Initiation of Coverage

Merit Group plc

IT and Business Services

UK Equity Research

13 July 2021

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Unlocking value through B2B data and intelligence

Rating	Price Target
BUY	**135p**
MRIT-AIM	Price **62p**

Canaccord Genuity view

Merit Group plc (previously Dods Group plc) provides AI driven data technology and business information solutions to power subscription products for some of the world's leading B2B intelligence brands. It also collates relevant marketing data and insights for defined audiences and supports clients with a highly skilled offshore staffing pool. In addition, Dods is a highly regarded political intelligence and analysis brand that helps multi-national companies, charities and public organisations understand and engage with government and related bodies within the UK and EU.

Beyond strategic actions detailed within, we believe Merit is well placed to capture structural growth that flows from swelling demand for data driven B2B intelligence (a $1.8tn market according to Informa), while the ever-increasing influence of government will mean that political understanding is essential to navigate ongoing themes such as Brexit, sustainability, a UK 'levelling up' and fiscal policy.

The group today emerges from a prolonged period of hibernation during which it acquired Meritgroup for £22.4m, worked to address legacy challenges stemming from an aggressive restructuring and began to make significant investment in technology-driven product, all while overcoming the impact of COVID-19. With a new, entrepreneurial management team in place that is overseen by Non-Executive Chairman Mark Smith (also of Panoply Holdings plc) the group has now laid out its refocused growth strategy and is reinstating guidance for the first time in two years.

We initiate with a BUY recommendation and a 135p target price.

Two-thirds of revenues repeatable

Around two-thirds of group revenues are repeatable on multi-year contracts offering business resilience and healthy levels of visibility. Within the mix, Merit Data & Technology sees 90% of revenues repeat with Dods just under 50%.

BI the jewel in the crown

Dods BI contributes c.30% of group revenue at a strong double-digit margin. While differentiated by market leading analysis and political consultancy, a £1.1m rebuild of its monitoring platform is key to maintaining competitive edge.

Expecting 36% EBITDA CAGR to FY24E....

Across our three-year forecast window, our estimates see revenue CAGR of 12% to £34.7m and EBITDA CAGR of 36% to £5.1m as strategic actions taken within the portfolio drive improved margin and begin to contribute more positively to mix.

....but cash likely to be tight at first

We note that while cash will likely be tight as growth returns (particularly in FY22E) we expect the group to fully comply with its new banking covenant which is based on 3x IFRS16 EBITDA (minus non-recurring charges) versus gross borrowings. We expect this ratio to be 1.9x in FY22E before falling to 1.1x in FY23E and 0.7x in FY24E.

Analysis suggests fair value at more than twice current share price

In determining fair value for Merit we have considered the following approaches:

- DCF, which we believe is well suited to Merit but more subjective when considering the whole. Our base case (10% WACC, 0% terminal growth) suggests 104p/share.
- SOTP, which considers EV/Sales and EV/EBITDA vs quoted peer groups before adjusting for net debt and applying a 20% discount to suggest 149p/share.

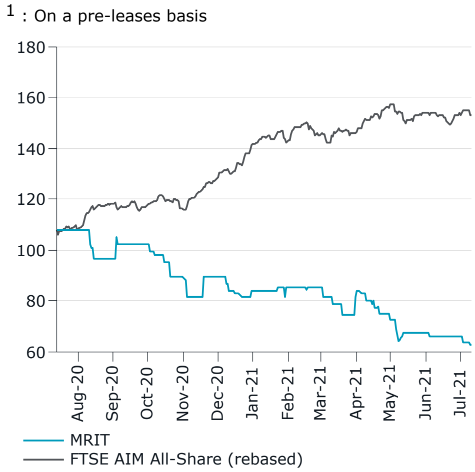
We combine our DCF (1/3) and SOTP (2/3) valuations to provide a more balanced approach. This suggests fair value is 135p/share (at which we set our target price) and implies the shares are 118% undervalued. We initiate with a BUY recommendation.

Market Data

52-Week Range (p) :	60 - 112
Avg Daily Vol (M) :	0.02
Market Cap :	12.9
Shares Out. (M) :	20.8
Enterprise Value :	17.0

FYE Mar	2021A	2022E	2023E	2024E
Sales (£M)	24.7	27.7	31.0	34.7
EBITDA (£M)	2.0	2.6	3.8	5.1
PBT Adj (£M)	(1.0)	(0.8)	0.3	1.5
EPS Adj&Dil (p)	(2.7)	(3.6)	1.2	6.7
DPS (p)	0.0	0.0	0.0	0.0
EV/Sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	NM	33.6	9.8	5.1
P/E (x)	(32.3)	(17.1)	49.9	9.2
Net Debt (Cash)[1] (£M)	(1)	4	4	2

[1] : On a pre-leases basis



Source: FactSet

Priced as of close of business 12 July 2021

Merit uses proprietary code and AI to gather and enhance complex, hard to acquire data whilst providing analysis and intelligence across a range of political, regulatory and business data.

For important information, please see the Important Disclosures beginning on page 37 of this document.

Contents

Company summary

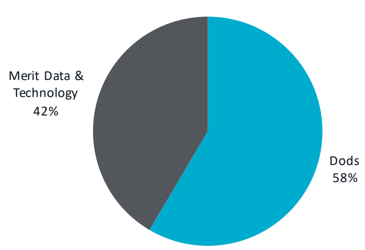
Description

Merit Group is a data and intelligence business which comprises two divisions: Merit Data & Technology and Dods. Merit develops proprietary data solutions powered by artificial intelligence (AI) to gather, aggregate and transform high volume, high frequency data (including unstructured data) across multiple industries for some of the world's most trusted B2B intelligence brands. It also provides offshore software and technology resourcing solutions. Dods is a highly regarded political intelligence and analysis brand that helps multi-national companies, charities and public organisations understand and enage with government and related bodies in the UK and EU through monitoring, media, events and training products.

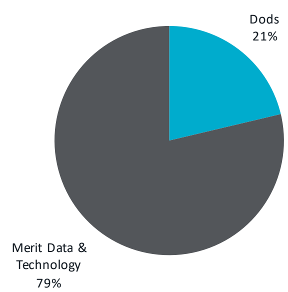
Key competitors

Merit competes with companies such as import.io, dexi.io, and Zyte within the B2B data solutions space while it operates in similar resourcing markets as the large Indian outsourcers. The political intelligence market includes companies such as DeHavilland, Politico, Political Intelligence, BeGov, KnowWho, FiscalNote, Ulobby and Bloomberg Government.

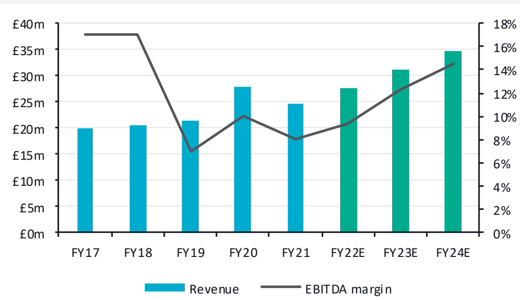
Revenue contribution by division: FY22E



EBITDA contribution by division: FY22E



Revenue and EBITDA profile



Valuation	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
EV/Sales (x)	1.2	1.0	0.7	0.6	0.5	0.4
EV/EBITDA (x) (rent-adjusted)	17.6	31.9	nm	33.6	9.8	5.1
EV/EBIT (x)	(39.5)	32.1	(40.2)	(80.3)	19.0	7.2
P/E (x)	(87.9)	49.0	(32.3)	(17.1)	49.9	9.2
Div. Yield (%)	--	--	--	--	--	--
FCF Yield (%)	(0.9%)	(5.7%)	6.1%	(18.6%)	15.0%	25.4%
Price-to-book (x)	1.5	0.8	0.5	0.4	0.4	0.4

Summary P&L (£m)	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
Sales	21.3	27.8	24.7	27.7	31.0	34.7
Adj. EBITDA	1.5	2.8	2.0	2.6	3.8	5.1
EBITDA margin	7.0%	10.0%	8.1%	9.4%	12.3%	14.6%
Adj. EBIT	(0.7)	0.9	(0.4)	(0.2)	0.9	2.1
Adj. PBT	(0.6)	0.5	(1.0)	(0.8)	0.3	1.5
Adj. net income	(0.4)	0.6	(0.6)	(0.8)	0.3	1.5
Adj. EPS, FD (pence)	(3.2)	3.4	(2.7)	(3.6)	1.2	6.7
DPS (pence)	--	--	--	--	--	--

Growth y/y	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
Sales	3.5%	30.5%	(11.2%)	12.2%	11.9%	11.9%
Adj. EBITDA	(57.2%)	85.9%	(28.4%)	30.4%	45.8%	33.2%
Adj. EBIT	(124.9%)	232.7%	(148.9%)	51.3%	516.9%	138.9%
Adj. PBT	(122.7%)	184.5%	(291.4%)	18.1%	135.0%	441.0%
Adj. EPS, FD	(115.9%)	206.0%	(179.5%)	(33.0%)	134.2%	441.0%

Summary cash flow (£m)	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
Adj. EBITDA	1.5	2.8	2.0	2.6	3.8	5.1
Exceptionals & other	(3.3)	(1.0)	(1.0)	(0.3)	(0.3)	--
Working capital	2.2	(1.6)	1.5	(3.0)	(0.6)	(0.6)
Interest & tax	(0.2)	(0.3)	(0.2)	(0.5)	(0.5)	(0.5)
Capex	(0.6)	(1.6)	(1.2)	(1.4)	(0.4)	(0.4)
Free cash flow	(0.3)	(1.7)	1.1	(2.5)	2.1	3.5
Acquisitions/disposals	--	(17.1)	--	--	--	--
Dividends	--	--	--	--	--	--
Share issues, net	--	13.0	--	--	--	--
Leases & other	(0.0)	(1.3)	(1.5)	(2.2)	(1.8)	(2.1)
Change in net cash / (debt)	(0.3)	(7.1)	(0.4)	(4.8)	0.3	1.4
Net cash / (debt) pre leases	(8.4)	(1.4)	(0.9)	3.8	3.6	2.1

Summary balance sheet (£m)	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
Non current assets	23.0	51.4	48.9	48.5	46.5	44.4
Current assets	12.0	12.5	12.4	7.9	8.4	10.5
Current liabilities	(11.5)	(17.9)	(17.5)	(12.1)	(12.4)	(12.7)
Non current liabilities	(0.5)	(10.2)	(9.6)	(11.5)	(10.9)	(10.6)
Net Assets	23.0	35.8	34.3	32.8	31.7	31.7

Ratios	Mar-19	Mar-20	Mar-21	Mar-22E	Mar-23E	Mar-24E
Debt / equity gearing	(36.6%)	(3.8%)	(2.7%)	11.7%	11.2%	6.6%
Net debt / EBITDA (pre leases)	(5.6x)	(1.5x)	(32.2x)	7.6x	1.8x	0.7x
Interest cover	(55.6x)	(7.9x)	2.4x	1.3x	(5.0x)	(12.7x)
ROE	(1.7%)	1.7%	(1.6%)	(2.4%)	0.9%	4.8%
ROCE	(2.8%)	1.9%	(1.0%)	(0.5%)	2.1%	5.0%

Source: Company reports, Canaccord Genuity estimates

Investment case

Reinstating guidance

A refocussed growth strategy

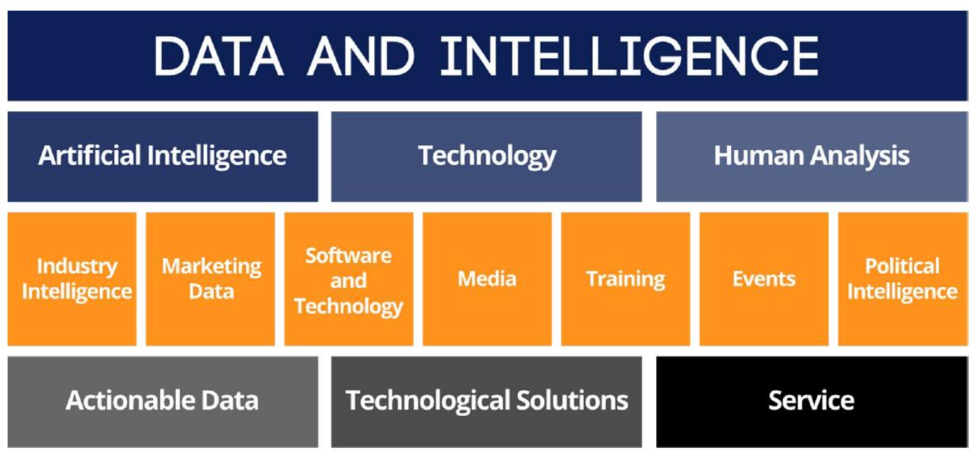
We believe the release of FY21 results coupled with the April 2021 name change to Merit Group plc marks time on a prolonged period of hibernation for the group. During this window it has acquired Meritgroup Ltd, a provider of B2B data and technology solutions for £22.4m, worked to address legacy challenges that flowed from an aggressive cost cutting regime, and begun to make significant investment in technology driven product, all while overcoming the impact of COVID-19. With a new, entrepreneurial executive team now in place overseen by Non-Executive Chairman Mark Smith (appointed November 2020, also Non-Executive Chairman of Panoply Holdings plc), we believe Merit is ready to stand up and be counted by laying out its refocused growth strategy and reinstating guidance for the first time in two years.

A leader in B2B data and intelligence solutions

Targeting the $1.8tn B2B technology and intelligence market

Today, Merit is focussed on the fast growth B2B data technology and intelligence market (which is worth $1.8tn according to Informa), augmented by its proven strength in specialised human analysis to add further value.

Figure 1: Business model



Source: Company reports

Two well established brands

Merit operates through two well established brands:

- **Merit Data & Technology** is a provider of data technology and business information solutions. Using proprietary code that is driven by artificial intelligence (AI) it gathers, organises and enhances high volume, high frequency data (including unstructured data) across a wide range of industries to power subscription products for some of the world's leading B2B intelligence brands. It also collates relevant marketing data and insights for defined audiences and supports clients with a highly skilled offshore software and technology staffing pool. Merit has over 50 clients including Dow Jones, Euromonitor, Glenigan, Informa, Morningstar, RELX and Thomson Reuters with an average client relationship of eight to nine years. A key differentiator is that while Merit provides cost effective offshore data solutions through its 900+ highly skilled Indian workforce, it also has an expatriate management team to oversee project management and enable smoother lines of communication with clients.

- **Dods** is a highly regarded political intelligence and analysis brand that has been operating in or around government for over 180 years providing essential data, insights and analysis to multi-national companies, charities, trade associations and public sector bodies. This helps them to understand what is happening in UK and EU politics and to engage with senior individuals across government and the civil service. Dods is widely recognised as having a neutral and transparent approach giving it international reach with around 1,250 clients that include some of the largest brands in the world. We believe Dods has two important differentiating features. The first is unparalleled access to the UK and EU governments where Dods has long had people on the ground, meaning that it enjoys a level of intimacy that no other political intelligence business has. The second is a market leading reputation for providing intelligent analysis and political consultancy services versus the software-first offering favoured by some well-funded peers.

Two-thirds of revenue repeatable; BI the jewel in the crown

Highly repeatable data and intelligence revenues through multi-year contracts (subscription and fixed payments)

Merit Data & Technology has a strong track record of double-digit growth with a revenue CAGR of 15% over the last five years to generate £10.3m in FY21. It enjoys high levels of repeatable revenue with around 90% contracted on multi-year deals. Client recognition that data is both hard to acquire and of good quality means Merit maintains pricing power and can typically achieve high-teens EBITDA margins.

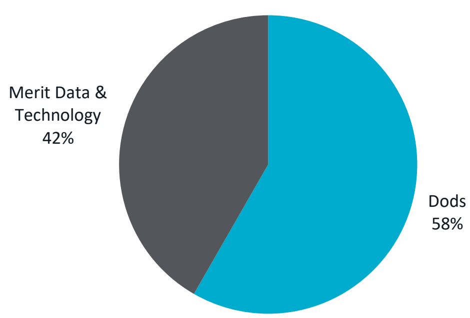
BI contributes c.30% of group revenue at strong double-digit margin

The financial performance of Dods has lagged in recent years (revenue CAGR of 0.7% FY17-20) due to an aged BI technology platform and well-flagged structural challenges in print publishing. In Events there had been a tendency to chase revenues over profits while this part of the business was significantly impacted by COVID-19. Despite these challenges, Dods generated £14.4m of revenue in FY21 (-29% y/y) with just under 50% repeatable via subscriptions and multi-year contracts. Business Intelligence (BI) is the jewel in the crown in this regard, contributing 28% of group revenues (60% subscription, 40% consultancy) with a strong double-digit margin. However, mix is impacted by Media (a strategically important piece of the jigsaw but losing c.£2m p.a.) and an annus-horribilis for Events despite a strong 2H recovery. All in all, this means Dods' EBITDA performance for FY21 was £0.5m, representing a 3.5% margin.

Data & Technology offering adds resilience to the group portfolio

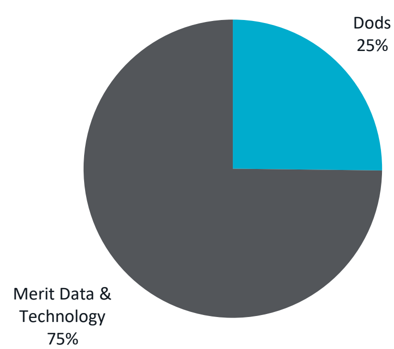
Overall, in FY21 Merit Data & Technology generated around 40% of group revenue, but 75% of EBITDA proving its worth in terms of increased business resilience. The mix also results in two-thirds of revenues being repeatable on multi-year contracts through a combination of subscriptions and fixed-payments which demonstrates healthy levels of revenue visibility for the group.

Figure 2: FY21 revenue by division



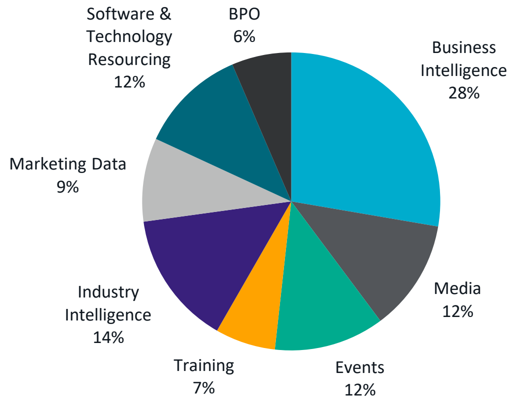
Source: Company reports

Figure 3: FY21 EBITDA by division



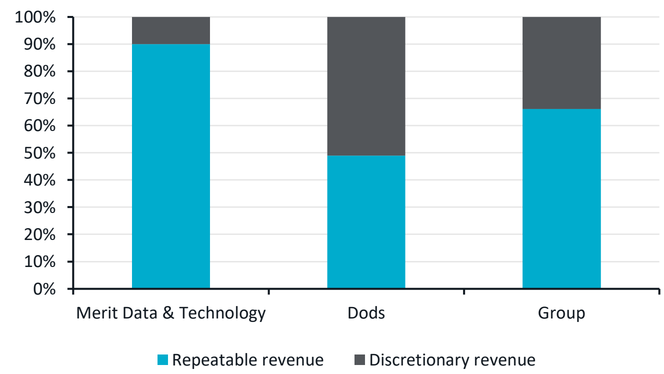
Source: Company reports

Figure 4: FY21 revenue by product line



Source: Company reports

Figure 5: c.2/3 of revenue repeatable on multi-year contracts



Source: Company reports, Canaccord Genuity estimates

DataWorks offers unique opportunity in $4.7bn eCommerce market

Cutting edge eCommerce data technology adds differentiated scale in data collection

Merit acquired a 10.9% stake in DataWorks in May 2021 for a total consideration of €600k, which will also see it established as the first licensed sales channel at a heavily discounted rate. In essence, DataWorks provides a single platform from which thousands of AI robots can be run at any one time. Up to now achieving true scale in eCommerce data collection has been incredibly difficult with many retail websites able to block instances where up to 500 robots are employed at any one time. This means DataWorks can collect data from 1,000 sites daily at a rate of 75 million rows per day, thus providing at least one billion data points across thousands of brands daily. We understand no other data harvesting tool can deliver eCommerce data at this scale.

eCommerce optimisation market worth $4.7bn

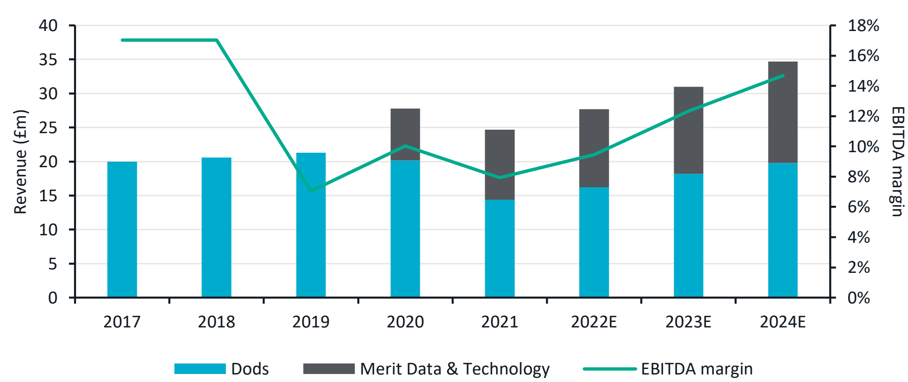
PwC estimated that the global market for eCommerce optimisation was worth $4.7bn in 2020. Merit believes there is an opportunity to drive significant sales growth in eCommerce through DataWorks over the coming years and could provide Merit with a significant competitive advantage versus other leading web harvesting platforms.

Expecting strong double-digit EBITDA growth, but cash likely to be tight

12% revenue CAGR and 38% EBITDA CAGR across our three-year forecast window

Having considered Merit's organic growth strategy across our three-year forecast window, we see 12% revenue CAGR to £34.7m with 36% EBITDA CAGR to £5.1m.

Figure 6: Expecting FY22E-24E revenue CAGR of 12% and EBITDA CAGR of 38%



Source: Company reports, Canaccord Genuity estimates

Strategic investment in Merit (DataWorks) and Dods (BI platform), increased digitisation of product and a better understanding of how customers interact with the group's offering to drive cross-sell, in our view, will be key to improving underlying EBITDA margin from 8% (FY21) to 15% (FY24E). We note that while cash will likely be tight as growth returns (particularly in FY22E) we expect the group to fully comply with its new banking covenant which is based on 3x IFRS16 EBITDA (minus non-recurring charges) versus gross borrowings. We expect this ratio to be 1.9x in FY22E before falling to 1.1x in FY23E and 0.7x in FY24E. Cash must be a minimum of £0.5m.

Growth drivers within Merit Data & Technology

Merit Data & Technology – we expect low-teen revenue and EBITDA CAGR

Management believes its strategy for Merit Data & Technology will achieve low-teen £m revenue and EBITDA CAGR that will see EBITDA margin maintained at the current level. There will likely be a gradual shift towards business intelligence and marketing data alongside software & technology resourcing where customer lists have tended to overlap. DataWorks aside, in our opinion, it is very much a case of more of the same.

Industry Intelligence

- New business wins by targeting UK businesses with bespoke data requirements and increasing average spend per client as data requirements grow.
- The launch of DataWorks, a unique technology platform which will deliver eCommerce data at a differentiated scale with daily collection from 1,000 sites at 75 million rows per day driving at least one billion data points across thousands of brands every day. Management believes DataWorks can generate revenue of £2m with profit contribution above group average by FY24E.

Marketing Data

- Management is confident of a bounce-back in marketing data revenues in FY22E and will focus on capturing spend as the events and conferences industry begins to recover from COVID-19. Clients will require existing prospect data to be updated and refreshed to drive stronger response rates and sales leads, and marketing automation services and data insight tools to tell them what is working.
- The launch of a self-service data sourcing platform (in 2022) based on proprietary tools that are used to source, validate and format data and provide customers with more control over the data they wish to ingest with immediate turnaround times. This will also allow Merit to decrease prices and maintain strong margins.

Software & Technology Resourcing

- A doubling of marketing spend (to £0.45m) to help capture high levels of market demand for IT services. Management believes strong market demand can help drive high-teens £m revenue CAGR in resourcing over the next three years.
- Passing on the cost of wage inflation to customers through higher price points per full-time employee (for technical roles) while remaining competitive versus other low-cost geographies such as Eastern Europe.

Growth drivers within Dods

Dods – we expect low-double-digit revenue CAGR and EBITDA margin expansion

Government is getting bigger and more powerful every day across every industry. We see several key structural themes that flow from this growing influence which we believe will support long-term growth within the political intelligence market including Brexit, sustainability, UK 'levelling up' and fiscal policy post COVID-19. Management believes its strategy over the next three years will achieve low-double-digit revenue CAGR (c.10-12%) with EBITDA margins recovering from low-single digits to around 13%. While BI will remain the primary driver of profitability within Dods, Media, Events and Training products will each begin to contribute more positively.

Business Intelligence

- A £1.1m rebuild of the BI platform (go-live expected this financial year). This will create a modern BI monitoring service that integrates with more data sources while helping to build a picture of how clients digest political intelligence to drive cross-sell and improve product development. This will allow Dods to compete versus software-first peers more effectively, increase pricing, reduce churn and drive higher levels of recurring subscription revenues at high margins.
- Automation of products and back-office processes (flowing from the BI platform rebuild) will free up the time of political consultants who can then focus on higher value analysis, and timely actionable content which clients are willing to pay more for and which is a key differentiator versus software only peers.

Media

- An ongoing digitisation of the media portfolio and better utilisation of the data that can be captured as a result, to understand the audience, drive cross-sell opportunities and build commercial partnerships with larger, more relevant media buyers and reduce exposure to the challenges faced across print publishing.
- An increased focus on the EU market by targeting the 'Brussels bubble' via *The Parliament* to tap into a €2bn public affairs market. Currently only 10% of Media revenue comes from the EU. International growth will also be targeted by establishing third-party sales channels to sell content in local markets.
- Pricing will be a key focus, with management recognising that titles are both niche and impactful with a senior audience.
- Realising cost synergies with Merit by bringing site maintenance and development in house while further cost savings are achievable by working with new/cheaper ad tech partners and centralising editorial support functions.

Events

- Delivery of smaller, higher margin physical/hybrid events focussed on repeatable themes that resonate strongly with the audience.

Training

- Building an improved profile with key partners such as EY and KMPG for delivery of courses and programmes as part of the Civil Service Learning framework.
- Strengthening interactions with NGOs such as the UN, WHO and World Bank to provide more opportunities for international training focused on policy.

Potential real-estate saving offers material upside risk to forecasts

We estimate a potential sub-let of the prime London office could yield additional cost savings of up to £1m per annum

Our estimates assume there is no change with regard to the group's office arrangements. This includes a significantly underutilised London office located within prime real estate (The Shard at London Bridge) which we understand is currently being marketed for a part or full sub-let. If successful, this could realise a cost saving of up to £1.0m p.a. which would drive a material uplift in profitability beyond that shown in our forecasts.

Our analysis suggests the shares are significantly undervalued

We initiate with a BUY recommendation and a 135p target price

In determining fair value, we have considered the following approaches:

- DCF, which we believe is well suited to the Merit Data & Technology side of the business owing to high levels if repeatable revenues, a consistent margin profile and low capital intensity. However, this approach becomes far more subjective in terms of base assumptions when considering the whole. Our base case DCF (using 10% WACC and 0% terminal growth) suggests 104p per share.

- A sum-of-the-parts (SOTP) valuation, which we believe offers the opportunity to assess fair value for the Merit Data & Technology and Dods business units using an appropriate valuation multiple relative to a relevant peer group before adjusting for group net debt. This approach also adopts a 10% WACC while applying a 20% discount to suggest fair value at 149p per share.

118% upside to fair value based on conservative assumptions, in our opinion

We choose to combine our DCF (1/3) and SOTP (2/3) valuations, which we feel gives a more balanced approach. This suggests fair value for Merit is 135p per share, at which we set our target price. This implies the shares, which currently trade at 62p per share, are 118% undervalued. We initiate with a BUY recommendation.

Overview: SWOT analysis

Figure 7: SWOT

Strengths	Weaknesses
• Two-thirds of revenue is repeatable on multi-year contracts • Trusted partner with long customer relationships • Leading reputation for political intelligence and analysis • Unrivalled intimacy within UK and EU political environment • Low cost, highly automated proprietary data solutions • New entrepreneurial management team	• Dods product lines and culture largely operate in silos • Aged BI monitoring platform requiring significant rebuild • Events programme impacted by COVID-19 • Underutilised London office (high rental costs) • Data solutions typically have a long sales cycle • Cash will be tight as growth returns
Opportunities	**Threats**
• DataWorks opportunity in hyperscale eCommerce data • Global demand for data and IT services • Increasing levels of government regulation & interaction • Development of new fit-for-purpose BI monitoring platform • Better use of data to drive cross-sell and product development • Smaller, higher margin events focused on repeatable themes	• Well-funded BI competitors taking share • Indian wage inflation • Exposure to print advertising (albeit reducing) • Slow recruitment across key business functions • Fast pace of technological change • Political instability/macroeconomic slowdown

Source: Canaccord Genuity

Introducing Merit Group plc

Merit Group plc (MRIT-AIM) is a provider of data technology and business information solutions for some of the world's most trusted B2B intelligence brands. Through proprietary data solutions that are powered by artificial intelligence (AI), Merit specialises in harvesting, aggregating and transforming high volume, high frequency data (including unstructured data) across a wide range of industries. In addition, Dods is a highly regarded political intelligence and analysis brand that helps multi-national companies, charities and public organisations understand and engage with government and related bodies within the UK and EU.

Brief history

Two well established brands

Merit Group is a leading data and intelligence business operating through two well established brands: Merit Data & Technology and Dods. It is listed on the AIM market of the London Stock Exchange with a market capitalisation of £13m. We believe the following milestones in order of timeline have been key to the group's progress to date:

Dods brand acquired in 2002

- Dods was acquired by the group (then Huveaux plc, a buy-and-build B2B publishing and media business) in 2002 as part of a wider consolidation of assets within the political, education and professional information arena. Dods has long been associated with UK political information, first publishing the *Dods Parliamentary Companion* in 1832. An annual compendium featuring biographies and contact information on all MPs and peers alongside other government officials, it remains to this day the most respected guide to the people and institutions involved in UK politics.

Aggressive restructuring left the business under-resourced and under-invested

- A significant restructuring at Huveaux saw the group sell its healthcare and education offerings to focus on its political and public affairs business. It was subsequently rebranded as Dods Group plc. But poor execution saw declining revenues replaced by new low margin clients and services which left Dods badly positioned following the coalition government's squeeze on central spending. In addition, the decline of advertising revenues had a material impact on the group's print business. Further management changes and restructuring drove improved financial performance but ultimately left big holes throughout the business with key functions under-resourced alongside an under-invested technology platform and product offering.

Merit acquisition in 2019 enables strategic pivot towards data and intelligence market

- The acquisition of Meritgroup Ltd for £22.4m in July 2019 has provided a strategic pivot for the group by enhancing its Dods Business Intelligence platform and by diversifying mix into data technology solutions that offer high levels of repeatable revenue in a highly differentiated way. With a new, entrepreneurial executive team now in place that is overseen by Non-Executive Chairman Mark Smith (appointed November 2020, also Non-Executive Chairman of Panoply Holdings plc), the group has begun to integrate and increase investment in the business. This includes a £1.1m BI platform rebuild, a €0.6m investment in DataWorks (a next generation hyperscale data solution for eCommerce) and a broader digitisation of product. The strategy moving forward is to target the fast-growth data and intelligence market (which is worth $1.8tn according to Informa) with market leading AI-driven technological solutions augmented by expert human intelligence across a wide range of political, regulatory and business data.

FY21A: revenue £24.7m, adjusted EBITDA £2.0m, net cash £0.9m

- In the year to 31 March 2021 (which was impacted by COVID-19) Merit Group generated revenue of £24.7m (-11% y/y) of which around two-thirds is repeatable, adj. EBITDA of £2.0m (HY21: -£0.2m) while it held net cash of £0.9m at year end. The group has banking facilities of £5.0m, of which £4.6m is drawn alongside an accordion facility of between £1 and £3m which is unutilised.

Merit Data & Technology

Data technology solutions for leading BI brands

Entrepreneurial founder of Merit appointed to board as MD of Merit Data & Technology

Merit was acquired by the Group in July 2019 for £22.4m, with £19.3m paid in cash and the balance made up in shares which includes up to £3.1m of deferred contingent consideration. As part of the transaction, Con Conlon joined the Group as Managing Director of Merit and was appointed to the board in July 2020.

Over 50 clients, principally across UK B2B information and media

Con founded Merit in 2004 as a provider of outsourced IT services, principally to UK SMEs in B2B information and media. Over the last 15 years, as demand for data and business intelligence has grown, Merit has evolved to become a provider of bespoke technology solutions which power subscription data products and collate relevant marketing data and insights. In addition, Merit supports clients with a highly skilled offshore software and technology staffing pool that allows project teams to be scaled up or down at short notice. Merit has over 50 clients, including some of the world's leading B2B intelligence and events brands such as Dow Jones, Euromonitor, Glenigan, Informa, Morningstar, RELX and Thomson Reuters. Over 50% of revenues flow from half a dozen clients that have worked with Merit for an average of 10 years.

Figure 8: Key Merit clients

Source: Company reports

Merit's expertise delivers cost effective and highly automated data solutions by continuously monitoring more than 100,000 public data sources across many different industries including Maritime, Automotive, Construction, Fashion, eCommerce, Oil & Gas and Metals. Driven by proprietary AI code, it deploys robots to harvest raw data at scale, extracting more than four million records every day in multiple formats primarily from public websites. Machine learning techniques are used to ensure the raw data is comprehensible, complete and can be used to drive intelligent decisions. In addition, the group has created Merit Labs, an incubator environment where clients can test how new software technologies can be built into their data products, marketing tools, systems and processes without the usual R&D risk or expense to ensure their product offering remains at the forefront of innovation.

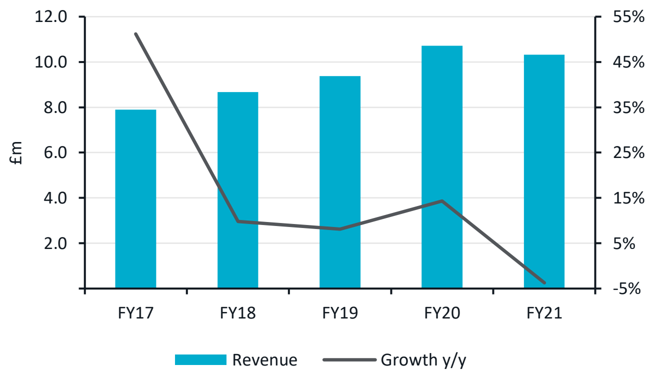
A highly skilled Indian talent pool with expatriate management

The business is based in India with offices in Chennai and Mumbai as well as a small team in London. It employs over 900 people including 130 software developers and data engineers of which around a quarter are educated to master's level or higher while 70% have an undergraduate computer science or engineering degree. Around 75% have more than five years commercial development experience. A key differentiator is that while Merit provides cost effective offshore data solutions, it employs expatriate management to oversee projects and enable smooth lines of communication with its predominantly UK based clients.

Double-digit growth, 90% repeatable revenue, 20% EBITDA margins

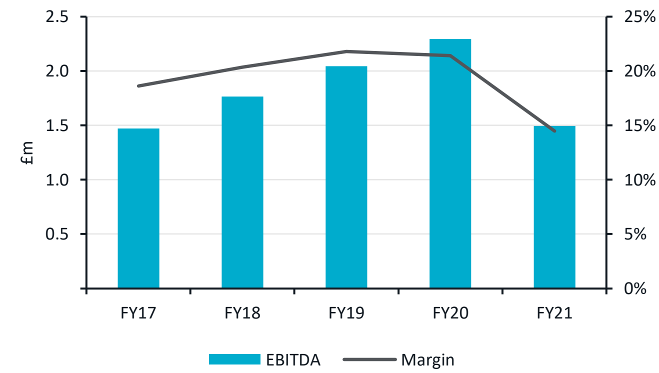
Merit has a strong track record of double-digit growth, with a revenue CAGR of 15% over the last five years to generate £10.3m in FY21. It enjoys high levels of repeatable revenue with around 90% contracted on multi-year deals while it has been profitable for the last 10 years. EBITDA margins were 20%+ through FY18-20 although a fall in discretionary spending (impacted by COVID-19) saw the FY21 margin lower at 14.5%.

Figure 9: Merit revenues and growth



Source: Company reports (FY17-20 proforma)

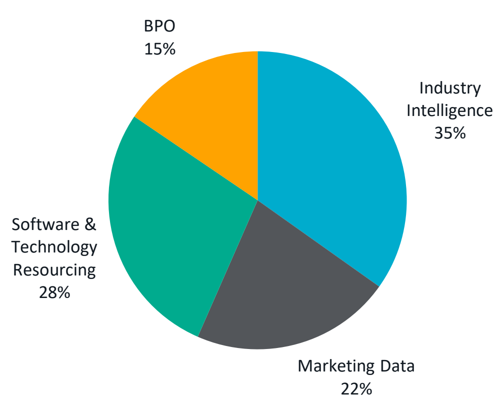
Figure 10: Merit EBITDA and margin



Source: Company reports (FY17-20 proforma)

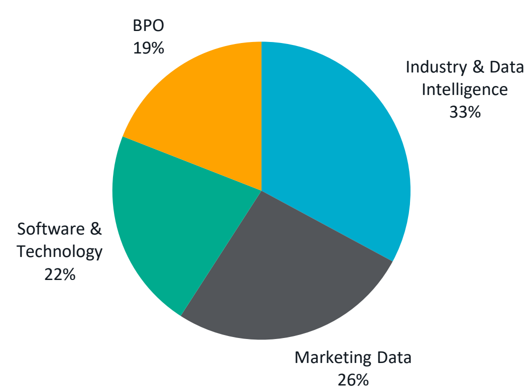
Merit Data & Technology reports as a single line segment but has four primary product offerings. These are Industry Intelligence, Marketing Data, Software & Technology Resourcing and Back Office Services (BPO). In the year to 31 March 2021, Merit generated 83% of its revenue from its data technology solutions (industry and marketing) alongside software and technology staffing which shares significant customer overlap with data solutions driven by cross-sell into existing accounts for follow on development projects. The remainder comes from back office IT support services which includes outsourced CRM and database management. On a profit contribution basis, Marketing Data tends to outperform with Software and Technology underperforming the group average.

Figure 11: Merit FY21 revenue overview – around 90% is repeatable on multi-year contracts



Source: Company reports

Figure 12: Merit FY21 contribution overview – Marketing Data outperforms group average, with Industry Data in line



Source: Company reports

Over the next three years we expect growth at Merit to be driven by new business wins for the industry and marketing data products alongside project expansions which should capture a higher average spend per client. Software and technology resourcing shares significant customer overlap with data products as clients recognise Merit's technical proficiency, particularly with new and emerging technologies, and an ability to deliver IT projects on time and to budget. We believe this is also likely to be a key driver of growth, especially through cross-sell opportunities. BPO is considered ex-growth. We explore each business offering alongside an overview of Merit's three-year growth strategy below.

Industry Intelligence (FY21: 14% of group revenue)

Data harvesting, aggregation and transformation, driven by AI and augmented by human research

Merit generates over a third of its revenues from data and business intelligence solutions where it is a leader in the field of large-scale data harvesting and aggregation, and in transforming raw data (often unstructured from multiple sources) into consistent, searchable and digestible information. This is achieved through a combination of AI driven solutions and can be augmented by human research.

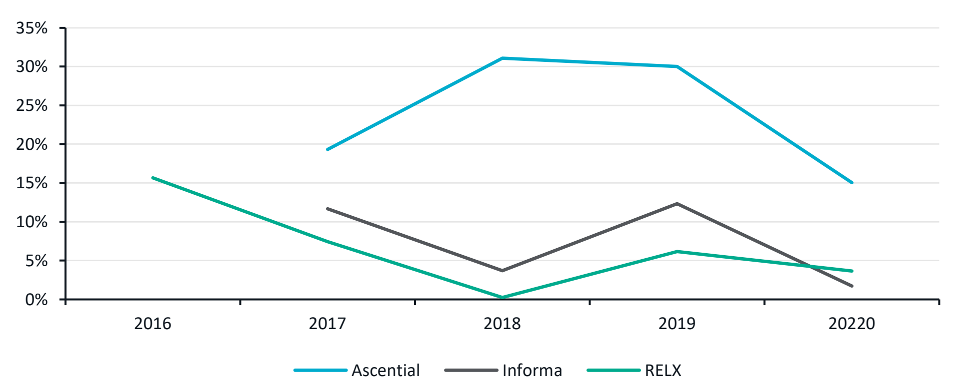
Highly automated, scalable and cost-effective solutions for hard to acquire data

For Merit, the data management process for any given project begins with harvesting vast amounts of information across various public data sources by developing proprietary software robots and deploying them to collect data at scale with a high degree of automation (typically 80-90%). Merit can build a simple robot in two to three days with four to five days needed for a fully tested robot, meaning it can begin extracting raw data at scale in a short space of time. At present Merit extracts more than four million data records every day across multiple industries in many formats including HTML, PDF, Word and Excel file sources. Traditionally data was in structured form such as price point, name, colour or size, but now up to 40% of the data Merit gathers is unstructured which means it needs to identify and capture key data points before using supervised machine learning techniques to classify, de-duplicate and label the data in a consistent way. This is supplemented by a human-based approach when additional judgment or expertise is required, through a skilled labour pool based in India that can enhance the data. In some cases, telephone research will be used to collect additional non-public information from data owners to add further value.

Trusted to power subscription data products for leading BI brands

The knowledge and experience gained over more than 15 years means that Merit is a trusted supplier of accurate, complete and timely B2B data to leading BI brands like Wilmington, Dow Jones, Glenigan and Lloyd's List Intelligence. Merit will supply a turnkey solution that clients can simply plug into their subscription data products meaning they can focus on selling the intelligence. Over the last five years, BI subscription revenues have provided a healthy source of growth.

Figure 13: Growth in BI subscription revenues over the last five years



Source: Company reports, Canaccord Genuity estimates

Merit typically has a six- to nine-month sales cycle reflecting the complexities required to understand the data and how it will be used. Relationships tend to be long term, with the average client relationship being eight to nine years. This means revenues are very sticky while recognition that data is both hard to acquire and of good quality means Merit maintains pricing power and can achieve good margins.

Case study: Glenigan – Leader in UK Construction Sales Leads

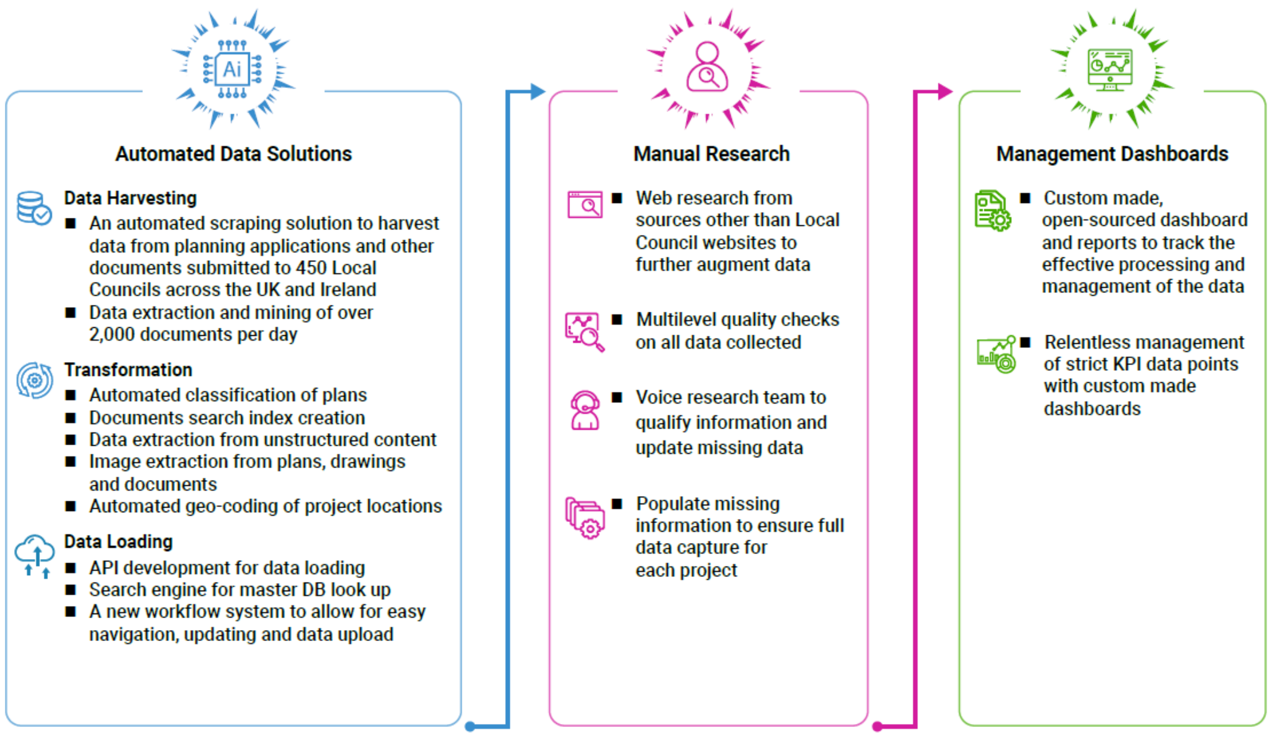
10-year relationship with Glenigan

By way of example, we highlight the level of service provided to Glenigan, a leading UK construction intelligence provider which was sold by Ascential (a FTSE 250 business) to Norway-based Byggfakta Group for £72.9m in 2020. Merit has worked with Glenigan for 10 years and has been running the specific project highlighted within this case study for the last four years.

Building a complete picture of UK construction from over 450 sources

Glenigan wanted to track and collect data on all current and upcoming construction projects in the UK with complete and accurate data from every stage of the project, delivered in a timely and cost-effective manner. This involved collecting and managing data from over 450 sources including from high volumes of individual documents and online materials. Typical data points to be captured included the architect, the building owner, the building location, how many floors, how many car parking spaces and how many lifts will be in the building. In addition, build specifications were to be captured including the type of roof tiles, bricks and insulation that would be used. Merit developed a solution using a combination of AI driven data technology solutions and manual research by its highly trained and experienced teams as detailed below.

Figure 14: The Glenigan data solution designed and implemented by Merit



Source: Company reports

Merit's solution delivered significant cost and productivity benefits to Glenigan:

- Operational cost savings of 50%.
- A 70% reduction in time spent by the client in managing the data set.
- A 30% increase in market coverage with 40% more data collected per project on average.
- A quicker turnaround of data to the end-user, typically within 24 hours of the raw data being published.

DataWorks offers unique technology for eCommerce

Unique technology IP for eCommerce data

Merit announced a strategic investment in DataWorks Ltd on 18 May 2021 which has developed new and unique technology IP focussed on the collection of web data at hyperscale for the fast-growth eCommerce market. In addition, DataWorks offers the opportunity to dramatically lower the cost of collecting extreme volumes of data while it could also be used to build data solutions that targets other industry verticals.

1 billion data points per day

In essence, DataWorks provides a single platform from which thousands of AI robots can be run at any one time. Up to now achieving true scale in eCommerce data collection has been incredibly difficult with many retail websites able to block instances where up to 500 robots are employed at any one time. However, the DataWorks IP can successfully disguise its footprint so that it can access and harvest massive levels of eCommerce data. This means DataWorks can collect data from 1,000 sites daily at a rate of 75 million rows per day, thus providing at least one billion data points across thousands of brands daily. We understand no other data harvesting tool can deliver eCommerce data at this scale.

10.9% equity stake for €600k with a heavily discounted distribution agreement

Under the terms of the agreement, Merit has acquired a 10.9% equity stake in DataWorks for a total consideration of €600k payable in two tranches during the current financial year. The agreement will also see Merit established as the first licensed sales channel for DataWorks whereby Merit will acquire all 75 million rows of data per day at a heavily discounted rate.

eCommerce optimisation market worth $4.7bn according to PwC

With DataWorks pursuing a licensing model for its platform, Merit will sell the data directly to the end-market. Merit believes retail consultancies are likely to be the first target customers, who will likely use the intelligence to advise on eCommerce strategy and help eCommerce businesses to optimise sales by analysing merchandising and pricing strategies, search results, and information on fast moving product lines which are of significant value to categories such as FMCG. Indeed, PwC estimated that the global market for eCommerce optimisation was worth $4.7bn in 2020. As a result, Merit believes there is an opportunity to drive significant sales growth and market share in eCommerce through DataWorks over the coming years which will fall into the Industry Data & Intelligence product line. We believe this could provide Merit with a significant competitive advantage versus other leading web harvesting platforms such as import.io, dexi.io and Zyte.

Marketing Data (FY21: 9% of group revenue)

Bounce-back from COVID-19 likely to be key driver of growth for Marketing Data, in our view

Merit has been providing marketing data services to some of the world's largest events and conference companies for the last 12 years. Clients in this space include Informa, Ascential and Haymarket. In FY21 around a quarter of Merit's revenue (just under 10% of the group) was generated from this product line, with a highly digitised approach driving a positive impact on profit mix. While demand for marketing data, insight tools and related services has been impacted by COVID-19 (FY21 was down around 30% versus pre-pandemic levels) management believes it will bounce back strongly. Indeed, we believe the disruption to the events and conferences sector, and the subsequent movement of people within the industry that relates to this, will likely be a key driver of growth over the next few years as clients refresh their marketing databases, launch new campaigns and seek to understand their effectiveness.

Bespoke, curated and highly automated solutions, augmented by human research

Often, Merit will be asked to create and maintain bespoke marketing lists that are fresh and relevant. It uses highly automated technology processes to source, validate and format the data before then augmenting it through human research. Data is typically harvested from corporate and professional websites (such as LinkedIn), PDFs, powerpoints, spreadsheets and other documents. It is then audited, cleansed and enriched around data points such as job function, seniority, specialisms, personal interests, sector and geography which allows clients to increase the impact they make in their end-markets or to target new areas.

Clients will also outsource marketing automation campaigns to Merit, which will help streamline digital marketing campaigns using platforms such as Eloqua, Marketo, Pardot, Salesforce, Silverpop and Mailchimp. They will also contract Merit to drive marketing data insights by using BI visualisation tools such as Tableau, Alteryx, Domo and Microsoft Power BI, and to help design and maintain website content.

Fully GDPR compliant, Merit only works with and supplies B2B marketing data

To ensure the marketing data remains relevant, Merit monitors over 100,000 data sources daily, checks email bounce backs and maintains client databases and provides more than 10m data records to clients every year. Merit only works with and supplies B2B marketing data despite being fully accredited and audited annually for GDPR compliant processes. It is certified to industry standards (BS10012:2017 – PIMS) and continuously upgrades systems and practices in line with changes in regulation.

Case study: Informa – Events & Conferences Division

A three-stage solution to understand and harvest the data, cleanse and enrich it and test for accuracy

Informa was looking to improve its understanding of market share and penetration across six core global industries. However, it encountered several challenges which included identifying potential target companies to target through marketing and sales for quick wins. It was also struggling to identify the top 100 companies in each of the six sectors and produce a highly relevant list of target contacts from a noisy database. This was especially important to resolve as a high percentage of irrelevant contact information was driving significant productivity inefficiencies. In addition, Informa was experiencing high bounce back rates on marketing emails suggesting the contact information they held was out-of-date. It was also looking to build additional target contacts using highly bespoke criteria to optimise the ROI.

Figure 15: The Informa marketing data solution, supplied by Merit

Source: Company reports

As a result of Merit's solution, Informa saw the following benefits:

- A 30% increase in related sales within three months.
- An 80% reduction in time and effort spent targeting irrelevant leads.
- A 40% increase in marketing qualified leads.
- Greater visibility in market share across core target sectors.
- Email bounce backs reduced to 3% of send volume.

Software & Technology Resourcing (FY21: 12% of group revenue)

Strong customer overlap with Data, spend is highly repeatable

This is essentially a staffing business that supports clients to deliver on their software and technology developments by utilising a highly skilled talent pool via an offshore outsourcing model. It is a strategically important product line for Merit that has grown strongly over the last 10 years, enjoying high levels of customer overlap with data solution clients as they recognise Merit's technical proficiency and ability to deliver IT projects on time and to budget. Today Software & Technology Resourcing contributes around 30% of Merit's revenues and just over 10% of group revenue. Although some spend is discretionary a significant proportion is deemed to be repeatable, with long-term customers such as RELX, Air Business, Lloyd's List, Glenigan and Argus using Merit's solutions to help them deliver their project roadmaps.

Global spend on IT services to hit $1.2tn in 2022 according to Gartner

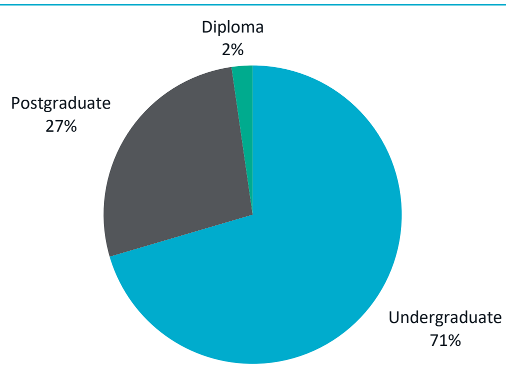
We believe that demand for Software & Technology Resourcing will likely benefit as companies seek to restart delayed IT projects, optimise their resources and seek cost savings, and focus on digital business plans. Indeed, Gartner (April 2021) forecast that global spend on IT services will grow by 9% to $1.1tn in 2021 before expanding by a further 7.3% (to $1.2tn) in 2022. It is therefore likely, in our opinion, that Merit will continue to see growing demand for Software and Technology outsourcing through new business and cross-sell opportunities as relationships with data customers deepen. Importantly, we see several differentiating features within Merit which will help it to avoid competing against the large Indian outsourcers such as HCL, Infosys, Tata and Accenture. These include:

- Use of expatriate management that is based in India to oversee project management and enable smoother lines of communication with clients.
- The option of working with small developer teams (typically three to five full-time employees) which drives a strong margin but is too small to interest the larger industry players.
- Targeting SME and mid-market companies that are typically niche technology businesses with around 100 UK employees. Merit will avoid big deals that have long sales lead times, higher execution risk and more intense competition.
- Many referenceable clients across the UK, in many industries.

Highly skilled talent pool

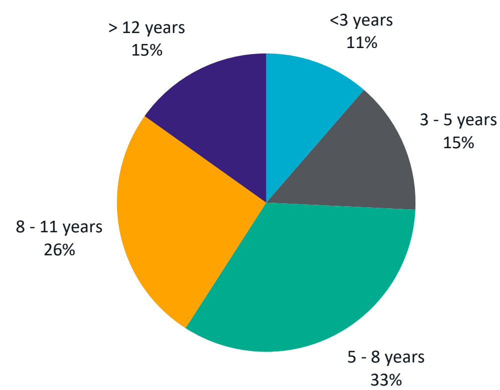
Importantly Merit believes it seen as a well-respected employer with a good local reputation which over time has helped it to secure and manage the skilled talent it requires. It currently employs 132 software developers of which 97% are educated to degree level or higher, while 74% have more than five years of commercial experience.

Figure 16: Software developers by qualification



Source: Company reports

Figure 17: Software developers by tenure



Source: Company reports

Case study: RELX – Offshore Tech Talent solution

RELX (a FTSE 100 global B2B media business) turned to Merit to solve several IT project development challenges that it was facing. These included:

- Frequent product updates which often needed complete rebuilds due to evolving product roadmaps. This led to a requirement for development teams to be scaled up or down at short notice.
- Insufficient technological expertise to keep pace with changing needs in emerging technologies, particularly in the UK.
- Tight deployment and development timelines that left little room to recruit and onboard talent, or to upskill existing developers.
- Project delivery teams were geographically dispersed meaning they struggled to work seamlessly as a cohesive unit.

Merit deployed a flexible resourcing model to meet the peaks and troughs of RELX's projects allowing shorter lead times for deployments, providing a wide range of experienced talent (including developers, quality assurance, business analysts and project managers). Importantly, the talent was skilled across a wide range of technology applications (including emerging technologies) while they were also good communicators. As part of the deployment, the offshore team worked onsite for two to three months which helped create a unified team.

Back Office Services (FY21: 6% of group revenue)

Adoption of AI-driven solutions and self-serve models means BPO is ex-growth

This relates to the back-office IT support outsourcing that Merit founded its business around for UK-based clients. It deploys a skilled India-based workforce to provide technology expertise and fast turnaround times that also benefits from the difference in time zones to provide services such as CRM and database management, and contact centre support. However, BPO has turned ex-growth as AI-driven solutions and web-based customer self-service options are increasingly being adopted. We understand that Merit retains a small number of valuable, sticky clients which it will continue to service including The Economist, Time Magazine, Future Publishing and Air Business but it will not focus significant resource on trying to win new business. In FY21 BPO generated around 15% of Merit's revenue with a similar profit contribution but with revenues likely to be flat we expect profitability will be eroded over time due to cost inflation.

Indian labour market presents near-term execution risk, in our view

Merit expects to pass on Indian wage inflation but is mitigating risk

We note a recent tightening of the Indian technology labour market in Q1 2021, which means that skilled talent is in high demand. According to Merit, salary increments are high at around 20% with people that move from one job to another commanding 50-100% pay increases. While wage inflation will increase the cost base, Merit expects to pass this on to customers through higher price points per full-time employee (FTE) of between £3,000 to £3,500 per month. Relative to direct labour costs of £1,000 to £1,500 per FTE, this means a healthy margin is achievable while rates remain competitive versus other low-cost geographies such as Eastern Europe. It is also making extensive changes to its recruitment processes to mitigate risk. This includes:

- Increasing recruitment team headcount by 50% to add candidate capacity.
- Deploying technology tools to help source and assess more candidates.
- Recruiting a full-time social media marketing executive to focus on the India platform, including social media presence and employee engagement.
- Offering five day working from home packages.
- Offering joining bonuses on particularly difficult hires.
- The launch of a Training Academy in July 2021.

- Recruiting junior staff (which are easier to source) and fast-tracking them through training and technical skills development.
- Setting up a Mumbai office to source candidates in another location.

Overview: The Merit Data & Technology growth strategy

Low-teens revenue and EBITDA CAGR could flow from Merit's Data & Technology strategic plan over next three years

The medium-term growth strategy for Merit, having explored each of the four product lines, is to focus on organic growth across three core product lines: Industry Data & Intelligence, Marketing Data and Software & Technology Resources. Management believes its strategy (below) will achieve low-teen £m revenue and EBITDA CAGR that will see EBITDA margin at 17-18%. Merit believes there will likely be a gradual shift towards business intelligence and marketing data alongside software & technology resourcing where customer lists have tended to overlap. DataWorks aside, in our opinion, it is very much a case of more of the same.

Industry Intelligence

- Acquisition of new BI clients by targeting UK businesses that have very specific data requirements and where data quality and value-add is a priority.
- Increase average spend per client as data requirements grow and higher value solutions are delivered.
- The launch of the DataWorks platform, which will deliver eCommerce data at a differentiated level of scale with daily collection from 1,000 sites at 75 million rows per day driving at least one billion data points across thousands of brands every day. With the eCommerce Optimisation market estimated by PwC to be worth $4.7bn globally in 2020, management believes DataWorks can generate revenue of £2m with contribution running above group average by FY24E.

Marketing Data

- Management is confident of a bounceback in marketing data revenues in FY22E and will focus on capturing spend as the events and conferences industry begins to recover from COVID-19. Clients will require existing prospect data to be updated and refreshed to drive stronger marketing response rates and sales leads, marketing automation services and data insight tools to tell them what is working.
- The launch of a self-service data sourcing platform (in 2022) based on proprietary technology tools that are used to source, validate and format data. This will provide customers with more control over the data they wish to ingest and immediate turnaround times. Increased automation will also allow Merit to decrease prices while maintaining strong margins.

Software & Technology Resourcing

- A doubling of marketing spend (to £0.45m) to help capture high levels of market demand for IT services. Management believes strong market demand can help drive high-teens £m revenue CAGR in resourcing over the next three years.
- Passing on the cost of wage inflation to customers through higher price points per FTE (for technical roles) while remaining competitive versus other low-cost geographies such as Eastern Europe.

Back Office Services

- Now ex-growth as a result of structural challenges arising from automation and customer self-service. Merit will continue to service existing clients but will not focus significant sales and marketing on trying to win new business in this area.

Dods

A leading provider of UK and EU political intelligence

Helping 1,250 clients, including some of the largest global brands, to navigate politics

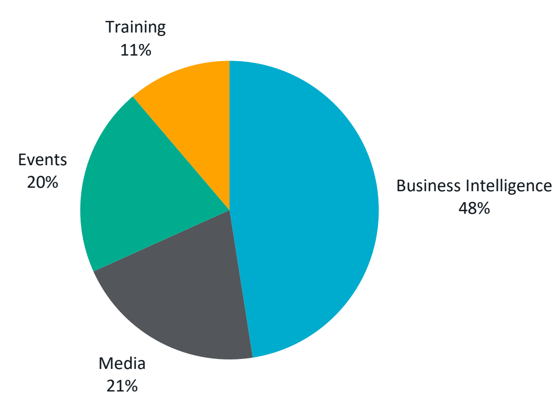
Founded in 1832, Dods has been operating in and around government for over 180 years providing essential data, insights and analysis to help multi-national companies, charities, trade associations and public sector bodies understand what is happening in UK and EU politics and to engage with senior individuals across government and the civil service. Widely recognised for providing unrivalled access alongside a reputation for neutrality and transparency, Dods has international reach with around 1,250 clients that include some of the largest brands in the world. It employs around 160 staff and has offices in London, Brussels, Edinburgh and Paris.

A differentiated portfolio; significant synergy opportunities, in our view

Differentiators include unparalleled access to UK and EU government, alongside intelligent analysis and consultancy

Dods has four complementary product lines: Business Intelligence (BI), Media, Events and Training. However, until recently and perhaps as a result of several years of cost cutting and underinvestment within the business, they have tended to operate quite independently of each other. A key focus for the new management team, led by Munira Ibrahim (MD of Dods, and formerly of Reuters and CNBC) is to invest in an increasingly digitalised product offering (enabled by Merit), get the product line units talking to one another and look to realise some relatively easy wins with regard to revenue synergies within the offering that take advantage of two key differentiators. The first is Dods' unparalleled access to government where it has long had people on the ground in UK and European parliaments, meaning that it has a level of intimacy no other business has. The second is Dods' reputation for providing intelligent analysis and political consultancy versus a software-only solution.

Figure 18: In FY21 Business Intelligence contributed half of Dods' revenues



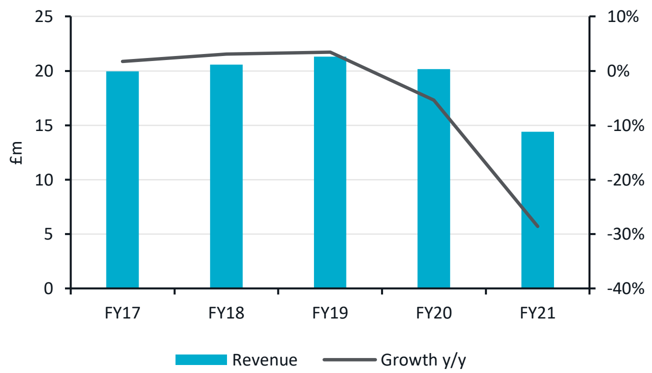
Source: Company reports

BI model offers stability; margin turning a corner?

BI product largely resilient as Dods revenues were impacted by COVID-19

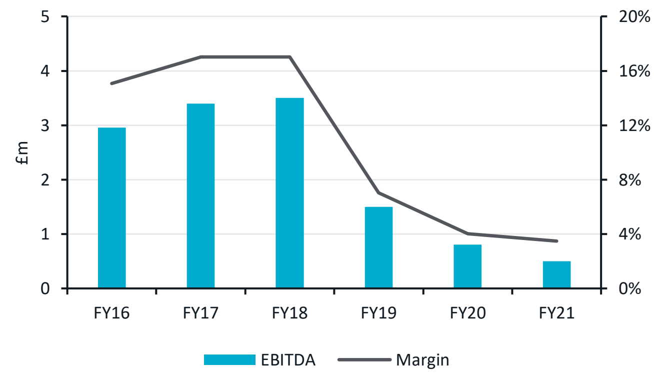
We note the financial performance of Dods has begun to lag in recent years, largely because of an aged BI technology platform and well-flagged structural challenges in print publishing. In Events there had been a tendency to chase revenues over profits, meaning revenues were lumpy with little contribution. As a result, Dods recorded low-single-digit top-line growth (FY17-19) before revenues fell 5% in FY20. In FY21 the BI product was largely resilient as a result of its subscription revenue model, but we note there are signs of customer churn (revenue -5% y/y), while the Events business was significantly impacted by COVID-19 (where revenues fell from £8m to £3m) driving a 29% y/y overall decline. While EBITDA margin declined slightly (3.5% from 4%), management actions taken through the year to digitise some Media titles and reduce run frequency combined with strong BI margins and government support schemes helped to offset losses in Media and Events.

Figure 19: FY21: Dods revenues impacted by COVID-19



Source: Company reports

Figure 20:EBITDA margins at a low of 3.5%



Source: Company reports

Below, we explore each product line within the Dods portfolio and the strategy to revitalise and grow the brand over the next three years:

Business Intelligence (FY21: 28% of group revenue)

£7m revenues (60% recurring) generating a strong double-digit EBITDA margin

The BI product line is the largest within Dods and the Merit Group overall. It is also the most profitable generating a strong double-digit EBITDA margin that reflects the value-add nature of the political intelligence and business critical analysis that Dods provides to clients who are typically large multi-nationals with public affairs teams. This helps them to engage more effectively with relevant policy makers and to understand the impact that upcoming legislative and regulatory changes will have on their businesses. BI generates c.£7m of revenues per annum of which we understand 60% is recurring subscription-based revenue on multi-year contracts (average duration of 5-7 years) and 40% comes from consultancy-based work. BI revenue is split evenly between UK and EU product.

The BI product has three main services:

- *Monitoring* which provides bespoke, up-to-the minute alerts that give clients the political intelligence they need when they most need it. Dedicated consultants provide contextual analysis and advice to support with public affair planning.
- *Research* that offers deep analysis and insight to give clients the intelligence they need to effectively engage with government or the wider public sector.
- *People* provides a comprehensive source of stakeholder intelligence with up-to-date information on political representatives, civil servants and stakeholders across the UK and EU.

New BI platform to drive double-digit EBITDA growth

£1.1m investment in technology platform to secure market share and drive growth

The Political Intelligence market was estimated to be worth $2.3bn in 2019 by Zion Market Research, which expects growth of 15% CAGR to $7.2bn by 2027 driven by strong B2B demand. While Dods' political analysis and consultancy services are a key differentiator at the top end of the market, the low-cost, digital-first end of the market is highly competitive with heavily funded SaaS businesses from the US taking share. These include FiscalNote, Ulobby and Bloomberg Government, albeit they currently have a larger presence in Brussels relative to the UK market at present.

Go-live expected by Merit this financial year

We believe a £1.1m investment in a new BI monitoring platform will allow Dods to compete more effectively against other digital-only solutions following years of underinvestment under previous management teams. As a result, the current platform has a tired interface and functionality has significantly aged versus other solutions in the market that can extract, structure and analyse real time information and provide users with personalised notifications. The development is advancing well with a proto-type set to be rolled out in August and go-live expected to fall within the current financial year.

A future-proofed monitoring platform with Merit developing the AI

As an example of synergy realised from the acquisition of Merit, the AI for the new platform is being developed by the Merit team who are working alongside Somo Global, a digital product agency that has worked with a number of leading multi-national brands to deliver the project. It will provide a cloud-based, future proofed BI monitoring platform that incorporates more data sources and increased functionality while also integrating with social media. Ultimately, a client will be able to interrogate and gather intelligent information on the status of any specific government legislation or amendment, who in government is pushing for it, what they have voted on historically, and what their views are on a range of related topics.

Strategic benefits could drive low-double-digit EBITDA CAGR for BI over next three years

We see several strategic benefits potentially flowing from the new platform which management believes will help drive mid-single-digit revenue CAGR and low double-digit EBITDA CAGR over the next three years for the BI product line:

- Automated data collection and transformation that will free up political consultants from time consuming back-office tasks and allow them to focus on higher value analysis, and timely, actionable content which clients are willing to pay more for.
- Gaining a better understanding of how clients use the political intelligence to drive cross-sell into other products and help shape product development.
- An ability to increase subscription pricing from levels that are currently below that charged by the competition due to the sub-standard platform offering.
- Clients largely trust Dods for its human intelligence, service quality and customer support, and the addition of a modern fit-for-purpose monitoring platform should remove the need for clients to look elsewhere. Management believes this should address churn, expecting rates to fall from 15% to 5% within three years.
- Realisation of cost savings that will be incremental to margin. This includes a reduction in maintenance costs (as Merit will provide ongoing maintenance and product development services) alongside a fall in software licensing and hosting costs. Automation of admin and back office tasks will enable headcount reduction.

Market themes supporting investment and growth

Key themes include Brexit, sustainability, UK 'levelling up' and fiscal policy

Government is getting bigger and more powerful every day across every industry. We see several key structural themes that flow from this growing influence which we believe will support long-term growth within the political intelligence market. As a result, Dods unique intimacy within UK and EU political circles coupled with the significant investment in modernising its monitoring product should see the BI product well placed to grow and potentially retake share, in our opinion. Key themes include:

- *Brexit* which is relevant to clients in the UK and EU, allowing Dods to sell EU monitoring to UK clients and vice versa.
- *Sustainability.* Achieving net zero is a core focus for both the UK and EU Governments allowing Dods to specialise on the green recovery theme and provide focussed intelligence and analysis to companies across all sectors on this.
- *UK 'levelling up'* with all companies regardless of their size and sector needing to better understand how Government will be delivering on this policy.
- *Fiscal policy* is set to be a key tool post COVID-19 to ensure UK and European economies continue to grow and thereby avoid recession. This will drive increased spend and more policy that effect many industries which companies will need to understand.

Media (FY21: 12% of group revenue)

Loss-making, but strategically important

While Dods' media product is loss-making (we estimate around c.£2m LBITDA in FY21) we believe it is the most strategically important part of the Dods offering. With neutrality and transparency underpinning brand reputation, Media helps to reinforce Dods' position as a trusted source of political intelligence and debate through which it can drive lead generation for Business Intelligence, Events and Training.

Increasing digitisation of product; 850k unique visitors, 250k Twitter followers

Digitalisation is a key focus within the Media division and in FY21 more than half of Media revenues came from digital channels (up from 20% in FY19) with continual investment across all titles allowing the group to learn more about the audience, enhance the user journey and reduce exposure to the challenges faced across print publishing. The media portfolio has used 2020 well in our opinion, transitioning all of its public affairs titles to 100% digital while it recently moved from weekly production to once a fortnight with no drop off in revenue for three key titles (The House, Parliament and Holyrood). Rather than just filling space, the lower frequency has allowed these titles to become more content rich that can be built around themes that resonate well throughout the calendar and attract more relevant advertising partners to drive better campaigns. Dods has 850,000 unique visitors to its media websites every month and 250,000 Twitter followers. It has a print circulation of 11,000 magazines per month.

Figure 21: Key media titles

Source: Company reports

- **PoliticsHome** is the highest visited digital public affairs news source in UK politics. It provides up-to-the-minute news and key political information and insights. It is seen as an indispensable source of information for MPs, peers, senior civil servants and Westminster journalists.
- **The House Magazine** is delivered to every MP and peer. 100% impartial, it presents a mix of news, profiles, interviews and comprehensive policy analysis (including contributions from MPs and peers) as well as delivering extensive commentary that gets under the skin of Parliament.
- **The Parliament Magazine** is driven by comment and analysis from EU policy makers that helps clients to engage with those at the heart of policy making in Brussels.
- **Holyrood** is read by the Scottish Government, parliamentarians, senior civil servants, public sector leaders and the top tiers of the 32 local authorities, including chief executives and the heads of individual departments. It is the most widely read publication amongst MSPs according to Ipsos MORI, with Scottish Parliamentarians citing the magazine as being the most influential in their decision-making.
- **Civil Service** *World* is the only independent professional publication available to every senior official in the UK. It provides UK public sector news, interviews and opinion alongside unrivalled access to the heart of Whitehall and Westminster.
- **Le Trombinoscope** is a leading source of political information and communication in France, providing a French language directory of the French Parliament and government.

Ambition for Media to become at least breakeven over next three years

Management's ambition is for the Media portfolio to become at least breakeven over the next three years and good progress has been made in this regard over FY21. Gross revenues were flat at around £3m while direct costs fell by £250k due to lower print frequency and a digital only strategy for smaller titles. Moving forward we see opportunities for revenue growth and further cost reduction. We believe better use of audience data is likely to be a key factor in achieving this as Dods monitors audience engagement and the content within its titles to build commercial partnerships with larger, more relevant media buyers as it seeks to move from a standard advertising model to higher value branded content. Pricing will also be a strategic priority, in our view, with management recognising that titles are both niche and have impact with a senior audience which needs to be reflected.

Media under-indexed on EU public affairs, a €2bn market

We note that 90% of Media revenues flow from UK content, suggesting there is also a big opportunity to grow the EU franchise through *The Parliament*. European companies and public organisations are predicted by Zion Market Research to spend €2bn on public affairs in 2021 so an opportunity to tap into this with specialised content written for MEPs that covers how EU legislation is impacting EU countries is important, in our view. In addition, content focused on the differences between EU and UK policy and how it is impacting businesses will be of interest across Brussels and local markets. Merit plans to tap into this by establishing third-party sales channels that can sell media and content solutions into the likes of France and Germany, which would reduce reliance on UK channels without adding cost.

We believe Merit can provide maintenance and development to recognise cost synergies

Finally, we believe there will be ongoing cost synergies that can be achieved by working with Merit. This includes bringing website maintenance and development in house with further cost savings also achievable by working with new and cheaper ad-tech partners and by centralising editorial support functions.

Events (FY21: 12% of group revenue)

COVID-19 has accelerated a shift to smaller, more sustainable, higher margin events

Pre-pandemic, Dods organised over 450 conferences, roundtables and awards events each year across many sectors and public affairs themes for over 12,000 delegates. They work with 500+ blue-chip partners and sponsors such as BT, Dell and the civil service. FY20 revenue of £8m was generated through fixed fees. However, revenues were 63% lower in FY21 (£3m) as COVID-19 meant no events were held in the 1H while a large contract (albeit low margin) to run NHS Expo came to an end. We note that the impact to net revenues, however, was considerably lower (falling 40% from £4.0m to £2.4m) as Dods pivoted to a digital-only model while accelerating a strategy to focus on smaller, more sustainable events, that can achieve high gross margins. In addition, Dods has undertaken a root and branch review of operations that has resulted in a significant reduction in fixed costs with 40% reduction in permanent headcount which it anticipates maintaining by using contract staff as required.

Figure 22: Key events clients

Source: Company reports

Moving forward, Dods anticipates growth from Events will come via a targeted, more focussed approach with repeatable themes such as D&I (where it already has a £1m+ annual franchise), ESG and Cyber /Technology that resonate well with audiences and are generating significant interest across the wider media and events industry. Management's expectation is that the direct cost of providing these events will likely increase from a low point of 20% in FY21 to around 30% as demand for physical or hybrid networking events starts to return. The schedule for FY22 does not currently include any plans for physical events until September 2021, but management is assuming that Dods will be delivering physical events with added costs of digital hosting for hybrid events thereafter. As the Events business rebuilds scale, Dods anticipate revenues will grow by more than 20% CAGR (FY21-24E) and that EBITDA margins will climb from a largely breakeven position to around 10%.

Training (FY21: 7% of group revenue)

350 courses delivered to 3,500 delegates, working with 45 governments in FY21

Dods has more than 20 years' experience in providing specialist programmes focussed on policy making, communications, leadership, governance, and media handling for UK and international companies and public sector organisations. A fast transition to 100% digital delivery last year minimised the impact of COVID-19 and meant that Dods was able to continue working with 45 national governments, train 3,500 delegates and deliver more than 350 online courses. As a result, the impact was minimised, albeit there was a small loss at the EBITDA level.

Partnership with EY and KMPG key to ongoing success. Focus on NGOs

Looking forward, ongoing partnerships with EY and KPMG to deliver courses and programmes on their behalf as part of the Civil Service Learning framework are key to the continued success of the Dods Training product. We understand that both were awarded three-year contract extensions under this framework from September 2020 which support growth prospects in this vertical. The challenge will be to provide both the training courses that EY/KPMG require and to ensure that pricing levels reflect the value of the specialist content that is provided to them. As demand for physical training events begins to return, Dods also plans to strengthen its interactions with NGOs such as the UN, WHO and World Bank with the aim of providing more international training focused on policy.

Merit anticipates a small but positive contribution

The Training product is currently run by a small team that looks after account management and winning new business and is supported by specialist trainers on a contract basis. Dods plans to continue with this strategy as it seeks to scale the offering and achieve a more meaningful contribution over the next few years.

Overview: The Dods growth strategy

Investment in BI, digitisation and COVID-19 recovery are key growth drivers, in our opinion

The growth strategy for Dods is focussed on investment in core BI product, a digital transformation within Media and a wider recovery from COVID-19, particularly in Events as it looks to move towards a physical/hybrid model. Cost and productivity synergies that can be realised through the group's acquisition of Merit will likely also be a key driver, in our opinion.

Dods strategic plan sees low-double-digit revenue CAGR and margin expansion to 13% over the next three years

Over the coming three years, management believes its strategy for Dods will achieve low-double-digit revenue CAGR (c.10-12%) with EBITDA margins recovering from low-single digits to around 13%. Dods expects that while BI will remain the primary driver of profitability, the Media, Events and Training products will each begin to contribute more positively.

Business Intelligence

- A £1.1m rebuild of the BI platform (go-live expected this financial year). This will create a modern BI monitoring service that can integrate with more data sources and increased functionality. This will allow Dods to compete versus software-only peers more effectively, increase pricing, reduce churn and drive higher levels of recurring subscription revenues at high margins.

- Using data collected by the new BI platform to build a picture of how clients digest political intelligence to drive cross-sell and improve product development.
- Automation of products and back-office processes (flowing from the BI platform rebuild) will free up the time of political consultants who can then focus on higher value analysis, and timely actionable content which clients are willing to pay more for and which is a key differentiator versus software only peers.
- Realisation of cost savings with Merit providing ongoing software development and maintenance services. Automation will also allow for headcount reduction.

Media

- An ongoing digitisation of the media portfolio and better utilisation of the data that can be captured as a result, to understand the audience, drive cross-sell opportunities and build commercial partnerships with larger, more relevant media buyers and reduce exposure to the challenges faced across print publishing.
- An increased focus on the EU market by targeting the 'Brussels bubble' via *The Parliament* to tap into a €2bn public affairs market. Currently only 10% of Media revenue comes from the EU.
- Pricing will be a key focus, with management recognising that titles are both niche and impactful with a senior audience.
- Realising synergies with Merit by bringing site maintenance and development in house while further cost savings are achievable by working with new/cheaper ad tech partners and centralising editorial support functions.
- A focus on international growth by establishing third-party sales channels to sell media and content solutions in local markets such as France and Germany.

Events

- Delivery of smaller, higher margin events focussed on repeatable themes such as D&I, ESG and Cyber/Technology that resonate strongly with the audience and are generating significant interest across the media and events industry.
- Moving to a physical/hybrid delivery model as client demand returns.

Training

- Building an improved profile with key partners such as EY and KMPG for the delivery of courses and programmes as part of the Civil Service Learning framework.
- Strengthening interactions with NGOs such as the UN, WHO and World Bank to provide more opportunities for international training focused on policy.

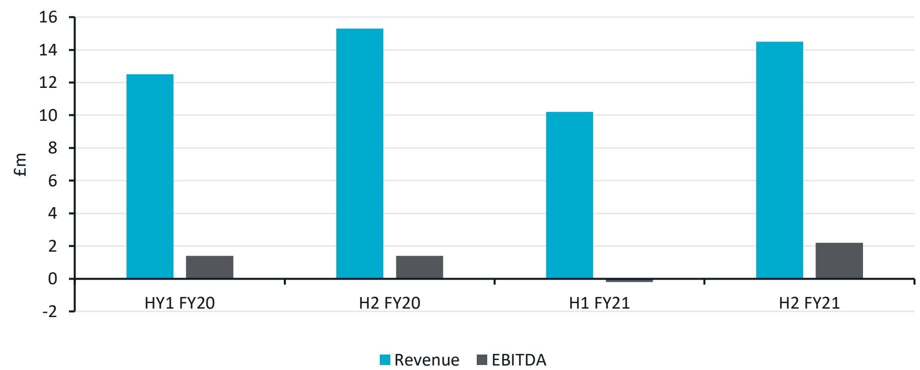
Financials and forecasts

FY21 results

FY21 was a year of transition as the business refocused on its strategic objectives and navigated COVID-19

- Group revenue fell by 11% to £24.7m (FY20: £27.8m) as COVID-19 primarily impacted the Dods Events business.
- Gross profit was £8.3m versus £8.9m in FY20, a 7% reduction. Margin improved to 34% from 32% largely due to an increase in digital product while Merit (acquired July 2019) provided a full-year contribution.
- Adj. EBITDA fell 19% to £2.0m (FY20: £2.8m) reflecting an overall 8.1% margin (FY20: 10%) as revenues were impacted by COVID-19 to drive a small H1 loss before a significant recovery was seen in H2. This included a £0.7m benefit from the UK Coronavirus Job Retention Scheme. Adjusted EBITA recorded a loss of £0.4m versus £0.9m profit. Cost adjustments of £1.8m in the year reflect amortisation of acquired intangibles (£0.9m) and non-recurring costs (£1.0m) relating to acquisition expenses, impairment and restructuring meant the reported operating loss was £2.3m versus £0.9m in 2020.

Figure 23: Merit saw a significant 2H recovery in revenue and profit



Source: Company reports, Canaccord Genuity estimates

- An adj. LBT of £1.0m was recorded versus a profit of £0.5m in 2020 reflecting reduced revenues from COVID-19, particularly from Events.
- Adj. loss per share of 2.7p (FY20: adj. EPS 3.4p). Earnings benefited from a £0.4m tax credit in the current year.
- Operating cash flow was £2.6m vs £0.2m in 2020 as working capital unwound from the events and training business. Capex fell to £1.2m from £1.6m driving free cash flow of £1.1m (FY20: -£1.7m).
- Net cash at 31 March 2021 was £0.9m (FY20: £1.4m). Broken down this reflects £5.6m of cash and cash equivalents offset by gross borrowings of £4.6m.

Current trading and outlook

Q1 trading in line with expectations, building on the 2H recovery in FY21

Management notes that FY22E has begun well, with Q1 trading in line with the Board's expectations and building on the recovery seen in the second half of FY21. While ongoing government restrictions regarding COVID-19 continue to provide challenges in the UK and India, changes to working practices installed by the group a year ago are helping to mitigate the impact. As a result, it is seeing continued momentum in the recovery, and is optimistic of a robust performance as restrictions continue to be eased. The group has also stated that it is actively seeking to halve its London property footprint, which would achieve a significant cost saving (we estimate up to £1m, which would be recognised through Dods), while it is in the advanced stages of building a new BI technology platform, with launch on track for later this year.

Key forecast assumptions FY22E-24E

Our estimates drive 12% revenue CAGR and 36% EBITDA CAGR over next three years

- We estimate that group revenue will grow by 12% CAGR from £24.7m to £34.7m by FY24E with consistent levels of growth (in line with CAGR) flowing y/y.
- Within the mix, we see Merit Data & Technology revenue growing from £10.3m to £14.9m by FY24E (13% CAGR) with growth beginning to accelerate in FY24E as DataWorks becomes a more meaningful part of the contribution.
- We see Dods revenue growing from £14.4m to £19.8m in FY24E (11% CAGR) driven by a recovery in Events and a growing contribution from Media (13% CAGR). We see mid-single-digit growth in BI (FY23E) which accelerates to 10% in FY24E as the benefits from the new monitoring platform feed through.
- Group EBITDA margin climbs from 8.1% (FY21) to 14.6% (FY24E). Our forecasts see margin at Merit at c.17-18% while Dods grows from 3.5% (FY21) to 12.6% (FY24E). This is driven through improved profitability across each of the product lines and results in EBITDA CAGR of 36% over our forecast window.
- The group has significant UK tax losses available to offset against future profits. We therefore assume no tax charge within our P&L across our forecast window.
- We forecast a working capital outflow of £3.0m in FY22E relating to postponed VAT and rental payments alongside other working capital demands that arise from growing revenue lines including a return to physical/hybrid events and training.
- We see a ramp in capital investment in FY22E. £0.4m of this relates to the DataWorks investment and £1.4m to capex (of which £1.1m relates to the BI platform project). Capex normalises to £0.4m in FY23E and FY24E.
- Net debt (pre-leases) increases to £3.8m for FY22E (FY21: £0.9m net cash). The group has a £3m five-year term loan (currently balance £2.6m) and a fully drawn £2m RCF with an unutilised accordion facility of £1-3m that requires bank approval with 25-days' notice. Our forecasts assume capital repayments of £0.3m per annum throughout the window.

Cash will likely be tight initially as growth returns

- While cash will be tight (£0.5m at a minimum) as growth returns, we expect the group to comply with its new banking covenant which is based on 3x IFRS16 EBITDA (minus non-recurring charges) versus gross borrowings. We expect this ratio to be 1.9x in FY22E before falling to 1.1x in FY23E and 0.7x in FY24E.
- We assume an increase in shares in issue from mid-July 2021 relating to a non-cash deferred consideration payment in relation to the acquisition of Merit of £1.046m at the 'current share price'. Assuming today's share price of 62p, this implies an issue of 1.69m shares (an 8.1% dilution).
- Our forecasts assume there is no change with regard to the group's office arrangements. This includes an underutilised London office located within prime real estate (The Shard) which we understand is currently being marketed for sub-let. If successful, this could realise a cost saving of up to £1.0m p.a. which would drive a material uplift in profitability beyond that shown in our forecasts.

The numbers

Below we show five years of historical financial statements for Merit Group alongside three years of forecasts covering the period 31 March 2022 to 2024.

Figure 24: Profit & loss statement

Year to 31 March (£m)	2017	2018	2019	2020	2021	2022E	2023E	2024E
Merit Data & Technology	-	-	-	*7.6*	*10.3*	*11.5*	*12.8*	*14.9*
Growth (%)	-	-	-	-	*34.7%*	*11.7%*	*11.3%*	*16.4%*
Dods	*20.0*	*20.6*	*21.3*	*20.2*	*14.4*	*16.2*	*18.2*	*19.8*
Growth (%)	*1.8%*	*3.1%*	*3.5%*	*-5.4%*	*-28.6%*	*12.5%*	*12.3%*	*8.8%*
Revenue	**20.0**	**20.6**	**21.3**	**27.8**	**24.7**	**27.7**	**31.0**	**34.7**
Growth (%)	*1.8%*	*3.1%*	*3.5%*	*30.5%*	*-11.2%*	*12.2%*	*11.9%*	*11.9%*
Organic %	*1.8%*	*3.1%*	*3.5%*	*-5.4%*	*-11.2%*	*12.2%*	*11.9%*	*11.9%*
Gross profit	**8.2**	**8.3**	**7.9**	**8.9**	**8.3**	**10.6**	**12.4**	**14.2**
Gross margin (%)	*41.3%*	*40.5%*	*37.0%*	*32.2%*	*33.6%*	*38.3%*	*39.9%*	*40.9%*
Operating costs	4.8	4.8	6.4	6.2	6.3	8.0	8.6	9.1
Merit Data & Technology	-	-	-	*2.0*	*1.5*	*2.0*	*2.2*	*2.6*
EBITDA margin (%)	-	-	-	*26.0%*	*18.5%*	*18.0%*	*16.9%*	*17.2%*
Dods	*3.4*	*3.5*	*1.5*	*0.8*	*0.5*	*0.6*	*1.6*	*2.5*
EBITDA margin (%)	*17.0%*	*17.0%*	*7.0%*	*4.0%*	*3.5%*	*3.4%*	*9.0%*	*12.6%*
Adj. EBITDA	**3.4**	**3.5**	**1.5**	**2.8**	**2.0**	**2.6**	**3.8**	**5.1**
EBITDA margin (%)	*17.0%*	*17.0%*	*7.0%*	*10.0%*	*8.1%*	*9.4%*	*12.3%*	*14.6%*
Growth (%)	*15.0%*	*3.1%*	*-57.2%*	*85.9%*	*-28.4%*	*30.4%*	*45.8%*	*33.2%*
D&A	(0.7)	(0.8)	(2.2)	(1.9)	(2.4)	(2.8)	(2.9)	(3.0)
Adj. EBITA	**2.7**	**2.7**	**(0.7)**	**0.9**	**(0.4)**	**(0.2)**	**0.9**	**2.1**
EBITA margin (%)	*13.7%*	*13.0%*	*-3.1%*	*3.2%*	*-1.8%*	*-0.8%*	*2.8%*	*6.1%*
Growth (%)	*15.9%*	*-4.8%*	*-124.0%*	*201.7%*	*-155.1%*	*56.6%*	*472.5%*	*113.5%*
Associates	0.0	(0.0)	0.1	0.2	0.1	0.0	0.0	0.0
Net FX gains/losses	(0.3)	0.0	(0.0)	(0.0)	(0.1)	0.0	0.0	0.0
Net finance costs	(0.0)	(0.0)	0.0	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Adj. PBT	**2.7**	**2.7**	**(0.6)**	**0.5**	**(1.0)**	**(0.8)**	**0.3**	**1.5**
Normalised tax rate	*-1.0%*	*13.9%*	*3.4%*	*6.0%*	*13.5%*	*0.0%*	*0.0%*	*0.0%*
Tax	0.0	(0.2)	0.2	0.1	0.4	0.0	0.0	0.0
Adj. net income	**2.7**	**2.5**	**(0.4)**	**0.6**	**(0.6)**	**(0.8)**	**0.3**	**1.5**
Adj. FD EPS (p)	**22.2**	**20.5**	**(3.2)**	**3.4**	**(2.7)**	**(3.6)**	**1.2**	**6.7**
Growth (%)	*20.0%*	*-7.7%*	*-115.9%*	*206.0%*	*-179.5%*	*-33.0%*	*134.2%*	*441.0%*
DPS (p)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Growth (%)	-	-	-	-	-	-	-	-
Weighted avg shares, FD (m)	12.2	12.2	12.2	17.7	20.6	22.0	22.5	22.5

Source: Company reports, Canaccord Genuity estimates

Figure 25: Cash flow statement

Year to 31 March (£m)	2017	2018	2019	2020	2021	2022E	2023E	2024E
EBIT (reported)	2.7	2.7	(0.7)	0.9	(0.4)	(0.2)	0.9	2.1
D&A	0.7	0.8	2.2	1.9	2.4	2.8	2.9	3.0
Exceptionals/other	(0.2)	(0.4)	(2.9)	(1.0)	(1.0)	(0.3)	(0.3)	0.0
Change in working capital	0.3	0.0	2.2	(1.6)	1.5	(3.0)	(0.6)	(0.6)
Operating cash flow	**3.5**	**2.6**	**0.5**	**0.2**	**2.6**	**(0.7)**	**3.0**	**4.4**
Net Interest & Tax	(0.4)	(0.0)	(0.2)	(0.3)	(0.2)	(0.5)	(0.5)	(0.5)
Net capex	(2.5)	(0.3)	(0.1)	(0.2)	(0.7)	(0.3)	(0.3)	(0.3)
Capitalised development	(0.4)	(0.5)	(0.5)	(1.4)	(0.6)	(1.1)	(0.1)	(0.1)
Free cash flow	**0.1**	**1.8**	**(0.3)**	**(1.7)**	**1.1**	**(2.5)**	**2.1**	**3.5**
Acquisitions/disposals	0.0	0.0	0.0	(17.1)	0.0	0.0	0.0	0.0
Share issues, net	0.1	0.0	0.0	13.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lease payments	0.0	0.0	0.0	(1.5)	(1.5)	(2.1)	(2.1)	(2.1)
Associates/other	(0.2)	(2.1)	(0.0)	0.1	0.0	(0.1)	0.3	0.0
Change in net cash	**(0.0)**	**(0.3)**	**(0.3)**	**(7.1)**	**(0.4)**	**(4.8)**	**0.3**	**1.4**
Net debt/(cash) pre-leases	**(9.0)**	**(8.8)**	**(8.4)**	**(1.4)**	**(0.9)**	**3.8**	**3.6**	**2.1**

Source: Company reports, Canaccord Genuity estimates

Figure 26: Balance sheet

Year to 31 March (£m)	2017	2018	2019	2020	2021	2022E	2023E	2024E
Non-current assets	**24.6**	**26.3**	**23.0**	**51.4**	**48.9**	**48.5**	**46.5**	**44.4**
Goodwill & intangibles	22.0	21.6	19.7	40.1	39.4	38.9	37.3	35.8
PPE	2.4	2.3	2.1	10.1	8.9	8.5	8.0	7.6
Other	0.2	2.4	1.2	1.2	0.7	1.1	1.1	1.1
Current assets	**11.9**	**12.2**	**12.0**	**12.5**	**12.4**	**7.9**	**8.4**	**10.5**
Inventories	0.0	0.0	0.0	0.3	0.0	0.1	0.2	0.2
Trade & other receivables	2.8	3.5	3.6	7.8	6.8	7.3	7.8	8.7
Cash & cash equivalents	9.0	8.8	8.4	4.4	5.6	0.5	0.5	1.6
Total assets	**36.5**	**38.5**	**35.0**	**63.9**	**61.3**	**56.4**	**54.9**	**54.9**
Current liabilities	**8.5**	**9.2**	**11.5**	**17.9**	**17.5**	**12.1**	**12.4**	**12.7**
Short-term debt	0.0	0.0	0.0	3.0	2.3	0.0	0.0	0.0
Lease liabilities	0.0	0.0	0.0	1.5	1.5	1.5	1.5	1.5
Pension obligations	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Trade & other payables	8.5	9.2	11.5	12.3	12.7	10.5	10.8	11.1
Deferred consideration	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0
Non-current liabilities	**0.8**	**0.8**	**0.5**	**10.2**	**9.6**	**11.5**	**10.9**	**10.6**
Long-term debt	0.0	0.0	0.0	0.0	2.4	4.3	4.0	3.7
Lease liabilities	0.0	0.0	0.0	7.7	6.5	6.5	6.5	6.5
Pension obligations	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Deferred tax & other	0.8	0.8	0.5	2.5	0.5	0.5	0.2	0.2
Total liabilities	**9.2**	**10.0**	**12.0**	**28.1**	**27.1**	**23.6**	**23.3**	**23.3**
Net assets	**27.3**	**28.5**	**23.0**	**35.8**	**34.3**	**32.8**	**31.7**	**31.7**

Source: Company reports, Canaccord Genuity estimates

Valuation

Fair value considered via three approaches

In determining fair value, we have looked at the following:

- DCF, which we believe is well suited to the Merit Data & Technology side of the business owing to high levels of repeatable revenues, a consistent margin profile and low capital intensity. However, this approach becomes far more subjective in terms of base assumptions when considering the whole.
- A sum-of-the-parts (SOTP) valuation, which we believe offers the opportunity to assess fair value for the Merit Data & Technology and Dods business units using an appropriate valuation multiple relative to a relevant peer group before adjusting for group net debt.
- A quoted peer analysis, which can help provide some useful context, albeit cost structures vary.

Our base case DCF suggests 104p per share

Conservative assumptions, in our view

In addition to using our forecasts as the inputs for the first three years of our DCF, we have made the following assumptions which we believe are conservatively set and which consider the fact that cash is likely to be tight (albeit well-within covenants) through the coming financial year (FY22E):

- WACC of 10%.
- Terminal growth rate of 0%.
- Year 4-10 revenue growth of 5% per annum.
- Year 4-10 EBITDA growth of 10% on an IFR16 basis taking EBITDA margin from 15% (FY24E) to 20% in 2031. We then adjusting for cash rental costs (also assuming 10% p.a. growth.

Figure 27: Our DCF calculation

Year to 31 Mar (£m)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TV
in £m	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Revenue	27.7	31.0	34.7	36.4	38.3	40.2	42.2	44.3	46.5	48.8	
EBITDA	2.6	3.8	5.1	5.6	6.2	6.8	7.4	8.1	9.0	9.9	9.9
Margin	*9%*	*12%*	*15%*	*15%*	*16%*	*17%*	*18%*	*18%*	*19%*	*20%*	
Cash rental costs	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Tax	-0.1	-0.3	-0.7	-0.9	-1.0	-1.2	-1.3	-1.5	-1.7	-1.9	-1.9
Tax Rate	*19%*	*19%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Capex	-1.4	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
Working capital	-3.0	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9
Free cashflow	**-4.0**	**0.4**	**1.2**	**1.4**	**1.7**	**2.1**	**2.6**	**3.0**	**3.6**	**4.2**	**4.2**
Discount factor	1.10	1.21	1.33	1.47	1.61	1.77	1.95	2.15	2.36	2.60	2.60
Discounted cash flows	-3.6	0.4	0.9	0.9	1.1	1.2	1.3	1.4	1.5	1.6	16.0
NPV	22.7										
Net (debt) / cash (pre-leases) & pension	0.7										
Equity value (£m)	**23.4**										
Number of shares (m)	22.5										
Equity value per share (p)	**104**										

Source: Canaccord Genuity estimates

Our base case DCF suggests fair value at 104p per share which is 68% above the current share price of 62p. In addition, having flexed the sensitivity to our key assumptions for revenue and EBITDA growth, and for terminal growth rate and WACC returns a range of valuations, we note that the DCF model suggests Merit looks undervalued across most of our scenarios.

Figure 28: Year 4-10 sensitivity – revenue and EBITDA growth

Revenue growth	EBITDA growth 5.0%	7.5%	10.0%	12.5%	15.0%
0.0%	66	89	116	146	180
2.5%	61	84	110	140	174
5.0%	54	78	104	134	168
7.5%	47	70	97	127	161
10.0%	39	62	89	119	152

Source: Canaccord Genuity estimates

Figure 29: Sensitivity – terminal growth and WACC

Terminal growth	WACC 8.0%	9.0%	10.0%	11.0%	12.0%
0.0%	146	123	105	90	78
1.0%	162	134	112	96	82
2.0%	182	148	122	103	88
3.0%	211	167	135	112	94
4.0%	254	193	152	124	103

Source: Canaccord Genuity estimates

Our SOTP valuation suggests 149p per share

We have applied a 10% WACC and a 20% discount relative to suggested fair value

For our SOTP valuation we use blended EV/Sales and EV/EBITDA multiples for Merit Data & Technology and Dods applied to our FY22E and FY23E forecasts, with each valued according to the median multiple from a basket of quoted peers. Our EV/EBITDA analysis is adjusted for cash rental costs, conservatively deducting half from Merit and half from Dods despite the bulk falling with the latter before we then discount our EV/Sales and EV/EBITDA forward multiples back to present value using a 10% WACC as per our DCF. Our analysis then deducts group net debt (pre-leases) and applies an arbitrary 20% discount relative to the suggested valuation to account for market size and near term execution risk.

Figure 30: SOTP valuation analysis

£m	EV/ Sales (x)	Implied EV (+1Y)	Debt-free FV (p)	Implied EV (+2Y)	Debt-free FV (p)	EV/ EBITDA (x)	Implied EV (+1Y)	Debt-free FV (p)	Implied EV (+2Y)	Debt-free FV (p)
Merit Data & Technology	5.0	57.5	233p	64.0	235p	20.0	20.0	81p	22.3	82p
Dods	1.4	22.7	92p	25.5	94p	10.0	-5.0	-20p	5.8	21p
Future EV (£m)		**80.2**		**89.5**			**15.0**		**28.2**	
Unlevered PV (£m)		*72.9*	*324p*	*73.9*	*329p*		*13.7*	*61p*	*23.3*	*103p*
Subtract: Net debt & pension		-4.1	*-18p*	-3.8	*-17p*		-4.1	*-18p*	-3.8	*-17p*
Equity value (£m)		**68.8**		**70.1**			**9.6**		**19.5**	
Fair value (p)		**306p**		**312p**			**43p**		**87p**	

Source: Company report, Canaccord Genuity estimates

We note that our EV/Sales approach suggests a far higher valuation (306-312p) than that of EV/EBITDA (which suggests 43-87p). We believe this reflects the lower profitability of the group in FY22E primarily because of the impact of COVID-19 and the relatively high cash rental costs that the business is exposed to. Taking an average of the suggested fair values and then applying the 20% discount gives a SOTP valuation of 149p per share which implies the shares are 141% undervalued.

Peer analysis unclear

We use a basket of stocks comprising UK quoteds that are relevant across Data Solutions, Business Intelligence, Media and Events to help provide some context to our DCF and SOTP analysis. This suggests fair value at 3.9x EV/Sales, 21.9x EV/EBIT and 28.4x EPS based on median multiples (blended CY21E-22E). Applied to our +2Y group forecast (FY23E) this would imply fair value at 564p (EV/Sales), -17p (EV/EBIT) and 41p (P/E) with the latter two multiples highlighting the difference in cost structure versus the peer group (shown in operating margin). We would expect these fair value assessments to improve quickly if Merit is able to successfully execute against its strategy to improve margin across our forecast window while also materially reducing rental expense relating to its underutilised London office.

Figure 31: Peer group price multiples

Stock	MV	EV/ Sales	EV/ Sales	EV/ EBIT	EV/ EBIT	P/E	P/E	EBIT margin	EBIT margin	Sales CAGR
	(£m)	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22	CY20-22
RELX	38798	6.2x	5.8x	20.3x	18.2x	23.0x	20.5x	30.6%	31.7%	4.7%
Experian	26515	7.2x	6.5x	28.1x	25.0x	34.6x	30.7x	25.6%	26.2%	10.0%
Informa	8078	5.6x	4.4x	26.2x	16.6x	30.0x	16.9x	21.2%	26.7%	18.2%
Future	3919	6.9x	6.0x	23.6x	20.0x	27.2x	24.4x	29.1%	30.0%	32.7%
DMGT	2077	1.6x	1.6x	18.2x	15.3x	35.1x	27.8x	8.8%	10.2%	(0.2%)
GlobalData	1917	10.6x	10.0x	36.0x	31.5x	48.6x	42.2x	29.3%	31.9%	5.7%
Ascential	1708	5.5x	4.6x	34.3x	21.5x	58.7x	30.5x	16.0%	21.3%	20.9%
YouGov	1343	7.6x	6.9x	47.8x	39.1x	59.0x	49.8x	15.9%	17.7%	10.8%
Euromoney	1145	3.5x	3.1x	19.3x	15.1x	22.1x	17.6x	18.2%	20.3%	8.3%
Reach	919	1.5x	1.5x	6.5x	6.4x	8.2x	8.1x	23.6%	24.1%	(0.6%)
Kin & Carta	457	3.1x	2.6x	25.7x	19.7x	34.1x	25.1x	11.9%	13.3%	13.2%
WANDisco	230	8.9x	6.2x	-	-	-	-	(56.5%)	(18.0%)	116.0%
Time Out	196	2.2x	-	38.3x	-	137.3x	-	5.8%	-	nm
Wilmington	193	2.0x	1.9x	13.9x	12.7x	16.7x	15.0x	14.6%	15.4%	3.5%
D4T4	143	5.4x	4.9x	39.2x	30.0x	50.2x	39.9x	13.7%	16.3%	8.0%
Smiths News	107	0.2x	0.2x	5.5x	5.5x	4.5x	4.4x	3.5%	3.7%	(6.2%)
Access Intelligence	101	4.3x	3.3x	-	-	-	-	-	-	15.4%
Centaur Media	60	1.5x	1.4x	61.5x	10.1x	62.4x	20.4x	2.5%	13.4%	10.5%
System1	29	1.1x	-	15.3x	-	23.6x	-	7.0%	-	nm
Bonhill	11	0.6x	0.5x	-	-	223.4x	17.1x	-	-	7.9%
Merit**	***13***	***0.6x***	***0.6x***	***nm***	***nm***	***nm***	***nm***	***1.2%***	***2.0%***	***8.9%***
Mean	**4397**	**4.3x**	**4.0x**	**27.0x**	**19.1x**	**49.9x**	**24.4x**	**12.3%**	**17.8%**	**15.5%**
Median	**688**	**3.9x**	**3.9x**	**25.7x**	**18.2x**	**34.3x**	**22.4x**	**15.3%**	**19.0%**	**9.1%**

Source: Refinitiv consensus, **Canaccord Genuity estimates

Combining DCF and SOTP suggests 135p

118% upside to fair value of 135p

We choose to combine our DCF (1/3) and SOTP (2/3) valuations, which we feel gives a more balanced approach. This suggests fair value for Merit is 135p per share at which we set our target price. This implies the shares, which currently trade at 62p per share, are 118% undervalued.

Investment risks

Risks to achieving our target price include:

- Potential project delays and/or unforeseen costs relating to the development of the new BI monitoring platform may impact execution of the growth strategy and may require additional funding.
- The fast pace of technological change within the markets the group operates in may require significant additional investment in product development or lead to software obsolescence across the group.
- Large media monitoring businesses and/or well-funded SaaS based competitors may look to enter/move up the value chain by investing in political intelligence solutions such as analysis and consultancy.
- A continued tightening of the Indian technology labour market that could have a significant impact on the group's ability to serve clients and deploy the talent required to deliver internal projects. Wage inflation will likely increase the cost base, which Merit expects will be passed onto customers through higher price points, but if this is not achievable it may impact margin.
- Dods is a trusted source of neutral and transparent political intelligence and debate, in our view, and is well known for its intimate access to UK and EU government. Any event that may cause reputational damage to the brand may impact its ability to provide the same level of service to its clients which may impact revenues and profitability.
- While 100% of its public affair titles are now digital only, Dods still retains some exposure to print and a further erosion of print advertising may impact revenues and profitability.
- Within DataWorks, Allen O'Neill is the driving force behind the technology and business growth over the short-to-medium term. While an adverse event would cause significant risk for the business and the Industry Data strategy, it can be mitigated to a degree by getting the wider Merit team involved in DataWorks and to build relationships with the team.
- Key person risk exists across several other business functions. Firstly, due to the quality of Dods consultancy staff, they are frequently headhunted by competitors, NGO's and government departments. In addition, the rarity of journalists required to retain the group's print heritage alongside growth in digital formats means staff are difficult to find.
- Merit only operates in B2B markets and is fully accredited and audited annually for GDPR compliant processes. It also continuously upgrades systems and practices in line with changes in regulation. However, significant changes in GDPR policy may impact the group's ability to operate in certain industries and/or may require significant investment to comply with new standards.
- Geo-political negotiations, global political tensions, potential trade issues or macroeconomic slowdown across key geographies may impact demand for the group's services and therefore financial performance.
- Subsequent waves of COVID-19 that may require lockdown in key geographies may also impact revenues and profitability particularly across Events and Training (Dods) and discretionary marketing and technology resourcing revenues (Merit).

Key personnel

Board of Directors

Mark Smith – Non-Executive Chairman

Mark joined Merit as a Non-Executive Director in November 2017 and was appointed Chairman on 26 November 2020. He has significant media and communications expertise having served as Chief Operating Officer and CFO of Chime Communications plc from 1994-2017. He is currently Non-Executive Chairman of Panoply Holdings plc, Holiday Extras and The Unlimited Marketing Group. He is a qualified Chartered Accountant.

Con Conlon – Managing Director, Merit Data & Technology

Con is the founder of Meritgroup, a leading provider of big data and technology solutions acquired by the Group in July 2019. He is a technology entrepreneur with over 25 years of experience in data and software in addition to a successful track record of building high performing teams and running successful technology businesses in Ireland, the UK and India. Con joined the board on 1 July 2020.

Munira Ibrahim – Managing Director, Dods Group

Munira joined as Group Chief Revenue Officer in May 2019 and was promoted to Managing Director of Dods Group Ltd in June 2020. ACCA qualified, she has significant international media experience spending 15 years at CNBC in a variety of leadership roles covering sales, branded content and digital solutions. Following CNBC, Munira joined Reuters as Head of Broadcast Solutions overseeing the global editorial teams across 12 locations and was later promoted to SVP of Sales and Content Solutions. Munira was appointed a Director of the Group on 1 July 2020.

Simon Bullock – Chief Financial Officer

Simon joined the Group as CFO on 30 March 2020. Beginning his career with Mars and GE, Simon qualified as a Chartered Management Accountant in 1996. He has over 30 years finance experience including more than 20 years at CFO level across a wide range of complementary sectors including media, events, SaaS and technology. He was the founding CFO of Gigaclear, a leading rural broadband provider where he helped to grow the business from 15 to 150 employees and secure £100m of funding from equity, debt and government grants. Simon became a Director of the Group on 1 June 2020.

Richard Boon – Non-Executive Director

Richard was appointed as a Non-Executive Director in August 2018. He is the Chief Investment Officer of Artefact Partners, a hedge fund he founded in 2005 and is a Chartered Financial Analyst with 30 years of research, portfolio management and private equity experience. From 1995-2001 Richard worked as a Global Equity portfolio manager at Morgan Stanley Asset Management and from 2001-04 was a managing director and US Equity portfolio manager at Merrill Lynch Investment Managers. He has acted as an advisor to Torchlight, a private equity firm, from 2013. More recently he has focused on M&A in the media and real estate sectors and was a Non-Executive Director of Local World until its sale to Trinity Mirror in 2015. Richard is also a Non-Executive Director of KCR Residential Reit plc.

Angela Entwistle – Non-Executive Director

Angela is a Corporate Communications specialist working with private sector companies including Deacon Street Partners Ltd, Conservative Home Ltd and Biteback Publishing Ltd. She was appointed as a Non-Executive Director of Merit Group in November 2017. She is also a Non-Executive Director of Impellam Group plc and Carlisle Support Services. From 1986-97 Angela was Corporate Communications Director of ADT Ltd, a global leader in electronic security solutions. Angela is significantly involved in several charities including as Trustee of both Crimestoppers and Prospect Education (Technology) Trust, the umbrella charity of the Ashcroft technology Academy.

Diane Lees CBE – Non-Executive Director

Diane joined the board as a Non-Executive Director in September 2016. She is Director General of Imperial War Museums and is also Chair of the Board of Governors for the University of Lincoln. Other board positions include Vice President of the American Air Museum in Britain, Trustee of the Gerry Holdsworth Special Forces Trust and Director of IWM Trading Company. She is a member of the Women Leaders in Museums Network. Diane was awarded a CBE for services to Museums in 2014.

Vijay Vaghela – Non-Executive Director

Vijay has extensive media, M&A and restructuring experience and is a qualified Charted Accountant. He is currently Chief Operating Officer for National World plc and was previously Group Finance Director of Reach plc (formerly Trinity Mirror) for 15 years to February 2019 having joined the business in 1994. He served as a member of the Audit Committee of the Football Association from 2011-17 and was a Non-Executive Director and Chairman of the Audit Committee of Local World Ltd from 2012-15 prior to its sale to Reach plc.

Senior Management

David Beck – Interim Group Chief Executive Officer

David was appointed Interim Group CEO on 1 July 2021 whilst the Board begins a search for a Group CEO. David is an experienced Managing Partner, COO and Board adviser working in the investor relations and communications industry and has been working as a consultant to the Group for the last few months. He has over 30 years of experience in all aspects of communications as an advisor to government agencies, corporates and individuals. He is a committed angel investor in start-ups in the technology and other industries. Between 2002 and 2006 he was a member of the Executive Board of Marconi plc, telecom equipment manufacturer, as Director of Communications. As Interim Group CEO David attends Merit Group Board meetings but is not a Board Director.

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Investment Recommendation

Date and time of first dissemination: July 13, 2021, 02:07 ET

Date and time of production: July 13, 2021, 02:07 ET

Target Price / Valuation Methodology:

Merit Group plc - MRIT

We combine DCF (1/3) with our base case assuming 10% WACC and 0% terminal growth with SOTP (2/3) which considers EV/Sales and EV/EBITDA v quoted peers groups before adjusting for net debt and applying a 20% discount. This suggests fair value is 135p p/share at which we set our target price.

Risks to achieving Target Price / Valuation:

Merit Group plc - MRIT

Risks include: Project delays and/or unforeseen costs relating to the new BI monitoring platform; Fast-paced technological change; Aggressive competition from large media monitoring businesses or well funded SaaS based peers; Continued tightening of the Indian technology labour market; Reputational damage within the political intelligence market; Exposure (albeit reducing) to print publishing; Key person risk; GDPR compliance or significant changes in policy; Geopolitical issues or macroeconomic slowdown; Subsequent waves of COVID-19 that may require lockdown in key geographies.

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Global Stock Ratings (as of 07/13/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	635	65.40%	42.52%
Hold	163	16.79%	22.70%
Sell	11	1.13%	36.36%
Speculative Buy	153	15.76%	66.01%
	971*	100.0%	

*Total includes stocks that are Under Review

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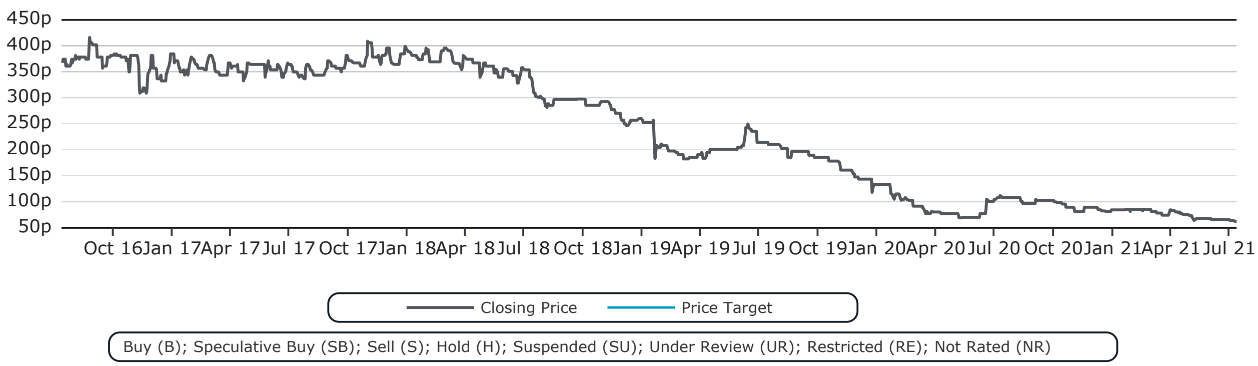

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