

RNTS Media

Full year update

Programmatic and video power growth

Exponential growth of programmatic and video ad formats enabled RNTS to grow revenues by 69% in FY16, at the top of its peer set. Management has reiterated its expectation of ongoing strong growth in 2017 and EBITDA profitability. The recent restructuring of the €150m convertible bonds frees the group's hand to put in place additional financing, required to satisfy earnouts. This would remove an overhang on the shares, which trade in line with peers on FY17e EV/sales multiples.

Year end	Revenue (€m)	EBITDA cont (€m)	EBIT cont (€m)	PBT cont** (€m)	PBT reported (€m)	EV/sales (x)
12/14	64.0	0.7	(1.5)	(2.0)	(10.8)	5.6
12/15	81.1	(13.7)	(15.2)	(18.6)	(40.3)	4.2
12/16e	170.0/218.1*	(10.9)/(5.8)*	(14.4)	(24.4)	(33.6)	2.0/1.7*
12/17e	285.0	3.9	(0.5)	(4.2)	(11.2)	1.3

Note: *Pro forma. **PBT is normalised, excluding amortisation of acquired intangibles, discontinued operations, exceptional items and share-based payments.

Guidance for strong growth reiterated

Pro forma (PF) preliminary results were as indicated in the February trading update. Gross revenues increased by 69% to €218.1m and the EBITDA loss, adjusted for one-off and non-cash items, was €5.8m with the Q4 EBITDA loss close to break-even at €0.5m. Underpinning this increase was the exceptional growth in programmatic trading (+300%) and video ad formats (+280%), which accounted for 59% and 44% of revenues in the year. With the full integration of acquisitions and its focus on mobile, programmatic and video, management expects growth to continue in FY17 and has reiterated its guidance for revenues and adjusted EBITDA profits of above €280m and €3m respectively.

Convertibles restructured

In April, RNTS announced that it had successfully restructured its €150m convertible bonds. This is a significant step for the group as it not only reduces the interest burden of this debt (the coupon will be reduced from 5% to 3%) but, in subordinating any claims to bank finance, it should also help RNTS put in place additional bank financing, and satisfy earnout obligations in relation to Heyzap and Inneractive as well as ongoing working capital requirements. Management is in negotiations on a variety of financing options.

Valuation: More digestible on EV/sales multiples

RNTS is well positioned in the most rapidly growing segments of advertising technology, evident in its pro forma growth rates, which are the highest among its US and European peers. This is reflected in its FY17e EV/gross revenue multiple which, while still above the sector average (0.7x), is in line with peers that are generating similar growth rates (eg The Trade Desk and Taptica), although it still lags these companies on profitability metrics. Putting in place the required financing should lift a significant overhang on the shares, removing another barrier to the shares' performance.

Software & comp services

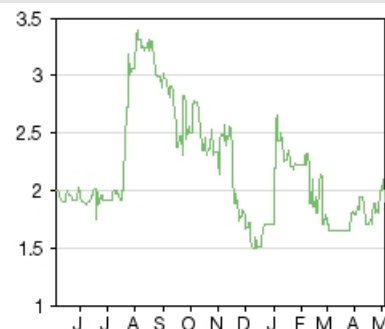
4 May 2017

Price **€1.90**

Market cap **€218m**

Net debt (€m) at 30 September 2016	111
Shares in issue	114.5
Free float	61%
Code	RNM
Primary exchange	FRA
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.5	(17.4)	(7.3)
Rel (local)	0.3	(23.2)	(26.6)
52-week high/low	€3.4	€1.5	

Business description

RNTS Media has two complementary mobile ad tech platforms at its core: Fyber and Inneractive. Their supply-side platforms help app developers and publishers overcome the challenges of a fragmented ecosystem by consolidating a wide range of advertising demand onto one platform. RNTS is one of the world's largest independent groups in this space.

Next events

Q117 results	31 May 2017
FY16 audited results	26 July 2017

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Convertible restructuring

In April, RNTS announced that it had successfully restructured its €150m convertible bonds. This involved:

- the reduction in the conversion price from €4.2 per share to €3.0 per share;
- a reduction in the fixed interest payable from 5% to 3%, and a waiver of the coupon in July 2017; and
- a subordination of the claims under the convertible bonds to bank lenders in respect of bank financing.

This in effect means a €3.75m saving this year (July's coupon) and a €3.0m annual interest saving from next year (coupon reduced from €7.5m to €4.5m). The subordination of claims should also make it easier to put in place additional banking facilities. While we forecast that the group moves to EBITDA profitability this year, additional facilities are needed to satisfy earnout obligations in relation to Heyzap and Inneractive, as well as for ongoing working capital requirements.

- Inneractive was acquired for \$46m in July 2016, with potential future earnouts of up to \$26m. It grew by 114% last year and has exceeded its earnout criteria. These earnouts are scheduled to be paid annually until 2019. However, management would like to advance the payment of these earnouts to accelerate the integration of the platforms and fully realise their synergy potential.
- Heyzap was acquired for an initial payment of \$20m in January 2016, with earnout and retention payments of up to \$25m. While Heyzap's growth has not been separately disclosed, the combined Heyzap and Fyber division grew by 6% in FY16. Management has disclosed that Heyzap has only partially met its earnout criteria and negotiations with regard to final payment are ongoing.

We had previously assumed that 50% of the Heyzap earnout was triggered (in FY17) and 100% of Inneractive's (across 2017 to 2019). We are updating this assumption to reflect a €5m earnout payment for Heyzap. Until the group has secured additional financing, we are not reflecting the planned acceleration of the earnout payment for Inneractive. In total, we assume a payment of €15m in FY17.

FY16 preliminary results

Exhibit 1: Pro forma 2016 preliminary results

	H115 PF	Q315 PF	Q415 PF	FY15 PF		H116 PF	Q316 PF	Q416	FY16 PF
Total gross revenues	49,851	30,511	48,758	129,120		94,800	52,306	70,994	218,100
Revenue growth						90%	71%	46%	69%
Gross profit	17,158	9,419	14,123	40,700		28,749	15,028	18,623	62,400
Gross margin	34.4%	30.9%	29.0%	31.5%		30.3%	28.7%	26.2%	28.6%
EBITDA - continuing operations	(5,754)	(5,348)	(1,098)	(12,200)		(2,310)	(2,983)	(507)	(5,800)

Source: RNTS Media. Note: PF figures are on a like-for-like basis and reflect acquisitions as if they had been acquired from January 2015.

Revenues increased by 69% to €218.1m (vs guidance of above 65% growth). Underpinning this growth was the exceptional growth at Inneractive (+114%) and Fyber RTB (+362%) and steadier growth at Fyber/Heyzap (+6%). This performance is a reflection of the strong growth of programmatic trading (+300% y-o-y to represent 59% of total group turnover) and video ad formats (+280% to represent 44% of total group turnover), testament to RNTS's ability to leverage its video capabilities across the group.

Gross margins at 29% were down on last year's 32%. This is largely due to mix effects given the exponential growth of the lower-margin Fyber RTB division. In Fyber RTB, gross margins increased by 14.1pp y-o-y to 19.3%, with the platform benefiting from integration into the wider RNTS network.

EBITDA loss (adjusted for one-off and not cash items) was €5.8m, slightly ahead of our pro forma forecast of €5.1m, with Q4 EBITDA close to break-even at €0.5m, as targeted by management.

Summary forecast changes

Management has reiterated its expectation for ongoing strong growth in the current year, guiding to revenues of above €280m and positive EBITDA across the year of over €3m. This is broadly in line with our forecasts, which we leave unchanged at the adjusted EBITDA level (we increase our revenue estimate from €275m to €285m). We have also updated our cost of financing assumptions to reflect the lower coupon rate on the convertibles and have adjusted our estimates for the earnouts as described earlier.

Overall, this means a reduction in our forecast normalised pre-tax loss in FY17 to €4.2m (from €7.9m) and a reduction in our forecast FY17 net debt of €10m to €127.9m.

Exhibit 2: Financial summary

	€'000s	2014	2015	2016e	2017e
Dec		Pro forma	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		64,024	81,076	170,000	285,000
Cost of Sales		(39,641)	(56,739)	(121,824)	(208,653)
Gross Profit		24,383	24,337	48,176	76,348
EBITDA - continuing		685	(13,740)	(10,875)	3,885
Operating Profit (before amort. and except.)		(1,546)	(15,196)	(14,375)	(456)
Intangible Amortisation		(2,292)	(2,469)	(3,315)	(2,700)
Exceptionals		(3,439)	(2,915)	(3,373)	(1,837)
Other		(3,021)	(16,305)	(2,500)	(2,500)
Operating Profit		(10,298)	(36,885)	(23,563)	(7,493)
Net Interest		(495)	(3,397)	(9,998)	(3,750)
Profit Before Tax (norm)		(2,041)	(18,593)	(24,373)	(4,206)
Profit Before Tax (FRS 3)		(10,793)	(40,282)	(33,561)	(11,243)
Tax		215	2,348	0	0
Profit After Tax (norm)		(1,484)	(16,245)	(24,373)	(4,206)
Profit After Tax (FRS 3)		(20,173)	(37,934)	(33,561)	(11,243)
Average Number of Shares Outstanding (m)		114.5	114.5	114.5	114.6
EPS - normalised (c)		(1.3)	(14.2)	(21.3)	(3.7)
EPS - normalised fully diluted (c)		(1.2)	(13.6)	(18.6)	(3.1)
EPS - (IFRS) (c)		(17.6)	(33.1)	(29.3)	(9.8)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		38.1	30.0	28.3	26.8
EBITDA Margin (%)		1.1	-16.9	-6.4	1.4
Operating Margin (before GW and except.) (%)		-2.4	-18.7	-8.5	-0.2
BALANCE SHEET					
Fixed Assets		173,152	160,814	215,766	228,411
Intangible Assets		159,729	157,929	211,881	224,867
Tangible Assets		674	2,195	3,195	2,854
Investments		12,749	690	690	690
Current Assets		51,423	119,737	111,004	117,310
Stocks		556	408	408	408
Debtors		17,246	25,214	54,400	91,200
Cash		21,078	79,123	41,204	10,710
Other		12,543	14,992	14,992	14,992
Current Liabilities		(33,518)	(47,067)	(73,974)	(99,830)
Creditors		(24,606)	(47,067)	(73,974)	(99,830)
Short term borrowings		(8,912)	0	0	0
Long Term Liabilities		(19,042)	(89,253)	(139,253)	(139,253)
Long term borrowings		(2,869)	(88,572)	(138,572)	(138,572)
Other long term liabilities		(16,173)	(681)	(681)	(681)
Net Assets		172,015	144,231	113,543	106,637
CASH FLOW					
Operating Cash Flow		(13,723)	(10,884)	(13,154)	(7,058)
Net Interest		N/A	(1,041)	(9,998)	(3,750)
Tax		N/A	(690)	0	0
Capex		N/A	(6,321)	(4,600)	(4,686)
Acquisitions/disposals		N/A	(10,455)	(60,167)	(15,000)
Financing		N/A	0	0	0
Dividends		N/A	0	0	0
Net Cash Flow		N/A	(29,391)	(87,919)	(30,495)
Opening net debt/(cash)		2,553	(9,297)	9,449	97,368
HP finance leases initiated		0	0	0	0
Other		(11,803)	10,645	0	0
Closing net debt/(cash)		(9,297)	9,449	97,368	127,862

Source: RNTS Media accounts (historical numbers), Edison Investment Research (forecasts)

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