

Reworld Media

Half year results

Media performance

The key elements of the H117 figures are the strong growth and margin improvement in the core media branding business and the return to profit at Tradedoubler. The latter's consolidation has lifted Reworld's half year revenues by 23% over H116. With the consolidation of Sporever, our current year figures are underpinned and our FY18 forecasts are slightly raised. The strong media brand portfolio, combined with the data and monetisation capabilities of Tradedoubler (30% owned) make the group an attractive partner to advertisers. On a lower cost base, this is translating into impressive earnings growth, not yet reflected in the rating.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	60.2	0.0	0.0	0.0	N/A	N/A
12/16	174.0	0.9	0.4	0.0	N/A	N/A
12/17e	186.5	3.2	5.7	0.0	36.5	N/A
12/18e	196.5	8.9	14.3	0.0	14.5	N/A

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

Improving margin performance

The continuing progress in audience monetisation, leveraged on the strong brand positioning in the chosen segments, is now clearly starting to show through in the financial performance. The digital media brands showed a very strong performance in the period, with revenues up 40% to €6.6m and EBITDA margins growing from 4% in H116 to 17% in H117. Management's assessment is that this makes it the fastest growing French media portfolio. Print revenues continue to fall broadly in line with the market, 6% below H116, but careful management of costs enabled the EBITDA contribution to remain flat. As expected, Tradedoubler's first half net sales were down 11% on prior year in local currency. However, the increased holding/consolidation means that net sales from Media Performance within the Reworld accounts were up by 137%. EBITDA here has improved markedly as cost has been taken out, moving it from a loss of €0.1m in H116 to a profit of €1.1m in H117.

Tradedoubler costs cash in the short term

Restructuring costs (mainly Tradedoubler) were €0.7m in H117. Reworld absorbed cash in the period, mostly from changes in payment terms and bond repayments at Tradedoubler, leaving it with net debt of €5.9m at end June. We expect this to have partially unwound by the year-end, when our model suggests net debt of €1.9m.

Valuation: Growing confidence on the upside

We have looked at Reworld's valuation, both on a sum-of-the-parts (based on EV/EBITDA and EV/gross profit multiples) and on a DCF basis. Based on the FY18 forecasts, the sum-of-the-parts valuation stands at €2.80. However, the DCF indicates a significantly higher value. If Reworld can reach an industry-average 18% margin in the medium term, then a DCF indicates a share price of €3.17. The current share price implies that the EBITDA margin will only reach 10.6%.

Media

29 September 2017

Price **€2.08**

Market cap **€75m**

€0.10/SEK

Net debt (€m) at 30 June 2017 5.9

Shares in issue 36.2m

Free float 24%

Code ALREW

Primary exchange Euronext

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.6) 2.5 80.9

Rel (local) (8.5) 1.4 50.9

52-week high/low €2.75 €1.04

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 February 2018e

Analysts

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

Bridie Barrett +44 (0)20 3077 5700

media@edisongroup.com

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Underlying progress

Financial progress

The interim figures were broadly as expected and we have made no substantive changes to our current year forecasts (although we have added in the exceptional charges, which are adjusted back out of our normalised numbers).

Exhibit 1: Summary half year results					
€m	H116	H216	FY16	H117	% growth
Core Revenues					
<i>Print Branding</i>	25.4	24.6	50.0	23.9	-5.9%
<i>Digital branding</i>	4.8	5.5	10.3	6.6	37.5%
Media Branding	30.2	30.1	60.3	30.6	1.0%
Digital Performance media (TradeDoubler)	47.1	66.6	113.7	64.6	37.2%
Total	77.3	96.7	174.0	95.2	23.2%
Segment EBITDA					
<i>Print Branding</i>	0.9	1.3	2.2	0.9	0.0%
<i>Digital branding</i>	0.2	0.3	0.5	1.1	450.0%
Media Branding	1.1	1.6	2.7	2.0	81.8%
Digital Performance media (TD)	-0.1	1.7	1.6	1.1	
Total	1.00	3.38	4.38	3.10	+210%
EBITDA - segment margins					
<i>Print Branding</i>	3.5%	5.4%	4.5%	3.8%	
<i>Digital Branding</i>	4.2%	5.4%	4.8%	16.7%	
Media Branding	3.6%	5.4%	4.5%	6.6%	
Digital Performance Media (TD)	-0.2%	2.1%	1.4%	1.7%	
Total	1.3%	3.5%	0.7%	3.3%	

Source: Reworld Media accounts

The progress made on costs and the merger and absorption of Sporever from June 2017 (for 2.7m shares) have encouraged us to lift our FY18 expectations slightly. Our FY18e EBITDA forecast rises from €13.8m to €14.5m, an increase of 5%. The additional shares in issue mean that the increase in adjusted EPS is lower at 4%, taking that figure to 14.3p.

Operational progress

Reworld is moving towards its ambition of marrying together strong consumer-facing brands with the technology and data competencies of Tradedoubler to offer brand owners a stronger, targeted proposition with a better ROI. The access to first-party data and the adaptive business model put it into a far better position than some quoted ad tech peers to deal with the rapidly shifting backdrop on privacy epitomised by the iOS 11 features on third-party cookie deletion and the EU General Data Protection Regulation. Tradedoubler has little exposure to retargeting, the area likely to be most affected.

The addition of Sporever (revenue of €9.3m in FY16; operating profit of €0.2m) to the portfolio adds a further consumer vertical in sport, which considerably increases the range of demographics that can be offered to advertisers. Sport365, a Sporever brand, was the ninth most visited (Monthly Average Users) in its segment in July (Médiamétrie). The investment in the other portfolio brands is driving recognition and traffic, with Automoto the third largest auto-related website in France and Maison & Travaux in the top five in its vertical. Across the group's media brands, monthly average audience visits had reached over 16 million from 10 million unique users in June 2017, with 60% on mobile. Video growth has been particularly strong as the brands have added content. Average monthly advertisements served reached 800m in H117.

Tradedoubler is also moving on from last year's disruption in the UK, which saw it re-orientate from some larger customers and withdraw from unprofitable contracts in H216. In local currency terms, revenue was down 11% to SEK620m, while EBITDA moved from a SEK8m loss in H116 to a profit of SEK6m. In Q217, it launched a beta version of a new and more intuitive publisher interface across all its geographic markets. This will allow publishers to register and test the platform before it goes live later in the year. In July 2017, Tradedoubler bought a local Swedish company called Metapic for an undisclosed sum. This is a product platform that connects bloggers, vloggers and online influencers with their readers and with advertisers and e-commerce providers, extending the definition of affiliate marketing. At the point of purchase, it had attracted 20,000 users with a reach of over two million unique visitors per week in Sweden, Norway and Denmark.

Exhibit 2: Financial summary

Accounts: IFRS; year-end: December; €m	2014	2015	2016	2017e	2018e
Total revenues	48.0	60.2	174.0	186.5	196.5
Total cash operating cost	(50.1)	(59.1)	(169.6)	(178.0)	(182.0)
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	10.0
Finance income/(expense)	(0.1)	(0.1)	(0.2)	(1.3)	(1.1)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(2.3)	3.6	(6.7)	(0.7)	0.0
Reported PBT	(5.2)	3.6	(5.8)	2.6	8.9
Income tax expense (includes exceptionals)	(0.0)	(0.0)	(0.8)	(0.9)	(2.9)
Reported net income	(5.2)	3.6	(6.6)	1.7	6.0
Basic average number of shares, m	24.4	33.4	38.5	40.3	41.9
Basic EPS, c	(0.2)	0.1	(0.2)	0.0	0.2
Adjusted EBITDA	(2.0)	1.1	4.4	8.5	14.5
Adjusted EBIT	(2.8)	0.1	1.1	4.5	10.0
Adjusted PBT	(2.9)	0.0	0.9	3.2	8.9
Adjusted EPS, c	(11.8)	(0.0)	0.4	6.6	16.5
Adjusted diluted EPS, c	(11.8)	(0.0)	0.4	5.7	14.3
Balance sheet					
Property, plant and equipment	0.7	0.7	1.1	1.3	1.3
Goodwill	0.3	0.1	24.8	34.8	34.8
Intangible assets	0.3	0.6	6.0	7.0	7.5
Other non-current assets	0.8	18.2	5.1	4.1	4.1
Total non-current assets	1.9	19.6	36.9	47.1	47.6
Cash and equivalents	12.6	13.6	28.6	24.5	34.5
Inventories	1.1	1.0	0.3	0.3	0.3
Trade and other receivables	22.9	25.0	57.1	58.8	53.8
Other current assets	0.7	1.2	3.2	3.2	3.2
Total current assets	37.3	40.8	89.2	86.8	91.9
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	2.7	2.7
Total non-current liabilities	12.2	10.6	4.2	2.7	2.7
Trade and other payables	23.0	31.4	78.5	73.1	72.7
Current loans and borrowings	0.0	2.3	27.9	26.4	26.4
Other current liabilities	5.5	6.9	6.9	6.9	6.9
Total current liabilities	28.6	40.7	113.4	106.4	106.0
Equity attributable to company	(1.6)	9.1	11.8	20.7	24.7
Non-controlling interest	0.0	0.0	(3.2)	(4.2)	(6.2)
Cash flow statement					
Profit for the year	(5.2)	3.6	(6.6)	1.7	6.0
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)	(7.1)	4.5
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	(0.8)	15.0
Capex	(1.0)	(0.1)	(3.9)	(5.0)	(5.0)
Acquisitions & disposals net	19.6	0.1	22.9	(8.1)	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	(13.1)	(5.0)
Net proceeds from issue of shares	2.6	7.2	(0.3)	8.1	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)	9.8	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	(4.1)	10.0
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	24.5	34.5
Net (debt) cash	12.6	11.3	0.7	(1.9)	8.2
Movement in net (debt) cash over period	12.6	(1.3)	(10.5)	(2.6)	10.0

Source: Reworld Media accounts, Edison Investment Research

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