

## Exit Nexxen International: Too many geopolitical risks and low liquidity

<b>Company:</b>	Nexxen International (NEXN LN)	<b>Market Cap:</b>	\$400mio
<b>Industry:</b>	Video advertising tech	<b>Net Cash:</b>	\$146mio
<b>Country:</b>	US, worldwide	<b>Revenue:</b>	\$332mio
<b>Date:</b>	17 <sup>th</sup> June 2024	<b>Net Income:</b>	(\$21mio)
<b>Dividend:</b>	\$70mio share buyback (20%)	<b>Free cash flow:</b>	\$35mio (14%)*
<b>Entry:</b>	\$363mio / \$400mio	<b>Exit:</b>	\$440mio (+10%)

\*estimated based on \$100mio guided adjusted EBITDA

### Why exit Nexxen International?

- Valuation close to \$500mio target, while general state of economy began slowing down
- War with Hezbollah becomes more likely and could risk operations in Israel
- Too much geopolitical uncertainty, which could abruptly slow down advertising spending
- Antisemitism is spread across the media and investors, making it politically harder for pension funds or other large investors to justify taking a share in companies like Nexxen, which only makes the company's share buyback programme a potential buyer, but runs on relatively low volume

### Escalation with Hezbollah could risk a full-blown war

Following Omar Abu Layla<sup>1</sup> on X has been fundamental in being up to date on the situation in the Middle East. For weeks now, we have seen daily interactions of Hezbollah leaders killed and drones and rockets being fired at Israel. More than 80,000 Israelis are being displaced from their homes in the North for months<sup>2</sup>. And in a worrying development, Hezbollah has begun to use drones that are more difficult to

<sup>1</sup> <https://x.com/OALD24>

<sup>2</sup> <https://unwatch.org/report-un-silent-on-israeli-idps/>

intercept with the Iron Dome<sup>3</sup>. The more vulnerable Israel becomes to these drones, the more likely they need to take more drastic action against Hezbollah. On the other hand, Hezbollah has made public that they look to target Israeli ports and airports<sup>4</sup>. I expect an escalation of the situation at the border to Lebanon, which could cause some disruption for companies in Israel and a risk that Israeli infrastructure will be attacked. Advertising demand could also take a temporary dip as a result of a wider war.

### The world is upside down

I have recently attended the Abrahamic Business Circle, where I was able to speak to a few Israelis on the issue of the war. One person told me that he sometimes wakes up and believes “the world is upside down”. I cannot agree more with this statement. The fact that the US Pentagon has a vivid Hamas supporter (Fadi from Al Jazeera<sup>5</sup>) asking questions at every Pentagon media press conference is somewhat unbelievable – just two decades after 9/11, an event that was celebrated in Gaza<sup>6</sup>, and months after 7<sup>th</sup> October, where again Palestinians celebrated in the streets of Gaza. It is also inconceivable that Al Jazeera is allowed to operate in the US and Europe (and until April 2024 even in Israel), while being blocked in almost all Middle Eastern countries.<sup>7</sup> Al Jazeera is the single reason that keeps Hamas alive, and it is us Western countries that allow them to operate. Just recently, Norway’s pension fund sold its stake in Caterpillar on Israel links to the Gaza War<sup>8</sup>, while the UN published a list of companies that investors should divest from due to their involvement in Israeli settlements<sup>9</sup>. Although Nexxen is not on this list of course, it could be considered too risky to invest in Israeli based companies at all from a PR perspective for some investors. For these reasons, as well as low liquidity in the trading of the stock and the generally unstable geopolitical environment, which could impact advertising spending rapidly, I have decided to sell the position in Nexxen, since the valuation was not too far away from my target. Importantly, I continue to monitor Israeli based businesses, as valuations are becoming very attractive in some cases, and the US would always

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<sup>3</sup> <https://www.reuters.com/world/middle-east/hezbollah-says-it-attacked-9-israeli-military-sites-with-rockets-drones-2024-06-13/>

<sup>4</sup> <https://x.com/IranObserver0/status/1803047209413308665>

<sup>5</sup> <https://x.com/FadiMansour77>

<sup>6</sup> <https://abcnews.go.com/US/video/abc-news-footage-shows-911-celebrations-35571201>

<sup>7</sup> <https://ipi.media/al-jazeera-bureaus-closed-websites-blocked-in-several-arab-countries/>

<sup>8</sup> <https://www.bloomberg.com/news/articles/2024-06-26/norway-pension-fund-exits-caterpillar-stake-on-israel-links>

<sup>9</sup> <https://www.ethicalconsumer.org/transport-travel/un-publishes-list-companies-involved-israeli-settlements>

defend Israel. People often forget how important Israel is to the world and how many key technology firms are based there.



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