Non-Independent Research

10 February 2020

Live Company Group

A year of transition and transformation

Market data

Ticker	LVCG
Price (p)	19.25
12m High (p)	73.70
12m Low (p)	19.10
Shares (m)	79.6
Mkt Cap (£m)	15.3
Market	AIM

LVCG share price chart LN Media

Description

Live Company is a content producer and provider, specialising in creative and educational play based on interlocking bricks. This is delivered to consumers at live events under its proprietary BRICKLIVE brand and in partnership with external world class brands such as Nickelodeon. BRICKLIVE promotes Interlocking bricks' educational benefits through interactive play and creative live experiences. LVCG's objective is to build BRICKLIVE as a leading global children's entertainment and education brand.

Company Information

Chairman – David Ciclitira

CFO – Bryan Lawrie

www.livecompanygroup.com

Corporate Broking

Damon Health

+44 207 186 9952

damon.heath@shardcapital.com

Analyst

David Jeary

In 2019, LVCG's strategic focus has shifted away from the generation of licence and content fees to the expansion of its successful touring business, most notably its zoo tours. This has been further underpinned by agreements with prestigious global owners of Intellectual Property (IP) within children's entertainment, specifically Nickelodeon, Entertainment One and Snowman Enterprises Ltd. While the FY19 trading update has led to forecast revisions, these deals should be transformational for both LVCG's market profile and financial outlook, delivering more predictable recurring revenues streams.

- **International Nickelodeon contract won –** Building on the positive reaction to its initial themed tour of characters from Nickelodeon's PAW Patrol show in the UK, LVCG announced a major international expansion of its Nickelodeon relationship in November in an agreement with Viacom Media Networks (VMN), a division of Viacom International Inc. ***LVCG plans to build multiple touring assets over the next two years to satisfy strong demand from its growing global network of partners.***
- **Market expansion and diversifying risk –** This deal, along with those for Peppa Pig and The Snowman and The Snowdog, not only complements LVCG's own IP creation with access to well-known and much-loved externally owned IP and characters, but also serves to diversify risk**.** ***LVCG now has three IP contracts covering 12 IP properties up from none a year ago.*** These tours, with their well-known children's characters, appeal very strongly to a family audience. They are ***therefore highly attractive and valuable to shopping centre operators, town centres and other venues, successfully driving customer footfall and incremental spending*** and helping to offset structural pressures (e.g. e-commerce) on footfall.
- **Further contract wins –** Since our June initiation note, ***LVCG has won further domestic contracts, with international events announced in France, Germany, Israel, Japan, Thailand and the US***. These bring the number of BRICKLIVE events and shows for 2019 to 71, well ahead of the 60 targeted for the year. LVCG has signed a contract to bring BRICKLIVE to South Africa in 2020 and representational contracts for Italy, Australia and New Zealand. These ***alliances with Southern hemisphere partners are an important strategic move, helping LVCG to maximise the utilisation of its touring assets*** during the European winter months.
- **Forecasts revisions –** LVCG expects to deliver its maiden EBITDA profit of £0.7m in FY19E, an impressive improvement of over £1m on last year's loss from continuing activities of £0.4m. The FY19E trading update fell shy however of both revenue and pre-exceptional EBITDA forecasts, with a ***more conservative approach now adopted for our outer year forecasts***. This reflects LVCG's new strategic focus on touring assets, which requires upfront investment to build new assets, and some delay in the build schedule and therefore revenue flow. The Nickelodeon and Entertainment One (eOne) contracts nevertheless provide strong evidence of LVCG's attraction to IP owners, adding credibility to LVCG's new strategic focus and growth prospects, ***thereby underpinning longer-term earnings with a rising mix of recurring revenues and a greater degree of predictability***.
- **Valuation range** - With ***forecast two-year revenue and EBITDA CAGR of 32% and 114% respectively*** for FY19E to FY21E, LVCG remains an attractive growth company. On the basis of our revised forecasts, we believe ***the implied valuation range currently stands at 39p – 47p***, substantially higher than the 30p subscription price at which the Riverfort ESA arrangement was struck.

Contents

BRICKLIVE IP programme

Since the initiation Note, the BRICKLIVE IP programme has grown further. The company now has:

- Multi-year partnerships with 3 IP partners
- Access to 12 IP properties
- Access to the top children's pre-school brands

International Nickelodeon UK and Viacom Media Networks (VMN)

In November 2019, LVCG announced a major international expansion of its relationship with Nickelodeon, with a new contract covering all countries globally except for the USA and Puerto Rico. The contract runs until the end of December 2024 and complements the UK partnership struck with Nickelodeon in June 2019.

This broadly global contract takes the form of an addendum to the UK agreement with Nickelodeon UK and Viacom Media Networks (VMN), whereby the right to produce and exhibit themed tours associated with the Nickelodeon brand has been extended to encompass all countries globally (with the exception of the USA and Puerto Rico) and not just the UK. As part of this new contract, all parties have agreed to novate Nickelodeon UK's rights, obligations and liabilities under the UK agreement to VMN. The themed tours will cover a number of Nickelodeon brand properties, including PAW Patrol, SpongeBob SquarePants, Top Wing and Shimmer and Shine.

This expansion of the original Nickelodeon deal should be transformational in our view for LVCG in terms of both its longer-term financials and its more immediate market profile. Securing multiple territorial contracts with Nickelodeon, the global number one children's entertainment brand, and part of the massive global media enterprise, Viacom International Inc., will undoubtedly not only have caught the eye of other IP owners but also of owners of entertainment and other venues, seeking content to complement and enhance their existing offer, thereby leveraging footfall through and customer spend in their fixed asset base.

This expanded Nickelodeon contract seals the marriage of world class content from a global IP owner with the world class model building skills of LVCG in a mutually beneficial deal. LVCG benefits commercially from leasing the touring assets it will build, while Nickelodeon receives marketing exposure to existing and potential customers (as well as a royalty fee based on tour revenues).

There are a number of differences between this international contract and the original contract with Nickelodeon UK & Ireland, primarily revolving around the fact that LVCG will operate the Nickelodeon tours within the UK, whereas international tours will be operated in conjunction with and by its network of partners. This impacts on both revenues received and operating cost allocation and responsibility. The following points and assumptions relate primarily to this extension of the relationship with Nickelodeon into new international markets. We highlight some differences in the international touring model compared with the UK touring model, where we feel this is appropriate and helpful.

- Multi jurisdiction up to the end of 2024 across all countries globally, with the exception of the USA and Puerto Rico.
- International tours will be operated on a revenue sharing basis with LVCG's international partners, the proportion to be agreed with each partner.
- International partners will be responsible for the majority of operating and marketing costs, which will be reflected in the revenue sharing arrangement.
- LVCG will pay all royalty fees negotiated with Nickelodeon – both on UK and international tours.

- Given the revenue sharing arrangement, the group's international touring gross margin will be lower than for UK-based tours, where all revenue is retained (along with all operating cost responsibility), as it will be paid from its share of revenues (rather than 100% of UK revenues).

- There is some mitigation to this effect through the levying of a licence fee to the international partners. This is a larger fee for Year 1, reducing thereafter to an annual fee.

- International touring assets will offer high returns and good cash paybacks, notwithstanding the revenue sharing arrangement, aided by the initial upfront licence fee.

Snowman Enterprises Limited, The Snowman™ and The Snowdog

In September 2019, LVCG announced it had entered into an agreement with Snowman Enterprises Limited (SEL) to produce a themed tour of The Snowman and The Snowdog. The agreement relates to exhibiting The Snowman and The Snowdog themed BRICKLIVE tour in the UK, the Channel Islands, the Isle of Man and the Republic of Ireland for an initial period through to 1 January 2022. LVCG will pay SEL a royalty fee based on the revenues generated from the themed tour.

Both Banham Zoo and the White Rose Shopping Centre, Leeds hosted the new The Snowman and The Snowdog themed tour in Q4 2019.

Entertainment One, Peppa Pig

In January 2020, the Company announced it had signed a multi-year license agreement with Entertainment One UK Limited, a wholly-owned subsidiary of Entertainment One Ltd (eOne), to produce themed tours associated with properties and characters of one of the world's most famous and global children's brand, Peppa Pig. The agreement relates to LVCG exhibiting tours in the United Kingdom (including, Northern Ireland, the Channel Islands, the Isle of Man) and the Republic of Ireland up to 30 September 2023, for which LVCG will pay Entertainment One a royalty fee.

The Peppa Pig brand has a global reach, having been translated into 40 languages and broadcast in over 180 territories. The first Peppa Pig BRICKLIVE tour is slated to launch in Q3 2020. eOne has recently been acquired by Hasbro, owner of many other iconic children's and entertainment brands.

Summary

These IP partnerships underline the attraction of LVCG and its specialist interlocking brick building skills to prestigious global Intellectual Property (IP) owners. These deals not only complement LVCG's own IP creation - with generic themes such as animals, dinosaurs and mythical beasts - with access to well-known and much-loved externally owned IP and characters, but also serve to diversify risk with a broader product portfolio to bring to market.

We believe the international Nickelodeon announcement should result in increases to EBITDA, PBT and net cash over the medium- and longer-term. These increases are however most likely to materialise beyond the timeframe of our forecast horizon. To that extent, the Nickelodeon announcement could be viewed as more qualitative than quantitative on a short-term view. This would, however, ignore the strategic significance of this contract with a major global media company and IP owner, both in its own right and as a lead indicator of potentially similar deals in the future. As such, the IP partnerships underpin LVCG's reputation with major IP owners and constitute an upgrade to the quality of the company's longer-term earnings.

Revenues from the Nickelodeon and eOne tours will have a less seasonal weighting than those from the recently announced The Snowman and the Snowdog themed tour, which will be highly seasonal with a clear focus on the Christmas period. Its aggregate revenues will therefore be lower than those of the Nickelodeon and eOne tours. That said, there will also be peak periods for the Nickelodeon touring assets, specifically around school holiday periods and other public holidays.

LVCG plans to build up to 16 sets of touring assets by the end of 2020, to cover the incremental international markets for Nickelodeon, other third party IP tours and its own IP assets for touring and exhibitions.

With its significant build programme for touring assets, FY20E can and should be viewed as a year of investment in the asset base to ensure and underpin long-term revenue and profit growth. While our forecasts have been revised more conservatively across our forecast horizon in the wake of the January trading update, with forecast revenue CAGR of 31.5% for FY19E – FY21E, LVCG continues to qualify as a high growth company in our view. More importantly, our forecasts show that LVCG can leverage that revenue growth into a significantly higher level of EBITDA growth, with a two-year CAGR of 114% at the EBITDA level.

BRICKLIVE ZOO programme

The popularity of BRICKLIVE's larger themed tours hosted in zoos, with their engaging mix of educational and interactive content, is underlined by the announcement of a number of new contracts with zoos. This has been a significant success story for LVCG and represents a substantial market opportunity for the group.

North America and Canada

The group attended the American Zoos and Aquarium Association's annual conference in New Orleans in September 2019. Following its initial contract with Brookfield Zoo, Chicago, LVCG had already secured its second major zoo contract in the US at the New England Zoo, Boston, from mid-October 2019 and a third US zoo contract with John Ball Zoo in Michigan for 2020, with discussions ongoing with several other zoos and aquariums for both 2020 and 2021.

In January 2020, the company announced a BRICKLIVE tour with the Societe Zoologique de Granby Zoo, Quebec, representing the group's first tour in Canada.

UK

Following the success of the BRICKLIVE Brickosaurs tour in 2019 at Marwell Wildlife UK (Marwell Zoo) in the UK, LVCG has entered a new two-year contract with Marwell Zoo to provide themed tours to be exhibited between April and September in both 2020 and 2021. In addition, the group has exhibited themed tours in Knowsley Safari in 2019, and has also announced that a further themed tour will be exhibited in Knowsley Safari in 2020.

Europe

LVCG has announced a new contract with Royal Burgers' Zoo in The Netherlands for 2020.

Summary

The company has commented that it is in discussion with a number of zoos, as announced in its RNS of 16 December 2019. Securing repeat contracts with existing zoo customers demonstrates the appeal of BRICKLIVE Zoo tours to zoo visitors and clearly suggests that they are successful for the zoos, both commercially and in terms of their other objectives, such as promoting animal conservation. With some venues reporting a footfall increase of 30% while exhibiting LVCG's zoo touring assets, as announced in the trading update of 5 July, the pulling power and appeal of LVCG's touring assets is clearly demonstrable and of commercial benefit to hosting locations.

LVCG has secured new contracts with zoos in America, Canada and Europe, which highlights the wide and international appeal of the BRICKLIVE Zoo programme to new and existing zoo customers alike. This programme has significant potential to deliver sustainable, recurring and more predictable revenue streams for the group.

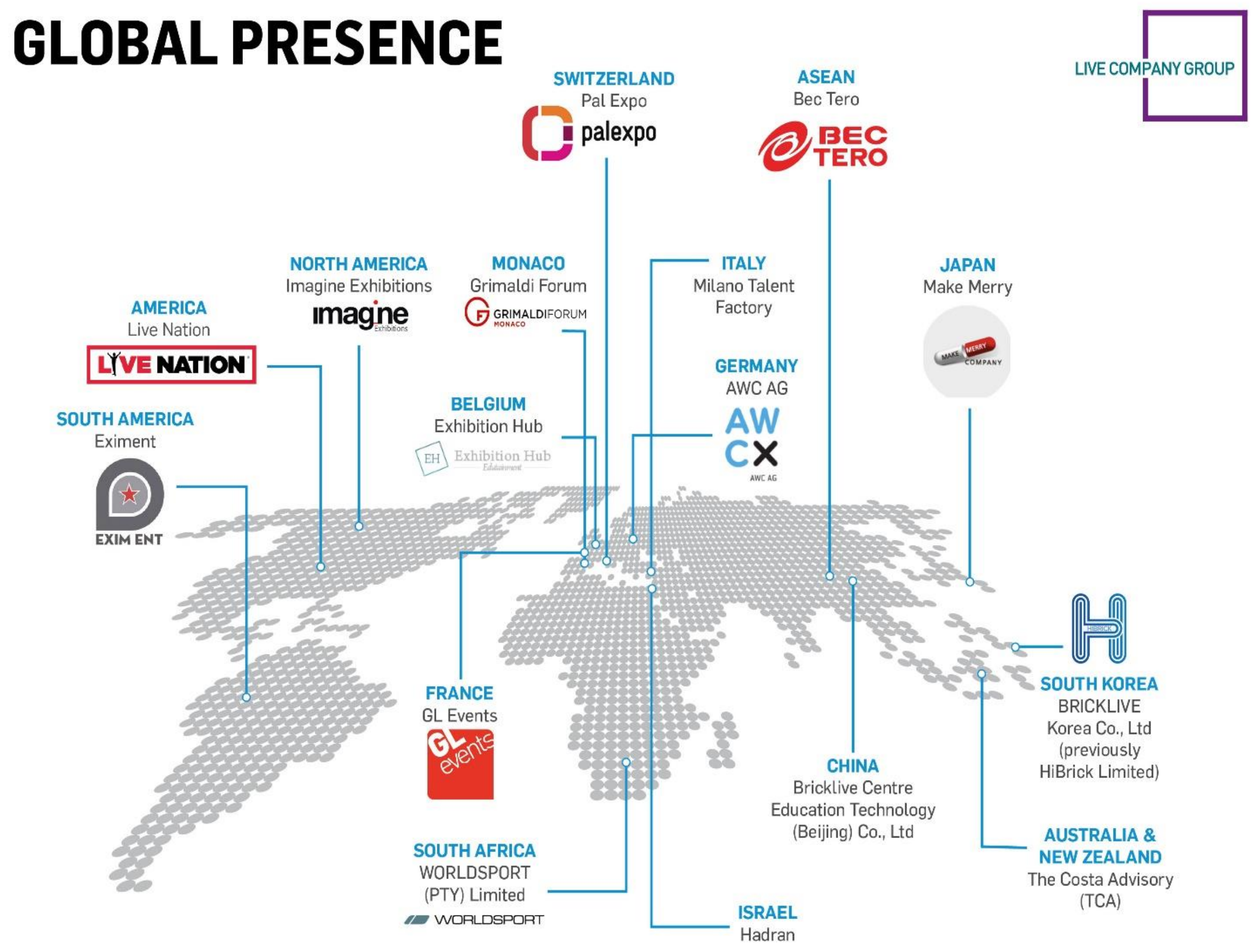
BRICKLIVE shows and tours - new events and contracts

LVCG has announced a large number of new events and contracts since the publication of the initiation note in June. The PAW Patrol show has been exhibited at the Winter Wonderland Christmas Market in Birmingham (BID) and in the town centres of Blackburn (BID) and Luton. In our initiation note, we highlighted that the group was working with several BIDs to exhibit smaller themed touring assets in town centres. These tours and the interactive trail maps associated with them were being used as a means to attract people, notably family groups with children, to the High Street. Since then, LVCG has exhibited in several BIDs across the UK, including Paisley, Sheffield, Croydon, Leicester, Blackburn and Birmingham. The presence of BRICKLIVE themed tours in BID areas has increased significantly since the publication of our initiation note, demonstrating the attraction and footfall-driving power of these interactive themed tours in High Streets and shopping areas.

The group also announced and completed a number of other BRICKLIVE shows internationally and domestically in 2019, the latter including shows in Aberdeen and Liverpool. Internationally, events were held in Belgium, France, Germany, Switzerland, Israel, Japan, Thailand, Mexico and Monaco. These reflect the increasing international spread of the business with the more recent announcements covering events in North America, Europe, The Middle East and Asia. Such news flow underpins future prospects. In November 2019, the Company reported the success of its BRICKLIVE Super Series of events, with six events taking place from mid-September to early November. These comprised Liverpool, Brussels, Geneva, Toulouse, Birmingham and Cologne, with the latter's BRICKLIVE Brickosaurs event running until early January 2020. As of 6 November, these six events had attracted nearly 85,000 visitors, of which 20,000 attended the BRICKLIVE event held at the National Exhibition Centre (NEC) in Birmingham. LVCG works with partners globally to provide brick-based content and models for live events and has secured multi-year licenses with some of those partners to provide content for shows, with some licenses running until 2022.

Multi-year agreements with partners such as Exhibition Hub in Brussels, AWC in Germany, Pal Expo in Switzerland, Bec-Tero in Asean, HADRAN in Israel coupled with successfully obtaining repeat bookings for the themed touring shows highlights the company has been increasingly successful in securing recurring revenue streams. The securing of recurring revenues with partners will be a key focus for LVCG in future years, as it monetises its much expanded (touring) asset base over the medium- and long-term, thereby delivering a more sustainable and less volatile route to increasing shareholder value.

Live Company Group global partner network



Source: LVCG

In August 2019, LVCG also announced a partnership with Imagine Exhibitions, North America, to help identify suitable North American zoos and venues for BRICKLIVE touring shows. Given the huge potential of the North American market, LVCG has decided to put on hold activity in South America and to redeploy assets to underpin its North American expansion programme. Likewise, in light of current macroeconomic factors in China and with demand for BRICKLIVE shows and events growing strongly in North America and Europe, LVCG intends to place greater focus on developing the European and American markets.

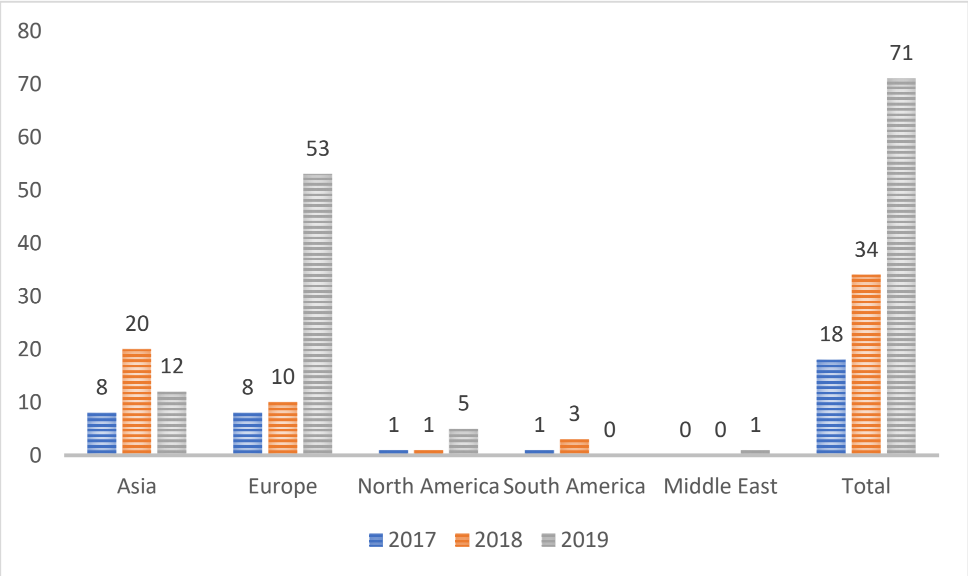
In November 2019, LVCG announced a joint venture agreement with WORLDSPORT (PTY) Limited (WSL), a leading event organiser based in South Africa, to create BRICKLIVE (South Africa) Limited. This new entity will stage and promote BRICKLIVE shows in South Africa, as well as identify potential customers for corporate builds and customer sets. LVCG expects the first BRICKLIVE show to take place in Cape Town in H1 2020. This alliance with a southern hemisphere partner is an important strategic move, which should help LVCG to maximise the utilisation of its touring assets during the European winter months.

In January 2020, the Company reported it had agreed a five-year representation agreement with Milano Talent Factory (MTF) in Italy. Mr Stefano Bethlen, the owner of MTF, has spent over 16 years working with The Walt Disney Company. His roles included Head of Business Affairs and Operations of The Walt Disney Company in Italy, Head of Theatrical Distribution & Marketing and more recently, Chief Marketing Officer across Italy. Mr Bethlen was involved in the franchise plans for major Disney brands including the Marvel, Star Wars, Mickey, Princess, Cars, and Frozen brands in Italy

In January 2020, the Company also reported it has agreed a three-year representation agreement with The Costa Advisory (TCA), covering Australia and New Zealand. Mr Con Apostolopoulos of TCA has over 20 years' experience in the entertainment industry and his roles have included President of Partnerships for Fox International Channels before becoming Senior Vice President of National Geographic.

The representation agreement for Australia and New Zealand complements that covering South Africa, offering more potential to deploy touring assets during the European winter months. The group also announced it signed an agreement with HADRAN 2006 D.S Marketing and Tickets Distribution Limited, Israel to lease the BRICKLIVE Brickosaurs tour in summer 2020. Content will also be provided for a BRICKLIVE show to be held between 7 March and 20 April in Israel.

BRICKLIVE shows and events by key geographic areas- FY2017 to FY2019E



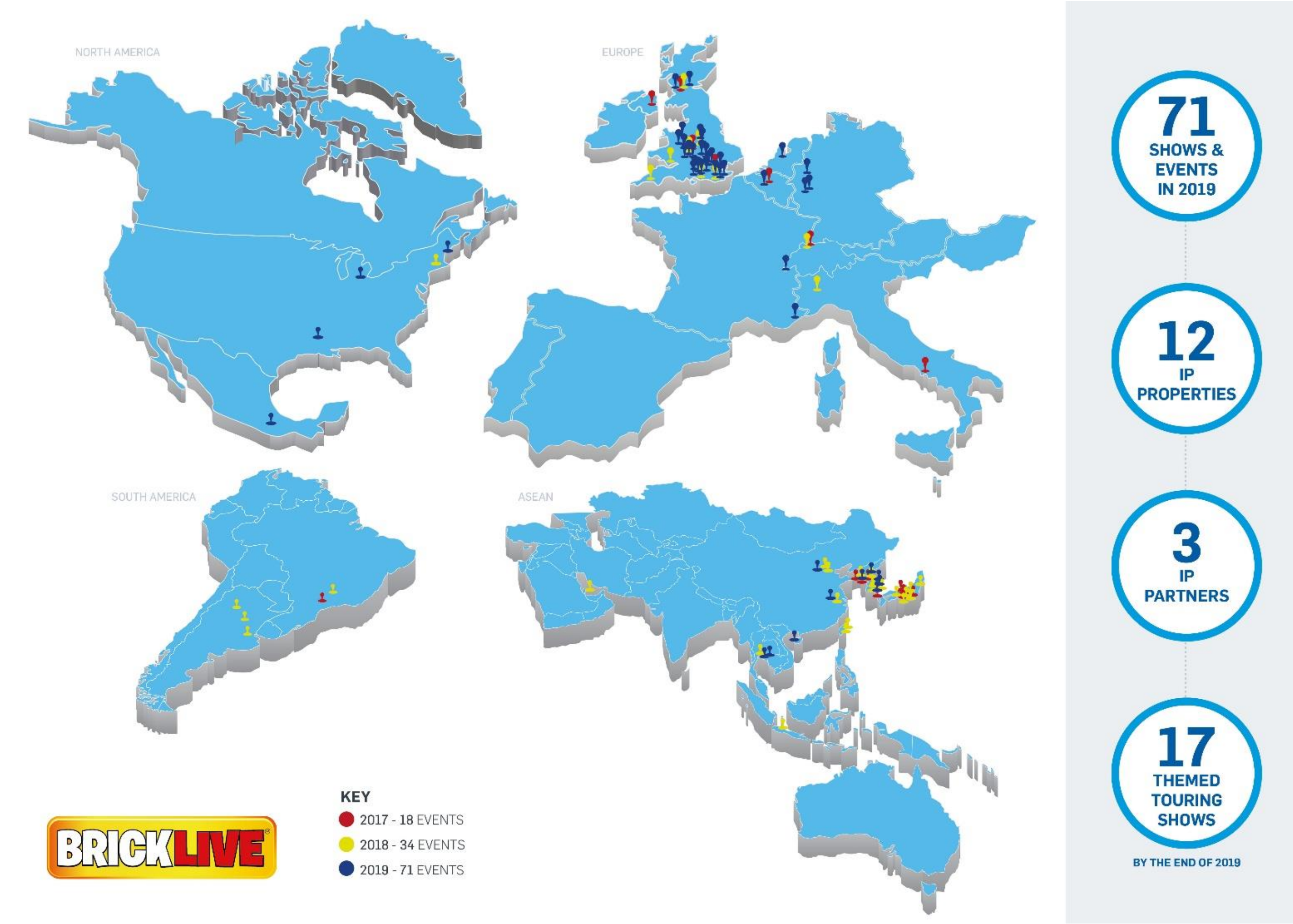
Source: LVCG

Two further BRICKLIVE shows in North America were also announced, signed through the group's Parallel Three Six Zero (PSTZ) joint venture. Following the success of the initial BRICKLIVE show in Dallas in January 2019, a second show is to be staged in the same venue (The Star in Frisco, Dallas) in July 2020. A license agreement has also been signed with the Franklin Institute in Philadelphia to hold a show between 2 May and 5 June 2020.

LVCG has scaled up its business significantly during the course of 2019. Having delivered a total of 34 events in FY18, the group has secured and delivered 71 shows and events for FY19, comfortably beating the previously announced target of 60. This has been reflected in the growth of the group's sets of touring assets which has grown from nine following the acquisition of Bright Bricks but have grown to 17 at the end of December 2019.

The chart above shows the development of these shows by number by key geographic area over the past three years, with them shown individually on the map of the world below.

BRICKLIVE shows and events - FY2017 to FY2019



Source: LVCG

News flow updates

Interim results

LVCG published its interim results on 30 September. The key takeaway from the interim results statement was that LVCG had been trading EBITDA profitably since Q2. The group owned around 850 models at the end of September, up from 650 at the end of March (and standing at 882 at the end of December).

The key headlines of the interim results are summarised in the following table, along with those of FY18 and the year-on-year movement between the two.

Live Company Group - Interim results summary FY19 and FY18 (£'000) unless stated)

	FY19	FY18	% change	Movement
Turnover	1996	2842	-29.8%	(846)
Gross profit	1143	1951	-41.4%	(808)
Gross margin %	*57.3%*	*68.6%*		
Operating costs	(1,918)	(1,431)	34.0%	(487)
Operating profit	(775)	520	-249.0%	(1,295)
Operating margin (%)	*(38.8%)*	*18.3%*		
Interest	(44)	(17)	158.8%	(27)
PXPBT	(819)	503	-262.8%	(1,322)
Exceptionals/discontinued	(251)	(387)	-35.1%	136
PBT	(1,070)	116	-1022.4%	(1,186)
EBITDA	(482)	267	-280.5%	(749)
EBITDA margin (%)	*(24.1%)*	*9.4%*		

FY18 EBITDA includes discontinued loss

Source: LVCG, Shard Capital

Financial news

Deferred consideration

LVCG agreed terms in November with the vendors on the deferred consideration of £0.833m relating to the acquisition of Bright Bricks in October 2018. This has been settled through the issue of 1,893,940 new Ordinary Shares, equating to an issue price of 44p per share. In addition, the three vendors have been awarded 452,916 shares at the same issue price covering accrued fees for services provided to the group.

Riverfort loan facility

The group has also confirmed arrangements with regard to its existing Riverfort loan facility of £1m, details of which were announced on 17 October 2018 and of which some £0.7m remains outstanding, together with a new facility of up to £1m, which together provide the group with the appropriate financial resources to cover the building programme to meet demand for its touring assets. LVCG is now aiming to build up to 16 BRICKLIVE themed tours in 2020, including those for the international Nickelodeon themed tours and the recently announced Entertainment One contract. To date, the group has drawn down £0.3m of the new facility in order to place orders with specialist steel and brick suppliers, which typically have a lead time of between eight and sixteen weeks. The maturity date of the existing facility has been extended by mutual agreement to the end of December 2020. Together with the draw down from the new facility, LVCG will repay these loans and interest in nine equal monthly instalments, commencing in April 2020.

The combined facilities arrangement will be accompanied by a subscription agreement (raising an equity investment of £2.0m at 30p per share) and an Equity Sharing Agreement (ESA) between LVCG and Riverfort. Together, these agreements provide LVCG with funding to settle the two Riverfort facilities (up to £1.7m in total, if required), while also enabling LVCG to share in the upside benefit from a rising share price. The full details pertaining to the ESA can be found in the RNS - "Update regarding BRICKLIVE themed tours and financing" – of 16 December 2019. One key advantage of this arrangement is that the number of ordinary shares raised is fixed, providing certainty over the dilutive impact of the totality of this financing structure. To this point, the subscription issue comprises 6,666,667 shares, equating to 8.39% of LVCG's enlarged share capital. Following their admission, the group's issued share capital comprises 79,500,419 ordinary shares, of which David Ciclitira and connected persons hold 34.46%.

The January trading update indicated that a further 116,667 shares are to be issued to two Non-Executive Directors in respect and in lieu of fees due. Thereafter, the group's issued share capital will comprise 79,617,086 shares with voting rights.

January trading update

LVCG announced headline draft unaudited details of its FY19E trading performance on 17 January 2020. The key points were as follows:

- Revenue from continuing activities was reported as £5.5m. This was an increase of 12% over FY18's £4.92m, which included a $1.6m benefit from a major one-off contract for China.

- Pre-exceptional EBITDA of £700K is expected, delivering the group's maiden positive EBITDA profit and representing a significant improvement of over £1.0m from last year's continuing business. It should be noted that the FY19E EBITDA figure cited in the trading update includes a contribution of around £80K from its 49% stake in the Chinese Associate company, Brick Live Centre Education Development (Beijing) Company Limited, which we report below the EBIT line in our Financials Summary.

- The group has secured £3m of recognisable revenue for 2020

- LVCG built new additional content to the value of £1.2m, with a further £0.2m under construction. Net assets have increased by around £4m, driven by the funds raised for the expansion of the BRICKLIVE Zoo programme of touring assets, the £2m Riverfort ESA funding arrangement and the conversion of the deferred consideration into equity, relating to Bright Bricks acquisition.

While showing substantial progress therefore over FY18, the outturn for FY19E falls shy however of the forecasts in our initiation note published in June 2019. We have therefore reviewed and revised the estimates over our forecast horizon up to FY21E, which we examine in more detail in the following section of this note.

Forecasts

Our forecast revisions reflect not only the January trading update and other news flow since June 2019, but also the ongoing evolution of the group's business model since both its admission to the public market and since the acquisition of Bright Bricks. The evolution of the business and its business model has therefore taken place very publicly from its infancy to partners and shareholders alike. LVCG believes its new focus on touring assets will be the most profitable route for the business, with the license and content fee model becoming a less significant part of the business mix over time.

This evolution has seen the focus of the group's activities move to the expansion of its touring business, both of its own IP but more importantly of high value third party branded IP, compared with the previous focus on generating license and content fees. The touring business is a high margin business, with high returns on investment, as laid out in our initiation note, but absorbs cash initially to build the assets and is dilutive to gross margin percentage on a short-term basis before the assets can be "sold" to clients and generate returns. Conversely, when the rate of building, or asset investment, slows on a year-on-year comparison basis, this has an accretive gross margin benefit along with higher cash generation. Other factors, such as business mix, will also play a role on the evolution of gross margin. We understand that the company is considering the reclassification of some direct costs within COGS and operating expenses, which would impact the quantum of the gross margin percentage reported.

FY19 revenues of £5.54m fell shy of our original forecast of £6.55m principally for three reasons. There was some slippage in the signing of some contracts from Q4 FY19 to Q1 FY20. With an upfront portion of the contract value payable on signature to cover preparatory work undertaken by LVCG, this has a marked impact. Secondly, the tougher macro-economic background impacting China has had an adverse impact on revenues generated against earlier expectations, even before the recent coronavirus outbreak. The final reason relates to the weaker financial performance of the group's own BRICKLIVE show at the NEC, in terms of both revenue and profit contribution. This could possibly see all future UK shows being operated by a partner.

Given the evolution of the business model, the FY19 outturn, and a longer than originally anticipated delivery timetable for some commercial and financial negotiations, resulting in a delayed start to the ramping up of the content build programme, we feel it is appropriate to adopt a more prudent and conservative approach to our modelling for FY20E and FY21E from the FY19 outturn as laid out in the trading update. As can be seen from the summary table below, our more cautious modelling sees revenues in the two outer years reduced by a larger quantum than the £1m in FY19E. We believe there will be a greater impact seen in FY20E than in FY21E, reflecting the compounding impact of the outbreak of coronavirus on an already weakening macro-economic backdrop in China. The closure of transport links, factories and shops announced over recent days in China is undoubtedly negative for the economic outlook over the short-term, most notably H1FY20E, before the situation hopefully normalises thereafter. Our forecasts reflect our arguably overcautious but prudent assumption of no revenues from China in FY20E, but with FY21E returning to the normal rhythm of the economic cycle. Without the coronavirus outbreak, the shape of our forecasts would have shown a higher rate of revenue growth in percentage terms for FY20E than FY21E, whereas the shape of our forecast revenue growth now shows forecast revenue growth of 27% for FY20E and 36% for FY21E.

Given the build programme for FY20E for up to 16 touring assets, compared with the previous target of up to 14, together with investment and training in new builders, we forecast gross margin to edge back in FY20E with a more leveraged impact on both EBITDA and operating profit. The build programme in FY20E should deliver a full year of revenue benefit in FY21, and with forecast gross margin expansion in FY21E arising from our current expectation of fewer than 16 touring asset builds in FY21E, this sees EBITDA increasing to £2.8m, delivering an impressive two-year CAGR of 114% from the equivalent revenue CAGR of 32%. It is also reflected in the cash generation forecast for FY21E. The shape of the forecasts reflects the company's decision to invest in support of growth, following the significant growth and success of its zoo and other touring assets, which has been masked by the weaker performance of some other business streams and geographies.

In the interest of transparency, we include below a summary table of our forecast changes. More detailed forecasts for P&L, cash flow and balance sheet are presented at the end of this note in the Summary Financials section. In light of the changes to capital structure relating to the deferred consideration and Riverfort announcements, we have made changes below the operating profit level, pertaining principally to the interest line, exceptional charges and EPS figures. In our previous FY19E full-year forecasts, as outlined above, we had rolled our estimate of the costs associated with the February 2019 equity raise into the interest line. The explicit separation and recognition of this £251K as an exceptional charge at the interim stage has been reflected in our full-year figures, resulting in a lower interest charge for FY19E of £90K. We have forecast a lower interest charge for FY20E of £60K, as the outstanding balance reduces as the loan is repaid and will have been fully repaid by the year end through the ESA mechanism. We have therefore assumed no interest charge for FY21E, as the company will have positive and growing cash balances. The company continues to work on assessing the appetite of a number of other financial institutions to provide debt financing.

We have further increased the exceptional charge reported at the interim stage to £600K for the full FY19E year, as it appears reasonable to assume further charges related to both the deferred consideration and Riverfort arrangements. These exceptional charges and the lower level of profits achieved in FY19E are the principal drivers of the higher net debt figure in FY19E. With LVCG's share capital now standing at 79,500,419 at the FY19 year end, this has a dilutive impact on our EPS figures across our forecast horizon.

The "Old" columns in the following summary table show our previous forecasts as published in our June 2019 initiation note, with the "New" columns showing our revised forecasts, driven primarily by the events and changes outlined above. We have not forecast exceptional charges beyond FY19E, although the possibility of future charges cannot be excluded as LVCG continues to grow and evolve its operating model, financial structure and shareholder base. We have also not forecast Associate earnings beyond FY19E, given the volatility and therefore uncertainty around these.

Summary of financial forecast changes – FY19E to FY21E

	FY19E			FY20E			FY21E		
£m unless stated	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**	**Old**	**New**	**Change (%)**
Revenue	6.555	5.510	-16%	8.751	7.000	-20%	10.860	9.534	-12%
- % increase	*22.5%*	*3.0%*		*33.5%*	*27.1%*		*24.1%*	*36.2%*	
Gross profit	4.235	3.478	-18%	5.758	3.903	-32%	7.548	5.721	-24%
- gross margin (%)	*64.6%*	*63.1%*		*65.8%*	*55.8%*		*69.5%*	*60.0%*	
Adj EBITDA	1.108	0.620	-44%	2.499	1.001	-60%	4.538	2.834	-38%
- EBITDA margin (%)	*16.9%*	*11.3%*		*28.6%*	*14.3%*		*41.8%*	*29.7%*	
Operating profit	0.538	(0.037)	-107%	1.759	0.112	-94%	3.638	1.788	-51%
- operating margin (%)	*8.2%*	*-0.7%*		*20.1%*	*1.6%*		*33.5%*	*18.8%*	
Associates	0.000	0.080		0.000	0.000		0.000	0.000	
Fully adj PBT	0.248	(0.127)	-151%	1.684	0.052	-97%	3.563	1.788	-50%
Net cash/(debt)	(0.451)	(0.818)	-81%	(0.505)	0.812	261%	2.457	3.052	24%
Fully adj EPS (p)	0.35	(0.07)	-119%	2.39	0.07	-97%	5.05	2.25	-56%

Source: Shard Capital

Similarly, as the new third party IP contracts are rolled out, changes in the shape of the operating model, compared with that of our revised forecasts, cannot be ruled out. These could potentially impact any combination of gross margin, operating costs and the depreciation & amortisation charge. The latter, for example, will be impacted by the rate of content construction for future tours and shows, as discussed above.

With a forecast revenue CAGR of 31.5% for FY19E – FY21E, LVCG continues to qualify as a high growth company in our view. More importantly, our forecasts show that LVCG can leverage that revenue growth into a significantly higher level of EBITDA growth, with a two-year CAGR of 114% at that level.

Valuation

Given the forecast revisions outlined above, there are clearly implications for the valuation range compared with that evaluated in our initiation note. This was based on deriving valuation metrics for peer selected companies, comprising sub-groups of theme park operators, growth companies and "other companies" (including live entertainment operations and exhibition/publishing companies), based on market consensus forecasts, adjusted to match LVCG's December year end. The metrics for these comparison companies (compcos) were then averaged on an unweighted basis, with the resultant metrics applied to our forecasts for LVCG to drive an implied share price.

The metrics used were EV/EBITDA, EV/sales, together with taxed and untaxed price earnings ratio (PER). The reason for showing two PER valuations was - and is - that our forecasts assume LVCG will not be liable for corporation tax over our medium-term forecast period due to accumulated historic tax losses. This factor drives a higher valuation compared with companies paying taxes (including those in our compco group). We therefore addressed this by applying corporation tax at an assumed 18% rate to our forecast pre-exceptional PBT, which consequently reduces the implied valuation.

We have applied the same valuation metrics from our initiation note to our new forecasts. With global stock markets generally standing at higher levels now than at the end of May 2019, this penalises LVCG's implied valuations, though this could be argued to therefore incorporate a degree of de-rating to the implied valuations. It should be noted that our new forecasts show higher levels of cash compared with our initiation note, with year-end cash for FY21E standing 24% higher at £3.1m compared with £2.4m previously. This is favourable for the EV-based metrics, though in all instances, the share price valuation is diluted by around 11%, due to the higher number of shares in issue. The increased share count arises primarily from the ESA arrangement with Riverfort and the conversion of the deferred Bright Bricks consideration into equity.

With the market looking to value the company not on its near-term potential, but rather its longer-term potential as a high growth company, we based our previous valuation range of 73p – 89p on the implied valuations for FY21E. LVCG remains a high growth company, albeit from a lower base for FY19E. We therefore feel it is still appropriate to base our valuation range on FY21E prospects, which is now a year closer.

Implied LVCG share price (p) based on average compco valuation metrics (x)

	Compco average (x)		Implied share price (p)	
	CY20E	CY21E	CY20E	CY21E
EV/EBITDA	13.3	12.0	18	47
EV/sales	3.2	3.0	29	39
PER untaxed	20.2	17.7	1	40
PER taxed	16.5	14.5	1	33
Average	**n.a.**	**n.a.**	**12**	**40**

Source: Shard Capital

On this basis, we believe the implied valuation range currently stands at 39p – 47p. This discounts the taxed PER metric, with the lower end of the range being the EV/sales metric (and also broadly in line with the average and untaxed PER metrics) and the top end being the EV/EBITDA multiple. All implied valuations (including taxed PER) are higher than the 30p subscription price at which the Riverfort ESA arrangement was struck.

Risks

All businesses face risks and uncertainties, which are of both a general nature and a specific nature, pertaining to the business. LVCG is a very different business now than 18 months ago, and several of the risks highlighted in the 2017 Annual Accounts have either been eliminated or considerably reduced. Most notably the “reliance on access to good quality content for BRICKLIVE events” and the “reliance on third parties” for content were eliminated through the acquisition of Bright Bricks.

Similarly, while still a young company, the risks associated with “early stage of operations” (with a complement of just five employees at the end of 2017) should certainly be lower now than 15 months ago. It could be argued that these have been replaced by the integration risks (such as systems integration, employee morale and retention, corporate culture) following the acquisition of Bright Bricks. Given the continuing success in winning new contracts and new partners in the international arena, we see little evidence of this being the case.

Protection of Intellectual Property and wider litigation risk

This has also significantly expanded the group’s intellectual property (IP), which should increase its ability to protect and trade mark its in-house IP. While this is the case, it does not completely eliminate the risk of claims against the company by third parties regarding infringement of their proprietary rights, trademarks or patents. Litigation would be a significant distraction to the business, involving senior management and deflecting them from their focus on growing and managing the business.

Acquisition of new licensee partners

The 2017 and 2018 Annual Accounts clearly highlight revenue growth and the number of licence partners as two Key Performance Indicators (KPI’s). There can be no guarantee of successfully acquiring incremental licence or business partners, irrespective of management’s best efforts and intentions to do this. Given that lead times will vary in signing new contracts, it is important for LVCG to develop a pipeline of potential new business and partners, and to dedicate the time and money to this activity.

Business retention

Just as gaining new partners and contracts is vital for incremental business growth, it is equally important to retain existing business and partners. Contract losses, especially those of a multi-year nature and/or of a significant size, would damage LVCG’s financial performance relative to internal budgets and the expectations of external shareholders and stakeholders. Developing good relationships with existing clients will usually require regular contact. Conversely, LVCG cannot control the activities of its partners on a day to day basis with regard to their delivering their contractual obligations to the expected standards. Failure to deliver these standards could in turn result in reputational risk and potentially damage to the value of the company and the brand equity of BRICKLIVE.

Key staff retention

The success of the company and its future development is dependent on the continued service and performance of senior management and other key personnel. The introduction of share awards has been one way of seeking to reward, motivate and retain such key staff.

There is always an element of key person risk within any business, but especially so within smaller fledgling businesses, where the founder is still actively involved. In such cases, the permanent or temporary loss of such key staff would clearly be detrimental to the business. We believe this would be the case with regard to David Ciclitira, who is an important ambassador of the business, responsible for securing many partner and contract gains for the company.

The promotion of Andy Smith will see him overseeing the strategic activities of BRICKLIVE Group. Jon Gayton has been appointed as Managing Director of BRICKLIVE International, responsible for all international partnerships across the BRICKLIVE Group. These appointments should enable David Ciclitira to focus on strategic partnerships for the business.

Production constraints to business growth

Continued growth of the business will require the construction of more content for contracted shows and tours. In turn this will require access to bricks and model builders. We believe that access to bricks is unlikely to be an issue, given that the acquisition of Bright Bricks has secured a significant stock of bricks. Similarly, market access to purchase bricks, directly from manufacturers or via exchange platforms, does not appear to be an issue, given that management was comfortable with the assumption that brick purchases would match brick usage – hence the flat stock position in the balance sheet forecasts in our initiation note. There could potentially be an issue in terms of the number of model builders available, although Bright Bricks has access to a number of skilled part-time builders and model enthusiasts, upon whom it can call to complement its full-time workforce.

Potential production bottlenecks could also be mitigated or avoided through the potential franchising of another model production facility. We understand that any such franchised production facility would not have access to or usage of the company's proprietary design software, but would simply build models to plans and instructions delivered from the UK production facility.

Operating expenses rise faster than expected

If operating costs were to rise faster than expected, this would have an adverse impact on profitability if they could not be recovered through increasing prices to clients or from internal efficiency measures and cost savings.

Geo-political risks across international and domestic markets

Live is currently doing business across three continents, thereby working in different commercial and political environments with inherent risks from having a wide variety of political, legal, financial and economic factors to manage and contend with. Many of these risks are difficult to quantify, especially in markets with less developed regulatory environments. In some instances this could lead to difficulties in debtor collection and repatriation of funds. With many contracts designated and paid in US dollars, this also exposes the group to foreign exchange (FX) risk and the need to use financial instruments to hedge such risk. An economic downturn in any of the larger and more important markets to which Live is exposed, could lead to weaker consumer spending in general and therefore to Live's consumer offerings.

Investment risks

Investing in shares in publicly quoted carries a number of inherent risks, which include but are not limited to:

- stock markets and shares can fall as well as rise, often as a result of circumstances beyond the control of individual companies eg economic downturns, political events, Brexit, oil prices, terrorism
- company failure to meet forecasts and therefore market expectations
- the emergence of new competitors or industry disruptors
- equity raises may dilute the interests of existing shareholders

Summary Financials

Profit and loss account and cash flow forecasts

Profit and loss account					
Year to December	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Turnover	**1.9**	**5.4**	**5.5**	**7.0**	**9.5**
Cost of sales	(0.8)	(3.6)	(2.0)	(3.1)	(3.8)
Gross profit	1.1	1.8	3.5	3.9	5.7
Gross margin (GM) (%)	57.2%	32.9%	63.1%	55.8%	60.0%
Operating costs	(1.5)	(3.0)	(3.5)	(3.8)	(3.9)
Operating profit	**(0.4)**	**(1.3)**	**(0.0)**	**0.1**	**1.8**
Operating profit margin (%)	(20.3%)	(23.6%)	(0.7%)	1.6%	18.8%
Depreciation and amortisation	(0.1)	(0.4)	(0.7)	(0.9)	(1.0)
EBITDA	**(0.3)**	**(0.9)**	**0.6**	**1.0**	**2.8**
EBITDA margin (%)	(14.2%)	(16.7%)	11.3%	14.3%	29.7%
Associates	0.0	0.0	0.1	0.0	0.0
Interest charge	(0.0)	(0.0)	(0.1)	(0.1)	0.0
Pre-exceptional PBT	**(0.4)**	**(1.3)**	**(0.1)**	**0.1**	**1.8**
Exceptional charges	(5.0)	(1.3)	(0.6)	0.0	0.0
Profit before tax	(5.4)	(2.6)	(0.7)	0.1	1.8
Adjusted diluted EPS (p)	**(0.6)**	**(2.3)**	**(0.1)**	**0.1**	**2.2**
Diluted EPS (p)	(11.0)	(4.7)	(0.9)	0.1	2.2
Dividend (p)	0.0	0.0	0.0	0.0	0.0
Cash flow					
Year to December	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Operating profit	(0.3)	(2.6)	(0.6)	0.1	1.8
Depreciation and amortisation	0.1	0.4	0.7	0.9	1.0
Inventory (increase)/decrease	0.0	(0.1)	0.2	0.4	0.4
Debtors (increase)/decrease	(0.0)	1.1	(0.6)	0.5	(0.2)
Creditors increase/(decrease)	2.9	(2.1)	(1.3)	(0.3)	0.4
Other	(0.4)	0.0	0.0	0.0	0.0
Operating cash flow	**2.4**	**(3.3)**	**(1.7)**	**1.6**	**3.4**
Interest	(0.0)	0.0	(0.1)	(0.1)	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.0	(1.0)	(1.3)	(1.8)	(1.2)
Trading cash flow	**2.4**	**(4.3)**	**(3.1)**	**(0.3)**	**2.2**
Acquisition of businesses	(0.7)	(2.2)	0.0	0.0	0.0
Disposal of businesses	0.0	0.0	0.0	0.0	0.0
Share issues	1.3	4.7	5.0	0.0	0.0
Currency effects, other	(1.9)	(0.1)	(1.9)	1.9	0.0
Net cash inflow/(outflow)	**1.0**	**(1.9)**	**0.1**	**1.6**	**2.2**
Net (debt)/cash	**1.0**	**(0.9)**	**(0.8)**	**0.8**	**3.1**

Source: Company Information, Shard Capital

Balance sheet forecasts

Balance sheet					
Year to December	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Tangible fixed asssets	0.8	3.6	4.2	5.0	5.1
Intangible fixed assets	4.2	4.4	4.4	4.5	4.5
Investments and other	0.0	0.0	0.0	0.0	0.0
Total fixed assets	**5.0**	**7.9**	**8.6**	**9.4**	**9.6**
Stock	0.0	6.5	6.3	6.0	5.6
Trade and other receivables	1.1	0.7	3.2	0.8	1.1
Cash and short term deposits	0.9	0.1	0.2	0.8	3.1
Other	0.0	0.0	0.0	0.0	0.0
Current assets	**2.0**	**7.3**	**9.7**	**7.6**	**9.7**
Total assets	**7.0**	**15.2**	**18.3**	**17.1**	**19.3**
Trade and other payables	(2.6)	(2.6)	(1.5)	(1.2)	(1.4)
Borrowings	0.0	(1.0)	(1.0)	0.0	0.0
Other current liabilities	(1.6)	(0.8)	(0.7)	(0.8)	(0.9)
Current liabilities	**(4.2)**	**(4.5)**	**(3.2)**	**(1.9)**	**(2.4)**
Borrowings	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Non-current liabilities	**(0.0)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Total liabilities	**(4.2)**	**(4.6)**	**(3.3)**	**(2.1)**	**(2.5)**
Net assets	**2.8**	**10.6**	**14.9**	**15.0**	**16.8**

Source: Company Information, Shard Capital

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Shard Capital Partners LLP
23rd Floor,
20 Fenchurch St,
London, EC3M 3BY

T +44 (0)207 186 9900
F +44 (0)207 186 9979
E info@shardcapital.com
W shardcapital.com