EDISON

Scale research report – Update

Edel

Good demand for lockdown entertainment

Edel's FY20 results were ahead of previous indications, as demand for home entertainment content rose due to pandemic restrictions across Europe. The group's range of physical and digital provision enabled it to counter the impact of closures of physical retail. A lower cost base at optimal media helped support H2 margins, but momentum remains firmly in digital, particularly in music. Here the group is well placed to continue to benefit from streaming growth. The shares trade at a substantial discount to global entertainment content and publishing stocks on historical EV/EBITDA and EV/sales multiples, in part due to limited liquidity.

Growth on stream

The physical production and logistics business, optimal media, is now the smaller part of the business at 47% of FY20 revenues, down 8% on the prior year. Its highly efficient production and distribution facilities give it commercial advantage in a competitive market, although there remains upward pressure on input costs. With the spread of the COVID-19 pandemic, retail closures were an issue, dampening demand. This will have continued into H121. The positive feature of Edel's results was the 13% revenue growth in the Marketing & Sales segment, which covers the group's digital offering. Here, Kontor New Media acts as an aggregator between rights owners and platform providers (including Spotify, Amazon, Apple Music and iTunes). It remains well positioned as downloads and streaming continue their strong progress, evidenced by an increase in fee and licence costs of 21% year-on-year. Growth in audio streaming/podcasts is also a positive trend.

Guidance for FY21 reverts to FY19 levels

FY20 group revenues were up by 2%, with a stronger growth in EBITDA, up 17%. This reflects reduced costs, particularly in personnel, €5.7m below the prior year on headcount down by 78. Most of this was at optimal media. Management guidance is for FY21 sales to be around 2% below those of FY20, roughly at the same level delivered in FY18 and FY19. Consolidated net income is guided at €2.0–2.4m, from the €2.7m achieved in FY20. This relative caution reflects the ongoing decline in physical markets, coupled with uncertainty regarding the pandemic.

Valuation: Continued discount to content, publishing

We have maintained the same valuation approach as previously, comparing Edel's rating with the global media subsectors of entertainment content and publishing. The shares trade at a significant discount on EV/sales, most likely reflecting the manufacturing element. While the P/E multiple is at a premium, the discount on historical EV/EBITDA remains substantial at 54%.

Key financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/18	209.2	17.3	6.6	0.16	0.10	13.9	4.5
09/19	209.5	16.0	4.4	0.08	0.10	27.8	4.5
09/20	214.1	18.7	7.2	0.12	0.10	18.5	4.5

Source: Edel accounts

Media

11 February 2021

Price	**€2.22**
Market cap	**€50m**

Share price graph

Share details

Code	EDL
Listing	Deutsche Börse Scale
Shares in issue	22.73m
Last reported net debt at 30 Sept 2020	€41.2m

Business description

Edel is one of Europe's leading independent media groups. It is both a publisher and a producer. Edel offers the music, film and book industry a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

Bull

- Diversity of revenue streams.
- Full-service, third-party offering.
- Resurgence of vinyl.

Bear

- Difficult CD, DVD and Blu-ray markets.
- Small free float.
- Spotify's dominance in streaming.

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Edison profile page

Financials

The group published its full year report to end September 2020 in late January.

Exhibit 1: Half- and full-year progression to 30 September 2020

€000s	H120	% change	H220		FY20	% change
Year end 30 September						
Revenue	111,408	+3	102,693	+1	214,101	+2
EBITDA as reported	10,222	-2	8,527	+53	18,749	+17
EBITDA margin (%)	9.2		8.3		8.8	
Profit before tax (as reported)	4,590	-6	2,565	N/A	7,155	+62
Net income (as reported), before minority	3,008	-6	(301)	N/A	2,707	+21

Source: Edel accounts. Note: Figures reported under HGB/German GAAP.

These results are clearly better than levels guided by management earlier in 2020, which were for FY20 sales to be at a slightly lower level than FY19 (€209.5m), with consolidated net income at around the prior year level (€2.2m). Manufacturing and logistics (optimal media) accounted for 47% of FY20 revenues, down from 52% in FY19 and 54% in FY18, which represents a fall of 7.1% in absolute revenues. Marketing and sales (book and audio-visual content) grew revenues by 12.6% over the prior year.

There has also been a shift in the geographic distribution of revenues, with Germany (the larger market for physical media) declining 9.1%, to 40% of the group. Sales into the UK were up 4.5%, at 22% of the group. The impact of Brexit on sales into the UK remains to be seen and could also be a contributing factor to the relative caution of the outlook guidance. The group's third largest market, the Netherlands, put in a particularly strong performance, with revenues ahead by 29.9%, taking it to 17% of group.

The shift in the mix more heavily towards digital weighed on gross margin (due to the fee and licence expenses), taking it from 47.3% to 45.8%. While the revenue line was 2–3% ahead of management guidance, there is a far greater outperformance at the EBITDA level. As mentioned above, much of this is down to reduced personnel costs, with a shorter working week put in place early on during the pandemic. The EBITDA margin of 8.8% compares with 7.7% in FY19.

The income statement accounts for potential tax liabilities that may arise from the application of trade taxes on additional licences and from the treatment of revenues derived from pursuing those that have illegally abused rights, as previously guided. Minority interests are reduced from €0.6m to €0.2m, stemming from the physical side of the group.

Net debt was €41.2m at end FY20, well below the €51.9m at end FY19 compared to €56.3m at the end of FY18. With the shift in business mix favouring digital product and services, working capital requirements should continue to reduce. Coupled with capex reverting to near-maintenance levels, we would expect group net debt to continue to fall, barring acquisitions. The group still wants to increase its ownership of rights (although the market here is currently very 'frothy', particularly in music). Management would also like to extend group publishing interests. As at end December, Edel had undrawn credit lines totalling €25.2m.

FY21 guidance is for sales of €207–211m, so down 1–3% on FY20, which should be seen in the context that FY20 covered around six months of operation in the period of the COVID-19 pandemic. Net income is predicted to be in a range of €2.0m to €2.4m, around the level achieved in FY19 (€2.2m), but well down on the €2.7m posted for FY20.

Valuation

Our valuation framework for Edel is unchanged from our previous note. Analysis is complicated by the range of the company's activities, from pressing CDs for third parties through children's animated TV, to being the market-leading publisher of cookery books, and handling logistics and services for the world's largest music publishers. Any peer group comparison is therefore inevitably limited. Given these constraints, rather than selecting a set of inadequate peers, we have looked globally across the main subsectors in which Edel operates, particularly entertainment content and publishing, to examine key valuation metrics based on consensus forecasts. We have stripped out unprofitable companies from our EV/EBITDA and P/E calculations, as well as any obvious distortive outliers.

Exhibit 2: Sector valuations for related activities

	P/E (x)			EV/sales (x)			EV/EBITDA (x)		
	Last	FY1	FY2	Last	FY1	FY2	Last	FY1	FY2
Publishing	17.7	20.8	18.1	1.5	1.3	1.3	9.7	10.1	8.1
Broadcast & Entertainment	15.0	17.3	16.9	2.2	3.0	2.3	11.5	12.5	11.1
Edel	18.5	N/A	N/A	0.4	0.4*	N/A	4.9	N/A	N/A

Source: Refinitiv, Edison Investment Research. Note: *Based on midpoint of management forecast range. Prices at 1 February 2021.

We would expect that the EV/sales multiple for Edel would be lower than the comparator groups due to the large volumes of third-party revenues that it handles, which will also distort margin comparisons. The change in the group's legal identity to a partnership limited by shares in March 2019 (deemed more appropriate for the family-based group structure) reduced the potential influence of minority shareholders and so also has valuation implications. The founding family retains a 64% stake.

Edel's share price appears to be well below the global market on both EV/sales and EV/EBITDA multiples, in part due to its comparatively modest size and limited liquidity, given the family majority shareholding. At present values, Edel's historical EV/EBITDA multiple is at a 54% discount to peers.

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