EDISON

Primer

Reworld Media

TMT

2 February 2017

One plus one

Reworld Media combines a portfolio of leading media brands with performance advertising via its 30% shareholding in Tradedoubler (TD), consolidated as of 1 March 2016. This marriage provides brand owners and marketers with a strong data-driven proposition. Management has reinvigorated the media brands, investing in their digital propositions and allowing far greater potential reach. Structural profitability has been improved through overhead reduction, and Tradedoubler returned EBITDA positive in Q316. Operating leverage should drive medium-term earnings growth, alongside the fast-growing digital share of global marketing spend, which should then be reflected in the valuation.

Brands and performance advertising

Reworld has accumulated a portfolio of brands, which had been underinvested by their previous owners, in particular their digital presence, across the women's, lifestyle and entertainment segments. In March 2016, it took effective control of Sweden-quoted TD with three board members, fully consolidating the financial results, despite the 30% shareholding. TD accounts for 69% of group revenues on a pro forma annualised basis. An established, substantial ad tech operator, it has grown from affiliate marketing origins to a broader performance-oriented brand partner. It has a global footprint (currently predominantly European) and works with a wide-ranging roster of high-quality clients across various consumer verticals (tech, travel & leisure, financial, retail). Aligning this with data on audience profile and behaviour from Reworld's media brands gives significant potential added value.

Cost base realigned

Over the last two years, management has realigned group infrastructure to better fit the changed media environment with a far greater emphasis on digital. Exceptional costs of €14.8m have been taken at Reworld (FY13-15), while TD's headcount has been cut from 408 FTEs (December 2015) to 357 (September 2016). Helped by the withdrawal from some low-margin business, TD returned EBITDA positive in Q316. The downturn in Reworld's media brands print revenues is controlled, while media digital revenues are performing well. Taken with the restructuring benefits, the positive impact may be greater than current consensus estimates assume.

Valuation: Ad tech and media context

We have made outline valuation observations based on consensus forecasts, where EBITDA estimates have been revised up post the TD FY16 results, but which remain comparatively cautious. These are combined with Edison's ad tech sector metrics and global B2C media peer group EV/EBITDA multiples. On a sum-of-the-parts basis, this derives a provisional guide to valuation of c €2.57/share.

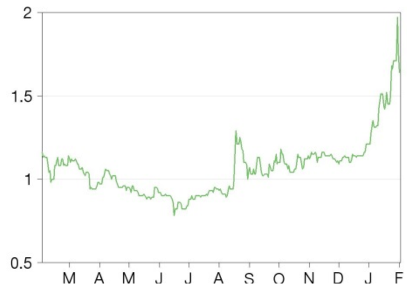
Broker's estimates

Year end	Revenue (€m)	PBT norm (€m)	EBITDA (€)	EPS (€)	DPS (c)	P/E (x)
12/14	47.7	(2.9)	(2.0)	(0.40)	0.0	N/A
12/15	60.2	0.0	1.1	(0.14)	0.0	N/A
12/16e	174.7	(1.5)	3.6	(0.11)	0.0	N/A
12/17e	187.7	0.6	8.1	0.06	0.0	27.3
12/18e	195.4	3.2	12.8	0.16	0.0	10.3

Source: Market forecast, Reworld Media accounts

Price	€1.64
Market cap	€51m

Share price graph



Share details

Code	ALREW
Listing	Euronext
Shares in issue	30.8m

Business description

Reworld Media is a digital media group, which combines well-recognised media brands (with on- and offline presence) with ad tech digital performance marketing.

Bull

- Reorientation to data-driven value add.
- Margin gains from mix and overhead reduction.
- Potential to develop broader revenue streams.

Bear

- Drag from legacy print advertising.
- Pace of change in ad tech landscape.
- Minority drain.

Analysts

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Reworld Media is a research client of Edison Investment Research Limited

Media branding and performance

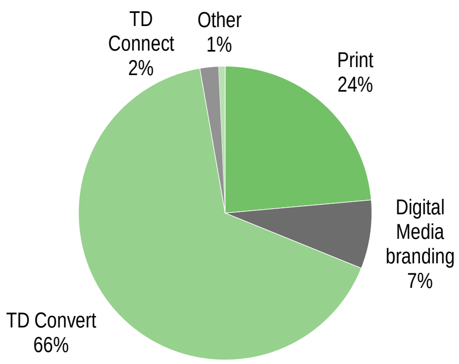
Reworld Media brings together a family of magazine brands focused on women, lifestyle and entertainment with a broad-reach international digital marketing offer. This enables it to address a substantial proportion of available advertising spend – effectively all aspects bar search, which accounts for 47% of the estimated digital slice of the Western European advertising market (eMarketer). Digital is estimated to have taken 35% of the total $100bn (€93bn) Western European advertising market (the world's third largest) in 2016.

The advertising market is increasingly concentrated around a few formats and vendors, with growth concentrated on digital ad sales, with mobile display, search and social – particularly video content – in the vanguard. The strength of search and social is a reflection of the increasing dominance of two global media vendors dominating those arenas, Google and Facebook. As the 'traditional' display market gains in sophistication, the opportunities are growing to add value through more data-driven solutions, driving returns through targeting and retargeting.

Reworld positioning

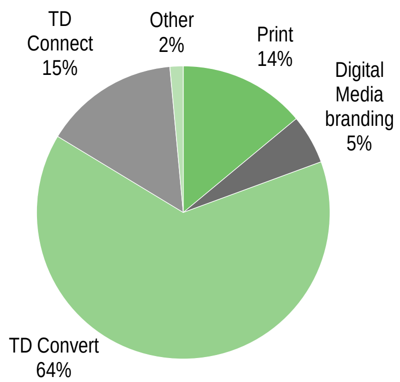
With Tradedoubler accounts now fully consolidated, we estimate the combined print and digital Media brands will account for around 31% of FY16 total pro forma group revenues, with the proportions as shown below. Digital across the group is 86% of EBITDA on this basis. These figures assume that Tradedoubler was consolidated for the whole of 2016, rather than from 1 March, therefore more of the loss-making period was included.

Exhibit 1: Estimated pro forma revenue split FY16e



Source: Company accounts, Edison Investment Research

Exhibit 2: Estimated pro forma EBITDA split FY16e



Source: Company accounts, Edison Investment Research

With both media brands and performance advertising in the Reworld offering, there are different options to present to the target clients, with the chief marketing officer the key contact. The well-recognised brands, backed by high-quality content, can open doors, while skills in content creation can be monetised with Tradedoubler clients. With the combination of digital assets, the group is building extensive and monetisable data on audience behaviours and profiles, which can be used in ad targeting and retargeting, feeding into improving conversion rates and ROI for the client. Management reports that existing clients Accor and L'Oreal have already adopted this model.

Media brands

Reworld has built a portfolio of established magazine brands over the last five years, in the women's, lifestyle and entertainment segments. The assets that have been targeted (and which have been bought at low/negligible valuations from major players such as Axel Springer and Lagardère) have been those where there has been little or no investment in digital brand exploitation, either with online additions or through developing additional revenue streams such as e-commerce. There are currently 12 brands within the portfolio: *Marie France*, *vie pratique Feminin* and *Be* all targeted at the women's market; lifestyle brands *Campagne Decoration*, *Le journal de la Maison*, *Maison & Travaux*, *Papilles* and *Gourmand*; and entertainment brands *auto moto* and *Télé Magazine*. As with their counterparts domestically and globally, print circulation and print advertising are clearly in consistent steady decline and 2016 average print readership of 12 million would not of itself make an interesting proposition.

Since the brands have been in Reworld's stable, the reinvigoration has been notable, both in the product and in the increased efficiency with which content is generated and disseminated. This has already translated into improved audience figures (the half-year presentation indicates audiences have trebled since 2015). *Marie France* has been launched in Singapore, where it has become the leading brand in its sector and with management reporting that the revamped *auto moto* has grown to be the number two automotive media brand in France and moving into profit with €3m taken out of the cost base.

Across the group's brands, there were 15 million subscribers at end 2016, with 9.7m visits and 74m page views, up 120% and 150% respectively over 2015. Subscribers across social media grew to 2.2 million from a standing start in the year. Engagement levels have been lifted with the incorporation of streamed video, with a catalogue of 6,000 that can be leveraged.

The H116 figures show strong revenue growth in digital in Media brands at 37%, slightly more than offsetting the negative impact from the market-related decline in print. The development of additional revenue streams, such as events, and increasing those from mobile and video, leveraging the positioning of the brands, should help grow the EBITDA margin beyond the benefits already being reaped from the costs that have been taken out.

Media Performance

Tradedoubler's financials are now reported within the Reworld accounts under the Media Performance heading. Tradedoubler is a long-standing player in performance advertising, listing in Stockholm back in 2005. Its core business has been in the affiliate model (whereby publishers are rewarded for helping a business by promoting their product, service or site, through payment of a commission). This activity is reported as TD Convert, as is shown in Exhibits 1 and 2 above. Over recent years, Tradedoubler has been developing its other propositions; TD Connect and TD Engage. These are respectively a white-label digital marketing platform and a full service programmatic solution (reported within TD Convert for now), which is being rolled out across operating territories and operates at a high gross margin. The positive impact from this roll-out will be more significant in 2017.

It has also been actively seeking out strategic partnerships to access additional capabilities, such as a minority position taken in targeted contextual video specialist DynAdmic, as well as extending geographically, with a Singapore office opened in June 2016.

Tradedoubler has a substantial market reach, with over 2,000 advertisers including major global advertisers such as Microsoft and HP, Allianz, lastminute.com and Lufthansa, as well as agencies such as Havas, groupM and Omnicom. It has around 180k affiliated websites, earning revenues in 69 countries. Its largest regions are the UK (33% H116 revenue), France (22%) and the Nordics (21%), with offices across Europe as well as Brazil and Singapore. Asia is a key area of focus.

Retargeting tends to be cookie-based to follow audiences across the web. It can be effective as it focuses ad spend on people that already know the brand and have shown an interest. It has therefore attracted a number of players, including most of the ad tech companies. The specialists include Criteo (based in France), AdRoll (US/UK), Vizury (Asia Pac), Sociomantic (Europe), ReTargeter, Google (All) and The Trade Desk. Tradedoubler has developed cookieless tracking (using a unique device 'fingerprint'), which is being rolled out, as is its Cross Device tracking launched in Q216 in the UK, Germany and France. Its challenge is to prove its ROIs (which can be easily compared to others or in-house solutions that can be licensed) are industry leading. Here the link to the affiliate marketing network strengthens its position considerably as it can access/secure leading inventory directly.

Outline financials

The market forecasts show the improvement in the profitability of the group – stemming from the continuing market growth in digital, combined with the substantial programme of overhead reduction that management has implemented. Management is clear that the revenue line is not the focus at this stage of the group's development – EBITDA growth and margin are the key financial performance metrics. At this stage we have not built a full model or generated our own independent forecasts, but have looked at the published financial information and the broker forecast currently in the market. For FY16, Tradedoubler is consolidated as of 1 March; for a full year in FY17 (our breakdowns of revenue and EBITDA shown above assume a full year's contribution). The forecasts assume negligible top-line growth, with a step-up in EBITDA margin from 1.8% to 2.2% FY16 to FY17 and a larger gain to 3.5% the following year. That said, with only 30% of Tradedoubler held, there could be substantial minority interest as its profitability increases. The benefits from the restructuring could lead to these margin improvements being understated, particularly as the top-line growth assumptions appear conservative.

In addition to the brief summary from the income statement given on the front page, it is worth noting that the group had a modest net debt position at the half year, with cash of €32.7m offset by €7.8m of bank loan at Reworld and with €26.6m of senior bonds at Tradedoubler that mature in November 2018.

Ad tech EV multiples: Very large range

Edison compiles data across a range of global ad tech companies, providing a valuation context. We consider the following metrics:

- EV/Revenue: EV/Sales multiples have held firm on last year's levels. This metric has limited use in terms of peer comparisons due to different reporting methods. 2017 average is currently at 1.2x; the median at 0.9x.
- EV/Transaction values (TV): due to the variation in media commission rates and growth rates, there remains a large range in EV/TV multiples from a high-end FY16 2.3x (RNTS Media) to a low of -0.2x (Crossrider – valued below cash balances). The average is 0.6x but, in reality, data on transaction pricing remain fairly opaque.
- EV/Gross profit (GP) is a better measure as it captures differing commission structures. Again, there is a substantial range, though, from FY1 EV/GP of 8.4x (Tradedesk) down to -0.2x (Crossrider), with an average of 2.5x.
- EV/EBITDA: most companies are forecast to deliver EBITDA profits next year (FY2), with EV/EBITDA increasingly relied on as a benchmark. An average FY2 (2017) EV/EBITDA of 8.6x masks a very wide range, with recently profitable companies (eg RNTS 99x and MaxPoint 47x) at the top but with a median of c 7x.

From these options, we suggest that the EV/gross profit multiple is the most appropriate for Tradedoubler's profile given the stage of company's restructuring and the expected timing of the benefits. Applying the 2.5x given above for Tradedoubler's FY1 newly-published figures and working backwards, we derive a value of €2.70 using an exchange rate of SEK9.45:€1. This is in excess of the market value as per the quote on NASDAQ Nordic of around SEK5.00. Reworld's holding is 30% of the equity, so in mechanistic terms, the value would be 30% of €2.70, ie €0.81.

For the valuation of the media brands we have looked at a broad peer group of global B2C quoted media businesses. These are valued at an average FY17e EV/EBITDA of 9.8x. Reversing this back onto the Reworld business as forecast by the market, we derive a value of €1.76. Combined with the €0.81 we have calculated for Tradedoubler, this gives an indicative value of €2.57 for the group, based on current market forecasts.

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