

# Reworld Media

## Digital progress and momentum

Preliminary results

Media

Reworld Media has posted strong preliminary FY16 numbers, with EBITDA of €4.4m – well ahead of earlier guidance of around €3.3m and our estimate of €3.5m. This demonstrates the positive impact of the strategy to grow the digital aspects of the media brands and the improving performance of TradeDoubler. Our FY17 and FY18 forecasts are broadly unchanged and show a continuing positive trajectory as the brands gain traction. The market valuation is at an 18% discount to peers, more on a DCF basis.

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
12/16	174.0	0.9	0.4	0.0	550.0	N/A
12/17e	186.3	3.1	5.7	0.0	38.6	N/A
12/18e	196.5	8.1	13.8	0.0	15.9	N/A

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

## Progress across brands and performance

Both media brands and media performance (described in our [initiation note](#)) contributed positively to the FY16 headline results. Across the business, digital now accounts for 71% of revenues. Digital revenues within media branding grew by 30% year-on-year and now account for 17% of the segment (FY15: 13%), with this growth sufficient to offset the 4% decline in print sales. The digital element of media brands moved EBITDA positive, delivering a 5% margin for FY16, while the print margin slid from 5% to 4%, reflecting the industry decline in print advertising revenues. Media performance, in the form of TradeDoubler, is showing the first benefits from the earlier realignment of costs, moving back into profit in H216. The moves to broaden the technical aspects of the offer to include greater levels of targeting and retargeting should help lift the achievable gross margin. TradeDoubler has also helped drive the group's internationalisation, with over half of revenues now generated outside France, with the UK the second largest market.

## Forecasts broadly unchanged

Our model has been updated to reflect the headline numbers and the full detail on the balance sheet will be folded in when the accounts are published. Year-end net cash was €0.7m. Our FY17 and FY18 forecasts are broadly unchanged and the intended acquisition of Sporever will be included on completion. This asset will add another strong and complementary vertical – sport – to the media brand portfolio.

## Valuation: Meaningful upside

In our recent initiation report, we valued the group on both a sum-of-the-parts (based on EV/EBITDA and EV/gross profit) and a DCF basis. Using the same approach and reflecting pricing changes to peer comparatives in the intervening period, the sum-of-the-parts calculation is now 10% higher at €2.56 (from €2.32). Repeating the previous DCF exercise, if Reworld can reach industry-average margins of 18% in the medium term, then a share price of €3.11 is justified. The current share price implies that the EBITDA margin will only reach c 12%.

30 March 2017

Price **€2.20**

Market cap **€70m**

€0.10/SEK

Net cash (€m) as at 31 December 2016 0.7

Shares in issue 31.9m

Free float 24%

Code ALREW

Primary exchange Euronext

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 5.8 80.2 127.1

Rel (local) 1.7 71.5 95.8

52-week high/low €2.8 €0.8

### 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

Interims Estimated October 2017

### Analysts

Fiona Orford-Williams +44 (0)20 3077 5739

Bridie Barrett +44 (0)20 3077 5700

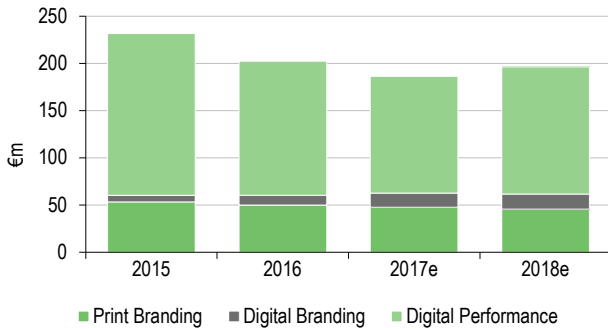
[media@edisongroup.com](mailto:media@edisongroup.com)

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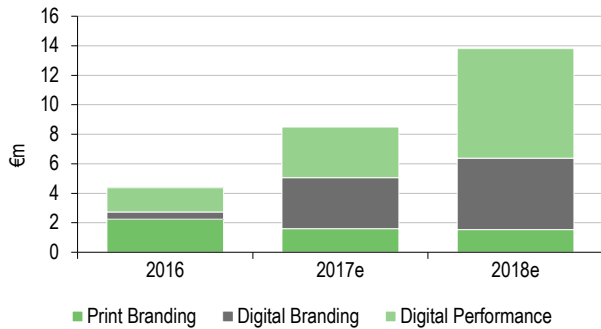
## Progress across digital

**Exhibit 1: Revenue by activity**



Source: Reworld Media accounts, Edison Investment Research

**Exhibit 2: EBITDA by activity**



Source: Reworld Media accounts, Edison Investment Research

As explained in our recent note, the media brand strategy involves taking media assets that had good recognition and/or market positioning but had not been invested to make the digital transition. Reworld is showing that that this type of proposition can demonstrate good levels of growth and increasing profitability with the right support. The digital reach of the acquired brands under Reworld's curation is moving ahead strongly. Mobile and desktop reach (average monthly audience) has reached 10m from a standing start just two years ago, with 7.4 pages viewed per visit, with around 2.25m average monthly interactions on social media. The investment in video content is also proving valuable. A library of over 6,000 videos achieved average monthly views of around 7m.

The extent of this reach and the specific attractions of the target audiences, gleaned from the data trails left behind them, make Reworld an increasingly attractive partner for advertisers. With the earlier rebasing of costs, the potential to grow the profitability from this activity is considerable.

### TradeDoubler growing its toolset

For the media performance, the focus is clearly on growing the higher-margin revenue streams as well as on more straightforward geographic expansion, such as the recent extension to Asia. Partnerships have been set up with Avazu for mobile, AppNexus on display and DynAdmic for video. The retargeting offering was launched in the UK and in Germany during the year. As a result of these actions, gross margin steadily ticked up across FY16: 21.7% in Q1; 22.0% in Q2; 22.4% in Q3; and 22.7% in Q4. There were €5.6m of operational cost savings realised in FY16, with the benefit to come through more fully in FY17 and FY18, as shown in Exhibit 2 above.

**Exhibit 3: Financial summary**

Accounts: IFRS, Year-end: December; €m	2014	2015	2016a/e	2017e	2018e
<b>Profit &amp; loss statement</b>					
Total revenues	48.0	60.2	174.0	186.3	196.5
Total cash operating cost	(50.1)	(59.7)	(169.6)	(177.8)	(182.7)
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	1.1	4.5	9.3
Finance income/(expense)	(0.1)	(0.1)	(0.2)	(1.4)	(1.2)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(2.3)	3.6	(6.7)	0.0	0.0
Reported PBT	(5.2)	3.6	(5.8)	3.1	8.1
Income tax expense (includes exceptionals)	(0.0)	(0.0)	(0.8)	(1.0)	(2.8)
Reported net income	(5.2)	3.6	(6.6)	2.2	5.3
Basic average number of shares, m	24.4	33.4	38.5	38.5	38.5
Basic EPS (c)	(0.2)	0.1	(0.2)	0.1	0.2
Adjusted EBITDA	(2.0)	1.1	4.4	8.5	13.8
Adjusted EBIT	(2.8)	0.1	1.1	4.5	9.3
Adjusted PBT	(2.9)	0.0	0.9	3.1	8.1
Adjusted EPS, c	(11.8)	(0.0)	0.4	6.5	16.0
Adjusted diluted EPS, c	(11.8)	(0.0)	0.4	5.7	13.8
<b>Balance sheet</b>					
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	28.6	28.8	34.7
Inventories	1.1	1.0	0.3	0.3	0.3
Trade and other receivables	22.9	25.0	57.1	51.0	43.1
Other current assets	0.7	1.2	3.2	3.2	3.2
Total current assets	37.3	40.8	89.2	83.3	81.3
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	64.6
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	99.4
Equity attributable to company	(1.6)	9.1	11.8	8.6	16.2
Non-controlling interest	0.0	0.0	(3.2)	(2.3)	0.0
<b>Cash flow statement</b>					
Profit for the year	(5.2)	3.6	(6.6)	2.2	5.3
Depreciation and amortisation (incl. acquired intangibles)	(3.4)	(6.7)	3.5	4.0	4.5
Share based payments	0.0	0.0	0.0	0.0	0.0
Other adjustments	(1.8)	(3.6)	6.4	0.0	0.0
Movements in working capital	(2.4)	1.4	(2.0)	(1.0)	1.1
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)	1.4	5.2	11.0
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)	(4.3)	0.0	0.0
Cash used in investing activities (CFIA)	18.5	(12.2)	14.7	(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	15.0	0.2	6.0
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	28.6	28.8	34.7
Net (debt) cash	12.6	11.3	0.7	0.9	6.9
Movement in net (debt) cash over period	12.6	(1.3)	(10.5)	0.2	6.0

Source: Reworld Media accounts, Edison Investment Research. Note: 2016 figures have been updated where available; full details will be incorporated post publication of the accounts.

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