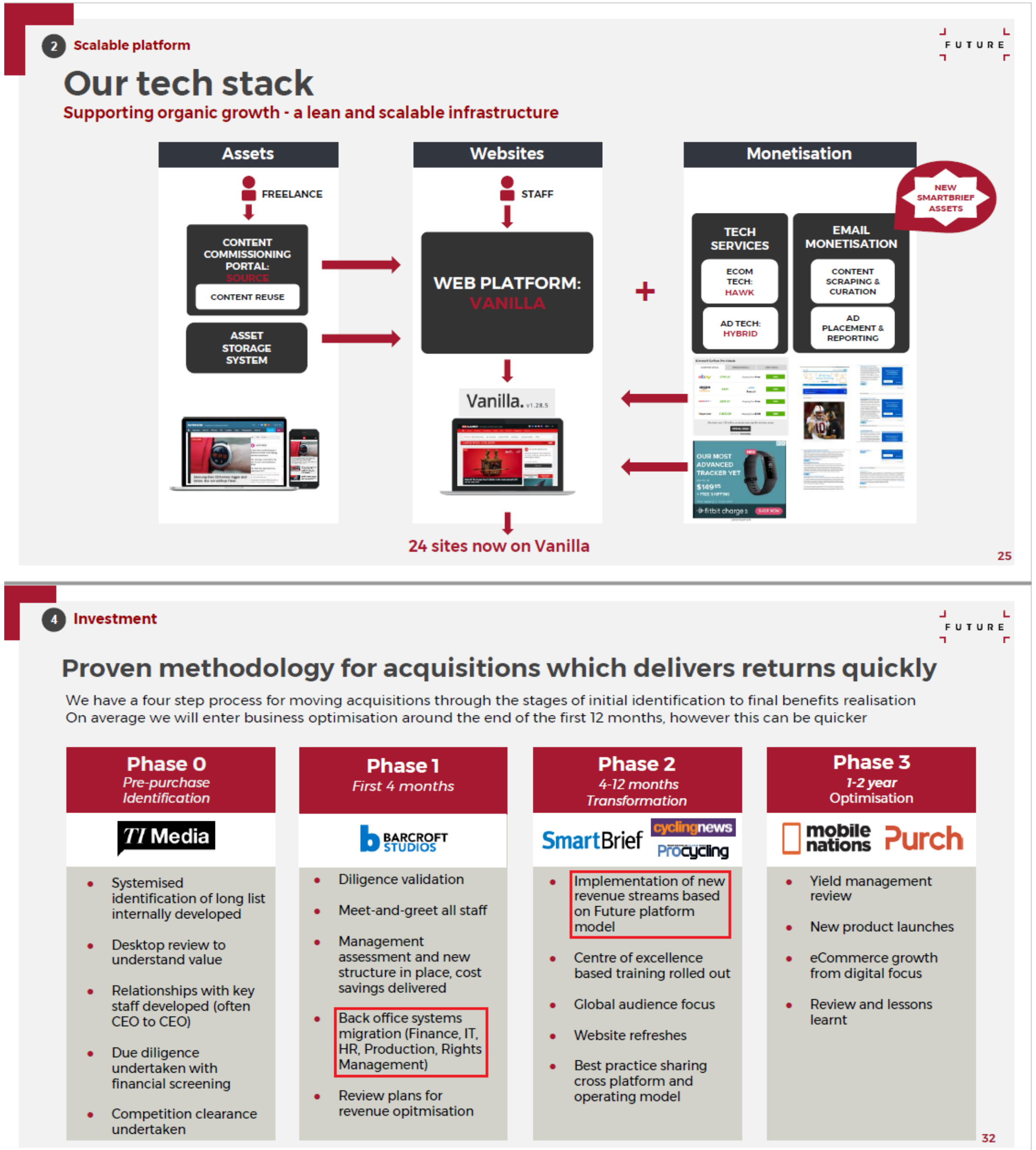

Figure 28: Future technology platform and acquisition strategy, Source: Company presentation

BARCROFT STUDIOS: ACQUIRED 2 DECEMBER 2019 FOR £23.5M

Established in London in 2003, Barcroft Studios is a creator of television and digital content, with digital video channels on YouTube, Snapchat and Facebook Watch.

The YouTube channel has 7.3m subscribers and has posted 2,428 videos, with content ranging from "DOCS: The Woman With 7 Personalities", which received 2.8m views over 2 years, to "He's Not My Dad, He's My Boyfriend | LOVE DON'T JUDGE", which received 363k views over 2 weeks.

Future acquired Barcroft Studios in Dec 2019 for £23.5m through stock issuance.

Barcroft Studios has grown its top line relatively rapidly over recent years; revenue rose to £10.2m in 2018 (2017: £8.8m). However, the company remained loss-making in 2018. Future indicates that it has paid an EBITDA multiple of 9.4x Barcroft Studios' last 12 months of EBITDA, suggesting Barcroft Studios achieves EBITDA of c.£2.5m at the point of acquisition. Assuming that Barcroft Studios' revenue grew at a similar rate in 2019, this would suggest it now achieves an EBITDA margin of c. 21%.

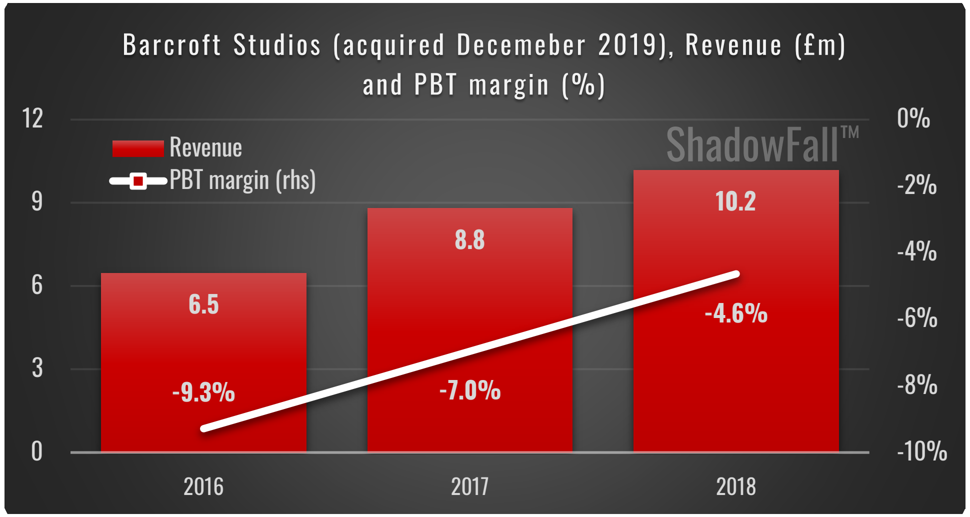

Figure 29: Barcroft studios revenue and PBT margin, Source: Company Filings, ShadowFall calculations

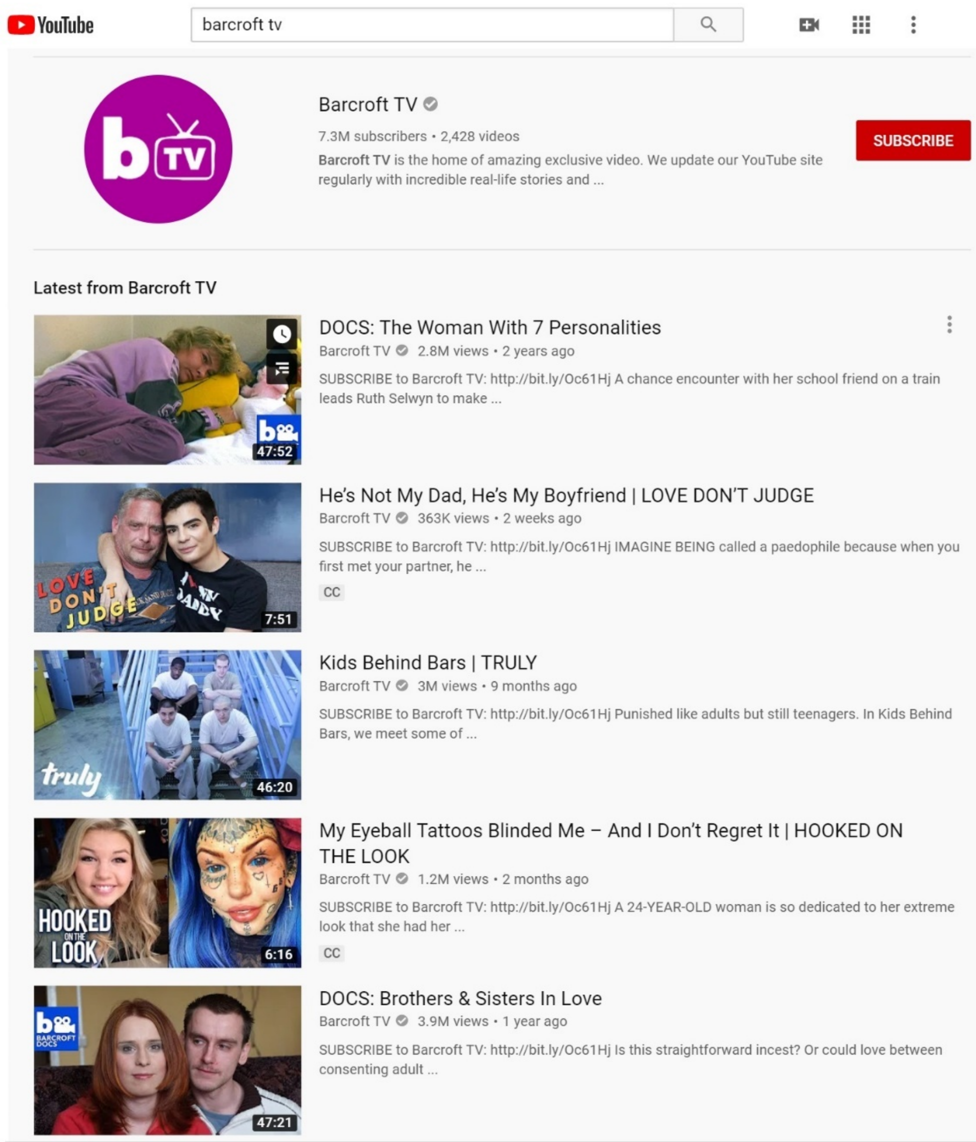

Figure 30 : Sample content from Barcroft TV, Source: Youtube

TI MEDIA: ANNOUNCED 30 OCTOBER 2019 FOR £140M IN CASH

Future announced its acquisition of TI Media on 30 October 2019. Future placed 8.2m shares (9.6% of its issued share capital) at GBP 1,275 per share (gross proceeds of £104.4m) in order to fund the £140m cash consideration of TI Media's purchase. The balance of the purchase price would be funded by a drawdown of Future's debt facilities which were increased to £135m.

TI Media is a UK-based, print-led consumer magazine and digital publisher with a portfolio of 41 brands including Decanter, Country Life and Woman & Home. According to Similarweb data for December 2019, the associated websites for this portfolio generated collective views of 19.1m, with an average bounce rate of 76% and an average visit duration of 1 minute 44 seconds.

Future indicates that TI Media generated continuing revenue of £201.5m and adjusted EBITDA of £28.7m in the 12 months to 31 May 2019. **We calculate that this would imply that TI Media's revenue has declined at a CAGR of 5.6% since 2010**; a period within which it had also made acquisitions (see below).

Margin wise, Future's indication suggests that TI Media would achieve an EBITDA margin of 14.2% in 2019. However, historically TI Media has incurred frequent and significant reorganisation costs. In the period 2013 to 2018, TI Media's reorganisation costs totalled £92.3m. We presume that these were largely if not entirely all cash costs since the company reduced its headcount by 703 people over the same period.

What this means is that **while TI Media achieved an average adjusted EBITDA margin of 12.1% during the period 2013 to 2018, when taking into account the reorganisation costs the average EBITDA margin was just 5.7% during the same period.**

We presume that Future's shareholders will hope that TI Media has finally sufficiently reorganised so as not to incur the scale of costs that have been so frequent in the past.

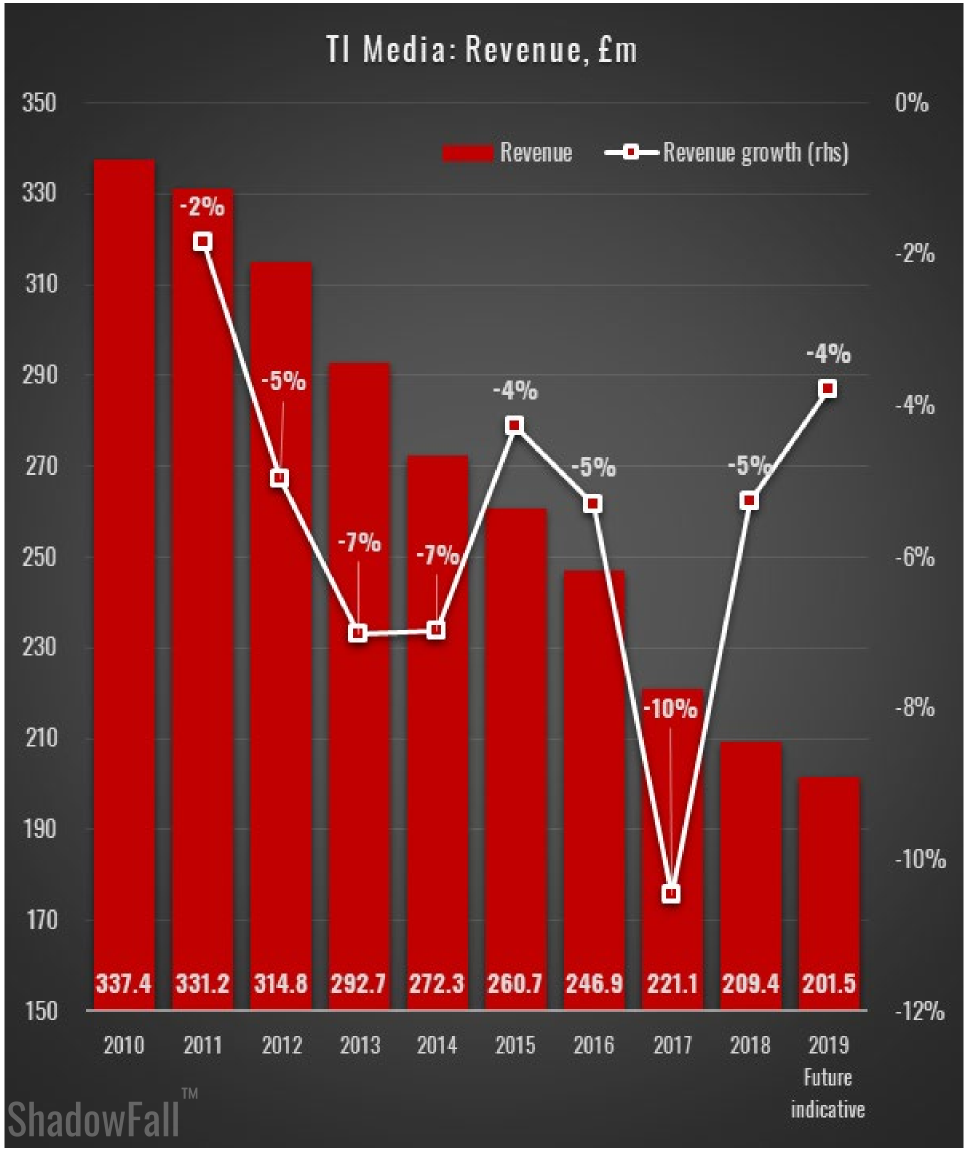

Figure 31: TI Media revenue and revenue growth, Source: Company Filings, ShadowFall calucations

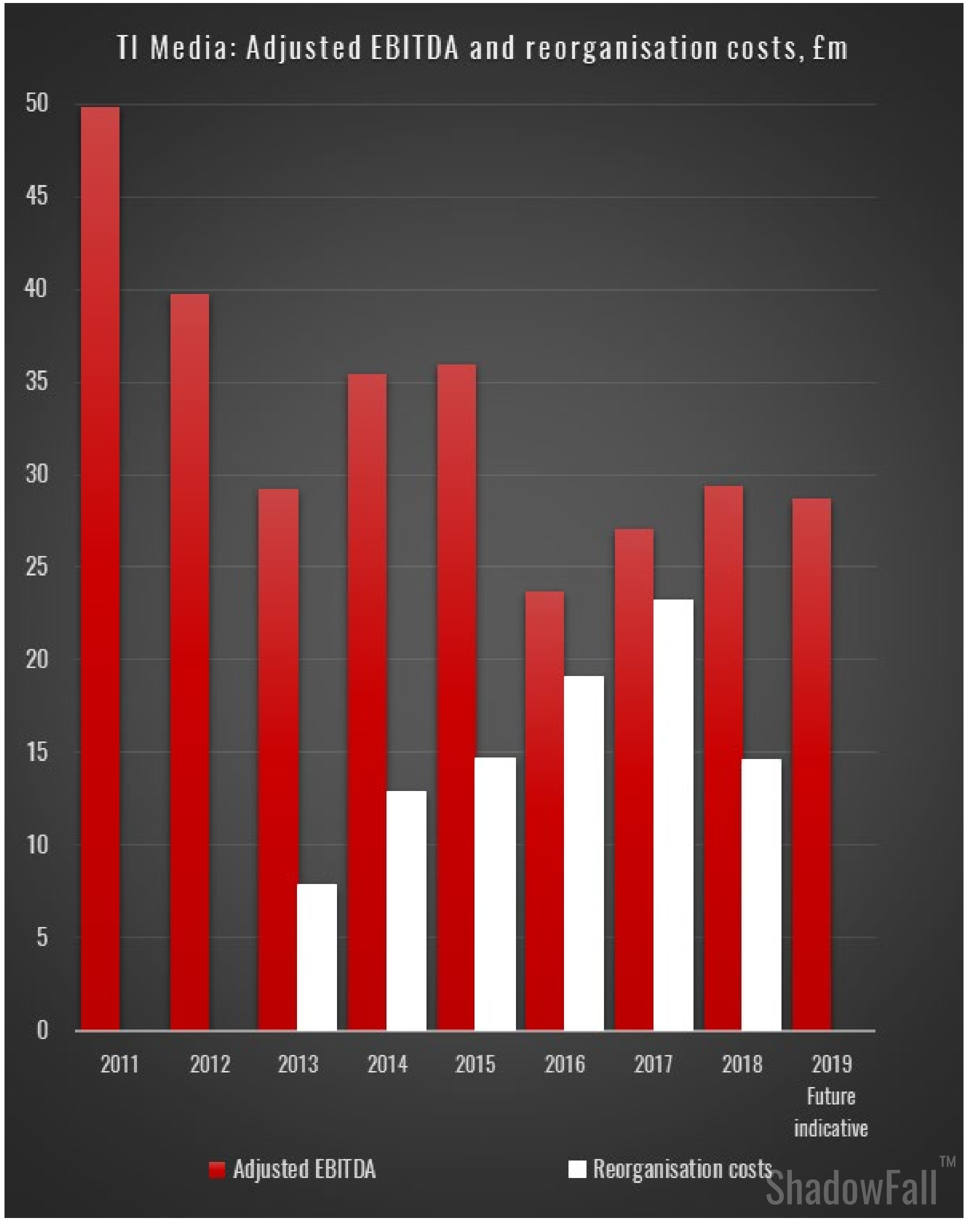

Figure 32: TI Media and reorganisation costs, Source: Company Filings

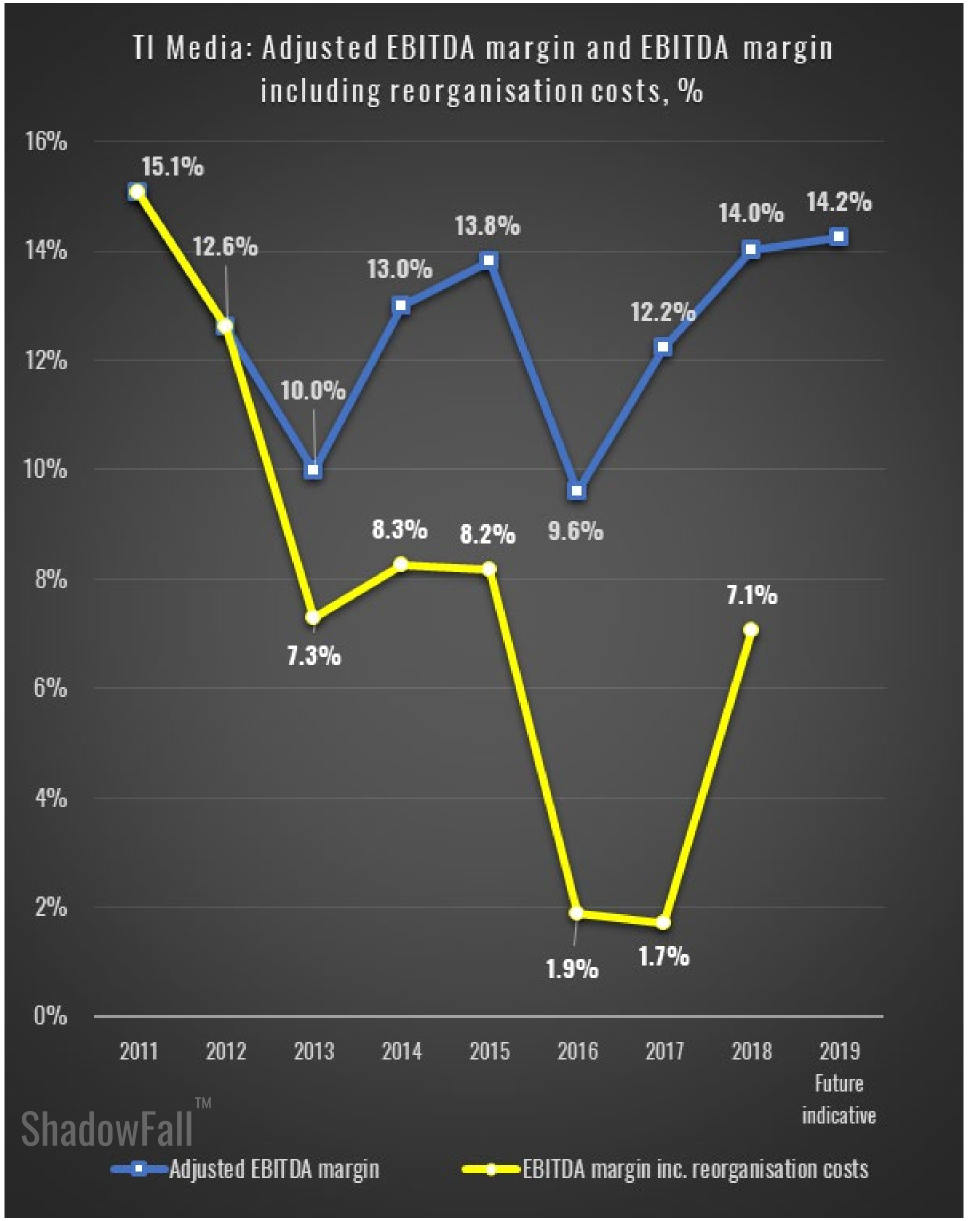

Figure 33: TI Media adjusted and reported EBITDA margins, Source: Company Filings, ShadowFall calculations

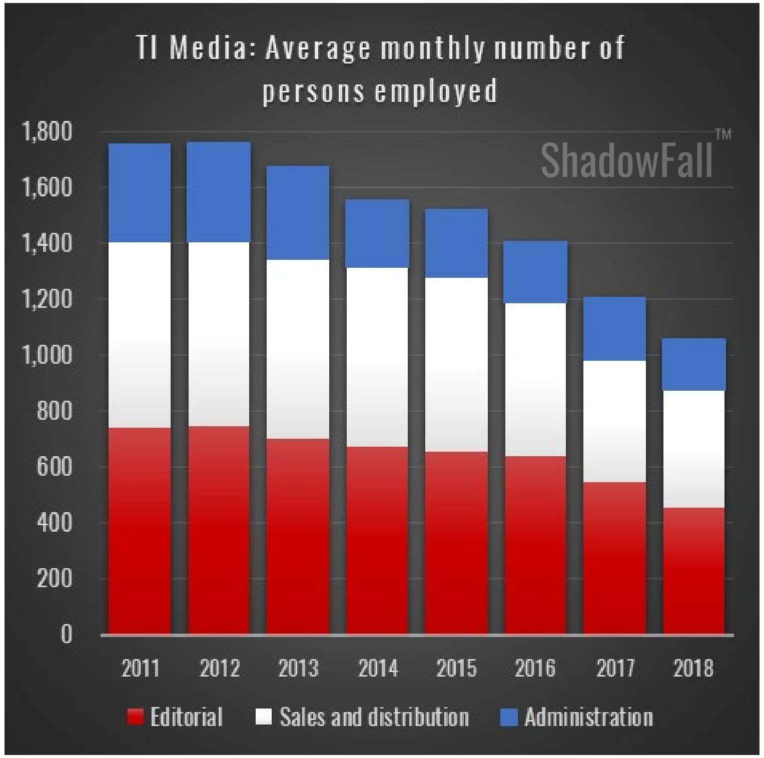

Figure 34: TI Media average number of employees, Source: Company Filings

A QUICK FLIP FOR £33M

Future acquired TI Media from the UK private equity vehicle, Epiris. Epiris acquired TI Media from Time Inc in March 2018 for a total consideration of £106.7m.

TI Media's revenue and EBITDA continued to decline under Epiris' ownership. Nonetheless, Future was prepared to pay £33m more, just over a year and a half after it had been purchased for £106.7m.

Sapphire Topco Limited

Notes to the financial statements for the period ended 31 December 2018 (continued)

23 Acquisitions

On 15 March 2018, the group acquired the entire share capital of TI Media Limited, a specialist media business in the provision of printed, on-line and digital content, for a total consideration of £106,663,000. The goodwill arising of £37,649,000 is attributable to the workforce and operational synergies across a multi-title business. The goodwill is being amortised over its expected useful life of 10 years.

The transaction has been accounted for under the purchase method of accounting. The principal adjustments relate to the recognition of title publishing intangible asset of £64,463,000, customer relationships of £5,138,000 and the related deferred taxation liability of £12,074,000.

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets	3,936	69,601	73,537
Tangible fixed assets	6,679	-	6,679
Investment in joint ventures	679	-	679
Inventories	1,384	-	1,384
Cash at bank and in hand	5,009	-	5,009
Debtors	76,808	-	76,808
Creditors	(99,171)		(99,171)
Deferred taxation asset/(liability)	16,163	(12,074)	4,089
Net assets acquired	**11,487**	**57,527**	**69,014**
Goodwill arising on acquisition			37,649
			106,663
Consideration satisfied by:			
Cash			103,908
Deferred consideration			769
Acquisition expenses			1,986
			106,663

All revenue and results for the period ended 31 December 2018 arose from the acquired business.

Figure 35: Sapphire Topco 2018 accounts, Source: Company Filings

Future's bold targets vs. TI Media's experience

Future highlights lofty ambitions from a TI Media acquisition, which include:

- An opportunity to improve the quality of earnings by implementing the Future diversified revenue model across TI Media's market-leading brands.
- Significant opportunities in digital advertising, eCommerce and audience growth.
- An opportunity to leverage Future's global operating model, since TI Media is historically UK focussed.

This is all well and good, however, we note that TI Media might provide an example as to how the results of its own lofty ambitions through acquisitions have been in our view, less than distinguished.

TI Media acquires UK Cycling Events in 2015

While a relatively small acquisition, nonetheless we believe it is indicative of the disappointment that Future is at risk of experiencing in the aftermath of its three year spending spree. TI Media acquired UK Cycling Events in February 2015 for £6.0m in cash. TI Media paid c. 3.1x 2015 sales and 10.7x 2015 EBIT for UK Cycling Events.

At the time, TI Media stated (our bold for emphasis):

> "The acquisition complements the company's [TI Media] existing assets in the cycling sector **providing a platform for future growth in this segment**."

The planned future growth doesn't appear to have materialised. Since its acquisition, UK Cycling Events revenue has barely grown; we calculate a CAGR of 2.2%. At an EBIT level, we calculate that the business was loss making in 2017 and 2018.

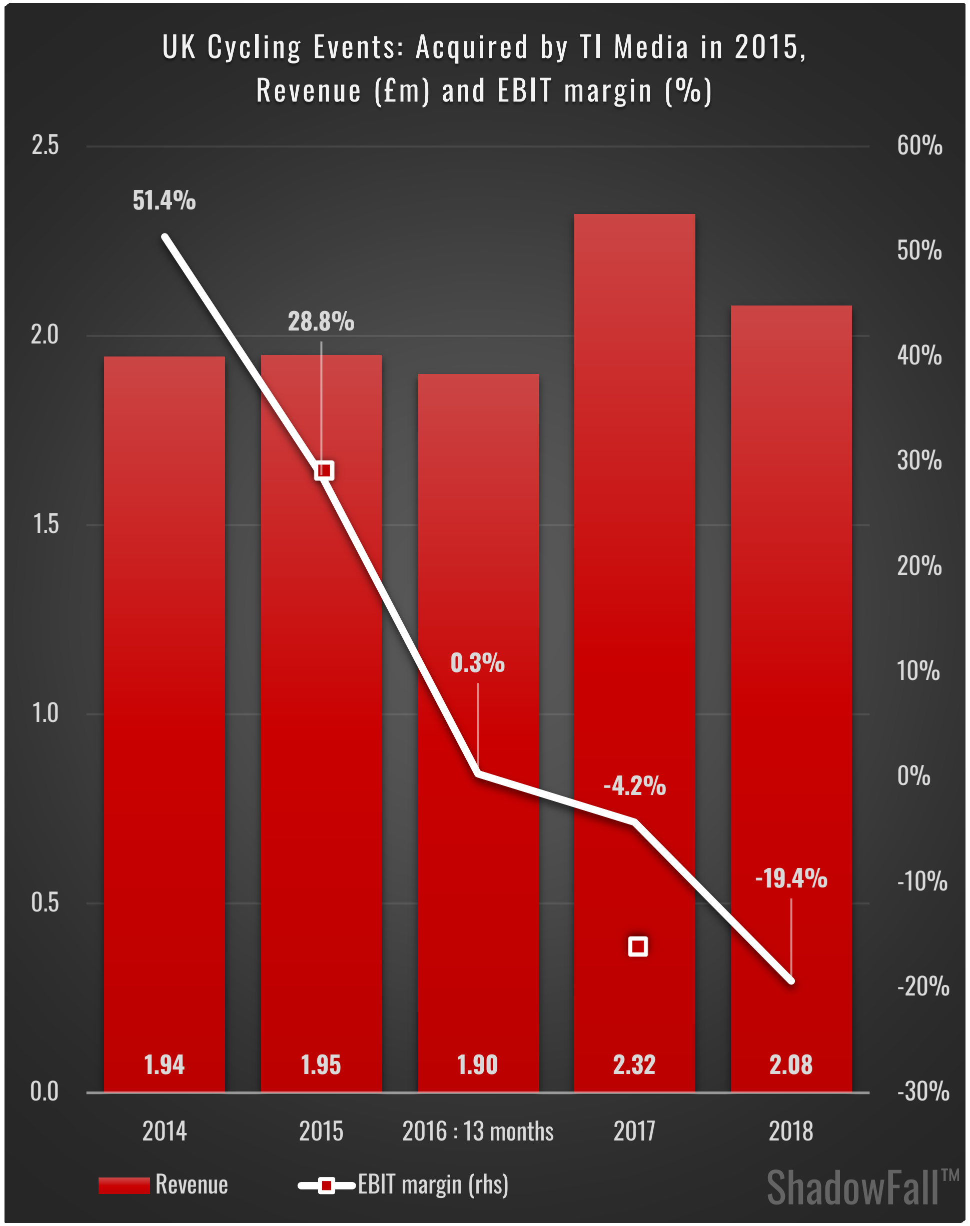

Figure 36: UK Cycling Events revenue and EBIT margin, Source: Company Filings, ShadowFall calculations

TI Media acquires Collective Europe in 2016

TI Media acquired Collective Europe Limited in July 2016. Collective Europe provides premium, high impact, creative studio-driven digital advertising solutions for brand advertisers, enabling brand advertisers to communicate their display and video messages across multiple formats and multiple screens. We are unable to find any pricing disclosure for the transaction.

In a similar fashion to UK Cycling Events, Collective Europe does not appear to have been an altogether rapidly growing business. In 2016 Collective Europe's revenue totalled £12.7m. By 2018 its revenue had fallen by 22% to £9.9m. In terms of profitability, Collective Europe's EBIT margin has averaged 1.9% since 2012.

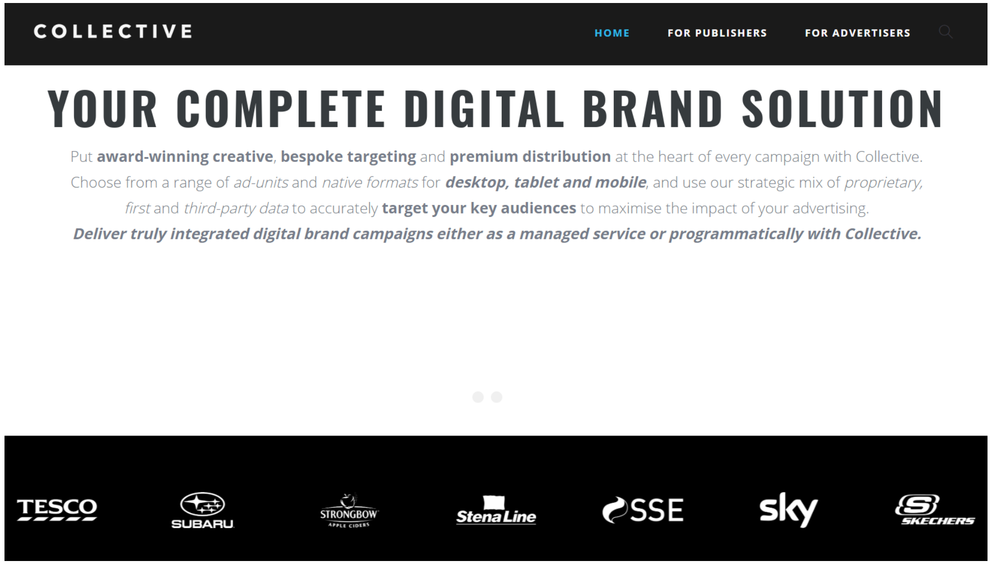

Figure 37 Source: http://collectiveuk.com/

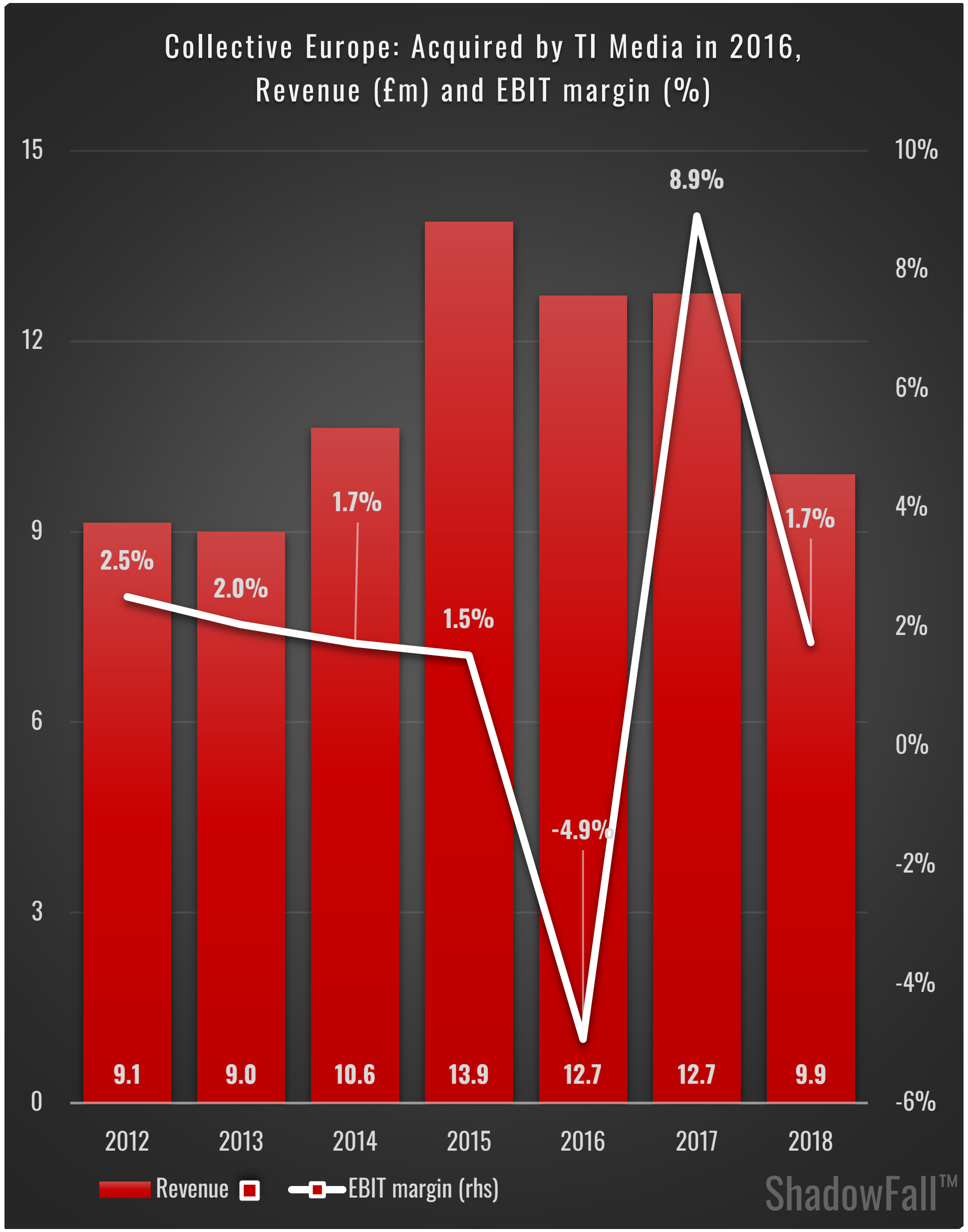

Figure 38: Collective Europe revenue and EBIT margin, Source: Company Filings, ShadowFall calculations

SmartBrief: Acquired 29 July 2019 for £43.7m

Future acquired SmartBrief, Inc. ("SmartBrief") on 28 July 2019. Future paid £43.7m for SmartBrief of which £21.2m was in cash, £11.6m in equity, and £10.9m in deferred consideration.

If SmartBrief had been acquired at the start of Future's financial year, then it would have been expected to have contributed £28.4m in revenue and PBT of £4.3m during the full year.

The above would imply that Future has paid c. 1.5x SmartBrief's 2019 sales and 10.1x SmartBrief's 2019 PBT.

What is SmartBrief?

Founded in 1999 and based in Washington, DC, SmartBrief describes itself as:

> "The industry leader in targeted business news. Serving nearly 6 million senior executives, thought leaders and industry professionals, SmartBrief is the leading digital media publisher of targeted business news and information by industry. By combining technology and editorial expertise, SmartBrief filters thousands of sources daily to deliver the most relevant industry news in partnership with more than 180 leading trade associations, professional societies, nonprofits and corporate entities."[4]

Growth Prospects?

SmartBrief appears to us to be a reasonable business, however, its social media presence and general quality of its content doesn't inspire great confidence in us that it is about to embark on a significant growth trajectory in the near future. We'd also highlight that in July 2015, SmartBrief reported serving over 5.8m senior executives. As of December 2019, SmartBrief reports serving nearly 6m senior executives, suggesting a negligible improvement in recent years.

SmartBrief appears to have an app, although according to the App Store, while it is highly rated, the SmartBrief mobile app has just 6 ratings. When we tried to search for the SmartBrief app on our own Apple iPhones (and Android phones) the search failed to deliver the app.

When it comes to Twitter, the main account has 31.3k followers. Its leading pinned tweet, showcasing its wares and first posted on 22 May 2019, has in seven months reaped a grand total of 14 retweets (some from SmartBrief employees and other SmartBrief Twitter handles) and 29 likes.

Content wise, in our view, the tweets are woeful with little user interaction; a selection of which we highlight overleaf. On the basis of such content, we find it unsurprising that SmartBrief has not increased its senior executive base above 6m in over four years.

Figure 39 : SmartBrief on the app store, Source: App Store

[4] https://www.smartbrief.com/about/our-company

Figure 40: SmartBrief Twitter page, Source: Twitter

Example of @SmartBrief content …

FAQ: Top Digital Marketing Trends Q4 2019

SmartBrief answers the most frequently asked digital marketing questions from across the internet – Q4 2019 edition.

1 Retweet, 1 Like

2 Dec 2019

SB on Leadership

Pass the #HandSanitizer then read this! We learned from the @CleanInstitute newsletter via @smartbrief that people's habits (riding public transit while sick, not washing their hands after using mass transit) are contributing to keeping illness going.

3 Retweets, 3 Likes

2 Dec 2019

This is why you need to be authentic in a fake world

What does authenticity mean today, and how can we live that way?

5 Retweets, 5 Likes

29 Nov 2019

Social media posts affect heart health – and why leaders need to

How we express ourselves on Twitter can literally affect our health, and there's lessons for workplace leaders in that.

2 Retweets, 5 Likes

26 Nov 2019

Source of Tweet examples: Twitter, @SmartBrief

MoNa Mobile Nations: Acquired 1 March 2019 for £90.2m

Future acquired MoNa Mobile Nations, LLC ("Mobile Nations") on 1 March 2019. Future paid £46.3m in initial consideration (of which £42m was in cash). In its FY2019 results, Future indicated that a further £43.9m in deferred consideration would be due. In total, Mobile Nations is set to be acquired for £90.2m. If Mobile Nations had been acquired at the start of Future's financial year, then it would have been expected to have contributed £8.9m in revenue and PBT of £7.7m during the full year. Mobile Nations appears to be extremely profitable.

The above would imply that Future has paid c. 10.1x Mobile Nation's 2019 sales and 11.7x Mobile Nation's 2019 PBT.

What is Mobile Nations?

Founded in 2011, Mobile Nations is based in St Petersburg, Florida. The company describes itself as:

> "Helping 500 Million consumers a year achieve more through tech … Mobile Nations attracts the most passionate tech influencers and enthusiasts, and through its media platform empowers consumers to make smarter purchase decisions and get the most out of their tech-enabled lives."[5]

In plain English, the company has a range of sites that offer reviews of generally tech related products and purchasing deals. For example, one of Mobile Nations' assets is AndroidCentral.com which apparently has 18.4m unique visitors per month, 400k YouTube subscribers and among the content on its website offers savings on Toys and Games, a wireless mouse, and a Genetic Ethnicity Test.

Key Brands

Android Central	**iMore**	**Windows Central**
CrackBerry	**CordCutters**	**MrMobile**
Modern Dad	**Vector**	**Thrifter**

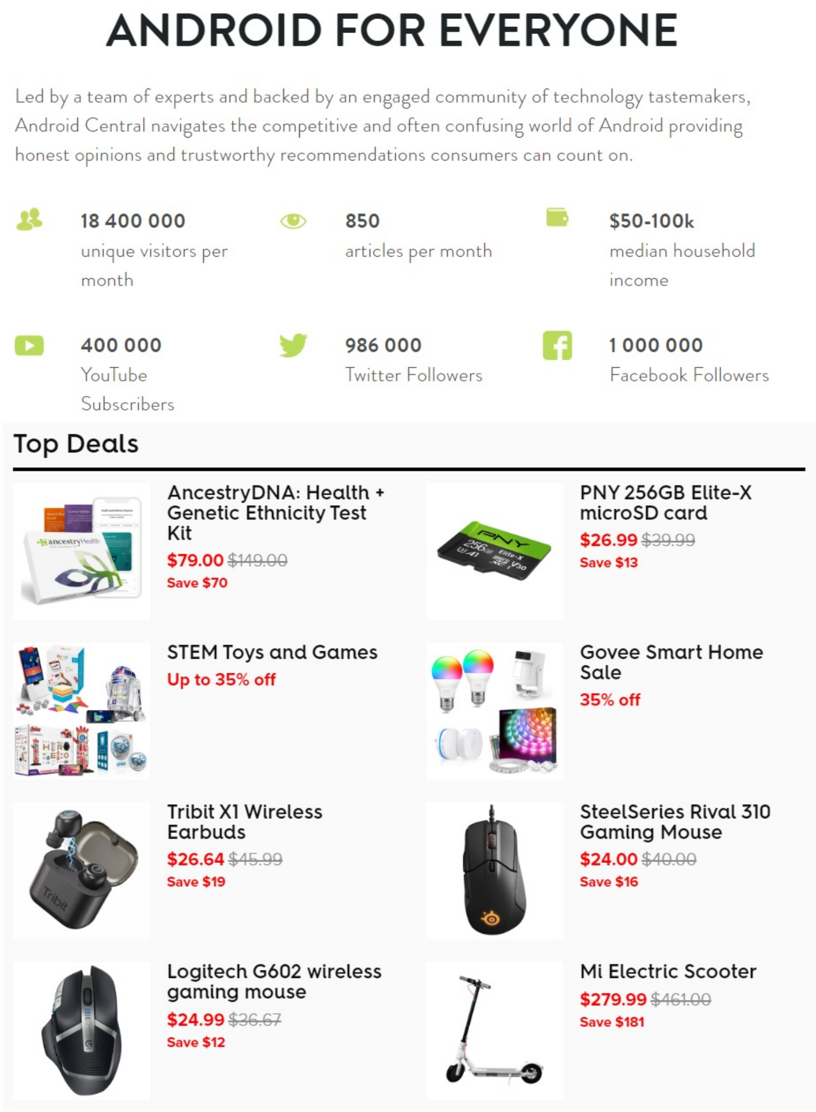

Figure 41: Example information for Android Central, Source: Company Websites

[5] www.mobilenations.com

MoNA Mobile Nations: £8.9m in revenue after 9 years and a cost base of £1.2m?

Although it's been rocking along for over 9 years, Future indicates that Mobile Nations has grown its revenue to £8.9m. This doesn't strike us as an especially fast growing business.

Mobile Nations claims that it reaches more than 500,000,000 consumers annually, which would suggest that its annual revenue per consumer reached is a maximum of 2p. It's hard for us to imagine that Mobile Nations will reach over 1 billion consumers any time soon and even if it did, then at an average of 2p per consumer, the most that Future may expect could be £20m in annual revenue.

Regardless of the revenue of the business, what we find curious is that Mobile Nations' entire cost base apparently comes to £1.2m (Revenue = £8.9m and PBT = £7.7m). Mobile Nations' LinkedIn profile indicates it has 93 employees, while we count at least 62 from its website. A £1.2m cost base would imply the maximum annual salary per employee equates to £19,355, and this would assume the company incurs no distribution, marketing, depreciation, amortisation, costs etc.

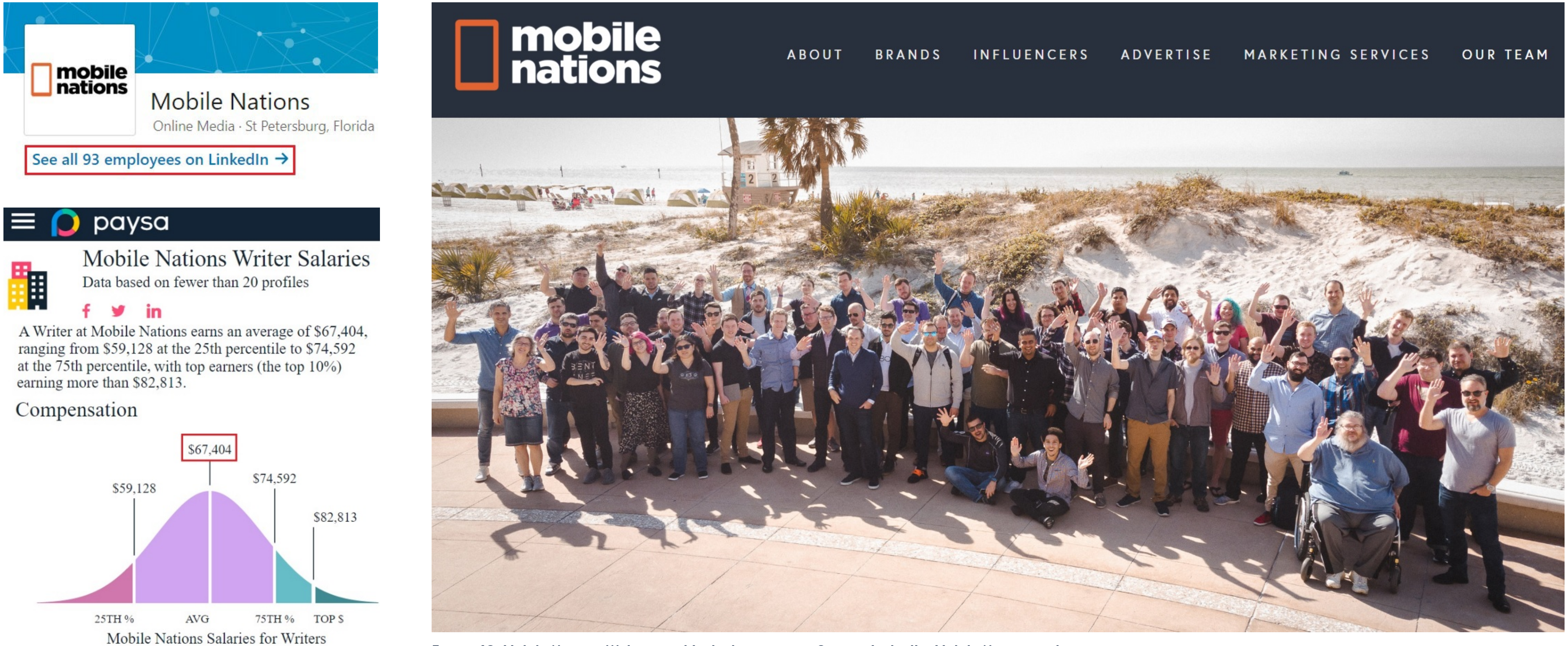

Figure 42: Mobile Nations Website and Linkedin captures, Source: LinkedIn, Mobile Nations website

MoNA Mobile Nations: Assets in Decline?

As highlighted above, £8.9m in revenue after nine years in business doesn't strike us too spectacular. Future's investors may be expecting more rapid growth prospects ahead. However, data sourced from Mobile Nations' website, SimilarWeb and Social Blade, leave us with the impression that growth within Mobile Nations' major assets may have peaked.

Mobile Nations' most visited website appears to be AndroidCentral.com. According to Mobile Nations, on a unique visitors per month basis (uvpm), AndroidCentral.com has 18.4m uvpm. Internet archive data shows that in May 2016, AndroidCentral.com achieved 19.2m uvpm. A similar picture emerges for another of Mobile Nations' major assets, WindowsCentral.com. According to internet archive data for May 2016, WindowsCentral.com boasted 5.3m uvpm. On the latest data from Mobile Nations, this has subsequently fallen to 5.1m uvpm. Data from SimilarWeb suggest that the declines in visitors may be starker still (see overleaf)[6].

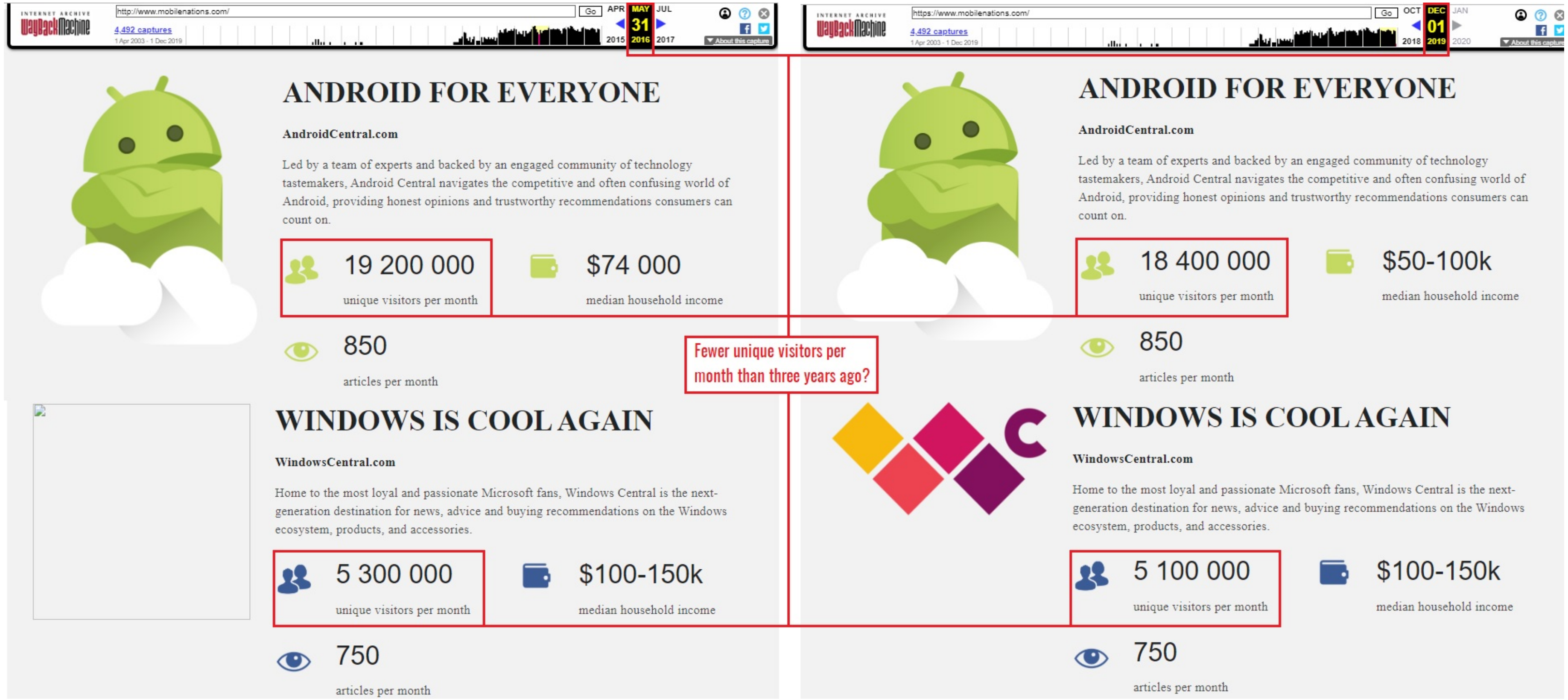

Figure 43: Mobile Nations website comparison May 2016 and December 2019, Source: Wayback Machine

[6] Similar Web data on AndroidCentral.com

MoNA Mobile Nations: Site visits down near 50% in 12 months?

According to data from Mobile Nations' website and SimilarWeb, Mobile Nations' most visited websites are:

- AndroidCentral.com;
- WindowsCentral.com; and
- iMore.com

Mobile Nations' other sites appear to have c. 500k or fewer monthly visitors.

SimilarWeb data for Mobile Nations' websites

	Site visits, millions			Bounce rate	Avg. visit duration	Pages per visit
	Nov-18	May-19	Oct-19	Oct-19	Oct-19	Oct-19
AndroidCentral.com	30.13	22.90	17.50	79%	1 min	1.6
WindowsCentral.com	12.88	11.30	11.20	76%	1 min	1.7
iMore.com	12.19	9.20	8.50	79%	1 min	1.7
CordCutters.com	na	0.42	0.52	79%	1 min	1.8
CrackBerry.com	na	0.72	0.47	63%	3 mins	2.8
Thrifter.com	na	0.19	0.22	61%	5 mins	2.4

Figure 44: Key stats for Mobile Nations websites, Source: SimilarWeb, ShadowFall Estimates

What appears noticeable from the SimilarWeb data is that monthly visits to Mobile Nations' three major sites have almost halved in the past 12 months. SimilarWeb's data suggests that whereas the combined number of monthly visits was 66.3 million in November 2018, this figure had declined to 37.2 million visits by October 2019.

Further, the bounce rate on Mobile Nations' principal sites is 76%+, suggesting that the majority of visitors navigate away from the respective sites after one impression. This is also reflected by the average visit duration time on each of these three sites being c. 1 min and sub 2 pages viewed per visit.

With such evidently weak trends, it is not altogether clear to us why Future determined Mobile Nations to be worth the £90.2m it values it at.

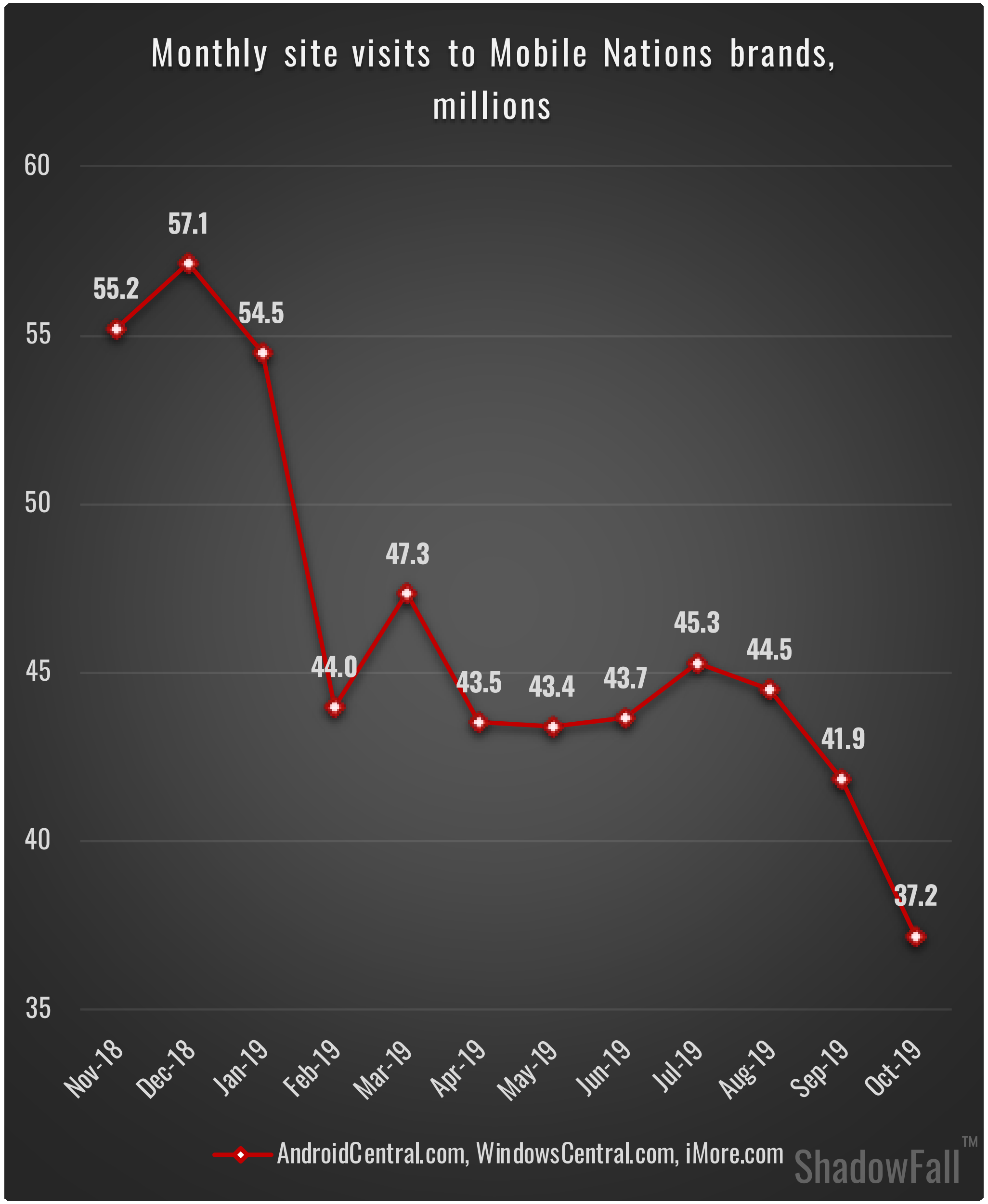

Figure 45: Monthly site visits to Mobile Nations websites, Source: SimilarWeb, ShadowFall Estimates

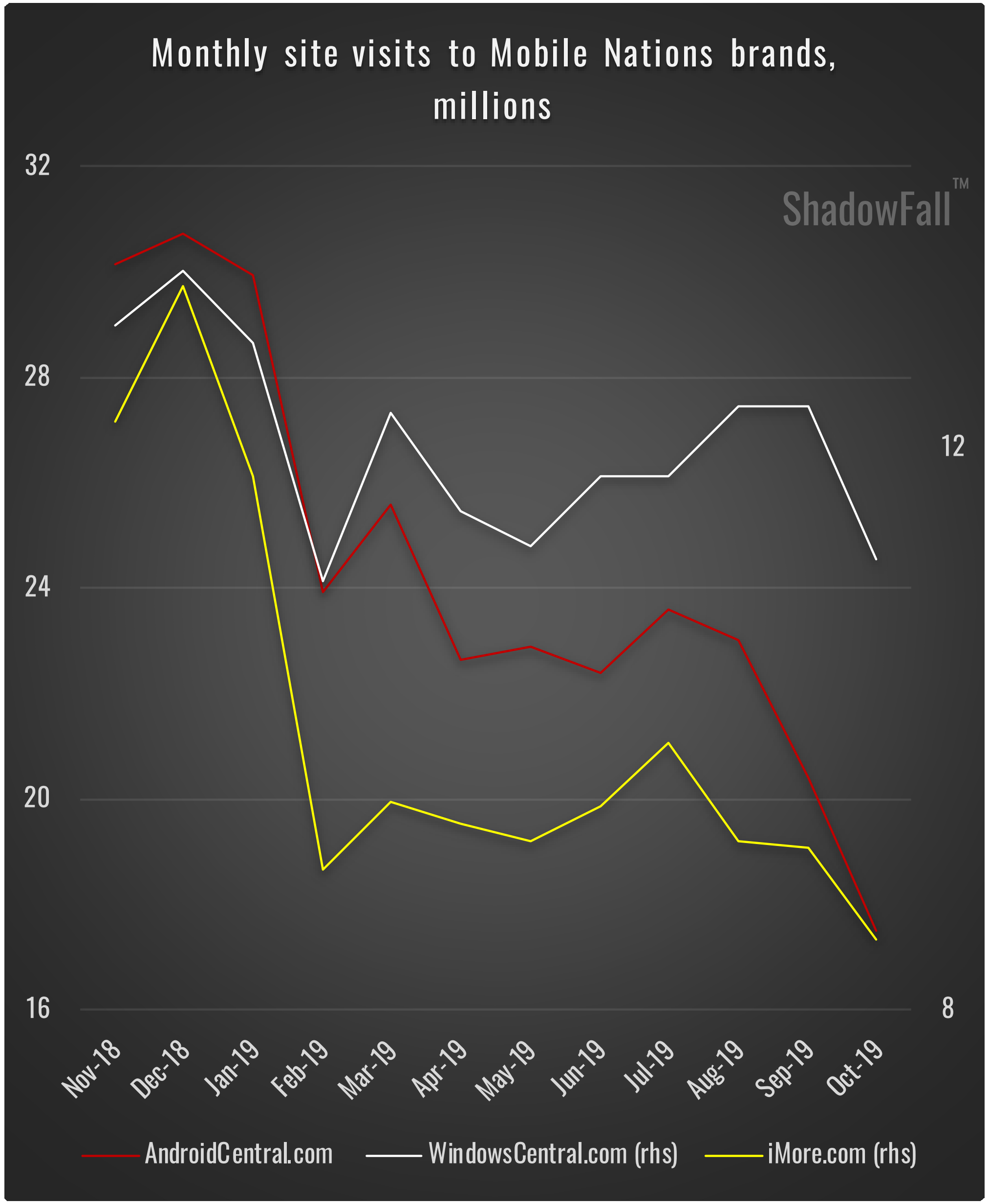

Figure 46: Monthly site visits to Mobile Nations websites, Source: SimilarWeb, ShadowFall Estimates

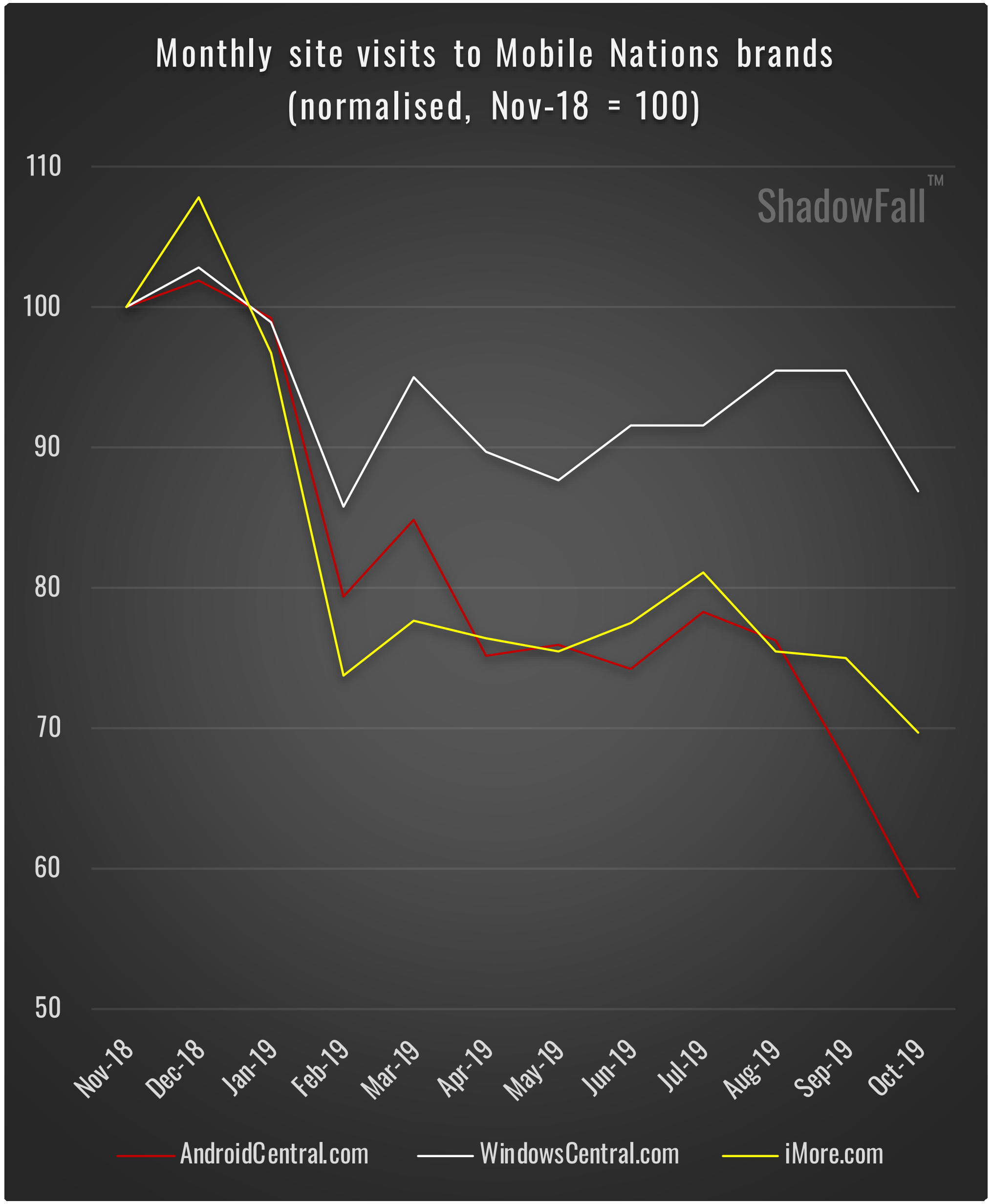

Figure 47: Monthly site visits to Mobile Nations websites indexed, Source: SimilarWeb, ShadowFall Estimates

MoNA Mobile Nations: Fast growing single man YouTube channels

According to data from Mobile Nations' website as well as content websites, Mobile Nations runs a few YouTube based channels, including the "fastest growing new tech review channel on YouTube".

We believe Mobile Nations operates 7 YouTube channels and that these fall into one of 2 baskets:

- **Single-man channels:** These channels are shows which have a single host providing their own insight and entertainment for the audience (MrMobile, Vector and Modern Dad).
- **Other channels:** These are the channels which will have a variety of presenters or where the presenter is less visually the brand of the channel.

It is clear to us that Mr Mobile, AndroidCentral and WindowsCentral are the 3 major channels operated by Future. We do not believe that this revenue stream lends itself well to operating leverage. Particularly in the case of the single man channels, we believe that the presenter has significant bargaining power limiting operating leverage.

On the figure to the right, we show the trend in subscribers. We note that in the case of YouTube subscribers, it is rare for subscribers to actively unsubscribe, and as such, there is a bias to the positive in the data. As for AndroidCentral and WindowsCentral, despite the improving trend in subscribers, we note the relatively low base of c.400k subs against the 10-20m website viewers which we have identified as being in decline.

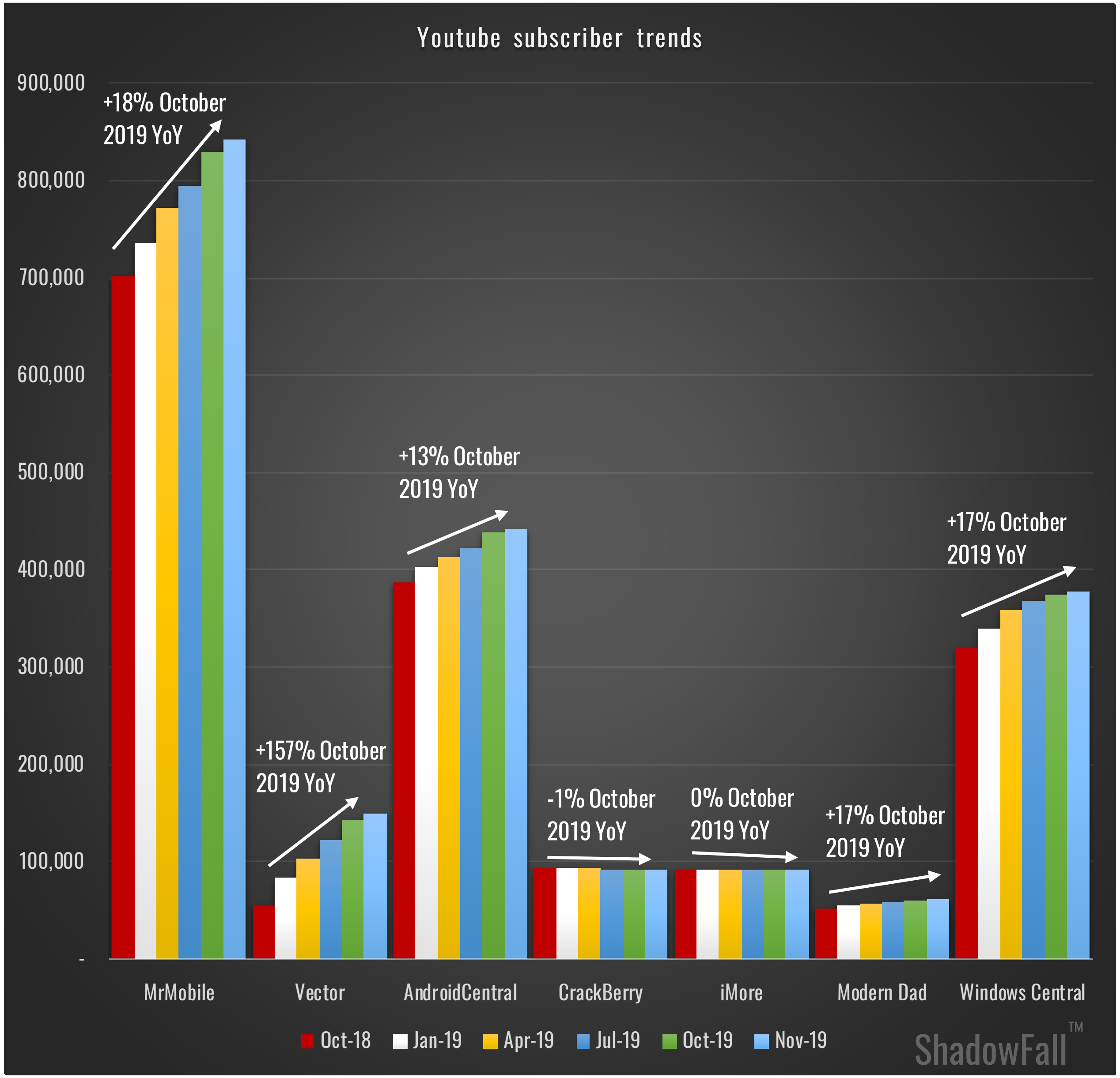

Figure 48: Future YouTube channel subscriber numbers, Source: Social Blade, ShadowFall Calculations

Purch Group: Acquired 4 September 2018 for £99.8m in cash

Originally raising $40.5m and incorporated in 2003 as TechMedia Network, the business consisted of a portfolio of brands and products focused on purchasing decisions, which included a series of websites focusing on the reviews of consumer electronics. In 2009, the group embarked on an acquisition spree, whereby 10 businesses were acquired over the years that followed. These purchases were seemingly financed by a series of funding rounds as follows:

- Jul 2008 – Series A for $6.0m
- Jan 2010 - Series A for $1.5m.
- Sep 2011 – Series B for $33.0m.
- Jun 2015 – Series C for $135.0m.[7]

The group has raised a total of $175.5m (£135m) since 2008.

In July 2013, the group acquired Bestofmedia Group, bringing the brands of Tom's Hardware, Tom's Guide, Tom's IT Pro, Anadtech and other publications.

In 2014 the group changed its name to Purch Group.

At the time of the Series C funding in June 2015, Purch advised that it had achieved "just under $100 million in revenue last year [2014] and is on target to bring in more than $100 million in 2015." Also in 2015, Purch indicated its revenue base as:

- 55% from e-commerce, lead generation and performance marketing.
- 45% from advertising.

Future acquired Purch Group's consumer business in September 2018 for £99.8m in cash. This included the brands Tom's Hardware, Tom's Guide and Anandtech. Future indicates that if Purch Group had been acquired at the start of its 2018 financial year, then the business would have contributed £47.5m in revenue and PBT of £7.9m (ex-deal fees and associated costs). This would imply that Future paid 2.1x 2018 sales and 12.6x 2018 PBT for Purch Group.

[7] Hot hybrid Purch raises $135M for tech review e-commerce combo

Purch Group: Just another brick in the review site wall

Future describes the asset as providing in-depth product review formats as well as real time deal and pricing information. The key difference is the geographic footprint, the Purch assets generate the majority of revenues from the US and Canada, as compared to the UK for the remainder of Future's assets.

When looking at Future's enlarged review formats we see a significant mismatch between the share of Google searches against peers and the share of total traffic amongst peers. Against a peer group of brands such as Which?, The Verge and Wired, we note that Futures share of Google searches has averaged 12% since November 2018[8], while the share of total traffic has averaged 51% over the same time frame[9].

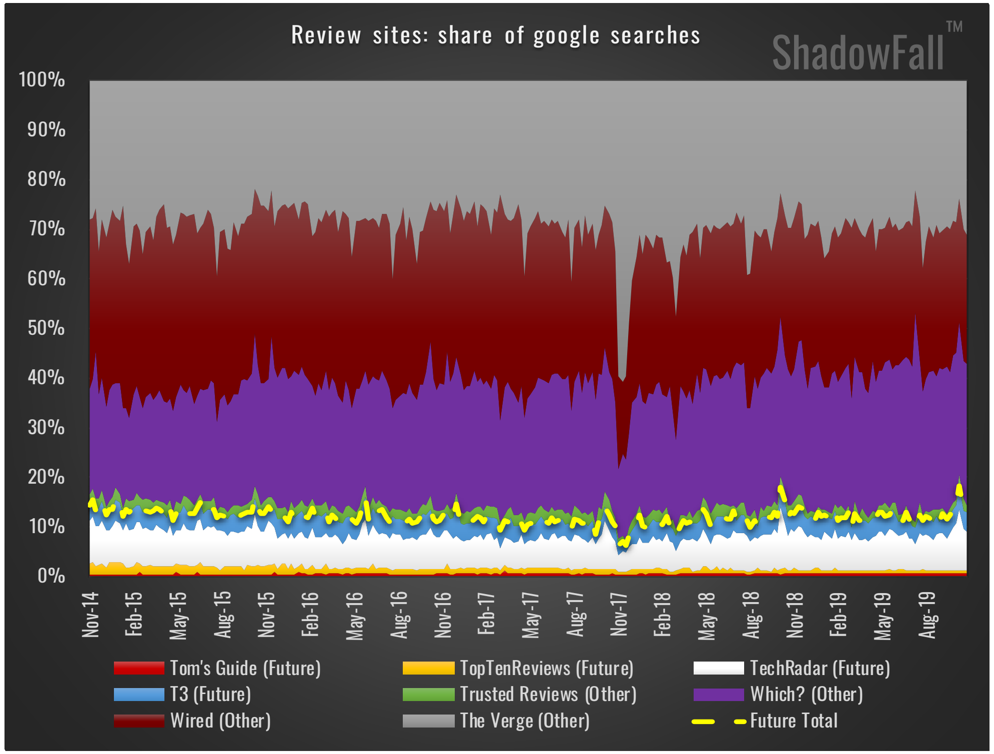

Figure 49: Review sites share of Google searches, Source: Google Trends, ShadowFall calculations

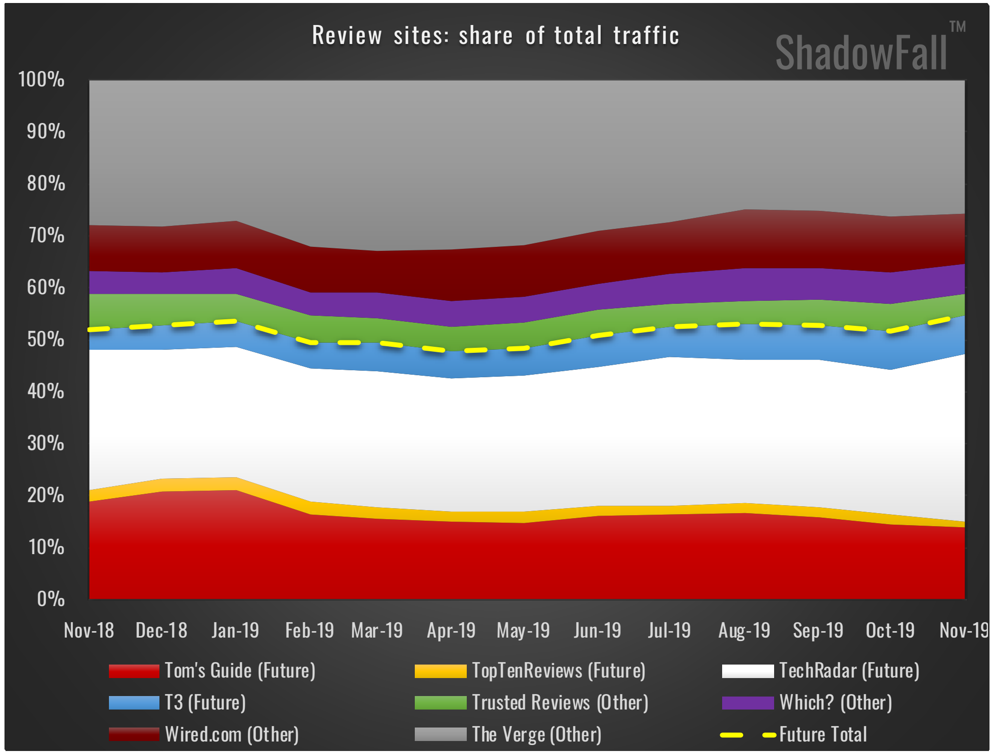

Figure 50 Review sites share of total traffic, Source: SimilarWeb, ShadowFall calculations

[8] Source: Google Trends, ShadowFall Calculations against for the peer group of Tom's Guide, TopTenReviews, TechRadar, T3, Trusted Reviews, Which?, Wired.com and The Verge.
[9] Source: SimilarWeb, ShadowFall Estimates

It would seem to us that Future's audience is not loyal to the brand but is instead being redirected from generic searches or being enticed in through clickbait style titles. This does not imply consumer loyalty or brand strength. In fact, it highlights the potential one hit nature of the underlying content. We believe this provides underlying business model risk and should lead investors into questioning the recurrent nature of growth and revenues.

Future highlights the risk from its reliance on search in its annual reports. In 2019 it identified it as a growing risk to the business stating that:

> "Future is very exposed to Google to the extent that its websites are reliant on 'search' (i.e. a user navigating to one of Future's websites via a search engine such as Google).
> Any unforeseen change to the Google algorithm, its nature or business model could significantly impact the Group's revenues."

Future aims to mitigate this risk through the:

> "continued to invest in the creation of top quality content, that follows best practice to meet the needs of audiences and therefore mitigate as much as possible its reliance on 'search'."

From our findings, we do not believe that Future is materially mitigating this risk.

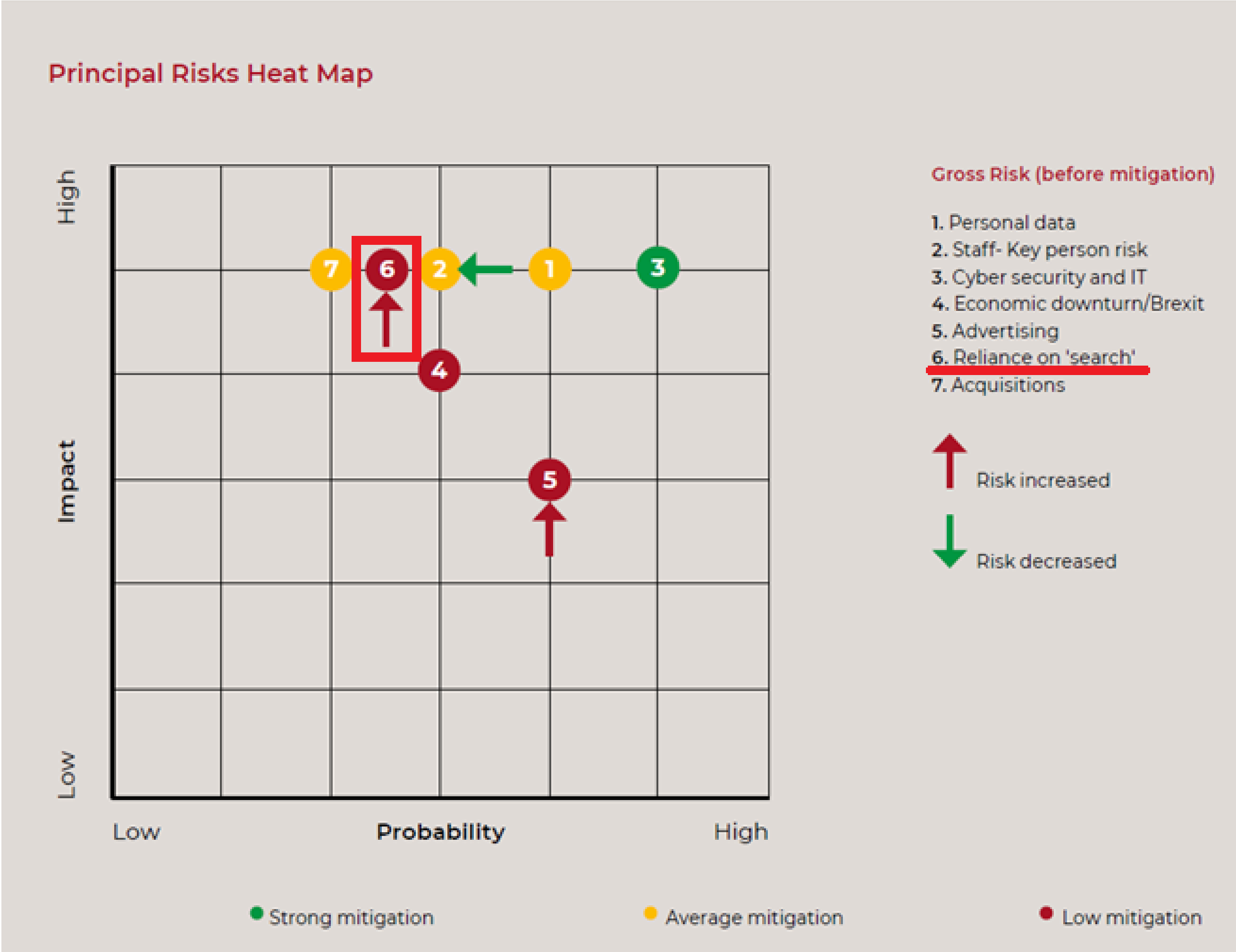

Figure 51: Future principle risks, Source: Company Filings

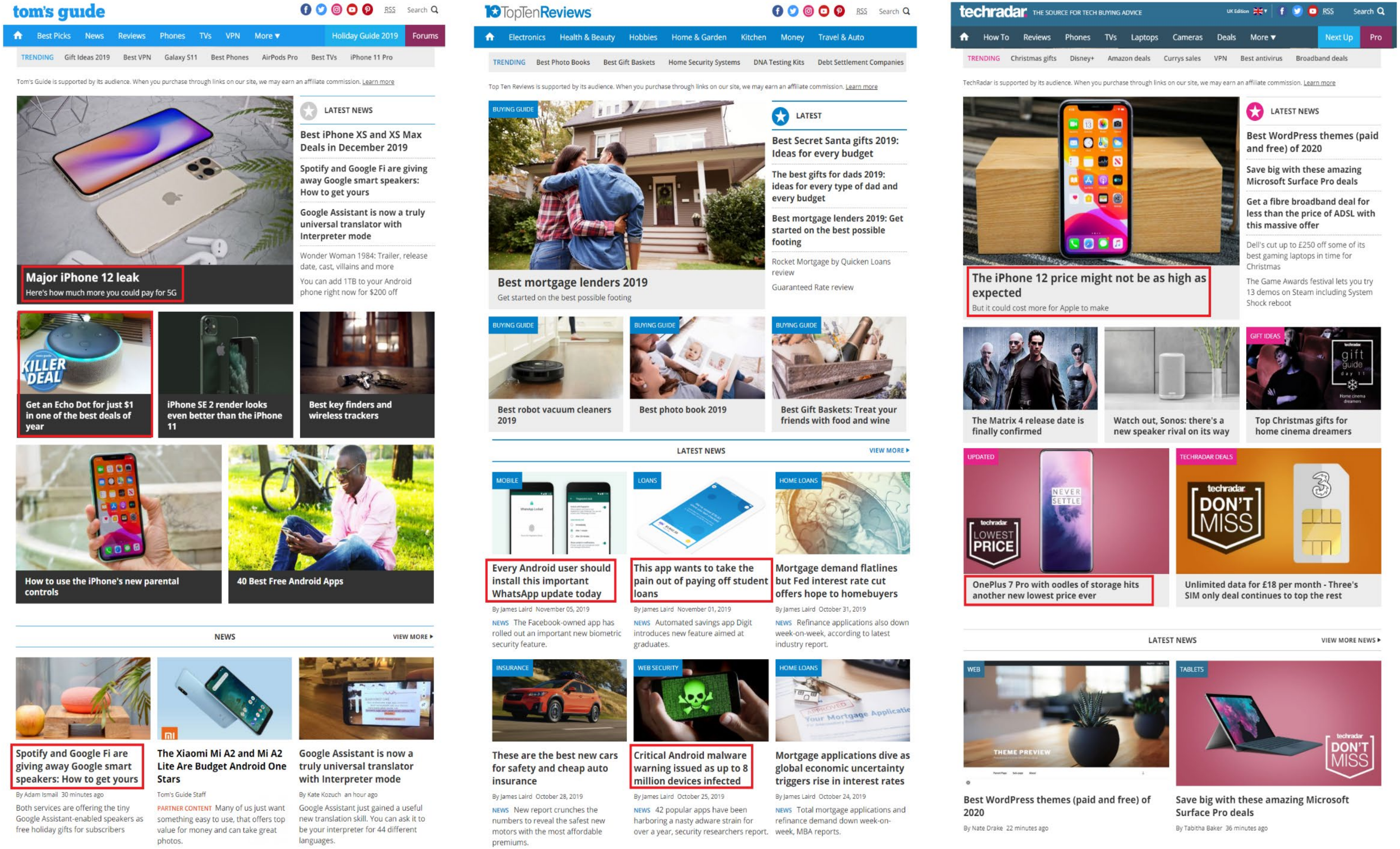

Figure 52: Example content across Future's review sites, Source: Respective websites

Purch Group's £37.1m mark-up in Goodwill helping to shield amortisation from the P&L in the Future!

When initially reporting its purchase of Purch Group in its 2018 filings, Future detailed a provisional value of other intangible assets as £72.5m and Goodwill as totalling £20.2m. A year later, in its 2019 full year report, Future revised down the value of other intangibles by £35.6m. Goodwill has been marked higher by £37.1m.

While this is entirely above the proverbial accounting board, it does seem to have the benefit of ensuring that a sizeable quantum of amortisation is shielded from Future's future Income Statements. For example, when it acquired the Haymarket titles and NewBay Media in 2018, Future indicated that "The publishing rights, brands and websites will be amortised over a period of five years."

Assuming this amortisation policy was applied to Purch Group, it would imply that if the original, provisional other intangible asset value had been maintained, then Future would report an additional amortisation value of c. £7.1m each year over the next five years.

Acquisition of Purch Group LLC

	Provisional fair value
Intangible assets	
- Customer lists	10.0
- Websites	62.5
Trade and other receivables	11.2
Trade and other payables	(4.8)
Net assets acquired	78.9
Goodwill	20.2
	99.1
Consideration:	
Cash	99.1
Total consideration	**99.1**

Acquisition of Purch Group LLC - update to fair values

	Fair value £m
Intangible assets	
- Customer relationships	12.2
- Brands	21.9
- Software	2.8
Trade and other receivables	10.9
Trade and other payables	(5.3)
Net assets acquired	42.5
Goodwill	57.3
	99.8
Consideration:	
Cash	99.8
Total consideration	**99.8**

Post acquisition, Purch Group's goodwill was marked up by £37.1m to £57.3m. The other intangible assets were valued down by £35.6m. Assuming that these would have been amortised over a five year period (similar to NewBay Media's intangible assets), then we calculate that this extra capitalisation of cost should shield c. £7.1m of amortisation cost from Future's P&L each year over the next five years.

Figure 53: Purch acquisition fair value update, Source: Company Filings

Purch Group the appraisal revisions and internalised margin

Irrespective on any potential impact on Future's future earnings, we believe the revaluation of Purch's balance sheet should raise other potential concerns for investors. Purch was Future's largest acquisition when completed. One year after the acquisition, management revised the value of the intangibles down by £35.6m, from £72.5m to £36.9m. The rationale for this adjustement was reported as:

> *The Purch acquisition occurred within one month of the 2018 balance sheet date and following the passage of time further information has become available to the Directors which has enabled the calculation of the fair value of the assets and liabilities acquired to be refined.*

Future Annual Report 2019

As capital allocators, investors are required to conduct substantial due diligence before making an investment. The obvious purpose being to ensure they understand why and where capital is being allocated. We have little sympathy for post-acquisition valuation revisions to identified assets, especially when they are of a significant magnitude as has been the case with Purch. Post-acquisition, Future's management have reassessed the value of Purch's intangible assets at **half** the initial valuation. We believe this reflects poorly on pre-acquisition due diligence and find this concerning given the importance of acquisitions in the investment case for Future.

Alongside the revaluation we also notice a moderation in assumptions for Future's annual US impairment test. Future reduced its assumed EBITDA margin for the US region. We question whether this reduction in the assumed margin relates to the revaluation of Purch's assets?

	2018	2019
Long term growth rate to perpetuity:	3%	3%
EBITDA margins assumed:	21.8% - 24.2%	19% - 21%↓
Discount rate (post-tax):	9%	8.2%↓

Figure 54 Goodwill 2018 and 2019 impairment test assumptions for Future's US related goodwill. Source: Future financial statements, ShadowFall.

When the acquisition of Mobile Nations was announced on March 1, 2019, Future reported that it generated CY18 revenue of US$16.4m (c. £12.9m) and EBITDA of US$8.2m (c. £6.4m). Post acquisition Future states that "*If the acquisition has been completed on the first day of the financial year, it would have contributed £8.9m of revenue (after elimination of intra-group revenues) and profit before tax of £7.7m (excluding deal fees and acquired intangible amortisation) during the year*". Excluding any organic growth, which Mobile Nations may have been able to achieve (2018 organic growth of 31%), **this would imply that Future made up approximately £4m of Mobile Nations' £12.9m revenue, if the business was able to grow between December 2018 and September 2019 then we calculate that Future's contribution to Mobile Nations revenue would have been even higher.** This would represent at least 31% of Mobile Nations' revenue pre-acquisition.

Haymarket Titles: Acquired 1 May 2018 for £10.7m (£9.3m in cash)

The Haymarket titles including What Hi-Fi?, FourFourTwo, Practical Caravan and Practical Motorhome, were acquired from the Haymarket Media Group for £10.7m in May 2018. Future indicates that if the acquisition had been completed at the start of its financial year, then it would have contributed £8.9m in revenue and PBT of £2.0m (excluding deal fees, etc). **This suggests that Future paid 1.2x 2018 sales and 5.4x 2018 PBT for the Haymarket titles**.

Somewhat curiously, Haymarket Media Group (HMG) details two separate sales from its Consumer division in 2018; one in May 2018 and another in June 2018. Clearly, the May 2018 disposal must relate to the Haymarket titles acquired by Future. The 18th June 2018 disposal relates to HMG's sale of Stuff Magazine to Kelsey Media.[10]

HMG indicates that the combined sales of the two disposals would have been £13.7m in the year to 30th June 2018. Further, that they would have made a contribution of £0.4m. If this is the case, then it might suggest that the Stuff Magazine disposal achieved revenue of c. £4.8m and a loss before tax of c. £2.4m.[11] However, HMG also indicates that it had £10.1m in revenue and £11.8m in cost of sales attributable to its discontinued operations in 2018; i.e. HMG's disposed assets achieved losses at the gross margin level of £1.7m. These discontinued operations include c. 10 months of contribution from the assets disposed to Future and c. 2 weeks contribution of the assets sold to Kelsey Media. Unless Stuff Magazine is a significant loss making title, **<u>we find it difficult to reconcile how the assets which Future acquired from HMG would have achieved PBT of £2.0m</u>**.

Haymarket Media Group Ltd

Notes to the Financial Statements
For the Year Ended 30 June 2018

The Company completed the sale of its Consumer division in two separate sales in May and June 2018. In both cases the cash consideration was greater than the book value of those assets. In the year ended 30 June 2017, the businesses had combined sales of £13.7m and made a contribution of £0.4m. Proceeds were principally applied to reduce the Company's bank borrowings.

Statement of Comprehensive Income
For the Year Ended 30 June 2018

	Note	Continuing operations 2018 £	Discont'd operations 2018 £	Total 2018 £	Continuing operations 2017 £	Discont'd operations 2017 £000	Total 2017 £000
Turnover	4	75,433	10,055	85,488	72,185	16,777	88,962
Cost of sales		(59,154)	(11,796)	(70,950)	(56,501)	(16,155)	(72,656)
Gross profit		16,279	(1,741)	14,538	15,684	622	16,306

Kelsey Publishing Limited

Notes forming part of the financial statements
For the year ended 31 October 2018 *(continued)*

23 Acquisition of Stuff Magazine Limited

On 18 June 2018 the company acquired 100% of the share capital of Stuff Magazine Limited. Due to the nature of the assets acquired, this has been treated as the purchase of an intangible publication title, not a business combination. On the same day, the publication title "Stuff" was transferred into the company at fair value. The company acquired the intangible publishing title for £1,383,661.

FUTURE

Acquisition of Haymarket titles
On 1 May 2018 Future Holdings 2002 Limited completed the acquisition of the specialist consumer titles of What Hi-Fi?, FourFourTwo, Practical Caravan and Practical Motorhome from Haymarket Media Group for net consideration of £9.3m cash and £1.4m shares.

Included within the Group's results for the year are revenues of £3.5m and a profit before tax of £0.6m (excluding deal fees, associated integration costs and acquired intangible amortisation) from the Haymarket titles.

If the acquisition has been completed on the first day of the financial year, it would have contributed £8.9m of revenue and profit before tax of £2.0m (excluding deal fees, associated integration costs and acquired intangible amortisation) during the year.

Figure 55: Calculation of financials of the Haymarket Titles acquired by Future, Source: Company Filings

[10] Haymarket sells Stuff to Kelsey Media
[11] Disposed revenue of £13.7m less Haymarket titles contribution of £8.9m indicated by Future would leave £4.8m in sales attributable to HMG's other disposal.

Team Rock: Pass the Parcel

In April 2013, Future sold a collection of Rock titles, Classic Rock and Metal Hammer to a UK based company, which became Team Rock Limited. Gross consideration for the transaction was £10.2 million and Future recognised a profit on disposal of £8.83m.

Team Rock does not appear to us to have been much of a success of a business. By 22 December 2016, Team Rock had appointed an administrator and the January 2017 Administrator's report showed that Team Rock had chalked up cumulative net losses of £24.8m between 2013 and December 2016.

During this brief period of significantly loss making third party ownership, Team Rock wasn't even able to grow its revenues. In 2014, Team Rock reported revenue of £7.6m. By December 2016, on a proforma basis, Team Rock was achieving revenue of £5.4m.

In January 2017, Future repurchased certain assets from Team Rock for a cash consideration of £0.8m. At the point of acquisition, Future indicated that in a full year, Team Rock would have contributed £4.8m in revenue.

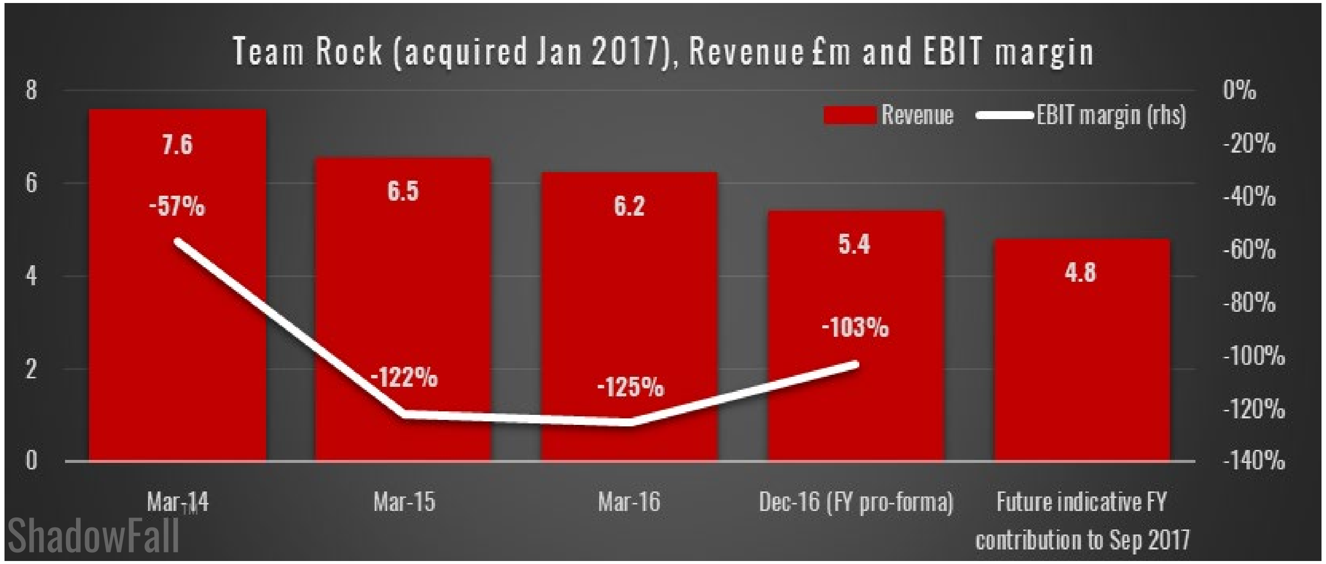

Figure 56 Team Rock financials. Source: Team Rock, Future Plc, ShadowFall calculations.

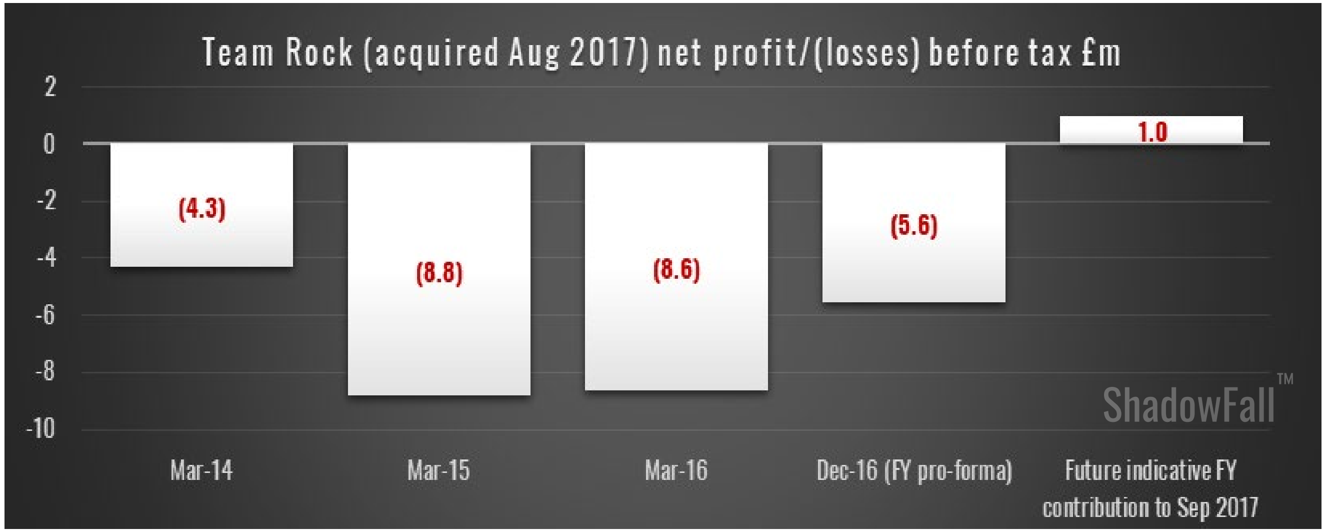

Figure 57 Team Rock financials. Source: Team Rock, ShadowFall calculations.

Team Rock: sold for £10.2m in 2013, accumulates c. £25m in losses, then repurchased in 2017 for £0.8m

Although cost wise the repurchase of the Team Rock assets was low (£0.8m), its repurchase contributed 12.6% to Future's revenue growth in 2017, and 10% to its increase in PBT in the same year. 2017 was also a year in which Future's share price rose 108%, and its management were awarded 400% of salary (an amount the board were authorised to award under exceptional circumstances) in the performance share plan. **The 400% PSP award appears to have been sold in November 2019 realising proceeds of £43.4m!**

It is not altogether clear why the quality of this asset has materially improved during the period it was under third party ownership, since over recent years:

1. Team Rock's revenues appear to have collapsed;
2. Team Rock has been significantly loss making; and
3. In 2013, the strategic rationale was seemingly for Future to dispose of it.

Future Publishing Limited

Strategic report for the year ended 30 September 2013

Profit on disposal of operations

In April 2013, the Company sold its Rock titles, Classic Rock and Metal Hammer, for gross consideration of £10,200,000, resulting in a profit on disposal of £8,830,000 Additional information is included in note 3

Team Rock Limited (In Administration)

The Administrators' Proposals

Issued on: 8 February 2017

Background information regarding the Company

The Company was incorporated in 2011 to establish a global rock music media business. In 2013, it acquired a stable of leading rock music magazines and associated IPR from Future Publishing Limited, including Classic Rock, Prog and Metal Hammer. The Company later developed the website www.teamrock.com.

As at the date of administration, the business had 80 employees, with 31 based at the head office in High Blantyre and 49 based in London.

The business had grown to generate annual turnover in excess of £6M but had been significantly loss making since the magazine acquisitions of 2013. A summary of the recent financial history is included at Appendix A. The Company's trading losses were funded by shareholders and investors, but ultimately the loss making position and consequent pressures on cash flow were unsustainable.

No new investment was available to enable the business to continue trading and the directors were unable to sell the business as a going concern, leaving administration as the only available solution.

Events leading to the appointment of the Administrators

For a number of months prior to the date of administration the directors had marketed the business and made considerable attempts to achieve a going concern sale, however no deal could be completed.

The cash position was increasingly constrained and no new investment was available. Once the directors had exhausted the available options to sell the business as a going concern, they took the decision to appoint administrators.

85 Future plc

29. Acquisitions (continued)

Acquisition of Team Rock

On 6 January 2017, Future Publishing Limited acquired certain assets from Team Rock Limited for cash consideration of £0.8m.

The impact of the acquisition on the consolidated balance sheet was:

	Provisional fair value £m
Intangible assets	
- Publishing rights	1.2
Trade and other payables	(0.4)
Deferred tax	(0.2)
Net assets acquired	**0.6**
Goodwill	0.2
	0.8
Consideration:	
Cash	0.8
Total consideration	**0.8**

The goodwill is attributable to the synergies expected to arise in integrating the magazines and websites into the wider Future group. The publishing rights will be amortised over a period of five years.

Included within the Group's results for the year are revenues of £3.2m and statutory profit before tax for the period of £0.6m (excluding deal fees and associated integration costs) from the Team Rock assets.

If the acquisition had been completed on the first day of the financial year, it would have contributed £4.8m of revenue and statutory profit before tax of £1.0m during the period.

Team Rock sold by Future in 2013 for £10.2m.

Through to 2016 it was significantly loss making, resulting in Administration by 2017. Losses before tax were: £8.8m to Mar-15, £8.6m to Mar-16, £4.2m to Dec-16.

Then repurchased by Future in January 2017, for £0.8m, apparently generating £1.0m in PBT.

Figure 58 Sale and repurchase of Team Rock assets. Source: Team Rock, Future Plc, ShadowFall calculations

THE TURNAROUND NOWHERE TO BE SEEN?

A cross reference with Google Trends seems to re-paint the same picture, that the Team Rock assets remain in a state of decline. Despite the share of Google searches marginally rising, the absolute number of searches appears to have continued to decline.

On the figures to the right, we display the share of searches related to Future's rock music assets against peers. Additionally, we benchmark the quantum of searches for the whole group. Since the Team Rock assets have been re-purchased by Future, their share of search traffic appears to have been broadly flat. Meanwhile, the decline in the absolute searches for the sector has continued to decline at a -5% CAGR.

We see little evidence to suggest that the financial performance of these assets has improved following the re-purchase by Future.

We believe this acquisition has followed the same pattern as previous acquisitions. Future launched a new website 'LouderSound.com' in March 2018, which is based upon Future's Vanilla platform, replacing the old Team Rock website.

We believe that the launch of a new site, which would likely have contributed meaningfully to organic growth is a purely one time uplift in nature and is not recurrent. We believe that once the new website has been delivered there is limited scope for attractive levels of organic growth to continue. **Consequently, it appears that additional operating leverage is minimal after this point.**

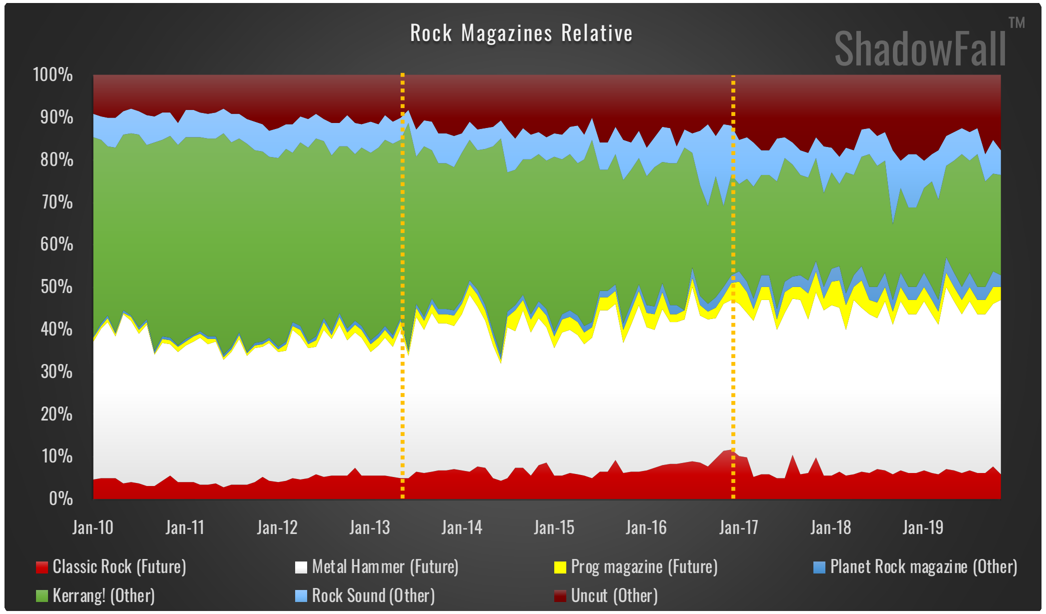

Figure 59: Rock magazine sites share of Google searches, Source: Google Trends, ShadowFall calculations

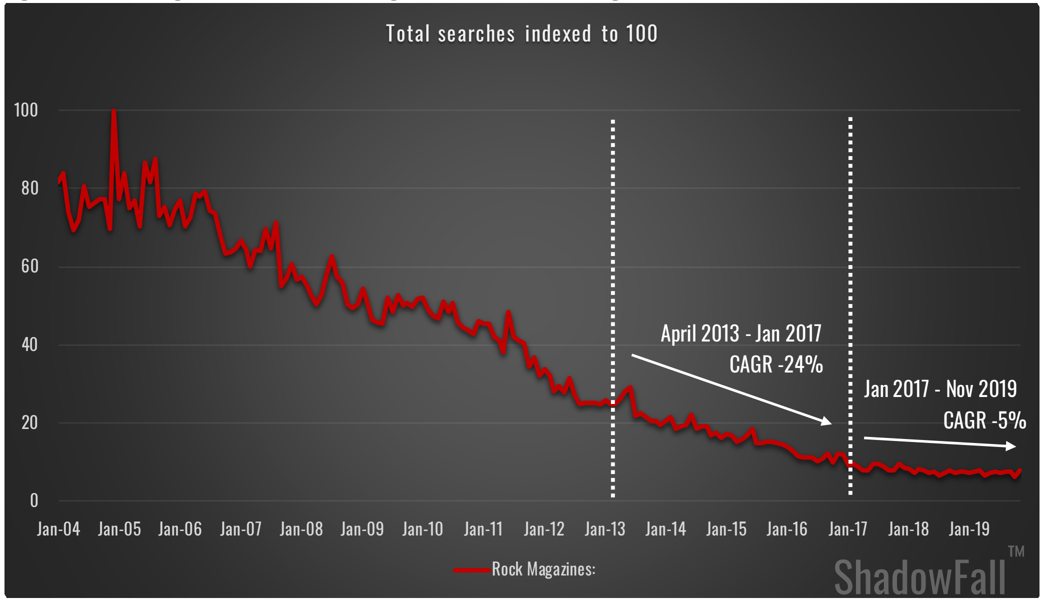

Figure 60: Rock magazine sites total Google searches, Source: Google Trends, ShadowFall calculations

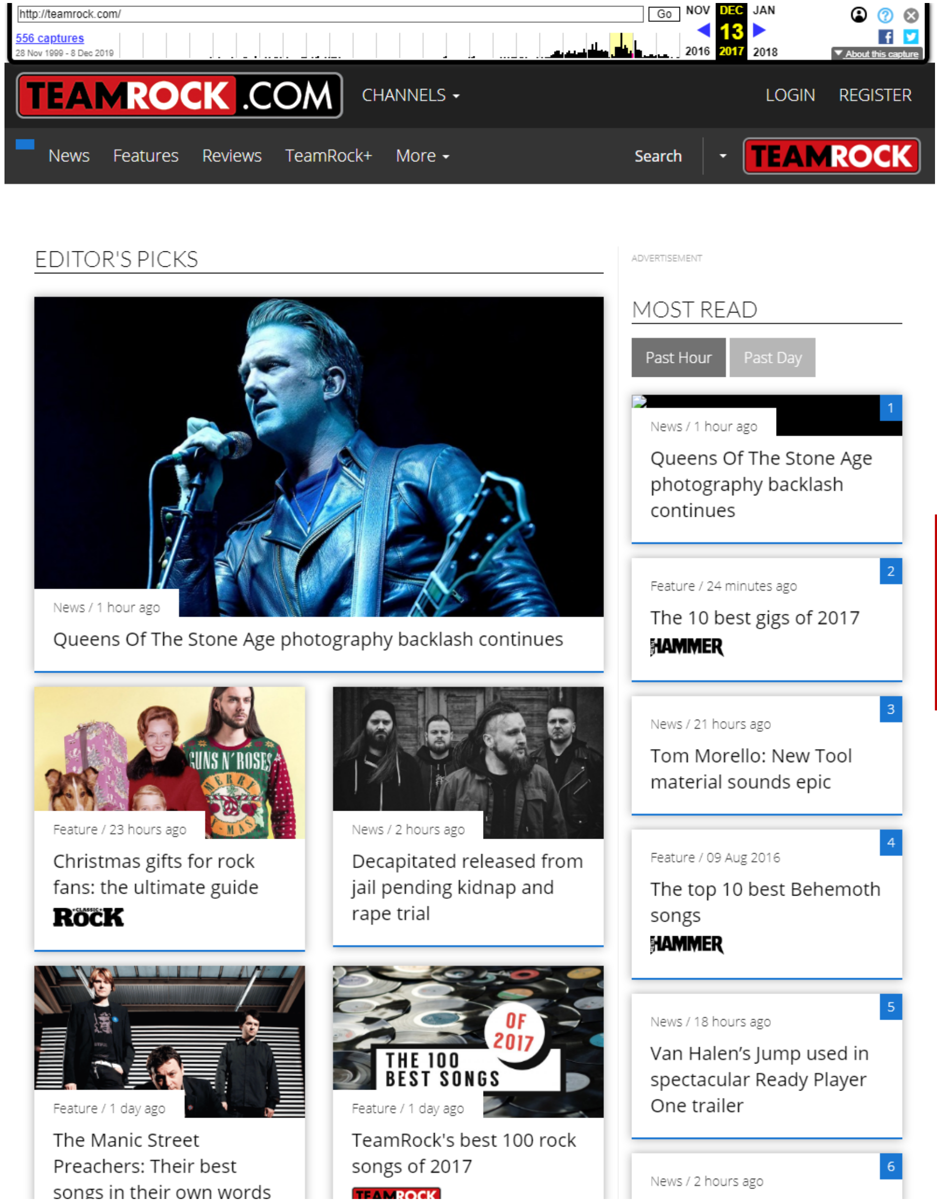

Figure 61: Team Rock post acquisition by Future, before new site launched. Source: Wayback Machine

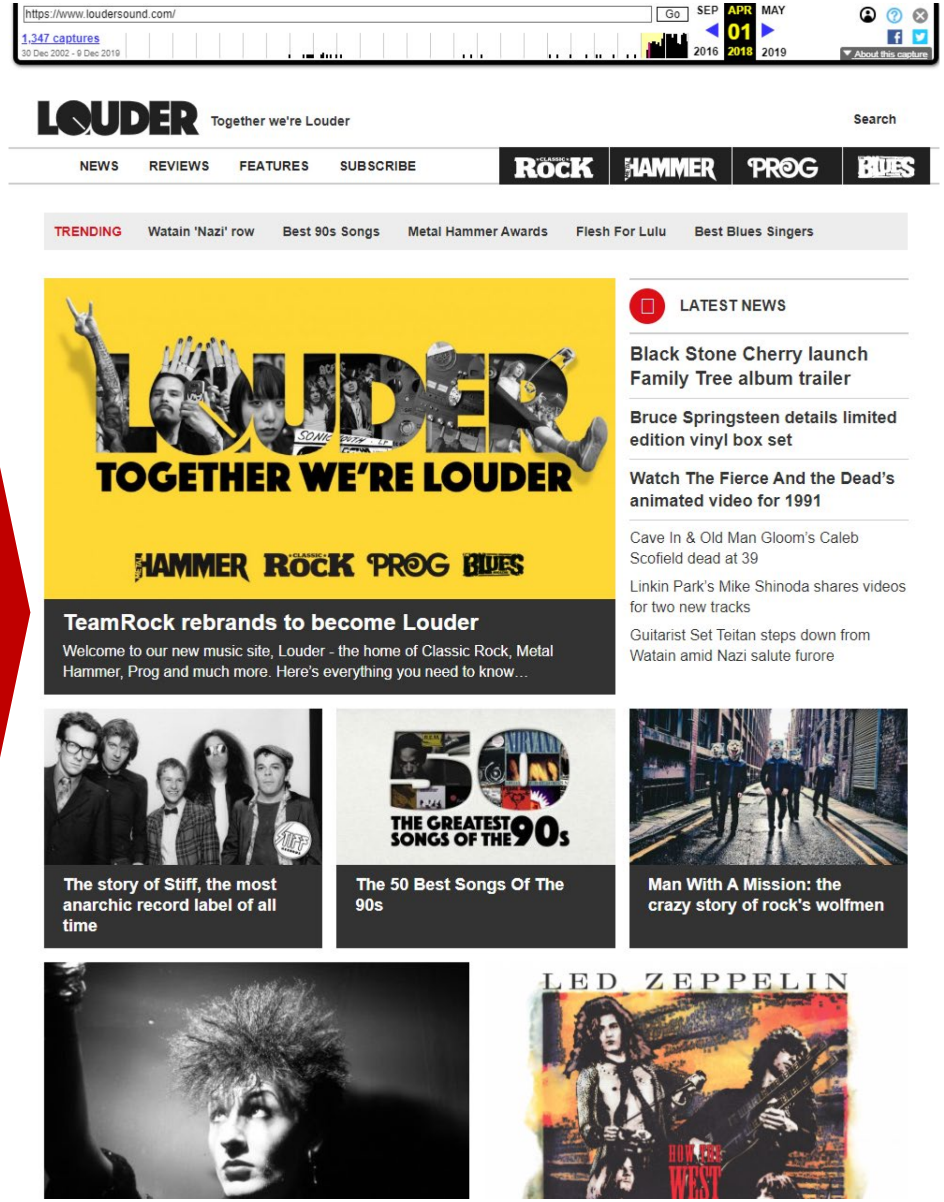

Figure 62: Team Rock rebranded as Louder Sound post acquisition by Future. Source: Wayback Machine

Ascent Publishing and Centaur Consumer Exhibitions: "Home Interest" Acquired 1 August 2017 for £32.8m

Future acquired Ascent Publishing Limited and Centaur Consumer Exhibitions Limited, the "Home Interest" assets from Centaur Media Plc on 1 August 2017. Total cash consideration was £32.8m.

Seemingly Future paid a 2.5x revenue multiple for Home Interest, as compared to Future which trades on 6.5x 2019 sales. When it comes to EBIT, we calculate that Future paid 7.3x Home Interest's 2016 EBIT. This compares to Future which trades on 29x 2019 EBIT.

On the one hand, Home Interest is clearly a higher margin business than Future; during the period 2011-16, we calculate that Home Interest achieved an average EBIT margin of 24.7%. Future averaged an adjusted EBIT margin of 0.9% during the 2011-16 period. However, it doesn't strike us that Home Interest is particularly fast growing. We calculate that from 2011 to 2016, the combined revenue grew at a CAGR of 3.2%. Further, 2017's figures for Home Interest portray an impression that revenue growth may have stalled and profitability has weakened.

Revenue growing or slowing?

Future indicates that if Home Interest had been completed on the first day of the financial year (1 Oct), it would have contributed £13.2m in revenue and statutory profit before tax of £2.0m during the full year. However, in the seven month period to 31st July 2017, Home Interest reports revenue of £7.1m. On a pro-forma basis, this would equate to full year revenue of £12.2m, which would be 5% less than the £12.8m in revenue reported to 31st December 2016. Further, Future indicates that Home Interest would have achieved a PBT margin of 15.2% for the full year in 2017. However, Home Interest reported PBT of £4.9m to 31st December 2016 on revenue of £12.8m, implying its 2016 PBT margin was 38.5%.

So, as well as not appearing to be particularly fast growing at a top line, it appears that Home Interest's profitability is not altogether that consistent. **We find it absurd that Future can purchase these assets for 2.5x 2017 revenue and 7.3x 2016 EBIT only then for the Market to seemingly flush the contribution through Future's earnings at a valuation multiple of almost 4x higher.**

Figure 63: Some of the Home Interest assets acquired. Source: https://www.myfavouritemagazines.co.uk/

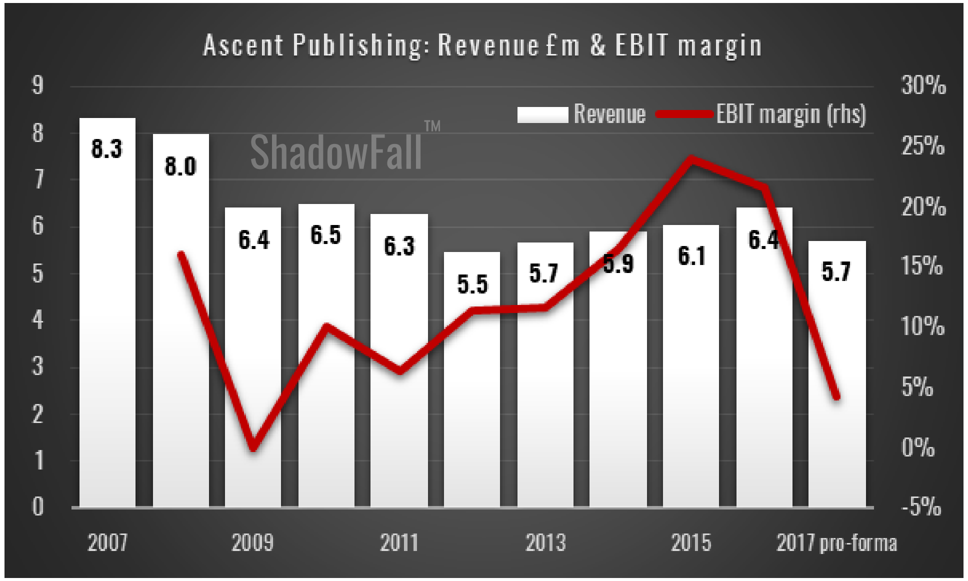

Figure 64: Ascent Publishing revenue and EBIT margin, Source: Company Filings

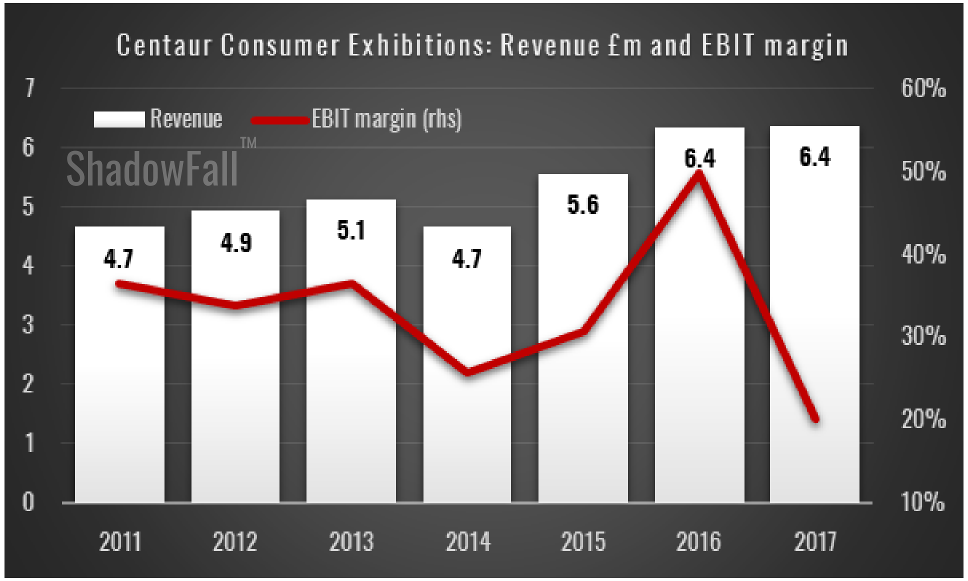

Figure 65: Centaur Consumer Exhibitions revenue and EBIT margin, Source: Company Filings

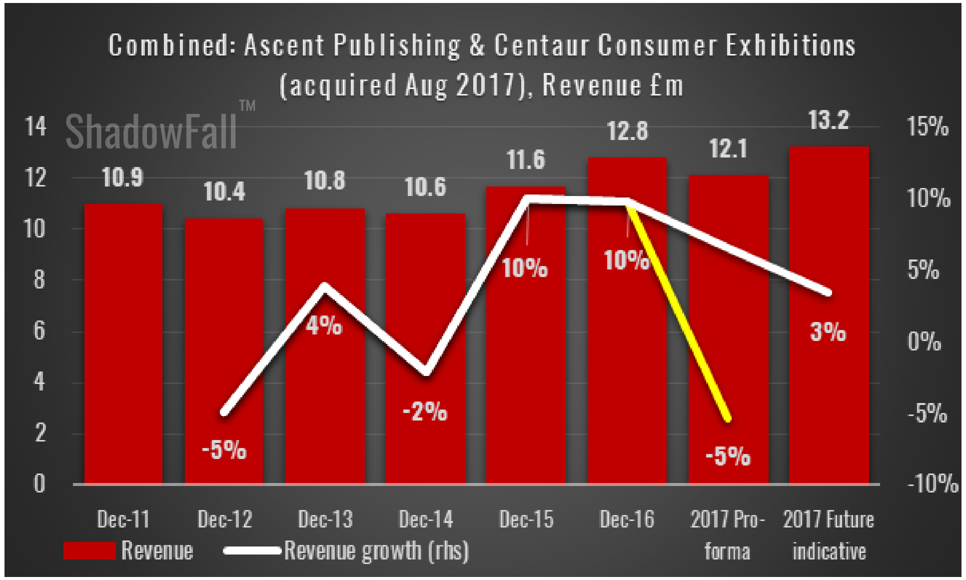

Figure 66: Ascent Publishing & Centaur Exhibitions revenue and revenue growth, Source: Company Filings

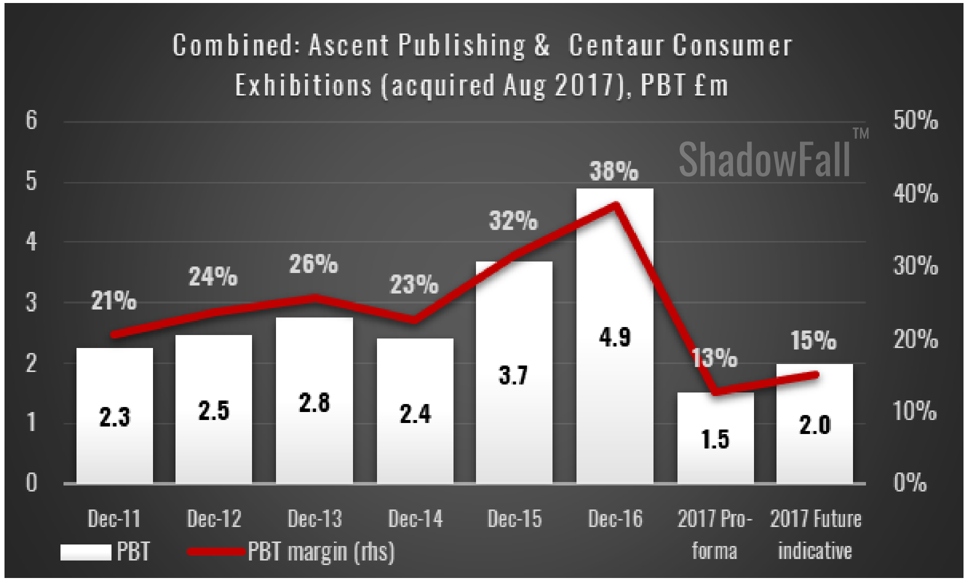

Figure 67: Ascent Publishing & Centaur Exhibitions PBT and PBT margin, Source: Company Filings

MIURA (HOLDINGS) LIMITED: ACQUIRED 21 OCTOBER 2016 FOR £15.5M

Future acquired Miura (Holdings) Limited, the owner of Imagine Publishing Limited, ("Miura") on 21 October 2016. Total consideration was £15.5m, settled by way of issuance of c. 12 million shares at 129p per share.

Miura (Holdings) was incorporated in March 2013, and a month later, acquired Imagine Publishing in April 2013 for £39m; the latter which had been in business since 2005. Further, we note at the time of Imagine Publishing's acquisition by Miura in 2013, Miura also received debt facilities of £15.7m.

Miura's 2014 annual filings highlight:

> "The acquisition [Imagine Publishing] leaves the Company [Miura (Holdings)] now strongly capitalised and well positioned to develop further its pioneering approach to content delivery on a worldwide scale."

Somehow this "pioneering approach" doesn't appear to us to have been entirely successful. Since the point of acquisition, Imagine Publishing's revenue continued to decline. Imagine Publishing's revenue peaked in 2012 at £19.0m and deteriorated to £16.4m by 2016. Following Future's acquisition of Miura, the full year revenue contribution of the business was indicated to be weaker still at £15.3m.

Imagine Publishing's deterioration in revenue may explain why Future purchased Miura in 2016 for 60% less than what it was effectively valued at just three years prior in 2013.

We calculate that the acquisition of Miura contributed 58% to Future's sales growth and as much as 24% of its adjusted profit before tax in FY 2017.

Again, we note that Miura was purchased for 1x sales as compared to Future which is currently trading at 6.5x 2019 revenue.

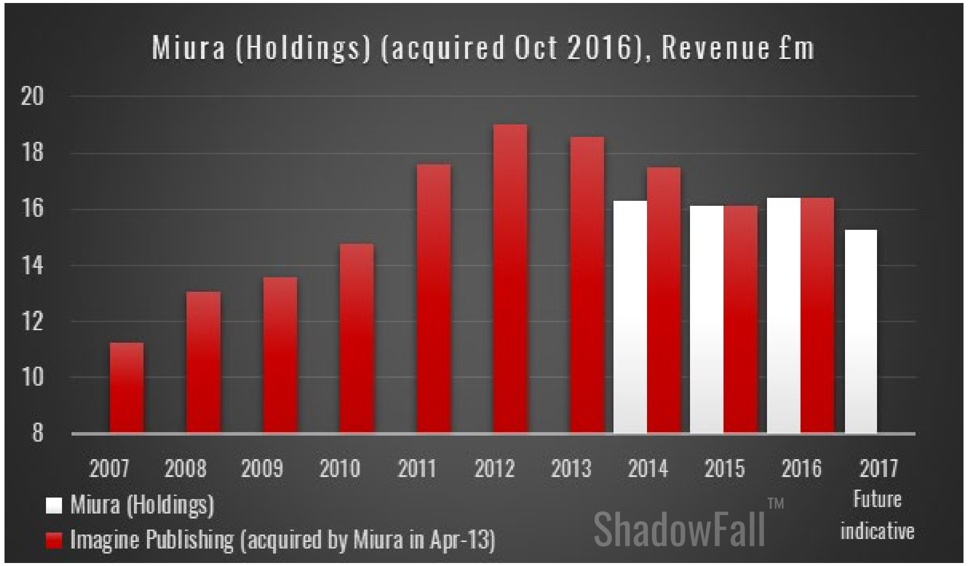

Figure 68: Miura Holdings and Imagine Publishing revenues, Source: Company Filings

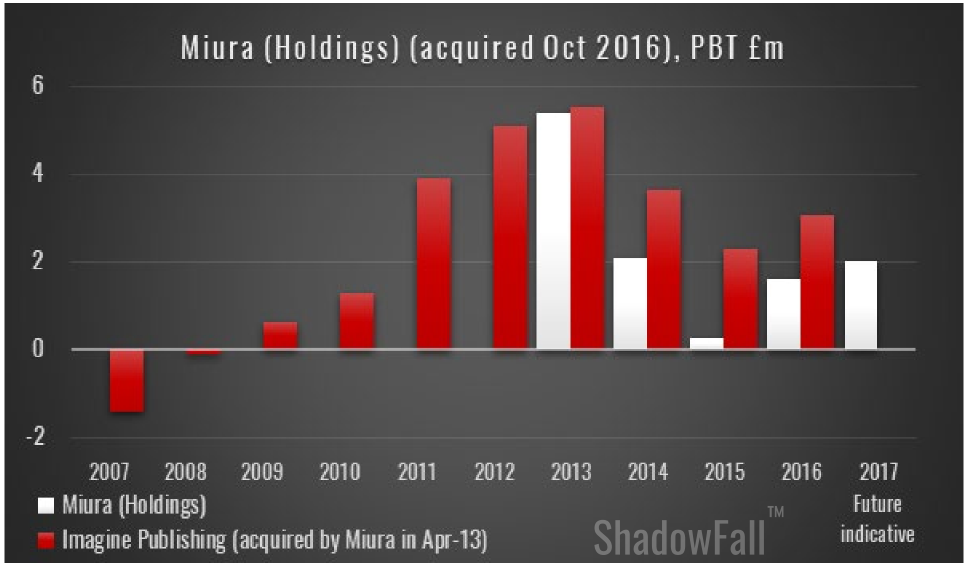

Figure 69: Miura Holdings and Imagine Publishing PBT, Source: Company Filings

Miura (Holdings) Ltd
Notes to the consolidated financial statements (continued)
for the period ended 31 March 2014

18. Business combinations

On 30 April 2013 the group acquired 100% of Imagine Publishing Group Limited for £39m. This has been accounted for as an acquisition in accordance with IFRS 3. The fair value of the assets and liabilities and retained earnings at the date of acquisition are detailed below.

	Fair value of assets and liabilities £000
Intangible assets - Computer software & websites (note 8)	58
Intangible assets - Publishing rights and content (note 8)	14,353
Property, plant and equipment	154
Inventories	158
Trade and other receivables	6,678
Cash and cash equivalents	1,723
Trade and other payables	(3,958)
Corporation tax payable	(70)
Deferred Tax Asset	320
Total identifiable net assets	**19,416**
Consideration	
Equity	100
Cash	17,888
Loan notes	21,012
Total consideration	**39,000**
Goodwill (note 8)	**19,584**

Had the group been consolidated from 1 April 2013, the consolidated statement of income would show revenue of £17,472k and a loss of £4,544k.

29. Acquisitions

Acquisition of Miura (Holdings) Limited
On 21 October 2016, Future plc acquired 100% of the share capital of Miura (Holdings) Limited, the holding company and ultimate parent company of Imagine Publishing Limited, for total consideration of 11,971,189 new shares in the Company which, at the closing price of 129p on 21 October 2016, represents consideration of £15.4m.

The impact of the acquisition on the consolidated balance sheet was:

	Provisional fair value £m
Intangible assets	
- Publishing rights	6.8
- Brands	2.0
- Other intangibles	0.1
Tangible assets	0.1
Inventories	0.3
Trade and other receivables	2.7
Cash and cash equivalents	1.7
Trade and other payables	(6.3)
Corporation tax	(0.1)
Deferred tax	(1.5)
Loans and borrowings	(6.9)
Net liabilities acquired	**(1.1)**
Goodwill	16.6
	15.5
Consideration:	
Equity shares	15.4
Cash	0.1
Total consideration	**15.5**

Imagine Publishing was acquired Miura (Holdings) in April 2013 for £39m.
Just over 3 years later, Future acquired Miura (Holdings) in October 2016 for £15.5m. The identifiable net assets of Imagine Publishing had effectively deteriorated from £19.4m in 2013, to NET LIABILITIES of £1.1m in 2016.
Miura was acquired for 1x its pro-forma 2017 sales. We calculate that Miura contributed 58% of Future's sales growth and as much as 24% of its adjusted profit before tax in 2017.

Figure 70: Disclosure on the simplified balance sheet upon acquisition, Source: Company Filings

Execution risk
the disgruntled employees?

Figure 71 The Wolf of Wall Street (2013), Paramount Pictures. Contributor: Atlaspix, Alamy Stock Photo

The disgruntled employees

One would assume that due to the pace at which Future has acquired companies it would need time to integrate new teams, aligning then with the existing culture and systems. Large scale integrations frequently give rise to the most challenging periods for management teams over their tenures.

Future executives paint a picture of integration success, stating that all of the 4 key acquisitions over the last 14 months delivering in line with expectations, at the FY19 results release. **However, the disruptive nature of these acquisitions appears to be felt first hand by Future employees. Recent employee reviews paint a starkly different picture to management commentary.** Looking at the reviews for SmartBrief, a business acquired by Future in July 2019. All of the reviews since the acquisition was completed, have been negative. A stark contrast to a more positive view in the 24 months prior to the acquisition. Our finding at SmartBrief appears to us to be a microcosm of the bigger beast.

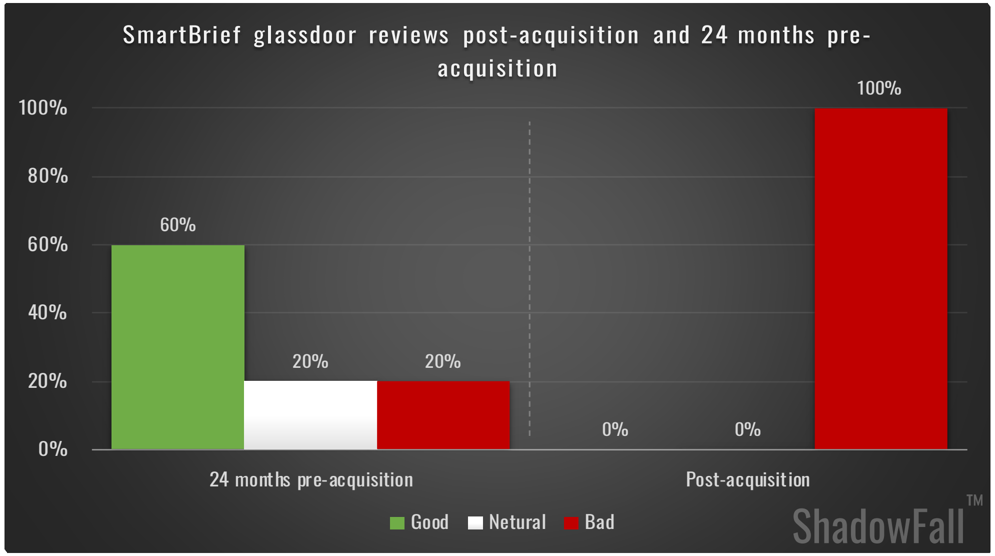

Figure 72: Glassdoor reviews for SmartBrief 24 months pre and 5 months post acquisition. Source: Glassdoor, ShadowFall calculations

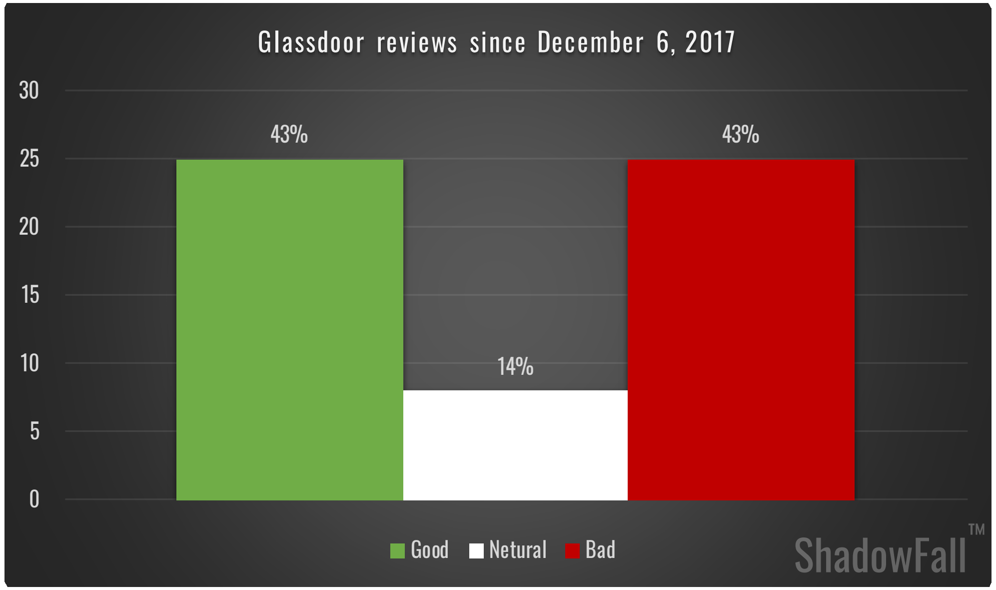

Figure 73: Glassdoor reviews for Future since December 6, 2017. Source: Glassdoor, ShadowFall calculations

We looked at all the reviews since December 6, 2017, totalling 58 reviews. The results were mixed, with the more recent reviews being largely negative. Some of the views that current and past employees expressed were simply shocking. Frequently employees (or ex-employees) commented on a lack of respect for staff, poor pay, poor management and overworked staff. High levels of staff churn were clear with firings or redundancies seemingly very common. Future frequently responded to the reviews typically repeating the company's values, expressing disappointment with the reviewer's experience and encouraging the reviewer to reach out to the internal HR team.

We believe these comments are more reflective of a company scratching away for basis points of margin expansion rather than a business with a significant operating leverage opportunity. We include a sample of reviews from the last 12 months overleaf which we found particularly alarming.

26 November 2019 Helpful (4)

"Update your resume for the future! You'll need it."

Former Employee - Anonymous Employee

Doesn't Recommend · Negative Outlook · Disapproves of CEO

I worked at Future full-time

Pros
Unlimited vacation? They're nice and want to create a positive TEAM environment right up to the minute they fire you with a severely poor severance package.

Cons
You're just a number to them. They acquire you and then they fire you and then, they gut your company.

Advice to Management
Stop being money-grubbing wankers.

Helpful (4)

Future Response
December 6, 2019 – Manager, Special Projects

First off, I'm really happy you feel like we work hard to create a positive team environment. It's something we really strive towards, because every voice in our many groups genuinely does matter. As for money grubbing, each of our offices offers dedicated evening events for everyone to get together and have drinks, which the company pays for. This is on top of a profit-sharing offer at the end of each year and unlimited holiday, among many other things. Best of luck wherever you land next, though.

12 October 2019 Helpful (1)

"You're just a number and not a human being"

Current Employee - Software Developer

Doesn't Recommend · Negative Outlook · No Opinion of CEO

I have been working at Future full-time for less than a year

Pros
Free lunch once a month

Cons
Management do not listen or respect your advice You're sold a work life balance, but when you start they put the handcuffs on and you are very rarely allowed to work from home. Management take no accountability and abuse the work/life balance system. Very little structure or direction Management seem very incompetent when it comes to technology and the digital market. No room or opportunity for learning and growth They will overwork you and underpay you

Advice to Management
Start respecting your staff and pay accordingly

Helpful (1)

Future Response
December 16, 2019 – Manager, Special Projects

I have been sitting on my couch for hours after reading this trying to find these handcuffs you are talking about. I thought about going into the office today, because it's Taco Tuesday and my office gets a little silly with the shop down the way, but it was really cold outside this morning so I'm sat here working instead. No one is "just a number" here. Do you know how hard it would be to message anyone on Slack if I had to look up numbers instead of names? What a nightmare that would be. Anyway, I sure hope it's warmer out tomorrow, my office is getting together for drinks after work, and the company is paying! How cool is that?

2 January 2020 Helpful (1)

"Zero-vision, no-product content farm"

Former Employee - Technology

Doesn't Recommend · Negative Outlook · Disapproves of CEO

I worked at Future full-time for more than 5 years

Pros
Leftovers of talent and technology from previously acquired companies.

Cons
The company operates on a very simple principle - it's an advertisement driven content farm fueled by false/inaccurate self-marketing and driven by low-paid employees. There is no product, there is no path for growth, there is no vision outside of acquiring more and more companies, firing whole product/business/engineering teams, and dumping all content into their semi-functional platform from the 90s. If you are an engineer - your skills will stagnate, there is nothing to learn. If you are a product person - well, I'm sorry, but you are no longer with the company - no need for product team when there is no product :) The only good people left at the company are the content team - and even they had to unionize in order to get some protection. Future is known for getting rid of people left and right, without any reason or advance notice.

Advice to Management
Pay attention to reviews from former employees. And not by hiring a person to write canned (and sometimes weird) responses here, but instead change things for better. Even though you lost trust of hundreds of former employees, there is still a glimmer of hope for new generation.

Helpful (1)

Future Response
January 6, 2020 – Manager, Special Projects

As a member of that new generation you have a glimmer of hope for, I'm going to first say thanks for highlighting some of the areas we as a company need to improve from a tech perspective. There's always room for internal growth, new systems and new technologies to help improve the entire company. And it's unfortunate you didn't feel like you were a part of that process, because had you felt that way I think you might have seen things differently. As part of that new generation you mentioned, I've seen huge ways to improve the platform you are so unhappy with and the people we've shown those changes to have been nothing but supportive. The change you are so vocally lamenting the absence of is right here, being coordinated and implemented as I write this. There are a lot of people very excited about what is happening next for the tech driving all of of the Future websites, and a lot of it is coming from the teams we've acquired so rapidly over the last year or more. It's not immediate change, for sure, but it's happening and it's a shame you're no longer a part of it.

26 March 2019 Helpful (4)

"No future"

Former Employee - Product Manager in Paris

Doesn't Recommend · Negative Outlook · No Opinion of CEO

I worked at Future full-time for more than 8 years

Pros
This company heavily invested in technology at some stage, which gave it an edge

Cons
Company driven by investors rather than people building a consistent thing.

Helpful (4)

Future Response
May 7, 2019 – Communications Manager

Thank you for your review of Future . While our investors are important to us, we are devoted to building a company where our employees feel proud to work and where they have the opportunity to work on innovative and world-leading publications, events and services. If you have specific feedback, please email People & Culture on peopleandculture@futurenet.com. We appreciate all feedback as this helps us grow and evolve.

27 November 2019 Helpful (3)

"Run away!"

Former Employee - Operations in New York, NY

Negative Outlook · No Opinion of CEO

I worked at Future full-time for less than a year

Pros
If I can find any it would be the PTO policy.

Cons
Management doesn't care about the employees. Systems are horrible. Management doesn't have a clue and constantly has to put out fires. This is the worse company I ever worked for.

Advice to Management
Train your management team so they can effectively lead.

Helpful (3)

Future Response
December 6, 2019 – Manager, Special Projects

Hey, you know what? Every system has room for improvement. Ours are no different. And while I certainly wouldn't describe anything about our work environment as being "on fire" we have a leadership team that is passionate about making sure everyone is happy doing their part in moving all of us forward as a company. While it's a shame we weren't able to find an ideal solution for your contributions, thanks for complimenting our PTO policies. When you combine that with our many other benefits, I'd like to think we offer a pretty sweet place to be the best version of you.

4 January 2019 Helpful (13)

"You Are an Item on a Spreadsheet Here, Not a Human. Stay Away."

Former Employee - Anonymous Employee in New York, NY

Doesn't Recommend · Negative Outlook · Disapproves of CEO

I worked at Future full-time for more than a year

Pros
- Competent and friendly colleagues (most of which are there as a result of an acquisition) - Reasonable work/life balance - The opportunity to work on interesting publications that can make an impact on consumers

Cons
- Dated print publication mindset - The C-suite's allegiance is to the shareholders not the employees who make things happen - Below market pay - Absurd cost cutting initiatives such as hot desking (you have to find a different work station every day) without a reasonable WFH policy to offset the impact on productivity hot desking has. - They cut corners on critical tools such as video conferencing and word processing tools - Very unfriendly upper management who won't even look you in the eye when walking past you let alone greet you - Lack of innovative mindset - Products have a very legacy feel to them - Difficult to obtain the tools you need to do your job - Abrupt downsizing can occur at any time - They don't invest in employee development. Learning platforms were removed because they claim that "you can learn from each other" without implementing policy/time slots to enable that. - Very little in the way of culture. No budget for team happy hour/events. - Office amenities are very bare bone. Almost no snacks or beverages.

Advice to Management
Look beyond short term cost cutting agains and more critically examine how decisions impact day to day productivity, employee satisfaction, and peoples' contribution to the company's mission. As it stands, you aren't maximizing employee productivity or potential and many of great colleagues I had there will most likely leave to a company that treats (and pays) them better.

29 July 2019 Helpful (5)

"Not what they seem to be"

Current Employee - Anonymous Employee in Bath, England

Doesn't Recommend · Neutral Outlook · Disapproves of CEO

I have been working at Future full-time for less than a year

Pros
Unlimited holidays (as long as you get your work done, which is never in this very face-paced environment). Monthly free lunch and just recently placed recycling bins in offices. There are some genuine nice people and talented individuals.

Cons
Pay is below the market rate, the living wage scheme only makes real impact for entry level or junior level roles, it means absolutely nothing for experienced professionals as Future will pay you lower than the market rate. Some managers are incompetent and some have said horrible things about others and yet they are still there. Absolutely disgusting behaviour! Manager workshops are implemented to overcome many management problems and to build a better management across the business. However, how will Future measure success of these workshops? Has it made a real difference or is it just wasting people's time as many managers are super busy! Also, there is a lack of communication from upper managers, they do not seem to care to share information that may be relevant or important for others within the team. They obviously do not care about their team members' feelings and development. There is no point going to HR either, they will do nothing. Future is great at expanding their empire and buying brands. However, the implementation and process of migrating people or brands to Future are appalling, many people have been made redundant or have left due to the restructure of teams and moving people around. Future does not value their people, you are just a number to them in my humble opinion. One of their values is "we all row the boat" some people actually row the boat harder than others and yet they would take the credit and not actually value the people who did the most work. This value is almost representing some sort of slave ship in my opinion. You row together to get to a destination and despite overcoming all the sea storms you cannot reach to the end goal because Future have let go of you. To Future is all about profiting and always act on their own self-interest. Future is great to get your foot in the door and work with great creative brands. But do not stay for too long as they will not value you and some managers definitely play the favouritism game.

Advice to Management
Improve on hiring better people and managers, be transparent across all departments and provide better training for all managers. Communicate better with all your team members to avoid miscommunication and deteriorating the established trusted relationships.

Helpful (5)

Future Response
August 9, 2019 – Communications Manager

Thank you for taking the opportunity to leave a review of Future. We always appreciate feedback because it helps us learn and grow. I'm concerned about a number of points that you've raised here. Can I encourage you to reach out to your ELT member or the People & Culture team at peopleandculture@futurenet.com to discuss further - as it stands, I don't believe you've made an attempt to share your feedback with us directly. We know the importance of great leadership and we have made significant investment into our management development programme this year and we are pleased to know that based on feedback from the participants and their teams , that this initiative is making a real difference. Future is a fast-paced, exciting and ever-changing business. We have huge ambitions and we recognise that not everyone is suited to this type of environment, even though we have a number of initiatives in place to reward our staff, such as unlimited holiday, annual pay reviews, a profit pool scheme and Star of the Month. We do hope you find a business and a role in which you will thrive.

Figure 74: Future selection of Glassdoor reviews from 2019, Source: Glassdoor

Compensation aligning or skewing interests?

Figure 75: Contributor – Paul Hennell, Alamy Stock Photo

The blank cheque policy

At ShadowFall we've seen a wide range of management compensation structures. Future has, quite possibly, one of the least consistent and most subjective compensation policies we've seen in recent history.

In KPMG's review of the new UK Corporate Governance Code, which applies to accounting periods beginning in 2019, they state that the new code aims to:

- Address the complexity of remuneration packages.
- Clearly align the executive remuneration with the successful delivery of the company's long-term strategy.
- Extend vesting and holding periods to a minimum of 5 years to incentivise longer term thinking by management.

In our view, Future's executive compensation scheme fails to demonstrate a clear and consistent methodology for the calculation of executive compensation. We find incentives are too frequently short-term in nature or have imprecise or adjusted yardsticks.

Over the 5 years to FY18 CEO Ms. Byng-Thorne has, by our calculations, received at least £21.1m from the company. Admittedly most of Ms. Byng-Thorne's earnings were driven by share price appreciation as part of the performance share plan (PSP). Fortunately for the management team, the largest grant of performance shares was when the proverbial bar was lowest.

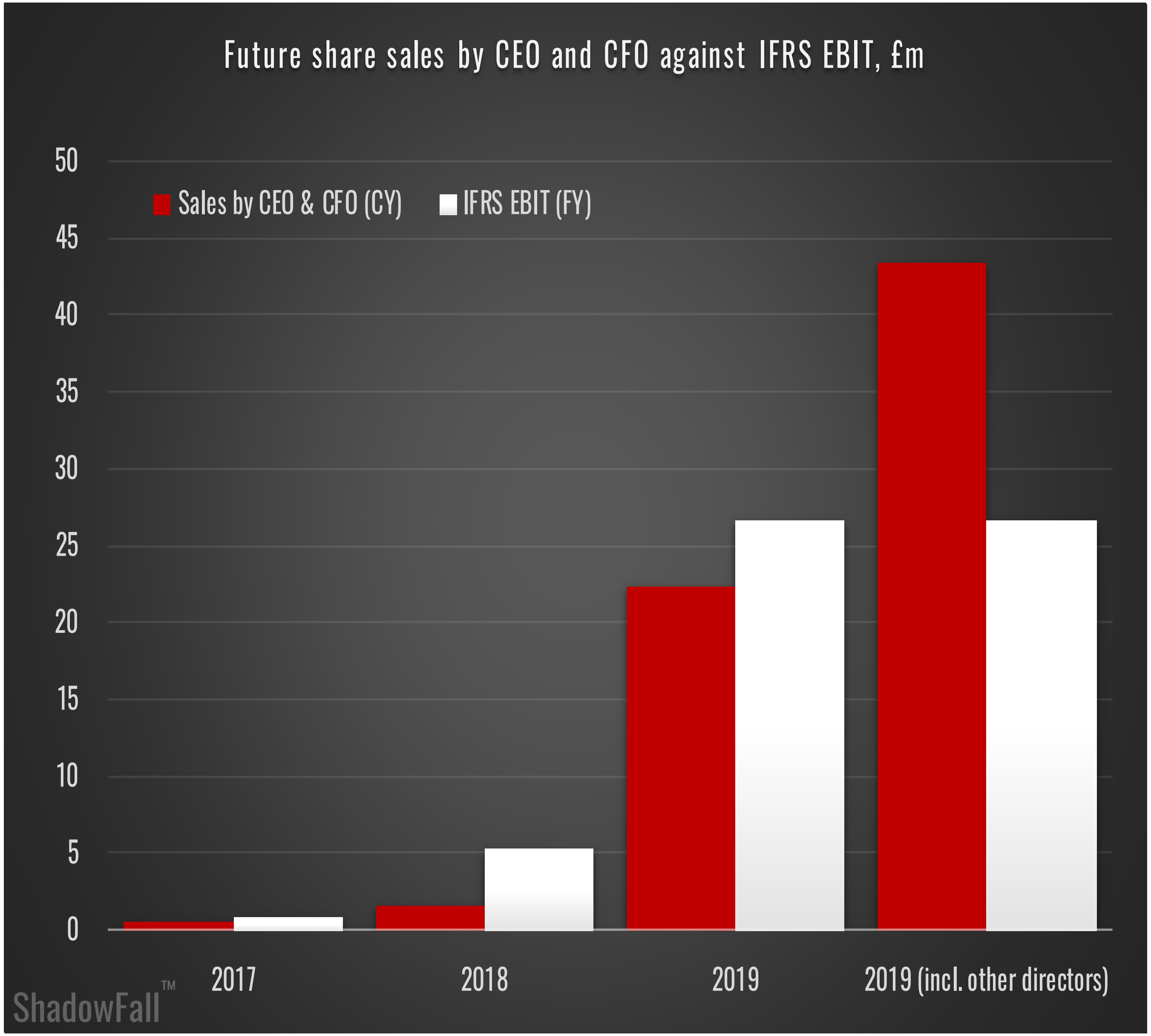

Figure 76: Future share sales by CEO and CFO against IFRS EBIT, Source: Company Filings, ShadowFall calculations, Bloomberg L.P.

MOVING THE GOALPOSTS?

We find that Future all too frequently moves the goal posts when it comes to incentives and executive compensation.

We calculate that in the 3 years to FY19 the CEO and CFO have received single figure remuneration of £31.8m; 83% of this coming from the PSP. When adjusting for what the PSP shares were worth on their exercise date this figure rises to at least £42.8m. Over the period 2014-18, only once has the vesting criteria methodology remained the same as the prior year. **This is against a seemingly unchanged business strategy.**

The policy of bolt on M&A deals has been the single biggest driver for the financial performance of the business since the self-proclaimed completion of its transformation in 2015. We question whether management is incentivised to invest the company's capital in creating long term shareholder value or to conduct M&A in meeting short term financial targets? The fact that management has cashed in a significant portion of its PSP in recent months, sways us to a viewpoint of short termism.

Ironically, we believe the initial FY14 policy was the most aligned to shareholders' interests. A similar policy was carried into FY15 before the board in February 2016 retrospectively replaced the benchmarked total shareholder return performance measure with a Net Cash Flow target…

> *"… in order to better align the interests of participants and shareholders."*

This, in our view, less aligned standard is then carried forward for the next 2 years, with a reduced cash target in the 2016 plan, despite 2016 being labelled as a year of "Continued growth in operating profits supported by strong cashflows".

Plan	Vesting amount	Target	Vesting criteria	Disclosed Actual	Vesting amount
FY14	50%	3 year EPS Growth	50% @ RPI + 8% 0% @ RPI + 3%	-33%	0%
	50%	TSR performance vs competitors	50% @ Upper quintile 12.5% @ Median 0% < Median	13th out of 16	0%
				Total	**0%**
FY15	50%	FY17 Adjusted EPS	50% @ 21 GBp 12.5% @ 15 GBp	21.0p	50%
	50%	FY17 Net Cashflow	50% @ £1.25m 12.5% @ £0.25m	8.9m	50%
				Total	**100%**
FY16	50%	FY18 Adjusted EPS	50% @ 22.5 GBp 12.5% @ 18 GBp	24.2p	50%
	50%	FY18 Net Cashflow	50% @ £0.75m 12.5% @ £(0.25)m	10.3m	50%
				Total	**100%**
FY17	25%	FY17 Adjusted EBITDA	25% >= unspecified target 0% below	11.0	25%
	25%	FY18 Adjusted EBITDA	25% >= unspecified target 0% below	20.7	25%
	25%	Share price performance to 30 Sept 18	25% >= unspecified target 0% below	482.0	25%
	25%	Share price performance to 30 Sept 19	25% >= 300p (given in FY19) 0% below	1,226.0	25%
				Total	**100%**
FY18	50%	FY20 Adjusted EPS	50% @ 26 GBp 12.5% @ 23 GBp	FY19: 47.5p	
	50%	Share price performance to 30 Sept 20	50% >= upper price target 25% >= lower price target 0% below	296%	
FY19	50%	FY21 Adjusted EPS	50% @ 20% CAGR 75% @ 10% CAGR 19% @ 5% CAGR 0% <5% CAGR		
	50%	Share 90-day average price performance to 30 Sept 21	50% @ 20% CAGR 75% @ 10% CAGR 19% @ 5% CAGR 0% <5% CAGR		

Figure 77: Future performance share plan vesting criteria, SF estimates in yellow. Source: Company data, Shadowfall calculations

Accommodating incentives

We find Future uses inconsistent and somewhat confused measures for several compensation yardsticks.

Notwithstanding the move from relative total shareholder returns to net cash flow, and seemingly reducing the alignment with equity holders, we find a number of logical inconsistencies in the measure:

1. Why is a business with a stated strategy that includes inorganic growth incentivising management on a <u>net</u> cash flow basis? Would free cash flow not be a truer measure?
2. For a company pitching itself as a top line and operating leverage story driven by reinvestment of earnings, would this not incentivise management to **<u>not</u>** reinvest cash for future shareholder value?

When measuring the performance against the targets, auditing of the figures becomes increasingly complex as "net cash flow" is redefined from year to year:

- **In FY17:** net cash flow "after making adjustments for net debt acquired with Imagine and debt drawn down to fund the acquisition of home interest".
- **In FY18:** net cash flow "after adjusting for the impact of Purch and the rights issue, adjusting for exceptional cashflows and cashflows associated with the acquisitions made during the measurement period".

Future does not provide disclosure allowing investors easy auditability of the calculations used for discretionary pay.

We note:

1. Given the extent of retrospective adjustments in the calculation, can Future provide an auditable record of these adjustments?
2. In 2015, target net cashflow was set at £1.25m at the upper end for FY17, in 2016 this was set at £0.75m at the upper end for FY18. This seems an exceptionally low hurdle for a company with strong operating leverage.
3. Perhaps most importantly, is the beneficial cashflow from acquisitions included in the quoted calculation for FY17 and FY18, the same figure which seemingly adjusts out any possible drag from the acquisitions?

In 2017 the board seemed to change its mind yet again, dropping the measures on both adjusted EPS and net cash flow, this time moving to an Adjusted EBITDA and share price performance basis for 2017. Whilst neither target states the specific vesting criteria, we note that the measurement period for Adjusted EBITDA is both the current financial year and the next financial year, which seems contradictory to the underlying principle of the performance share plan. The PSP aims to align the longer term interests between shareholders and management by using 3 year performance targets. See below (our bold for emphasis):

> *"The PSP has been in operation since 2005 and is designed to reward performance,* ***usually over a three-year period in the context of performance targets*** *which are designed to align the interests of the executive Directors with those of the shareholders."*

We note that 2017 was also co-incidentally the largest payment to management with a 1 time exceptional payment of share options at the value of 400% of salary. These options were settled on Nov 23, 2019 where a placing of 3.1m shares then took place, valued at c.£43.4m.

The proverbial flip flopping repeats in 2018 where now the board reverts back to adjusted EPS from adjusted EBITDA and whilst maintaining a similar share price element. **We believe that the hurdle here was equally low.**

The adjusted EPS portion of the PSP would be linked to FY20 results. The options were issued on the day of the FY17 results, in which Future reported adjusted EPS of 21.0p. **The criteria for the options to vest in full was set at 26.0p a mere 7% CAGR or, how we prefer to look at it, a 230 bp PBT expansion over 3 years with no revenue growth or acquisitions.**

This trend has continued as we find in the 2019 annual report a seemingly pointless change in the PSP vesting criteria. Upon issuance of the FY17 PSP it was stated that:

> *"25% of the award will vest if the Company's share price performance in the period from the date of grant to 30 September 2019 is at or above target."*

When we come through to the actual vesting criteria reported, it would seem that the share price performance had to only be at or above target for only 1 month within the performance period. We wish that our fund management business could charge investors a performance fee based upon the highest returns generated for the year rather than the actual performance, but then it would not be aligned with its investors and be incentivised to potentially take unnecessary risk. If management are compensated based upon the high watermark achieved rather than the absolute return at Future, we have equal doubts over the incentives to take risk.

The FY19 PSP awards are subject to the 90-day average price performance CAGR to 30 September 2021 vesting criteria. Is this also the highest 90 day trailing average price? If it is, would management not be incentivised for poor year end performance setting a lower target for the next PSP?

We find inconsistent adjustments to Future's executive compensation. We don't understand how "the highest trailing 30-day average share price over the performance period", aligns interests with shareholders.

Under this scenario if we saw a significant reduction in share price over months 2-24 of a 2-year performance period, it would be possible for management to achieve 100% vesting, based purely on month number 1.

We wish our performance fees were calculated using the same methodology.

Share price performance (50% of award)

25% of the award will vest if the Company's share price performance in the period from the date of grant to 30 September 2018 is at or above target. If the Company's share price performance is below target, none of this element of the award will vest.

25% of the award will vest if the Company's share price performance in the period from the date of grant to 30 September 2019 is at or above target. If the Company's share price performance is below target, none of this element of the award will vest.

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The value of 75% of these awards has been captured previously in the single figures for years ending 30 September 2017 (25%) and 30 September 2018 (50%), due to the performance targets being met in prior years. The single figure for the year ended September 2019 reflects the final 25% of awards vesting on share price performance between grant and 30 September 2019, further details of which are set out below.

Measure	Targets	Outcome	Vesting %
Share price (highest trailing 30-day average price achieved over the performance period)	0% vesting below 300p 100% vesting for 300p or above (reflecting an 85% increase on the grant date share price)	1,105p	100%

Figure 78: Changing definition for the same measure and poor disclosure, Soruce: Company Filings

THE BEST OF FRIENDS?

We were surprised by the level of interconnectivity between the senior management of Future. We find that CFO Ms. Ladkin-Brand appears to follow CEO Ms. Byng-Thorne throughout their respective CVs. Initially working together at Fitness First, then Auto Trader and now at Future. As an isolated finding, it is easy to chalk it up as a good professional relationship working over a number of organisations. However, we find that according to an ex-employee's review on Glassdoor, Ms. Byng-Thorne also seems to have hired her brother, Zack Sullivan, shortly after she joined Future, the company responded to the review but did not confirm whether Zach Sullivan is her Brother or not..

According to their respective LinkedIn profiles, Ms. Byng-Thorne joined Future in October 2013, Mr Sullivan joined Future in April 2014.

According to his LinkedIn, since joining Future, Mr Sullivan has been promoted to the Director of Operations & Marketing and is now currently the Chief Revenue Officer for the group.

The trail doesn't stop there for Mr Sullivan. After leaving university in 2012, Mr Sullivan also joined Auto Trader as a Corporate Project Manager; Ms. Byng-Thorne was the Group CFO of Auto Trader at the same point in time.

This doesn't appear to have gone unnoticed within the organisation as we find what appears to be the review of a frustrated ex-employee, see the figure to the right.

25 February 2019 Helpful (14)

"The most toxic and nepotistic work environment I've ever encountered"

Former Employee - Advertising Director in London, England

Doesn't Recommend   Neutral Outlook   Disapproves of CEO

I worked at Future full-time for more than a year

Pros

They have an impressive portfolio of tech brands. Whoop whoop!

Cons

The constant acquisition of new brands breeds a culture of fear among the rank and file as it generates an endless cycle of redundancies due to the"strip it down and rebuild" mantra. Everyone who you speak to in your first few days tells you "they get rid of people really quickly and quietly". The fact that the CEO appointed her own brother, with no experience of the media sales industry as the CRO should ring alarm bells about nepotism. Advice fed back up the line is either not passed on or ignored. Levels of staff churn are like nothing I've ever seen.

Advice to Management

See above

Helpful (14)

Future Response

March 7, 2019 – Communications Manager

Thank you for your review. I'm sorry to hear that you feared acquisitions, as growth, both organically and via acquisition, is an ambition of the Future business. We aim to integrate acquired businesses into the Future model as seamlessly as possible with minimal disruption. In some instances it is necessary to review structure and adjust accordingly, however this is conducted inline with local legislation and best practice. In 2018, Future made three acquisitions, which have been successfully integrated into the company. One of our values is that we are proud of our past and excited about our future, and we believe we live this every day. 2018 was Future's most successful year to date. This would not have been possible without the employees who joined Future as new hires or those we were delighted to acquire during our journey. Together we are one Future. We are dedicated to attracting and retaining talented individuals. Employees are appointed to role on merit, so we are deeply disappointed that you feel appointment decisions are based on anything but this. We are committed to upholding transparency and always keep the company updated about any organisational changes. We encourage you to reach out to People & Culture at peopleandculture@futurenet.com with any concerns you have.

Figure 79: Glassdoor review of Future commenting on potential nepotism. Source: Glassdoor

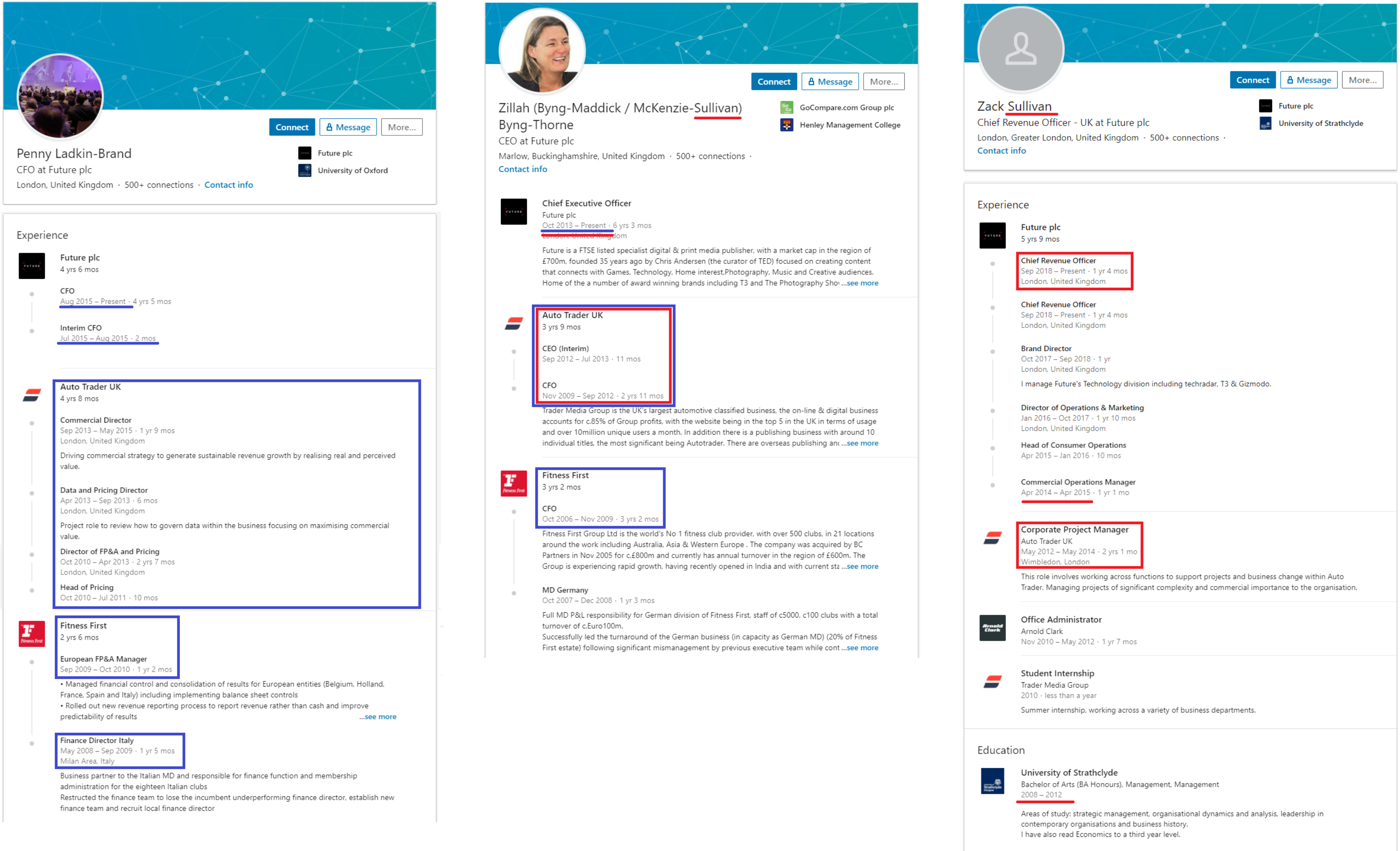

Figure 80: Relationships between CEO, CFO and CRO of Future, Source: LinkedIn


SHADOWFALL