

## S4 Capital: The AI marketing specialist

<b>Company:</b>	S4 Capital (SFOR)	<b>Market Cap:</b>	27.3p (£170m)
<b>Industry:</b>	Marketing	<b>Net debt:</b>	£145m (Q1 25)
<b>Country:</b>	US, worldwide	<b>Revenue:</b>	£731m (net revenue trail)
<b>Date:</b>	2 <sup>nd</sup> -7 <sup>th</sup> May 2025	<b>Adj. EBITDA:</b>	£85.5m (12m trailing)
<b>Dividend:</b>	1p (3.7%)	<b>Free cash flow:</b>	£40m (FY 25 guidance)
<b>Entry:</b>	27p (£168m)	<b>Target:</b>	37p (£225m) (+37%)

### Why S4 Capital?

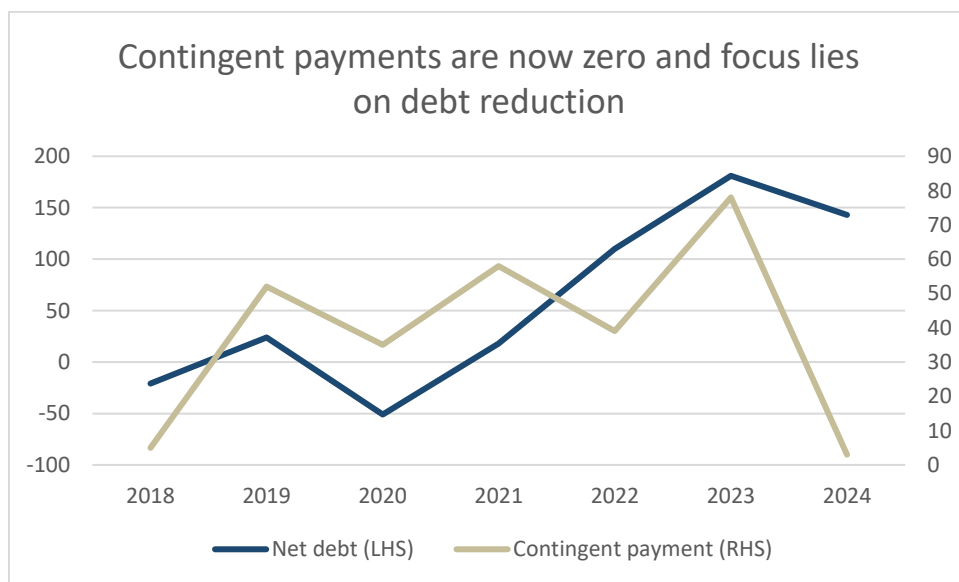
- Attractive EV/FCF ratio of 7.8x
- Guidance kept at £40m free cash flow. A £40m decline in net debt would lift the market cap by over 20%
- S4 Capital is at the forefront of AI in marketing
- First dividend payment since formation of company

### Risks

- Concentration of big tech clients, which focus their spending on AI infrastructure this year
- General slowdown in marketing & advertising market
- No insider buying from Sorrell

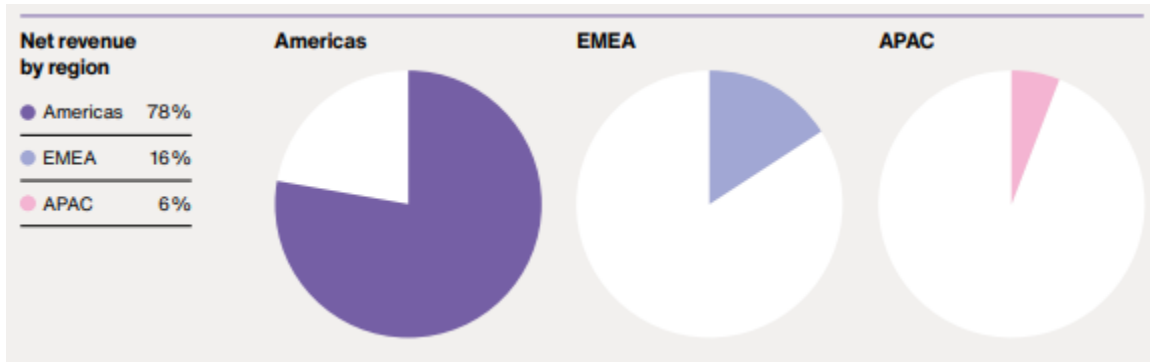
## About S4 Capital

S4 Capital is really all about Sir Martin Sorrell, who became CEO of WPP in 1986 after he invested privately in the company a year earlier. From there, he began acquiring multiple advertising related companies and built WPP into an empire. However, in 2018 Sorrell left the firm and shortly after S4 Capital was formed when he bought Derriston Capital – a cash shell listed on the LSE, which he immediately renamed to S4 Capital. With this cash shell, Sorrell began once again an acquisition spree focused on marketing firms starting with MediaMonks for \$350m and MigthyHive for \$150m in 2018. These two acquisitions were followed by another 32 acquisitions between 2019 and 2023. These acquisitions were generally funded by a mix of equity, debt and cash. When S4 Capital's market cap declined due to the 2022 slowdown amidst high inflation and rising interest rates, these acquisitions slowed down and stopped entirely after its last buyout in 2023. The contingent considerations then moved to zero in 2024, and the firm was focused on debt reduction. The company is also at the forefront of AI and has done multiple AI campaigns for large brands. According to management in 2024, its largest clients are centered around big Tech and include Google (\$200m), Apple (\$70-80m) and Meta (\$30-40m), Amazon, Nvidia and others, such as BMW (\$50m), HP (\$15-20m) and Disney, Walmart, Paypal, T-Mobile, Nestle, Procter & Gamble, SC Johnson, JPM, GM, all being major clients. Nearly 80% of revenue is from the Americas (mostly U.S.), over 15% EMEA and the remainder from APAC.



Source: S4 Capital annual reports

### S4 Capital net revenue by region (2024)



Source: S4 Capital annual report 2024

### S4 Capital acquisition history

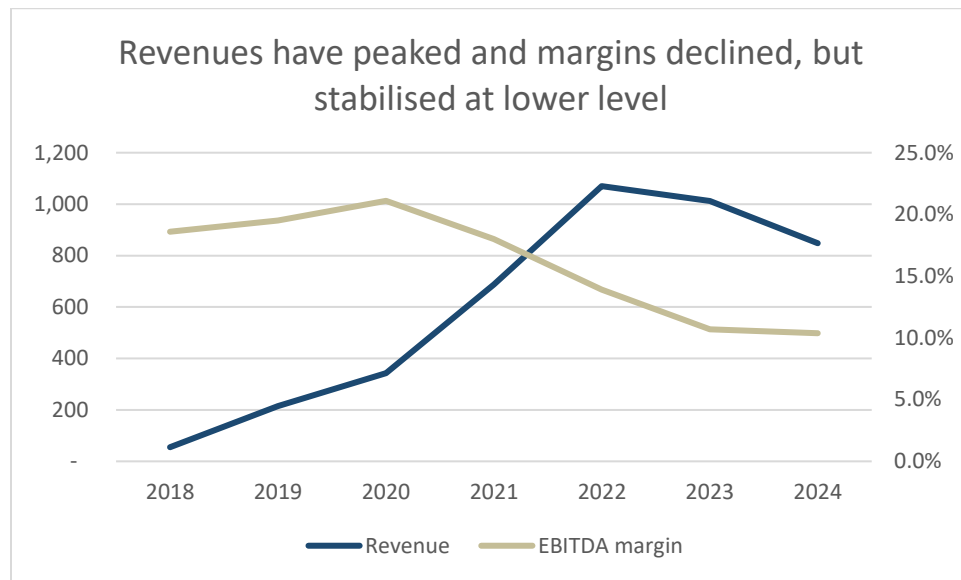
2018	2019	2020	2021	2022	2023
MediaMonks	Firewood	Decoded Advertisign	TOMORROW	XX Artists	Formula Consultant Incorporated
MightyHive	Caramel Pictures	Dare.Win	STAUD Studios	4 Mile	
	IMAgency Holding BV	Circus Marketing	Datalicious	Citrusbyte	
	BizTech Australia	Metric Theory	Jam3	Proof	
	BizTech Enterprise Solutions Canada	Digodat	Miyagi	Technical Performance Services	
	ProgMedia Consultaria	BrightBlue	Maverick	Lemma Solutions	
	Progmedia Argentina	Lens10	Raccoon	Formula Partners	
	Conversion Works	Orca Pacific	Destined	(TheoremOne)	
	MightyHive Korea	WhiteBalance	Cashmere		
			Zemoga		

Source: S4 Capital annual reports

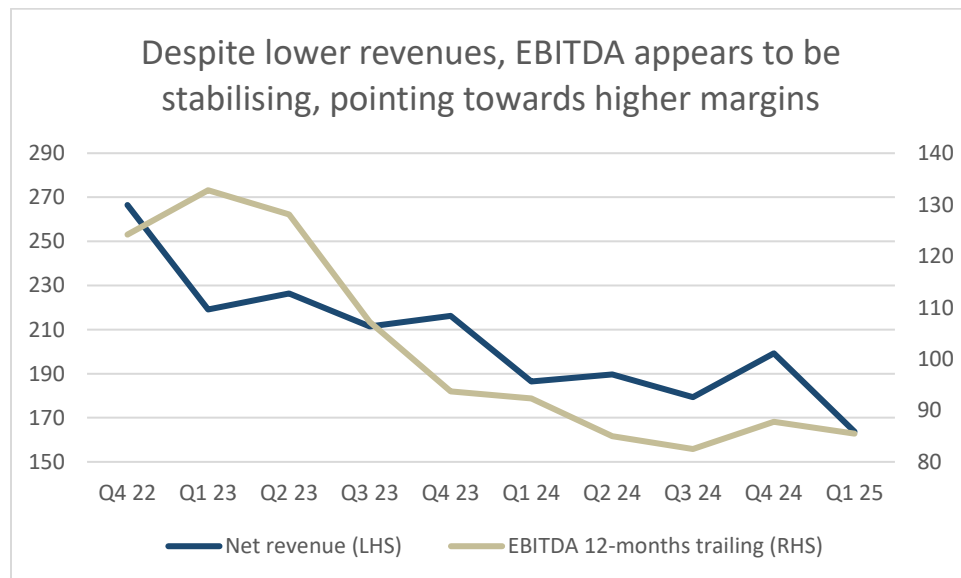
### **Fundamentals that could turn around**

On surface, the numbers don't look too compelling, with net debt climbing in Q1 2025 and employee costs as % of revenue spiking over 2024. However, the trailing 12-months EBITDA has bottomed out in Q3 2024 and since then climbed and stabilized. Despite the large decline in revenues in Q1 2025, EBITDA has not moved dramatically lower, which shows that margins are improving. This was not easy to analyse, as the

trading update is not specifically indicating that margins have improved – it could only be detected when scanning through past quarterly trading updates and combining the numbers. Overall, with new clients won that should increase revenue in H2<sup>1</sup>, the outlook is a lot better than what Sorrell is saying in the webcast, and this makes me wonder....



Source: S4 Capital annual reports



Source: S4 Capital annual reports

<sup>1</sup> <https://www.londonstockexchange.com/news-article/SFOR/s4-capital-q1-2025-trading-update/17025231>

## A Sorrell buyout?

Sorrell has blamed the “macro”, such as higher interest rates, for the poor performance over the last two years. The numbers of Q1 25, however, indicated that they are winning clients despite the macro and that they are getting to grip with their declining margins. This has left me wondering whether Sorrell is looking to buy out S4 Capital and take it private. Sorrell invested \$54m himself when he bought out the shell company and formed S4 Capital<sup>2</sup>. This investment is now worth <\$20m. He hasn’t bought any shares recently despite the very low valuation. Sorrell used to make as much as £36m a year at WPP<sup>3</sup> and in 2019 Sorrell was estimated to be worth £368m<sup>4</sup>. This makes me wonder whether he talked down the results in Q1 25 to seek a buyout down the line. It’s a very speculative idea and the probability of this happening is perhaps very low. The dividend also somewhat speaks against this. However, I would not rule this idea out, given the low equity valuation, which could make a buyout at least in theory possible, especially in light of the strong relative value of S4 compared to WPP, Publicis and Omnicom.

### S4 Capital share price performance last 12 months



<sup>2</sup> <https://www.adexchanger.com/agencies/can-martin-sorrells-new-venture-s4-succeed-in-a-changed-marketing-landscape/>

<sup>3</sup> <https://www.theguardian.com/business/2015/mar/16/wpps-martin-sorrell-gets-36m-payout-for-2014-under-contentious-share-plan>

<sup>4</sup> <https://www.thetimes.com/uk/article/sunday-times-rich-list-2019-profiles-351-399-queen-elton-john-david-beckham-tfs5wbck9>

## Conclusion

S4 Capital is beginning to look attractively valued. However, the macro is not in favour of marketing firms right now given the trade war, no reduction in US interest rates and what more and more feels like an economic cycle that is not turning. AI marketing campaigns cost a fraction of a non-AI marketing campaign and can be executed much faster. This gives S4 Capital a competitive advantage over WPP, Publicis and Omnicom. Profit margins are improving, which could mark the turning point for a revaluation of the S4 Capital market capitalization.



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