

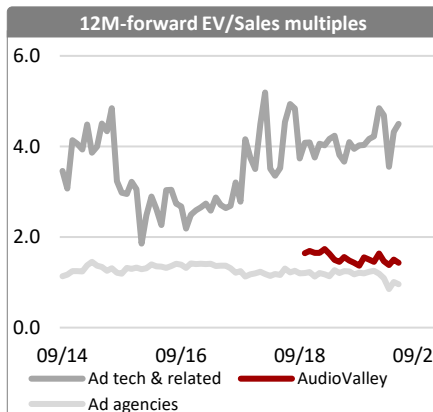
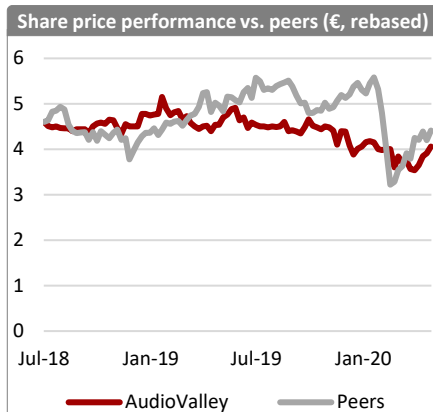
Closing price (25 May 2020): €4.06

Market capitalisation: €43m

EV: €50m

Free float: c. 33%

## Digital audio software, ad tech and monetisation engine, all-in-one



### Unique European listed technology play on digital audio disruption...

AudioValley is a Belgian technology company active in the field of digital audio disruption covering most of the industry's value chain: from music licencing to software enabling the creation, streaming and hosting of digital audio content over the internet for a range of publishers including online radio channels, podcasts, connected hardware, etc. The digital audio market is growing fast, catching up (Europe) or taking over (North America) analogue audio in terms of audience. We expect digital audio ad spend to grow at 21% CAGR 2019-23e.

### ... and ad tech engine for digital audio publishers

AudioValley's main USP, and growth driver, is its global digital ad selling business, Targetspot, a technology platform allowing digital audio publishers to monetise their audience through targeted advertising. The B2B platform consists of an ad tech software providing audience/listener data management with real-time analytics allowing for targeted advertising over streaming audio, the sweet-spot for any global or local advertisers (looking for efficiency) and publishers (looking to monetise their audience with higher CPMs). AudioValley operates globally, with over 1.1bn monthly impressions moving through its ad server (70% in N. America). Targetspot has over 80 publishers under contract including Soundcloud, Deezer, Tuneln, Sonos, Skyrock, Fox News, and Entravision, and more than 200 advertisers including McDonalds, Volkswagen, Ikea, Mediamarkt, BNP Paribas, etc. Over 70,000 internet radios worldwide use AudioValley's technology and 200m hours of streaming per month runs through its platform.

### Solid outlook despite some Covid-19 lockdown hinderance

We expect AudioValley to deliver 55% sales CAGR 2020-22e, by gaining market share in a fast-growing market and through its strong position in Europe, the fastest growing market in digital audio ad spend. Profitability was an issue, but AudioValley turned EBITDA breakeven in H2 2019 for the first time and adjusted EBITDA is expected to reach 10% by 2021e. We expect free cash flow to be positive from 2021e, allowing the company to ease its balance sheet. The company also announced a financing need of EUR 6.5m (potentially through equity, debt and other non-dilutive instruments such as subsidies) to tackle the Covid-19 impact and to payback the last tranche of a vendor loan to Vivendi.

### Valuation upside potential

AudioValley is valued at 1.4x EV/Sales '21e, a 57% discount to Ad tech & related peers and a 58% premium to listed Ad agencies peers, neither group being fully comparable. AudioValley is expected to deliver superior growth than those peers going forward, but with lower profitability for the moment and with a more leveraged balance sheet. Our fair-value estimate of EUR 6.19/share is based on a SOTP, valuing Targetspot at a M&A valuation multiple of 3x sales, well below 4.6x which is the takeout multiple of the two closest peers (Trinton and Adswizz) in 2018.

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### Key financials

EURm	2017	2018	2019pf	2020e	2021e	2022e
Sales	14.0	24.6	22.0	19.6	30.9	47.0
EBITDA	1.2	0.3	-0.6	0.4	2.4	6.5
EBITDA	3.2	-4.1	2.3	-4.8	-3.0	0.8
Net profit	2.7	-5.3	4.8	-6.1	-4.0	0.2
EPS (EUR)	0.98	-0.94	0.56	-0.64	-0.38	0.02
P/E (x)		-4.8	8.2	-6.4	-10.7	213.4
EV/Sales (x)		2.4	2.3	2.6	1.4	0.8
EV/EBITDA (x)		207.5	-86.6	139.1	18.8	5.7

Source: Company data, Merodis, FactSet

### Important Note

Merodis BVBA/SPRL (Merodis) has been mandated by AudioValley S.A. (AudioValley or the company) to produce a neutral, fair and elaborate equity research report on the company with the aim to increase the visibility and awareness of Atenor's shares in the financial markets. The authors hereby declare that any views expressed in this report represent their personal opinion and that Atenor has neither limited nor in any other way influenced the content of this report.

Please read the disclaimer at the end of this report

**Financial summary**

Enterprise Value (€m): 50  
 Market Cap. (€m): 43  
 Free-float MCap (€m): 14

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 17-19	CAGR 20-22e
<b>Consolidated P&amp;L (€m)</b>																		
Sales											14	25	22	20	31	47	25.2	55.1
Adj. EBITDA											0	-2	-3	0	1	5	na	na
EBITDA											1	0	-1	0	2	7	na	325.3
Adj. EBIT											-3	-7	-2	-7	-6	-3	-24.1	-35.3
Pretax profit											2	-6	5	-6	-4	0	40.7	na
Net profit											3	-5	5	-6	-4	0	33.7	na
<b>Cash Flow (€m)</b>																		
Op. results											0	-2	-3	0	1	5	na	na
WCR											-1	1	-2	0	3	4	62.6	na
Gros Op CF											-1	0	-5	0	4	9	182.2	na
Capex											-1	-1	-1	0	-1	-1	41.5	55.1
FCF											-2	-2	-4	-2	3	8	45.9	na
Net disp./ (acq.)											2	0	8	0	1	0	91.4	na
Dividends paid											0	0	0	0	0	0	na	na
Equity issue											0	10	0	7	0	0		
Others											0	0	4	0	0	0	na	na
Net Debt (incr.)/decr.											0	7	8	4	4	8	557.8	32.4
<b>Balance Sheet (€m)</b>																		
WC											-7	-8	-5	-5	-9	-13	-11.3	55.1
Capital Employed											36	35	32	28	22	15	-6.8	-25.5
Cash & Equivalent											1	1	2	3	2	9	17.4	72.1
Gross Debt											30	23	18	15	10	10	-21.6	-18.1
Equity											6	11	14	15	11	11	52.0	-13.8
Balance sheet total											51	51	47	43	43	53	-4.5	11.1
<b>Growth (%)</b>																		
Sales												76	-11	-11	58	52		
EBITDA												na	na	na	na	313		
EBIT												na	na	na	na	na		
Net profit												na	na	na	na	na		
FCF												na	na	na	na	184		
NWC												na	na	na	na	na		
Capital Employed												-4	-9	-12	-19	-31		
Shareholder Equity												70	36	3	-27	2		
<b>Financial Ratios</b>																		
Gross margin (%)											63	58	44	44	42	42		
EBITDA margin (%)											1	-7	-13	-2	4	10		
EBIT margin (%)											-21	-29	-8	-37	-20	-6		
Net margin (%)											19	-22	22	-31	-13	0		
Opex/Sales (%)											99	107	113	102	96	90		
Depreciation/Sales (%)											22	22	-6	35	23	16		
Depreciation/EBITDA (%)											2086	-321	43	-1636	639	166		
Tax rate (%)											17	-4	6	0	0	0		
Capex/Sales (%)											5	4	6	2	2	2		
FCF/Sales (%)											-14	-10	-20	-11	9	16		
WCR/Sales (%)											-5	6	-9	0	10	9		
WC/Sales (%)											-50	-34	-25	-28	-28	-28		
Gearing (%)											453	212	113	81	77	7		
Net Debt/EBITDA (x)											194.4	-13.3	-5.6	-28.5	7.3	0.2		
ROCE post-tax (%)											-9	-20	-6	-26	-27	-20		
ROE (%)											44	-50	34	-41	-37	2		
Dividend Payout (%)											0	0	0	0	0	0		
<b>Valuation</b>																		
Market Capitalisation (€m)												39	40	43	43	43	na	0.0
+ Net Financial Debt (€)											28	22	16	12	8	1	-24.0	-75.5
+ Restated Min. + others (€m)											1	1	0	0	0	0	na	na
- Associates & Inv. (€m)											2	3	5	4	7	6	62.4	21.7
<b>= Enterprise Value (€m)</b>											<b>60</b>	<b>51</b>	<b>50</b>	<b>44</b>	<b>44</b>	<b>37</b>	na	-14.3
Assoc. NFD (gr. share) (€m)																		
EV/Sales (x)												2.4	2.3	2.6	1.4	0.8		
EV/Adj. EBITDA (x)												-35.5	-17.8	-119.7	39.4	7.9		
EV/EBITDA (x)												207.5	-86.6	139.1	18.8	5.7		
EV/EBIT (x)												-8.4	-30.9	-6.9	-7.3	-12.1		
EV/FCF (x)												-24.3	-11.9	-23.1	16.6	4.9		
EV/Capital Employed (x)												1.7	1.6	1.8	2.0	2.4		
P/E (x)												-4.8	8	-6.4	-10.7	213.4		
P/BVPS (x)												2.4	2.8	2.6	4.0	3.9		
FCF yield (%)												-6.3	-10.9	-5.1	6.2	17.7		
<b>Per share data</b>																		
# of shares											2.76	8.62	8.62	10.53	10.53	10.53	76.6	0.0
avg # of sh. (FD, ex-treas.)											2.76	5.69	8.62	9.57	10.53	10.53	76.6	4.9
Share price												4.50	4.59	<b>4.06</b>	<b>4.06</b>	<b>4.06</b>	na	0.0
EPS											0.98	-0.94	0.56	-0.64	-0.38	0.02	-24.3	na
EPS FD											0.98	-0.94	0.56	-0.64	-0.38	0.02	-24.3	na
BVPS											2.25	1.86	1.67	1.54	1.02	1.04	-14.0	-17.8
DPS											0.00	0.00	0.00	0.00	0.00	0.00	na	na

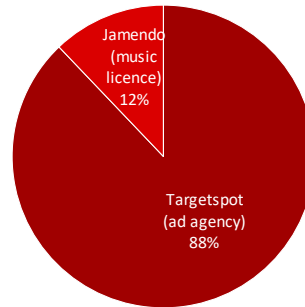
Source: Company data, Merodis Equity Research

## Financial summary AudioValley

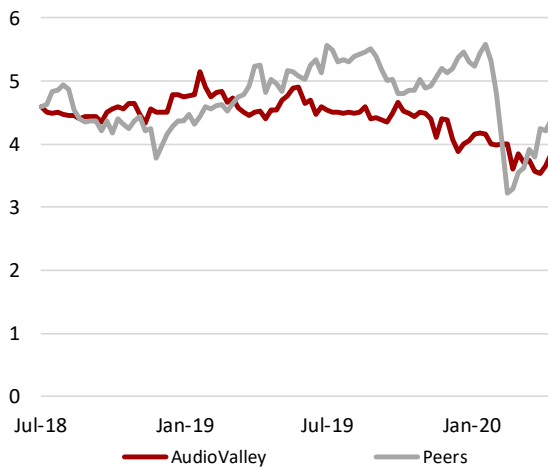
### Company profile

AudioValley, listed on Euronext Paris/Brussels, is a pioneer and leader in the digital-audio revolution with extensive know-how covering most of the digital-audio value chain. AudioValley has an impressive brand heritage with high-end products and services ranging from the monetization of internet radio (Targetspot) and music licensing (Jamendo), to the creation, streaming and hosting of online radio (Shoutcast) and even a renowned multiplatform media player (Winamp). An unprecedented digital revolution is taking place in the audio industry, with AudioValley's technology solutions enabling professionals in the B2B market to participate. The company recently sold its lucrative, albeit slow-growing, in-store digital audio marketing activity, Storever, a transaction allowing it to focus on its core technology and to

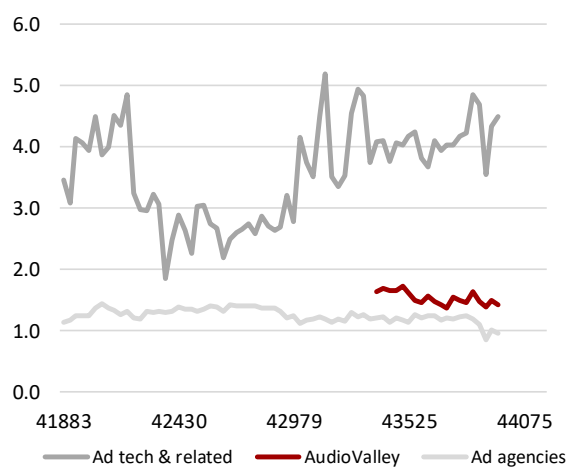
### Sales split



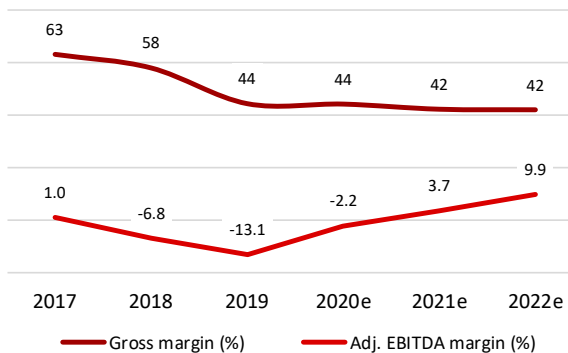
### AudioValley share price



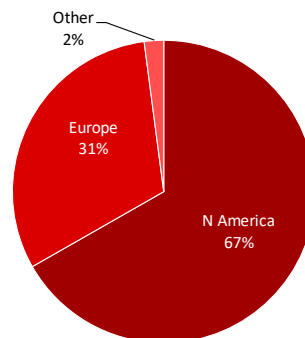
### AudioValley EV/Sales



### Profitability outlook



### Geographic breakdown of sales



Source: Company data, Merodis Equity Research

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## INVESTMENT CASE

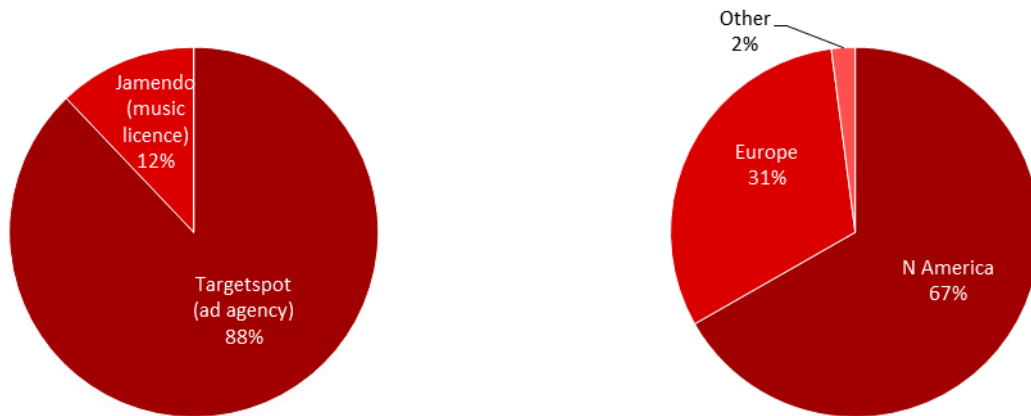
*European digital audio software and ad tech company*

AudioValley, listed on Euronext Paris/Brussels, is a pioneer and leader in the digital-audio revolution with extensive know-how covering most of the digital-audio value chain including monetisation of audiences through ad spend. AudioValley has an impressive brand heritage with high-end products and services ranging from the creation, streaming and hosting of online radio and the monetisation of digital audio platforms (internet radios, podcasts, etc.) through targeted advertising (Targetspot, which includes Shoutcast technology) to music licensing (Jamendo) and a renowned multi-platform media player (Winamp). An unprecedented digital revolution is taking place in the audio industry, with AudioValley's technology solutions enabling professionals in the B2B market to participate.

*Increasingly focused on digital audio ad spend*

AudioValley operates two business units: **Targetspot** (88% of group sales in 2020e) and **Jamendo** (12%). It recently sold its lucrative, albeit slow-growing, in-store digital audio marketing activity, **Storever**, a transaction allowing it to focus on its core technology and to deleverage its balance sheet at the same time.

Figure 1. Sales breakdown in 2019



Source: Company data, Merodis Equity Research

### Unique technology play on digital audio disruption...

AudioValley is a Belgian technology company launched in 2003 and active in the field of digital audio disruption covering most of the industry's value chain: from music licencing to software enabling the creation, streaming and hosting of digital audio content over the internet.

*A B2B player covering the entire value chain, unlike any other*

Unlike most well-known players in the field of digital audio (that operate a B2C business models), such as Spotify, Deezer, Pandora, etc., AudioValley is a B2B technology provider, with over 70,000 internet radios worldwide using its technology (and 200m hours of streaming per month moving through Shoutcast).

### ... and ad tech engine for digital audio publishers

*Selling ad space on digital audio platforms to mainstream advertisers*

AudioValley's main differentiating factor is its global digital audio ad selling services (Targetspot) for publishers (ranging from internet radios, music platforms such as Deezer and Soundcloud, to hardware manufacturer such as Sonos) as well as advertisers. This activity is quite unique, with revenues generated by selling advertising on behalf of the digital audio radio channels and podcasts towards mainstream advertisers.

The company's technology allows digital audio publishers/content providers (emerging and mainstream internet radios, podcasters, etc.) to monetise their services, with ad tech software providing audience/listener data management platform with real-time analytics (Passport) allowing for targeted advertising over streaming audio, the sweet-spot for any advertiser (efficiency) and publisher (higher CPM). Upside could come from shifting the business model more (but not entirely) towards a SaaS model in order to monetise the software and technology features of its offering (currently on offer for free in exchange of ad selling fees).

*International scope with blue chip references*

AudioValley operates globally, with over 1.1bn monthly impressions (70% in North America) moving through its ad server. Targetspot has 80 publishers under contract including Soundcloud, Deezer, Skyrock, Fox News, Entravision and Los 40, as well as more than 200 advertisers including blue chips such as McDonalds, Volkswagen, Ikea, Mediamarkt, BNP Paribas, etc.

### Outlook combining growth, deleveraging and upside potential from hidden assets...

*55% sales CAGR expected*

The company delivered 25% top-line sales CAGR (2017-19) and we now expect 55% sales CAGR for 2020-22e. Momentum was strong ahead of the Covid-19 lockdown, with H2 2019 sales growth reported at 43% at Targetspot (including +61% in Europe and +36% in North America).

*Highly scalable platform*

The company dynamics remain buoyant, with the recent launch of Passport Explore, an innovative technology platform to optimise the management of digital audio ad spend. The platform can handle business volume of as much as EUR 300m and is currently running at 10% of its capacity, which highlights the company's ambitions.

*Momentum is strong* AudioValley has also recently announced a string of major contract wins, including (1) a partnership with **Sonos** for the monetisation of its radio and streaming services which was launched in April 2020 across its 29m connected speakers within its installed base of 10m households worldwide, and (2) a 2-year contract with **Tuneln** covering the monetisation of its ad inventory in 5 European countries. These recent contracts come on top of the **Soundcloud** contract announced back in March 2019 covering 9 European countries. These long term contracts, driven by AudioValley's technology platform and international scope (with strong presence on both sides of the Atlantic), provide strong volumes, synergies/efficiency gains and better visibility going forward.

*Profitability is being reached* We expect adjusted EBITDA (ex-capitalised R&D) to turn positive as from 2021e (reported EBITDA profitability was reached in 2017). Adj. EBITDA margins are expected to reach 10% in 2022e driven by operating leverage with the potential to rise to 25% beyond.

AudioValley's balance sheet is quite leveraged, but it has and is expected to deleverage swiftly, from a gearing of 200% in 2018 to 113% in 2019 and 7% in 2022e through a recent non-core asset disposal, debt restructuring (vendor loan repayment at a discount through a bond issue), an announced capital increase (yet to be launched and closed) and positive free cash flow generation from 2021e.

Finally, in addition to our expected 55% sales CAGR 2020e-2022e driven mainly by further European market penetration at Targetspot, there could be more upside potential from a key hidden asset: Winamp (100% owned by AudioValley), a world-leading multi-platform media player with 80m users, top-4 worldwide. A relaunch of Winamp is expected in H1 2021.

### ... albeit hindered by the impact of Covid-19

*Advertisers have frozen budgets, but there are signs of market revival* The company is not, however, immune to the impact of Covid-19. Indeed, with 88% of sales derived from ad selling and with most advertisers having put the break on ad spend whatever the media (ie. including digital audio), AudioValley has seen turnover fall sharply during the lockdown both in Europe and in North America from March (Q1 2020 sales at Targetspot are up 2.3% with Europe at +61%, boosted by the initial impact of new large contracts, and North America at -14%) to at least May (sales are expected to drop by 35-40% in Q2 according to management). Even Jamendo has seen its music rights-related sales down 11% in Q1 2020.

There are, however, signs that the ad spend market is taking off, particularly in Europe which is pulling itself out of lockdown ahead of North America, which should follow suit.



*Cost cutting measure have been taken to limit cash burn*

In the meantime, management has announced a range of measure to align costs to the falling revenues, including strict cost control such as temporary unemployment plans for staff (75% of the group's fixed costs). All-in-all, the company announced that it has been able to cut costs by 50%, thereby limiting the impact of falling revenues on profitability and, more importantly, on cash burn.

*A capital increase is, nevertheless, in the cards*

Management did, nevertheless, indicate in its FY 2019 press release dated 19 May 2020, that it had a financing need of "circa EUR 6.5m" (in equity, debt and/or non-dilutive instruments such as subsidies; the split having yet to be determined) to cope with the impact of Covid-19 and to be able to pay Vivendi the remaining EUR 3m vendor loan by the end of September 2020. Our analysis suggests that a capital increase of that size would indeed allow the company's cash to remain above EUR 1.5m in 2021e, while keeping equity at a decent level (above EUR 10m in 2021e and 2022e). Out of caution, we have included in our forecast a capital increase of EUR 6.5m in 2020e with the issue of close to 2m shares at a discount to the current share price, ie. adding 22% new shares with dilution over 6 months in the year.

## Valuation upside

*Trading at a premium to ad agencies and a discount to ad tech peers*

Although there are no listed companies that have an identical profile as AudioValley, we have identified two sets of peers: traditional ad agencies and ad tech and related peers. AudioValley is valued at 1.4x EV/Sales 2021e, a 57% discount to Ad tech & related peers and a 58% premium to listed Ad agencies peers but has historically traded at (1) an average premium of 33% compared to traditional ad agencies, and (2) an average discount of 60% compared to ad tech and related peers.

Both the premium and discount to the respective peer group are valid in our view, given (1) the company's superior growth prospects compared to both peer groups (AudioValley's 55% sales CAGR 2020-22e vs. 20% for ad tech & related peers and 4% for ad agencies) to explain a premium, (2) its lower profitability (EBITDA breakeven is expected for 2020e at AudioValley vs. 16% EBITDA margins on average for both sets of peers) to explain a discount and (3) a leveraged balance sheet (gearing level of 81% at AudioValley vs. net cash positions on average for ad tech & related peers and ND/EBITDA levels of circa 1.4x for ad agencies) to also explain a discount. Finally, a clear differentiating factor for AudioValley, but which is difficult to quantify in terms of value, is its integrated technology platform, which we believe deserves a premium valuation.

*We opt for a SOTP model which points to a fair value estimate of EUR 6.19/share*

Given the difference in business models and growth profiles, we opt to value Targetspot separately from Jamendo. Our resulting sum-of-the-parts model, which points to EUR 6.19 per AudioValley share, values each activity separately:

- **Jamendo**, which we value at the recent minority buyout transaction price (EUR 4m for 100%) which represents EUR 0.40 per AudioValley share and

- **Targetspot**, which we value based on 3.0x EV/Sales multiple which is derived from sector M&A transactions with a 35% discount. The derived value of Targetspot represents EUR 5.79 per AudioValley share.

## SWOT analysis

### Strengths

- **Scope of activities** in digital audio spanning the entire value chain from streaming technology to audience monetisation, all on one proprietary and unique technology platform.
- **International clout** with, unlike most of its competitors, business in North America (47% of group sales) and Europe (48%). Such a positioning is attractive for multinational advertisers as well as international digital audio platforms such as Soundcast, Deezer, TuneIn, Sonos, etc., who are Targetspot clients.
- **Market and competitive positioning**. Positioned in a structurally growing market of digital audio with a unique competitive positioning (see two points above).

### Weaknesses

- **Balance sheet** which is stretched to its limits with limited scope of positive free cash flow generation in 2020e owing to the Covid-19 impact.
- **Low profitability** at Targetspot although the business finally turned EBITDA breakeven in H2 2019. Unfortunately, the Covid-19 lockdown impact is expected to turn the business back into losses in H1 2020e (we however expect breakeven over FY20e).
- **Business model** that does not extract any fees from the technology itself (unlike a SaaS model) but only from the structurally growing, albeit more vulnerable and less recurring (as witnessed in the exceptional circumstances of the Covid-19 lockdown), ad revenue.
- **Limited size** compared to most of its peers, with Targetspot generating EUR 22m in sales in 2019 (we expect EUR 19.5m for 2020e, slightly down due to the Covid-19 impact).

### Opportunities

- **Growth prospects in digital audio advertising**, a market which is growing structurally as it is disrupting analogue audio. We expect the US market of digital audio ad spend to grow by 19% CAGR 19-23e, with the European market growing even faster, at 27% CAGR as it catches up. Hence, we expect AudioValley to participate in a market that is forecast to grow 21% CAGR overall. As we expect AudioValley to gain market share given its strategy and focus, it is reasonable to assume that the company should grow at an even higher rate (we expect 34% sales CAGR 19-23e).

- **Market opportunity in music licencing** as Jamendo is, since 2019, an Independent Management Entity, allowing the company to compete with the national copyright Collective Management Organisations which, until recently, controlled the music rights market. Jamendo, with its catalogue covering 42,000 musicians is well-positioned in a EUR 300m market.
- **Business and platform scalability** at Targetspot (and Jamendo), thanks to its technology platform. This is witnessed by the recent launch of Passport Explore, an ad tech platform at the heart of Targetspot, which is designed to accommodate up to EUR 300m of ad spend volume and which is currently only running at 10% of its capacity.
- **Business model shift** to monetise the technology, towards a partial SaaS model could lead to an additional stream of (recurring) revenues which would also have a positive impact on valuation.

### Threats

- **Risk of new entrants in digital audio** (advertising) from the likes of Google or Facebook. This is a risk but also a potential opportunity as AudioValley could be a means to enter the market quickly as witnessed by the acquisitions in 2018 of close peers Trinton and Adswizz by Scripps and Pandora respectively.
- **Covid-19 impact** which is well-documented in AudioValley's recent press release (19 May 2020). The impact hit AudioValley as from March in both North America and Europe, with sales reported to be down 35-40% in April and May (advertisers cutting their budgets despite growing digital audio audience). The company has announced cost cutting measure which should result in lowering costs by 50%. However, we have limited visibility as to the impact of Covid-19 going further and our underlying assumption is that growth should resume towards the end of H2 2020e.
- **Financing needs.** The company highlighted in the recent press release (19 May 2020) that it has financing need of "circa EUR 6.5m" to cope with the impact of Covid-19 and to be able to pay Vivendi the remaining EUR 3m vendor loan by the end of September 2020. Should the impact of Covid-19 or the consequent crisis persist, the financing needs could exceed this amount, which, if liquidity and investor appetite dries up, could be detrimental to the company.

## VALUATION

*Growth stock with subdued profitability and leveraged balance sheet*

AudioValley is a growth stock with features combining proprietary software and ad selling with exposure to an emerging and fast-growing market of digital audio. As such, the company is still loss-making although EBITDA breakeven was reached in H2 2019. We expect H1 2020e to show a further EBITDA loss, but with a positive EBITDA expected for FY20e (although still a loss at the adjusted level). Another important feature with regards to valuation is the company's balance sheet, which is quite leveraged and there are clear funding needs in the near future (EUR 6.5m as recently announced by the company).

*Fair value estimate of EUR 6.19 based on a SOTP*

Given the lack of comparability to peers, we value the company based on a sum-of-the-parts model, splitting the company in two: (1) Jamendo, which we value at the recent minority buyout transaction price and (2) Targetspot, which we value based on an EV/Sales multiple derived from sector M&A multiples. Our fair value estimate based on our SOTP model is EUR 6.19 per share.

### Peer analysis

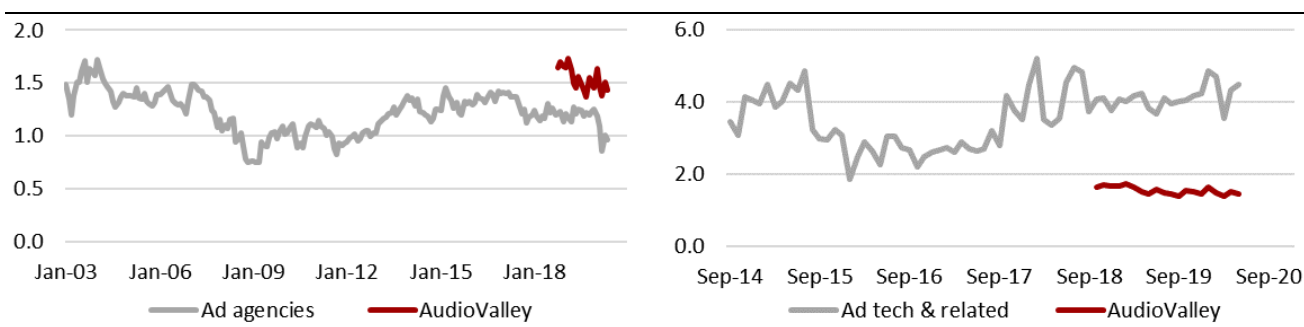
AudioValley is listed since July 2018 with 2 brokers covering the stock and providing estimates to Factset, the tool we use for our peer benchmarking and valuation analysis.

Although there are no listed companies that have an identical profile as AudioValley, we have identified two sets of peers:

- **Ad tech and related companies.** These are companies that own technologies that allow to monetise audiences or that offer services linked to digital advertising. None are identical to AudioValley, but most are riding a similar wave, ie. digital disruption of traditional media one way or another. The group includes mega-caps such as Google and Facebook, which, used alone, would be completely mis-leading. Two are of similar size to AudioValley, but with different business models.
- **Traditional ad agencies** (see Figure 4 for the list of companies included in the peer group) that, like Targetspot, act as an intermediary between advertisers and media of different sorts (press, TV, radio, etc.). Unlike the listed ad agencies in the peer group, Targetspot is (1) much smaller in size and still in a ramp-up mode with opex investments to build the business (ie. still loss making although breakeven was reached in H2 2019), (2) focused on one single media (digital audio, which is disrupting analogue audio with prospects of strong growth), (3) more agile and scalable in our opinion thanks to its proprietary technology platform. Targetspot is geographically diversified with business spread across North America and Europe.

In summary, we would not value AudioValley against any of these peers, but the analysis allows to analyse valuation trends and to provide some form of useful benchmarking (see Figure 5) until a more appropriate peer group is found.

**Figure 2. Historical EV/Sales 12M Fwd: AudioValley vs Peers**



Source: Factset consensus, Merodis Equity Research

AudioValley trades at an average premium of 33% compared to traditional ad agencies, while it trades at an average discount of 60% compared to ad tech and related peers.

Both the premium and discount to the respective peer group are valid in our view, given (1) the company’s superior growth prospects compared to both peer groups (AudioValley’s 55% sales CAGR 2020-22e vs. 20% for ad tech & related peers and 4% for ad agencies) to explain a premium, (2) its lower profitability (EBITDA breakeven is expected for 2020e at AudioValley vs. 16% EBITDA margins on average for both sets of peers) to explain a discount and (3) a leveraged balance sheet (gearing level of 81% at AudioValley vs. net cash positions on average for ad tech & related peers and ND/EBITDA levels of circa 1.4x for ad agencies) to also explain a discount. Finally, a clear differentiating factor for AudioValley, but which is difficult to quantify in terms of value, is its integrated technology platform, which we believe deserves a premium valuation.

**Peer M&A transactions**

Targetspot competes with the likes of Triton and AdsWizz, none of which cover the entire value chain as Targetspot does, nor are they listed. Both have, however, been acquired in 2018 at a value of between 4x and 5x sales (AudioValley is trading at below 2x EV/Sales 2021e):

- **AdsWizz** was acquired by Pandora for an EV of USD 145m (not an all-cash deal though) in May 2018. We understand that the company had annualised sales at the time of USD 35m (vs. EUR 20m in 2019). This equates to an exit multiple of 4.8x.

- **Triton** was acquired by Scripps in December 2018 for a consideration of USD 150m with estimated sales of USD 30m, leading to an exit multiple of 4.3x.

The average exit multiple of these two deals is 4.6x. However, 2018 will probably be seen at the peak of the market with respect to valuations, with market multiples down circa 20-30% (except for Ad tech & related, which has experienced robust valuation multiples over the period) since then.

## Sum of the parts

Given the difference in business models, we prefer to value Targetspot separately from Jamendo. For the latter, we use the company valuation derived from the recent minority stake buyout transaction (28.8% stake acquired by AudioValley in late 2019 at an implied valuation of EUR 4m for 100%).

For Targetspot, we rely on the M&A transactions involving its two closest peers, Trinton and Adswizz, as previously mentioned. As explained earlier, these two companies were taken out in 2018 at an estimated valuation multiple of 4.6x EV/Sales. Given the market derating since 2018 and the higher risk premium resulting from the Covid-19 lockdown, we estimate a current exit multiple for the sector at 3.0x EV/Sales, which is the multiple we apply to Targetspot's sales over the next 3 years, as shown in the table below.

Figure 3. Sum-of-the-parts valuation model

	2020e	2021e	2022e
Targetspot revenues	17.2	28.2	43.9
Exit multiple (x)	3.0x	3.0x	3.0x
Exit EV	52	85	132
IRR/WACC (%)	10.5	10.5	10.5
<b>Discounted EV</b>	<b>46.6</b>	<b>69.3</b>	<b>97.6</b>
Group net debt	12.0	8.3	0.7
Targetspot discounted equity value	34.7	61.0	96.9
Jamendo equity value (recent transaction value)	4.2	4.2	4.2
<b>Total estimated equity value</b>	<b>38.8</b>	<b>65.1</b>	<b>101.0</b>
Number of FD shares (m)	10.5	10.5	10.5
<b>Implied value per share</b>	<b>3.69</b>	<b>6.19</b>	<b>9.60</b>

Source: Merodis Equity Research

To estimate a present value, we discount the derived “exit EV” at an estimated WACC of 10.5% (40% target gearing, 20% tax rate, 8% cost of debt, LT growth rate of 2%, normalised risk-free rate of 1%, beta of 1.75 and equity risk premium of 7%). We deduct the expected net debt for the group to reach a target (discounted) equity value for Targetspot which rise to as much as EUR 101m in 2022e (ie. the value today assuming a transaction in that year at the highlighted conditions).

To take into account the announced financing round, we have taken into account the fully-diluted share count, ie. including our estimated EUR 6.5m equity capital increase at a discount to the current share price, which would lead to the issue of close to 2m new shares in the course of 2020e based on our estimates.

This leads to a target value of between EUR 3.69 per share to EUR 9.60. Taking a 12-months view, we set our fair value estimate at EUR 6.19 per share. Our analysis depends largely, however, on the successful closing of financing round of EUR 6.5m in the next months at a decent valuation.

Figure 4. Advertising peer group valuation analysis

Company	Country	Price (local)	MCap (local m)	P/E			EV/Sales			EV/EBITDA			EV/EBIT			P/B			DYield		
				2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Facebook	UNITED STATES	234.91	669,388	32.0	24.3	19.8	7.8	6.1	4.8	16.4	12.7	10.1	23.5	17.5	13.7	5.6	4.5	3.6	0.0	0.0	0.0
Snap	UNITED STATES	17.67	25,541				12.2	8.9	6.6			124.5			35.6	14.4	14.2	11.5	0.0	0.0	0.0
Twitter	UNITED STATES	32.62	25,595	83.2	48.8	38.1	6.4	5.2	4.4	26.0	18.1	13.7	101.7	40.0	29.4	2.9	2.8	2.6	0.0	0.0	0.0
Google	UNITED STATES	1,413.24	964,705	33.1	25.3	22.0	4.9	4.0	3.3	14.5	11.5	9.5	25.4	19.0	15.8	4.5	3.8	3.1	0.0	0.0	0.0
Trade Desk	UNITED STATES	307.60	14,168	115.5	81.1	61.5	20.3	15.1	11.8	82.2	52.2	37.7	215.5	109.0	68.6	18.8	14.9	11.8	0.0	0.0	0.0
Quotient	UNITED STATES	6.18	556				1.2	0.9	0.7	11.6	7.2	5.7				0.8	0.8	0.7	0.0	0.0	
Rubicon Project	UNITED STATES	5.17	285																		
Acuity Ads	CANADA	1.08	53				0.6	0.5		6.4	3.7		87.8	6.4							
Criteo	FRANCE	9.81	605	11.2	7.8	7.6	0.3	0.2	0.1	1.6	0.7	0.3	8.3	2.0	0.9	0.6	0.6	0.5	0.0	0.0	0.0
ReWorld Media	FRANCE	1.73	88	5.0	3.9		0.2	0.2		2.9	1.7		3.5	2.0		0.9			0.0	0.0	
<b>PEER AVERAGE</b>				<b>43.9</b>	<b>25.0</b>	<b>34.5</b>	<b>4.5</b>	<b>3.4</b>	<b>4.2</b>	<b>21.0</b>	<b>13.1</b>	<b>14.6</b>	<b>78.8</b>	<b>29.8</b>	<b>34.8</b>	<b>5.3</b>	<b>5.4</b>	<b>4.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>PEER MEDIAN</b>				<b>11.2</b>	<b>10.4</b>	<b>34.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>6.4</b>	<b>3.7</b>	<b>5.7</b>	<b>48.1</b>	<b>4.2</b>	<b>34.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>AudioValley</b>	<b>Belgium</b>	<b>4.06</b>	<b>35</b>	<b>na</b>	<b>na</b>	<b>213.4</b>	<b>2.6</b>	<b>1.4</b>	<b>0.8</b>	<b>139.1</b>	<b>18.8</b>	<b>5.7</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>2.6</b>	<b>4.0</b>	<b>3.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>% prem./(disc.) vs median</b>				<b>na</b>	<b>na</b>	<b>518.3</b>	<b>332.0</b>	<b>-57.2</b>	<b>6.1</b>	<b>2,061.1</b>	<b>404.4</b>	<b>-0.5</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>216.4</b>	<b>421.5</b>	<b>437.8</b>	<b>na</b>	<b>na</b>	<b>na</b>

Source: Merodis, Factset

Company	Country	Price (local)	MCap (local m)	P/E			EV/Sales			EV/EBITDA			EV/EBIT			P/B			DYield		
				2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Publicis	FRANCE	25.12	5,959	7.0	5.7	5.4	0.9	0.8	0.7	4.4	3.6	3.4	7.4	5.6	4.9	0.8	0.7	0.7	6.0	7.9	8.8
WPP	UNITED KINGDOM	5.96	7,215	10.0	7.8	7.6	1.1	1.0	1.0	6.8	5.7	5.7	8.9	7.2	7.1	0.8	0.8	0.8	4.9	8.3	7.9
Interpublic	UNITED STATES	16.48	6,421	11.5	9.6	8.8	1.1	1.1	1.0	7.5	6.6	6.5	10.4	8.8	8.4	2.3	2.2	2.2	6.1	6.4	6.7
Omnicom	UNITED STATES	51.78	11,096	11.2	9.2	8.7	0.9	0.8	0.8	6.1	5.5	5.1	7.0	6.2	5.9	3.6	3.5	3.4	5.2	5.4	6.0
<b>PEER AVERAGE</b>				<b>9.9</b>	<b>8.1</b>	<b>7.6</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>6.2</b>	<b>5.3</b>	<b>5.2</b>	<b>8.4</b>	<b>6.9</b>	<b>6.6</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>5.6</b>	<b>7.0</b>	<b>7.3</b>
<b>PEER MEDIAN</b>				<b>10.6</b>	<b>8.5</b>	<b>8.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>6.4</b>	<b>5.6</b>	<b>5.4</b>	<b>8.2</b>	<b>6.7</b>	<b>6.5</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>5.6</b>	<b>7.2</b>	<b>7.3</b>
<b>AudioValley</b>	<b>Belgium</b>	<b>4.06</b>	<b>35</b>	<b>na</b>	<b>na</b>	<b>213.4</b>	<b>2.6</b>	<b>1.4</b>	<b>0.8</b>	<b>139.1</b>	<b>18.8</b>	<b>5.7</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>2.6</b>	<b>4.0</b>	<b>3.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>% prem./(disc.) vs median</b>				<b>na</b>	<b>na</b>	<b>2,516.9</b>	<b>155.9</b>	<b>57.8</b>	<b>-13.5</b>	<b>2,061.4</b>	<b>237.4</b>	<b>4.6</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>68.1</b>	<b>165.8</b>	<b>156.9</b>	<b>na</b>	<b>na</b>	<b>na</b>

Source: Merodis, Factset



Figure 5. Advertising peer group benchmarking analysis

Company	Freefloat (%)	Depr/	Capex/	ND/EBITDA			EBITDA margin (%)			EBIT margin (%)			Net margin (%)			ROE (%)			2020-22e CAGR (%)					
	2020e	EBITDA	Sales	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	EPS	EBITDA	Sales
Facebook	84	15%	25%	-1.8	-1.8	-2.0	47.8	48.1	47.7	33.3	35.1	35.4	27.5	29.1	29.5	19.1	20.6	20.3	27.0	22.3	22.4			
Snap	59	-8%	10%	-2.4	-2.4	-1.6	-10.6	7.1	18.5	-48.9	-24.1	-7.8	-50.5	-23.2	-6.8	-52.2	-37.5	-14.1	-48.0			34.2		
Twitter	96	43%	16%	-5.5	-4.2	-4.0	24.7	29.0	31.7	6.3	13.1	14.8	10.0	11.3	15.9	3.5	5.9	7.1	47.7	33.4	17.7			
Google	44	21%	18%	-2.2	-2.1	-2.2	33.8	34.9	34.7	19.3	21.0	20.8	17.1	18.6	18.6	14.1	16.1	15.4	22.7	19.3	17.8			
Trade Desk	88	10%	5%	-0.4	-0.5	-0.6	24.7	28.9	31.4	9.4	13.8	17.2	8.7	10.5	12.8	18.3	20.5	21.4	37.1	46.9	30.3			
Quotient	82	236%	7%	-0.9	-1.4	-2.0	10.0	12.7	13.0	-7.1	-3.3	-0.8	-9.8	-5.7	-3.2	-6.3	-4.0	-2.1	-39.6		28.0	12.1		
Rubicon Project	91	-135%	16%				6.6	19.0	24.6	-23.8	-6.0		-23.4	-6.1							150.3	30.0		
Acuity Ads	65	-143%	6%	0.9	0.2		9.3	12.2		0.7	7.1		-0.9	5.0										
Criteo	95	44%	5%	-3.0	-3.0	-3.2	19.5	23.0	24.2	3.8	8.7	8.9	8.3	11.7	13.3	5.5	7.4	7.1	21.5	14.9	3.2			
ReWorld Media	52	29%	2%	0.5	-0.3		8.4	9.4		7.0	8.3		4.2	5.7		19.6								
<b>PEER AVERAGE</b>	<b>79</b>	<b>7%</b>	<b>7%</b>	<b>-0.6</b>	<b>-1.0</b>	<b>-1.9</b>	<b>13.1</b>	<b>17.5</b>	<b>23.3</b>	<b>-1.7</b>	<b>4.8</b>	<b>8.4</b>	<b>-2.2</b>	<b>3.5</b>	<b>7.6</b>	<b>9.3</b>	<b>8.0</b>	<b>8.8</b>	<b>6.3</b>	<b>60.0</b>	<b>18.9</b>			
<b>PEER MEDIAN</b>	<b>85</b>	<b>20%</b>	<b>6%</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-2.0</b>	<b>9.6</b>	<b>15.9</b>	<b>24.4</b>	<b>2.2</b>	<b>7.7</b>	<b>8.9</b>	<b>1.7</b>	<b>5.4</b>	<b>12.8</b>	<b>11.9</b>	<b>7.4</b>	<b>7.1</b>	<b>21.5</b>	<b>37.4</b>	<b>21.1</b>			
<b>AudioValley</b>	<b>33</b>	<b>na</b>	<b>2%</b>	<b>-28.5</b>	<b>7.3</b>	<b>0.2</b>	<b>-2.2</b>	<b>3.7</b>	<b>9.9</b>	<b>-37.3</b>	<b>-19.7</b>	<b>-6.5</b>	<b>-31.2</b>	<b>-12.9</b>	<b>0.4</b>	<b>-41.2</b>	<b>-37.1</b>	<b>1.8</b>	<b>na</b>	<b>na</b>	<b>55.1</b>			
<b>% prem./(disc.) vs median</b>	<b>-60.7</b>	<b>#VALUE!</b>	<b>-66.0</b>	<b>7,419.5</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>-77.0</b>	<b>-59.4</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>-96.7</b>	<b>na</b>	<b>na</b>	<b>-74.4</b>	<b>na</b>	<b>na</b>	<b>161.6</b>			

Source: Merodis, Factset

Company	Freefloat (%)	Depr/	Capex/	ND/EBITDA			EBITDA margin (%)			EBIT margin (%)			Net margin (%)			ROE (%)			2020-22e CAGR (%)					
	2020e	EBITDA	Sales	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	EPS	EBITDA	Sales
Publicis	89	14%	2%	1.5	1.0	0.8	21.4	22.4	21.4	12.7	14.4	14.9	7.5	8.9	9.4	11.2	12.8	12.7	13.9	4.7	4.7			
WPP	100	20%	2%	1.9	1.5	1.7	15.7	17.5	17.8	12.0	13.8	14.2	7.3	8.8	9.2	8.4	10.4	10.4	15.0	10.6	3.8			
Interpublic	99	17%	2%	2.2	1.8	1.9	15.3	16.2	16.0	11.0	12.1	12.3	6.7	7.7	8.0	19.9	23.3	25.2	14.5	6.8	4.6			
Omnicom	99	11%	1%	0.4	0.3	0.2	14.6	15.2	15.8	12.7	13.4	13.9	7.7	8.3	8.6	34.6	38.5	39.6	13.2	7.1	3.1			
<b>PEER AVERAGE</b>	<b>97</b>	<b>15%</b>	<b>2%</b>	<b>1.5</b>	<b>1.2</b>	<b>1.1</b>	<b>16.7</b>	<b>17.8</b>	<b>17.7</b>	<b>12.1</b>	<b>13.4</b>	<b>13.8</b>	<b>7.3</b>	<b>8.4</b>	<b>8.8</b>	<b>18.5</b>	<b>21.2</b>	<b>22.0</b>	<b>14.1</b>	<b>7.3</b>	<b>4.0</b>			
<b>PEER MEDIAN</b>	<b>99</b>	<b>16%</b>	<b>2%</b>	<b>1.7</b>	<b>1.3</b>	<b>1.2</b>	<b>15.5</b>	<b>16.9</b>	<b>16.9</b>	<b>12.3</b>	<b>13.6</b>	<b>14.0</b>	<b>7.4</b>	<b>8.6</b>	<b>8.9</b>	<b>15.5</b>	<b>18.0</b>	<b>19.0</b>	<b>14.2</b>	<b>6.9</b>	<b>4.2</b>			
<b>AudioValley</b>	<b>33</b>	<b>na</b>	<b>2%</b>	<b>-28.5</b>	<b>7.3</b>	<b>0.2</b>	<b>-2.2</b>	<b>3.7</b>	<b>9.9</b>	<b>-37.3</b>	<b>-19.7</b>	<b>-6.5</b>	<b>-31.2</b>	<b>-12.9</b>	<b>0.4</b>	<b>-41.2</b>	<b>-37.1</b>	<b>1.8</b>	<b>na</b>	<b>na</b>	<b>55.1</b>			
<b>% prem./(disc.) vs median</b>	<b>-66.3</b>	<b>#VALUE!</b>	<b>-1.6</b>	<b>na</b>	<b>473.4</b>	<b>-87.2</b>	<b>na</b>	<b>-78.3</b>	<b>-41.3</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>-95.2</b>	<b>na</b>	<b>na</b>	<b>-90.4</b>	<b>na</b>	<b>na</b>	<b>1,210.0</b>			

Source: Merodis, Factset

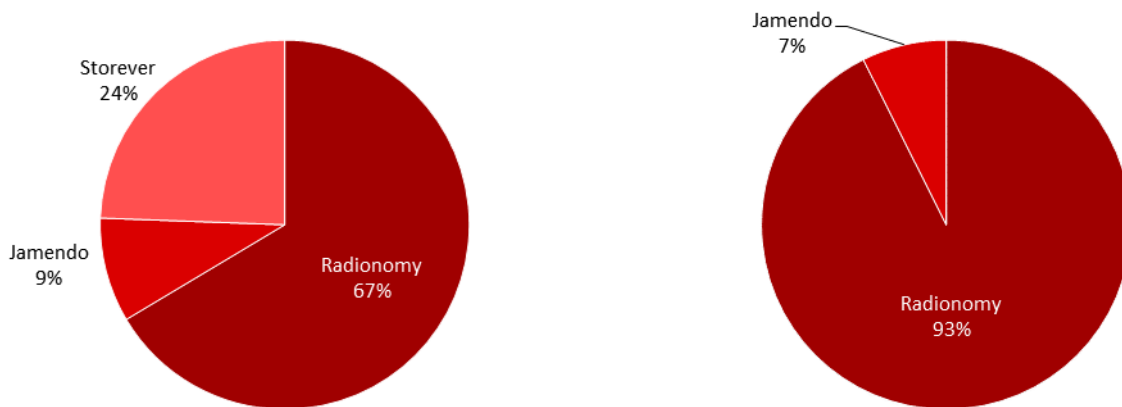
## COMPANY DESCRIPTION

### Company profile



AudioValley is a Belgian technology company launched in 2003 and active in the field of digital audio disruption covering most of the industry’s value chain: from music licencing (**Jamendo**) to software enabling the creation, streaming and hosting of digital audio content over the internet (**Shoutcast**) as well as the monetisation of internet radio audiences through its own digital ad agency (**Targetspot**).

Figure 6. Sales split in 2019e (left) and 2020e (right)



Source: Merodis Equity Research



#### Storever - in-store audio and video - recently divested

AudioValley was launched in 2003 by Alexandre Saboundjian (founder and current CEO). The company started by providing in-store communication (audio and video) for retailers using online streaming technology under the **Storever** brand. By the mid-2019, the solution was used in 16,000 point-of-sales worldwide, generating EUR 7.7m in sales in 2018 and representing 31% of group sales over 9M 2019. The activity was sold in December 2019 for an EV of EUR 15m to M-Cube, an Italian company.

#### Targetspot - digital audio technology and ad selling

**Targetspot**, AudioValley’s current core activity (EUR 19m in sales expected in 2019e), was launched in 2007, under the **Radionomy** brand, as a platform (using the same online streaming technology) allowing anyone to create internet radio.

*Proprietary technology* The technology was developed internally and the business model grew organically and through acquisitions. This was particularly the case with the acquisition of **Targetspot** (digital ad platform) in the US in 2013 from CBS and those of **Shoutcast** (streaming software) and **Winamp** (media player) in 2014 from AOL. AudioValley is now able to provide the digital audio technology to broadcast and host internet radios as well as to help the users to monetise their audience through targeted advertising.






*Figure 7. Product range*

Software	Target markets	Comments
 <b>targetspot</b>	National and international radio station, music streaming services	Ad selling platform with clients such as Soundcloud, Deezer and radio stations such as Skyrock, Nova, NRJ, Univision, Fox News, Entravision, etc.
 <b>shoutcast</b>	Mid-market, regional and boutique radio stations	Streaming and ad selling software acquired in 2014 from AOL. Currently hosting more than 70,000 internet radios (2,000 of which use the ad selling services) with an audience representing more than 200m hours of monthly streaming. The company used to also operate this activity for boutique radios under the Radionomy brand, which was discontinued in December 2019

Source: Company data, Merodis Equity Research

The focus of our analysis is on Targetspot which is the company’s key revenue generator. Targetspot is a digital audio advertising platform that connects advertisers (international brands as well as regional or local advertisers) to internet and mobile audiences using any kind of connected device (mobile or desktop). The connected nature of the audience means that, unlike with radio, advertisers can target consumers by demographics, listening preferences, behavioural and psychographic segmentation, and geography, while benefitting from real-time reporting and analytics.

*Figure 8. Targetspot service offering: from technology to ad selling platform*

TECHNOLOGY	AD-TECH PASSPORT	DATA MANAGEMENT	MONETISATION	SELF-SERVICE
 <ul style="list-style-type: none"> <li>• Streaming</li> <li>• Podcast</li> <li>• Ad-injection</li> <li>• Audience Analytics</li> </ul>	 <ul style="list-style-type: none"> <li>• Ad-server</li> <li>• Meta-ssp</li> <li>• Real time analytics</li> <li>• API</li> </ul>	 <ul style="list-style-type: none"> <li>• Listener DMP</li> <li>• Audience DMP</li> <li>• Analytics</li> <li>• Data exchange</li> </ul>	 <ul style="list-style-type: none"> <li>• Listener DMP</li> <li>• Audience DMP</li> <li>• Analytics</li> <li>• Data exchange</li> </ul>	 <ul style="list-style-type: none"> <li>• Reseller app</li> <li>• Self-service SME's</li> <li>• Creative studio</li> <li>• R.O.A.S.</li> </ul>

Source: Company data

*Integrated platform covering the entire value chain, unlike competition*

The platform consists of (1) audio streaming technology for internet radios, music platforms and podcasts, (2) ad tech software with an ad server allowing for real-time analytics of audience and (3) data management software to analyse and manage the audience profiles. Fully integrated into the technology platform (unique feature of Targetspot's services) is the ad selling services which allows the publishers (internet radio, music platforms, podcasts, etc.) to monetise their audience/inventory by selling targeted ad space to either ad agencies or directly to advertisers.

*Highly scalable*

The company recently launched Passport Explore, an innovative technology platform to optimise the management of digital audio ad spend. The platform can handle as much as EUR 300m of ad spend business volume (currently running at 10% of its capacity), which highlights the company's ambitions.

Today, AudioValley offers the most integrated solution in the digital audio market to over 70,000 internet radios worldwide (representing 200m hours of streaming per month) that use the Shoutcast technology, with over 1.1bn monthly impressions worldwide (70% in North America) moving through its ad server. Targetspot has over 80 (audio) publishers under contract including Soundcloud, Deezer, Tuneln, Skyrock, Fox News, Entravision, Los 40, etc., connected hardware manufacturers (Sonos) as well as over 200 advertisers including McDonalds, Volkswagen, Ikea, Mediamarkt, BNP Paribas, etc.

Figure 9. International scope and audience reach (impressions)



Source: Company presentation (Jan-20)



**Jamendo - music rights management**

AudioValley acquired **Jamendo** in 2010. Jamendo offers an independent music rights management platform for artists (collecting payments of artists’ rights and distributing them to the original songwriters, composers and/or music publishers) but also an online platform for listeners to discover the artists for free (**Jamendo Music**) and a music catalogue for professionals in search of content for projects such as movies or events (**Jamendo Licencing**).

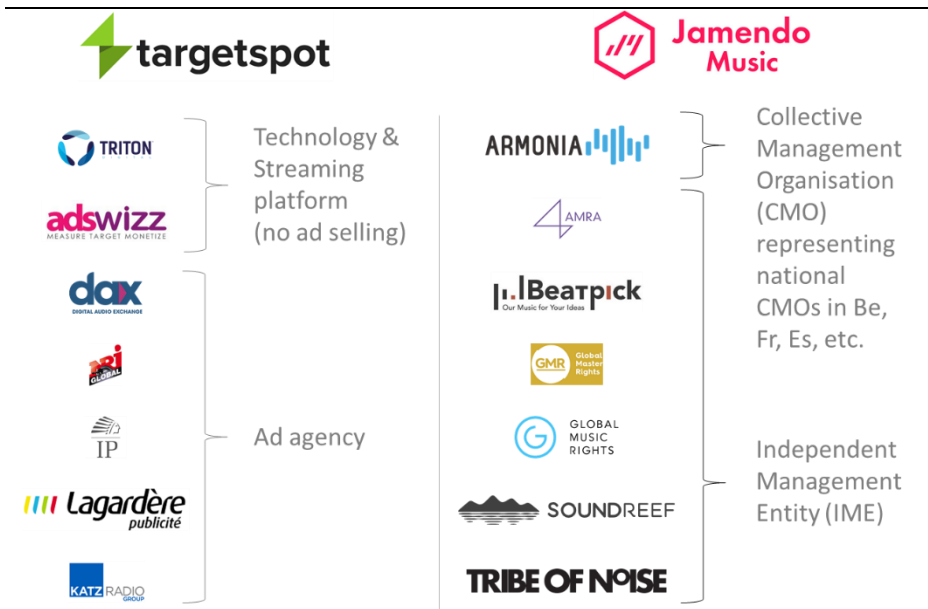
Jamendo recently reached several milestones including a catalogue of close to 600,000 tracks, 4m members, more than 42,000 artists on its platform with 10,000 corporate clients using Jamendo Licencing.

In February 2019, Jamendo became an Independent Management Entity (IME), a European legal status allowing commercial entities to perform activities similar to national copyright and related rights Collective Management Organizations such as SACEM in France, SABAM in Belgium, SGAE in Spain, GEMA in Germany and SIAE in Italy. This move opens up the European music rights market for players like Jamendo.

**Competition**

The company’s competitive landscape is summarised in the table below.

Figure 10. Competitive environment



Source: Company data, Merodis Equity Research

*Unique business model*

In conclusion, AudioValley operates a quite unique business model in a relatively fragmented market. Targetspot’s competitive landscape consists of technology platforms such as Triton and Adswizz, on the one hand and mainstream ad selling agencies such as Dax, Lagardere Publicité and Katz Radio on the other hand. There is no other player that offers both a technology and an ad selling platform simultaneously, which makes Targetspot unique.

Jamendo, however, operates in a market dominated by established players such as the national CMO's (Collective Management Organisations), as well as emerging IMEs (Independent Management Entities) such as Beatpick, Soundreef and Tribe of Noise. Jamendo's USP is the size of its catalogue built over 10 years, with 42,000 artists/musicians from all over the world.

## Strategy

*Focus on Targetspot* The company's strategy is based mainly on increasing exposure to Targetspot, the main value and growth driver, through the following measures:

- **Gain full control of Radionomy.** The buyout of Vivendi's majority stake (64.44%) on 17 August 2017, after having initially sold it two years earlier, was testimony to management's belief in the business opportunity offered by digital audio. The acquisition price was set at EUR 30.35m (EUR 14m for the shares, giving rise to EUR 13.8m of goodwill on AudioValley's balance sheet, and EUR 16.35m for liabilities paid by Vivendi). On 26 September 2017, AudioValley acquired a 11.6% stake in Radionomy owned by Union Square Ventures for EUR 1m through a share swap. 98.5% ownership gave full control back to AudioValley's management. Since, Radionomy (now called Targetspot) delivered 32% sales growth in 2018 followed by 36% in 2019. Targetspot, which should weigh close to 90% of group sales in 2020e, is the company strategic focus as explained below.
- **Sell non-core activities** to set full focus on Targetspot. This was done through the disposal of Storever, the company's business at its launch. Storever was profitable, which may have confused some investors, but management's intention was to take advantage of demand for the business from strategic players while setting full management focus and financial resources on the superior growth opportunity provided by Targetspot.
- **Deleverage the balance sheet** by swiftly paying back the vendor loan at a discount. The Vivendi vendor loan has and is being paid back with (1) the proceeds of the IPO in July 2018 (EUR 5.1m), (2) a EUR 8m convertible bond issued in July 2019, (3) the disposal of its 81% stake in Storever in December 2019 (EUR 9.3m) and (4) a EUR 5m bond issued in December 2019. AudioValley successfully negotiated a 35% discount, or a rebate of EUR 8.6m, on the vendor loan as of June 2019 (EUR 24.6m) with a payment of EUR 13m was made before December 2019 and EUR 3m before 30 September 2020. We expect gearing to fall from 113% in 2019 to 71% by the end of 2020e, with a favourable impact expected on the risk profile of the company as perceived by equity investors.

*We expect 55% sales CAGR  
2020-22e*

All these measures should allow management to focus its time and efforts on Targetspot's growth, which we expect to be particularly strong over the next years (55% sales CAGR 2020-22e), including 58% sales growth in 2021e. Given AudioValley's scalable model, further sales growth should deliver margin expansion through operating leverage.

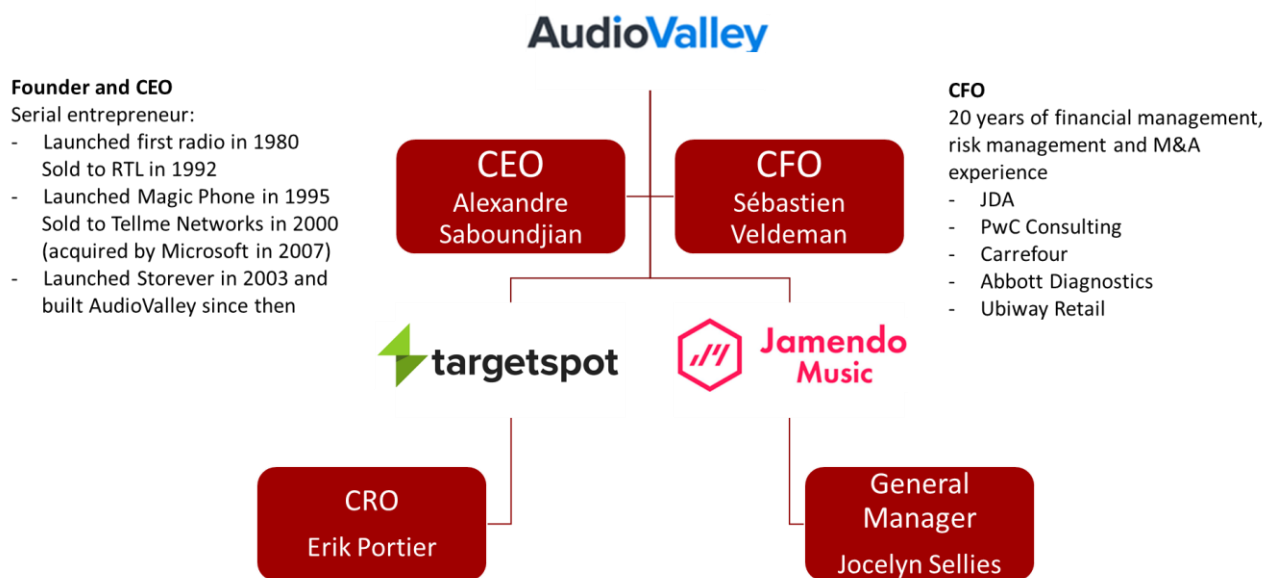
### Business model

AudioValley’s main value driver is Targetspot with a business model based on offering its technology platform for free to digital audio publishers but charging a fee for the monetisation of their audience by selling their inventory (ad time available) to ad agencies (the likes of Publicis, Havas and GroupM to mention the biggest) and advertisers directly.

The ad revenue paid by the advertiser or ad agency is shared between the publisher (between 50% and 70%) and Targetspot (between 50% and 30%), depending on the level of involvement of Targetspot with regards to the ad server and the data management (audience data that allows the ad targeting). In fact, Targetspot invoices the advertiser/ad agency and pays a retrocession fee to the publisher which is booked in Targetspot/AudioValley’s COGS (EUR 7.1m in 2018, 50% of Targetspot sales and 88% of its COGS). Large contracts with the like of Soundcast, Sonos and TuneIn are likely to be struck on 70-30 revenue share basis.

### Company structure and management

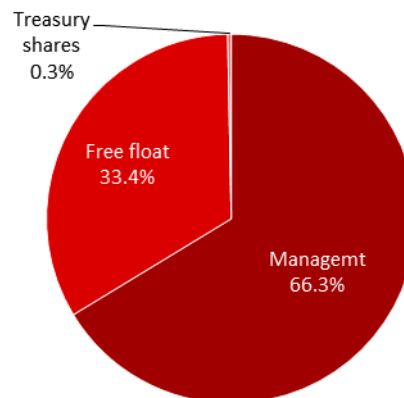
Figure 11. Company structure and management



Source: Company data

## Shareholders

Figure 12. AudioValley shareholders



Source: Company data

At the time of the IPO, founder and CEO, Alexandre Saboundjian, owned either directly (1.8%) or indirectly (through his management company, Maxximum SA, 64.2%) a total of 68% of AudioValley shares. Other shareholders included Yves de Koster (2.5%), Union Square Ventures (2.3% through a contribution in kind with the disposal of its 11.6% stake in Radionomy in 2017), Bernd Hofstoetter (1.9%) and SRIB (Brussels Region fund, 1.2%).



## INDUSTRY OVERVIEW

AudioValley’s main value driver is digital audio advertising revenues, a market which is growing fast thanks to the following trends:

- **Penetration of digital audio** among listeners/audience versus analogue radio.
- **Advertising spend at digital audio platforms** offering better audience targeting versus analogue radio.
- **Market share gains by Targetspot** (albeit from a low base) in a growing market versus traditional ad agencies.

Together, these trends should allow AudioValley to deliver solid revenue growth over the next years as the company gains market share in a significantly growing underlying market.

Besides the audio digital market, AudioValley is also exposed, albeit to a smaller extent given the relative size of the market and the more competitive nature of the market, to the music licencing market. Our industry overview is focused on the digital audio advertising market.

### Digital audio penetration

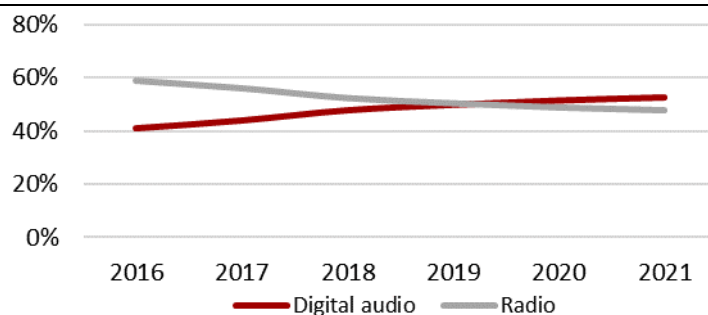
*Digital audio offers features unavailable to analogue audio*

Digital audio includes music or other audio content delivered over the internet via websites, apps, podcasts (streamed or downloaded), streaming services, etc. The term typically excludes downloaded music (MP3 files) as well as digital terrestrial/satellite radio services that are delivered over the air as these are related to analogue radio and do not allow targeted advertising in the way that digital audio over the internet does.

*Audience is growing fast...*

Listening to the radio is quite popular among adults around the world. In Europe, radio is the second most popular media, particularly among older adults. Europeans spend on average 2.3 hours per day listening to radio, which highlights the popularity of the media. Youngsters devote less time to radio (less than 2 hours per day), but more time to digital audio, particularly streaming music services such as Spotify.

Figure 13. Listening time among US adults (total 160 minutes in 2019)



Source: eMarketer (April 2019)

... and close to exceeding analogue

Digital audio as a media is gaining ground over traditional radio in terms of audience share. In the US, for example, the share of audio digital rose from 41% of listening time among adults in 2016 and is expected to exceed 50% by 2020 according to eMarketer in April 2019. By 2021, eMarketer expected listening time of digital audio to reach 52%. The growing penetration also reflects the underlying growth in listening time of digital audio (+7.6% CAGR 2016-21e) compared to radio (-1.8% pa) which is, nevertheless, experiencing a slower decline in audience than TV (-3% globally according to Nielsen).

Europe is experiencing the same underlying trend albeit with some delay compared to the US. In France, for example, digital audio represents 14% of listening time according to Médiamétrie in 2018. In Europe, the number of internet radio listeners could be around 20-25%.

Ad spend is expected to catch up

All-in-all, radio attracts around 4% of global advertising revenues or USD 16bn pa. The trend is, however, declining as digital media, including digital audio is gaining market share away from traditional/analogue media such as printed press and radio.

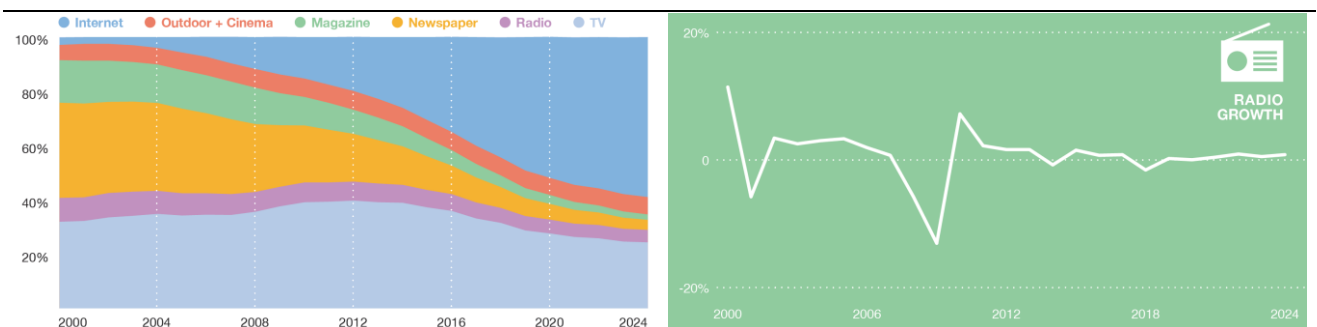
### Digital audio ad spend

Growing adoption should also drive growing advertising spend in digital audio as advertisers not only seek to reach the largest audience, but they also aim to reach the most appropriate and targeted audience, which digital audio allows for.

Interestingly, the radio-listening audience that digital audio is also aiming at, is a population that largely consists of affluent and higher educated, a market segment that appeals to advertiser and that command higher advertising prices (or CPM – cost per mille/thousand).

Global radio advertising revenues are estimated by GroupM at around USD 31bn, 5% of the global ad spend. The graph below shows the resilience of radio ad spend over time, highlighting its resistance in the face of the digital threat from the likes of Google and Facebook. Digital audio should, in our view, eat into this budget given its growing audience (at the expense of radio audience) and its attraction to advertisers (ie. more targeted ad spend vs radio).

Figure 14. Global advertising share per medium and radio advertising revenue growth

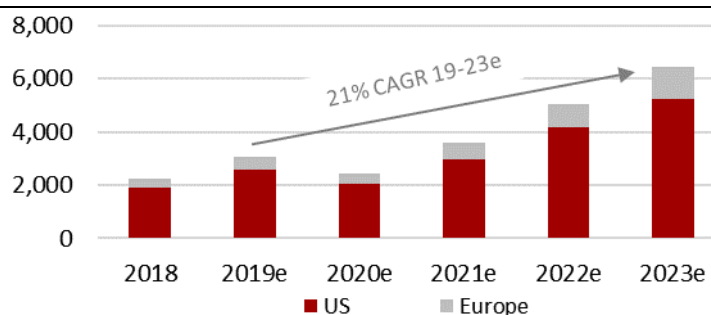


Source: GroupM (December 2019)

There is little data on the size of global digital audio ad spend given its emerging nature. IAB and PwC estimate that US audio ad spend weighed USD 2.25bn in 2018, 2% of digital ad spend and 14% of radio ad spend, which seems low in the light of the audience share of digital audio in the US which is currently around 50%. In Europe, the size of digital audio advertising market is forecast at EUR 479m according to a study by IAB in October 2019. The market is expected to grow to EUR 1.5bn by 2023, which represents 34% CAGR going forward.

We could, therefore, expect significant growth going forward from the double impact of (1) underlying growth in digital audio audience and (2) a catch-up effect versus radio from 14% of ad spend share toward a percentage in excess of 50% given digital audio greater effectiveness for advertiser (targeted reach). A third growth driver for AudioValley specifically would be the growth potential in Europe, a largely unexploited market with respect to digital audio ad spend and a market where AudioValley does not face much competition either in terms of technology providers nor in terms of integrated players (combining technology and ad selling services).

*Figure 15. Digital audio ad spend (EURm) estimated to exceed EUR 6bn by 2023e*



Source: IAB & PwC, Merodis Equity Research

*Ad spend market is expected to grow at 21% CAGR 2019-23e*

We expect the US market of digital audio ad spend to grow by 19% CAGR 19-23e, with the European market growing even faster, at 27% CAGR as it catches up. Hence, we expect AudioValley to participate in a market that is forecast to grow 21% CAGR overall. As we expect AudioValley to gain market share given its strategy and focus, it is reasonable to assume that the company should grow at an even higher rate (we expect 32% sales CAGR 19-23e).

## FINANCIAL ANALYSIS

AudioValley has been quite active over the past few years in terms of corporate structure, with the end game being an increasing focus on Targetspot, the company's main growth driver with global ambitions.

*Many changes to increase focus lead to limited comparability of accounts*

The various changes in structure lead to financial accounts with limited comparability from year to year. However, AudioValley's financial reporting is quite detailed for a company of its size, particularly regarding segment reporting, which allows to measure the growth and profitability of each activity separately.

We summarise the changes in corporate structure in the bullet points below:

- **Buyback of Radionomy from Vivendi (2017).** Vivendi, the French media company, acquired a 64.4% stake in Radionomy for EUR 23.7m. Following two years of operations, without enjoying the synergies that had back the transaction at the time while being burdened by a legal procedure against it from a major music producer (resulting in EUR 14.7m in litigation costs), Vivendi agreed to sell its stake back to founder Alexandre Saboundjian (through his company AudioValley).

The purchase price was agreed at EUR 14m for the 64.4% stake and EUR 16.4m of debt purchase linked to the litigation (ie. a total consideration of EUR 30.4m). The transaction price was financed by a vendor loan of EUR 29.7m. The EUR 9.5m capital increase through an IPO on Euronext Paris in July 2018, allowed the company to pay back EUR 5m of the vendor loan, amounting to EUR 24.8m. In July 2019, AudioValley struck a deal with Vivendi for a up-to 35% discount (EUR 8.6m) on the vendor loan due if payment was made by November 2019. In the meantime, this agreement was extended twice while AudioValley reimbursed EUR 13m in December 2019 with part of the proceeds from (1) the issue of a EUR 8m convertible bond in July 2019, (2) the disposal of Storever announced on 5 December 2019 (EUR 8m cash inflow in 2019) and (3) issue of a EUR 5m bond on 16 December. The final EUR 3m payment expected before 30 September 2020, giving way to a EUR 8.6m debt discount. Accounting-wise, the discount is included in the 2019 accounts in financial results for an amount of EUR 4.4m (EUR 8.6m being the nominal discount) adding to an accretion expense of EUR 1.3m.

- **Disposal of Storever (2019).** Storever was the foundation of the company back in 2003. The company provides in-store communication (audio and video) for retailers using online streaming technology. By the mid-2019, the solution was used in 16,000 point-of-sales worldwide, generating EUR 7.7m in sales in 2018 and representing 31% of group sales over 9M 2019. The business delivered recurring subscription revenues with a certain level of profitability, but without much growth prospects and with a business turning more and more towards video content, which was not aligned with the group's core business.

The activity was sold in December 2019 for an EV of EUR 15m for 100% (equity value estimated at EUR 11.5m, 81% belonging to AudioValley) to M-Cube, an Italian company. It was included for 11 months in the 2019 consolidated accounts. The transaction led to a capital gain booked in the 2019 accounts of EUR 7.1m booked in the P&L and cash proceeds of EUR 8.1m booked in the cashflow. A further EUR 1m is expected to be paid to AudioValley in 2021e.

- **Buyout of Jamendo's minority shareholders (2019).** In January 2020, the company announced that it had acquired a 28.8% stake in Jamendo, effectively buying out the minority shareholders and consequently gaining full control of the company. The price was reported at EUR 1.25m for the stake, valuing Jamendo at EUR 4.3m (1.6x sales). This acquisition has impacted the minority charge in the P&L, but to a limited extent given the size of the profit generated by Jamendo (EUR 0.1m EBITDA in 2019). However, this transaction streamlines AudioValley's ownership structure.

## P&L analysis

Figure 16. AudioValley P&L account and forecasts

EURm	2017	2018	2019*	2020e	2021e	2022e
<b>Total sales</b>	<b>14.015</b>	<b>24.606</b>	<b>21.962</b>	<b>19.553</b>	<b>30.921</b>	<b>47.041</b>
% growth		75.6	-10.7	-11.0	58.1	52.1
o/w Targetspot	4.684	14.157	19.268	17.183	28.194	43.906
% growth		202.2	36.1	-10.8	64.1	55.7
Jamendo	2.692	2.783	2.694	2.371	2.726	3.135
% growth		3.4	-3.2	-12.0	15.0	15.0
Storever	6.639	7.666	7.019			
% growth		15.5	-8.4			
<b>Gross profit</b>	<b>8.873</b>	<b>14.292</b>	<b>9.739</b>	<b>8.639</b>	<b>13.050</b>	<b>19.757</b>
% growth		61.1	-31.9	-11.3	51.1	51.4
% sales	63.3	58.1	44.3	44.2	42.2	42.0
Opex (ex-COGS)	7.696	14.004	10.331	8.277	10.684	13.214
% growth		82.0	-26.2	-19.9	29.1	23.7
% sales	54.9	56.9	47.0	42.3	34.6	28.1
<b>Reported EBITDA</b>	<b>1.177</b>	<b>0.288</b>	<b>-0.592</b>	<b>0.362</b>	<b>2.366</b>	<b>6.543</b>
% growth		-75.5	na	na	554.0	176.6
% sales	8.4	1.2	-2.7	1.8	7.7	13.9
- Capitalised R&D	-1.032	-1.969	-2.295	-0.782	-1.237	-1.882
<b>Adjusted EBITDA</b>	<b>0.145</b>	<b>-1.681</b>	<b>-2.887</b>	<b>-0.420</b>	<b>1.129</b>	<b>4.661</b>
% growth		na	na	na	na	312.9
% sales	1.0	-6.8	-13.1	-2.2	3.7	9.9
<b>Reported EBIT</b>	<b>3.167</b>	<b>-4.080</b>	<b>2.315</b>	<b>-4.771</b>	<b>-2.995</b>	<b>0.834</b>
% growth		na	na	na	na	na
% sales	22.6	-16.6	10.5	-24.4	-9.7	1.8
<b>Adjusted EBIT</b>	<b>-2.879</b>	<b>-7.078</b>	<b>-1.143</b>	<b>-7.298</b>	<b>-6.082</b>	<b>-3.057</b>
% growth		na	na	na	na	na
% sales	-20.5	-28.8	-5.2	-37.3	-19.7	-6.5
Net financials	-0.847	-1.466	2.276	-1.321	-1.002	-0.634
<b>Pretax profit</b>	<b>2.320</b>	<b>-5.546</b>	<b>4.591</b>	<b>-6.092</b>	<b>-3.997</b>	<b>0.200</b>
Tax	0.150	0.228	-0.260	0.000	0.000	0.000
% rate	-6%	4%	6%	0%	0%	0%
<b>Net profit</b>	<b>2.470</b>	<b>-5.318</b>	<b>4.331</b>	<b>-6.092</b>	<b>-3.997</b>	<b>0.200</b>
% growth		na	na	na	na	na
% sales	17.6	-21.6	19.7	-31.2	-12.9	0.4

Source: Company data, Merodis Equity Research (\* excludes Storever except at Net profit level)

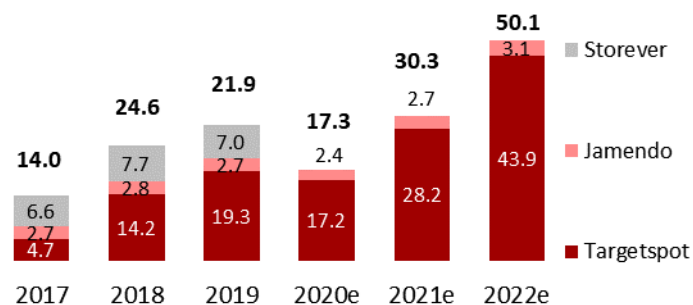
### Top-line growth drivers

Taking a divisional look at growth, Targetspot is clearly the group's growth driver. Since 2017, the activity delivered sales CAGR of 34% (taking into account 12 months of sales in 2017 instead of the 4 that are included in the consolidated accounts).

Before the Covid-19 impact from March 2020, momentum was strong as shown in the recent interim and quarterly breakdown of sales, with H2 2019 sales up 43% (including +61% in Europe and +36% in North America).

Jamendo, on the other hand, has not delivered much growth over the years. We do expect momentum to build up with the recent IME accreditation, which should open up the international song-rights market for the company.

Figure 17. Divisional sale expectations



Source: Company data, Merodis Equity Research

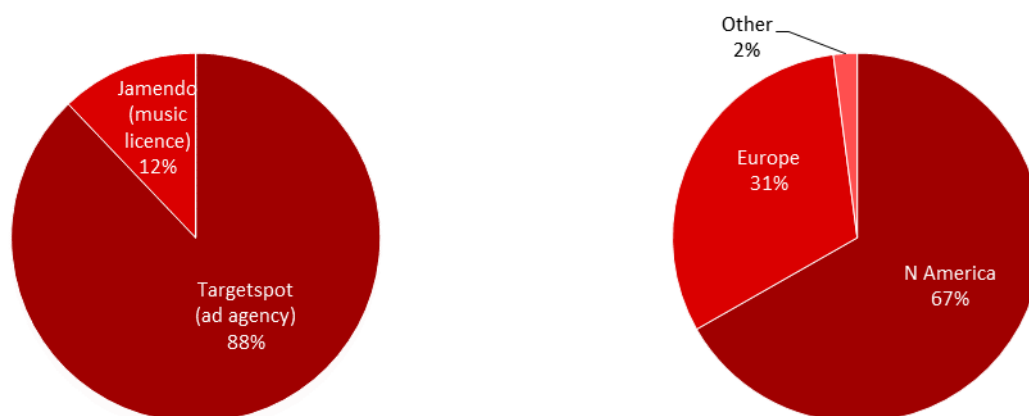
Top line growth at Targetspot should be driven by the following factors:

- Market growth.** We expect the audio digital ad spend market to grow by 18% CAGR 2019-22e, with even stronger growth expected in Europe (23% CAGR), where AudioValley is well positioned to capture a strong position compared to its competitors, among which Triton and Adswizz, its two main US competitors which are not as well active in the region.
- Market share gains.** To deliver superior growth than the market, AudioValley will have to invest its resources in building market share in the markets it is already active in (mainly US) as well as through geographic expansion, just as what is happening in Europe, an emerging market with regards to digital audio ad spend. We expect AudioValley to focus on the European market where the cost of acquiring clients appears to be lower than in the US. The company estimates that it would require as many as 250 FTEs to cover the entire market, while Europe would require around 6 FTEs per (large) country of presence.

Following clients such as Soundcloud in Europe should help to accelerate growth in our opinion. Indeed, thanks to the exclusive contract with **Soundcloud** (announced in March 2019), AudioValley launched its Targetspot activity in France, Germany and the Netherlands in the course of 2019, followed by Belgium, Spain and the UK and with 3 new countries to follow (Portugal, Italy and Switzerland). Recently, AudioValley also announced contracts with **Sonos** (monetisation of radio streaming services launched by Sonos in April 2020, with 29m connected speakers representing an audience of 10m households worldwide) and **Tuneln** (exclusive contract to monetise Tuneln's audio advertising space in France, Italy, Belgium, Spain and the Netherlands; Tuneln is one of the most widely used streaming audio platform in the world with 75m monthly active users). This should stimulate and accelerate growth in those countries, including with other publishers/broadcasters.

As far as market share is concerned, we expect Targetspot to win 23% more market share in the US between 2019 and 2022e. In Europe, we expect an even superior performance, with 32% higher market share between those two years driven by the company's unique market position in the region and its head start (lack of competition for the time being).

Figure 18. Sales breakdown in 2019

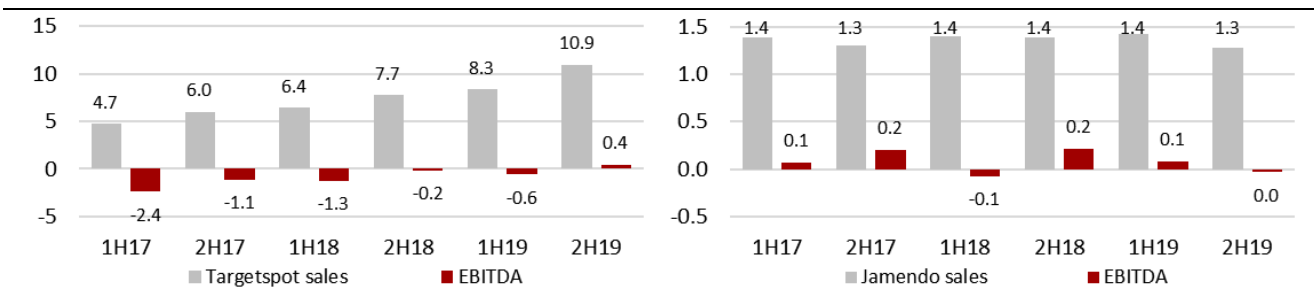


Source: Company data, Merodis Equity Research

### Profitability analysis

our divisional analysis shows that Jamendo is marginally breakeven at the current level of sales while Targetspot only reach EBITDA breakeven in the course of H2 2019 at EUR 10.9m interim sales (EUR 21m annualised), as depicted in the graph below.

Figure 19. Divisional sales and EBITDA evolution (EURm)



Source: Company data, Merodis Equity Research

Our divisional forecast for Targetspot below highlights that EBITDA profitability is expected to be captured back in 2021e, at the time when sales should exceed EUR 24m. In the meantime, we expect 2020e to be a lost year for the entire sector, in line with the guidance provided by the company.

Figure 20. Targetspot summarised P&L

Eur m	2017	2018	2019	2020e	2021e	2022e
<b>Total sales</b>	<b>4.684</b>	<b>14.157</b>	<b>19.268</b>	<b>17.183</b>	<b>28.194</b>	<b>43.906</b>
% growth		202.2	36.1	-10.8	64.1	55.7
o/w USA		10.9	14.1	13.7	22.2	34.4
% growth			30.1	-3.0	62.0	54.7
Europe		3.3	5.1	3.5	6.0	9.5
% growth			55.8	-32.4	72.2	59.5
<b>Materials</b>	<b>-2.670</b>	<b>-8.098</b>	<b>-11.091</b>	<b>-9.966</b>	<b>-16.917</b>	<b>-26.343</b>
<b>Gross Profit</b>	<b>2.014</b>	<b>6.059</b>	<b>8.177</b>	<b>7.217</b>	<b>11.278</b>	<b>17.562</b>
% growth		200.8	35.0	-11.7	56.3	55.7
% sales	43.0	42.8	42.4	42.0	40.0	40.0
<b>Services</b>	<b>-0.753</b>	<b>-2.625</b>	<b>-2.509</b>	<b>-2.133</b>	<b>-2.772</b>	<b>-3.188</b>
% growth		248.6	-4.4	-15.0	30.0	15.0
% sales	-16.1	-18.5	-13.0	-12.4	-9.8	-7.3
<b>Staff costs</b>	<b>-1.581</b>	<b>-4.877</b>	<b>-5.834</b>	<b>-4.667</b>	<b>-6.301</b>	<b>-8.218</b>
% growth		208.5	19.6	-20.0	35.0	30.4
% sales	-33.8	-34.4	-30.3	-27.2	-22.3	-18.7
<b>Opex</b>	<b>-5.004</b>	<b>-15.600</b>	<b>-19.434</b>	<b>-16.766</b>	<b>-25.990</b>	<b>-37.750</b>
% growth		211.8	24.6	-13.7	55.0	45.2
% sales	-106.8	-110.2	-100.9	-97.6	-92.2	-86.0
<b>Others</b>	<b>-0.200</b>	<b>-0.004</b>	<b>-0.009</b>	<b>-0.006</b>	<b>-0.008</b>	<b>-0.050</b>
<b>EBITDA</b>	<b>-0.520</b>	<b>-1.447</b>	<b>-0.175</b>	<b>0.411</b>	<b>2.197</b>	<b>6.106</b>
% growth		na	na	na	434.6	178.0
% sales	-11.1	-10.2	-0.9	2.4	7.8	13.9

Source: Company data, Merodis Equity Research

The gross margin pressure from larger contracts with music platforms sur as Soundcloud and Deezer is expected to be partly offset by scale effect, leading to margins moving from 42% to 2019 to 40% in 2021e. Where operating leverage really kicks in is with the other opex items, which should allow for breakeven as of 2020e (H2 2020e to be precise) and an EBITDA profitability of close to 14% by 2022e. We would expect peak margins to reach 25% given the scalability of the business.



Jamendo’s top line is expected to start to grow double digit as from 2021e, driven by its newly approved legal status as an IME, which opens up a large new market for the company. Indeed, this effectively brings Jamendo in competition with the national CMOs, which operate in a EUR 300m market.

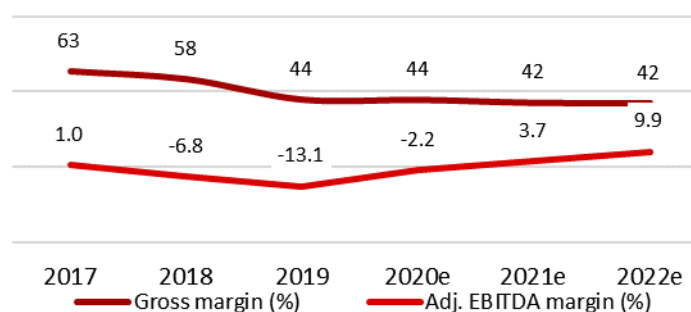
Figure 21. Jamendo summarised P&L

Eur m	2017	2018	2019	2020e	2021e	2022e
<b>Total sales</b>	<b>2.692</b>	<b>2.783</b>	<b>2.694</b>	<b>2.371</b>	<b>2.726</b>	<b>3.135</b>
% growth		3.4	-3.2	-12.0	15.0	15.0
Materials	-0.910	-0.791	-1.132	-0.948	-0.954	-0.941
<b>Gross Profit</b>	<b>1.782</b>	<b>1.992</b>	<b>1.562</b>	<b>1.422</b>	<b>1.772</b>	<b>2.195</b>
% growth		11.8	-21.6	-8.9	24.6	23.8
% sales	66.2	71.6	58.0	60.0	65.0	70.0
Services	-0.600	-0.813	-0.553	-0.487	-0.560	-0.644
% growth		35.5	-32.0	-12.0	15.0	15.0
% sales	-22.3	-29.2	-20.5	-20.5	-20.5	-20.5
Staff costs	-0.886	-0.998	-0.919	-0.965	-1.013	-1.064
% growth		12.6	-7.9	5.0	5.0	5.0
% sales	-32.9	-35.9	-34.1	-40.7	-37.2	-33.9
<b>Opex</b>	<b>-2.396</b>	<b>-2.602</b>	<b>-2.604</b>	<b>-2.400</b>	<b>-2.527</b>	<b>-2.648</b>
% growth		8.6	0.1	-7.8	5.3	4.8
% sales	-89.0	-93.5	-96.7	-101.2	-92.7	-84.5
Others	-0.019	-0.039	-0.035	-0.020	-0.030	-0.050
<b>EBITDA</b>	<b>0.277</b>	<b>0.142</b>	<b>0.055</b>	<b>-0.049</b>	<b>0.169</b>	<b>0.437</b>
% growth		-48.7	-61.3	na	na	158.3
% sales	10.3	5.1	2.0	-2.1	6.2	13.9

Source: Company data, Merodis Equity Research

We expect a rebound in gross margins from a low reached in 2019 driven by volume effect as from 2021e, when the company will be able to take full advantage of its new target market. Scale effect should allow the company to rebound back to profitability in 2021e, with scope, based on our forecasts, to reach 14% EBITDA margin in 2022e.

Figure 22. Group profitability expectations



Source: Company data, Merodis Equity Research

To deliver the 62% sales CAGR 2020-22e that we are expecting, we forecast headcount to rise from 101 in 2019 (post Storever disposal) to 138 by 2022e, representing 47 net hires.

## Cash flow analysis

As explained above, AudioValley's profitability is ramping up, with Targetspot having reached EBITDA breakeven in H2 2019 for the first time ever. Covid-19 is expected, however, to swing the company back into loss in H1 2020e.

Figure 23. AudioValley cash flow and forecasts

EURm	2017	2018	2019	2020e	2021e	2022e
<b>Adj. EBITDA</b>	<b>0.145</b>	<b>-1.681</b>	<b>-2.887</b>	<b>-0.420</b>	<b>1.129</b>	<b>4.661</b>
(Increase)/decrease in working cap.	<b>-0.760</b>	<b>1.439</b>	<b>-2.010</b>	<b>-0.065</b>	<b>3.138</b>	<b>4.451</b>
Inventories	-0.054	-0.154	0.011			
Amounts receivable	-0.635	-1.025	-3.088	0.630	-3.887	-5.512
Accruals		-0.201	0.110	0.032	-0.390	-0.552
Trade debts and prepayments	0.041	2.131	0.228	-0.668	6.876	9.752
Taxes, remuneration and social security	-0.112	0.688	0.729	-0.059	0.538	0.763
Other amounts payable						
<b>Gross operating cash flow</b>	<b>-0.615</b>	<b>-0.242</b>	<b>-4.897</b>	<b>-0.485</b>	<b>4.267</b>	<b>9.112</b>
Net interest (paid) / received	-0.847	-1.466	2.276	-1.321	-1.002	-0.634
Tax	0.150	0.228	-0.260			
Capex (tangibles)	-0.712	-0.975	-1.426	-0.375	-0.594	-0.903
<b>Free cash flow</b>	<b>-2.024</b>	<b>-2.455</b>	<b>-4.307</b>	<b>-2.181</b>	<b>2.672</b>	<b>7.575</b>
Net disposals/(acquisitions)	2.199	0.063	8.060		1.000	
Dividends						
Capital increase		9.537		<b>6.500</b>		
Others		-0.416	3.819			
<b>Net cash flow</b>	<b>0.175</b>	<b>6.729</b>	<b>7.572</b>	<b>4.319</b>	<b>3.672</b>	<b>7.575</b>

Source: Company data, Merodis Equity Research

Our key comments on the cash flow are the following:

- **Adjusted EBITDA.** For our cash flow analysis, we have adjusted EBITDA to take into account the company's accounting policy with regards to capitalised R&D (mainly linked to software development). In 2019, a total of EUR 2.3m of such costs were capitalised. AudioValley was actively working on software development for both Targetspot (Passport Explore which was recently launched) as well as for Winamp (the launch of which was postponed to 2021 for cost containment reasons). Going forward, we expect lower R&D costs, ranging from EUR 0.8m in 2020e to EUR 2.0m in 2022e.
- **Working capital needs.** As working capital on the balance sheet is negative (with payables to artists at Jamendo and to publishers at Targetspot exceeding receivables), we expect a cash need in 2020e with lower sales and a cash surplus in 2021e and beyond with growing sales.
- **Financing costs.** Interest payments remain high and above EUR 1m due to the leverage of the company, although we expect the latter to come down in the future with positive free cash flow from 2021e as well as the contemplated fund raising announced by the company.
- **Capex.** The disposal of Storever should lower the need for (tangible) capex of the group given the asset-light business models of Targetspot and Jamendo. We expect capex to fall to 2% of sales from around 5% previously.

- **Free cash flow.** Free cash flow has been negative from 2017 to 2019 (EUR 9m free cash burn in total). We expect 2020e to be negative as well (EUR 2.2m) mainly due to the Covid-19 impact. 2021e should be the turning point for AudioValley, with a positive free cash flow of close to EUR 2.7m.
- **Disposal proceeds.** Our CF model also includes a differed EUR 1m payment in 2021e resulting from the Storever disposal.
- **Financing needs.** Management did, nevertheless, indicate in its FY 2019 press release dated 19 May 2020, that it had a financing need of “circa EUR 6.5m” (in equity, debt and/or non-dilutive instruments such as subsidies; the split having yet to be determined) to cope with the impact of Covid-19 and to be able to pay Vivendi the remaining EUR 3m vendor loan by the end of September 2020. Our analysis suggests that a capital increase of that size would indeed allow the company’s cash to remain above EUR 1.5m in 2021e, while keeping equity at a decent level (above EUR 10m in 2021e and 2022e). Out of caution, we have included in our forecast a capital increase of EUR 6.5m in 2020e with the issue of close to 2m shares at a discount to the current share price, ie. adding 22% new shares with dilution over 6 months in the year.

## Balance sheet analysis

Figure 24. AudioValley Balance Sheet and forecasts analytics

EURm	2017	2018	2019	2020e	2021e	2022e
<b>Net working capital</b>	<b>-6.938</b>	<b>-8.377</b>	<b>-5.463</b>	<b>-5.398</b>	<b>-8.537</b>	<b>-12.988</b>
% growth		20.7	-34.8	-1.2	58.1	52.1
% sales	-53.4	-37.0	-27.8	-28.8	-28.8	-28.8
Goodwill	13.806	13.806	9.240	9.241	9.241	9.241
Intangible fixed assets	27.744	26.137	24.718	22.113	19.839	18.021
Tangible fixed assets	1.647	1.832	1.156	-0.214	-1.470	-2.576
Financial fixed assets	0.721	1.153	1.669	1.669	1.669	1.669
<b>Invested capital</b>	<b>36.259</b>	<b>33.398</b>	<b>29.651</b>	<b>25.741</b>	<b>19.073</b>	<b>11.698</b>
% growth		-7.9	-11.2	-13.2	-25.9	-38.7
ROCE post-tax (%)	9.3	-11.2	6.9	-13.8	-10.7	4.3
<b>Net debt/(cash)</b>	<b>28.185</b>	<b>22.431</b>	<b>16.285</b>	<b>11.966</b>	<b>8.294</b>	<b>0.720</b>
Gearing (%)	418	201	113	81	77	7
Net debt/EBITDA (x)	23.9	77.9	na	33.1	3.5	0.1
Shareholder funds	6.745	11.148	14.373	14.781	10.784	10.985
<b>Equity capital</b>	<b>6.223</b>	<b>10.600</b>	<b>14.373</b>	<b>14.781</b>	<b>10.784</b>	<b>10.985</b>
% growth		70.3	35.6	2.8	-27.0	1.9
ROaE	39.7	-63.2	34.7	-41.8	-31.3	1.8

Source: Company data, Merodis Equity Research

AudioValley’s balance sheet is leveraged, mainly due to the EUR 29.7m Vivendi vendor loan from 2017, of which more than EUR 18m has been paid back and a further EUR 3m is due by the end of September 2020, which would give rise to a EUR 8.6m rebate. Without that final payment before the end of September, AudioValley would have to pay back EUR 11.6m by 2025.

The financial debt is represented mainly by (1) a EUR 8m convertible bond issued in July 2019 that runs to July 2024 (6% interest rate, €5.5 conversion price with the potential issue of 1.454m new shares) and (2) a EUR 5m bond issued on 16 December and due in December 2021. As shown in our cash flow statement, we expect the last tranche of the vendor (EUR 3m) to be paid back in September 2020 (pending a contemplated capital raising by the company). We also reflect the repayment of the EUR 5m bond at its maturity date (December 2021).

*Figure 25. AudioValley Balance Sheet and forecasts*

EURm	2017	2018	2019e	2020e	2021e	2022e
Goodwil	13.806	13.806	9.240	9.241	9.241	9.241
Intangible fixed assets	27.744	26.137	24.718	22.113	19.839	18.021
Tangible fixed assets	1.647	1.832	1.156	-0.214	-1.470	-2.576
Financial fixed assets	0.721	1.153	1.669	1.669	1.669	1.669
Current assets	5.846	7.226	8.018	7.356	11.632	17.696
Cash & near cash	1.354	1.018	1.866	3.185	1.857	9.431
<b>Total Assets</b>	<b>51.118</b>	<b>51.172</b>	<b>46.667</b>	<b>43.350</b>	<b>42.767</b>	<b>53.482</b>
Shareholders funds	6.745	11.148	14.373	14.781	10.784	10.985
Minorities	0.522	0.548	-	-	-	-
Provisions	0.948	0.948	0.660	-	-	-
Other LTL	1.102	0.024	0.002	0.663	1.663	1.663
LT Financial debts	16.930	18.518	12.584	15.151	10.151	10.151
ST financial debts	12.609	4.931	5.567	-	-	-
Current liabilities	12.784	15.603	13.481	12.754	20.169	30.684
<b>Total Liabilities</b>	<b>51.118</b>	<b>51.720</b>	<b>46.667</b>	<b>43.350</b>	<b>42.767</b>	<b>53.482</b>

Source: Company data, Merodis Equity Research

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