

AUDIOVALLEY

5 Good Reasons to Buy

23 June 2021

BUY

Target Price: €6.2

Upside: +104%

The stock has hit all-time lows

Without any fundamental reason, at the end of last week, the stock descended to historic lows despite rebounding slightly since then. Since the beginning of the year, the stock has lost -17%, clearly underperforming the CAC Small (+16%). There is no fundamental explanation for the pressure being placed on the stock. For this reason, we believe that the current price offers an attractive investment window, while the newsflow of the next few months should offer arguments for a significant revaluation of the share.

Advertising expenditure rebounds strongly

In recent weeks, the major media agencies and research firms have increased their 2021 growth forecasts. Covering all formats, it is Digital Audio that is obviously confirming its strong momentum. There is a strong appetite from advertisers who want to strengthen their presence regarding this medium. The North American market is clearly leading H1 2021's rebound, but the improved health situation in Europe (end of lockdowns, vaccination, etc.) should add a second catalyst for H2 2021.

Positive short-term newsflow

In July, the group is expected to publish strong Q2 2021 revenue figures, amplifying the rebound that had already started in Q1 2021. This recovery is being driven by Targetspot's activity in the US. The US advertising market has been growing strongly since the first half of the year and Targetspot should benefit from this. European growth is expected to be more limited, but the economies' reopening bodes well for a rebound in Targetspot's European business in H2 2021. Ultimately, the group should return to the hyper-growth trajectory it has enjoyed in the past (Targetspot almost doubled in size between 2017 and 2019).

Exposed to two booming markets

The group is perfectly positioned to take advantage of the market boom in which it is positioned, whether it be the monetisation of digital audio with Targetspot or the development of services for independent artists with Jamendo (in the collective management of music rights in particular); this has been recently highlighted by Believe's IPO. Both markets have a bright future and are attracting a great deal of money. It is not impossible to imagine that Audiovalley could eventually attract ambitious investors to its various subsidiaries.

Management's reassuring message

Following yesterday afternoon's investor call, Audiovalley confirmed all of its outlooks, including that of achieving a very dynamic H1 2021. Our estimates remain unchanged. We are reiterating our Buy rating and TP of €6.2.

Market data

Industry	Media Technology
Share price (€)	3.0
Market cap (€m)	39.6
Market Segment	Euronext Growth
Bloomberg	ALAVY FP

Shareholders

Founders/Managers	43.1%
Free float	56.7%
Treasury shares	0.2%

€m (31/12)	2020	2021e	2022e	2023e
Sales	19.6	28.0	37.6	47.2
Change (%)	-10.8%	42.7%	34.5%	25.5%
EBIT	-3.4	-2.4	-0.4	1.9
as % of sales	-17.1%	-8.4%	-1.0%	3.9%
Net profit	-4.8	-3.5	-1.5	0.7
Diluted EPS (€)	-0.39	-0.22	-0.07	0.08
Change (%)	ns	ns	ns	ns
Dividend (€)	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%
FCF	-0.3	0.4	2.3	4.5
ROCE	ns	ns	ns	7.1%
EV/SALES (x)		1.6	1.1	0.8
EV/EBIT (x)		ns	ns	20.7
PE (x)		ns	ns	ns
Net debt	14.5	5.5	3.2	-1.3
Gearing (%)	98%	28%	18%	-7%

Midcap Partners estimates

Next event: Q2 revenue - 07/15/21

Past recommendations

Date	Recommendation
06/21/2021	Buy

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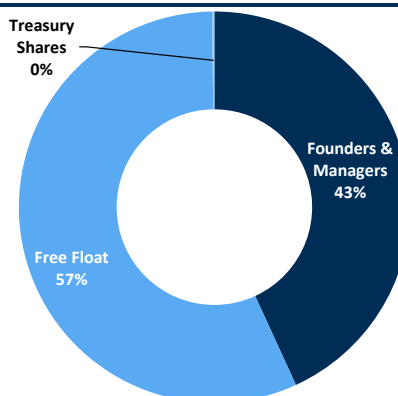


OVERVIEW of AUDIOVALLEY

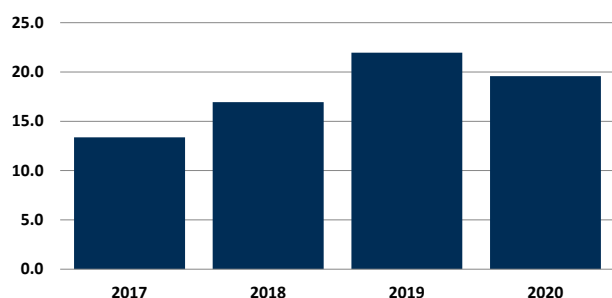
Description

Audiovalley is a pure player in the booming digital audio market, offering to content and digital audio audience holders monetization technologies. Audiovalley owns two business: Targetspot and Jamendo. Targetspot is a technological platform for aggregating and monetizing digital audio content. Targetspot's business has a strong international footprint, enabling to connect leading global and local advertisers to a global audience of over 160 million people. Jamendo is a new music rights management platform (>650 000 songs from >40 000 artists).

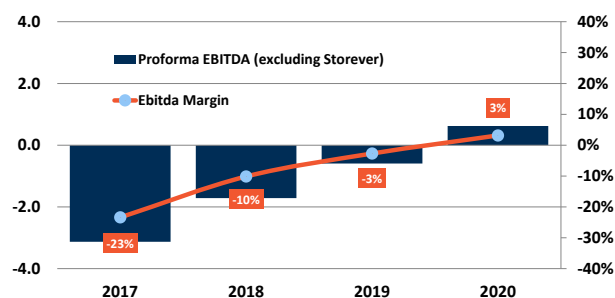
Shareholders



Revenue Growth (€M)



Ebitda (€M) and Ebitda Margin (%)



SWOT Analysis

Strengths

- A rich portfolio of proprietary technologies to serve the Digital Audio market
- An international presence with sales teams in about ten countries
- The group is positioned in a structurally buoyant market (growth in audiences and advertising spending in Digital Audio)
- High gross margin (>40%)

Weaknesses

- The still limited scope of activity impacts the group's profitability
- The cash generation still very limited
- The sensitivity of advertising revenue to economic context

Opportunities

- Acceleration of the shift of advertising budgets from traditional to Digital Audio
- Opening up the copyright market to competition
- The platform model enables to anticipate strong operational leverage in the long term
- Target for a new entrant

Threats

- Arrival of new hyper-powerful entrants (GAFA)
- Arrival of new technologies and/or new uses that the group does not anticipate in order to adapt to them quickly



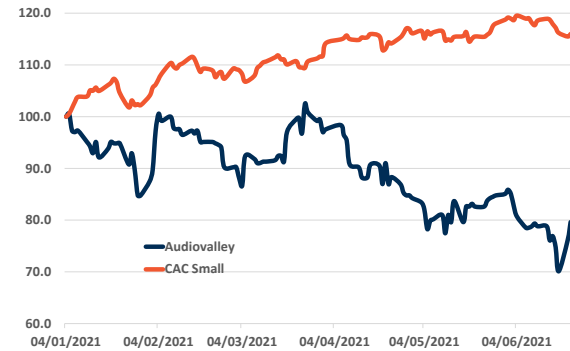
After the Senseless Decline, Beginning a Logical Rebound

The stock has been under pressure for several weeks, although it has started to rebound significantly in the last two sessions (+8.53% on Monday and +8.57% on Tuesday) after hitting an all-time low late last week.

Evolution du titre (YTD)



Evolution relative du titre vs CAC Small (YTD)



Source: Factset

There is no fundamental reason for this downward pressure. Therefore, we think that the timing is right to come back to the stock, especially as the newsflow of the next few months should allow it to continue to rise in value.

Increase in Advertising Expenditure Forecasts

The pace of economic recovery, which is greater than initially expected, has led media agencies and research firms to revise their projections for the advertising market's recovery. Even if the data is not homogeneous from one source to another, an upward revision is well shared by the various players. 2021's market growth consensus (based on forecasts from Dentsu Aegis, GroupM, Magna and Zenith) has been revised to +10.6% (see [here](#)).

Advertising market growth



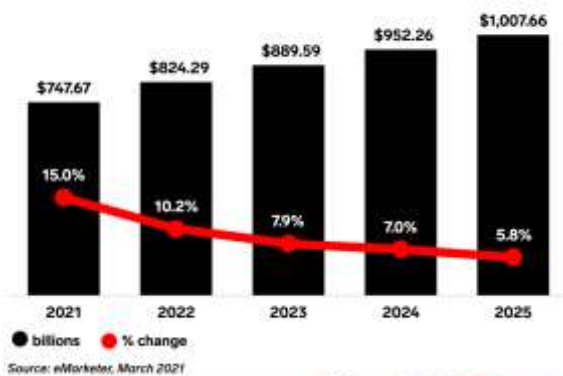
Source: Groupm, Global Mid-Year Forecast, June 2021



For its part, eMarketer revised its forecast in March 2021 from +8.1% to +15%. Although the overall trend is positive, eMarketer stresses that the recovery's distribution will be uneven, depending on the country and the advertising format. Digital spending (+20.4%) will naturally be the driving force behind this recovery. In the United States, where the recovery is already well established, spending on digital audio is expected to grow by +16% in 2021, before increasing by more than \$0.5bn per year. GroupM estimates that audio ad spend will grow by +18% in 2021 (see [here](#)), well above December's forecast of +8.7%.

Total Media Ad Spending (Worldwide)

Total Media Ad Spending Worldwide
Worldwide, 2021-2025



Digital Audio Services Ad Spending (US)

Digital Audio Services Ad Spending
US, 2021-2025



Source: eMarketer

A Favourable Framework for Targetspot's Growth

- **The improvement in the economic environment is a powerful driver for Targetspot.** As the model is based on advertising, it naturally depends on the ability of advertisers to invest. Following the forced pause thanks to covid, which at least allowed the market's transformation to accelerate due to the adoption of digital advertising formats, a new growth cycle is beginning.
- **A booming market driven by digital audio audiences.** Advertisers are showing a strong appetite to invest in the digital audio market. While traditional radio audiences are in structural decline, digital audio audiences are exploding. As money always follows the audience, the advertising windfall historically invested in FM radio must be massively poured into the new Digital Audio formats (digital radio, podcast, streaming application, etc.).
- **A top-rank competitive position placing Targetspot in an excellent position to take advantage of this windfall.** The group is one of the very few players to have end-to-end technological expertise (Streaming, Ad-Tech, DMP, etc.) and such a large international footprint (direct presence in the US and Europe combined with partnerships covering regions such as Australia or Asia). Targetspot has a global offer that meets all the market's needs (from national to local campaigns, including programmatic campaigns) with its diversified and attractive range of inventories (digital radio, streaming platforms, podcasts, etc.) which should also be open to new innovative formats (such as video games or applications with large audiences to monetise).



Financial Data (1/2)

Income statement

€M	2018	2019	2020	2021e	2022e	2023e
Net sales	16.9	22.0	19.6	28.0	37.6	47.2
<i>Growth</i>	26.6%	29.6%	-10.8%	42.7%	34.5%	25.5%
	<i>% of sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of sales	8.9	12.2	10.3	15.4	20.6	25.9
Personnel costs	6.1	7.0	6.4	7.7	9.2	10.6
Other expenses	3.6	3.3	2.3	2.9	3.4	3.7
	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	-1.7	-0.5	0.6	2.0	4.4	7.0
	<i>% of sales</i>	-9.9%	-2.5%	3.2%	7.2%	14.9%
Amortization	0.7	1.5	1.9	2.3	2.7	3.1
"Technologies" Amortization	2.7	2.7	2.1	2.1	2.1	2.1
EBIT	-5.1	-4.8	-3.4	-2.4	-0.4	1.9
	<i>% of sales</i>	-30.1%	-21.7%	-17.2%	-8.4%	3.9%
Gains on disposal	0.0	7.1	0.0	0.0	0.0	0.0
Financial result	-1.3	2.3	-1.9	-1.2	-1.2	-1.2
Income tax	0.4	-0.3	0.4	0.0	0.0	0.0
	<i>Tax rate</i>	ns	6%	8%	0%	0%
Net income	-5.3	4.8	-4.8	-3.5	-1.6	0.6
Minority interests	0.0	0.1	0.1	0.1	0.1	0.1
Net income group share	-5.3	4.8	-4.8	-3.5	-1.5	0.7

Balance sheet

€M	2018	2019	2020	2021e	2022e	2023e
Goodwill	13.8	9.2	9.2	9.2	9.2	9.2
Tangible & intangible fixed assets	28.0	25.9	25.2	23.4	21.7	20.0
Other fixed assets	1.2	1.7	2.2	2.2	2.2	2.2
Accounts receivables	6.2	7.3	6.5	9.2	12.4	15.6
Other currents assets	1.1	0.7	1.0	1.0	1.0	1.0
Cash	1.0	1.9	0.8	9.8	12.1	16.7
Assets	51.2	46.7	45.0	54.9	58.7	64.6
Shareholder's equity	10.6	14.4	14.9	20.0	18.5	19.1
Minority interests	0.5	0.0	-0.1	-0.1	-0.1	-0.1
Provisions	1.0	0.8	0.5	0.5	0.5	0.5
Financial debt	23.4	18.2	15.4	15.4	15.4	15.4
Accounts payable	12.6	11.1	11.5	15.6	20.1	24.6
Other currents liabilities	2.9	2.2	2.7	3.4	4.2	5.0
Liabilities	51.2	46.7	45.0	54.9	58.7	64.6

Cash flow statement

€M	2018	2019	2020	2021e	2022e	2023e
Cash flow from operations	-1.7	-1.3	-1.2	-1.1	0.9	3.3
Change in WCR	-0.7	-2.1	1.4	2.1	2.1	2.1
Operating cash flow	-2.4	-3.6	0.2	1.0	3.1	5.4
Capex	-1.0	-1.4	-0.5	-0.6	-0.8	-0.9
FCF	-3.4	-5.0	-0.3	0.4	2.3	4.5
Disposal of fixed assets	0.1	7.7	0.0	0.0	0.0	0.0
Impact of changes of scope	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Capital increase	7.7	0.0	5.2	8.6	0.0	0.0
Purchase/sale of shares	-0.1	0.1	0.0	0.0	0.0	0.0
Change in debt	-4.5	-1.4	-4.6	0.0	0.0	0.0
Other	-0.1	-0.5	-1.2	0.0	0.0	0.0
Net change in cash	-0.3	0.8	-1.0	9.0	2.3	4.5

Financial Data (2/2)

KEY RATIOS

	2018	2019	2020	2021e	2022e
Sales growth	27%	30%	-11%	43%	35%
Ebit margin	-30%	-22%	-17%	-8%	-1%
Net margin	-31%	22%	-24%	-12%	-4%
EPS	-1.0	0.5	-0.5	-0.3	-0.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0%	0%	0%	0%	0%
WCR as % of sales	-49%	-24%	-34%	-32%	-29%
DIO	ns	ns	ns	ns	ns
DSO	133	122	120	120	120
DPO	ns	ns	ns	ns	ns
FCF	-3.4	-5.0	-0.3	0.4	2.3
FCF yield	-8%	-13%	-1%	1%	6%
Conversion rate (FCF/EBITDA)	ns	ns	ns	20%	52%
CAPEX/Sales	6%	8%	9%	2%	2%
ROE	ns	ns	ns	ns	ns
ROA	ns	ns	ns	ns	ns
ROCE	ns	ns	ns	ns	ns
Gearing	201%	113%	98%	28%	18%
EV/CA			0.0x	1.6x	1.1x
EV/EBITDA			0.0x	22.3x	9.7x
EV/EBIT			0.0x	ns	ns
PE			0.0x	ns	ns

MIDCAP PARTNERS vs CONSENSUS

	2021e		2022e		2023e	
	Midcap Partners	Consensus	Midcap Partners	Consensus	Midcap Partners	Consensus
Sales	28.0	28.0	37.6	37.6	47.2	49.6
EBITDA	2.0	-0.4	4.4	1.9	7.0	7.9
EBIT	-2.4	-2.8	-0.4	-0.7	1.9	2.1
EPS	-0.2	-0.3	-0.1	-0.1	0.1	#N/A



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This document may mention evaluation methods defined as follows:

1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

Rating structure

- Buy: expected to outperform the market by more than 10% over a 6 - 12 months horizon.
- Hold: expected performance between -10% and +10% compared to the market in a 6 - 12 months horizon.
- Sell: expected to underperform the market by more than 10% over a 6 - 12 months horizon.

The history of ratings and the target price for the Issuers covered in this report are available on request at marketing@midcapp.com.

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Issuer	Closing price (€)	Rating	Warning
AUDIOVALLEY	3.0	Buy	E,G

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Hold	15%	13%
Sell	3%	0%
Tender	1%	2%

* "Corporate" Issuers: Issuers to whom Midcap has provided Investment Services over the last 12 months

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