Monitor the media monitors: Isentia

by Roger Montgomery

Isentia Group Limited (ASX: ISD) is a growing media intelligence software-as-a-service provider, catering to a large array of corporate and government clients. Established in 1982 as a traditional press-clippings business, Isentia today holds a dominant position in the APAC media monitoring market.

Isentia holds circa 90% market share of the mainstream media monitoring market in Australia & New Zealand (ANZ) & circa 30% in Asia. Isentia is now focused on increasing penetration into Asia via its standard media monitoring offerings as well as value added services (VAS), which includes social media monitoring and analysis/insight reports and other services.

The information that the firm collates is vast in terms of scale. Isentia has coverage of more than 10,000 media outlets, tags over 2.6 million press articles per month, watches and records more than 2,000 television & radio programmes daily, produces over 10,000 broadcast summaries every day and monitors more than 250m social media conversations every month from over 600,000 online sources across 17 languages.

Mainstream media monitoring via subscription revenue model comprises two thirds of the firm's revenues. For clients, media monitoring services start out with a basic 'mainstream media alerts' service that sends out relevant notifications via email/text once every 24 hours for a recurring fee. Customers can upgrade to online news notifications for an additional recurring fee and to the Media Portal platform (which provides live updates and is also the platform for media analysis) for an additional recurring fee.

Additional Isentia offers two entry-level social media monitoring and analysis services (Buzz Numbers for Australia and New Zealand & Social Express for Asia), which can be directly integrated into the Media Portal platform. Media monitored includes well-known brands such as Facebook & Twitter.

Isentia also offers Brandtology, an advanced media/social media monitoring and analysis/reporting service with both quantitative and qualitative themes. This service can add anywhere between 50k to 500k to a client's bill and comprises a large part of the VAS spend in Asia.

The company serves more than 5,300 clients with 74% corporates, 15% governments and 12% PR agencies. Approximately 70% of clients are located in Australia and New Zealand and the remaining 30% are in Asia.

Importantly, no client contributes more than 1.5% of group revenues, and at last count, 87% of the ASX top 100 companies are Isentia clients. The average client tenure is about six years, with the firm's top 50 clients having a tenure of more than 11 years.

As for Isentia's moat, the combination of all forms of media, across a complex region and fragmented media landscape, into a usable platform – both on the monitoring front and the analysis front – is hard to replicate.

Some competitors certainly can and have developed value propositions in some areas such as social media monitoring however these are typically lower-priced offerings without the depth or breadth of coverage required by Isentia's clients.

On the revenue front, things appear to be going well. EBITDA has stagnated recently but this is the result of the firm reinvesting in its capabilities in Asia and in King Content (those decisions are being expensed rather than capitalised). With FY16 guidance of $50-$53m EBITDA, underlying growth is being maintained.

Turning to Asia, we note that average revenue-per-client is lower than that of ANZ and it's important to consider why. On the one hand, labour in the area is cheaper than that of ANZ meaning that the potential cost savings that can be gained from outsourcing media monitoring services are lower. Further, local labour is currently sufficient for the monitoring needs of many clients in the region meaning that the services that they require are narrower in breadth than that required by ANZ clients.

This is changing however as the media landscape is becoming more complex, wages rise (over time), companies become more regional/less localised and the benefits of wide-scale media monitoring become more apparent. The result has been increasing average revenues per client over time.

In the first half of 2016 the number of VAS clients dropped off. This was the result of churn among smaller social media clients who moved to cheaper alternatives. As we're interested in large corporates with the ability to pay for multiple Isentia products (mainstream media and social media monitoring & analysis, plus perhaps some insights products too) we are less concerned about these 'losses'.

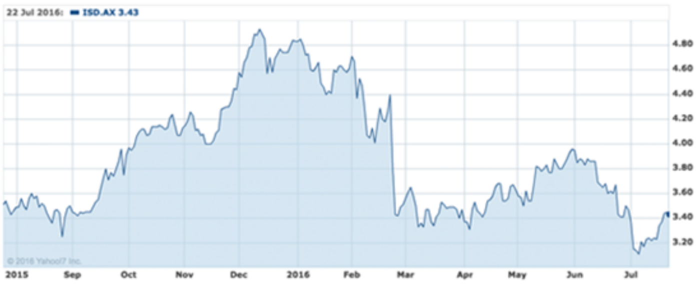
According to Isentia's prospectus, there are circa 5,600 potential clients in the South East Asian region having 20 or more direct mentions in the press per month. This appears to be a good measure of the potential opportunity and Isentia's Brandtology service (the pricey but in-depth social media analysis/insights service) does well in Asia.

In Australia and New Zealand, Isentia has circa 90% SaaS market share. ARPC's (average revenue per client) is approximately 32k and rising as clients continue to increase their spend on VAS.

Largely we see the opportunity for mainstream media monitoring in ANZ as mature (can't do much better than 90% share), however significant opportunity exists for VAS penetration amongst current clients. Clients will take time to recognise the full value of VAS and as longer term investors, we're happy to be patient. That being said, clearly penetration over all VAS products is increasing.

We estimate that circa 60-70% of the firms expenses are fixed costs (largely labour). For each future dollar of revenue earned, 30-40c is expensed and 60-70c falls to the bottom line. Isentia has more than 1,100 employees across Asia Pacific, the majority of whom are located in Asia where labour costs are significantly lower. This has allowed for a significant amount of value to be created as the firms cost base has moved there.

Over time, lower costs and rising revenues per customer should support our growth estimates and valuation. At the current share price of circa $3.20, we see considerable upside to our base case.



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