Reworld Media

FY17 results

Driving branding performance

Media

Reworld Media is delivering the financial returns on its strategy of digital transformation of well-established media brands, supplemented with the ad tech expertise of Tradedoubler (30% owned). FY17 figures show good revenue and margin progress from the media brands, with Tradedoubler starting to recover post repositioning and restructuring. The group also has a strengthening balance sheet. Our updated model suggests a strong uplift in adjusted PBT in FY18 driven by the growing digital element in Branding and the continuing turnaround at Tradedoubler. The rating is yet to reflect the improving quality of earnings or the scale of the opportunity.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)	EV/EBITDA (x)
12/15	60.2	0.0	0.0	0.0	N/A	N/A	68.2
12/16	174.0	0.9	0.4	0.0	450.0	N/A	17.0
12/17	185.6	3.6	9.6	0.0	18.8	N/A	10.0
12/18e	182.5	6.2	13.7	0.0	13.1	N/A	6.6
12/19e	190.5	10.6	24.0	0.0	7.5	N/A	4.8

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

Proof of concept established

Reworld's business premise is to take well-recognised consumer brands and add digital dissemination to the mix. This drives reach and monetisation to take full advantage of the shift in the media landscape towards digital. The strength of its brands and the quality of content has led to strong growth in unique visitors to the online sites, doubling to 28 million in December 2017 versus the prior year. The investment in building video content resource is particularly paying off, with management estimating that the group is now the fourth largest online video publisher in France. The derived data from this traffic, combined with the affiliate marketing strength of Tradedoubler, present an attractive proposition to advertisers.

Resourced to grow

Net debt as at end December 2017 stood at €8.2m (Tradedoubler's balance sheet accounted for €6.5m of this total). Our modelling indicates net debt coming down to €3.0m by end FY18e and moving into a net cash position during FY19e. Reworld has established a record of buying underinvested assets at low valuations, then boosting the ability of those assets to grow digitally and to monetise their audiences. The current balance sheet and cash flow profile mean that it could comfortably take on higher levels of debt, but larger-scale acquisitions may require additional funding.

Valuation: Growing confidence on the upside

Reworld's current rating does not reflect the progress made to date or the prospects for improving margins. We have looked at the valuation on both a sum-of-the-parts (based on EV/EBITDA multiples) and a DCF basis. Based on FY19 forecasts, the sum-of-the-parts valuation stands at €2.85. The DCF indicates a slightly higher value of €3.31, based on Reworld reaching a blended industry-average 14% EBITDA margin in the medium term. The current share price implies group margins retrenching from FY17 levels (H217: 4.9%).

20 March 2018

Price	**€1.80**
Market cap	**€67m**

Net debt (€m) at end December 2017	8.2
Shares in issue	37.1m
Free float	81.2%
Code	ALREW
Primary exchange	Euronext
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(4.5)	(4.5)	(27.9)
Rel (local)	(4.6)	(3.8)	(32.4)
52-week high/low		€2.4	€1.6

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

Annual meeting	May 2018

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Reworld Media is a research client of Edison Investment Research Limited

Investment case

Strong consumer brand portfolio, resilient print: Reworld has assembled a portfolio of well-recognised and established brands, across a range of verticals: women's interests, home/DIY, sport, entertainment. It has mostly acquired these assets from larger publishers that had not tackled the digital transformation needed. The resilience of the print performance, with a decline limited to 5% in FY17, is testament to the strength of these brands.

Improving group margin, strengthening balance sheet: the increasing dominance of digital in the group revenue mix, combined with the recovery now established at Tradedoubler, should drive the EBITDA margins over the medium term. Our model indicates a progression of FY17: 4.0%, FY18e: 6.7%, FY18e: 8.5%. Reworld ended FY17 with net debt of €8.2m (of which €6.5m is within Tradedoubler). Improving free cash flow brings this down to €3.0m in our model by end FY18, before moving the group into net cash during FY19.

Turnaround at Tradedoubler: Tradedoubler (30% owned, consolidated) has a large geographic reach and strong relationships with around 180,000 publishers and over 2,000 clients. The company has come through a period of restructuring post a realignment of its client base (loss of large UK clients plus walking away from unprofitable contracts). The replacement of this business at higher margin has been slower to come through than hoped, but overheads have been brought back to appropriate levels and there should be good operational gearing as the top line recovers. Our model shows Tradedoubler's EBITDA recovering from €2.3m in FY17 to €4.5m for FY18e and €5.5m in FY19e.

Data-savvy approach, attractive proposition to advertisers: Data-driven market opportunities are at the heart of the group's investment approach. The delivery of highly qualified leads makes Reworld a valued partner on its own strengths. Having a digital-savvy publisher and a digital performance marketing specialist in one entity allows Reworld to present advertising clients with an integrated proposition.

Management with relevant experience in digital transformation: President Pascal Chevalier and CEO/COO Gautier Normand both have considerable experience across the media sector in implementing digital transformation and exploiting media assets.

Widening demographic reach: Last year's acquisition of Sporever (trading as Sport365) expanded Reworld's demographic reach to cover more of the male population beyond those already reached by *Auto moto*, giving it a broader and stronger proposition to advertisers. Pariscope was closed during 2017, as (being focused on one geographic region) the brand did not have sufficient scalability. Within the rest of the portfolio, brand extensions and special editions enabled tighter targeting, while the expansion of some titles into South-East Asia opens up the pool of potential advertising partners.

Strong position in video: Reworld has focused efforts on building the video content library across key brands. Cisco research indicates that internet video traffic will grow at a CAGR of 31% in 2016-21, while IP video traffic will account for 82% of all consumer internet traffic by 2021, from 73% in 2016. Video attracts and increases dwell times, again improving the attractiveness of sites to advertisers.

Dynamic market throwing up opportunities: the value of content has been thrown into relief by the structural shifts in distribution to online channels. This is being felt at all scale levels throughout the sector and may expose opportunities for Reworld to build out the portfolio further.

Company description: Digital media transformation

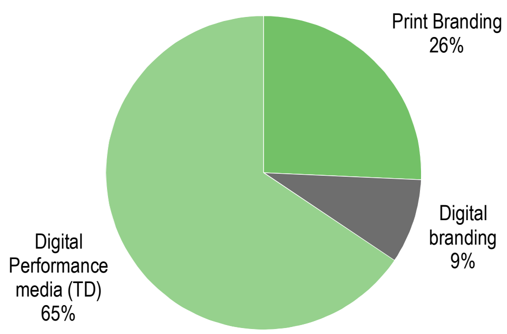
Reworld Media is a digital media business with activities both in media brands and in performance marketing. These two segments are described in detail below. For both, the revenue is derived from advertisers (or agencies), with the focus on digital delivery. Media branding derives its digital revenues predominantly from advertising displayed alongside its online and mobile content, while performance marketing refers to online marketing and advertising programmes in which advertisers, either directly or through agencies, are paid when a specific action is completed, such as a sale, lead or click. Tradedoubler (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 cookieless tracking.

The consumer-generated data that this approach naturally accumulates facilitate improving monetisation, with the technology providing an effective bridge between the needs of consumers and the needs of advertisers to access them. The business has been built from acquiring legacy brands, generally from larger owners rationalising their brand portfolios and reluctant to spend on growing those brands' digital footprint. Management's record to date shows that it has tackled the cost and management structures on these legacy businesses to allow the group to address the digital transformation opportunities of both parts of the organisation, separately and in combination. This process has been slower to work through at Tradedoubler than had been hoped, but the financial performance here is now showing improvement.

Reworld positioning

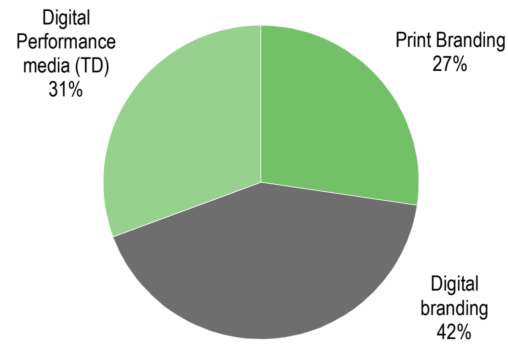
Reworld's business premise is to take well-recognised consumer brands and add digital dissemination to the mix to drive reach and monetisation. The combined print and digital media brands accounted for 35% of FY17 revenues, from 31% on a pro forma basis for the year before. Digital across the group is 73% of EBITDA on this basis (42% from digital branding, 31% from Tradedoubler, less rounding).

Exhibit 1: Revenue split by segment FY17



Source: Company accounts

Exhibit 2: EBITDA split by segment FY17



Source: Company accounts

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 client, Accor, has adopted this model, giving a good reference case for others to follow.

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 underinvested brands at attractive prices, then reorienting them to take advantage of digital opportunities, as discussed below. It has also reportedly backed away from potential deals where the pricing was not compelling.

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, entertainment and sports/men's 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. Sporever, in which the group had previously held a minority position and already had management influence, was added to the portfolio in March 2017, extending the reach to include sporting interests and adding a greater preponderance of males in the demographic reach.

Exhibit 3: Examples of Reworld's key media brands

auto moto	■ Acquired from Lagardère for negligible value as 100% print asset, loss-making ■ Now: Third largest automobile website in France, leading monthly print title in segment (circulation 1.4x nearest competitor), copy sales increased by 0.7% in 2017 against a market down 7.8% (source: Company)
sport 365	■ Key operating brand of Sporever, fully acquired in March 2017 ■ Ninth largest sport-oriented website in France in terms of unique visitors (source: Mediametrie Nielsen)
Maison&Travaux	■ Top 5 website in France for home decoration and DIY ■ Second largest bi-monthly magazine in segment by circulation (+1.5% y-o-y, vs mkt +0.7%) ■ Market leader in DIY/renovation subsegment
marie france	■ 10th largest women's print magazine in France ■ Circulation outperforming market, down 1.7% vs market down 5.6% ■ Added special themed editions in 2017 ■ Also publishes Marie France Asia
le journal de la Maison	■ Third largest circulation of monthly magazines in segment
vie pratique Féminin	■ Top 10 website for women's interests ■ Brand extension: vie pratique santé

Sources: Company information, Similarweb, Mediametrie Nielsen

There are currently 11 key brands within the Media brand portfolio, from 12 in March 2017 following the closure of *Pariscope*. This brand did not have sufficient potential to scale outside its core region or differentiation of content to justify continued investment. Between them, the media brands generated €64m of revenue in 2017. As with their counterparts domestically and globally, print circulation and print advertising are clearly in consistent steady decline, but Reworld's brands in aggregate have clearly outperformed this trend.

The group has been driving its positioning within certain demographics, particularly in automotive, and home and garden. The combined circulation of the brand portfolio was around 40 million in 2017 (2016 average print readership was 12 million), with a subscriber base of 345k. The scale of the business is making it an increasingly attractive partner for advertisers. 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 has not historically sold the content, rather collecting and collating the data and then monetising them. Its customer is the advertiser. It is now making some forays into content licensing.

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, leveraging the strong video expertise and efficient, low-cost facilities acquired with Sporever; and
- gaining traction for some brands (where appropriate) in the South-East Asia region.

This is already paying off. Across the digital aspect of the portfolio (and with the comparatives adjusted to include Sporever on a pro forma basis for the prior year), there were:

- 28 million unique visitors in December 2017, more than double the same month a year earlier;
- total traffic numbers were up 2.5x vs December 2016 levels;
- engagement levels have been lifted as the available library of streamed video has grown, with 100 million views in December 2017, up 10x on the prior year;
- 60% of traffic was on mobile; and
- on average, one billion ads were served every month in 2017.

The FY17 figures show very strong revenue growth in digital in Media brands at 57% (+75% in H2). This more than offset the negative impact from the 4.6% decline in print (which, of itself, was a good performance in a market in structural decline in the region of 5-10% in our estimation). 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)

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 e-commerce 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:

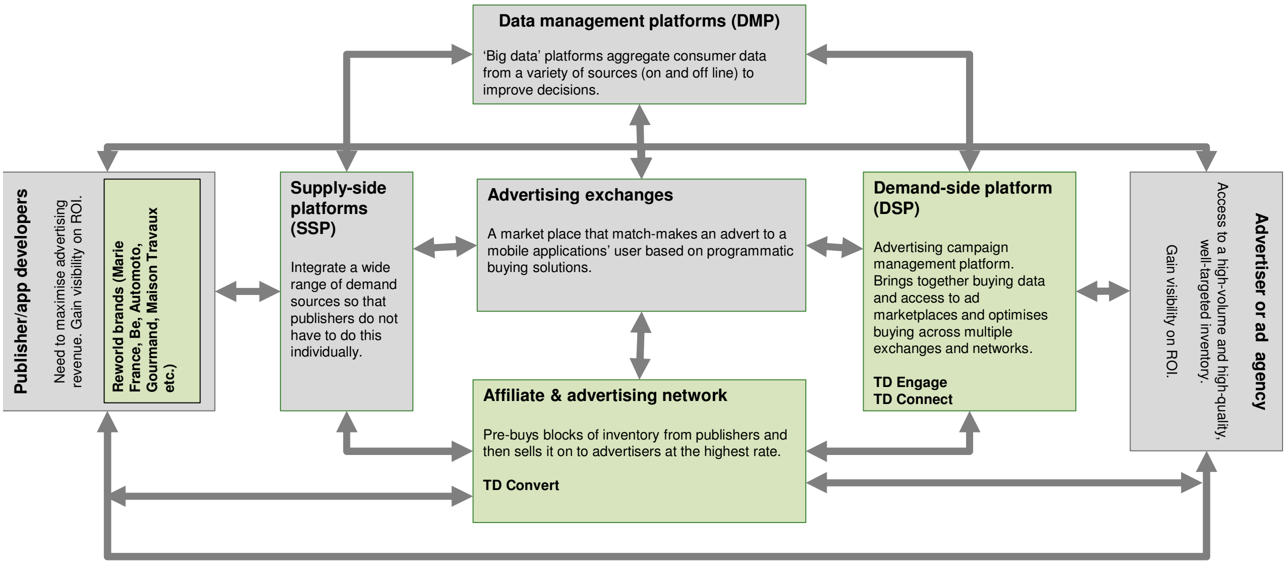
- a premium network for performance marketing;

- strong expertise in brand content management and in data management technologies; and
- a team of experts in Europe and Asia.

In January 2016, Reworld purchased a further 10.8% of Tradedoubler's equity, again for an undisclosed price. Reworld subsequently took management control, with the results consolidated from 1 March 2016.

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 longstanding 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: Tradedoubler market positioning



Source: Reworld Media, Edison Investment Research

Tradedoubler's financials are reported within the Reworld accounts under the Media Performance heading. Reworld's management input has helped to drive a greater commercial focus at the company. During FY16 and FY17, there has been a change in emphasis, both as a result of losing large client business and ceasing some other unprofitable business. A more strongly commercial dynamic has been put in place, with regional teams established to manage and to drive new customer acquisition (at sensible pricing). This will make Tradedoubler more scalable, but naturally takes time to get up to speed and the process has been slower than we initially anticipated. FY18 returns should start to show improving returns, as shown in the Financials section, below.

Over recent years, Tradedoubler has also developed propositions beyond the affiliate model: TD Connect, TD Engage and TD Adapt. These are respectively a white-label digital marketing platform, a full-service programmatic solution and a business intelligence platform that visualises programme, device and channel performance to create insights to optimise digital marketing campaigns. These are being rolled out across operating territories and should operate at a higher gross margin than the affiliate business as they are adding more value into the process. The positive impact from this roll-out should be more significant in 2018. The accounts no longer split out the activity by these categories, simply showing the revenues and EBITDA splits by geographic region.

It has also been actively seeking out strategic partnerships to access additional capabilities. These currently comprise:

- Video: through a minority position in targeted contextual video specialist DynAdmic.

- Mobile: with Avazu.
- Display: with AppNexus and RocketFuel.

Tradedoubler has a substantial market reach, with over 2,000 advertisers including major global advertisers such as Microsoft, HP, Allianz, lastminute.com, Radisson Hotels and Lufthansa, as well as agencies such as Havas, GroupM and Omnicom. It has around 180k affiliated websites, earning revenues in 69 countries. With the realignment of the UK operations, its largest geographic region by revenue is now the Nordics (26%), followed closely by France and Benelux (26%), with the UK and Ireland now accounting for 22%, then the DACH countries at 14% and the balance generated across Italy, Spain and Brazil.

With the greatly increased use of ad blockers 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 developed a form of cookieless tracking (using a unique device 'fingerprint'). 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. The forthcoming introduction of the GDPR (May 2018) will more directly affect retargeting, which we estimate accounts for less than 5% of Tradedoubler's revenues. Affiliate marketing falls outside the scope of the regulations.

Experienced, tight management team

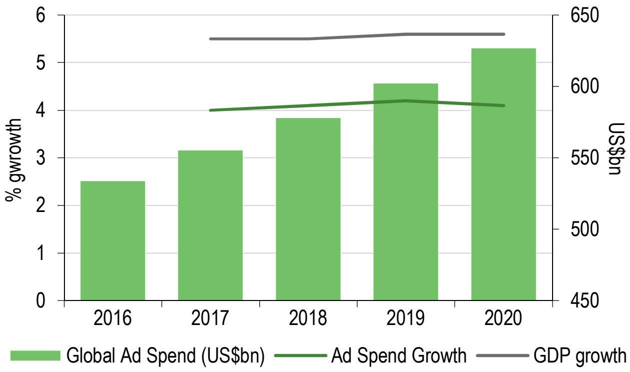
Reworld Media's president is Pascal Chevalier, who has many years' experience in the media sector. Before founding Reworld Media, Pascal was chairman at Netbooster (2005, Paris Euronext: ALNBT), director at Prosodie London (2002, now Cap Gemini) and previously chairman at CPI Venture (2000). He is also 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).

Favourable digital market dynamics

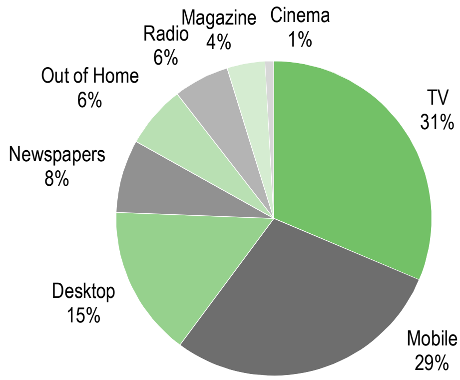
Despite the negative market sentiment towards the marketing industry majors, there is still good growth forecast in global ad spend, albeit that it is heavily skewed to the FANG stocks (Facebook, Amazon, Netflix and Google). Growth is set to lag global GDP, reflecting the traditional weighting of ad spend in certain consumer sectors such as automotive, where the economics have been less attractive and budgets have been under pressure.

Exhibit 5: Global Ad Spend and GDP growth



Source: Zenith, IMF

Exhibit 6: Ad spend by channel FY20e



Source: Zenith

TV advertising spend is set to be outstripped by digital advertising for the first time in FY17 and, by FY20, Zenith's projections show digital at 44% of spend compared with TV's 31%, as shown above. Mobile is taking a rapidly increasing share of traffic, as would be expected given the continuing increases of devices in the hands of consumers globally.

Exhibit 7: Distribution of ad spend by channel, implied growth rates

US$bn	2017	2020	CAGR 2017-20
TV	34.3	31.4	1.1%
Mobile	19.5	28.8	18.6%
Desktop	17.8	15.5	-0.6%
Newspapers	9.7	7.5	-4.4%
Out of Home	6.7	6.4	2.6%
Radio	6.2	5.7	1.3%
Magazine	5.2	3.9	-5.4%
Cinema	0.7	0.9	13.2%

Source: Zenith, Edison Investment Research

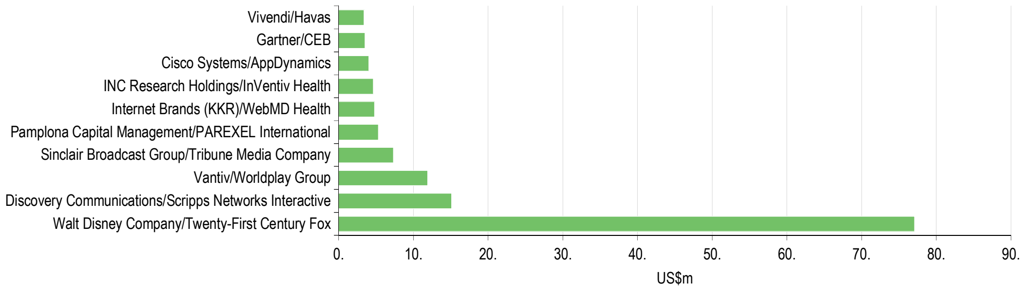
While magazine CAGR show decline in the Zenith market forecasts above, this is in terms of print advertising and is simply a continuation of the longer-term trend. The more relevant statistic is for growth in mobile.

Search is a key element of spend, with the latest Salesforce survey (Salesforce Digital Advertising 2020) citing Google as taking 31% of allocated spend of 900 large advertisers worldwide. It also states that 65% of companies increased their video ad spend over the past year.

Market changes driving media industry restructure

The shift to digital and the growing strength of the FANG stocks has prompted many questions over the power balance with brand owners, content owners and how to drive monetisation. Within the media sector, this has led to a continuing spate of M&A as assets have changed hands.

Exhibit 8: Media M&A – largest deals worldwide 2017



Source: Statista

This process of realignment is continuing, with Meredith having acquired Time Inc, the continuing corporate tussles over Sky and the purchase of Au Feminin by TF1 already in the current year.

Mondadori announced to the market in January 2018 that it had entered into discussions with Lagardère and Marie Claire about the future of its French media publishing assets. There has been speculation in the press that Reworld is also considering its position with regard to these brands.

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 (although the growth in the former is set to underperform global GDP growth by around 150 bp over 2017-20e, as per Zenith market forecasts). Short term fluctuations around trend depend on external events, such as political or major sporting events that stimulate spend. 2018 is a relatively healthy year on the sporting front, with the Winter Olympics and forthcoming World Cup. Geopolitical events may also have short-term impacts.

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 overheads. 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 group has managed to limit the decline in print copy sales at less than market falls to date. The Tradedoubler model is obviously completely within the digital sphere.

ePrivacy, GDPR, regulation. The regulatory risk is more a sentiment issue than a practical one. Apple's recent moves to limit the retention of tracking cookies for more than a short initial period is of limited relevance to Reworld. The amount of traffic from that source is estimated by management at around 3%. In terms of retargeting, this again forms a very small part of the Tradedoubler business model (Edison estimates less than 5%), which is not comparable with that of some other ad tech providers that focus on this area, such as Criteo. The introduction of the GDPR is again not expected by management to represent a major issue, with all contact details already saved in a fully compliant manner. Further putative ePrivacy regulation is at an earlier stage of development.

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.

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.

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. Although the turnaround has been somewhat slower than initially anticipated, the trajectory is now more as expected. The smaller Sporever deal has been successfully integrated. Any future deals might prove more problematic.

Ability to internationalise the business model. Not all of the media brands will 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 in Tradedoubler will be valuable.

Valuation

We maintain the approach to valuation that we established when we commenced coverage in 2017. This involves undertaking the group's valuation 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 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. The full set of financials is not available for each stock and we have also stripped out negative and outlying values where the businesses are either unprofitable or returning very small numbers that skew the ratios. Within those values left, though, there is a substantial range, from 2019e EV/GP of 7.9x (HubSpot) down to 1.6x (Criteo), with an average of 4.5x. On EV/EBITDA, most of these companies are forecast to deliver EBITDA profits in the current year and beyond. This metric is increasingly relied on as a benchmark and we now move our valuation to this basis. An average FY2 (2019e) EV/EBITDA of 7.7x again masks a wide range, depending on the maturity of the underlying companies.

Exhibit 9: Ad tech market valuations

Company (reporting currency)	price - reporting currency	Market cap (m)	EV/GP1	EV/GP2	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	EBITDA margin 2FY (%)
CRITEO (US$)	29.99	1,983	1.8	1.6	5.4	4.5	31.0
TAPTICA (£)	5.68	277	4.3	3.0	10.6	9.2	11.7
MATOMY MEDIA (£)	0.68	66			5.7	4.3	11.4
PERION NETWORK (US$)	0.97	75	0.4	N/A	4.0	N/A	N/A
RUBICON PROJECT (US$)	1.71	85			11.0	2.5	N/A
TRADE DESK (US$)	58.24	2,437	7.3	5.9	19.4	14.6	31.5
HUBSPOT (US$)	116.80	4,422	9.9	7.9	N/A	N/A	10.5
QUOTIENT TECH (US$)	14.00	1,307	4.7	3.9	15.2	11.2	20.4
Average			**4.7**	**4.5**	**10.2**	**7.7**	**12.3**

Source: Edison Investment Research, Bloomberg. Note: Prices as at 12 March 2018, outlying/negative values removed.

We have used our revised FY19 projected figures for Tradedoubler/Reworld Media Performance. Applying an EV/EBITDA ratio of 7.7x, ie the industry average, implies a valuation for the 30% shareholding equivalent to €0.29 per Reworld share. It implies a market capitalisation for Tradedoubler of €35.8m, ahead of its current market valuation of €10.8m. However, this latter figure reflects the low level of liquidity in the shares and the fact that management control rests with Reworld Media.

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 10 below. These are currently valued at an average FY19e EV/EBITDA of 9.5x. Reversing this rating back onto the Reworld business, as forecast in our modelling, we derive an equity value of €2.56/share.

Exhibit 10: B2C global media peer valuations

Name (currency)	Price (reporting currency)	Market cap (m)	Hist EV/Sales last (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	EBITDA margin 2FY (%)
AXEL SPRINGER (€)	72.00	7,774	2.6	11.6	12.4	11.2	29.0	24.7	22.0	22.9
FUTURE (£)	3.79	173	2.2	35.3	11.0	10.1	33.9	17.1	15.9	19.6
STROEER (€)	58.30	3,239	3.1	15.6	11.9	9.3	39.7	18.2	16.1	27.0
TIME INC (US$)	18.50	1,843	1.0	19.7	6.8	6.4	15.8	17.2	14.1	16.3
SCHIBSTED (NOK)	215.30	48,924	3.1	12.6	15.3	12.7	33.7	30.3	21.9	21.1
DAILY MAIL & GEN TST (£)	6.54	2,337	1.8		12.6	12.1		15.6	14.3	15.8
TIME OUT (£)	1.32	175	3.7							
LAGARDERE (€)	22.57	2,958	0.6	6.9	6.6	6.5	12.7	12.4	11.3	9.0
AUFEMININ (€)	38.70	364	2.6	12.8			35.9			
A MONDADORI EDITORE (€)	1.90	497	0.6	8.4	7.5	7.4	13.1	15.6	12.8	8.5
Average			**2.1**	**15.4**	**10.5**	**9.5**	**25.4**	**18.9**	**16.1**	**17.5**

Source: Bloomberg. Note: Data as at 12 March 2017.

Combined with the €0.29 we have calculated for Tradedoubler, this gives an indicative value of **€2.85** per share for the group.

Our previous valuation, published in September 2017, was €2.80, based on the same methodology, but using our FY18 estimates at the time.

DCF sense check

The approach outlined above is naturally based on the short-term outlook in 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 and run a DCF analysis based on the numbers generated by our model for the short term (to end 2019), then worked 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 conservative WACC of 10.0%.

Exhibit 11: 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%	2.11	2.13	2.14	2.16	2.18
	8.00%	2.38	2.41	2.44	2.47	2.49
	10.00%	2.66	2.69	2.73	2.77	2.81
	12.00%	2.93	2.98	3.02	3.07	3.12
	14.00%	3.21	3.26	**3.31**	3.37	3.43
	16.00%	3.48	3.54	3.61	3.67	3.74
	18.00%	3.75	3.83	3.90	3.98	4.06
	20.00%	4.03	4.11	4.19	4.28	4.37
	22.00%	4.30	4.39	4.49	4.58	4.68
Current share price implied EBITDA margin		2.8%	2.8%	2.8%	2.8%	2.8%

Source: Edison Investment Research

The ad tech companies in the peer comparison above have an average 2019 EBITDA margin of 12.3% (from a wide range, with a median of 11.7%), while those included in the media brand peers have an average of 17.5% for the same year (median 18.0%). If Reworld as a group could achieve a 14% EBITDA margin over the 2018-25 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 €3.31. The current share price on this basis implies that the medium-term EBITDA margin achieved is less than 3%, below the level achieved in FY17.

Financials

Strong earnings progress

The reported figures show Tradedoubler as consolidated despite its only being 30% owned due to the management control exercised by Reworld's executive team.

Exhibit 12: Summary results and forecasts

	H116	H216	FY16	H117	H217	FY17	% growth	FY18e	% growth	FY19e	% growth
Revenues											
Print Branding	*25.4*	*24.6*	*50.0*	*23.9*	*23.8*	*47.7*	*-5%*	*45.5*	*-5%*	*43.5*	*-5%*
Digital branding	*4.8*	*5.5*	*10.3*	*6.6*	*9.6*	*16.2*	*57%*	*21.3*	*32%*	*28.8*	*35%*
Media Branding	30.2	30.1	60.3	30.5	33.4	63.9	6%	66.9	5%	72.3	8%
Digital Performance media (TD)	47.1	66.6	113.7	64.6	57.1	121.7	7%	115.6	-5.0%	118.2	2.2%
Total Revenues	77.3	96.7	174.0	95.1	90.5	185.6	7%	182.5	-1.7%	190.5	4.4%
Segment EBITDA											
Print Branding	*0.9*	*1.3*	*2.2*	*0.9*	*1.2*	*2.1*	*-9%*	*1.9*	*-5%*	*1.9*	*-4%*
Digital branding	*0.2*	*0.3*	*0.5*	*1.1*	*2.1*	*3.2*	*537%*	*4.8*	*53%*	*8.3*	*73%*
Media Branding	1.1	1.6	2.7	2.0	3.2	5.2	90%	6.8	30%	10.2	51%
Digital Performance media (TD)	-0.1	1.7	1.6	1.1	1.2	2.3	40%	4.5	95.6%	5.5	22.2%
Group EBITDA	1.0	3.3	4.3	3.1	4.4	7.5	74%	11.3	50.0%	15.7	39.3%
EBITDA - Segment Margins											
Print Branding	*3.5%*	*5.4%*	*4.5%*	*3.8%*	*4.8%*	*4.3%*		*4.3%*		*4.3%*	
Digital Branding	*4.2%*	*5.4%*	*4.8%*	*16.7%*	*21.4%*	*19.5%*		*22.5%*		*28.9%*	
Media Branding	3.6%	5.4%	4.5%	6.6%	9.6%	8.1%		10.1%		14.1%	
Digital Performance Media (TD)	-0.2%	2.1%	1.4%	1.7%	2.1%	1.9%		*3.9%*		*4.7%*	
Group EBITDA margin	1.3%	3.4%	2.5%	3.3%	4.9%	4.0%		*6.2%*		*8.2%*	

Source: Reworld Media accounts, Edison Investment Research

Edison previously had 2017 forecast revenue of €186.5m, broadly in line with the outturn. The make-up of this total was slightly at variance, though, with a slower decline in the print business than we had anticipated, faster growth in digital media branding and an underperformance of the Tradedoubler business against our earlier expectations.

Digital earnings drivers

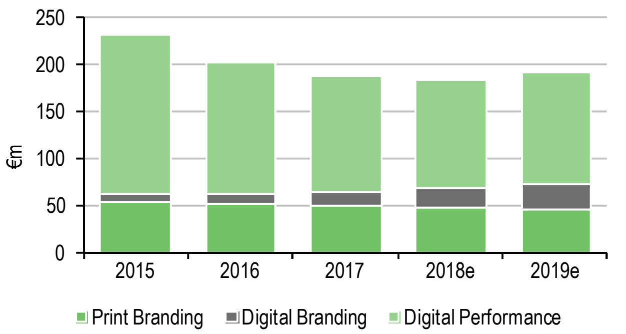
Exhibit 13: Adjustments to forecasts

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017	5.7	9.6	+68	3.2	3.6	+13	8.5	7.5	-12
2018e	14.3	13.7	-4	8.9	6.2	-30	14.5	11.3	-21
2019e	-	24.0	N/A	-	10.6	-N/A	-	15.7	N/A

Source: Company accounts, Edison Investment Research

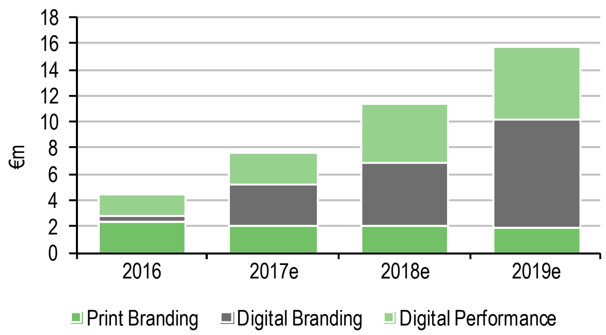
The underperformance of Tradedoubler against our previous forecasts carries across into our revised adjusted EBITDA and PBT numbers for FY18e and FY19e. However, the tax charge was considerably more favourable than we had anticipated, with the group in a position to utilise more losses. Hence the FY17 EPS number is higher and our FY18e forecast EPS is reduced by less than adjusted PBT. Our new FY19e numbers reflect a continuation of the previous trends, with the main top-line stimulus coming from the digital branding.

Exhibit 14: Historical and forecast revenue by activity



Source: Reworld Media accounts (Tradedoubler consolidated), Edison Investment Research

Exhibit 15: Forecast EBITDA by activity



Source: Reworld Media accounts (Tradedoubler consolidated), 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. In the exhibits above we have shown the pro forma figure for FY16 to give a clearer representation of the progression of the business. Digital accounted for 74% of the group revenues in FY17 (from 71% on the pro forma prior year figures) and 73% of EBITDA (from 43% in FY16 pro forma).

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 4.6% in FY17, less than the rate of industry structural decline, which we estimate at 5-10%. 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 rebasing of costs over FY14-16 considerably reduced the break-even point and increased the operational leverage.

Growth in the digital media branding segment was impressive at 57%, as the brands' digital footprints grew and with the consolidation of Sporever (organic growth is not stripped out). Driving monetisation of digital assets is the core area of expertise and there is plenty still to go for with the existing portfolio – with a scalable platform already in place. This is the engine behind the group's progress in both revenue and achievable margin over the forecast period, as shown above.

We do not expect much in the way of top-line growth in the Digital Performance Media segment (Tradedoubler), with the strategic focus firmly on driving higher-margin activities, as described above. Further top-line stimulus may come from the strategic partnerships outlined above, but we have not anticipated this having a material effect on our figures.

Tradedoubler's revenues have been slower to recover than we had previously anticipated, with the reduction particularly marked in Q417 due to the seasonality of the UK business no longer serviced and which was included in FY16. The group has been restructured across its management and its operations, with operational costs down 7% year-on-year. While we are still expecting subdued top-line progress, the quality of business being written is improving, with more value-added services being added to the book. This, along with the reduced overhead, is driving our forecast uplift in EBITDA margin from 1.9% in FY17 to 3.9% for FY18 and 4.7% for FY19, which is still a conservative level when compared with the industry. The company's internal long-term targets are to grow net sales in excess of 5% pa in local currency and to achieve an EBITDA/gross profit margin of over 20%.

Spend focus shifts from restructuring to investment

Now that the main thrust of the restructuring costs is through, the group's cash profile should improve considerably as the inherent cash requirements of the business should be relatively modest. There is obviously 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 continued investment 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 year-end, cash stood at €16.1m, with debt totalling €24.3m, giving a net debt figure of €8.2m. We anticipate that this figure will improve to a year-end net debt position of €3.0m at December 2018, before moving into net cash during FY19.

During FY17, Tradedoubler repurchased SEK62m (€6m) of the nominal value of its bonds. Reworld itself issued a three-year convertible bond in December 2015. The outstanding bonds have been converted (€3.5m) over the course of the year with equity issued at €1.85.

The group is in the slightly unusual position of having Tradedoubler's accounts consolidated despite the shareholding in the subsidiary being only 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 financial performance improves.

Exhibit 16: Financial summary

Accounts: IFRS, Yr end: December, EUR: Millions	2014A	2015A	2016A	2017A	2018E	2019E
Total revenues	48.0	60.2	174.0	185.6	182.5	190.5
Total cash operating cost	(50.1)	(59.1)	(169.6)	(178.1)	(171.2)	(174.8)
Exceptionals and adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation	(0.8)	(1.0)	(3.2)	(3.6)	(3.7)	(3.7)
Reported EBIT	(2.8)	0.1	1.1	3.9	7.6	12.0
Finance income/(expense)	(0.1)	(0.1)	(0.2)	(0.3)	(1.4)	(1.4)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(2.3)	3.6	(6.7)	(2.1)	0.0	0.0
Reported PBT	(5.2)	3.6	(5.8)	1.5	6.2	10.6
Income tax expense (includes exceptionals)	(0.0)	(0.0)	(0.8)	0.3	(0.3)	(0.3)
Reported net income	(5.2)	3.6	(6.6)	1.8	5.9	10.3
Basic average number of shares, m	24.4	33.4	38.5	40.3	42.8	42.8
Basic EPS	(21.4)	12.6	(20.6)	5.1	15.8	27.7
Adjusted EBITDA	**(2.0)**	**1.1**	**4.4**	**7.5**	**11.3**	**15.7**
Adjusted EBIT	**(2.8)**	**0.1**	**1.1**	**3.9**	**7.6**	**12.0**
Adjusted PBT	**(2.9)**	**0.0**	**0.9**	**3.6**	**6.2**	**10.6**
Adjusted EPS, c	**(11.8)**	**(0.0)**	**0.4**	**11.2**	**15.8**	**27.7**
Adjusted diluted EPS, c	**(11.8)**	**(0.0)**	**0.4**	**9.6**	**13.7**	**24.0**
Balance sheet	2014A	2015A	2016A	2017A	2018E	2019E
Property, plant and equipment	0.7	0.7	1.1	1.6	1.6	1.6
Goodwill	0.3	0.1	24.8	33.6	33.6	33.6
Intangible assets	0.3	0.6	6.0	5.2	4.0	2.8
Other non-current assets	0.8	18.2	5.1	4.7	4.7	4.7
Total non-current assets	1.9	19.6	36.9	45.0	43.8	42.6
Cash and equivalents	12.6	13.6	28.6	16.1	21.3	29.0
Inventories	1.1	1.0	0.3	0.1	0.1	0.1
Trade and other receivables	22.9	25.0	57.1	59.9	57.5	60.0
Other current assets	0.7	1.2	3.2	3.7	3.7	3.7
Total current assets	37.3	40.8	89.2	79.8	82.6	92.8
Non-current loans and borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	12.2	10.6	4.2	1.6	1.6	1.6
Total non-current liabilities	12.2	10.6	4.2	1.6	1.6	1.6
Trade and other payables	23.0	31.4	78.5	72.5	70.0	70.5
Current loans and borrowings	0.0	2.3	27.9	24.3	24.3	24.3
Other current liabilities	5.5	6.9	6.9	6.5	6.5	6.5
Total current liabilities	28.6	40.7	113.4	103.4	100.8	101.3
Equity attributable to company	(1.6)	9.1	11.8	19.8	24.5	33.8
Non-controlling interest	0.0	0.0	(3.2)	(0.0)	0.5	1.3
Cashflow statement	2014A	2015A	2016A	2017A	2018E	2019E
Profit for the year	(5.2)	3.6	(6.6)	1.8	5.9	10.3
Depreciation and amortisation (incl. acquired intangibles)	(3.4)	(6.7)	3.5	2.5	3.7	3.7
Share based payments	0.0	0.0	0.0	0.0	0.0	0.0
Other adjustments	(1.8)	(3.6)	6.4	(1.4)	0.0	0.0
Movements in working capital	(2.4)	1.4	(2.0)	(9.0)	(0.2)	(2.1)
Interest paid / received	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes paid	0.0	0.0	0.0	(1.4)	(0.3)	(0.3)
Cash from operations (CFO)	(12.8)	(5.3)	1.4	(6.1)	7.7	10.2
Capex	(1.0)	(0.1)	(3.9)	(0.4)	(2.5)	(2.5)
Acquisitions & disposals net	19.6	0.1	22.9	(3.5)	0.0	0.0
Other investing activities	(0.2)	(12.2)	(4.3)	0.0	0.0	0.0
Cash used in investing activities (CFIA)	18.5	(12.2)	14.7	(3.9)	(2.5)	(2.5)
Net proceeds from issue of shares	2.6	7.2	(0.3)	(0.0)	0.0	0.0
Movements in debt	0.0	11.3	(0.6)	(2.0)	0.0	0.0
Other financing activities	(0.0)	(0.0)	(0.2)	(0.5)	0.0	0.0
Cash from financing activities (CFF)	2.5	18.5	(1.0)	(2.5)	0.0	0.0
Increase/(decrease) in cash and equivalents	8.2	1.0	15.0	(12.5)	5.2	7.7
Cash and equivalents at end of period	12.6	13.6	28.6	16.1	21.3	29.0
Net (debt) cash	12.6	11.3	0.7	(8.2)	(3.0)	4.7
Movement in net (debt) cash over period	12.6	(1.3)	(10.5)	(8.9)	5.2	7.7

Source: Company accounts, Edison Investment Research

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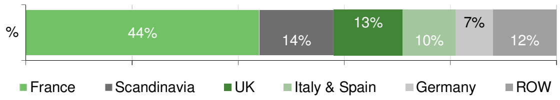
Revenue by geography



Management team

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 Tradedoubler (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.

CEO, COO: Gautier Normand

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). Gautier is also CEO of Sporever and a member of the board of directors of Tradedoubler.

Principal shareholders	(%)
Founders	18.8
Montjoie	27.6
ID Invest	18.8
Hera Capital	4.6

Companies named in this report

Axel Springer (FRA:SPR), Future (LON:FUTR), Stroeer (FRA:STRAX), Meredith (NYSE:MDP), Schibsted (OTCMKTS: SBBTF), DMGT (LON:DMGT), Lagardère (FRA: LAGA), Criteo (FRA:C15A), Taptica (LON:TAP), RhythmOne (LON:RHTM), Matomy Media (LON:MTMY), Perion Network (NASDAQ:PERI), Rubicon Project (NYSE:RUBI), Trade Desk (NASDAQ:TTD), HubSpot (NYSE:HUBS), Quotient Tech (NYSE:QUOT)

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