BB

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 11/03/2022
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Rating Action and Rationale

- EthiFinance Ratings reaffirms Agile Content's "BB" rating, maintaining its Stable outlook.
- The group's rating is supported by a solid financial profile thanks to the improvement in the NFD/EBITDA (1.9x in 2022 vs. 3.7x in 2021) and FFO/NFD (32% vs. 14%) ratios, both reaching adequate levels. This is largely due to the increase in operating cash flow and more controlled investment. In addition, the rating is strengthened by the high level of solvency, with equity representing 1.3x total financial debt at the end of 2022 (unaudited figures).
- However, the rating is constrained by the average size of the group compared to its direct competitors, as well as by the high concentration of revenues from certain clients (top 2 accounted for 72% of provisional turnover in 2022), by business line (Agile TV accounted for 60% of turnover), and geographically (Spain accounted for 69%). Agile Content is also in a process of consolidation and integration following the significant growth experienced in recent years as a result of acquisitions, which have in the short term at least conditioned its profitability and results. Delivery on integration and operating synergies will probably translate into positive returns, which supports the Stable rating outlook.
- **In line with our new methodology, the Software and Services sector, in which Agile Content operates, presents a medium ESG risk (sector heatmap between 3.0 and 3.5) given its impact on the environment.** This assessment results in a sector analysis that is not affected by this factor.

Issuer Description

Agile Content is a Spanish technology group with a presence in more than 25 countries. It operates in the online audiovisual and OTT video streaming sector, offering mainly software and hardware for video creation, distribution and monitoring to audiovisual and telecommunications clients. Provisional (unaudited) figures for 2022 show group revenues of €101.5m and EBITDA of €10.7m (margin of 10.6%), with an NFD/EBITDA ratio of 1.9x. Agile Content is listed on BME Growth, a Spanish market for SMEs, with a market capitalisation of around €91.5m (as at 13/04/2023).

Fundamentals

Business Profile

Industry Risk Assessment

- **A fragmented sector, with favourable demand dynamics and low barriers to entry.** While characterised by its fragmentation, it is showing a gradual consolidation, mainly through corporate acquisitions. Although entry barriers are assessed as low, profitability levels are favoured by the added value of the services offered, backed by the in-depth know-how required to operate. On the other hand, margin volatility is conditioned by end-user loyalty. Demand is expected to grow in the coming years, thanks to the increase in the use of streaming content in advanced markets, as well as the growing outsourcing needs of audiovisual and telecommunications players.

- **In line with our new methodology, the Software and Services sector presents a medium ESG risk (sector heatmap between 3.0 and 3.5) given its impact on the environment.** The potential risk of ESG factors in the industry over the medium term implies a transition towards new practices. Not taking any action could have a material impact on the overall stability or profitability levels of the industry in the short-to-medium term. However, the assessed risk is not material enough to impact the sectoral analysis.

Company's competitive positioning

- **Medium-sized group in the process of consolidation following the acquisitions of recent years, which are providing it with synergies and greater revenue visibility**. Agile Content is positioned as a medium-sized player in the process of consolidation following recent acquisitions (Edgeware in 2020, Fon Group, Wetek and Euskaltel's television segment in 2021). On the other hand, the growth shown as a result of this M&A, together with its in-house development policy, has provided recurrence to revenue generation (70-75% of consolidated turnover), as well as synergies in its activities, improving its competitive position. The result has been EBITDA margins higher than those of its direct competitors (10.6% in 2022P vs. average EBITDA margin of around 9%).
- **Concentration in its customer base and by markets that weakens its competitive positioning**. The group, which has the exclusive marketing and management agreement for the television segment of MásMóvil and Yoigo (expiry: December 2024) through Agile TV, strengthened its relationship with the telecommunications group following the acquisition in August 2021 of Euskaltel's television business (marketing agreement for eight years, providing around 500,000 subscribers). This relationship results in concentration from first, an operational point of view, with Agile TV representing 60% of turnover in 2022, with an estimated number of subscribers of 840,000 at end-2022; second, from a geographical perspective (Spain represented 69% of sales in 2022); and third, in relation to its customer base (its top 5 represent 80% of turnover).

Governance

- **Adequate management and shareholder backing that increases its growth capacity and places financial leverage at a controlled level.** Agile's two major shareholders are its founding partners, who have extensive expertise in the sector. This is combined with a free float of 55% of the capital, as of December 2022, which means a measure of ownership diversification. The support shown by the majority shareholders in recent years through convertible financing instruments and capital increases has helped to keep the group's leverage at controlled level, despite the short-term impact of the acquisitions carried out.

Financial Profile

Cash-flow and leverage

- **Positive trend in revenues, supported by recent acquisitions, but with operating margins conditioned by the integration process.** Significant revenue growth in recent years, reaching a provisional figure of €101.5m in 2022 (+85% YoY), mainly driven by the M&A transactions carried out in 2020 and 2021. On the other hand, the related integration and consolidation process, mainly due to the acquisition of content following the acquisition of the Euskaltel TV business (accounted for as procurements), has led to a reduction in operating margins (EBITDA margin of 10.6% in 2022P vs 13.9% in 2021). EBIT remained negative, penalised by the significant annual amortisation (-€13.2m; 13% of revenues), conditioning the final result (EBT: -€5.8m in 2022P). The company expects to remain loss-making until 2025, a year that will benefit from the gradual improvements in operating efficiency bearing fruit and a more controlled amortisation expense.
- **Cash position favoured by the increase in operating cash flow and access to external sources of financing.** Agile Content showed an increase in operating cash flow (FFO), reaching €6.6m in 2022P (+62% YoY). This, together with a positive working capital variation, has favoured the generation of operating resources, sufficient to cover the annual investment requirements (positive free cash flow of €2.6m). Additionally, the capitalisation of convertible bonds, together with the capital increase in the subsidiary Wetek by its minority shareholder and the financing raised during the year, allowed the company to meet its financial commitments, maintaining the provisional cash position at similar levels to 2021 (€14.8m; +€0.5m vs 2021).

- **Improvement of the leverage ratio in 2022 after deterioration the previous year due to the acquisitions carried out.** Agile Content, after the significant investments made in previous years, achieved a more controlled NFD/EBITDA ratio in 2022 (1.9x vs. 3.7x in 2021), benefiting from the increase in the generation of operating resources and more limited investment. Similarly, the FFO/NFD ratio has been boosted to an appropriate 32% (14% in 2021). These values are expected to remain at similar levels in the short term thanks to more contained investment. On the other hand, although the company has improved its interest coverage, it remains moderately low (5.0x; +1.4x YoY).

Solvency

- **Solid equity structure, boosted by the various capital increases in recent years.** The group currently shows a high level of solvency, with equity representing 1.3x total financial debt at end-2022 (unaudited figures), benefiting from the various capital increases carried out in recent years (the most recent in 2021 for a total of €13.5m). Despite the reduction in equity in 2022 (-4% YoY), due to the losses recorded, the decrease in gross financial debt has strengthened the group's financial autonomy.

Liquidity

- **Adequate liquidity.** Agile Content reports a ratio between its sources of funds (cash, liquid assets, available lines of credit and expected FFO) and uses of funds (mainly short-term financial debt and maintenance capex) above 1.0x, which is considered reasonable. This is supported by a strong financial profile, resulting in a liquidity level we assess as adequate.

Modifiers

ESG Factors

- No notable risks related to ESG controversies have been found.

Country Risk

- No significant risks related to this variable have been found. 69% of the company’s sales in 2022 were concentrated in Spain.

Main financial figures

Main Financial Figures. Thousands of €.	2020	2021	2022P	22P vs 21
Turnover	20,403	54,945	101,511	84.8%
EBITDA [(1)]	3,223	7,643	10,710	40.1%
EBITDA Margin	15.8%	13.9%	10.6%	-3.4pp
EBIT	-1,201	-3,630	-3,803	-4.8%
EBT	-2,610	-5,744	-5,772	-0.5%
Total Assets	68,914	121,082	117,931	-2.6%
Equity	27,650	46,444	44,766	-3.6%
Total Financial Debt	23,002	42,716	35,657	-16.5%
Net Financial Debt	5,933	28,385	20,513	-27.7%
Equity/Total Financial Debt	120.2%	108.7%	125.5%	16.8pp
NFD/EBITDA	1.8x	3.7x	1.9x	-1.8x
Funds From Operations	404	4,059	6,590	62.4%
FFO/NFD	6.8%	14.3%	32.1%	17.8pp
EBITDA/Interest	3.2x	3.6x	5.0x	1.3x

[(1)] Excludes expenses related to acquisitions made in recent years as well as the accounting impact of the accrued portion of the employee retention plan, which together amounted to €1.2m at end-2020, €2.6m at end-2021, and €1.5m at end-2022P; Includes work performed to improve software to ensure the functionality of the services offered - in 2020 (€3.8m), 2021 (€6.2m) and 2022P (€6.7m) - accounted for as 'work performed by the company on its assets', subsequently capitalised as part of intangible assets.

Rating Sensitivity

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).** Progress in the consolidation and integration of the acquired companies, achieving greater operating synergies that will enable an improvement in operating margins in relation to the sector (EBITDA margin of 23.0%, EBIT margin of 16.06%) and take the company into profit. A gradual reduction of its financial leverage (NFD/EBITDA ratio reference value of around 1.0x), favoured by a more restrained acquisition policy. Growth of its presence within the industry in terms of size and geographic diversification. Reduced exposure to its main customers.
- **Negative factors (↓).** Slow progress in achieving the expected operating synergies that would delay achieving a breakeven/profit-making position. Longer period of having to resort to external sources of financing to support the group's growth, leading to a deterioration in the level of solvency (PN/TFD with a reference value below 80%) and leverage ratio (reference value of the NFD/EBITDA ratio above 3.0x). Loss of competitive advantages that would deteriorate the group's current positioning.

Credit Rating

Credit Rating	
Business Risk Profile	**BB-**
Industry Risk Assessment	*BB*
Sector ESG Adjustment	*No*
Competitive Positioning	*BB-*
Governance	*BB-*
Financial Risk Profile	**BBB-**
Cash flow and leverage	*BB+*
Solvency	*BBB+*
Company's ESG Adjustment	*No*
Anchor Rating	**BB**
Modifiers	*No affected*
Rating	**BB**

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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