

Tremor International: With only 50% of advertising budgets spent, there is big upside in spending in H2

Company:	Tremor International (TRMR LN)	Market Cap:	\$253mio
Industry:	Video advertising	Net Cash:	\$95mio
Country:	US	Revenue:	\$320mio
Date:	20 th October 2023	Net Income:	-
Dividend:	-	Free cash flow:	\$35mio (14%)*
Entry:	\$255mio	Target:	\$400mio (+57%)

*estimated based on \$85mio guided adjusted EBITDA

Why Tremor International?

- Extremely attractive valuation with \$160mio enterprise value
- \$20mio share buyback programme likely to be started soon
- June/July appear to have been the bottom of advertising yields, as Audioboom and others are seeing better yields in September and October
- Advertising budgets were running 50% below plans at half year point, which could lead to a jump in ad spending in H2

About Tremor International

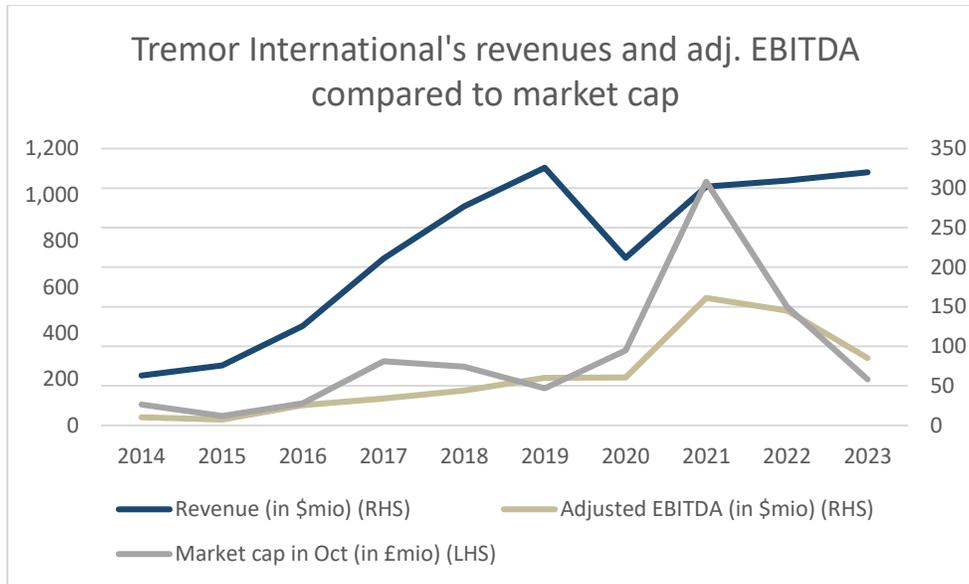
Tremor International (to be renamed to Nexxen) is a digital advertising company that generates nearly 80% from video and around 90% of revenue is programmatic, of which 33% is Connected TV (CTV). The company is serving both, Supply Side Platform (SSP), where publishers are selling ads to advertisers, as well as Demand Side Platform (DSP), where marketers purchase ads. Both, SSP and DSP, require software that collects advertising spaces and provides analytics to advertisers as well as publishers, and both platforms are deeply intertwined with one another. The competition in this market is strong and ultimately boils down to exclusivity agreements. Tremor has an exclusivity contract via a small share in VIDAA, the operating system of the second largest TV seller, HiSense, which enables Tremor to collect the

data exclusively and sell it on to advertisers. Tremor operates mainly under the brands of Amobee, Unruly, and Tremor Video, which cover both, DSP and SSP, and will rename these brands under one umbrella, called Nexxen. In a nutshell, an advertiser does not want to reach out to every single platform individually, if they were to advertise across multiple platforms and publishers at the same time. On the other hand, the publisher or platform wants to target as many advertisers as possible. Tremor steps in there to connect the two sides and by collecting all advertising slots across multiple platforms while offering advertisers tools to monitor and understand their marketing and advertising impact better.

The advertising technology landscape by company



Source: TheTradeDesk



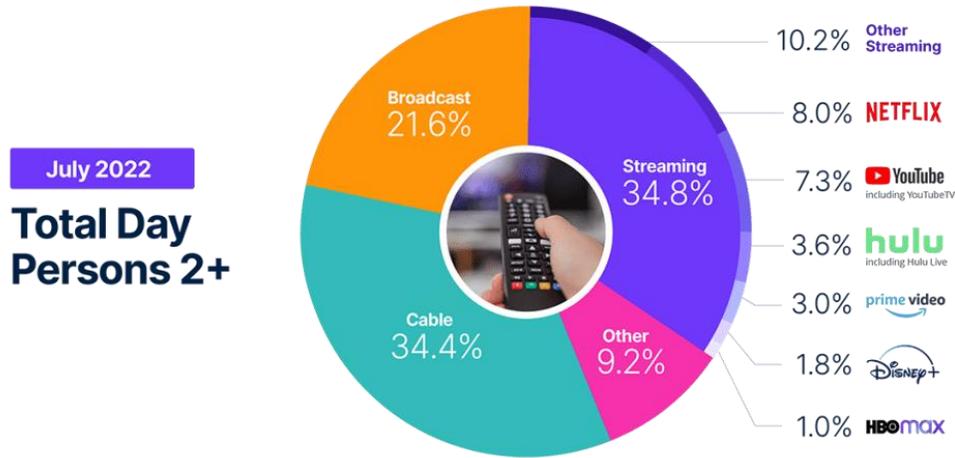
Source: Tremor International

Declining margins, strong competition & consolidation

During the pandemic and lockdown years, video demand was rising exponentially, which is one reason why Tremor was able to achieve 50% margins – much higher than the industry. With the acquisition of Amobee, margins declined to around 30%. However, the acquisition of Amobee has enabled Tremor to capture a much larger share of the market and serve both the SSP and DSP side of the market, and this is the second reason how they can achieve 50% margins – by offering the wide spectrum of both SSP and DSP to a single customer. The industry is facing some risks with the demise of third-party cookies, used to collect data from users, which Google is banning as a front runner (although this risk is small with over 42% of internet users already using ad blockers, as competitor Magnite suggests¹). Another risk is that there is a trend towards CTV amongst the industry, which is what Tremor is focusing on, and hence could face further competition from new entrants eroding margins. These risks were amplified with the bankruptcy of Mediamath earlier this year – a competitor and client of Tremor.

¹ <https://www.magnite.com/blog/googles-cookie-announcement-the-date-has-changed-but-the-recipe-hasnt/>

The TV market place by concentration of viewers in %



Source: Nielsen

Share option dilution

Similar to M&C Saatchi, Tremor International offers its management and employees significant share options, which can take a large share of their profits away. This year there will be less than \$25mio in shares issued to fulfill these employee obligations. With the \$20mio share buyback programme set to come into action on top of the share buyback that ended in March 2023, the share count should stay stable or even decline.

Set for growth

The Amobee transaction, despite hitting profitability adversely initially, is expected to give Tremor wider scope, new clients and a platform that serves the entire spectrum of SSP and DSP and in between. Amobee has attractive CTV relationships, including a deal with UK’s ITV, and serves more than 500 customers globally, including Fortune 500 brands, which enables Tremor access to new markets². Over the medium term, this is expected to improve revenues and profitability. The prior owner of Amobee, Singtel, has put

² <https://www.marketing-interactive.com/singtel-sells-amobee-to-tremor-us239m>

in over \$1bn over a decade to develop the platform³ and Tremor bought it for merely \$239mio. The stake in VIDAA, the CTV operating system of HiSense smart TVs, and the resulting exclusivity agreement over the data and advertising management is enabling further growth. HiSense is the world's 2nd largest smart TV producer by volume⁴. Since 2020, Tremor has significantly expanded their footprint with the acquisition of SpearAd, Unruly, Amobee and a stake in VIDAA and the resulting exclusivity agreement. With this depth of clients and market offering, the focus will likely be on more of these exclusivity agreements to compete not only against the independents like Magnite and Pubmatic, but also against Big Tech, such as Microsoft's Xandr. Ultimately, the independents should still benefit, especially in light of a regulatory crackdown on Big Tech⁵. Streamers like Netflix have also proved ineffective in bringing the advertising function inhouse, as they lack the know-how and inventory to scale, hence need the independents to manage this space⁶.

Key remains the valuation

Nonetheless, the key remains that Tremor is among the market leaders and is offering a wider spectrum of products compared to some of their main listed independent SSP competitors, such as Magnite and Pubmatic. Tremor is trailing its competitors in terms of market cap and valuation performance over the last year. At an enterprise value of £140mio, which is almost what their adjusted EBITDA was in 2022, the company is extremely attractively valued. Once the transition to the new brand Nexxen is completed, advertisers will also be much more aware of what the company offers under one single brand rather than multiple different ones.

³ <https://digiday.com/marketing/the-rundown-singtel-offloads-amobee-to-tremor/>

⁴ <https://www.prnewswire.com/news-releases/soaring-to-2nd-in-the-market-hisense-hits-historical-high-in-the-global-tv-shipments-301679695.html>

⁵ <https://digiday.com/media/in-a-shrinking-marketplace-magnite-explores-media-trading-without-dsps/>

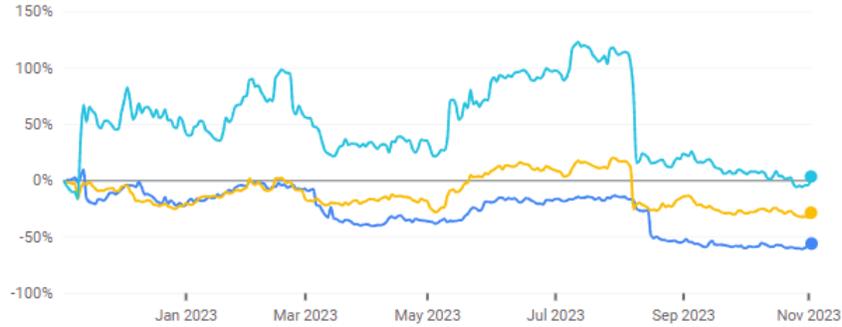
⁶ <https://digiday.com/future-of-tv/netflixs-advertising-business-enters-year-two/>

Tremor International Ltd

GBX 151.00 ↓ 56.38% -195.20 1Y

Nov 2, 5:15:00 PM UTC · GBX · LON · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX



 Tremor Internation...	GBX 151.00	-GBX 195.20	↓ 56.38%
 PubMatic Inc	\$11.84	-\$4.81	↓ 28.92% ✕
 Magnite Inc	\$7.17	+\$0.22	↑ 3.17% ✕

Source: Google Finance



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