

S4 Capital

AI distractions and opportunities

S4 Capital's FY24 results are as it indicated in January, with net revenue down 11% like-for-like. The operational EBITDA margin of 11.6% was up from 10.7%, signalling tight cost control. FY25 guidance is for net revenue and operational EBITDA to be broadly flat, with further improvement in net debt. Management is signalling longer-term confidence by recommending a maiden 1p dividend, not anticipated by the market. S4 has taken a £280m non-cash write-down to reflect continuing difficult underlying trading conditions. Attention and budgets are being dominated by the current focus on AI. This shift in emphasis is part of a wider transition and S4 is itself using AI extensively. Clients are cautiously testing use cases that can be honed, with growing confidence in its use for copywriting and visualisation. S4's capabilities here are helping to bring in new business.

Adapting to conditions

The impact from clients' (and potential clients') shift to capital, rather than operating, spend has been partially mitigated at the profit level by unification and simplification, improving internal organisation. The Content (63% of FY24 net revenue) and Data & Digital Media (25%) practices are being combined as Marketing Services, while a new ERP system is rolling out, which should improve internal data flows to inform pricing and billability. Technology Services (12% of FY24 net revenue) was hit by a significant client stopping spending in H124, so this should cycle out in Q225. With high levels of macroeconomic uncertainty, the impairment charge reflects ongoing client caution and lower activity levels in the Content practice (£204m) and Technology Services (£76m). The search for a new CFO is well under way, with Mary Basterfield remaining to ensure a smooth transition.

AI opportunities

Management updated on AI, both client-facing and internally. S4 sees itself as 'first and fast' here and has strong partnerships with Nvidia, AWS and Adobe. The use of AI is not limited to lower funnel assets, such as hyper personalisation at scale, but extends to visuals, creative ideas and scripts, as demonstrated in recent work for Puma. Expertise in this area is an important driver for new business.

Outlook improves into H225

Q125 comparatives will be demanding, especially in Technology services, but management expects the spending levels of the largest technology clients to start picking up in H225. With the growing contributions from new business won in H224, revenue and profitability will be heavily H2 weighted.

Consensus forecasts

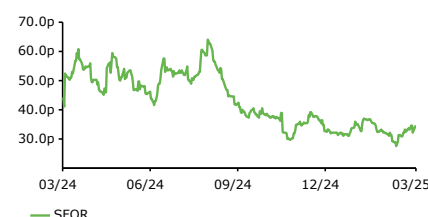
Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	EV/EBITDA (x)	P/E (x)
12/23	873.2	93.7	80.8	4.40	3.8	7.9
12/24	754.6	87.8	66.4	5.20	4.1	6.7
12/25e	756.1	87.5	46.4	5.10	4.1	6.8
12/26e	770.2	100.0	59.6	6.33	3.6	5.5

Source: LSEG Data & Analytics. Note: Net revenue, operational EBITDA.

Media
25 March 2025

Price 34.82p
Market cap £214m

Share price performance



Share details

Code SFOR
 Listing LSE
 Shares in issue 613.6m
 Net cash/(debt) as at 31 December 2024 £(142.9)m

Business description

S4 Capital is a digital advertising, marketing and technology services company, operating in the fastest-growing segment of the advertising and marketing services market.

Bull points

- Opportunities from AI.
- Strengthened balance sheet.
- Improved internal controls.

Bear points

- Continuing weak underlying markets.
- Extended sales cycles.
- Awaiting news of next CFO.

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