

Edel

Media
10 February 2022

Streaming and vinyl press ahead

Edel's FY21 results (to 30 September) showed the benefits of continuing strong demand for the group's wide range of digital content, alongside the sustained demand for physical vinyl. H221 revenue was 26% ahead of the prior year, delivering overall FY21 revenue growth of 17% to €251m, well ahead of management's guided range of €220–230m. Inflation and supply chain issues ate into H221 margins and this is set to be an ongoing feature through FY22, with guidance on revenue and net income broadly flat year-on-year. The very strong 12-month share price performance has eroded, but not closed, the discount to Edel's publishing and entertainment peers.

Universal agreement extension

The group's range of activities, with a strategic focus on music, have allowed it to ride the turbulent consumer markets through the pandemic with relatively little negative impact. Working with all the major streaming platforms, Kontor New Media has benefited from strong end-user demand for digital content, while the continuing popularity of vinyl supports strong demand at optimal media. Here, additional investment has been made (€9.2m in FY21, likely further spend in FY22, as yet unquantified) to scale up for the full, extended Universal Music Group contract, which came into effect in January 2022. This covers warehousing, manufacture and a broader range of territories, as well as logistics, which it has been handling since 2017. Competition in other physical carrier production (CDs, DVDs, Blu-ray) remains high as producers scrap in a declining market, with the implication that the competitive position will adjust in time.

Outlook: Flat to modest growth

Management guidance is for FY22 revenues in the €250–260m range, delivering net income of €7.0–9.0m. This indicates a degree of conservatism on the top line assumptions, given the reasonable underlying trading conditions. No guidance is given at the EBITDA level, so it is difficult to draw conclusions about operating margins, but we assume that inflationary pressures for physical product at optimal media may be offset by efficiency gains through an internal restructure, given that the range for FY22 net income encompasses the FY21 figure.

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 49%.

Key financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/19	209.5	16.0	4.4	0.08	0.10	63.8	2.0
09/20	214.1	18.7	7.2	0.12	0.10	42.5	2.0
09/21	251.3	25.9	14.7	0.31	0.20	16.5	3.9
09/22e	255.0	N/A	N/A	0.35	N/A	14.6	N/A

Source: Edel accounts. Note: FY22e represents the mid-point of management guidance range.

Price €5.10
Market cap €116m

Share price graph



Share details

Code	EDL
Listing	Deutsche Börse Scale
Shares in issue	22.73m
Last reported net debt at 30 September 2021	€34.5m

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 industries a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

Bull

- Full-service, third-party offering.
- Resurgence of vinyl.
- Strengthened relationship with Universal Music.

Bear

- Inflationary pressures on margins.
- Difficult CD, DVD and Blu-ray markets.
- Small free float.

Analyst

Fiona Orford-Williams +44 (0)20 3077 5739
media@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Financials

Edel published its full year report to end September 2021 in late January.

Exhibit 1: Half- and full-year progression to 30 September 2021

Year end 30 September (€m)	H121	% change	H221	% change	FY21	% change
Revenue	123.3	+11	128.0	+26	251.3	+17
EBITDA as reported	16.0	+57	9.9	+16	25.9	+38
EBITDA margin (%)	13.0		7.8		10.3	
Profit before tax (as reported)	10.5	+129	4.2	+63	14.7	+105
Net income (as reported), before minority	4.6	+53	2.7	N/A	7.4	+172

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

Revenue growth remained strong in H221, with demand both in digital, where music streaming retains its positive trends, and in vinyl, where the attractions of high-quality reproduction are supporting further progress. Edel reports in two segments: Manufacturing and logistics (equates to optimal media) and Marketing and sales, which wraps in all the group's interests across books, music and entertainment. For the year just reported, both elements increased by 17%, leaving the split unchanged at 47%:53% respectively.

There was far more change in respect of the geographic distribution of revenues, which we assume relates to the stepping up in the remit of the Universal Music Group contract. The most marked difference is in revenues generated in the UK, which rose 94% on the prior year, lifting the percentage of group revenue to 37% from 22% in FY20. Germany (+13% on the prior year) remains the most important territory, at 38% of group, from 40% in FY20.

Personnel costs rose by less than revenues (+14%), while the other operating costs line benefited from the reduction in pandemic-restricted travel costs, rising just 3%. There was a larger uplift in fee and licence expenses, which mostly relate to the digital music platform at Kontor New Media.

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 of €0.8m, up from €0.2m, stem from the physical side of the group, reflecting the continuing good performance, both in vinyl and in book publishing.

EBITDA converted to cash at a rate of 92% (down from 126% in the previous year), supporting investment of €11.5m, up from €7.0m reflecting the upgrading and extension of facilities to support the Universal Music contract. We anticipate further spending here in the current year, but with the bulk of the investment outlay having fallen into FY21. €0.6m of shares were bought back in the period.

Net debt at the year end was €34.5m, consisting of cash and cash equivalents of €8.8m, less financial liabilities of €43.3m, down from €56.8m at the end of the prior year. There is considerable additional flexibility in the balance sheet, with credit lines undrawn at end September of a further €37.6m.

FY22 guidance and outlook

FY22 guidance is for sales in a range of €250–260m versus the €251m achieved in FY21. Given that the extended Universal Music contract started in January 2022, this implies an element of caution over top line growth from the remainder of the business, which is perhaps understandable given the uncertainty over the outlook for consumer spending across Europe in the face of rising household overheads.

Input cost inflation is also a key consideration for the physical production side of the group. To date, the group has been successful at passing the bulk of the increase through to customers, but there will doubtless be a limit to the success of this strategy.

The group's concentration on the high-quality end of the market looks sensible, with pricing far less of an issue for premium packaged box sets, for example. Competition has been very intense in the production of CDs, DVDs and Blu-ray in Europe, where the remaining producers are scrapping in a structurally declining market. We would anticipate some consolidation and/or withdrawal of some players from the market here.

On the digital distribution side, Edel has trading relationships with all the major streaming providers (Spotify, Amazon, Apple etc), and an increasing number of emerging channels, so it is less exposed to vacillations in market share between them.

The FY21 report refers to some structural simplification at a group level, with all the book publishers merged into Edel Verlagsgruppe.

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	20.8	17.7	17.6	1.4	1.5	1.4	10.8	10.6	8.1
Broadcast & Entertainment	15.5	17.7	15.4	2.1	2.1	1.8	11.9	12.4	9.4
Edel	16.5	14.6*	N/A	0.6	0.6*	N/A	5.8	N/A	N/A

Source: Refinitiv, Edison Investment Research. Note: *Based on the mid point of management's forecast range. Prices at 2 February 2022.

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 group's legal identity as a partnership limited by shares (deemed appropriate for the family-based group structure) reduces the potential influence of minority shareholders and so also has valuation implications. The founding family retains a 64% stake and the free float is 29.6%.

Edel's share price has performed very strongly over the last year, climbing 134%, which is likely to reflect at least in part the squeeze effect of limited liquidity in the shares, as well as the benefits to the medium-term outlook from the extended relationship with Universal Music. Despite the rise, the rating still appears to be well below the global market on both EV/sales and historical EV/EBITDA multiples, in part due to its comparatively modest size and limited liquidity, given the family majority shareholding, which limit the pool of potential investors. At present values, Edel's historical EV/EBITDA multiple is at a 49% discount to peers.

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia