

Reworld Media

Brand building

Reworld Media combines leading media brands with performance marketing via its consolidated 30% TradeDoubler shareholding, providing advertisers with a strong data-driven proposition. Management has reinvigorated its brands, investing in their digital offers and driving reach, while structural profitability has improved through extensive overhead reduction. TradeDoubler (TD) reported adjusted positive EBITDA in H216 and management has indicated that group FY16e EBITDA will be roughly treble that of FY15. Medium-term earnings growth will be driven by operating leverage, along with the fast-growing digital share of global marketing spend, which should then reflect in the valuation.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	48.0	(2.9)	(11.8)	0.0	N/A	N/A
12/15	60.2	0.0	0.0	0.0	N/A	N/A
12/16e	174.2	0.2	(1.5)	0.0	N/A	N/A
12/17e	186.3	3.2	5.7	0.0	38.4	N/A
12/18e	195.5	8.1	13.9	0.0	15.8	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Brands and performance advertising

Reworld has built a portfolio of media brands across the women's, entertainment and lifestyle segments. Under previous owners, these had been underinvested, particularly in digital. With more active direction, they are gaining reach, profitability and generating a fast-growing digital income stream. In March 2016, Reworld took management control of Sweden-quoted TD, fully consolidating financials, despite a 30% shareholding. An established, substantial ad tech player, it has broadened from its affiliate marketing origins to a performance-oriented brand partner, with an international footprint (currently mostly European). It works with a wide roster of high-quality clients across consumer verticals. Aligning this with media brands' data on audience profile and behaviour gives significant potential added value.

Cost base realigned

Over the last two years, management has realigned group infrastructure to better fit the shift to digital within the media environment. Exceptional costs of €14.8m have been taken at Reworld (FY13-15), while TD's headcount has been cut from 408 FTEs (end 2015) to 344 (end 2016). Helped by withdrawing from some low-margin business, TD returned adjusted EBITDA positive in H216. Reworld's media brands' digital revenues are performing well, with operational leverage boosting profitability.

Valuation: Suggests meaningful upside

A sum-of-the-parts approach based on forward EV/EBITDA and EV/gross profit (GP) multiples for global media peers and for the TD stake, suggests a valuation of around €2.32 could be justified. However, this only takes account of short-term projections. If Reworld could achieve an industry average EBITDA margin (c 18%) in the medium term, a DCF approach suggests a much higher price of €3.13, with the current price implying an EBITDA margin of just 11.7%.

Initiation of coverage

Media

6 March 2017

Price **€2.19**

Market cap **€70m**

€0.11/SEK

Net debt (€m) at 30 June 2016 1.7

Shares in issue 31.9m

Free float 24%

Code ALREW

Primary exchange Euronext

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 44.3 62.9 67.3

Rel (local) 48.0 52.4 47.4

52-week high/low €2.19 €0.78

Business description

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

Next events

Full year results 30 March 2017

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Reworld Media is a research client of Edison Investment Research Limited

Investment summary

A growing force in digital media

Reworld Media is positioning itself as a potential international major presence in the digital media space, with a combination of media brands and performance advertising through its 30% shareholding in TradeDoubler (TD). Both segments of the group derive their revenues from advertisers, with some residual print sales of the media brands. There is a considerable potential market opportunity through combining the big data generated by traffic to the online content within Reworld's media brands and the performance advertising expertise within TD, to drive both clicks and transactions to the benefit of the advertisers who make up the group's paying customers. The first stage is to build those brands' online presence and reach, and restructure them for the rapidly-changing patterns of content consumption. The heavy-lifting of this phase has already been done, with the operational and financial benefits starting to come through. Medium- and longer-term opportunities are primarily around growing the suite of performance advertising tools within TD and driving the sales synergies between the segments. Further brand acquisitions may also be made if they can be transacted at attractive prices.

Valuation: Sum-of-the-parts and DCF both imply upside

As a combination of two businesses with different sets of peers, the most appropriate valuation format for this stage of the group's development is a sum-of-the-parts. For TD, we have focused on EV/GP multiples compared to a global group of ad tech peers. This implies a value for the 30% shareholding of €0.82 a share. We have added this to a valuation for the media brands, again based on a global peer group, currently valued at an average FY17e EV/EBITDA of 9.0x. Reversing this back onto the Media forecast gives a value of €1.50/share, making a total of €2.32/share for the combined group. This is, of course, simply a reflection of the short-term position on the growth curve and does not reflect the value that the company should be able to build. We have therefore also looked at DCF under various medium-term growth and EBITDA margin assumptions. Assuming a modest top line growth of 3%, market average EBITDA margins of c 18% would indicate a share price of €3.13.

Financials: Operational leverage starting to kick in

Top line growth is not the current management priority, having walked away from low-margin, high volume business at TD and facing the challenges with print common to the industry. The restructuring over recent periods has considerably lowered the break-even point and the operational leverage should now help drive earnings across the group. The TD financial results for FY16 have been published, but those for the consolidated group are not expected until 30 March, by which point there should be a clearer outlook on prospects for FY17e. There will also be a growing minority element, reflecting the 70% of TD that Reworld does not own. The group should have inherently strong cash flow, with modest requirements for investment in content, IT and additional territories, but that should still be able to fund further selected acquisitions.

Sensitivities: Economic, market and delivery

Reworld Media has both direct and indirect consumer-facing media businesses and many of its sensitivities relate to broader markets. The economic background of its operating territories will be a key determinant of demand, with the continuing shift to digital an underlying trend and one on which management's strategy is predicated. Reworld's media brands are well recognised in their segments, and will need to continue to invest in content to maintain and grow their share. As with any online business with data gleaned from site visitors, there is risk relating to IT/platform, as well

as data protection/fraud. The group is building a strong record for delivering on acquisition integration, but each future deal will bring its own delivery challenges. The growth in the model is at least in part based on further internationalisation, which comes with inevitable logistical and cultural challenges, as well as increasing the sensitivity to currency movements.

Media branding and performance

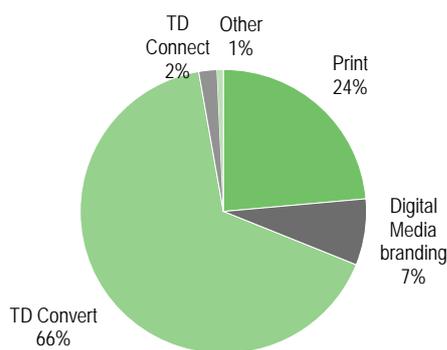
Reworld Media is a digital media business with activities both in media brands and in performance marketing. These two segments are described in detail below. For both, the revenue is derived from advertisers (or agencies), with the focus on digital delivery. Media branding derives its digital revenues predominantly from advertising displayed alongside its online and mobile content, while performance marketing refers to online marketing and advertising programs in which advertisers, either directly or through agencies, are paid when a specific action is completed; such as a sale, lead or click. TD has extended its activities beyond the affiliate marketing on which it was built, encompassing other performance tools designed to drive the advertisers' ROI, such as retargeting and cookieless tracking.

The data on the consumers that this approach naturally accumulates facilitates improved monetisation, allowing advertisers to improve their Return on Investment. Management's record to date shows that it has tackled the cost and management structures on the legacy businesses to allow the group to address the digital opportunities of the segments both separately and in combination.

Reworld positioning

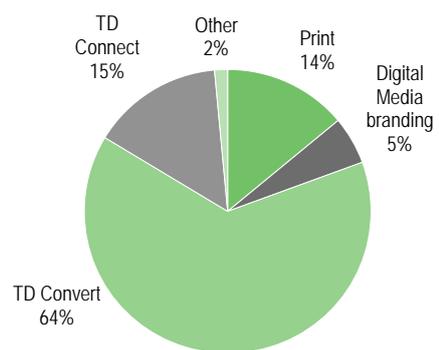
With TradeDoubler accounts now fully consolidated, we estimate the combined print and digital media brands will account for around 31% of FY16 total pro forma group revenues, with the proportions as shown below. Digital across the group is 86% of EBITDA on this basis. These figures assume that TradeDoubler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

Exhibit 1: Estimated pro forma revenue split FY16e



Source: Reworld Media accounts, Edison Investment Research

Exhibit 2: Estimated pro forma EBITDA split FY16e



Source: Reworld Media 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'Oréal have already adopted this model.

There are further opportunities to develop this model through expansion into more territories, adding advertisers and brands. There is also scope to drive greater synergistic benefits between the elements of the group, as well as making further acquisitions to broaden the potential audience. The management team is building a strong reputation for acquiring under-invested brands at attractive prices, then reorienting them to take advantage of digital opportunities, as discussed below.

Media Branding

Since the arrival of the leadership team of Pascal Chevalier and Gautier Normand in 2012, Reworld has built a portfolio of established magazine brands across the women's, lifestyle and entertainment segments. The assets that have been targeted (and that have been bought at low/negligible valuations) 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. *Marie France* was bought from Groupe Marie Claire in 2013, followed by *Télé Magazine*, *Gourmand* and *Vie Pratique Feminin* from Axel Springer the same year and by eight brands including *Be*, *auto moto* and *Maison&Travaux* from Lagardère in 2014. In 2015, Reworld added French social network Zoom On from SoLocal, before adding the strategic stake in TradeDoubler in March 2016, which now forms the Media Performance reporting segment.

Exhibit 3: Reworld's media brands



Source: Company

There are currently 12 brands within the Media brand portfolio. Between them, they generated €60m of revenue in 2015. As with their counterparts domestically and globally, print circulation and print advertising are clearly in consistent steady decline and the 2016 average print readership of 12 million would not of itself make an interesting proposition. It is important to note that there is no news content within the portfolio, as the time value of the content is too short and other media companies' online monetisation models via paywalls have struggled to find the right balance. Reworld does not sell the content, rather it collects and collates the data and then monetises that. Its customer is the advertiser.

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. The growth strategy for the media brands is predicated on:

- Increasing profitability through realigning the cost base;
- Investing in the brand and building visibility/discoverability both online and offline;
- Building diversified revenue streams, leveraging the brand strengths. This could include events or custom publishing;

- Investment in video content and in its monetisation; and
- Gaining traction for some brands (where appropriate) in the South-East Asia region.

This has already translated into improved audience figures (the half-year presentation indicates audiences have trebled since 2015). *Be* and *Marie France* have been launched in Singapore, where the latter has become the leading brand in its sector. Management reports that the revamped *auto moto* has grown its audience by 4.5x over the last year to become the number three automotive media brand in France, 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. At the half year, management's view was that Reworld had grown to be the 15th largest digital media brand owner in France, with an overall audience that had trebled in two years.

Media Performance (TradeDoubler)

Reworld first invested in TradeDoubler in March 2015, buying a 19.1% stake in an off market transaction from an existing shareholder (Monterro) for an undisclosed price. Founded in Sweden in 1999, and quoted on the Stockholm market from 2005, TradeDoubler was a pioneer in developing affiliate networks in Europe and had built to be a leading pan-European player. It had built a client base of 2,000 advertisers, placing their campaigns into a network of over 140,000 publishers. It had also developed eCommerce and mCommerce offerings, which opened up the mobile advertising market.

The rationale for the investment was based around the opportunity to develop the common ground between Reworld Media and TradeDoubler, focused on:

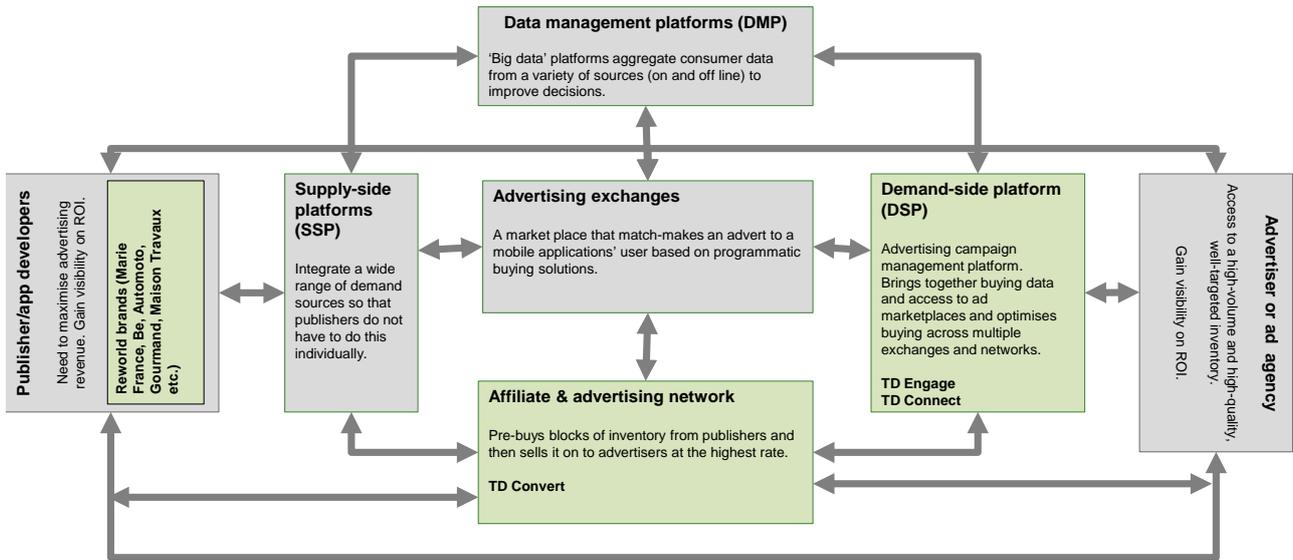
- A premium network for performance marketing;
- Strong expertise in Brand content management and in data management technologies;
- A team of experts in Europe and Asia.

In December 2015, Reworld announced that it had signed Heads of Agreement to purchase a further 10.8% of TradeDoubler's equity, again in an off-market transaction, buying the stake from Henrik Kwick AB for an undisclosed price. This transaction was confirmed in January 2016, with Reworld subsequently taking management control, prompting the auditors to recommend that the results should be consolidated from 1 March 2016.

We estimate that at 30 June 2016, the value of the 29.9% stake was accounted on the balance sheet at €22.7m (€22.5m post currency adjustments).

In Exhibit 4, we have attempted to show where and how Reworld and TradeDoubler sit within the online/mobile advertising and publishing ecosystem. The original business of TradeDoubler, TD Convert, is a long-standing player in performance advertising. 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).

Exhibit 4: TradeDoublers market positioning



Source: Reworld Media, Edison Investment Research

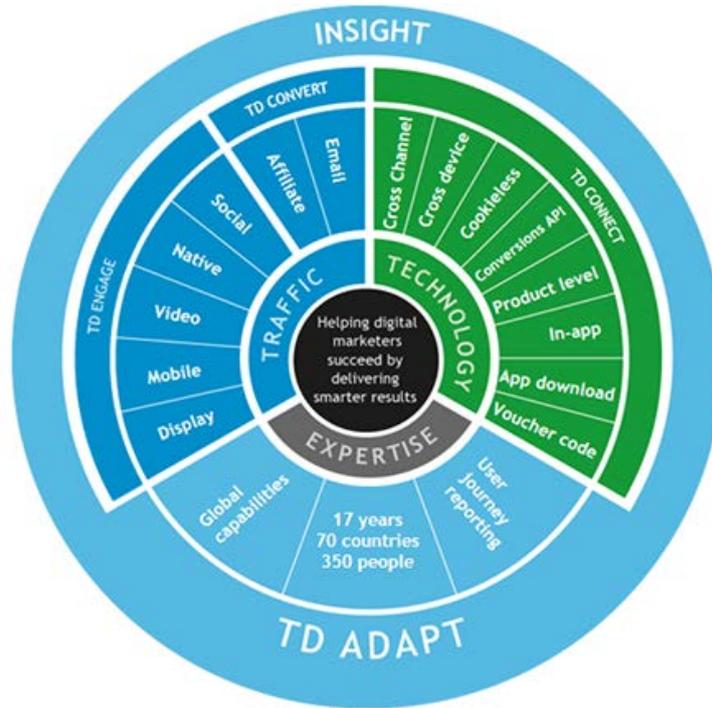
TradeDoublers' financials are now reported within the Reworld accounts under the Media Performance heading. This activity is reported as TD Convert (at 11 o'clock in Exhibit 5 below). Over recent years, TradeDoublers has been developing its other propositions, TD Connect and TD Engage. These are respectively 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.

TradeDoublers has a substantial market reach, with over 2,000 advertisers including major global advertisers such as Microsoft, 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 who 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-Pacific), Sociomantic (Europe), ReTargeter, Google (All) and The Trade Desk.

Exhibit 5: TradeDoubler business model



Source: Reworld Media

With the greatly increased use of adblockers and increased sensitivity to privacy issues, the use of cookies has been highlighted as an area of concern by regulators in various jurisdictions including the EU. TradeDoubler has been developing 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.

Experienced, tight management team

Reworld Media's president is Pascal Chevalier, who has many years' experience within the media sector. Before founding Reworld Media, Pascal was chairman at Netbooster (2005, Paris Euronext, ALNBT), director at Prosodie London (2002, now Cap Gemini) and earlier chairman at CPI Venture (2000). He is also chairman of TradeDoubler (Stockholm, Nasdaq OMX), co-chairman at Network Finance and a board member of a number of French media and ad tech companies, including Nextedia, Makazi Group, Mobile Network Group, 50 Partners, Phenomen.com and Sporever (in which Reworld also holds a stake).

The CEO and co-founder is Gautier Normand, who was previously CEO of *La Tribune*, the French weekly financial newspaper. He had joined NextRadio TV in 2007 as head of projects, reporting to the chairman, and, notably, securing the purchase of *La Tribune* from LVMH. Before that, he was development director at Axel Springer France (2006) and media sector director at Deloitte (2001).

Digital media driving market growth

Reworld Media brings together a family of magazine brands focused on women, lifestyle and entertainment with a broad-reach international digital advertising 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.

Exhibit 6: Advertising expenditure for Western Europe and ASEAN regions



Source: “This Year, Next Year: 2017” GroupM

Specifically looking at the French market, the recently published *Observatoire de l’e-publicite* from SRI and PwC estimates that the digital advertising market grew by 7% in 2016 to €3.4bn, taking a 29.6% share of the total market (CY15: 27.6%). This is still well below the penetration of digital in the US at 30.5% and the UK at 46.8%. The press share of spend fell from 21.7% to 20.2%, implying that press advertising spend was down 6.8% 2016 on 2015. Within digital, search gained 4.3% and represented 55%, while display increased 14.5% to take 35% of the pie. This faster growth in display is entirely attributable to social networks.

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. *L’observatoire* indicates video up 35% at 35% of overall display spend, with substantial growth also within social. 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.

Sensitivities

Reworld Media has both direct and indirect consumer-facing media businesses and many of its sensitivities relate to broader markets. In particular, we identify:

Economic backdrop. Advertising spend is closely correlated with GDP and with levels of consumer confidence, with fluctuations around trend depending on external events, such as political or major sporting events that stimulate spend. 2017 is a relatively quiet year on the sporting front, with geopolitical events likely to hold greater sway, including the forthcoming presidential elections in France.

Shift to digital. The shift to digital has been a fact of life for media companies for so long now that business models are predicated on falling print copy revenues and on falling print advertising. The sensitivity is more to do with a sharper deviation from trend than has been built into the model, particularly with respect to the alignment of overhead. Taking advantage of the shift is a key tenet of

Reworld Media's business model, with the assets accumulated being close to the start of the transition process. The TradeDoubler model is obviously completely within the digital sphere.

Maintaining market positioning. Reworld's media brands are well recognised in their segments. In order to retain this positioning, the content, relevance and engagement need to remain fresh and pertinent, with IP management an associated aspect.

IT/platform risk, data protection/fraud. As the group becomes increasingly driven by its online presence and distribution, the IT risk becomes more relevant. It covers a number of separate potential issues, principally those of platform risk, where some sort of failure affects the ability of the group to function, or of data risk. A number of high-profile incidents of data breaches in other organisations have shown the reputational risk as well as the direct data security risk.

Ability to deliver on acquisition integration. Reworld has been building a record for delivering the anticipated changes to the businesses and brands that it has taken over. With TradeDoubler, the business has been rebased with unprofitable contracts exited and the cost base realigned to the new level of business. The realisation of assumed savings appears to be accruing on the scale and on the timetable anticipated in our model. Any future deals may prove more problematic.

Ability to internationalise the business model. Not all of the media brands are going to be suitable to be launched and grown in new territories such as South-East Asia. The international revenue streams are potentially material to the group. The TradeDoubler business already operates across a wider number of territories and the knowledge and data built up here may be of considerable value to growing the media brands.

Currency. The cost base of the media brands is in euros and, to date, this has been the case for revenues earned. As the business builds in South-East Asia, currency management will become more of an issue. Again the experience built within TradeDoubler will be valuable.

Valuation

We have looked at the market valuation of the group across two bases: a sum-of-the-parts based on global market multiples and a DCF based on what we would regard as broadly conservative projections. The sum-of-the-parts model considers the valuation of the TradeDoubler stake in comparison to global quoted ad tech stocks, added to a valuation for the media brands drawn from a range of global B2C consumer media businesses.

Ad tech EV multiples: A very broad range

Edison compiles data across a range of global ad tech companies, providing a valuation context. Of the various metrics which we monitor, the most appropriate are EV/gross profit (EV/GP) and EV/EBITDA. We prefer EV/GP to EV/Sales as it captures differing commission structures. There is a substantial range, though, from 2017e EV/GP of 5.9x (TradeDesk) down to 0.7x (Perion Networks), with an average of 3.0x. On EV/EBITDA, most of these companies are forecast to deliver EBITDA profits in 2017 (FY2), and this metric is increasingly relied on as a benchmark. An average FY2 (2017e) EV/EBITDA of 9.6x again masks a wide range, depending on the maturity of the underlying companies. With TradeDoubler yet to realise the full benefits of the restructuring and reorientation, the ratio to gross profit would seem to be the most relevant.

Exhibit 7: Ad tech market valuations

	EV/GP		EV/EBITDA	
	FY1	FY2	FY1	FY2
Criteo	3.4	2.8	11.5	9.9
RNTS	6.2	3.9	-	-
Rocket Fuel	0.6	1.0	17.1	20.3
RhythmOne	2.3	1.7	-	10.0
Matomy Media	2.0	1.7	6.9	5.5
Perion Network	0.7	0.7	4.9	4.5
Rubicon Project	1.2	1.3	3.6	3.9
XL Media	4.8	3.7	6.8	6.2
Trade Desk	7.5	5.9	21.8	15.8
Neustar	2.9	3.8	4.3	5.4
Hubspot	7.4	5.8	-	-
Quotient Tech	4.5	3.9	19.7	14.2
Average	3.6	3.0	10.7	9.6

Source: Edison Investment Research, Bloomberg. Note: Prices as at 1 March 2017.

Using the FY17e projected figures for TradeDoubler/Reworld Media Performance, an EV/GP ratio of 3.0x, as per the industry average, implies a valuation for the 30% shareholding equivalent to €0.82 per Reworld share.

Media brands

For the valuation of the media brands, we have looked at a broad peer group of global B2C quoted media businesses, as shown in Exhibit 8 below. These are currently valued at an average FY17e EV/EBITDA of 9.2x. Reversing this rating back onto the Reworld business as forecast in our modelling, we derive a value of €1.50/share.

Exhibit 7: B2C global media peer valuations

	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Axel Springer	2.1	2.1	2.0	10.8	11.6	10.8	20.5	19.8	19.7
Centaur	1.2	1.1	1.1		7.1	6.2	13.4	11.2	9.2
Future	1.0	0.8	0.8	5.5	7.7	4.8		15.6	8.7
Stroeer	3.8	2.8	2.5	16.9	11.1	9.8	39.2	17.5	15.4
Meredith	2.1	2.0	2.0	18.0	9.7	10.8	19.0	16.7	19.0
Time Inc	0.9	0.9	0.9	4.3	5.4	5.2	14.9	13.9	14.6
Schibsted	3.3	3.0	2.9	16.3	19.2	15.3	53.1	45.2	29.6
DMGT	1.8	1.9	1.9	18.2	11.3	10.9	14.5	13.4	12.5
Average	2.0	1.8	1.8	12.9	10.4	9.2	17.0	19.2	16.1

Source: Bloomberg. Note: Data as at 1 March 2017.

Combined with the €0.82 we have calculated for TradeDoubler, this gives an indicative value of €2.32 a share for the group, based on current market forecasts.

DCF sense check

The approach outlined above is naturally based on the short-term outlook within the forecast period, which does not reflect the full opportunity or ambition of group management. We have therefore also looked to a DCF to appraise the bigger picture. We have therefore run a DCF analysis based on the numbers generated by our model for the short term (to end 2018), then working forward under a range of assumptions concerning the medium-term revenue growth rate and achievable EBITDA margins. Other conjectures are conservative (working capital requirements, taxation, etc) and we have also used a relatively high WACC of 12.5%.

Exhibit 8: DCF under various medium-term growth rate, EBITDA margin assumptions (€/share)

		Medium-term growth rate				
		1.00%	2.00%	3.00%	4.00%	5.00%
EBITDA margin	6.00%	1.33	1.34	1.35	1.36	1.37
	8.00%	1.61	1.63	1.64	1.66	1.69
	10.00%	1.89	1.91	1.94	1.97	2.00
	12.00%	2.17	2.20	2.24	2.28	2.31
	14.00%	2.45	2.49	2.54	2.58	2.63
	16.00%	2.73	2.78	2.83	2.89	2.94
	18.00%	3.01	3.07	3.13	3.19	3.26
	20.00%	3.29	3.36	3.43	3.50	3.57
	22.00%	3.57	3.65	3.72	3.80	3.88
Current share price implied EBITDA margin		12.1%	11.9%	11.7%	11.4%	11.2%

Source: Edison Investment Research

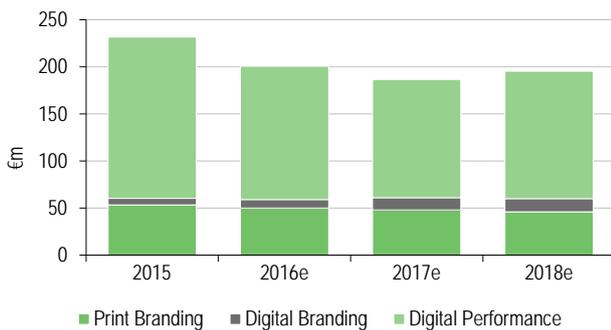
The ad tech companies in the peer comparison above have an average 2017 EBITDA margin of 17.9% (ranging from 1.4% to 47.5%, with a median of 16.2%), while those included in the media brand peers have an average of 18.8% for the same year (on a tighter range reflecting their greater maturity of 17.1% to 25.3%, median 18.2%). If Reworld as a group could achieve an 18% EBITDA margin over the 2018-2025 period, and assuming a modest top line growth of 3% (consistent with management's approach on margin/quality of earnings rather than scale), this would imply that the shares could trade as high as €3.13. The current share price on this basis implies that the medium-term EBITDA achieved is 11.7%, which would be a disappointing outcome.

Financials

While the 2016 results for TradeDoubler have now been published (2 February 2017), those for the consolidated group are not scheduled to be released until 30 March 2017. With the 2017 and 2018 forecasts predicated on those for 2016, there is as yet a degree of uncertainty to the numbers built into the model. Management has indicated that FY16e EBITDA for the group will come in at roughly three times the FY15 figure of €1.1m. Our forecast for the year is for EBITDA of €3.5m.

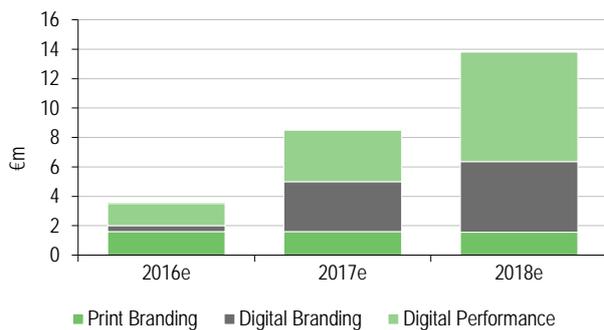
Digital earnings drivers

Exhibit 9: Historical and forecast revenue by activity



Source: Reworld Media accounts (assumes 100% of TradeDoubler), Edison Investment Research

Exhibit 10: Forecast EBITDA by activity



Source: Reworld Media accounts (assumes 100% of TradeDoubler), Edison Investment Research

The numbers are reported by segment into Media Branding and Performance Media. The former is split into Print Branding and Digital Branding, giving a far clearer perspective on the underlying dynamics. The latter consists of the consolidated numbers of TradeDoubler, as from 1 March 2016. FY17 will obviously report the full 12 months, so in the exhibits above we have illustrated a pro-forma figure for FY16 to give a clearer representation.

As is to be expected from industry figures, there is an underlying decline in print revenues, both in copy sales and advertising revenues, as budgets are diverted to digital. The decline in Reworld's print branding revenue was restricted to 4.5% in H116. In brands without investment in digital distribution this can build into a vicious circle as the circulation and the pagination tail off. Where there is timely investment, the combination of online and offline should help stimulate the brand proposition. The close examination and subsequent rebasing of the cost base undertaken by management has considerably reduced the break-even point and increased the operational leverage. Exceptional costs of €6.8m were taken in FY14, €4.9m in FY15 and our model forecasts €6.3m for FY16e, yet to be reported (the figure at the half year was just short of €1m).

Within the Performance Media segment, the strategic focus is firmly on the higher-margin activities, as described above. This has included walking away from lower-margin-generating clients, and is driving the improving financial performance of the segment. Further top line stimulus is likely to come from strategic partnerships and acquisitions to increase the exposure to video and mobile markets, such as that with DynAdmic, and by extending activities to new territories such as Asia.

TradeDoubler revenues were back on a modestly improving trend in Q416, with a 1.5% lift in the gross margin from the strategic developments for FY16 over FY15. TD's headcount has been cut from 408 FTEs (December 2015) to 344 (December 2016). This considerable reduction in fixed costs (management's figure is for savings of €5.6m in FY16) led to an adjusted H216 EBITDA figure of €1.6m, from an H116 loss of €0.5m. The restructuring costs of €1.8m came on top of €2.6m taken in FY15. Goodwill write-downs and the repurchase of €5.5m of bonds in the market at a 50%

discount meant that the company posted a pre-exceptional, pre-tax loss of €2.6m for FY16, greatly reduced from the prior year comparable figure of a loss of €14.7m.

Costs of restructuring paying back

The last couple of years have seen extensive restructuring, as described above, with the associated costs weighing on the cash flow. With the positive repercussions of those actions now starting to come through, the forecast operational profitability picks up and starts to drop through into the cash flow. We forecast adjusted EBITDA margins progressing from 2.0% in FY16e, through 4.6% in FY17e, up to 7.1% in FY18e.

The inherent cash requirements of the business should be relatively modest, with some requirement to spend on product development in order to stay at the forefront of the technological curve for TradeDoubler but also in generating content for the Media brands, particularly in enhancing the video library. Platform development costs are not likely to be especially burdensome.

The improving cash profile should mean that there is scope to take on appropriate further acquisitions, although, naturally, larger ventures would require external funding.

Strengthening balance sheet, with growing minority

At the half year stage, cash stood at €32.7m, with debt totalling €34.4m, giving a net debt figure of just €1.7m. We anticipate that this figure will have reversed to around a small net cash position at end FY16e, before moving more positively into net cash by the improving cash flow through FY17e; increasing through FY18e.

The group issued a three-year convertible bond in December 2015, with a non-conversion premium of 4% provided for in the contract. The value on 30 June 2016 was €3.579m. Management anticipates that there will be 100% conversion. There had been partial conversion at the half year of €1.4m, with the issue of 756,754 new shares at a price of €1.85 a share.

The group has the slightly unusual position of having TradeDoubler's accounts consolidated despite the shareholding in the subsidiary only being 30%. As described above, this is due to there being management control, with three board representatives. The flipside of this is that there is a minority position reflecting the third-party shareholders, which will increase as the value ascribed to the TradeDoubler shares grows as the financial performance improves. At the time of the half year accounts, the minority interests stood at €1.875m, compared to shareholders' funds of €11.138m.

Exhibit 11: Financial summary

Accounts: IFRS, Year-end: 31 December, €m	2014	2015	2016e	2017e	2018e
Profit & loss statement					
Total revenues	48.0	60.8	174.2	186.3	195.5
Total cash operating cost	(50.1)	(59.7)	(170.7)	(177.8)	(181.7)
Exceptionals and adjustments	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation	(0.8)	(1.0)	(3.2)	(4.0)	(4.5)
Reported EBIT	(2.8)	0.1	0.3	4.5	9.3
Finance income/(expense)	(0.1)	(0.1)	(0.1)	(1.3)	(1.2)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(2.3)	3.6	(6.3)	0.0	0.0
Reported PBT	(5.2)	3.6	(6.1)	3.2	8.1
Income tax expense (includes exceptionals)	(0.0)	(0.0)	(0.8)	(1.0)	(2.8)
Reported net income	(5.2)	3.6	(6.8)	2.2	5.4
Basic average number of shares, m	0.0	0.0	0.0	0.0	0.0
Basic EPS	(0.2)	0.1	(0.2)	0.1	0.2
Adjusted EBITDA	(2.0)	1.1	3.5	8.5	13.8
Adjusted EBIT	(2.8)	0.1	0.3	4.5	9.3
Adjusted PBT	(2.9)	0.0	0.2	3.2	8.1
Adjusted EPS, c	(11.8)	(0.0)	(1.8)	6.6	16.1
Adjusted diluted EPS, c	(11.8)	(0.0)	(1.5)	5.7	13.9
Balance sheet					
Property, plant and equipment	0.7	0.7	1.1	1.1	1.1
Goodwill	0.3	0.1	24.8	24.8	24.8
Intangible assets	0.3	0.6	6.0	7.0	7.5
Other non-current assets	0.8	18.2	5.1	5.1	5.1
Total non-current assets	1.9	19.6	36.9	37.9	38.4
Cash and equivalents	12.6	13.6	29.7	29.9	35.8
Inventories	1.1	1.0	0.3	0.3	0.3
Trade and other receivables	22.9	25.0	57.1	51.0	42.9
Other current assets	0.7	1.2	3.2	3.2	3.2
Total current assets	37.3	40.8	90.4	84.5	82.1
Non-current loans and borrowings	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	12.2	10.6	4.2	4.2	4.2
Total non-current liabilities	12.2	10.6	4.2	4.2	4.2
Trade and other payables	23.0	31.4	78.5	71.4	64.3
Current loans and borrowings	0.0	2.3	27.9	27.9	27.9
Other current liabilities	5.5	6.9	6.9	6.9	6.9
Total current liabilities	28.6	40.7	113.4	106.2	99.1
Equity attributable to company	(1.6)	9.1	13.0	9.7	17.3
Non-controlling interest	0.0	0.0	(3.2)	(2.3)	(0.1)
Cash flow statement					
Profit for the year	(5.2)	3.6	(6.8)	2.2	5.4
Depreciation and amortisation (incl. acquired intangibles)	(3.4)	(6.7)	3.4	4.0	4.5
Share based payments	0.0	0.0	0.0	0.0	0.0
Other adjustments	(1.8)	(3.6)	6.1	0.0	0.0
Movements in working capital	(2.4)	1.4	(2.0)	(1.0)	1.0
Interest paid / received	0.0	0.0	0.0	0.0	0.0
Income taxes paid	0.0	0.0	0.0	0.0	0.0
Cash from operations (CFO)	(12.8)	(5.3)	0.6	5.2	10.9
Capex	(1.0)	(0.1)	(3.9)	(5.0)	(5.0)
Acquisitions & disposals net	19.6	0.1	22.9	0.0	0.0
Other investing activities	(0.2)	(12.2)	(2.5)	0.0	0.0
Cash used in investing activities (CFIA)	18.5	(12.2)	16.5	(5.0)	(5.0)
Net proceeds from issue of shares	2.6	7.2	(0.3)	0.0	0.0
Movements in debt	0.0	11.3	(0.6)	0.0	0.0
Other financing activities	(0.0)	(0.0)	(0.2)	0.0	0.0
Cash from financing activities (CFF)	2.5	18.5	(1.0)	0.0	0.0
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	8.2	1.0	16.1	0.2	5.9
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	12.6	13.6	29.7	29.9	35.8
Net (debt) cash	12.6	11.3	1.8	2.1	7.9
Movement in net (debt) cash over period	12.6	(1.3)	(9.4)	0.2	5.9

Source: Company accounts, Edison Investment Research.

Contact details	Revenue by geography						
16 Rue du Dome 92100 Boulogne Billancourt Paris France +33 1 45 19 58 00 www.reworldmedia.com	 <table border="1"> <thead> <tr> <th>Geography</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>France</td> <td>50%</td> </tr> <tr> <td>International</td> <td>50%</td> </tr> </tbody> </table>	Geography	Percentage	France	50%	International	50%
Geography	Percentage						
France	50%						
International	50%						
Management team	CEO, COO: Gautier Normand						
President: Pascal Chevalier Prior to co-founding Reworld Media, Pascal was chairman of Netbooster (Alternext Paris, ALNBT), director of Prosodie in London (now Cap Gemini) and was previously chairman of CPI Venture. He is also chairman of TradeDoublers (Stockholm Nasdaq OMX), co-chairman of Network Finance and a director of several media companies including Nextedia, Makazi Group, Mobile Network Group and 50 partners.	Before co-founding Reworld Media, Gautier was managing director of La Tribune. He joined NextRadio TV in 2007 as a representative of the chairman, speaking in particular on the acquisition of La Tribune from LVMH. Previously, he was head of development for Axel Springer France (2006) and head of media for Deloitte (2001). Today, Gautier is also chief executive officer of Sporever and a member of the board of directors of TradeDoublers.						
Principal shareholders	(%)						
Founders	22.2%						
Montjoie	32.6%						
ID Invest	22.2%						
Hera Capital	5.5%						
Companies named in this report							
Axel Springer (FRA:SPR), Centaur (LON:CAU), Future (LON:FUTR), Stroeer (FRA:STRAX), Meredith (NYSE:MDP), Time Inc (NYSE:TIME), Schibsted (OTCMKTS: SBBTF), DMGT (LON:DMGT), Criteo (FRA:C15A), RNTS (FRA:RNM), Rocket Fuel (NASDAQ:FUEL), RhythmOne (LON:RHTM), Matomy Media (LON:MTMY), Perion Network (NASDAQ:PERI), Rubicon Project (NYSE:RUBI), XL Media (LON:XMLM), Trade Desk (NASDAQ:TTD), Neustar (NYSE:NSR), Hubspot (NYSE:HUBS), Quotient Tech (NYSE:QUOT)							

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