

Update Nexxen International: An EV/adj EBITDA of 2.3x valuation

Company:	Nexxen International (NEXN LN)	Market Cap:	\$376mio
Industry:	Video advertising tech	Net Cash:	\$146mio
Country:	US, worldwide	Revenue:	\$332mio
Date:	3 rd April 2024	Net Income:	(\$21mio)
Dividend:	\$70mio share buyback (20%)	Free cash flow:	\$35mio (14%)*
Entry:	\$363mio	Target:	\$500mio (+33%)

*estimated based on \$100mio guided adjusted EBITDA

Why Nexxen International?

- Attractive valuation with 6.5x EV/Free cash flow incl. share dilution
- Alphonso settlement provides cash and access to LG's premium advertising inventory
- SSP competitors Magnite and PubMatic reported Q4 results and are up 30% since then, yet Nexxen's valuation is unchanged despite good results
- \$50mio share buyback to be initiated, on top of the current \$20mio share buyback. This yields a 20% on equity alone

Risks

- Nexxen's CEO and other advertising and marketing firms do not see a recovery taking place yet
- Rebranding to Nexxen might not succeed
- Big Tech might tighten the screws further on smaller advertising players
- Nexxen could lose market share, because certain clients might want to avoid Israeli headquartered businesses
- Magnite's 30% rise has lost steam and declined to a valuation close to before Q4 23 results

This update will not explain what the company does. For more detail on that, please check [here](#).

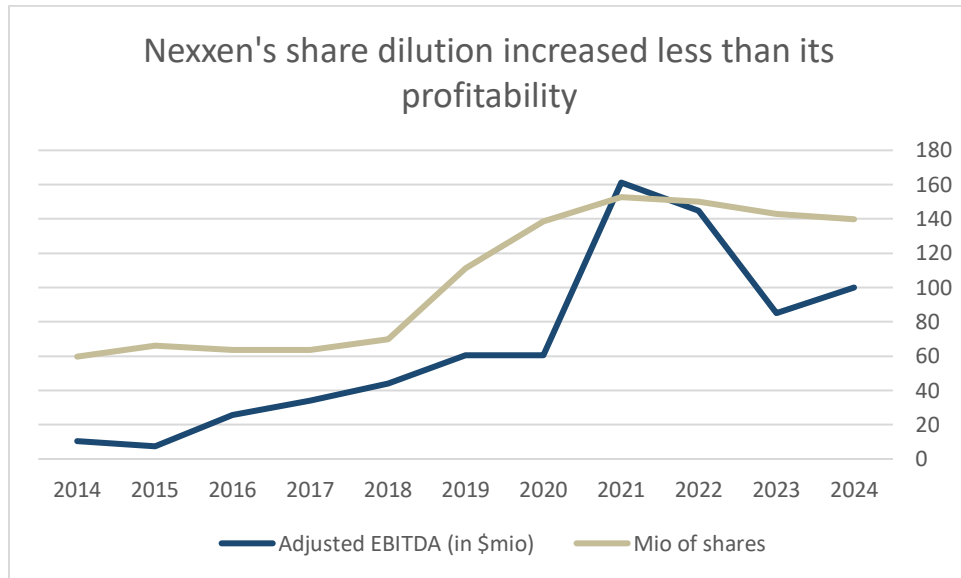
A wild valuation

There is no question that UK equities are attractively valued, and broad MSCI indices point to a 50% discount compared to the US¹. I could create a portfolio based on over 20 names purely due to rock bottom valuations. And right at the bottom of this list is Nexxen International. With a current market cap of \$375mio and adjusted EBITDA forecast of \$100mio, the valuation appears like there is some sort of problem with it. Even more so when considering that the company has \$246mio of cash (\$146mio net cash after debt) on its balance sheet. Taking all cash outflows and share dilution into account, there should still be more than \$35mio free cash flow for shareholders in the cards. The company is already buying back \$20mio of shares, and with an additional \$50mio share buyback in the pipeline, this should already give shareholders a 20% return (before a \$15mio share dilution that is to be expected). Why is this company so cheaply priced?

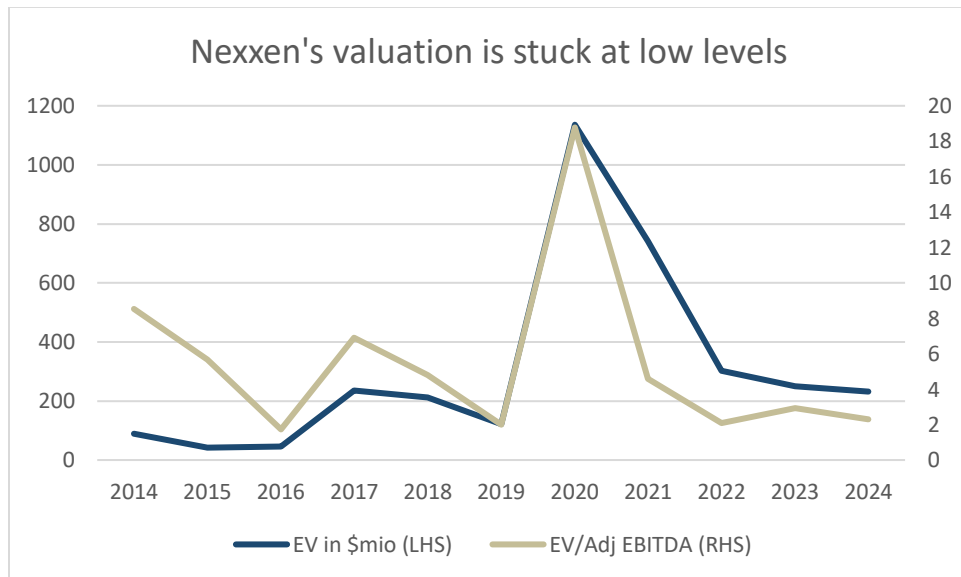
Share dilution

Number one: The company has an aggressive share issuance plan to motivate and retain talent, primarily management, which is not unusual in this industry. This means that the company needs to use its cash to buy back shares to at least keep its share float stable. While Nexxen has been very successful with this and actually lowered the share count since a peak in 2021, it justifies a generally lower valuation, especially since the dilution is set by a fix number of shares, i.e. if the share price rises, the dilution increases on an absolute level. At the same time, there was some share issuance on back of acquisitions, although this was accreditive due to higher profitability.

¹ <https://www.ft.com/content/be46c2c3-1f1f-42e3-912b-b75624dedcbd>



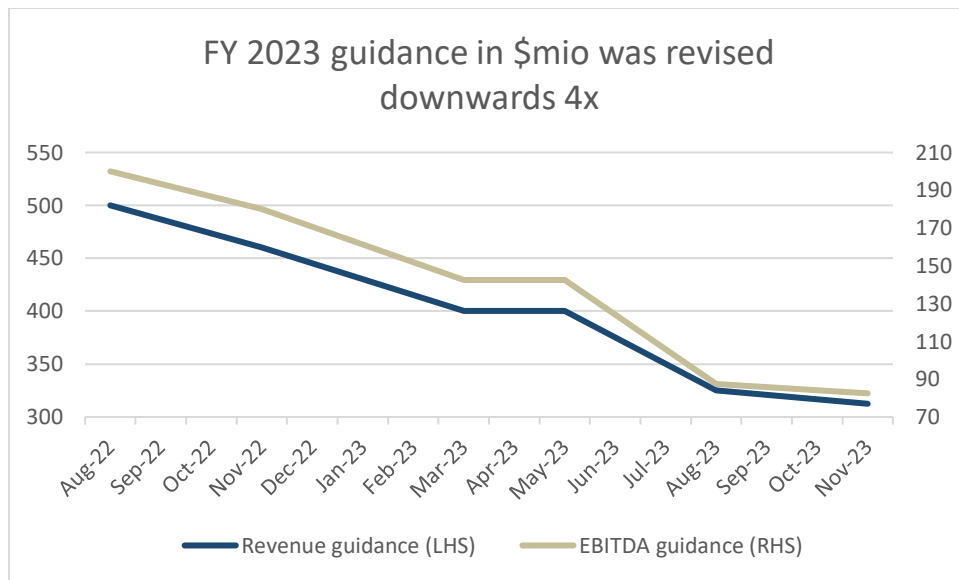
Source: Nexxen



Source: Nexxen

Weak revised guidance

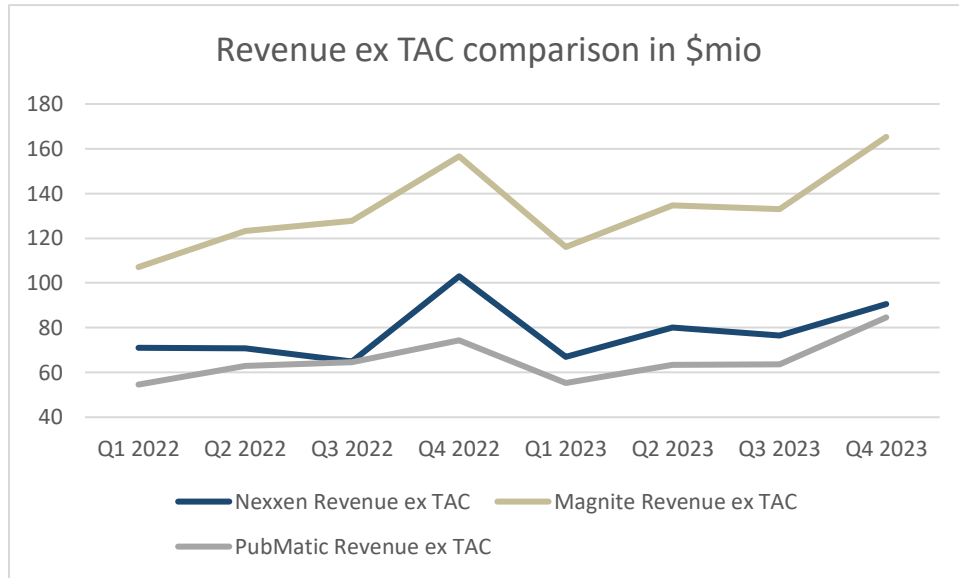
Number two: The management issued annual guidance for 2023 that needed to be revised downwards a staggering 4x and ended up 60% below the initial guidance. In August 2022, Nexxen (back then Tremor) issued 2023 guidance as \$500mio revenue and \$200mio adjusted EBITDA, which ultimately ended up as \$312.5mio revenue and \$82.5mio adjusted EBITDA – a massive revision that came in stages over an entire year.



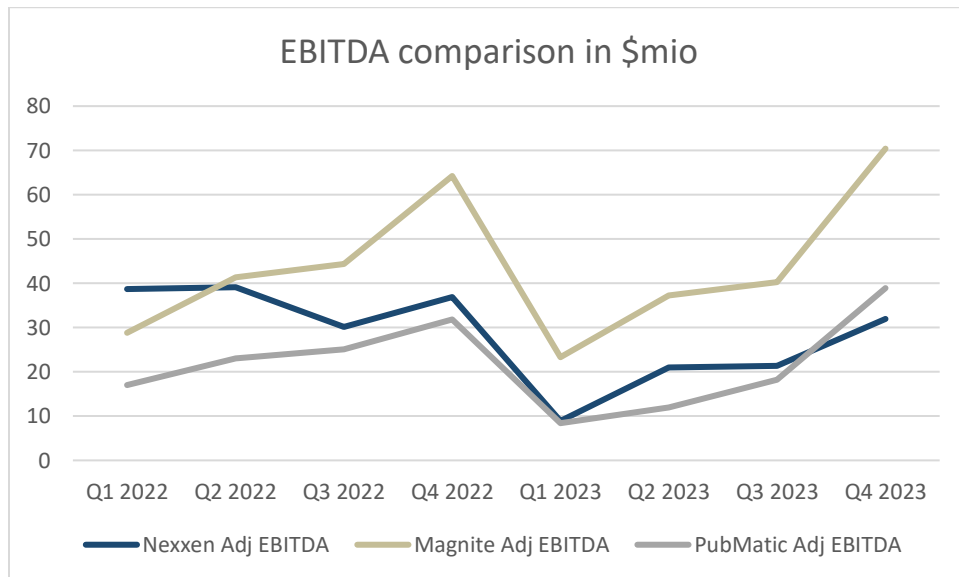
Source: Nexxen

Relative value

Number three: Relative value to its competitors. Nexxen has combined its business on the DSP and SSP side. However, most of their profits are likely generated on the SSP side. When compared to their competitors, Nexxen's revenue and profitability lagged somewhat compared to its competitors in Q4 2023. However, the valuation of Nexxen is also around 1/4 compared to Magnite and PubMatic. The relatively weaker Q4 23 EBITDA can likely be explained by the rebranding to Nexxen, and additional costs incurred through that (Nexxen basically cut its workforce in half). On the other hand, CTV revenue was flat quarter-on-quarter, which was weaker than Nexxen's competitors – we'd need to see another quarter to judge whether this relative decline was a one-off or not.



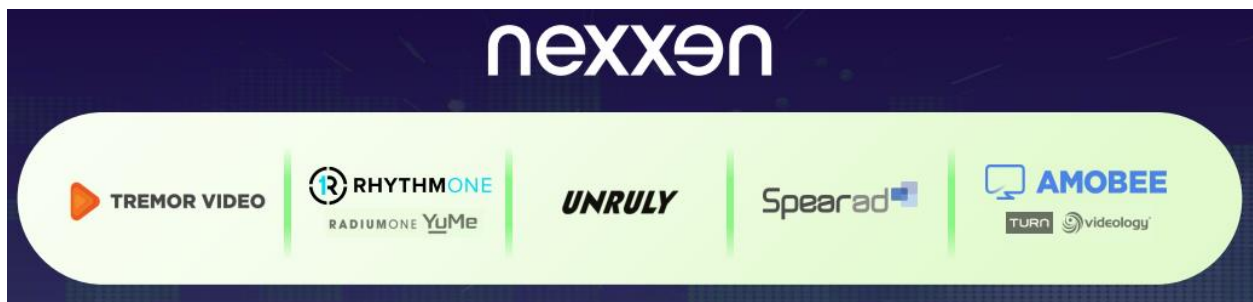
Source: Nexxen, Magnite, PubMatic



Source: Nexxen, Magnite, PubMatic

Rebrand to Nexxen

Number four: A rebrand to Nexxen that failed? Nexxen rebranded itself multiple times over the last couple years. Initially, the company was called Marimedia. Then with the acquisition of Taptica, changed its name to Taptica in 2015. Only a few years later with the acquisition of Tremor Video, the new name became Tremor International in 2019. Finally, after the acquisitions of RythmOne, Unruly, SpearAd and Amobee, the company created a new brand, Nexxen International, in late 2023. While previous rebrands took the name of the new acquisition, this time a whole new name was chosen. Complete rebrands like these are risky, as clients won't know the new brand. Therefore, the rebranding needs to be done very carefully. In the case of Nexxen, the new website is unfortunately quite bad and does not explain the message "one platform, endless opportunities" very well, the navigation is inconsistent and even has some bugs, such as videos not playing correctly. This has been worrying me somewhat, as a website tells you a lot about how a company operates and how precisely they work. Hence, I have driven a bit of an activist campaign to improve this by arranging a call with the CMO and introducing consultants to them to improve it. Therefore, this can still positively change. The company is also sponsoring some events in the health care² and politics³ area, both interesting sectors.



Source: Nexxen

² https://www.linkedin.com/posts/nexxen-inc_phm-healthfront-for-healthcare-marketers-activity-7178058474512101376-QXko?utm_source=share&utm_medium=member_desktop

³ https://www.linkedin.com/posts/nexxen-inc_pollie-awards-activity-7180610134237163521-3ixS?utm_source=share&utm_medium=member_desktop

Matomy

There is a bit of a dark history when it comes to Nexxen's management, as first Ofer Druker and then Sagi Niri were CEOs of Matomy, a company that eventually failed. There are strong parallels between Matomy and Nexxen:

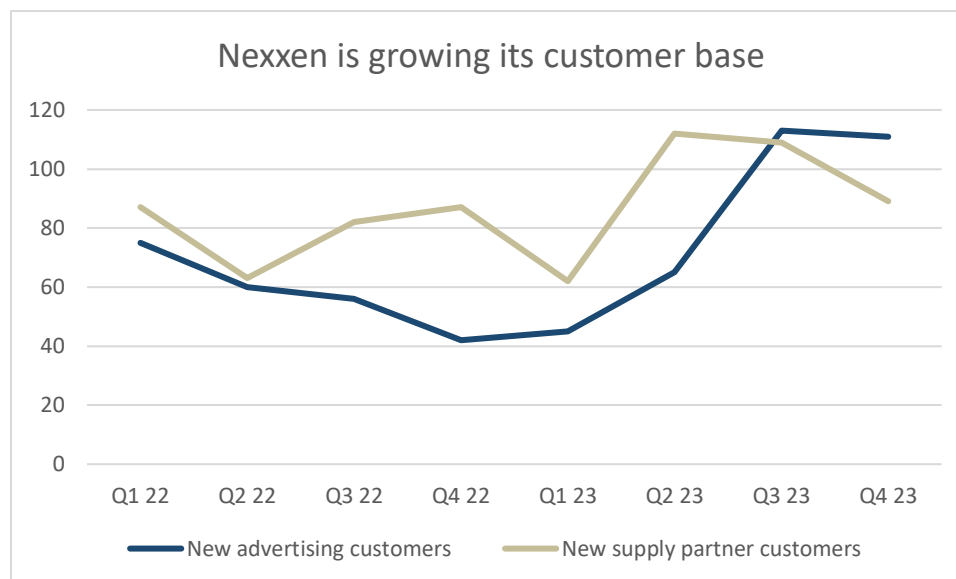
1. Both had a 25% shareholder (Matomy had Publicis, Nexxen has Mithaq Capital)
2. Both had a 6-7% shareholder (Matomy had Brosh Capital, Nexxen has News Corp)
3. Both were led by Ofer Druker (Brosh Capital led an activist campaign at Matomy that led to the replacement of Ofer Druker for Sagi Niri)
4. Both acquired multiple businesses (Matomy: Team Internet, Mobfox and Optimatic. Nexxen: Tremor Video, Unruly and Amobee)
5. Both had a problem acquisition that bled money (Matomy: Optimatic, Nexxen: Amobee)

However, it is unlikely that Nexxen follows Matomy's path into bankruptcy, as its downfall was caused by contingent payments for the acquisition of Team Internet (which is a very successful listed company now) and a net debt position. Nexxen, on the other hand, has no such contingent liabilities and has a very healthy net cash position. Management has learnt from their past mistakes.

Conclusion

There is always this question of whether to buy something just because it's cheap. This should have never been done, the macro or the trigger always needs to align positively. Without that the valuation can remain cheap for a very long time. After the results, I expected the positive numbers and outlook the trigger of a revaluation. This did not occur, perhaps because of the above reasons. Nonetheless, in November 2023 the share price initially also did not move, and only began moving after the \$20mio share buyback started. This could be happening again with the new \$50mio still to be approved by the Israeli court, which can take up to two months. At the same time, Nexxen grew its customer base, but did see some slippage in Q4 2023. While Q1 is generally the weakest quarter, the guidance will be key to see how the company evolves. There is also a question whether clients might abandon Nexxen, because it is headquartered in Israel (amidst the Gaza war, in protest). Another Israeli ad company, Perion Networks,

is also trading at similarly distressed levels despite a very strong balance sheet and profitability. While Perion Networks carries a few red flags⁴, I suggested it to take over Nexxen, by offering a 40% premium at \$500mio. The acquisition could be financed with \$250mio of Nexxen's own cash, hence only needing to pay \$250mio of Perion's cash. Overall, I expect marketing and advertising spending to increase, as energy costs have come down and consumers switched to non-branded products, hence now need to be lured back to brands by advertising. Some renowned advertising analysts have also recently upgraded their advertising growth expectations, such as Brian Wieser from 4.3% initially⁵ to 5.2%⁶ and eventually to 5.6% in 2024⁷. This should benefit Nexxen and cause a revaluation towards \$500mio market capitalization.



Source: Nexxen



⁴ <https://www.sprucepointcap.com/research/perion-network-ltd>

⁵ <https://madisonandwall.substack.com/p/360-billion-us-ad-industry-to-grow>

⁶ <https://madisonandwall.substack.com/p/new-us-ad-forecast-strong-advertising>

⁷ https://adage.com/article/agency-news/us-ad-industry-revenue-grow-56-202-brian-wieser-forecasts/2548426?utm_medium=social&utm_source=twitter&utm_term=adage&utm_content=c9f7a35f-99f7-41bf-8000-36f4f93e0d18

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