EDISON

The Pebble Group

H124 results

Improved operational readiness

Media

Pebble's H124 results put it on track to meet FY24 EBITDA market forecasts, set against continuing cautious industry sentiment. Management has been strengthening operations, including appointing a chief product officer at Facilisgroup and a global marketing director at Brand Addition. Client retention remains strong and forward indicators are positive at Facilisgroup. At Brand Addition, macro uncertainties mean clients remain circumspect, but financial performance is helped by better gross margins. The global promotional products market opportunity is substantial, and Pebble is well placed to make further inroads. Net cash of £4.9m at end June is expected to increase to £15.0m by the year-end.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/22	134.0	12.4	5.8	0.6	10.3	1.0
12/23	124.2	9.9	4.6	1.2	13.0	2.0
12/24e	125.6	10.4	4.7	1.4	12.6	2.3
12/25e	130.0	11.2	5.1	1.5	11.8	2.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Margins edged ahead

H124 revenue is 4% down on the prior year, although this partly reflects the translation of Facilisgroup US dollar results into sterling. Underlying revenues here were flat, with adjusted EBITDA margin improving slightly from 46.6% to 47.7%. Brand Addition's revenue was down 4%, but it improved its gross margin to 35.3%, from 33.2%, and its adjusted EBITDA margin lifted from 8.2% to 8.8%. We have made a small reduction to our anticipated FY24 revenue from £128.5m to £125.6m, and for FY25 from £133.0m to £130.0m, with the better gross margins meaning that our adjusted EBITDA and PBT forecasts are unchanged. Our model also reflects the share buyback to date (1.3m shares at time of writing at a cost of £0.8m), nudging FY25e EPS up from 5.0p to 5.1p.

Focus now on sales and delivery

The peak spend on developing the Facilisgroup technology product suite is now passed and investment has been shifted to drive sales and delivery opportunities. Technology subscription fees are set based on prior year gross merchandise value (GMV), so the key drivers for revenue growth are increasing the number of clients in year and growing the percentage of spend with the preferred supplier base. At Brand Addition there has been some recovery in spend by technology clients, but consumer sector clients remain cautious and decision making remains sluggish.

Valuation: Sum-of-the-parts dips as peers struggle

Difficult trading conditions have weighed on the share prices of the peer sets we use for both Facilisgroup and Brand Addition in our sum-of-the-parts valuation. The former has been more affected as US SaaS stocks have struggled over the year-to-date, with share prices dropping 14% on average. Our implied valuation for the group is now 72.4p/share, which is 22% ahead of the current level.

9 September 2024

Price	**59.5p**
Market cap	**£99m**
Net cash (£m) at 30 June 2024 (excluding lease debt)	4.9
Shares in issue	166.1m
Free float	63.5%
Code	PEBB
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	6.3	4.4	(34.6)
Rel (local)	4.4	5.7	(40.7)
52-week high/low		98p	51p

Business description

The Pebble Group provides digital commerce, products and related services to the global promotional products industry through two focused, complementary and differentiated businesses: Facilisgroup and Brand Addition.

Next events

FY24 results	March 2025

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Edison profile page

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H124 figures show resilience in difficult markets

The health of the promotional products industry is closely tied to corporate confidence, and it is North American sentiment that sets the tone. Here uncertainty over the macroeconomic backdrop is stalling decision making. Pebble has been managing its operations closely to put them in the strongest position when the conditions improve.

At Facilisgroup, this involves paying close attention to Partner (client) relationships, borne out in high levels of retention. Partner numbers as at 6 September were 239, from 242 at the year-end, but this masks 12 new wins offset by nine Partners being acquired. GMV was 5% ahead of H123 (which bodes well for increases in technology subscription fees for FY25), while the amount transacted through preferred suppliers grew 6%, which benefits margins. Group CEO Chris Lee has been very much 'hands on' at Facilisgroup over recent months, and this arrangement is being reviewed for the next stage of its development. The appointment of the chief product officer to manage the technology and innovation strategy is a good step forward.

Exhibit 1: Summary H124 performance

£m	H123	H124	change
Facilisgroup revenue	9.2	8.9	-2.9%
Brand Addition revenue	54.2	51.9	-4.2%
Group revenue	**63.3**	**60.8**	**-4.0%**
Facilisgroup adjusted EBITDA	4.3	4.2	-0.6%
Brand Addition adjusted EBITDA	4.5	4.6	2.3%
Group adjusted EBITDA	**7.5**	**7.4**	**-1.7%**
Brand Addition adjusted EBITDA margin	8.2%	8.8%	
Facilisgroup adjusted EBITDA margin	46.6%	47.7%	
Group adjusted EBITDA margin	**11.8%**	**12.1%**	

Source: The Pebble Group accounts

At Brand Addition, the global brands that typically comprise its customer base are also still holding fire until confidence rebuilds. The tech clients that were the main factor in H223's downturn have been performing better, with the consumer segment clients now the primary cause of the softer revenues. The new business pipeline is good, but conversion remains – for now – sluggish.

The half-year net cash position (lease debt only) was £4.9m, since increased to £6.6m (6 September). Pebble always absorbs working capital in H1, before releasing it in H2 (for more detail see our last Outlook note). Management is indicating a likely year-end balance of around £15m, after a £2m share buyback. We build this into our model as those shares are acquired. This robust balance sheet means the group is well-funded to finance the upturn, when it comes.

Valuation

We appraise Pebble's valuation on a sum-of-the-parts basis, using a selection of quoted US stocks with a predominantly SaaS business model for Facilisgroup and a peer set of UK marketing services companies for Brand Addition.

When we last did this exercise at the start of May, the US stocks had decreased on average by 7.3% over the year-to-date. Since then, the performance has worsened and share prices are now on average 14.0% behind where they stood at the start of the year.

The UK marketing stocks were posting gains of 8.5% but this has now narrowed to 4.8%.

As a result, the valuation we derive for The Pebble Group comes back from 92.2p to 72.4p, with Facilisgroup comprising 60% of the total, down from 64%. This is still 22% ahead of the current market price.

Exhibit 2: Financial summary

£000s	2022	2023	2024e	2025e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	134,025	124,171	125,600	130,000
Cost of Sales	(81,279)	(69,988)	(69,355)	(71,897)
Gross Profit	52,746	54,183	56,245	58,103
EBITDA	18,042	15,978	16,300	17,200
Operating profit (before amort. and excepts.)	12,896	10,447	10,850	11,550
Amortisation of acquired intangibles	(1,420)	(1,901)	(2,200)	(500)
Exceptionals	0	0	0	0
Share-based payments	(1,253)	(548)	(1,250)	(1,250)
Reported operating profit	10,223	7,998	7,400	9,800
Net Interest	(520)	(589)	(450)	(348)
Joint ventures & associates (post tax)	0	0	0	0
Exceptionals	0	0	0	0
Profit Before Tax (norm)	12,376	9,858	10,400	11,202
Profit Before Tax (reported)	9,703	7,409	6,950	9,452
Reported tax	(2,448)	(1,614)	(1,668)	(2,363)
Profit After Tax (norm)	9,674	7,709	7,904	8,402
Profit After Tax (reported)	7,255	5,795	5,282	7,089
Minority interests	0	0	0	0
Discontinued operations	0	0	0	0
Net income (normalised)	9,674	7,709	7,904	8,402
Net income (reported)	7,254	5,795	5,282	7,088
Average Number of Shares Outstanding (m)	167	167	167	166
EPS - normalised (p)	5.78	4.60	4.74	5.06
EPS - normalised fully diluted (p)	5.77	4.59	4.73	5.04
EPS - basic reported (p)	4.33	3.46	3.17	4.27
Dividend (p)	0.60	1.20	1.35	1.50
Revenue growth (%)	16.4	(7.4)	1.2	3.5
Gross Margin (%)	39.4	43.6	44.8	44.7
EBITDA Margin (%)	13.5	12.9	13.0	13.2
Normalised Operating Margin (%)	9.6	8.4	8.6	8.9
BALANCE SHEET				
Fixed Assets	69,786	69,579	70,879	73,179
Intangible Assets	60,002	60,991	62,991	65,891
Tangible Assets	9,492	8,306	7,606	7,006
Investments & other	292	282	282	282
Current Assets	65,198	57,907	58,929	62,325
Stocks	15,447	11,852	12,560	13,000
Debtors	34,693	30,158	29,938	31,342
Cash & cash equivalents	15,058	15,897	16,431	17,982
Other	0	0	0	0
Current Liabilities	39,045	30,840	30,377	31,422
Creditors	36,413	28,965	28,502	29,547
Tax and social security	1,063	381	381	381
Short term borrowings / leases	1,569	1,494	1,494	1,494
Other	0	0	0	0
Long Term Liabilities	10,350	8,495	8,495	8,495
Long term borrowings / leases	7,490	6,130	6,130	6,130
Other long term liabilities	2,860	2,365	2,365	2,365
Net Assets	85,589	88,151	90,936	95,587
Minority interests	0	0	0	0
Shareholders' equity	85,589	88,151	90,936	95,587
CASH FLOW				
Operating Cash Flow	18,061	15,960	16,300	17,700
Working capital	(3,362)	708	(951)	(800)
Exceptional & other	19	(18)	0	0
Tax	(1,712)	(2,517)	(1,668)	(2,363)
Net operating cash flow	13,006	14,133	13,681	14,537
Capex	(8,379)	(8,530)	(7,900)	(7,900)
Acquisitions/disposals	0	0	0	0
Net interest	(520)	(589)	(450)	(348)
Equity financing	0	(395)	(792)	0
Dividends	0	(1,005)	(2,005)	(2,238)
Other (including lease payments)	(1,737)	(165)	(2,000)	(2,000)
Net Cash Flow	2,370	3,449	534	2,051
Opening net debt/(cash)	(4,279)	(5,999)	(8,274)	(8,809)
FX	655	(1,192)	0	0
Other non-cash movements	(1,305)	18	0	0
Closing net debt/(cash)	(5,999)	(8,274)	(8,809)	(10,860)
Closing net debt/(cash) excluding leases	(15,058)	(15,897)	(16,431)	(17,982)

Source: Company accounts, Edison Investment Research

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