

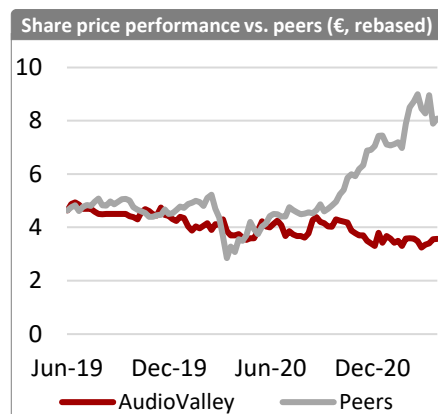
Closing price (31 March 2021): EUR 3.57

Market capitalisation: €37m

EV: €50m

Free float: 45%

A hidden jewel in the process of unlocking (hidden) value



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, in-app gaming, etc. The digital audio market is growing fast (39% CAGR 2020-23e), catching up (in Europe) or taking over (in North America) analogue audio in terms of audience. 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.

... momentum is picking up following Covid19 headwinds

2020 results were recently reported, showing top line decline driven by Covid19 offset by strong cost control, which led to EBITDA profitability. The balance sheet has strengthened thanks to a capital injection in 2020, the early repayment of a large vendor loan in 2020 and a loan extension (to 2024) as recently reported. This should ease the company's risk profile. In addition, Q1 2021 shows the early signs of a market revival in North America, with 22% y-o-y sales growth, which supports our views of a strong market revival and potential, including in Europe as from Q2.

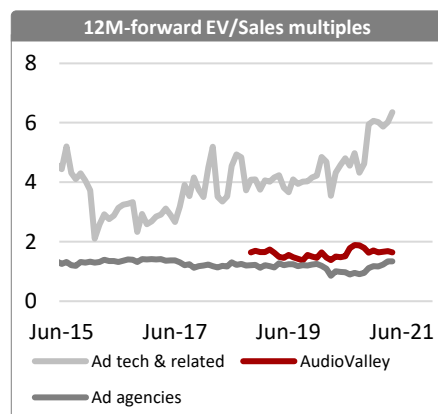
Three reasons to take a closer look at this hidden jewel

We see at least three good reasons to take a closer look at AudioValley: (1) Strong growth expected in the core digital audio advertising activity (Targetspot). Going forward, we expect 54% sales CAGR 2020-23e, driven by market growth in both Europe (46% CAGR) and the US (39%) as well as market share gains in both regions (announcements of client wins over the past 12 months support our expectations). M&A action in the sector highlights the attraction of the business, with transactions on peers valued at up to 5x sales. At such levels, Targetspot alone would be worth EUR 8.7/share. (2) Unlocking sizeable potential value in peripheral assets: Jamendo Rights and Winamp. Jamendo Rights is tackling a EUR 10bn European music rights market with a model that should move business away from incumbent monopolies. Sector transactions also point to significant value upside. Winamp is a popular media player which is 100% owned by AudioValley. A relaunch is in the cards, which could highlight the activity's value potential. The third reason is the attractive entry point that we expect (see below)

Valuations suggest an attractive entry point

The stock is valued at 1.3x EV/Sales 2021e, compared to historical levels of 2.5x and Targetspot's sector M&A transaction multiples at between 4.5-5x. Our fair-value estimate of EUR 7.6/share is based on a SOTP, valuing Targetspot at an exit valuation multiple of 3x sales. At 5x sales for Targetspot, our fair-value estimate jumps to EUR 13.9/share. These fair-value estimates exclude any value for Jamendo Rights or Winamp, two hidden jewels in our view.

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Important Note

Merodis BVB/SRL (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 AudioValley's shares in the financial markets. The authors hereby declare that any views expressed in this report represent their personal opinion and that AudioValley has neither limited nor in any other way influenced the content of this report.

Please read the disclaimer at the end of this report

Merodis
Equity Research

Key financials

EURm	2017	2018	2019pf	2020	2021e	2022e
Sales	14.0	24.6	22.0	19.6	32.0	47.6
EBITDA	1.2	0.3	-0.6	0.6	1.7	4.3
EBITDA	3.2	-4.1	2.3	-3.4	-2.6	-0.3
Net profit	2.7	-5.3	4.8	-4.8	-3.8	-1.2
EPS (EUR)	0.98	-0.94	0.56	-0.51	-0.37	-0.12
P/E (x)		-4.8	8.2	-7.7	-9.7	-30.4
EV/Sales (x)		2.4	2.3	2.5	1.3	0.8
EV/EBITDA (x)		207.5	-86.6	81.9	24.7	8.9

Source: Company data, Merodis, FactSet

Financial summary

Enterprise Value (€m): 50
Market Cap. (€m): 37
Free-float MCap (€m): 17

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 17-19	CAGR 20-22e
Consolidated P&L (€m)																		
Sales											14	25	22	20	32	48	25.2	55.9
Adj. EBITDA											0	-2	-3	-1	0	2	na	na
EBITDA											1	0	-1	1	2	4	na	166.7
Adj. EBIT											-3	-7	-2	-6	-5	-3	-24.1	-25.2
Pretax profit											2	-6	5	-5	-4	-1	40.7	-52.0
Net profit											3	-5	5	-5	-4	-1	33.7	-49.9
Cash Flow (€m)																		
Op. results											0	-2	-3	-1	0	2	na	na
WCR											-1	1	-2	1	3	2	62.6	24.5
Gros Op CF											-1	0	-5	0	3	5	182.2	290.5
Capex											-1	-1	-1	0	-1	-1	41.5	35.6
FCF											-2	-2	-4	-2	1	3	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	5	0	0		
Others											0	0	4	-1	0	0	na	na
Net Debt (incr.) / decr.											0	7	8	2	2	3	557.8	9.2
Balance Sheet (€m)																		
WC											-7	-8	-5	-7	-10	-12	-11.3	30.6
Capital Employed											36	35	32	29	25	21	-6.8	-15.2
Cash & Equivalent											1	1	2	1	3	6	17.4	162.3
Gross Debt											30	23	18	15	15	15	-21.6	0.0
Equity											6	11	14	15	11	10	52.0	-18.7
Balance sheet total											51	51	47	45	49	55	-4.5	10.3
Growth (%)																		
Sales												76	-11	-11	63	49		
EBITDA												na	na	na	na	475		
EBIT												na	na	na	na	na		
Net profit												na	na	na	na	na		
FCF												na	na	na	na	110		
NWC												na	na	na	na	na		
Capital Employed												-4	-9	-9	-12	-18		
Shareholder Equity												70	36	3	-26	-11		
Financial Ratios																		
Gross margin (%)											63	58	44	47	46	44		
EBITDA margin (%)											1	-7	-13	-6	1	5		
EBIT margin (%)											-21	-29	-8	-30	-15	-7		
Net margin (%)											19	-22	22	-25	-12	-3		
Opex/Sales (%)											99	107	113	106	99	95		
Depreciation/Sales (%)											22	22	-6	25	17	12		
Depreciation/EBITDA (%)											2086	-321	43	-442	1279	237		
Tax rate (%)											17	-4	6	-8	0	0		
Capex/Sales (%)											5	4	6	3	2	2		
FCF/Sales (%)											-14	-10	-20	-8	4	6		
WCR/Sales (%)											-5	6	-9	7	8	5		
WC/Sales (%)											-50	-34	-25	-35	-30	-25		
Gearing (%)											453	212	113	98	111	97		
Net Debt/EBITDA (x)											194.4	-13.3	-5.6	-13.3	29.2	4.0		
ROCE post-tax (%)											-9	-20	-6	-19	-20	-16		
ROE (%)											44	-50	34	-33	-35	-12		
Dividend Payout (%)											0	0	0	0	0	0		
Valuation																		
Market Capitalisation (€m)												39	40	41	37	37	na	-4.6
+ Net Financial Debt (€)											28	22	16	15	12	10	-24.0	-18.9
+ Restated Min. + others (€m)											1	1	0	0	0	0	na	na
- Associates & Inv. (€m)											2	3	5	5	7	8	62.4	22.6
= Enterprise Value (€m)												60	51	50	42	38	na	-12.1
Assoc. NFD (gr. share) (€m)																		
EV/Sales (x)												2.4	2.3	2.5	1.3	0.8		
EV/Adj. EBITDA (x)												-35.5	-17.8	-45.6	100.1	15.9		
EV/EBITDA (x)												207.5	-86.6	81.9	24.7	8.9		
EV/EBIT (x)												-8.4	-30.9	-8.4	-8.5	-11.6		
EV/FCF (x)												-24.3	-11.9	-29.9	32.6	14.2		
EV/Capital Employed (x)												1.7	1.6	1.7	1.7	1.9		
P/E (x)												-4.8	8	-7.7	-9.7	-30.4		
P/BVPS (x)												2.4	2.8	2.5	3.3	3.8		
FCF yield (%)												-6.3	-10.9	-4.1	3.5	7.3		
Per share data																		
# of shares											2.76	8.62	8.62	10.34	10.34	10.34	76.6	0.0
avg # of sh. (FD, ex-treas.)											2.76	5.69	8.62	9.48	10.34	10.34	76.6	4.4
Share price												4.50	4.59	3.92	3.57	3.57	na	-4.6
EPS											0.98	-0.94	0.56	-0.51	-0.37	-0.12	-24.3	-52.0
EPS FD											0.98	-0.94	0.56	-0.51	-0.37	-0.12	-24.3	-52.0
BVPS											2.25	1.86	1.67	1.57	1.07	0.95	-14.0	-22.2
DPS											0.00	0.00	0.00	0.00	0.00	0.00	na	na

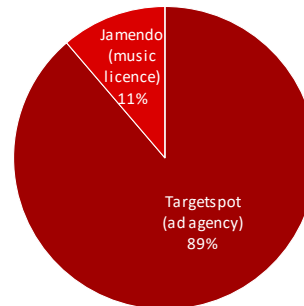
Source: Company data, Merodis Equity Research

Financial summary AudioValley

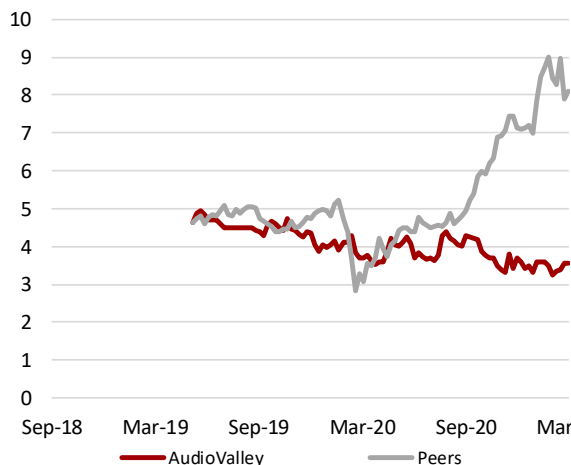
Company profile

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 is launching Jamendo Rights and re-launching Winamp, a popular multi-platform media player. Moreover, an in-store digital audio marketing activity was disposed of in 2020 (hence the 2019 proforma accounts).

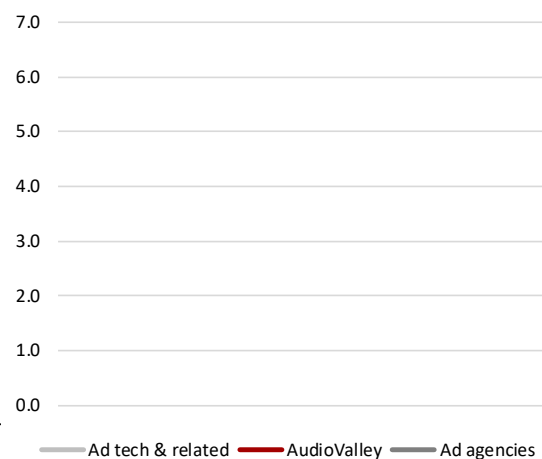
Sales split



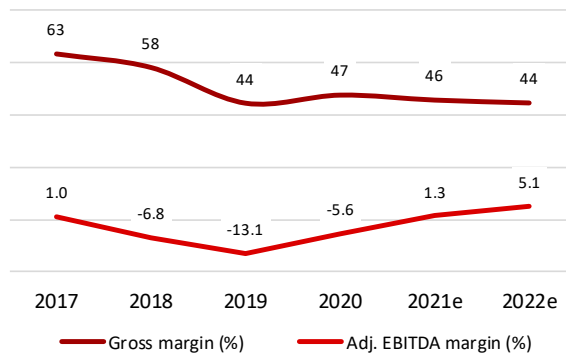
AudioValley share price



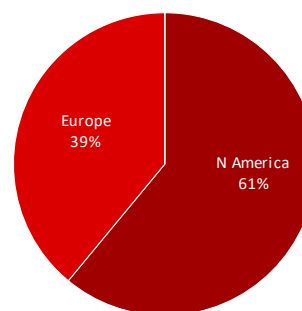
AudioValley EV/Sales



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, importantly, the monetisation of digital audio platforms (music streaming platforms, internet radios, podcasts, in-app gaming, etc.) through targeted advertising (Targetspot) to music licensing/rights (Jamendo Licencing and Jamendo Rights) and a renowned multi-platform media player (Winamp).

Increasingly focused on digital audio ad spend

AudioValley operates two business units: **Targetspot** (89% of group sales in 2020) and **Jamendo** (11%).

Targetspot, a 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).

We see at least three good reasons to take a closer look at AudioValley:

- Strong growth expected in the core digital audio advertising activity (Targetspot),
- Unlocking sizeable potential value in peripheral assets (Jamendo Rights and Winamp),
- Attractive entry point regarding to valuation and LT upside potential.

(1) Targetspot set to deliver 54% sales CAGR to 2023e

AudioValley is a key global player in the digital audio disruption

An unprecedented digital revolution is taking place in the audio industry, with AudioValley's technology solutions enabling professionals in the B2B market to participate. Targetspot allows for the creation, streaming and hosting of online radio and, importantly, the monetisation of digital audio platforms (internet radios, podcasts, in-app gaming, etc.) through targeted advertising.

Quite uniquely for a Belgian company, Targetspot is market leader in Europe (34% of 2020 sales) and a leading player in the US as well (66% of 2020 sales in North America), an attractive positioning for international advertisers as well as digital audio platforms such as Soundcast, Deezer, Tuneln, Sonos, etc., who are clients of Targetspot.

Internationalisation is also a key growth driver

Growth is expected to be driven by penetration of digital audio (and, hence, digital audio ad spend) and Targetspot's internationalisation. The company now covers North America, Europe with physical presence in France, Spain, Germany, UK, the Netherlands and Belgium, as well as other regions (Nordic countries, South East Asia including India as well as Australia) through partnerships.

Going forward, we expect growth to be strongest in Europe, which is a nascent market compared to the US in terms of audio digital adoption. The market is growing strongly on the back of increasing penetration among consumers of digital audio in various forms (digital radio, podcasts, streaming music platforms, gaming, etc.) and the opportunity that this represents for advertisers (digital platforms allows for targeted advertising).

Business win support our growth expectations

We expect 54% sales CAGR 2020-23e, driven by market growth in both Europe (46% CAGR) and the US (39%) as well as market share gains in both regions. Announcements of client wins over the past 12 months (Deezer, TuneIn, Jack, Sonos, Stingray, Radio France, AudioMob for in-app gaming, Trinity Audio for text-to-speech, etc.), support our expectations of market share gains.

Sector M&A transactions point to sales multiples as high as 5x

In terms of valuation, we have some indications provided by peer M&A transaction multiples, including a very recent transaction involving Triton Digital, a US competitor (USD 40-50m estimated sales), which was acquired by iHeatMedia in February 2021 for USD 230m, ie. 5x estimated sales. Triton Digital has previously been acquired by Scripps in 2018 for 4.3x sales. AdsWizz, another US competitor was acquired in 2018 by Pandora for 4.8x sales.

Strong potential upside for Targetspot

At a multiple of 5x EV/sales, TargetSpot alone would be worth EUR 90m (EUR 8.7/share) in equity value versus AudioValley's market cap of a mere EUR 40m, suggesting significant upside potential.

(2) Unlocking potential value: Jamendo Rights & Winamp

Two undervalued peripheral assets

Alongside Targetspot and Jamendo (music licencing platform), AudioValley's core business, the company owns and is developing two attractive assets/activities with the likes of Jamendo Rights (an independent management entity in the music rights industry) and Winamp (a world-leading multi-platform media player with 80m users, top-4 worldwide).

Both activities should be launched (or re-launched in the case of Winamp) soon, which should help to unlock their value. Their launch is likely to consume cash flow, but the company may search for financiers such as strategic or financial investors (potentially via an IPO) willing to take minority stakes in these entities directly, which should provide very clear value points for both businesses (and strong partners to develop them as well).

Jamendo rights is targeting a sizeable and largely untapped market

Jamendo Rights was set up in 2019 as an Independent Management Entity (IME) to manage music industry copyrights and master rights with the aim to tap into a EUR 26bn worldwide market, of which EUR 10bn in Europe. Thanks to streaming technology and its success among consumers, the music industry is booming. Although currently dominated by incumbent Collective Management Organisations (CMOs, such as SABAM in Belgium and SACEM in France), the market offers attractive opportunities for IMEs and leaner companies like Jamendo Rights. Jamendo Rights business model is focused on (1) faster and more timely royalty payments than CMOs, (2) higher flexibility in the management of the IP with easy Opt In and Opt Out, (3) up to date, secure and digital declaration process, (4) a dedicated service support living up to e-commerce standards and (5) total transparency. To achieve this, Jamendo Rights is building a library (currently 250k titles) based on assets controlled by Jamendo Licensing (650k titles in total), a leader in sync and background music licensing, and expects to extend this repertoire worldwide in a second phase.

Strong value upside

In terms of valuation, a peer of Jamendo Rights, Epidemic Sound (www.epidemicsound.com) with a library estimated at 30k titles, has recently raised USD 450m, in a transaction that values the company at USD 1.4bn, ie. an estimated 35x sales... Value points for Winamp are harder to come across and it is too early to provide a value estimate, but as a renowned, and still-popular media platform, we would expect significant upside potential versus what is currently reflected in AudioValley's share price (ie. close to nil).

(3) Attractive entry point

Timing seems good to play this digital disruption story

AudioValley is trading at EUR 3.57/share, with a market cap of EUR 37m. At these levels, the stock is valued at 1.3x EV/Sales 2021e, compared to historical levels of 2.5x and the above-mentioned M&A transaction multiples at between 4.5-5x. Our fair-value estimate of EUR 7.6/share is based on a SOTP, valuing Targetspot at a valuation multiple of 3x sales. At 5x sales for Targetspot, our fair-value estimate jumps to EUR 13.9/share. These fair-value estimates exclude any value for Jamendo Rights and Winamp.

Valuation update

Trading at 1.4x EV/Sales

Although there are no listed companies with a similar profile to AudioValley's, 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 44% discount to Ad tech & related peers and a 4% premium to listed Ad agencies peers. Historically the stock has traded at (1) an average premium of 33% compared to traditional ad agencies, and (2) an average discount of 64% compared to ad tech and related peers.

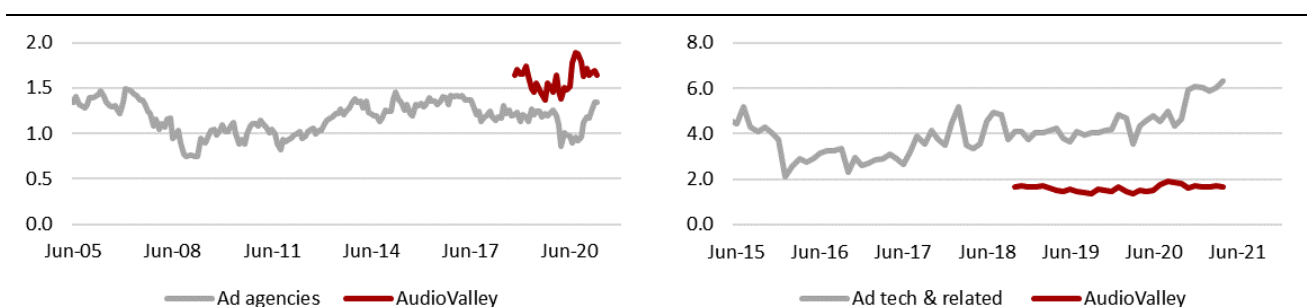
Both the premium and discount to the respective peer groups are valid in our view, given (1) the company’s superior growth prospects compared to both peer groups (AudioValley’s 55% sales CAGR 2020-22e vs. 17% for ad tech & related peers and 3% for ad agencies) to explain a premium, (2) its lower profitability (EBITDA breakeven was reached in 2020e at AudioValley vs. between 16-20% EBITDA margins for both sets of peers) to explain a discount and (3) a leveraged balance sheet (gearing level in excess of 100% at AudioValley vs. net cash positions on average for ad tech & related peers and ND/EBITDA levels of circa 0.5x for ad agencies) to also explain a discount. The size effect is not negligible with AudioValley’s EUR 37m market capitalisation which favours a discount vs much larger listed peers. Liquidity at AudioValley is also low, but expanding with free float increasing to 45% in 2020 from 33% previously. 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.

Figure 1. Sum-of-the-parts valuation model

	2021e	2022e	2023e
Targetspot revenues (EURm)	28.9	43.6	63.7
Exit multiple (x)	3.0x	3.0x	3.0x
Exit EV	87	131	191
IRR/WACC (%)	10.5	10.5	10.5
	1.00	0.90	0.82
Discounted EV (EURm)	86.7	118.3	156.4
Group net debt	12.2	9.5	5.3
Targetspot discounted equity value (EURm)	74.4	108.8	151.1
Jamendo equity value (most recent transaction) (EURm)	4.2	4.2	4.2
Total estimated equity value (EURm)	78.6	112.9	155.2
Number of FD shares (m)	10.3	10.3	10.3
Implied value per share (EUR)	7.60	10.92	15.01

Source: Merodis Equity Research

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



Source: Factset consensus, Merodis Equity Research

We opt for a SOTP model which points to a fair value estimate of EUR 7.46/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 7.6 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 35-40% discount. The derived value of Targetspot represents EUR 7.06 per AudioValley share.

Figure 3. 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	294.53	839,116	29.2	26.2	21.9	9.0	7.1	5.7	16.9	14.5	11.6	23.7	19.7	15.7	6.6	5.4	4.3	0.0	0.0	0.0
Snap	UNITED STATES	52.29	78,609				31.5	20.8	14.2	1,747.5	232.9	71.3				34.2	34.8	25.2	0.0	0.0	0.0
Twitter	UNITED STATES	63.63	50,649		73.2	54.4	12.6	9.8	7.9	46.8	32.6	24.5	74.6	52.0	39.1	6.3	6.5	5.9	0.0	0.0	0.0
Google	UNITED STATES	2,062.52	1,298,107	35.2	29.9	25.6	7.0	5.6	4.6	18.7	15.1	12.5	30.7	23.8	19.7	6.4	5.4	4.5	0.0	0.0	0.0
Trade Desk	UNITED STATES	651.66	30,850	95.1	122.0	95.4	36.4	26.9	22.2	107.3	80.7	64.1	211.1	141.2	104.2	32.0	23.4	17.5	0.0	0.0	0.0
Quotient	UNITED STATES	16.34	1,499				3.0	2.5	2.2	28.8	21.5	15.4		75.1	36.8	2.1	2.0	1.9			
Acuity Ads	CANADA	16.21	866	231.6	75.2	47.5	8.2	6.4	5.1	54.2	39.8	28.6	71.8	60.2	38.4						
Criteo	FRANCE	34.73	2,106	16.0	15.7	15.1	2.0	1.8	1.5	6.6	5.7	5.0	14.7	11.4	9.9	1.9	1.7	1.6	0.0	0.0	0.0
ReWorld Media	FRANCE	4.30	211	21.1	7.9	7.3	0.6	0.6	0.5	6.3	5.0	4.2	7.0	5.6	4.7	2.2	1.7	1.4	0.0	0.0	0.0
PEER AVERAGE				91.0	55.2	41.3	10.0	7.6	6.3	40.6	30.5	23.5	76.2	58.7	38.8	9.5	7.2	5.6	0.0	0.0	0.0
PEER MEDIAN				58.1	45.4	31.3	3.0	2.5	2.2	28.8	21.5	15.4	43.2	60.2	36.8	2.1	1.9	1.8	0.0	0.0	0.0
AudioValley	Belgium	3.57	37	na	na	209.0	2.5	1.4	0.8	137.8	18.4	5.5	na	na	na	2.8	4.3	4.3	0.0	0.0	0.0
% prem./ (disc.) vs median				na	na	567.2	-14.3	-44.4	-65.1	378.5	-14.2	-64.1	na	na	na	30.9	131.2	141.8	na	na	na

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	52.04	12,780	12.2	11.7	11.3	1.5	1.4	1.3	6.7	6.2	5.7	10.3	9.1	8.2	1.7	1.6	1.5	3.8	4.0	4.2
WPP	UNITED KINGDOM	9.21	11,280	15.4	13.1	11.4	1.2	1.3	1.3	7.3	7.5	6.8	9.5	9.5	8.6	2.3	1.8	1.6	2.6	3.2	3.6
Interpublic	UNITED STATES	29.20	11,414	16.9	15.2	13.8	1.6	1.5	1.4	10.9	8.6	8.1	21.0	11.0	10.2	4.2	3.7	3.4	3.5	3.7	3.9
Omnicom	UNITED STATES	74.15	15,942	14.7	12.8	12.0	1.2	1.1	1.1	8.2	7.1	6.7	9.3	7.9	7.4	4.9	4.3	4.1	3.5	3.8	4.0
PEER AVERAGE				14.8	13.2	12.1	1.4	1.3	1.3	8.3	7.3	6.8	12.5	9.4	8.6	3.3	2.9	2.7	3.4	3.7	3.9
PEER MEDIAN				15.0	13.0	11.7	1.4	1.4	1.3	7.7	7.3	6.8	9.9	9.3	8.4	3.2	2.7	2.5	3.5	3.7	3.9
AudioValley	Belgium	3.57	37	na	na	209.0	2.5	1.4	0.8	137.8	18.4	5.5	na	na	na	2.8	4.3	4.3	0.0	0.0	0.0
% prem./ (disc.) vs median				na	na	1,688.6	88.4	4.0	-39.6	1,683.3	153.1	-18.2	na	na	na	-13.7	59.0	68.8	na	na	na

Source: Merodis, Factset

Figure 4. Advertising peer group benchmarking analysis

Company	Freefloat (%) 2020e	Depr/ EBITDA	Capex/ Sales	ND/EBITDA			EBITDA margin (%)			EBIT margin (%)			Net margin (%)			ROE (%)			2020-22e CAGR (%)		
				2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	EPS	EBITDA	Sales
Facebook	84	15%	25%	-1.4	-1.5	-1.6	53.6	49.0	49.5	38.0	35.9	36.5	33.9	30.1	30.4	25.2	22.6	21.9	15.4	17.5	22.2
Snap	63	-8%	10%	1.2	-0.1	-0.8	1.8	9.0	19.9	-34.4	-19.1	-3.0	-37.7	-20.7	-3.8	-42.1	-32.6	-5.2	-62.3		48.0
Twitter	97	43%	16%	-4.1	-2.9	-2.7	26.8	30.1	32.2	16.8	18.9	20.2	-18.5	15.7	17.3	-8.2	8.7	11.3	#NUM!	36.8	24.9
Google	45	21%	18%	-1.8	-1.7	-1.8	37.1	36.7	37.3	22.6	23.4	23.6	22.1	20.8	20.6	19.2	19.5	19.1	17.3	20.1	19.9
Trade Desk	89	10%	5%	-1.5	-1.8	2.5	33.9	33.3	34.6	17.2	19.0	21.3	29.0	16.1	17.3	41.4	22.2	21.0	-0.1	32.9	31.7
Quotient	92	236%	7%	-4.1	-3.4	-2.9	10.3	11.8	14.3	-11.5	3.4	6.0	-14.7	1.1	3.9	-9.5	-2.2	-0.2	-83.3	34.2	13.9
Acuity Ads	82	-143%	6%	-0.7	-1.3	-1.4	15.1	16.1	17.8	11.4	10.6	13.2	3.5	9.4	12.3						
Criteo	93	44%	5%	-1.8	-2.2	-2.7	30.4	30.9	30.8	13.6	15.4	15.6	16.3	16.2	16.0	12.7	11.5	10.9	2.8	4.5	3.8
ReWorld Media	53	29%	2%	0.7	0.1	-0.4	9.7	11.3	11.7	8.8	10.1	10.4	3.0	7.0	7.4	11.6	23.8	20.5			
PEER AVERAGE	82	35%	5%	-1.5	-1.7	-1.0	19.9	20.7	21.8	7.9	11.7	13.3	7.4	10.0	11.4	14.1	13.8	13.0	-26.9	23.9	16.5
PEER MEDIAN	89	29%	5%	-1.5	-1.8	-1.4	15.1	16.1	17.8	11.4	10.6	13.2	3.5	9.4	12.3	12.2	16.8	15.7	-0.1	32.9	13.9
AudioValley	33	na	2%	-31.5	8.5	0.4	-2.2	3.7	9.9	-37.3	-19.7	-6.5	-32.3	-12.9	0.4	-46.8	-42.1	2.0	na	na	55.1
% prem./(disc.) vs median	-62.5	na	-64.8	1,946.1	na	na	na	-77.3	-44.2	na	na	na	na	na	-96.6	na	na	-87.0	na	na	295.2

Source: Merodis, Factset

Company	Freefloat (%) 2020e	Depr/ EBITDA	Capex/ Sales	ND/EBITDA			EBITDA margin (%)			EBIT margin (%)			Net margin (%)			ROE (%)			2020-22e CAGR (%)		
				2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	EPS	EBITDA	Sales
Publicis	89	14%	2%	0.7	0.4	0.0	22.2	22.6	22.7	14.4	15.5	15.6	5.9	9.5	9.9	13.8	14.2	13.9	3.8	3.1	1.9
WPP	100	20%	2%	0.4	1.0	0.9	16.8	17.5	18.4	12.8	13.7	14.6	7.6	8.6	9.3	11.0	15.4	15.1	16.2	7.0	2.2
Interpublic	99	17%	2%	1.1	0.7	0.6	14.4	17.2	17.5	7.5	13.4	13.8	8.4	9.0	9.5	24.3	25.9	25.6	10.6	14.6	4.0
Omnicom	99	11%	1%	0.1	-0.1	-0.3	14.9	15.9	16.0	13.1	14.3	14.5	7.2	8.9	9.0	36.7	35.9	34.9	10.7	8.1	4.5
PEER AVERAGE	97	15%	2%	0.6	0.5	0.3	17.1	18.3	18.6	12.0	14.2	14.6	7.3	9.0	9.4	21.5	22.8	22.4	10.3	8.2	3.1
PEER MEDIAN	99	16%	2%	0.6	0.6	0.3	15.9	17.3	18.0	13.0	14.0	14.6	7.4	9.0	9.4	19.1	20.6	20.3	10.6	7.6	3.1
AudioValley	33	na	2%	-31.5	8.5	0.4	-2.2	3.7	9.9	-37.3	-19.7	-6.5	-32.3	-12.9	0.4	-46.8	-42.1	2.0	na	na	55.1
% prem./(disc.) vs median	-66.3	na	-1.6	na	1,378.6	36.9	na	-78.9	-44.8	na	na	na	na	na	-95.5	na	na	-90.0	na	na	1,693.1

Source: Merodis, Factset

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 (61% of group sales in 2020) and Europe (39% from 32% in 2019). 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 selling proposition (see two points above).

Weaknesses

- **Balance sheet** which is stretched albeit with scope of positive free cash flow generation in 2021e.
- **Low profitability** at Targetspot although the business finally turned EBITDA breakeven in H2 2019, which was confirmed over 2020.
- **Business model** that does not extract any fees from the technology itself (unlike a SaaS model) but only from the structurally growing, albeit more cyclically 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 17m in sales in 2019 (we expect EUR 29m for 2021e, rebounding from the negative Covid-19 impact in 2020).

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 39% CAGR 20-23e, with the European market growing even faster, at 46% CAGR as it catches up. Hence, we expect AudioValley to participate in a market that is forecast to grow 39% 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 55% sales CAGR 20-23e).
- **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 and 650k titles is well-positioned in a EUR 10bn 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. Since then, Trinton was acquired by iHeartMedia for no less than 5x sales, a testimony to the attraction of the activity.
- **Covid-19 impact** which is well-documented in AudioValley's 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%.

FY 2020 RESULTS

AudioValley reported a strong set of results, showing the expected diverging trends from Covid-19 impact: lower top-line due to advertising budget cuts in locked-down countries offset at the profit level by a sharper fall in operating costs on cost-cutting efforts (including making use of state aid for temporary unemployment in most European countries) as well as subsidy revenues in certain countries. This resulted in the highest level of EBITDA reported by the company since 2018.

P&L analysis

Figure 5. AudioValley P&L account and forecasts

EURm	2017	2018	2019*	2020	2021e	2022e	2023e
Total sales	14.015	24.606	21.962	19.583	31.980	47.589	68.886
% growth		75.6	-10.7	-10.8	63.3	48.8	44.8
o/w Targetspot	4.684	14.157	19.268	17.379	28.895	43.577	63.671
% growth		202.2	36.1	-9.8	66.3	50.8	46.1
Jamendo	2.692	2.783	2.694	2.204	3.086	4.011	5.215
% growth		3.4	-3.2	-18.2	40.0	30.0	30.0
Storever	6.639	7.666	7.019				
% growth		15.5	-8.4				
Gross profit	8.873	14.292	9.739	9.293	14.565	21.145	29.871
% growth		61.1	-31.9	-4.6	56.7	45.2	41.3
% sales	63.3	58.1	44.3	47.5	45.5	44.4	43.4
Opex (ex-COGS)	7.696	14.004	10.331	8.687	12.867	16.836	19.422
% growth		82.0	-26.2	-15.9	48.1	30.8	15.4
% sales	54.9	56.9	47.0	44.4	40.2	35.4	28.2
Reported EBITDA	1.177	0.288	-0.592	0.606	1.698	4.309	10.448
% growth		-75.5	na	na	180.2	153.8	142.5
% sales	8.4	1.2	-2.7	3.1	5.3	9.1	15.2
o/w Targetspot	-0.520	-1.447	-0.175	1.141	2.805	5.450	11.531
% sales	-11.1	-10.2	-0.9	6.6	9.7	12.5	18.1
Jamendo	0.277	0.142	0.055	-0.034	-0.420	-0.285	0.019
% sales	10.3	5.1	2.0	-1.5	-13.6	-7.1	0.4
Storever	1.672	2.004	1.830				
% sales	25.2	26.1	26.1				
- Capitalised R&D	-1.032	-1.969	-2.295	-1.695	-1.279	-1.904	-2.067
Adjusted EBITDA	0.145	-1.681	-2.887	-1.089	0.419	2.405	8.382
% growth		na	na	na	na	474.8	248.4
% sales	1.0	-6.8	-13.1	-5.6	1.3	5.1	12.2
Reported EBIT	3.167	-4.080	2.315	-3.371	-2.606	-0.263	5.552
% growth		na	na	na	na	na	na
% sales	22.6	-16.6	10.5	-17.2	-8.1	-0.6	8.1
Adjusted EBIT	-2.879	-7.078	-1.659	-5.906	-4.934	-3.306	2.212
% growth		na	na	na	na	na	na
% sales	-20.5	-28.8	-7.6	-30.2	-15.4	-6.9	3.2
Net financials	-0.847	-1.466	2.276	-1.908	-1.209	-0.951	-0.914
Pretax profit	2.320	-5.546	4.591	-5.279	-3.815	-1.214	4.638
Tax	0.150	0.228	-0.260	0.448	0.000	0.000	0.000
% rate	-6%	4%	6%	8%	0%	0%	0%
Net profit	2.470	-5.318	4.331	-4.831	-3.815	-1.214	4.638
% growth		na	na	na	na	na	na
% sales	17.6	-21.6	19.7	-24.7	-11.9	-2.6	6.7

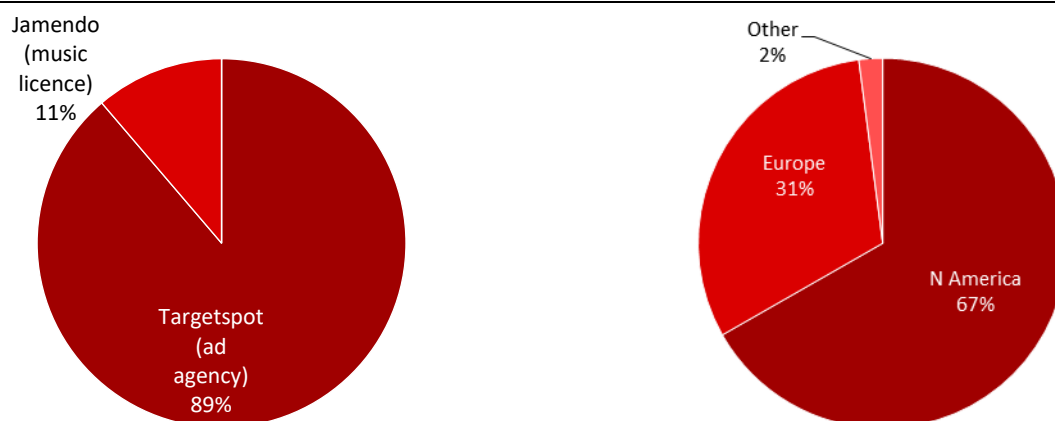
Source: Company data, Merodis Equity Research (* excludes Storever except at Net profit level)

2H 2020 top-line growth

Sales growth was largely impacted by the Covid-19 lock down in N America and in Europe in 2H20, with Targetspot showing a 10% decline and Jamendo -13%. At Targetspot, the top line was impacted by advertising budgets that were cut by advertisers, particularly in the Retail and Auto sectors, two which had been severely impact by the impact of the lock downs. Now contracts (Sonos, Radio France, etc.), mainly in Europe, were unable to offset the decline given recent signing of these contracts and the unfavourable economic environment.

Over 2020, however, the 10.8% top-line decline compares well to the overall ad spend market, which showed declines of 31% in Europe and 24% in the US. This highlights the resilience of digital audio ad spend as well as its structural growth potential.

Figure 6. Sales breakdown in 2020 (geographic breakdown of 2019)



Source: Company data, Merodis Equity Research

Profitability analysis

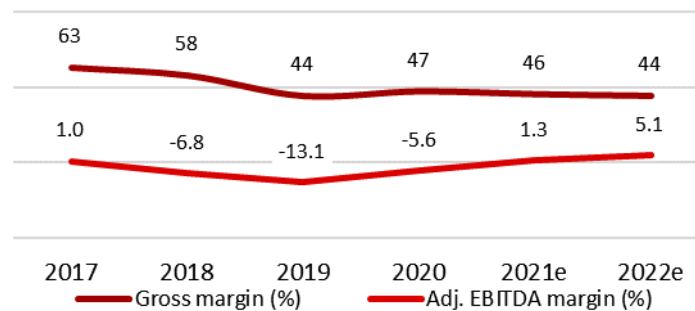
Profitability has been boosted by much higher gross margins in 2H20 at Targetspot (close to 47% from 43% in 2H19) as well as lower costs and the capture of subsidies also resulting from the lockdown. General admin costs at Targetspot were down close to 70% in 2H20 driven by lower travelling and other opex. Staff costs in 2H20 were down marginally (-0.5%) due to some high-profiles hires and less access to state aid with regards to temporary unemployment (vs. 1H20 when staff costs were down 19%).

This resulted in a record reported EBITDA margin of 12.1% in 2H20 at Targetspot.

Jamendo's performance in terms of cost control is quite different as, although gross margins were also at record levels (61% in 2H20), general admin costs were 21% higher compared to 2H19 and staff costs were up 10% on key hirings driven by the launch of the new business unit Jamendo Rights.

This resulted in a slightly higher EBITDA loss in 2H20.

Figure 7. Group profitability expectations



Source: Company data, Merodis Equity Research

Balance sheet analysis

Figure 8. AudioValley Balance Sheet and forecasts analytics

EURm	2017	2018	2019	2020	2021e	2022e	2023e
Net working capital	-6.938	-8.377	-5.463	-6.851	-9.541	-11.694	-9.781
% growth		20.7	-34.8	25.4	39.3	22.6	-16.4
% sales	-53.4	-37.0	-27.8	-38.3	-31.1	-25.6	-14.6
Goodwill	13.806	13.806	9.240	9.240	9.241	9.241	9.241
Intangible fixed assets	27.744	26.137	24.718	23.329	21.353	19.825	18.268
Tangible fixed assets	1.647	1.832	1.156	1.913	1.478	1.252	1.315
Financial fixed assets	0.721	1.153	1.669	2.164	2.164	2.164	2.164
Invested capital	36.259	33.398	29.651	27.631	22.531	18.624	19.043
% growth		-7.9	-11.2	-6.8	-18.5	-17.3	2.3
ROCE post-tax (%)	9.3	-11.2	6.9	-10.8	-8.3	-1.0	23.6
Net debt/(cash)	28.185	22.431	16.285	14.525	12.240	9.546	5.328
Gearing (%)	418	201	113	98	111	97	37
Net debt/EBITDA (x)	23.9	77.9	na	24.0	7.2	2.2	0.5
Shareholder funds	6.745	11.148	14.373	14.839	11.024	9.810	14.448
Equity capital	6.223	10.600	14.373	14.839	11.024	9.810	14.448
% growth		70.3	35.6	3.2	-25.7	-11.0	47.3
ROaE	39.7	-63.2	34.7	-33.1	-29.5	-11.7	38.2

Source: Company data, Merodis Equity Research

AudioValley’s leveraged balance sheet has eased thanks to a EUR 5.4m capital increase in June 2020, allowing the early repayment of the EUR 29.7m Vivendi vendor loan from 2017, of which more than EUR 21m has been paid back early which gave rise to a EUR 8.7m rebate.

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, initially due in December 2021, but extended to 2024 as recently announced.

Figure 9. AudioValley Balance Sheet and forecasts

EURm	2018	2019	2020	2021e	2022e	2023e
Goodwil	13.806	9.240	9.240	9.241	9.241	9.241
Intangible fixed assets	26.137	24.718	23.329	21.353	19.825	18.268
Tangible fixed assets	1.832	1.156	1.913	1.478	1.252	1.315
Financial fixed assets	1.153	1.669	2.164	2.164	2.164	2.164
Current assets	7.226	8.018	7.469	11.825	16.345	22.076
Cash & near cash	1.018	1.866	0.847	3.132	5.826	10.044
Total Assets	51.172	46.667	44.962	49.194	54.653	63.108
Shareholders funds	11.148	14.373	14.839	11.024	9.810	14.448
Minorities	0.548	-	-	-	-	-
Provisions	0.948	0.660	0.431	0.431	0.431	0.431
Other LTL	0.024	0.002	-	1.001	1.001	1.001
LT Financial debts	18.518	12.584	8.410	15.372	15.372	15.372
ST financial debts	4.931	5.567	6.962	-	-	-
Current liabilities	15.603	13.481	14.320	21.366	28.039	31.857
Total Liabilities	51.720	46.667	44.962	49.194	54.653	63.108

Source: Company data, Merodis Equity Research

Guidance for 2021

The company has provided some guidance as to Targetspot's sales in 2021, expecting record top line growth. The past previous record was in the region of 40% growth y-o-y. We are expecting 66% growth driven by a strong catch-up effect post-Covid19 lockdowns of 2020. Q1 2021, which is still negatively impacted by Covid19 lockdowns across all regions where Targetspot is active, showed 22% growth on a tough comparison base (Q1 2020 was mostly lockdown-free, except for the last weeks of March). No guidance was provided for Jamedo, but we expect the unit to grow sales in excess of pre-Covid19 levels (to EUR 3.1m, +14% vs 2019). At group level, we therefore expect sales to reach EUR 32m in 2021e, +63% y-o-y.

No guidance was provided in terms of margins, but management is aiming for gross margins in excess of 40% at Targetspot (vs 46% reached in 2020, a record level since at least 2017), which we believe is easily achievable despite gross margin pressure expected going forward. This pressure should stem from larger contracts with music platforms such as Soundcloud and Deezer, which should be partly offset by scale effect, leading to margins moving from 46% to 2020 to 42% in 2023e. Where operating leverage really kicks in is with the other opex items, which should allow for EBITDA profitability of close to 18% in 2023e from 6.6% in 2020. We would expect peak margins to reach 25% given the scalability of the business.

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