

AUDIOVALLEY

Still Unfairly Undervalued

December 7, 2021

BUY

 Target: **€6.2**

 Upside: **+110%**

The stock is still under pressure

After hitting a low of €2.58 in June, the share price then rebounded towards €4. But in the last few weeks, the share price has slipped below €3 again, without any news to justify this fall. This drop offers the opportunity to return to the stock while the newsflow of the next months should once again confirm the exceptional growth dynamics of the group.

Impressive Targetspot growth

The rebound of the advertising expenses is strong, particularly in the United States where Targetspot generates a large part of its revenue (>2/3 of the revenue). The H1 figures have shown an exceptional dynamic (+72% at constant exchange rates), well above the market growth. This rebound should continue in H2 2021, given that Targetspot was still growing by +80% at constant exchange rates in the US in Q3 and that there is no indication of a slowdown in Q4.

High ambitions in the music business

Alongside Targetspot, Audiovalley is building a powerful growth driver in music, where the group is already positioned through the activities of Jamendo. Still not significant at the group level (7% of revenue), this business has the potential to reach several tens of millions of euros of revenue in a few years. For the time being, its success is not integrated in our estimates. Our growth forecasts are based almost exclusively on Targetspot.

Winamp revival

Streaming has revolutionized the music world, but the music industry is not done with revolutions. Value sharing is still at the expense of the majority of artists. The quest for fairer compensation is leading to the emergence of a new model centered around the development of a direct relationship between artists and fan communities. A model that breaks with the one of streaming platforms, centered on the user, where only a minority of hyper-streamed artists win. Based on the idea that 1,000 fans pay better than 1 million streams in a sustainable way, Audiovalley is developing a new ecosystem that will allow artists to become financially independent. This ambition will be based on the revival of the famous Winamp player. The project should be unveiled next year.

Buy opinion and TP at €6,2 maintained

Audiovalley has extremely attractive development outlooks, both in the very short term and in the longer term, based on two perfectly independent growth engines which could one day separate to increase their value. Our estimates are unchanged. We reiterate our Buy opinion with a target price of €6.2.

Market data

Industry	Media Technology
Share price (€)	2.95
Market cap (€m)	38.5
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	20.1
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: Q4 revenue - 01/27/22

Past recommendations

Date	Recommendation
10/19/2021	Buy

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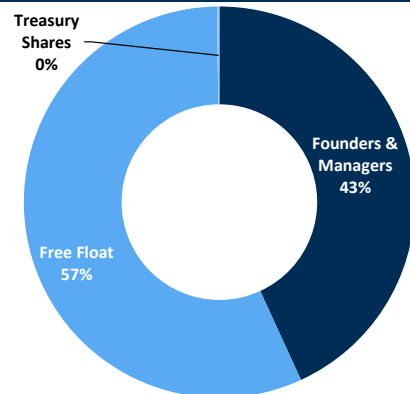


OVERVIEW of AUDIOVALLEY

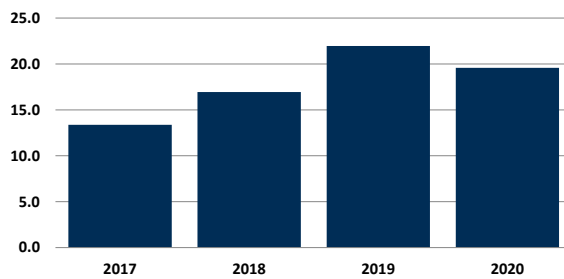
Description

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).

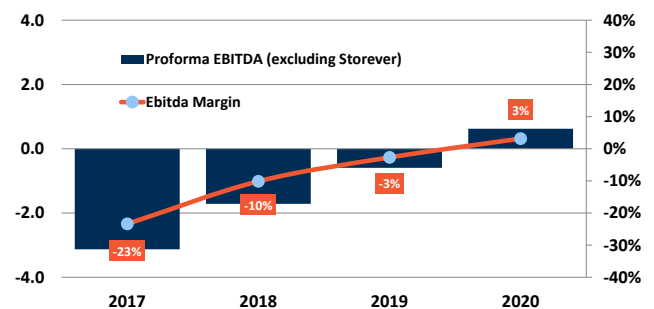
Shareholders



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

A drop without any fundamental reason

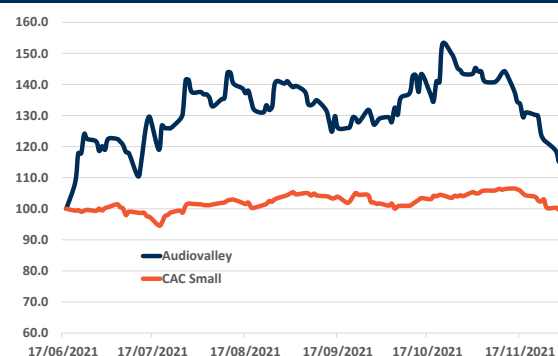
From an all-time low of €2.58 last June, the stock rebounded strongly to near €4 in October, an increase of more than 50%. This is a logical recovery for the stock given the group's strong growth dynamic (more than 50% growth at constant exchange rates over 9 months).

However, in the last few weeks, the share has come under pressure again. Without any fundamental reason, since the group should deliver an excellent Q4, driven by Targetspot, the stock has once again slipped below €3. It seems to us that it is once again a good time to come back to the stock, anticipating that the newsflow of the next few months will remain buoyant for Audiovalley.

Share price performance (YTD)



Share price performance vs. CAC Small over 6 months



Source: Factset

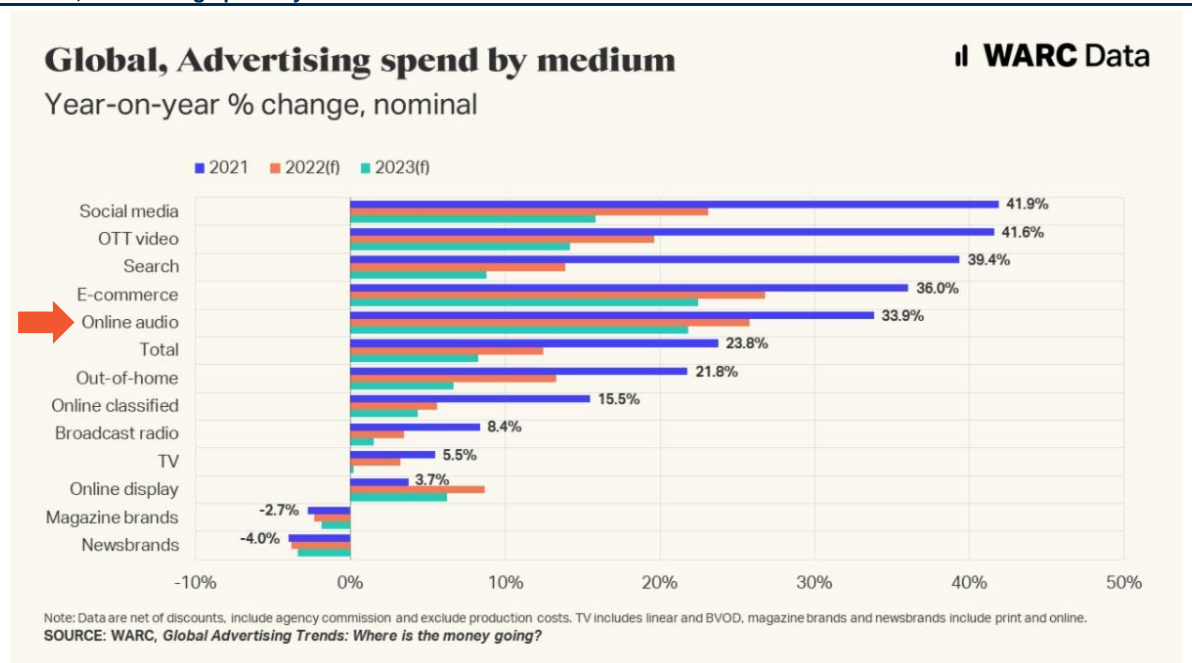
Exceptional growth for Targetspot

Targetspot is expected to deliver a growth of around +50% at constant exchange rates over 2021, fully in line with its 9-month performance. The company benefits from:

- A powerful rebound in advertising spending, particularly in the United States. The rebound is also taking place in Europe, but to a lesser extent and in a scattered manner among the various countries;
- A booming digital audio market driven by rapidly growing audiences and the multiplication of innovative formats;
- A first rank competitive position which places Targetspot in the best conditions to capture the market growth.

This strong momentum should continue into 2022. Forecasts for advertising spending in audio remain very favorable, with growth estimates of +26% in 2022 and +22% in 2023.

Global, Advertising spend by medium



Source: WARC

This growth is supported by two facts:

- First, there is a significant gap between the high level of consumption of Audio and the level of advertising investment collected by Audio. Since money always flows to media with high, targeted and engaged audiences, this gap should close;
- Then, within Audio itself, most of the budgets are still invested in traditional radio, with structurally declining audiences. A reallocation of budgets towards digital audio, where audiences are exploding, is inevitable..

Overall, Targetspot is evolving in an environment that offers sustainable growth prospects.

The investment gap in audio

The investment gap in audio

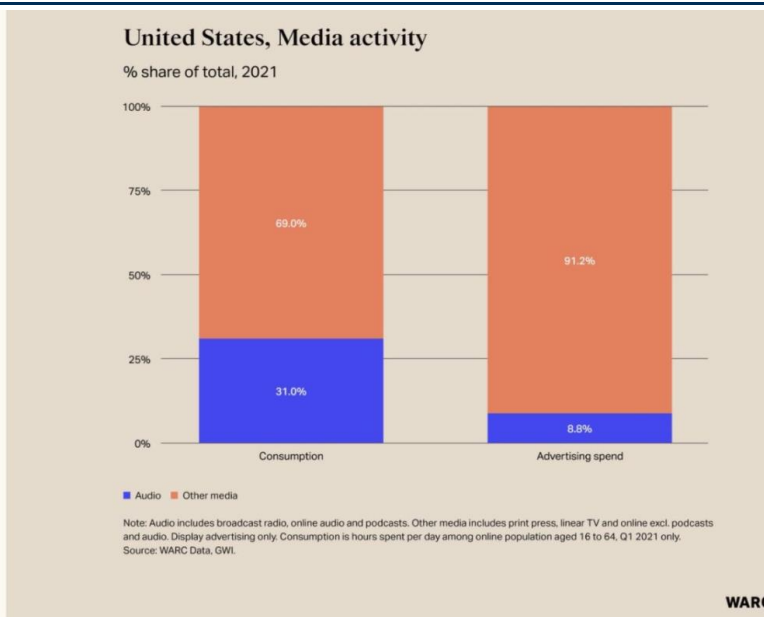
Audio is bucking this trend.

With digital creating new distribution points, and emerging formats like podcasts growing fast, its share of consumption is rising by the year.

But advertising dollars have yet to follow. Spend on audio would need to increase at least **x3** to match audience behaviors.



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Source: WARC

Winamp revival

Audiovalley has very high ambitions in music, where the company is already positioned through:

- Jamendo's activities, which allow artists to monetize their works by granting licenses for commercial uses (soundtracks for ads, videos, etc.);
- Bridger's activities in the field of authors' rights management. Competing with collective rights management organizations such as SACEM, Bridger will offer authors access to a better quality rights collection service, i.e. more transparent, faster and more favorable (better payout rate).

These two services will be part of a much larger framework that the group should unveil early next year. Some signs are already visible on the recently redesigned Audiovalley website. The sections dedicated to Winamp or to the company's job offers, in particular, offer a little teasing on the group's development axes.

We understand that Audiovalley is developing a whole new ecosystem to respond to the emergence of the fan economy in the music industry. For most artists, the fan economy is the only sustainable way to make a living from their work. Streaming platforms, now criticized in the same way as the majors, only benefit a minority of artists with the largest number of streams. Considering the value of a stream (see below), 1 million listenings will never yield more than €1K, without any form of recurrence. A new model is thus essential for millions of artists to access a system that better values their work.

Average pay per stream

	DSP / STORE	PER STREAM	STREAMS PER SONG	STREAMS PER ALBUM	MKT SHR BY STREAMS	MKT SHR BY REVENUE	MKT SHR BY STREAMS	MKT SHR BY REVENUE
1	Spotify	\$0.00348	175	1,752	22.09%	44.33%		
2	Apple Music	\$0.00675	90	902	6.36%	24.79%		
3	YouTube Content ID	\$0.00022	2,794	27,940	51.00%	6.42%		
4	Amazon Unlimited	\$0.01123	54	542	0.83%	5.35%		
5	Deezer	\$0.00562	108	1,084	0.80%	2.58%		
6	Google Play	\$0.00554	110	1,099	0.79%	2.54%		
7	Pandora	\$0.00203	299	2,993	1.91%	2.24%		
8	YouTube	\$0.00154	395	3,947	1.90%	1.70%		
9	Amazon Music	\$0.00426	143	1,431	0.65%	1.60%		
10	Facebook	\$0.05705	11	107	0.05%	1.56%	86.38%	93.12%
11	YouTube Red	\$0.01009	60	604	0.23%	1.37%		
12	Peloton	\$0.03107	20	196	0.07%	1.28%		
13	Taihe Music Group	\$0.00044	1,386	13,862	4.92%	1.25%		
14	Yandex LLC	\$0.00109	559	5,585	0.93%	0.58%		
15	TIDAL	\$0.00876	70	695	0.11%	0.58%		
16	Napster	\$0.00916	66	665	0.07%	0.37%		
17	TDC Play	\$0.00994	61	612	0.06%	0.37%		
18	LOEN	\$0.00235	259	2,594	0.13%	0.18%		
19	UMA	\$0.00022	2,779	27,794	1.17%	0.15%		
20	Play Network	\$0.00032	1,916	19,157	0.67%	0.12%	8.37%	6.24%
21	Telecom Italia S.p.A	\$0.01693	36	360	0.01%	0.09%		
22	KKBOX	\$0.00408	149	1,492	0.04%	0.09%		
23	VEVO	\$0.00083	737	7,374	0.13%	0.06%		
24	Slacker	\$0.00713	85	854	0.01%	0.06%		
25	iHeartRadio	\$0.01798	34	339	0.01%	0.05%		
26	Line	\$0.00970	63	628	0.01%	0.05%		
27	iMusica	\$0.02247	27	271	0.00%	0.05%		
28	Bugs Corporation	\$0.00427	143	1,426	0.01%	0.03%		
29	Reliance Jio	\$0.00176	346	3,463	0.02%	0.02%		
30	Gaana	\$0.00133	457	4,575	0.02%	0.01%	0.26%	0.51%
	Total Aggregate / Average :	\$0.00173	352	3,516				

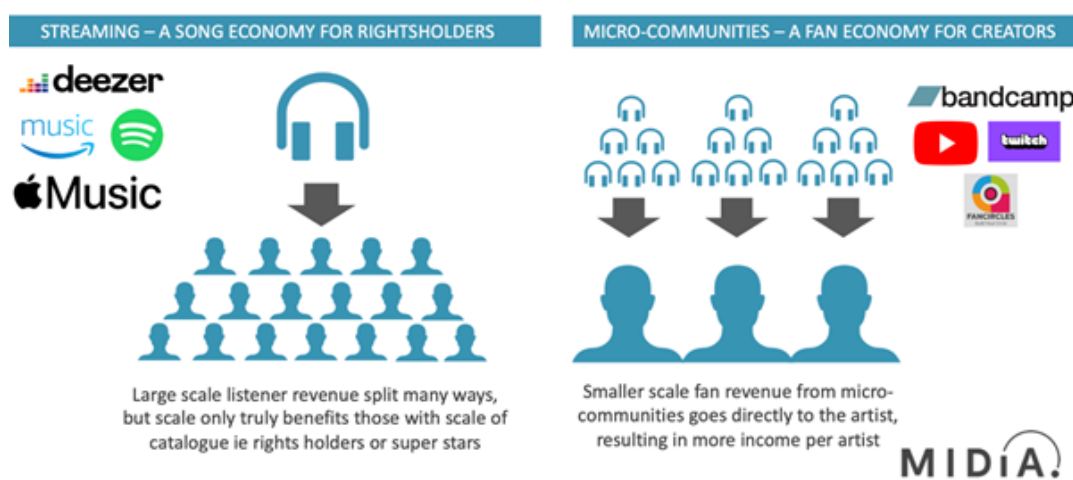
Source: The Trichordist

Streaming platforms have built a user-centric model. The user is the client and the platform meets its needs. The artist is just an input and the rationale of his remuneration is based on the audience he generates, which leaves the majority of artists without any means.

An artist-centred model is the best way to avoid this. The idea is simple: for most artists, the audience does not pay, the fans do. Actually, millions of streams will always bring less money than a micro-community of fans (a few hundred people would be enough) who subscribe to access an artist's world (music, live events, artist's video, backstage, exclusive content, merchandising, NFT, etc.). If the audience brought by a platform does not allow to survive, it can on the other hand be used as a pool to build a community of fans ready to financially support an artist¹.

A direct relationship between an artist and a community, without middlemen, is a key way for artists to gain financial emancipation and to regain more independence, transparency and control over their work and the way they monetize it (subscriptions, purchases, donations, advertising, etc.).

From an audience model to a fan model



Source: Midia Research

To lead this development, Audiovalley will rely on the revival of the famous player Winamp, acquired from AOL in 2013. Winamp will serve as a one-stop shop for artists to access a range of services to develop their worlds and build a direct relationship with fans, which they can then monetize. Bridger (rights collection) and Jamendo (licensing) services will be integrated, among others to come (distribution, marketplace, etc.). Open jobs give a small idea of the scope of the developments around these new activities.

Bridger – Open Positions

Position	Location
Back-end Developer	Paris, Île-de-France
Brand & Communication Manager	Paris, Île-de-France
Business Analyst	Luxembourg, Luxembourg
Front-end Developer	Paris, Île-de-France
Head of Back Office Support	Anderlecht, Brussels
Head of Front Office Support	Anderlecht, Brussels
Head of Publisher Relations and Strategic Partnerships	Luxembourg, Luxembourg
Head of Repertoire Acquisition	Luxembourg, Luxembourg
Head of Revenue & Business Affairs	Luxembourg, Luxembourg
Senior Financial Expert	Luxembourg, Luxembourg
Senior UX Designer	Luxembourg, Luxembourg

Winamp – Open Positions

Position	Location
Chief Artist Officer	Anderlecht, Brussels
Data Engineer	Anderlecht, Brussels
DevOps/SRE	Anderlecht, Brussels
HR & Admin Officer	Luxembourg, Luxembourg
Legal Counsel - Business Partnerships	Anderlecht, Brussels
Product Owner	Luxembourg, Luxembourg
System Administrator	Anderlecht, Brussels
Talent Acquisition Officer	Anderlecht, Brussels

Source: Audiovalley

¹ [The Technium: 1,000 True Fans \(kk.org\)](http://TheTechnium.com)

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
Growth	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%	-1.0%
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	-9%	-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	21.7x	9.4x
EV/EBIT			0.0x	ns	ns
PE			0.0x	ns	ns

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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.
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Company	Conflict Type
AUDIOVALLEY	E,G

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